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SECTOR AND VALUE CHAIN ANALYTICS

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ACRONYMS

ACCA - Association of Chartered Certified Accountants
ADE - Architecture, Design and Engineering
BPO - Business Process Outsourcing
BSO - Business Service Organization
CPA - Classification of Products by Activity
CRM - Customer Relationship Management
DAI - Development Alternatives, Inc.
DMO - Destination Management Organizations
EG – Enterprise Georgia
EU – European Union
F&A - Finance and Accounting
FDI - Foreign Direct Investment
FTE - Full-Time Equivalent
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
HVM - High-Value Markets
ICT - Information and communications technology
ISET – International School for Economics at TSU
IT – Information Technology
MSME - Micro, Small & Medium Enterprises
NACE - Statistical classification of economic activities in the European Community (**N**omenclature statistique des **a**ctivités économiques dans la **C**ommunauté **e**uropéenne)
PMCG – Policy and Management Consulting Group
PPD – Public-Private Dialogue
PPE – Personal and Protective Equipment
PPP – Public-Private Partnership
UAE – United Arab Emirates
UK – United Kingdom
UNWTO - United Nations World Tourism Organization
US – United States
USAID – United States Agency for International Development
USD – United States Dollar
VAT – Value-Added Tax
VC – Value Chain
VET – Vocational Education and Training
WCO – World Customs Organization

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

EXECUTIVE SUMMARY

This quarterly report provides an analysis of economic trends, as well as denoting the challenges and opportunities (in local, regional, and global contexts) across selected value chains within six sectors to improve evidence-based decision-making through the provision of quality information and analytics. The specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management and recycling, along with cross-cutting sectors. The analysis tracks trends from the first quarter of 2021[1].

The following is a synopsis of the findings:

Tourism: In the first half of 2021, despite starting the year in strict lockdown, the first signs of recovery were visible. With the alleviation of some COVID-19-related restrictions, the reopening of land borders, and the revival of many flight routes, expectations for the sector's recovery have improved. In June 2021, the number of visitors to Georgia had recovered to 32% of the corresponding figure for the same month in 2019. Moreover, the number of flight routes had recovered to 72% compared to 2019 levels. Pertinently, air travel carries much higher importance for tourism in Georgia in 2021 than it has done historically. Indeed, Israel and Ukraine both reached 50% of their number of visitors to Georgia in the first half of 2021 compared to the corresponding period of 2019. In addition, domestic tourism increased by 19.2% in Q1 2021 compared to Q1 2019, despite most tourist attractions such as national parks, museum-reserves and museums being closed for the substantial part of the first six months of 2021. However, despite some positive developments, major risks hindering the sound recovery of the sector still exist due to widespread uncertainty regarding the ongoing pandemic. A full recovery is not expected until at least the end of 2024. Georgia, being the most tourism-dependent country in the South Caucasus, and as one of the most tourism-dependent countries in the world, has been hit especially hard by the global demise of tourism during this time.

In addition, by analyzing the GNTA's marketing campaigns over 2012-2019, it was revealed that the top five countries/regions on which the GNTA spent the most on marketing to included Ukraine, Russia, Israel, Kazakhstan, and the Gulf States. Since 2013, the GNTA's expenditure on attending international tourism fairs grew significantly each year until 2020.

Among the existing impediments and challenges identified in the course of a qualitative study, several have been substantial and common for each priority value chain. These include: limited access to a labor force after re-opening; risk of decreased quality of services in the tourism sector; insufficient level of public-private dialogue; increased input costs; slow vaccination rollout and other impediments linked to COVID-19; and the absence of a rigid anti-crisis plan for the tourism sector.

Creative Industries: The creative industries have been significantly affected by the pandemic. In particular, the media content production and post-production value chain had recorded impressive growth prior to 2020, with growth in turnover, employment, and all other indicators. However, the pandemic has affected this value chain considerably, with contraction in all indicators, from which it has yet to recover. Meanwhile, the aggregated sector of information and communication, in contrast, has recovered to pre-2020 levels.

The media content production and post-production and artisan value chains have been the most affected by the pandemic in this sector as the typical business models in these value chains were not

[1] While the reporting period for a majority of the report is Q1 2021, the project team has taken into account rapid developments in tourism sector due to the ongoing pandemic, and has included analysis up to six months of 2021, where possible.

suited to handle a recession or any of the pandemic-related restrictions. The former value chain significantly contracted in the first quarter of 2020, where turnover dropped from GEL 38.8 million in the 4th quarter of 2019 to GEL 14.4 million. The media content production and post-production value chain's turnover further reduced to GEL 5.0 million by the first quarter of 2021, its lowest such figures since the first quarter of 2016. Both the media content production and post-production and the artisan value chains have had to lay off employees in significant numbers. By the first quarter of 2021, the former value chain had had to reduce its labor force by 57.5% compared to the 4th quarter of 2019.

Recently, the film industry has undergone significant changes following the Government's decision to resume the "Film in Georgia" program. The following changes have been made to the program's design: the period within which a beneficiary has to submit an independent audit report has decreased from two years to one year; the period within which the agency reimburses 20% of limited qualified expenses has increased from three to 12 months; the criteria for audit reports have been revised; and, most importantly, a GEL 5 million annual budget for the program has been approved (before the recent redesign, there was no specific amount allocated for the program). Enterprise Georgia also plans to support the development of pavilions and related infrastructure that will help to attract long-term projects such as TV series and reality shows. This agency believes that resuming the "Film in Georgia" program will support the film industry, which has suffered notably during the pandemic.

Light Manufacturing: According to quarterly data, turnover in all value chains demonstrated positive nominal growth (YoY) in Q1 2021 compared to Q1 2020, with the highest growth observed in the packaging value chain (14.0%). Employment also increased (YoY) in every value chain, with the highest growth observed in the packaging value chain (15.1%). The highest number of hired employees as of Q1 2021 was registered in the construction materials value chain, while the lowest was observed in the packaging value chain.

The average monthly salary for Q1 2021 ranged between GEL 801 in the furniture value chain and GEL 1364 in the packaging value chain. Similarly, the furniture value chain has been characterized over the same period by the lowest productivity (GEL 65,900), with the highest productivity identified in the packaging value chain (GEL 136,300).

Survey results for the PPE value chain and the wooden toys business activity suggested that around 50% of companies from both experienced a decrease in turnover in Q1 2021, compared to Q1 2020. The decrease for most PPE producers was around 20%-50%, while for wooden toys business activity, the majority of companies reported a decrease of more than 50% in turnover. As for employment, 60% of PPE value chain companies reported no change in their number of employees, while 43% of wooden toys firms reported an increase in their number of hired employees in Q1 2021, compared to Q1 2020.

The light manufacturing sector faces challenges that have lingered for many years predating the pandemic, including a lack of access to finance, a shortage of skilled labor, a high dependency on imported raw materials, and limited access to local inputs of sufficient quality. COVID-19 has taken a drastic toll on Georgian production in almost all of the selected value chains in this sector. The PPE value chain represents the only one here that has benefited to some extent from the pandemic, considering the skyrocketing demand for PPE. However, due to the ramping up of global supply, even this advantage could soon dissipate especially as the need for PPE reduces in the course of the recovery period.

Solid Waste Management and Recycling: Solid waste management and recycling is a relatively new economic activity for Georgia, albeit recycling practices have been established in the country for

years for some types of waste. At present, Georgia's solid waste management and recycling sector unifies a range of business activities related to the reprocessing of different types of waste including plastic, paper/cardboard, wood, metal, glass, used oils, end-of-life tires, vehicles, electrical and electronic equipment, batteries and accumulators, and hazardous waste.

The key challenges faced by the value chain representatives remain mostly homogeneous across waste streams. This value chain has considerable potential for upgrade, given that it does not presently operate at its full production capacity. Producers constantly face a shortage of waste that is used as a raw material in the manufacturing process. In this regard, the absence of separated waste collection practices is considered the main obstacle at national level. Several significant steps have been taken in Georgia 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 separation in their waste collection practices. Nonetheless, the implementation of the WMC has thus far been unsatisfactory. As a result, businesses operating in different waste streams have been competing over available waste resources nationwide. Furthermore, some companies cannot access municipal waste at landfills in order to obtain necessary waste to be used as inputs in their production.

The sector lacks both foreign and domestic investment. Georgian investors are generally reluctant to fund projects related to waste management due to a lack of familiarity with its business activities. Future investment flows across the sector will likely be dependent on the establishment of organized cross-sectoral waste collection in the country. In other words, it will depend on the generation of supply, much of which is now either being trucked outside the country for processing or is simply disappearing into landfills.

Only a small share of the inputs utilized in the sector are imported. As highlighted by respondents, production largely depends on locally generated waste. The importing of waste from surrounding countries would offer an opportunity to increase volumes, but no such precedent has yet been set.

In the first quarter of 2021, turnover for the solid waste management and recycling sector increased, amounting to GEL 19 million, which is 18.0% higher compared to Q1 2020 (YoY). In the first quarter of 2021, employment increased slightly (3.0% YoY), compared to Q1 2020 and reached 7,502 persons employed. The average monthly salary in the solid waste management and recycling sector dropped in Q1 2021, amounting to GEL 912, which is 3.0% lower than the Q1 2020 level. Despite decreasing salaries, labor productivity in the target sector increased significantly (15.5% YoY) in Q1 2021 and amounted to GEL 10.2 thousand. The productivity in the aggregated sector increased as well by 8.3% YoY, amounting to GEL 22 thousand.

Shared Intellectual Services: Under the shared intellectual services sector, this report observes economic trends in the business processes outsourcing (BPO) value chain. Two business activities of the BPO value chain are covered in this quarterly analysis: human resource management (HRM); and customer relations management (CRM).

Survey results for the CRM and HRM value chains suggest that in both, the majority of companies surveyed were small businesses, with a turnover of below GEL 100,000. Moreover, a significant proportion of the companies from both value chains (56% of HRM companies, and 60% of CRM companies) reported an increase in turnover compared to Q1 2020. Despite positive tendencies, on average, the HRM value chain recorded an 8% decrease in turnover, while the CRM value chain returned an increase of 19%. As for employment, a significant number of companies from both value

chains (44% of HRM companies, and 50% of CRM companies) reported no change in their number of employees compared to Q1 2020.

Cross-cutting Sectors: The rebounding economy in the first quarter of 2021 did not boost cross-cutting sectors as much as expected. Before the rebound, the cross-cutting sectors' value chains experienced a significant fall in turnover in the 1st quarter of 2020. The quantity of e-commerce transactions did not decline throughout the pandemic, but the percentage of e-commerce transactions in the gambling sector declined. ICT hardware experienced a positive quarter-on-quarter trend in turnover but then experienced an abrupt contraction in the first quarter of 2021. The sector only employs 52 people, so the success or failure of any one company could have changed the overall picture dramatically. As for the e-commerce value chain, by the first quarter of 2021, it had experienced a contraction both in the value and quantity of online transactions, which could be due to the restrictions set on traditional stores being loosened, and the demand for online transactions decreasing. Unfortunately for the transport and logistics value chain, the airline industry has been hit severely with very little flexibility in contrast to other value chains. Fortunately, Georgian transport services exports mostly rely on pipeline and electricity transmission, which has remained stable throughout the pandemic, and the total value of exported services in the first quarter of 2021 increased when compared to the fourth quarter of 2019. Overall, in 2020, Georgian exports of transport services recorded a deficit except for the second quarter of 2020, in which there was a surplus. In the first quarter of 2021, Georgian exports of transport services recorded a small trade surplus.

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 1 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.

Table1. 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:

1. 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 1 presents the target value chains matched with the relevant NACE codes. Economic activity classification is further disaggregated by the types of data. When there are no data for narrowly defined NACE codes, the available best-matching aggregation level from Geostat is used. However, if the level of aggregation is uninformative for the purpose of our analysis or if the data are not available for certain value chains, the analysis of such value chains is based entirely on the qualitative survey administered within the current project.

II. The numbers of active enterprises operating in each value chain are taken from Geostat's Business Register. This allows us to observe the dynamics in the number of active enterprises located in or outside Tbilisi by main kind of economic activity (available at a narrower level of NACE codes).

III. For trade data, the correspondence analysis was performed to link NACE sectors (through CPA product classification, which is also used by the EU) with foreign trade data (through Harmonized System (HS) classification at the six-digit level). Importantly, the applicable HS codes for the personal and protective equipment value chain were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization (WCO) and the World Health Organization (WHO)[2].

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

Survey

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

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

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

To cover the data gaps, it was decided to obtain the key business indicators describing development in the above six value chains through a short quantitative survey. For this purpose, the business register of Geostat[1] as well as the list of stakeholders[2] 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**

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

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

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

The survey was conducted by phone by PMCG and ISET staff. Despite a significant number of companies turning out to be unreachable, more than 100 companies were surveyed and the obtained data provided information on the situation and trends in the six value chains with regard to turnover, employment, wages, and respective year-on-year changes. In order to capture potential differences between companies within each value chain, questions on the level of turnover[3] 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.

1. TOURISM

SECTOR SUMMARY

This chapter provides a quantitative and qualitative analysis of the tourism sector in Georgia, as well as an overview of the first signs of its recovery from the heavy blow it suffered in 2020. This study on the tourism sector has been categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism[3].

In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. Indeed, for the year, the number of international visitors declined by 1 billion, equating to a 74% drop compared to 2019. A full recovery is not expected until at least the end of 2024. Georgia, being the most tourism-dependent country in the South Caucasus, and as one of the most tourism-dependent countries in the world, has been hit especially hard.

In the first half of 2021, despite starting the year in strict lockdown, the first signs of recovery became visible. With the alleviation of COVID-19-related restrictions, the reopening of land borders, and the revival of flight routes, positive expectations about a recovery increased. By June 2021, the number of visitors to the country had recovered to 32% of 2019 levels. Moreover, the number of flight routes has recovered to 72% of 2019 levels. Pertinently, air travel carries much higher importance for tourism in Georgia in 2021 than has historically been the case. As a result, according to GNTA, Israel and Ukraine have recovered 50% of visitors in 6M 2021 compared to 6M 2019. In addition, domestic tourism increased by 19.2% in Q1 2021 compared to Q1 2019, despite most tourist attractions such as national parks, museum-reserves and museums being closed for substantial part of the first six months of 2021.

However, despite some positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding the pandemic.

In addition, by analyzing the GNTA's marketing campaigns over 2012-2019, it was revealed that the top five countries/regions on which the GNTA spent the most on marketing were Ukraine, Russia, Israel, Kazakhstan, and the Gulf States. Meanwhile, since 2013, expenditure on attending international tourism fairs had grown significantly each year until 2020.

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

Limited access to the labor force after re-opening: Primarily, the majority of stakeholders expressed concerns about limited access to the labor force, especially after re-opening. Some private sector representatives associated this with negative expectations among prospective employees about the stability of the tourism industry. From the employers' perspective, it is rather challenging to give guarantees of stable employment for even 3-4 months. Besides, considering recent inflation trends,

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

the wages offered seem less attractive to employees, and employers are unable to increase the remuneration offered.

Risk of decreased quality of service in the tourism sector: The majority of interviewed respondents were concerned that the above challenge would give rise to a more severe problem: decreased quality of service. As some tourism sector actors reported, the worsening quality of service is already evident, and its consequences might be very harmful in the medium-term. The short-term solution here is believed to be additional income tax relief scheme, similar to those in place during the pandemic. Such tax exemptions would enable employers to raise average salaries and thus attract more skillful personnel (some respondents underlined the importance of providing VAT relief for the tourism sector). Besides, according to many of the interviewed actors, to be well-prepared to provide the sufficient quality of service to tourists traveling during a pandemic, it is crucial to conduct an in-depth study about the expectations, requirements, and needs of such tourists.

Public-private Dialogue: The insufficient level of dialogue between the public and private sectors was also mentioned. From the private sector representatives' viewpoint, initial dialogue through face-to-face meetings is being held, and agreements on certain issues are being reached, only for these to be modified by the public sector. According to many private sector representatives, such decisions are then communicated to the public, and framed as having been derived from consultation with all stakeholders of the tourism sector. Most of the interviewed associations confirmed an increased demand for association membership during the ongoing pandemic, which is believed to stem from an increased awareness among tourism sector stakeholders about the substantial role played by associations in policy advocacy and public-private dialogue.

Increased input costs and decreased demand for high-priced services/product: An increase in both intermediate goods and utility costs has been marked as a vital contribution to an increase in market prices for outputs. Some of the respondents from the gastronomic value chain reported an increase in prices by 20-25%. Moreover, most respondents from the gastronomic and accommodation value chains described tendencies of decreased demand for medium- and high-priced services and goods. For instance, as reported, after re-opening, the average spending on food services decreased. As reported by some respondents, if before the average bill of a medium-sized restaurant equaled GEL 50-60, now the average is GEL 20-30.

Slow vaccination rollout and other impediments linked to COVID-19: Unsurprisingly, the COVID-19 pandemic still represents a huge impediment for the tourism sector. The majority of respondents highlighted the slow vaccination rollout, linked to initially limited access to the vaccines and to widespread hesitation among the general population about getting vaccinated, especially in the regions of Georgia. Some respondents were worried about a possible repeat of last summer's surge in cases at seaside resorts if the country does not activate effective monitoring mechanisms ensuring strict compliance with regulations. Nevertheless, some accommodation value chain respondents reported that some companies appeared to enjoy a 'privileged' status giving them an advantage over others and rendering competition unbalanced on the local market. In particular, despite violating the curfew rules and other regulations, such companies have been overlooked by respective monitoring bodies during curfew, while others were strictly sanctioned for minor misconduct.

Absence of a rigid anti-crisis plan for the tourism sector: Lastly, in line with the previous two VCA reports, a vast number of tourism sector representatives highlighted the significance and urgency of establishing an anti-crisis plan with concrete instructions and numbers. According to them, such a plan

should give explicit definitions of what measures and actions are to be taken by respective units of the GoG, for instance in the event that the daily growth rate of COVID-19 infections exceeds a certain threshold. Having such protocols at hand, the private sector would then be able to act with more certainty, rather than having to react to abruptly announced decisions.

SECTOR TRENDS

Global Tourism Trends

The tourism sector has been decimated by the COVID-19 pandemic due to the imposed travel restrictions all around the world, combined with shrinking demand from travelers due to fears of getting infected. In 2020, the number of international visitors declined by 1 billion, equaling a 74% decline compared to 2019[4]. The crash in international tourism due to the coronavirus pandemic could cause a loss of more than $4 trillion to the global GDP for the years 2020 and 2021, according to an UNCTAD report published on 30 June. Scaling-up the vaccination process to recover tourist numbers is imperative not only for the sector, but for the economy as a whole. The UNCTAD estimates that in the scenario of partial recovery, USD 1.8 trillion will be lost in 2021 due to the fall in the number of visitors compared to 2019 (this scenario envisages that 37% of 2019 visitor levels would be recovered)[5].

In 2021, the tourism sector aims to partially recover from a devastating 2020 but 49% of the United Nations World Tourism Organization's (UNWTO) experts do not forecast a full return to pre-pandemic levels until 2024 in their countries[6].

The UNWTO has identified several trends that it expects to emerge in tourism in the nearest future, mostly because of the impact of the COVID-19 pandemic[7]. Several of these trends have already been evident in Georgia, according to some representatives of the tourism sector. For instance, increased demand for safety[8] and an increased proportion of last-minute bookings[9] are two such trends which have been reported so far.

Tourism developments in Georgia[10]

After a challenging 2020 and early 2021 for the tourism sector, various positive developments, such as the alleviation of restrictions, were seen in the tourism sector in Georgia in the second quarter of 2021. At the time of writing, there are no restrictions of movement in place in Georgia, and both land and air borders are open for eligible visitors[11]. Below is a timeline of the relaxing of various COVID-19 measures during this period:

- Since May 17, the curfew was moved from 21:00 to 23:00[12].
- Since May 22, restaurants have been allowed to operate on weekends in open spaces[13];

[4] 2020: WORST YEAR IN TOURISM HISTORY WITH 1 BILLION FEWER INTERNATIONAL ARRIVALS, UNWTO
[5] UNCTAD – "COVID-19 and tourism update" (2021)
[6] https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals
[7] Please see the detailed overview of global trends in the second analytical report, page 14
[8] https://bm.ge/ka/article/turistebi-kitxuloben-arian-tu-ara-servisis-mimwodeblebi-acrilebi/84220/
[9] https://bm.ge/ka/article/quotstumrebi-didi-xnit-adre-javshnebis-gaketebisgan-tavs-ikavebenquot---glamping-georgia-racha-/85230/
[10] Please see the detailed overview of the developments in the Georgian tourism sector in 2020 in the first analytical report, page #25.
[11] https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=2131&lang=Eng
[12] https://formulanews.ge/News/50496
[13] https://bm.ge/ka/article/shabatkviras-restornebis-gia-sivrceebi-mushaobas-shedzleben--sabchos-gadawyvetileba/82684/

- Since June 1, restaurants have been allowed to operate on weekends in both open and closed spaces[14];
- Since June 1, land borders have been reopened[15];
- On June 14, tourism information centers around the country re-opened[16];
- On June 16, mandatory PCR testing for visitors aged less than 10 was eliminated[17]; and
- Since July 1, the curfew (23:00 – 04:00) was removed[18].

The prospects of the tourism sector's recovery in 2021 have received a significant boost from developments in the aviation industry as well. According to Mariam Kvrivishvili, Deputy Minister of the Ministry of Economy and Sustainable Development, as of July 2021, 72% of direct flight routes had been recovered, compared to 2019 levels. In particular, Batumi International Airport has shown rather positive tendencies, with growth of 21% in terms of the number of flight destinations compared to 2019 levels[19]. Wizz Air, a major airline carrier for the Georgian market, has reestablished its international hub in Kutaisi. Meanwhile, various other airlines (such as FlyArystan, Air Astana, Air Manas, Gulf Air, Qatar Airways, Air Arabia, FlyDubai, LOT Polish Airlines, Eurowings, Bees Airlines, Aegan Airlines and Turkish Airlines) have renewed, expanded, or started operations in Georgia so far in 2021[20].

During this time, the GNTA has organized various information tours and marketing campaigns. With the cooperation of sectoral associations, the GNTA organized tours popularizing gastronomic tourism in different regions of Georgia[21]. Moreover, with the support of USAID and as part of the project "Digital Days in Georgia," the GNTA organized press tours in different regions of Georgia for leading bloggers and influencers from various countries[22]. In addition, the GNTA organized a press tour for Business Traveler, a reputable tourism journal[23]. As for marketing campaigns, the GNTA has planned various activities in 2021[24], including taking part in six international tourism fairs. In addition, the GNTA has started an online marketing campaign on the international travel platform Culture Trip[25].

The sector also received another boost recently as in the updated state budget of 2021, the GNTA's budget was increased by GEL 10 mln[26]. Elsewhere, USAID has established a matching fund for the tourism sector, which will support more than 100 small hotels in the country in digital marketing[27]. In addition, Georgia has been elected to the Executive Council of the UNWTO for four years, which will allow the country to have a say in global developments in the tourism sector[28].

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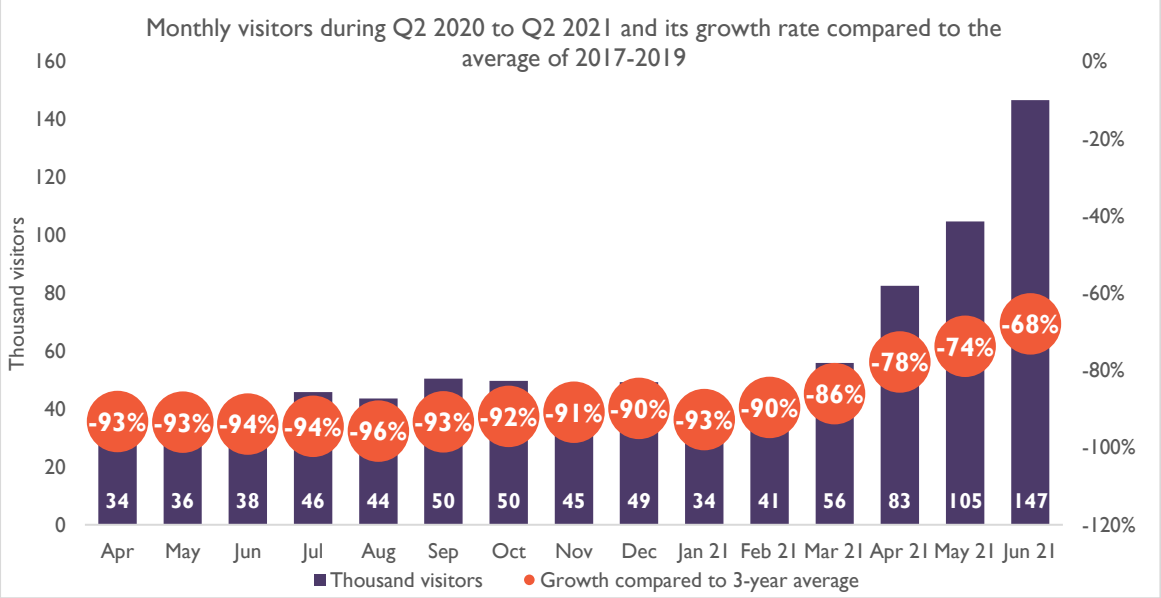
[14] https://bm.ge/ka/article/3-gadawyvetileba-romelic-uwyebatshorisma-sabchom-dges-miigo-/83327/
[15] https://bm.ge/ka/article/3-gadawyvetileba-romelic-uwyebatshorisma-sabchom-dges-miigo-/83327/
[16] https://bm.ge/ka/article/pandemiis-gamo-daxuruli-turizmis-sainformacio-centrebi-ixsneba-/84888/
[17] https://bm.ge/ka/article/saqartveloshi-shemosvlisas-10-wlamde-bavshvebs-pcr-testi-agar-moetxovebat---axali-gadawyvetilebebi/85121/
[18] https://bm.ge/ka/article/-1-ivlisidan-quotkomendantis-saatiquot-uqmdeba/85475/
[19] https://bm.ge/ka/article/aviaciis-agdgenis-tendencia-ukiduresad-kargi-swrafi-da-jansagia---mariam-qvrivishvili/87531/
[20] https://bm.ge/ka/article/qvrivishvili---quotaset-rtul-periodshi-aviacias-axali-mimartulebebi-da-aviakompaniebi-emateba/85287/; https://bm.ge/ka/article/ra-mimartulebit-zrdis-saqartvelodan-frenis-sixshireebs-9-aviakompania/87399/
[21] https://bm.ge/ka/article/kulinariuli-turizmis-ganvitarebis-miznit-turizmis-administracia-gastro-turebs-agrdzelebs/84365/ ; https://bm.ge/ka/article/gastroturizmi-axali-mimartulebaa-romelic-turistebshi-didi-popularobit-sargeblobs---janiashvili/86791/
[22] https://bm.ge/ka/article/usaid-is-mxardacherit-saqartvelo-msoflioshi-cnobil-blogerebsa-da-influenserebs-umaspindzlebs/83358/
[23] https://bm.ge/ka/article/turizmis-erovnulma-administraciam-business-traveller-is-jurnalists-umaspindzla/86951/
[24] https://bm.ge/ka/article/sad-da-ramdeni-mln-ixarjeba-wels-turizmis-marketingshi/82535/
[25] https://bm.ge/ka/article/platforma-culture-trip-ze-turizmis-erovnulma-administraciam-marketinguli-kampania-daiwyo/84070/
[26] https://bm.ge/ka/article/turizmis-erovnul-administracias-biujeti-10-milioni-larit-ezrdeba/87068/
[27] https://bm.ge/ka/article/iqmneba-turizmis-mxardacheris-fondi---ra-iqneba-misi-mizani/83553/
[28] https://agenda.ge/en/news/2021/1502

Due to all of these positive developments, the Minister of Economy and Sustainable Development of Georgia, Natela Turnava, foresees a recovery of 50% (compared to 2019 levels) as a possibility in 2021[29]. Although this is plausible, there are significant obstacles that persist. In particular, the increased number of COVID-19 cases in recent weeks raises uncertainty about tourism's recovery in 2021 and beyond. Pertinently, this spike has recently resulted in Georgia moving to the red country list of Israel[30], one of Georgia's key source markets, especially in 2021 so far. Moreover, despite the rollout of a general vaccination program, and a specific program for the tourism sector[31], the vaccination process has not been fast enough so far, with most of the sector and the country still unvaccinated. Scaling-up vaccination and boosting mitigation of the spread of the virus is crucial if positive developments in the sector are to endure.

Number of visitors in 2021

As already mentioned, COVID-19 and the related restrictions on mobility in and between countries have had a tremendously negative impact on the number of international visitors to the country. When compared to the average for the corresponding months of 2017-2019, Georgia experienced a drop of more than 90% in the number of foreign arrivals every month between April 2020 and February 2021. Since March 2021, with the gradual alleviation of COVID-19-related safety measures, the number of visitors started to grow each month, and in June 2021 it recovered to 32% of the average level for the previous three years. In absolute numbers, in the first half of 2021, 464 126 visitors entered the country, while in the first half of 2020 the corresponding figure was 1.229 mln. The average number of visitors during the same period in 2017-2019 amounted to 2.934 mln. As for the future flows of visitors, the GNTA forecasts that the number of visitors will not return to 2019 levels until 2024, which is in line with international expectations.

Chart 1.1Monthly visitors from Q2 2020 to Q2 2021 and its growth rate compared to the average of 2017-2019



Source: Georgian National Tourism Administration

It is worth noting that in 2021 air travel has been a more significant source of visitor inflows compared to previous years, largely due to land borders remaining closed in Georgia until June 1. Even then, 59%

[29] https://bm.ge/ka/article/vxedav-seqtoris-mzaobas-rom-wels-turizmi-40-50-it-mainc-agvadginot---turnava/81845/
[30] https://report.ge/en/world/israel-includes-georgia-in-the-list-of-red-countries/
[31] https://bm.ge/ka/article/vaqcinaciis-prioritetebis-nusxas-turizmis-industriashi-dasaqmebulebi-daemata/81707/

of visitors in the first half of 2021 came by land, while 40% came by air. In 2020, the corresponding figures were 78% for land arrivals and just 20% for air, which could be partially explained by flight restrictions imposed once the COVID-19 pandemic broke out. In the first half of 2019 however, these figures were 71% and 27%, respectively, meaning that in the first half of 2021, Georgia relied on air tourism more than it has done historically.

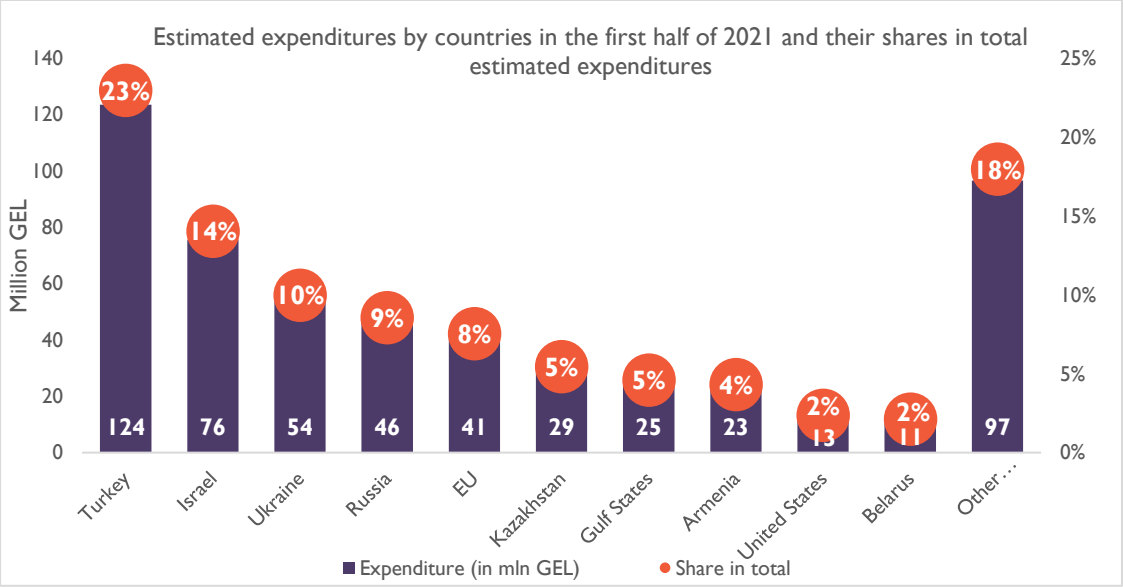
In line with global trends, domestic trips[32] rose in Q1 2021 compared to the corresponding periods in the previous two years, amounting to 3.3 million domestic visitors. This is 23.4% higher than the corresponding figure in Q1 2020, and 19.2% higher when compared to Q1 2019. In fact, according to the OECD, domestic tourism is expected to recover to 2019 levels in the summer of 2021.

Estimated revenues by country in the first half of 2021

In the second analytical report, we estimated the average expenditure per visit by country of origin based on the expenditure data provided by the GNTA. By multiplying this number for each country by the number of visitors from that country, revenues by country in the first half of 2021 have been estimated. We estimate that expenditures by visitors to Georgia in the first half of 2021 amounted to GEL 538 million. The biggest shares of this expenditure were attributed to visitors from Turkey (23%), followed by Israel (14%) and Ukraine (9%). Both Israel and Ukraine have recovered approximately 50% of their 2019 levels in terms of number of visitors.

The top 10 countries or countries/regions also included Russia, the EU, Kazakhstan, the Gulf States, Armenia, the United States, and Belarus (in that order). Other countries contributed 18% of total expenditures in this period, including Azerbaijan, Iran, India, Philippines, and China.

Chart 1.2 Estimated expenditures by countries in the first half of 2021 and their shares in total estimated expenditures



Source: Georgian National Tourism Administration, author's calculations

Key macroeconomic indicators in Q1 2021

The analysis of FDI patterns in the hotels, restaurants, and cafes (HORECA) sector reveals that it

[32] Detailed analysis of the number of domestic visits in Georgia in 2016-2020 is presented in the second analytical report, page 21

attracted USD 2.2 million in Q1 2021, which is minuscule when compared to Q1 2019 (USD 57.8 mln) and even to Q1 2020 (USD 15.7 mln). The share of FDI in the HORECA sector of total FDI in Q1 2021 was 1.8%, which was far lower than the average share of the sector in FDI over the period of 2014-2019 of 7.6%.

The analysis of GDP patterns in the HORECA sector reveals that it contributed GEL 187.9 million in Q1 2021, which is significantly lower when compared to Q1 2019 (GEL 424.4 mln) and even to Q1 2020 (GEL 427.2 mln). The share of the HORECA sector's contribution to total GDP of Q1 2021 was 1.7%, compared to an average share over the course of 2014-2019 of 3.3%.

Tourism marketing campaigns in 2011-2020

The GNTA has led various marketing campaigns to promote tourism in Georgia over the past decade. Over the period of 2012-2019, a total of GEL 37.7 million was spent on marketing campaigns targeted at tourists from specific countries.

The expenditures on marketing campaigns by target country over the period of 2012-2019 are presented in the graph below:

Chart 1.3 Expenditures on marketing campaigns by target countries

Source: Georgian National Tourism Administration, author's calculations

A list of countries where marketing campaigns were targeted over the course of 2012-2019 is provided in the table below. In the parentheses, the percentage of total money spent on marketing to a given country each year is indicated[33].

Table 1.1 List of countries where GNTA conducted marketing campaigns

2012	2013	2014	2015	2016	2017	2018	2019
Israel (95%)	Ukraine (48%)	Netherlands (13%)	Ukraine (12%)	Kazakhstan (24%)	Gulf States (12%)	Ukraine (16%)	Israel (19%)
	Lithuania (27%)	Austria (13%)	Kazakhstan (10%)	Russia (13%)	Russia (5%)	Russia (13%)	Baltic Countries (12%)
	Azerbaijan (14%)	Poland (13%)	Russia (6%)	Ukraine (10%)	Turkey (2%)	Poland (10%)	Germany (7%)
	Russia (7%)	USA (8%)	Turkey (3%)	Belarus (3%)	Ukraine	Israel (6%)	Gulf States (5%)

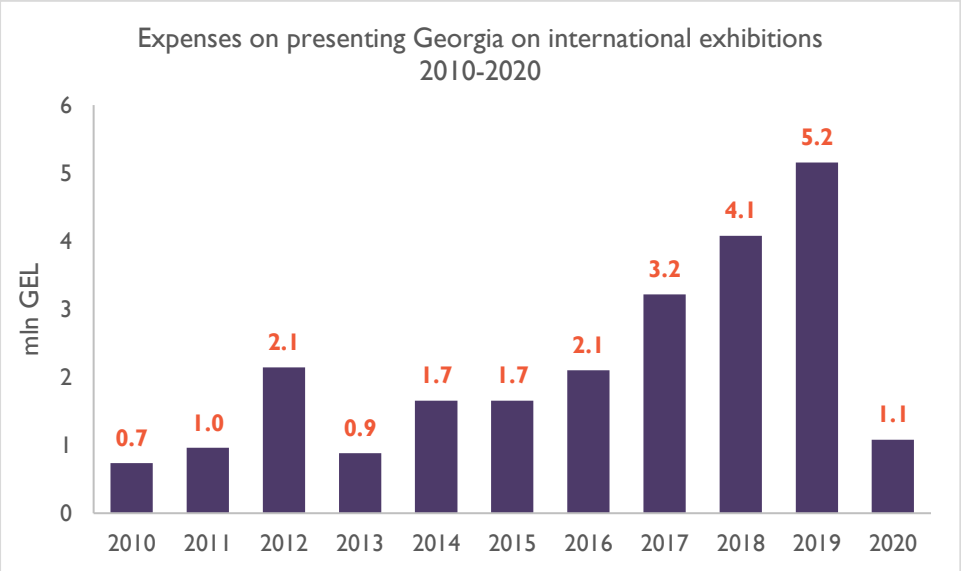
[33] It was impossible to track all marketing activities by country in each year, as on many occasions, the expenditures were grouped for several countries. Also, some marketing campaigns were general and not attributable to one specific country, which is why the shares of the countries in this list do not add up to 100% (the remaining share is for general marketing activities)

	Germany (1%)	Germany (8%)	Belarus (3%)	Azerbaijan	Belarus	Kazakhstan (2%)	Poland (4%)
		Russia (4%)	Israel (3%)	Armenia	Azerbaijan	Germany	United Kingdom
		Hungary (4%)	Latvia (2%)	Turkey	Armenia	Japan	Spain
		Belarus (1%)	Hungary (2%)	Israel			Germany
			Kuwait	UAE	Kazakhstan		
			Azerbaijan	Kuwait	Israel		
			Armenia	Qatar	Germany		
			UAE	Lithuania	United Kingdom		
			Spain	Latvia	Poland		
			Germany	Poland	Latvia		
			Poland	Germany	Lithuania		
				Italy	Italy		

Source: Georgian National Tourism Administration, author's calculations

In terms of presenting Georgia at international tourism fairs, the GNTA spent a total of GEL 23.7 million on this during the period of 2010-2020. Since 2014, the amount spent on such activities had been increasing significantly each year until 2020.

Chart 1.4 Expenses on presenting Georgia on international exhibitions by year

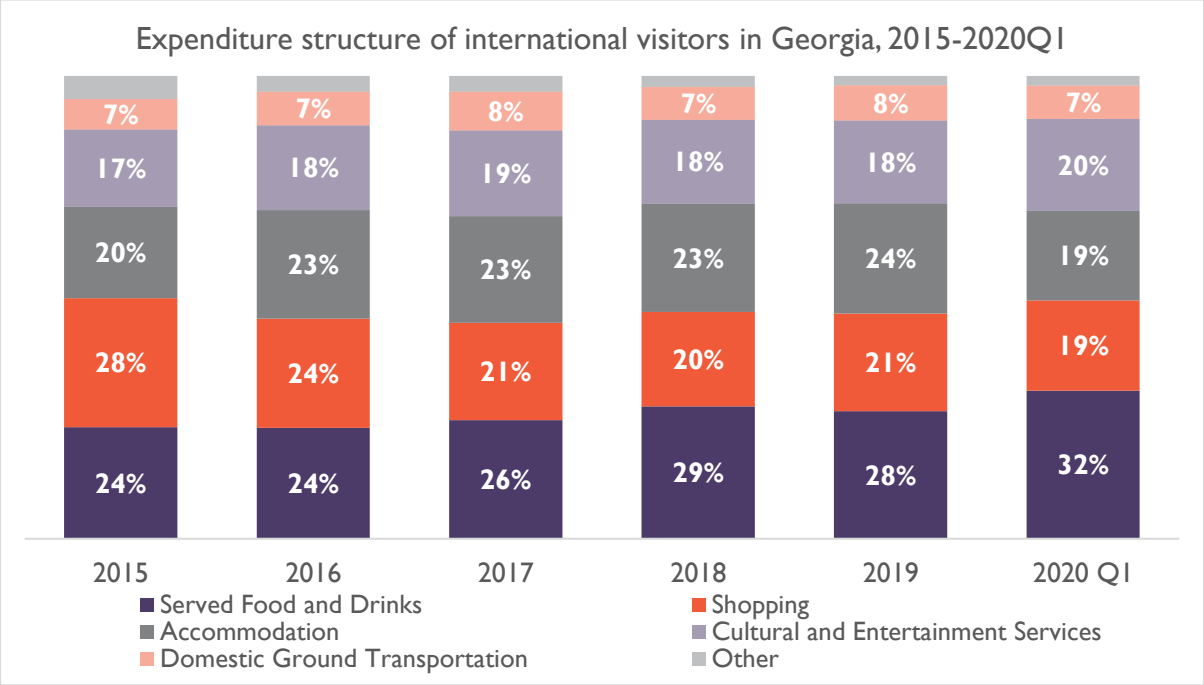


Source: Georgian National Tourism Administration, author's calculations

Expenditure structure of an average visitor in Georgia

Based on an international visitor survey conducted by Geostat, the expenditure structure of an average visitor in Georgia can be observed. The biggest expenditure category for an average visitor in Georgia over the period of 2015-2019 was "Served Foods and Drinks," with an average 26% of total expenditure going to this category. This was followed by "Shopping" and "Accommodation" (both 23%), and "Cultural and Entertainment Services" (18%). Expenditures on "Domestic Ground Transportation" took just 7% of total expenditures on average, with the remaining 3% spent on other categories.

Chart 1.5 Expenditure structure of international visitors in Georgia



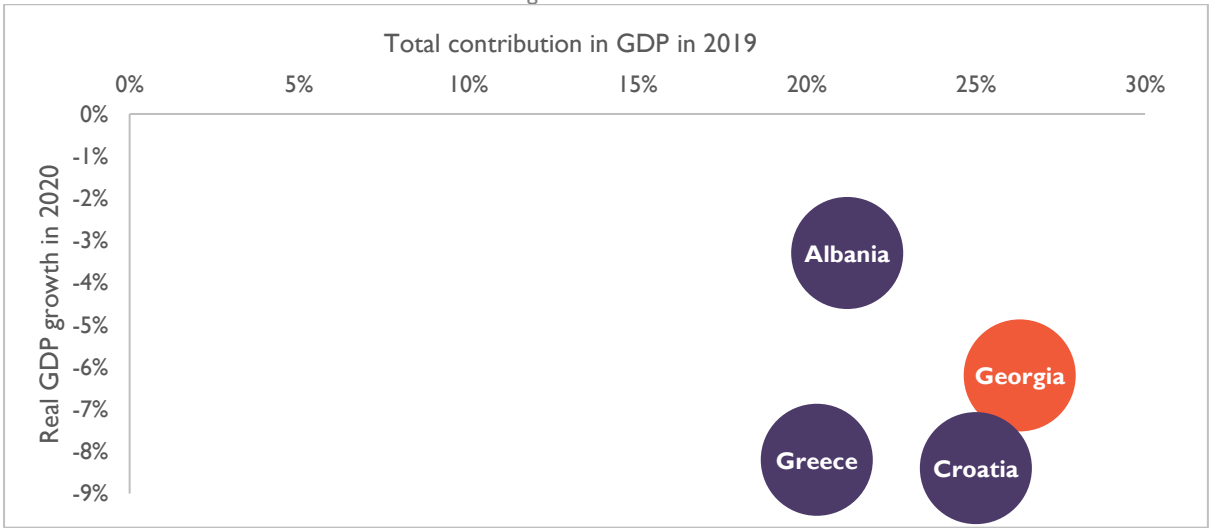
Source: National Statistics Office of Georgia, Georgian National Tourism Administration

International Benchmarking

In this and following reports, we will track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece[34].

As each of the four selected countries have a large reliance on tourism in their economies, each of them experienced a significant fall in GDP in 2020. In 2020, Albania experienced the least significant drop in terms of number of visitors, and also in terms of GDP, while the three other countries fared similarly in this respect.

Chart 1.6 Total contribution in GDP in 2019 vs GDP growth in 2020

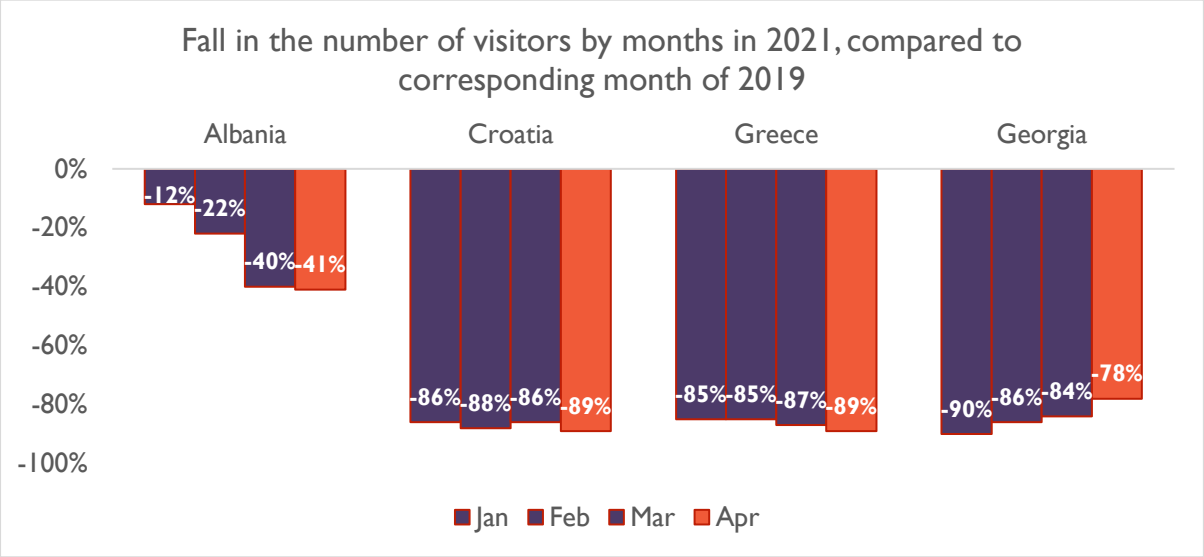


Source: UNWTO, WTTC, World Bank

[34] Please see the details about the selection process in second analytical report, page 23

In the first four months of 2021, Croatia and Greece fared worst in terms of the number of visitors among the selected countries, in comparison with 2019 levels. While numbers for Georgia have not been much lower than these two countries, there has been an improvement in each subsequent month. On the other hand, Albania experienced the least significant decline. In January and February, Albania nearly recovered to the levels of 2019, while in April and May it have recovered approximately 60% of its 2019 levels.

Chart 1.7 Dynamics of the fall in the number of visitors in benchmark countries by the months of 2021



Source: UNWTO

It is interesting to observe whether the selected countries are considered epidemiologically "safe" or not. Since June 2021, Albania has been recommended by the Council of the EU as a safe country[35]. In October 2020, Georgia was removed from the list of safe countries and has not reappeared on the list since then. As members of the EU, Greece and Croatia are not included in the list either.

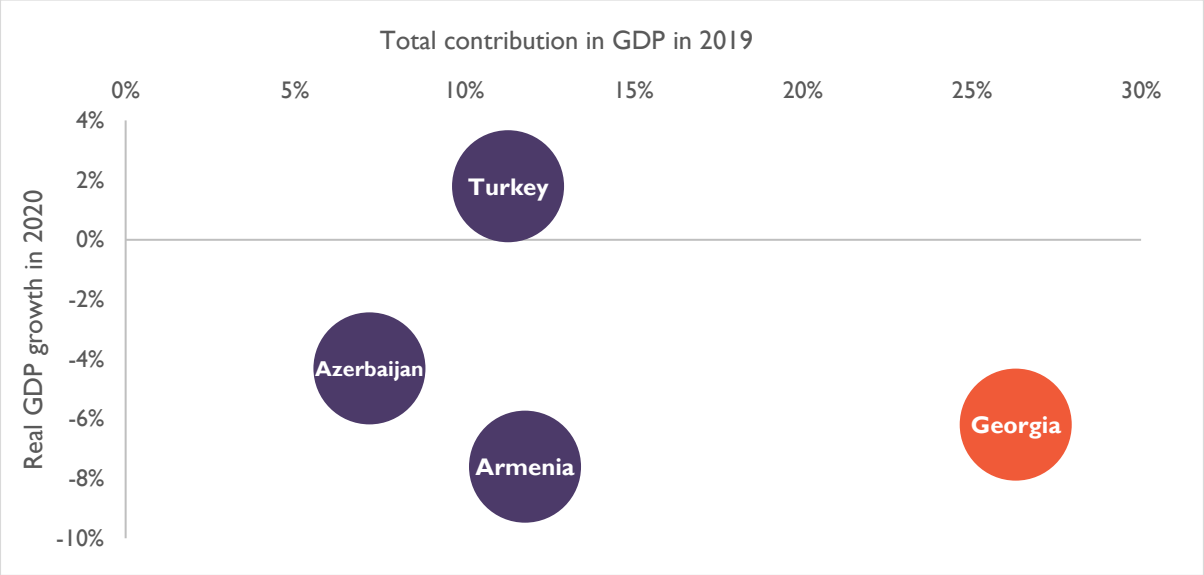
As for the restrictions the countries have imposed themselves, Albania stands out for having the least stringent restrictions, according to the UNWTO and the IATA's Destination Status Tracker[36]. In fact, there is no requirement for a PCR test, no entry restrictions, and no quarantine regime in Albania. Croatia seems to have the most stringent requirements for air travel among the remaining three countries, however, Georgia and Greece also have a number of restrictions in place.

Regional Benchmarking

Due to the structure of their respective economies, Georgian economy has suffered more than its neighbors in the South Caucasus region, due to the former's relatively high dependence on tourism. This is manifested by the fact Georgia suffered a similar fall in GDP to Azerbaijan and Armenia, who for much of 2020 were engaged in a war.

[35] https://www.schengenvisainfo.com/eu-list-of-epidemiologically-safe-countries-amid-covid-19/
[36] https://www.unwto.org/unwto-iata-destination-tracker

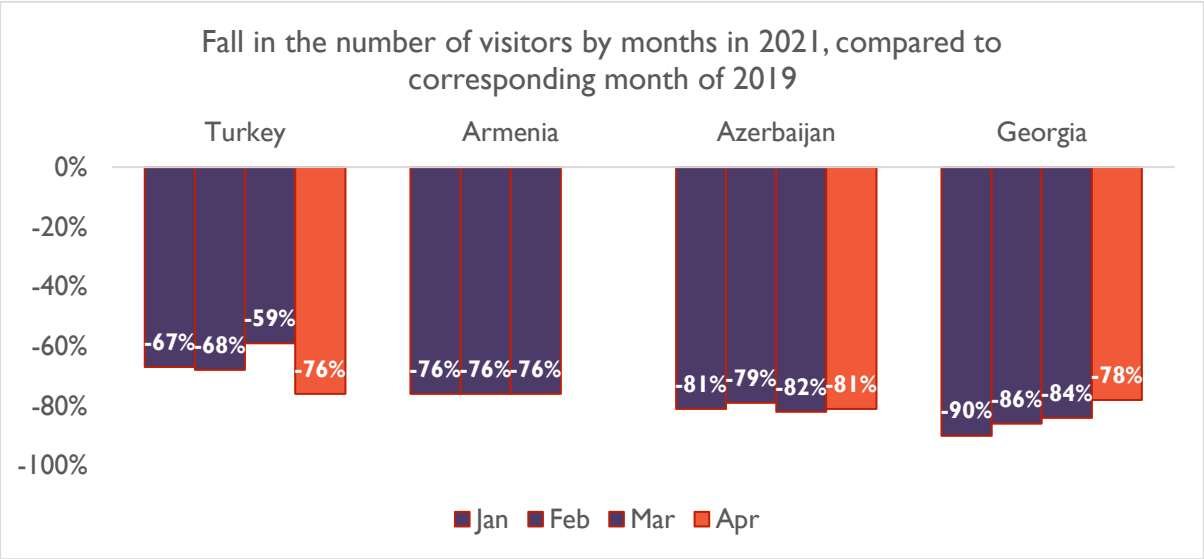
Chart 1.8 Total contribution in GDP in 2019 vs GDP growth in 2020



Source: UNWTO, WTTC, World Bank

Within the regional context, in the first four months of 2021, Azerbaijan experienced the highest fall in terms of number of visitors, followed closely by Georgia. However, the numbers in Georgia have been improving each month. The two are followed by Armenia, while Turkey had the least decline, especially in Q1 2021.

Chart 1.9 Fall in the number of visitors in 2021 in the countries of the region



Source: UNWTO

Within the region, Azerbaijan and Armenia have been recognized as safe countries by the Council of the EU since July 1, while Georgia and Turkey have not made this list yet. As for entry restrictions, each country has at least some requirements for travelers.

ACCOMMODATION

Value chain trends[37]

The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector (accommodation facilities and food service facilities) reveals that the value chain faced a massive hit in 2020 and Q1 of 2021. In Q1 2021, the turnover declined by 70.9% compared to Q1 2020 and by 70.5% compared to Q1 2019. The VC fared worse than the aggregated sector. It is noteworthy that despite the start of the pandemic in Q1 2020, it still managed to outperform results in Q1 2019.

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

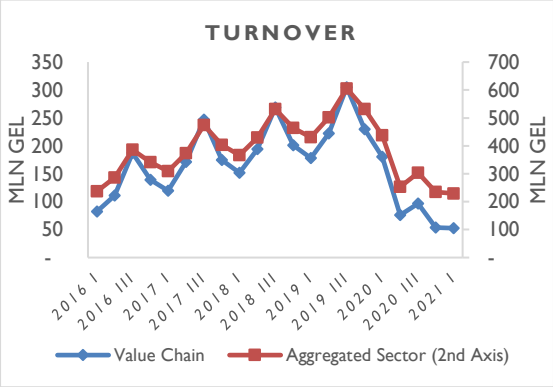
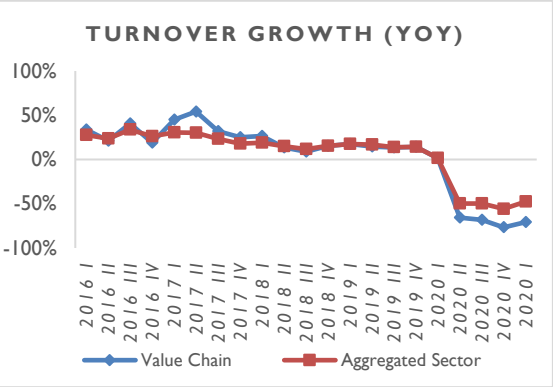


Chart 1.11 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Output in the accommodation value chain has shared the dynamics of its turnover, having declined by 69.3% in Q1 2021, compared to Q1 2020 and by 68.3% compared to Q1 2019. As in the case of turnover, the aggregated sector registered declines of slightly less magnitude.

Chart 1.12 Output of the accommodation value chain and the corresponding aggregated sector

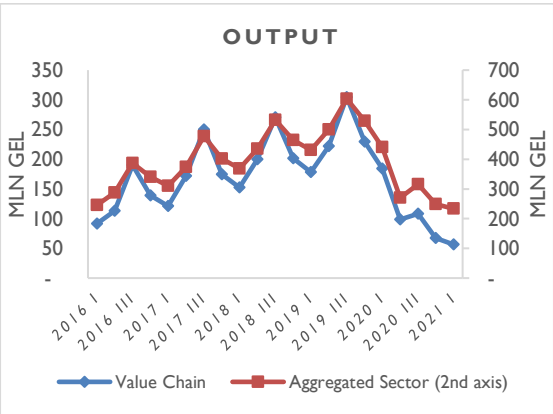
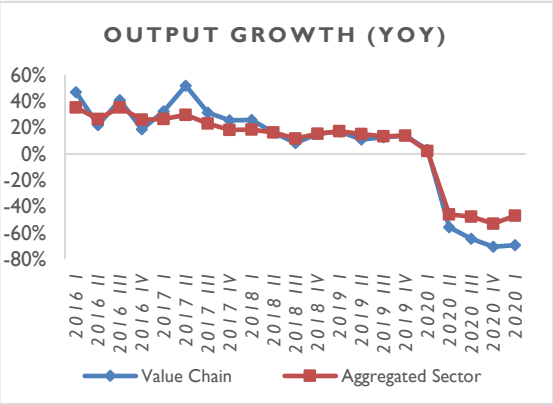


Chart 1.13 Annual growth rate of output for the accommodation value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment in the accommodation value chain seemed to be more resilient to the shock in 2020 at first sight, compared to the abovementioned key indicators, having decreased by 15.6%, 26.2%, and 39.2% in Q2, Q3, and Q4 of 2020, respectively. The figures were slightly better for the aggregated

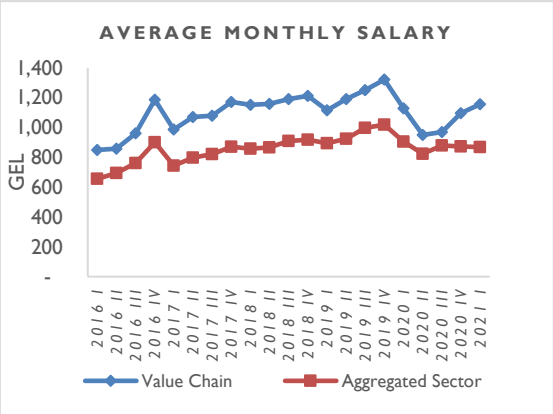
[37] In the first analytical report, we also analyzed Hotel Price Index for 3, 4 and 5-star hotels in Georgia over time. For details, please see page #34 in the first report

sector[38]. In Q1 2021, average quarterly employment declined by 56.2% compared to Q1 2020, and by 52.4% compared to Q1 2019.[39]

The average monthly salary in the accommodation value chain experienced a decline in 2020, albeit, less substantial than other key indicators. The decline in the aggregated sector was less significant. In Q1 2021, average monthly salary increased by 2.6% compared to Q1 2020, and by 3.7% compared to Q1 2019. This could be explained by raised costs due to the rising inflation, as reported by various respondents. Despite this mild growth in average monthly salary, the total salary fund of the value chain declined by 55.1% in Q1 of 2021 YoY, and by 50.7% compared to 2019, leaving the growth in average salary as rather pointless.

Productivity of the VC, as measured by output divided by the number of employed people, also suffered significantly, declining by 29.9% in Q1 2021, compared to Q1 2020 and by 33.4% compared to Q1 2019. The decline in the aggregated sector was less significant. The decline of the productivity was attributed to a higher decline of output compared to the decline in employment.

Chart 1.17 Average monthly salary in the accommodation value chain and the corresponding aggregated sector



1.15 Employment in the accommodation value chain and the corresponding aggregated sector

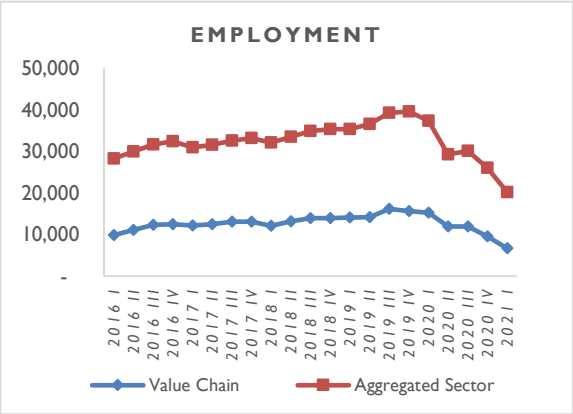


Chart 1.16 Productivity in the accommodation value chain and the corresponding aggregated sector Chart

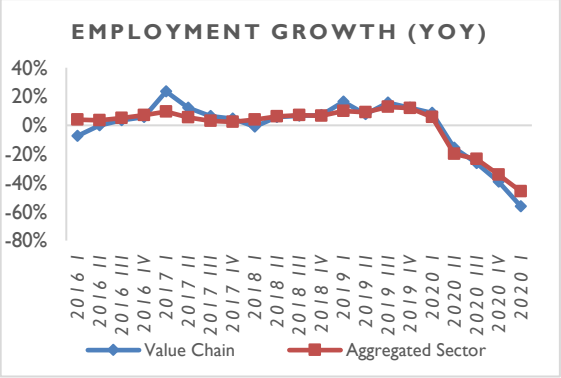
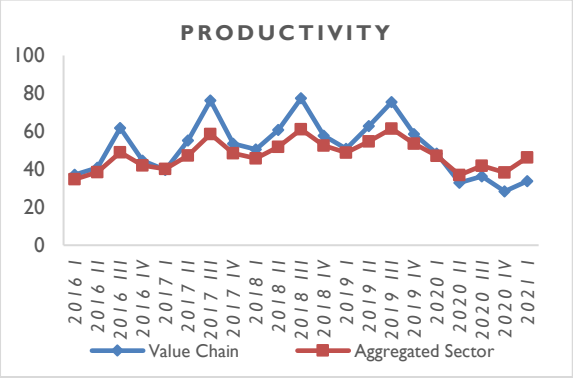


Chart 1.14 Annual growth rate of employment in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

[38] This rising sharpness of decline over the course of the year could be explained by the following: In the second quarter, a substantial number of firms, still optimistic about the near future, decided not to let go of their employees. However, as the year progressed and situation got even worse, the firms could not afford to maintain majority of their employees.

[39] 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.

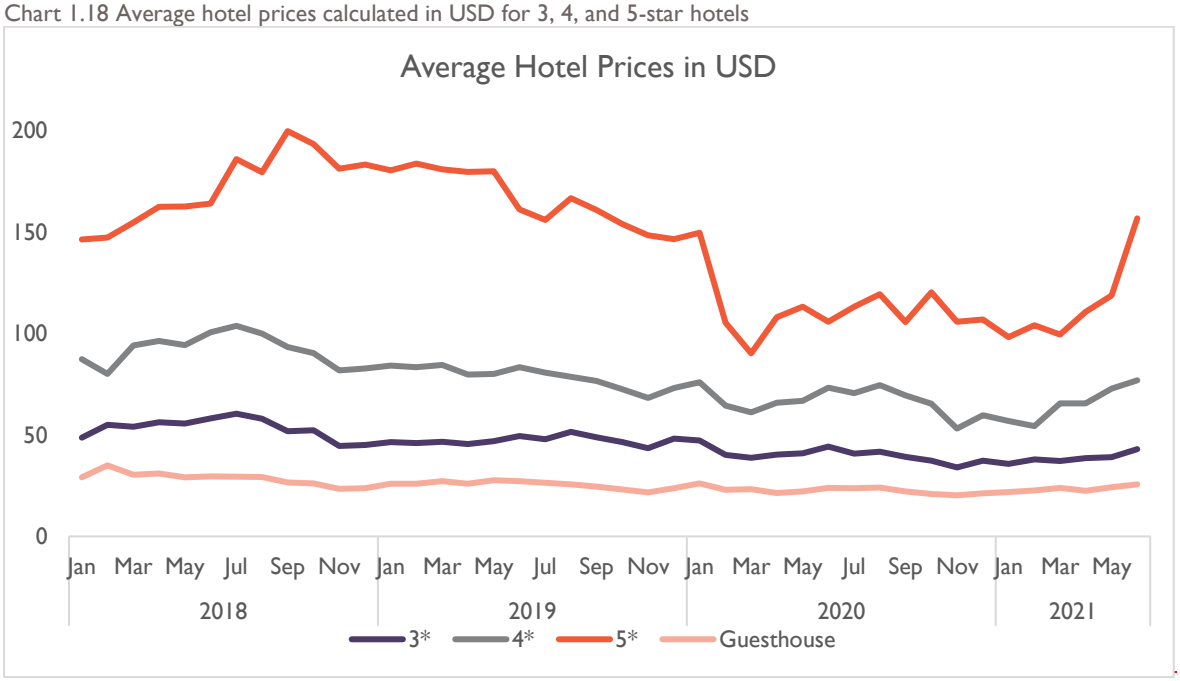
Hotel price dynamics in Georgia

PMC Research Center conducts monthly research on accommodation prices based on www.booking.com and publishes the Hotel Price Index, which serves as an indicator of average price changes in hotels[40] and guesthouses. Meanwhile, the Yearly Hotel Price Index shows how the average prices change compared to the corresponding months of the previous year.

The average prices[41] within each category peaked in the summer season (Jun-Sep) of 2018. Due to abrupt shocks in 2019 (Russian flight ban) and 2020 (the outbreak of the COVID-19 pandemic), prices have been experiencing a negative trend since June 2019. While the prices in 2020 and early 2021 are the lowest in the analyzed period, in June 2021 the prices within each category seem to have recovered 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. On the other hand, prices for guesthouses were most stable during the analyzed period.

Chart 1.18 Average hotel prices calculated in USD for 3, 4, and 5-star hotels



Source: PMC Research Center

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

[40] 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 does not correspond to international classification of hotels. The calculation of the Hotel Price Index is based on the recommendations given by the International Monetary Fund (IMF). The elementary aggregate price index is calculated according to the Jevons Index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)).

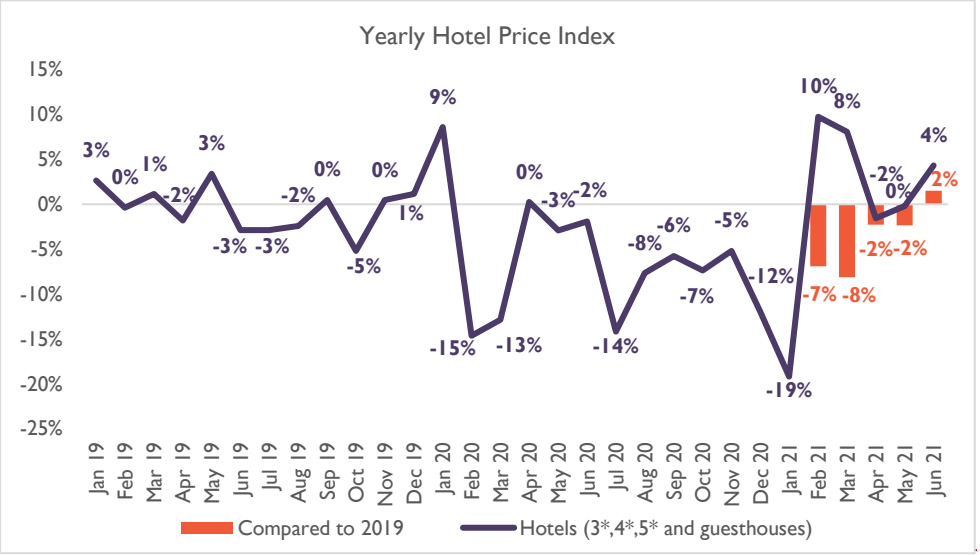
[41] Price is calculated for 2-person room per night

mentioning that because many hotels kept their prices unchanged during the lockdown, the index might understate the magnitude of the fall in prices in 2020.

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

In June 2021, the HPI was positive both in comparison to the corresponding month of 2020 and 2019 for the first time since January 2020. This is attributed to the reopening of borders and relative optimism about tourism recovery, as well as the low base effect due to the shock (Russian flight ban) in June 2019.

Chart 1.19 Yearly Hotel Price Index for 3, 4 and 5-star hotels



Source: PMC Research Center

ADVENTURE TOURISM[42]

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

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

Many visitors interested in adventure tourism also tend to visit national parks, natural monuments, and protected areas of the country. Therefore, it is worth observing the evolution of the number of visitors to selected national parks, natural monuments, and managed reserves[43].

In Q1 2021, according to the data provided by the Agency of Protected Areas, four key national parks and protected areas in Georgia - Prometheus Cave, Martvili Canyon, Okatse Canyon, and Sataplia -

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

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

were closed to visitors. They all reopened on May 26[44]. In Q1 2021, 13 284 visitors entered other sites, with Tbilisi National Park hosting 58% of them, followed by Kazbegi National Park (15%). Out of these 13 284 visitors, 1 368, or 10%, were foreigners. Meanwhile, in 2019, 51% of visitors to these sites were foreigners.

Overview of the existing challenges and opportunities

This section summarizes the opinions relating to the adventure tourism value chain expressed by the actors from the private sector, business associations, and DMOs.

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

Lack of qualified workforce, especially after re-opening: This challenge has been marked as the most significant and as a top priority especially after the pandemic's peak and subsequent re-opening. As many private sector representatives mentioned, recruiting qualified staff has become a very complicated process, both in the capital city as well as in the regions. According to some of them, this could be due to negative expectations among employees towards the stability of the tourism sector in Georgia. Some professional guides have also reportedly changed their occupation after the collapse of the sector during the pandemic. On the other hand, as some respondents mentioned, it is difficult for many tourism sector employers to give stable job guarantees even for a 3-4-month period, as their expectations, based on the possible worsening of the epidemiological situation, are ambiguous. Besides, considering the recent inflation rate, the wages on offer are even less attractive, and most employers are powerless to consider growth in remunerations.

Public-private Dialogue (PPD): Complaints about an insufficient level of partnership between public and private sectors were made during the focus group meetings. Some respondents were concerned about the fact that the meetings were only occasionally held, that face-to-face agreements were being made, and that the GoG representatives were ultimately making decisions sometimes contrary to what was agreed in the meeting. Private sector respondents reported that, during interviews with media outlets, the GoG officials would claim that the decisions were made based on consultations with the private sector.

The tourism sector is still being overlooked, according to the private sector: As was mentioned during the focus group meetings for the second analytical report, some private sector actors were concerned that the sector was being overlooked by the GoG. Some respondents partly linked this to the non-existence of a clear tourism strategy document, as well as to the fact that the position of the head of the GNTA is still vacant, and, finally, to the decreased annual budget of the GNTA. However, according to our qualitative study, the annual budget of the GNTA was increased by GEL 10 million, which marks a direct response to the challenge faced.

Skepticism about forecasts made by different research organizations in the tourism sector: Private sector actors expressed doubts about opinions given by other sector stakeholders that the Georgian tourism sector will return to or even exceed pre-pandemic figures in 2022. According to the private sector skeptics, such forecasts are mainly based on research conducted by

[44] https://zugdidelebi.ge/%E1%83%93%E1%83%90%E1%83%AA%E1%83%A3%E1%83%9A%E1%83%98-%E1%83%A2%E1%83%94%E1%83%A0%E1%83%98%E1%83%A2%E1%83%9D%E1%83%A0%E1%83%98%E1%83%94%E1%83%91%E1%83%98-%E1%83%95%E1%83%98%E1%83%96%E1%83%98%E1%83%A2/

TBC Capital[45] (forecasting that 2021 tourism figures would recover to 40% of 2019 levels, while in 2022 revenues would exceeding 2019 levels by 10%). Many respondents concluded that, considering the current circumstances and dynamics in the tourism industry, they were skeptical about this forecast, and they sought further clarification about the methodology used.

Expiration of tax relief measures for the tourism sector: The tax burden was marked as one of the most significant factors hindering business operations in all three value chains. The short-term tax liberalization and grace periods provided by the GoG during the crisis were described as being insufficient for most actors to maintain their businesses. Some of the respondents underlined the importance of VAT tax reliefs for businesses. The grounds for such relief were mainly based on the argument that exports from Georgia are exempt from VAT, and that tourism services also represent export activities.

Lack of international presence and promotion strategy: As discussed during the focus group meetings, the suitable presentation of Georgia on international markets is of vital importance today. Similar to the opinions expressed during the qualitative research conducted for the second analytical report, some respondents underlined the urgency of promoting wellness tourism (for instance balneological resorts) and adventure tourism to the targeted markets. Besides, it is worth noting that most of the interviewed respondents agreed that when it comes to decisions about targeted countries, the focus should be made on those with which Georgia currently has the most active flight connections with.

Concerns about illegal hunting and fishing activities in the tourism sector: Adventure and ecotourism association representatives reported the existing bad practices of some tourism agencies, namely partaking in illegal hunting and fishing (poaching) activities. The respective respondents are concerned about this tendency and, according to them, the trend needs to be brought under control and related activities should be suspended. This particular challenge will be further studied by our team.

Poor coordination among tourism sector stakeholders: The representatives of the Destination Management Organizations (DMOs) of Kakheti, Samegrelo, and Samtskhe-Javakheti reported poor coordination among stakeholders in the tourism sector, which in the medium and long term could lead to decreased productivity. Such stakeholders include the private sector, the GoG, the DMOs, all tourism-sector-related programs supported by donor organizations, and every actor who is involved in the sector's development. According to the aforementioned representatives, there are already rather many stakeholders and supporting programs aimed at building the sector's capacity, however few are informed about each other and there is a need for better coordination.

Limited information about the expectations of 'post-Covid' tourists: One of the biggest challenges cited by stakeholders in all value chains is linked to compliance with security standards. According to some respondents, some tourists now have much higher expectations about security and hygiene than before the pandemic, and the quality of services being offered to them was unsatisfactory. According to the interviewed actors, in order to be better prepared to provide the desired quality of services, it is crucially important to conduct an in-depth study about the expectations, requirements, and needs of tourists today.

[45] Georgia's Tourism Industry Market Watch (TBC Capital, JUN 2021)

CULTURAL TOURISM

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

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

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

While Uplistsikhe and Vardzia remained the top museum-reserves to visit in 2021, the number of visitors has not been comparable to those of 2019. In Q1 2021, just 837 visitors visited Uplistsikhe and 347 visitors went to Vardzia. In total, 1 626 visitors explored historic Georgian museum-reserves. It is worth noting here that according to the National Agency for Cultural Heritage Preservation, all of these sites were closed until March 2021.

Travelers interested in cultural tourism, apart from visiting museum-reserves, tend to visit museums. Based on the data from the Georgian National Museum, 1 172 visitors explored the Simon Janashia Georgian National Museum in Tbilisi. The number of visitors to every other museum was less than 100, with a combined total of just 3 427 visitors. Again, it is worth highlighting that the museums were closed due to COVID-19-related restrictions until the start of March.

Overview of the existing challenges and opportunities

In this section, we unite stakeholders' opinions related to the cultural tourism value chain which were gathered from individual and focus group meetings incorporating the private sector, business associations, and DMOs. The following represent the most notable challenges and prospects identified in the cultural tourism value chain:

The value chain actors await a cultural tourism strategy: As identified during the qualitative study for the previous analytical report, the majority of the interviewed respondents still underlined the urgent need for an inclusive cultural tourism strategy document with a clear vision for the promotion and presentation of the country, with an emphasis on its cultural attractions, on the international tourism market.

Associations report increased demand for membership: Linked not only to the cultural tourism value chain, the majority of respondents from tourism sector associations also reported an increased demand for association membership since the pandemic broke out. Some of the associations recorded a 20-30% increase in monthly membership requests, on average, compared to 2020. This tendency is likely to be attributable to the increased awareness among tourism sector actors about the significant role of associations in policy advocacy and public-private partnership.

Access to quality education: Emphasis was again placed on the urgent need to upgrade the education and qualification levels in cultural tourism by the value chain actors. Meanwhile the Georgian Tourism Association representatives reported an increased demand for association membership from the state and public education institutions/colleges providing vocational education in Georgia. It was also reported that the support from USAID in developing vocational education in Georgia had

increased accessibility to vocational education in the country, as well as having a significant impact on the quality and efficiency of the institutions providing it.

Inactive domestic tourism: According to many respondents, domestic tourism demand continued to be sluggish. Demand for cultural tourism is also significantly low, which was one of the main concerns shared by the value chain representatives during the focus group meetings. This opinion is backed up by the quantitative analysis in the second analytical report, which showed that domestic tourism decreased by 12.5% in 2020 compared to 2019.

Slow Covid-19 vaccination rollout: This challenge was raised by the majority of respondents from each value chain including cultural tourism. The low vaccination rates were first linked to the limited access to the vaccines provided by the respective government units, and hesitancy among the population, especially in the regions, about getting vaccinated. This is a huge impediment to stimulating economic activities in the tourism sector.

GASTRONOMIC TOURISM

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

Overview of the existing challenges and opportunities

A qualitative study on gastronomic tourism was conducted through in-depth interviews and focus group meetings with representatives from the private sector and business associations of the gastronomic tourism value chain as well as from the DMOs.

The key challenges and the most significant themes discussed within the gastronomic tourism value chain are summarized below:

Scarcity of a labor force: Problems related to the recruitment of a competent workforce have turned out to be among the major challenges in this sector during the pandemic. According to the respondents from the gastronomic value chain, they had found it very hard to bring former employees back, as most of them had already found work in other fields. For instance, many service staff (both waiters and waitresses) had started jobs as couriers in the higher-paid food delivery service sector. With regard to attracting new staff, most of them requested high salaries and managers in the gastronomic and accommodation value chains cannot afford to meet their demands. The decrease in the skill level of the labor force has jeopardized service quality as well.

Risk of decreased quality of services: According to the majority of interviewed respondents, the scarcity of an adequate workforce has given rise to a more severe problem, namely decreased service quality. In some cases, such deterioration in service quality is already evident, and the respective actors are concerned that the consequences of this will be very harmful in the medium term. The short-term solution foreseen by the gastronomic and accommodation value chain actors is to issue additional income tax relief schemes. Such tax exemptions would enable employers to raise salaries and thus attract more skilled personnel.

Negative expectations linked to the possible worsening of the epidemiological situation: Several actors from the accommodation and gastronomic value chains were fearful that there would be repeat of the spike in COVID-19 cases at seaside resorts as seen in 2020 due to ineffective monitoring and control mechanisms.

Challenges linked to Covid-19 vaccination: The Covid-19 vaccination process has until now been constrained and tourism sector actors have faced barriers even when vaccines became accessible. Such barriers mostly concern hesitancy and irrational fears among the employees towards vaccination. One of the most notable developments in this regard was when actors in the accommodation and gastronomic value chains announced that vaccination was mandatory for each of their employees, which led to strikes and in some cases resignations. This challenge is especially acute in the regions.

Otherwise, the GoG's dedicated vaccination program for the Georgian tourism sector was mentioned, which was announced early in May 2021. Many of the interviewed respondents expressed concerns that within the program the demand for vaccines from the tourism sector exceeded the supply of available vaccine doses.

Private sector claims about unequal conditions for private sector actors through selective monitoring mechanisms: According to interviewed respondents from the accommodation value chain, some local companies seemed to enjoy 'privileged' status that gives them an advantage over others and renders competition unbalanced on the local market. In particular, when the curfew was in place, there were cases reported of several companies, despite violating the curfew rules and other regulations, being overlooked by the respective monitoring bodies, while other companies were strictly penalized for minor misconduct.

Miscommunication with the GoG: Some respondents representing gastronomic value chain associations complained of the poor level of communication and dialogue with respective government units. They noted that such communication is established only with large associations and businesses that are not fully informed about the difficulties in the overall sector, and smaller actors found it hard to have their voices heard. Thus, again, the need for a bilateral and constructive dialogue platform was mentioned.

Nevertheless, most of the interviewed respondents had optimistic expectations about the Georgian Tourism Industry Alliance, which was founded at the end of 2020 with support from the USAID Economic Governance Program and is already uniting 29 tourism associations. Among various objectives, the main ones are to encourage dialogue between the private and public sectors and to ensure that small and medium-size businesses' voices are heard.

Mistiming of tax relief schemes: Since 1 June 2021, the GEL 750 per month income tax exemption scheme for employees with monthly salaries below 1500 GEL has been scrapped (the anti-crisis socio-economic plan of the GoG). Some interviewed respondents reported that they had taken advantage of this when trying to retain their personnel. For most of them, a similar income tax liberalization scheme is again needed, so they can hire employees who are requesting increased salaries. They claimed that this would give them significant advantages when addressing the abovementioned challenges.

Increased input costs resulting in an increase in market prices: As the majority of the interviewed respondents confirmed, their business operations have undergone a rapid increase in input

costs both for intermediate goods and utility costs. Regarding the latter, since 3 January 2021, natural gas and electricity tariffs for commercial customers, with minor exceptions, have increased by 28% and 50-70%, respectively. In addition, other operational costs linked to pandemic regulations (security, hygiene norms, etc.) have increased by up to 10-12%. Consequently, business actors have been forced to increase their prices. For instance, some of the gastronomic tourism actors already reported an increase in prices of 20-25%.

Decreased demand for high-priced services/products: The interviewed respondents from the gastronomic and accommodation value chains highlighted the tendency of an increased demand for low-priced services and goods. As an example, it was reported by some gastronomic value chain actors that the average spending of consumers has decreased during the crisis. If before the average bill equaled 50-60 GEL, now the average was 20-30 GEL.

Trends in food services

The turnover of enterprises in the food services value chain faced a massive hit in 2020. While in Q1 2020 it still managed to grow significantly by 22.4% Year over Year (YoY), VC's turnover saw a sharp decline of 36.1% in Q2, 29.6% in Q3, and 37.7% in Q4. It is worth noting that aggregate sector fared worse, having declined by 49.6%, 49.8%, and 55.8% in Q2, Q3, and Q4 of 2020, respectively. In Q1 2021, the VCs turnover declined by 34.9% compared to Q1 2020 and by 20.3% compared to Q1 of 2019. The aggregate sector fared slightly worse than the food services VC.

Chart 1.20 Turnover of the food services value chain and the corresponding aggregated sector

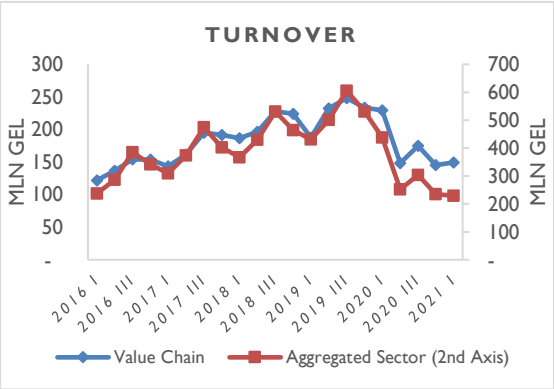
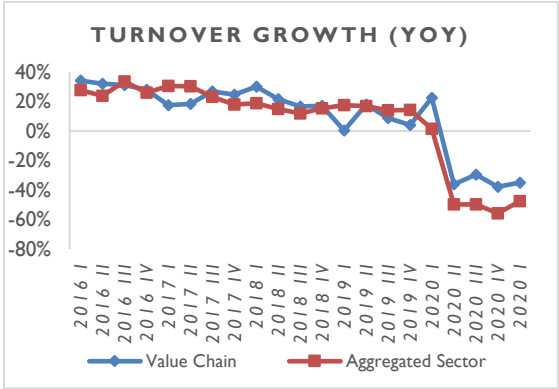


Chart 1.21 Annual growth rate of turnover for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Output in the food services value chain output mirrored the dynamics of the value chain's turnover in 2020 and Q1 2021, having grown by 22.3% in Q1 2020, followed by a decline of 37.6%, 29.3%, and 37.4% in Q2, Q3, and Q4 of 2020, respectively. In Q1 2021, output declined by 34.7% compared to Q1 2020, and by 20.2% compared to Q1 2019. As in the case of turnover, the aggregated sector registered declines of slightly higher magnitude.

Chart 1.22 Output of the food services value chain and the corresponding aggregated sector

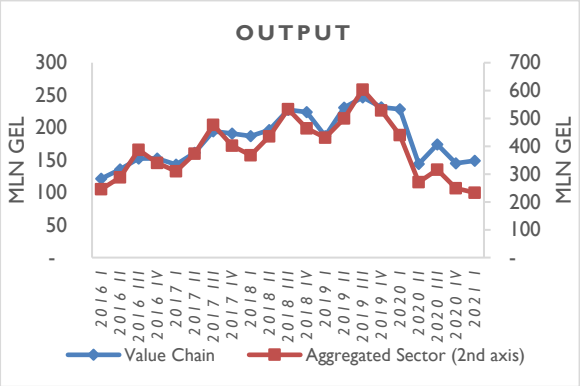
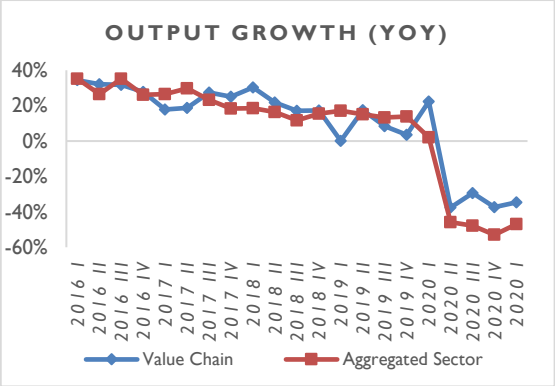


Chart 1.23 Annual growth rate of output for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment in food services value chain declined by 17.6%, 11.5%, and 20% in Q2, Q3, and Q4 of 2020, compared to respective quarters of the previous year. The figures were worse for the aggregated sector. In Q1 2021, average quarterly employment declined by 42.0% when compared to Q1 2020, and by 22.6% when compared to Q1 2019. It is crucial to note that substantial amount of value chain's employment is unobserved, thus, the impact of the pandemic on VC's employment is not fully reflected by the official statistics presented in the analysis, and this impact is especially understated for employment numbers.

Chart 1.25 Employment in the food services value chain and the corresponding aggregated sector

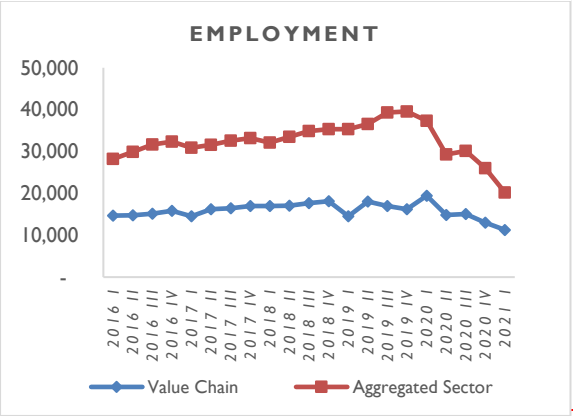
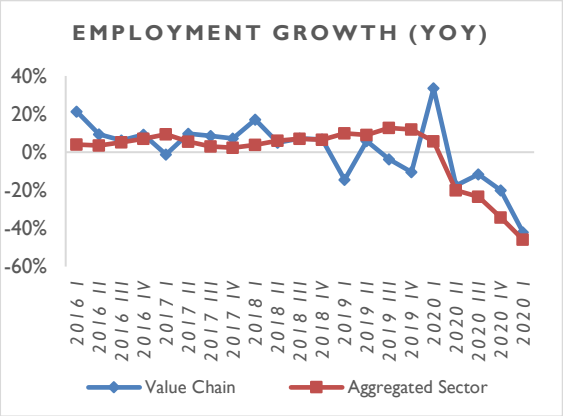


Chart 1.24 Annual growth rate of employment in the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

In 2020, the decline of the average monthly salary in the food services value chain was less substantial than other key indicators, declining by 8.4% in Q2, growing by 3.9% in Q3[46] and declining again by 17.1% in Q4, compared to the corresponding period of 2020. In Q1 2021, the average salary in the VC declined by 5.1% compared to Q1 2020, and by 10.9% compared to Q1 2019. The decline in the aggregated sector was slightly less significant. Importantly total salary fund of the value chain declined by 45.0% in Q1 2021 compared to Q1 2020, and by 31.0% when compared to Q1 2019.

[46] A possible explanation for the unusual growth in Q3 of 2020 could be that most vulnerable and low-paying jobs were lost within the value chain, with the highest-paid workers staying employed. In addition, it is crucial that total salary fund of the value chain declined by 8.1% in Q3 (YoY) and by 26.1% in Q4 (YoY)

In 2020, productivity of the VC, as measured by output divided by the number of employed people of suffered significantly, declining by 8.4%, 24.3%, 20.1%, and 21.7% in Q1, Q2, Q3, and Q4 of 2020, compared to the respective quarter of the previous year. In Q1 2021 productivity increased by 12.6% when compared to Q1 2020, and by 3.1% when compared to Q1 2019. This increase in productivity is attributed to the employment falling by greater amount than output in Q1 of 2021. On the other hand, the aggregated sector experienced a decline in productivity.

Chart 1.26 Employment in the food services value chain and the corresponding aggregated sector

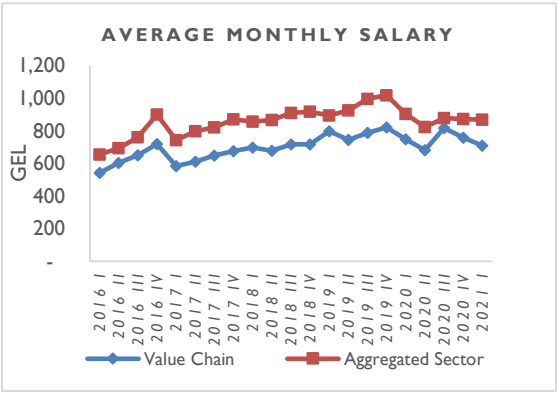
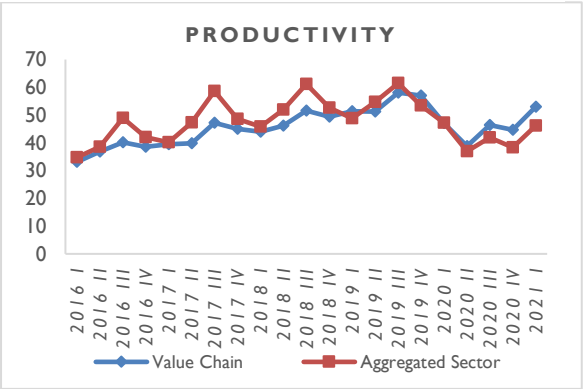


Chart 1.27 Annual growth rate of employment in the food services and the corresponding aggregated sector



Source: National Statistics Office of Georgia

CATERING

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

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

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

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

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

The main challenge for the catering value chain in 2020 has been the COVID-19 pandemic and subsequent restrictions placed on their activity. Due to these restrictions, almost all surveyed companies completely halted their catering divisions in 2020 and focused their efforts instead on other services. With little to no sector-specific help for this value chain for most of 2020, it has switched to survival mode. However, in Q1 2021, the surveyed catering companies reported slight growth in turnover compared to the corresponding quarter of 2020. Moreover, the number of employees has also increased. This could be the first sign of a recovery for the value chain.

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

The creative industries sector has been significantly affected by the pandemic. The media content production and post-production value chain had recorded impressive growth prior to 2020, expanding turnover, employment, and all other indicators. However, the pandemic has affected the value chain considerably, as it has experienced a contraction in all indicators from which it has yet to recover. The aggregated sector of information and communication, in contrast, has already recovered to pre-2020 levels.

The media content production and post-production and artisan value chains were those most affected by the pandemic as their business models were not suited to handle a recession or any of the pandemic-related restrictions. The former value chain had reported impressive expansions in turnover, employment, and investments before the first quarter of 2020, where turnover dropped from GEL 38.8 million in the fourth quarter of 2019 down to GEL 14.4 million. The media content production and post-production value chain saw its turnover drop to GEL 5.0 million by the first quarter of 2021, the lowest such figure since the first quarter of 2016.

Both the media content production and post-production and artisan value chains have had to lay-off employees to a significant degree. By the first quarter of 2021, the former value chain had reduced its labor force by 57.5% compared to the fourth quarter of 2019. Meanwhile, stakeholders in the artisan value chain expressed that some businesses had become completely inactive, which was especially damaging to women as 88.3% of those employed in this value chain were women, with artisan businesses usually being run by sole entrepreneurs rather than by an LLC.

Overall, 57.1% of artisan value chain businesses and sole proprietorships surveyed reported a decrease in their year-over-year turnover, with most reporting a contraction in turnover of around 50% by the first quarter of 2021, with about 7.1% of businesses completely halting operations this year. The pandemic has severely damaged the value chain, with businesses and sole-proprietorships alike resorting to damage-control measures. Even though around a quarter of the value chain's businesses and sole proprietorships recorded a turnover increase, the overall picture is somewhat bleak.

As for average salaries, the media content production and post-production value chain had the highest salaries among the two value chains in 2021, despite falling turnover and overall expectations. As for the artisan value chain, some companies reported being unable to pay salaries yet continued to maintain their operations, some companies decided to employ people on a part-time basis, and some companies reported a decrease in salaries (some of them exceeding 20%).

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

Media content production and post-production used to be one of the fastest-growing value chains in Georgia, especially compared to its aggregated sector – information and communication. However, due to the pandemic, it experienced a sharp contraction in 2020. Other value chains, including some from the creative industries sector, managed to adjust their business models to the harsh conditions and to somewhat recover. In 2021, the pandemic is still ongoing, and the conditions in the media content production and post-production value chain appears to be contracting, with no swift recovery in sight.

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

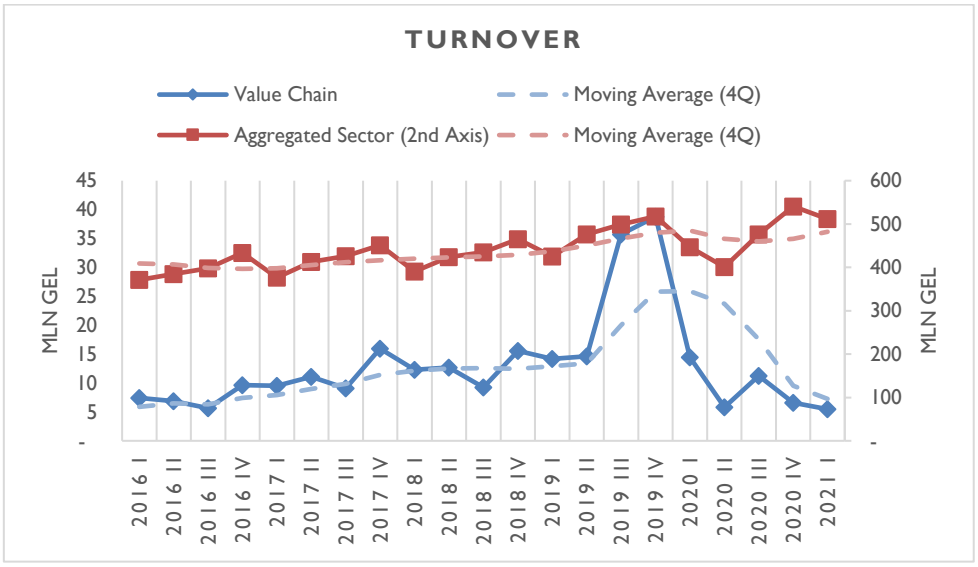
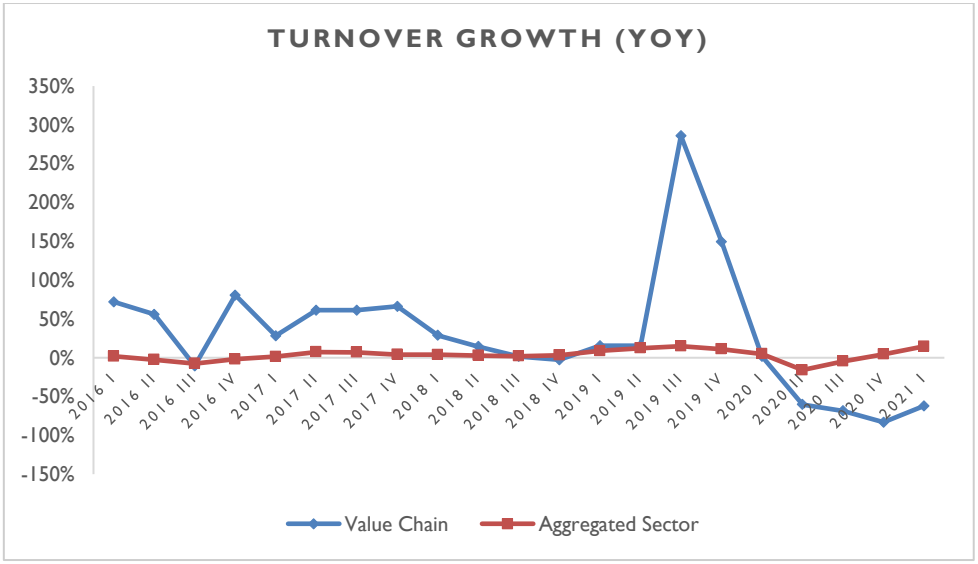


Chart 2.2 Changes in turnover for the media content production and post-production and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Media content production and post-production had been one of the fastest-growing value chains in Georgia prior to the pandemic. From the first quarter of 2016 until the fourth quarter of 2019, the value chain reported high average quarterly growth of 57.7%, amounting to a cumulative growth rate of 421.1% in turnover. Meanwhile, the turnover of the aggregated sector grew by 4.3% on average. In the first quarter of 2020, the YoY turnover growth halted at 1.8%, dropping to 60.2% in the 2nd quarter, and further dropping to 68.6% and 83.1% in the second half of 2020. Recovery in this sector does not appear likely in 2021 with year-on-year turnover growth still negative. However, the aggregated sector data are more promising: in the first quarter of 2020, growth was reduced by 4.9%, while in the second quarter it contracted by 15.8%, and then further contracted by 4.6% in the third quarter. In the fourth quarter, the turnover growth rate for the aggregated sector rebounded, and increased by 4.6%. During the first quarter of 2021, the aggregate sector recovered further with its turnover growth rate rising to 14.6%, which is close to the pre-pandemic rate of 14.9%. Higher growth numbers are to be expected

in the following quarters, not necessarily because of a rebound, but because of the considerably low base effect.

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

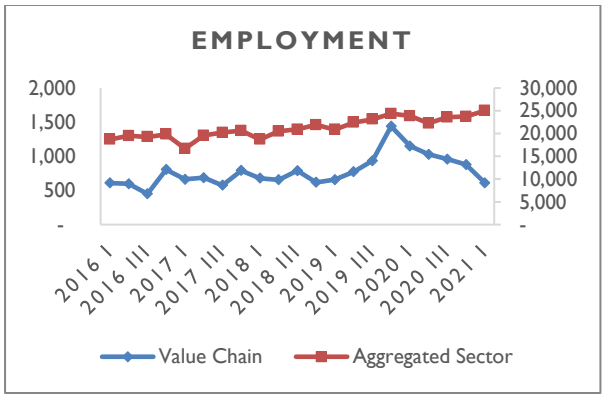
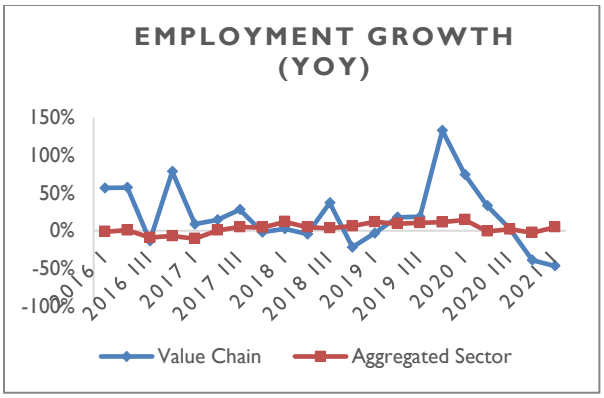


Chart 2.4 Growth rate of employment in the media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of people employed in the media content production and post-production value chain was at an all-time high in the fourth quarter of 2019, employing 1440 people. Thereafter, it experienced a decline quarter after quarter, dropping to 878 by the fourth quarter of 2020, and further decreasing to 612 in the first quarter of 2021. Given that employment is more rigid when compared to turnover, its reduction has been less drastic; the year-after-year change in employment growth for the value chain became negative during the fourth quarter of 2020 and the first quarter of 2021, while the workforce reduction in the aggregated sector was much softer, fully recovering in the first quarter of 2021. The value chain's number of employees dropped by 42.5% when compared to the fourth quarter of 2019, while in contrast, the aggregated sector's number of employees increased by 0.97%. Unlike the aggregated sector, the value chain has not recovered and instead appears to be in a downward spiral, as it succumbs to restrictions, lower demand, and cash rebate uncertainty. Unlike turnover, the growth in unemployment will probably be subdued in the upcoming quarters, as a massive 30.3% reduction in employment was recorded in 2021, meaning that year-over-year growth will take at least another year to materialize.

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

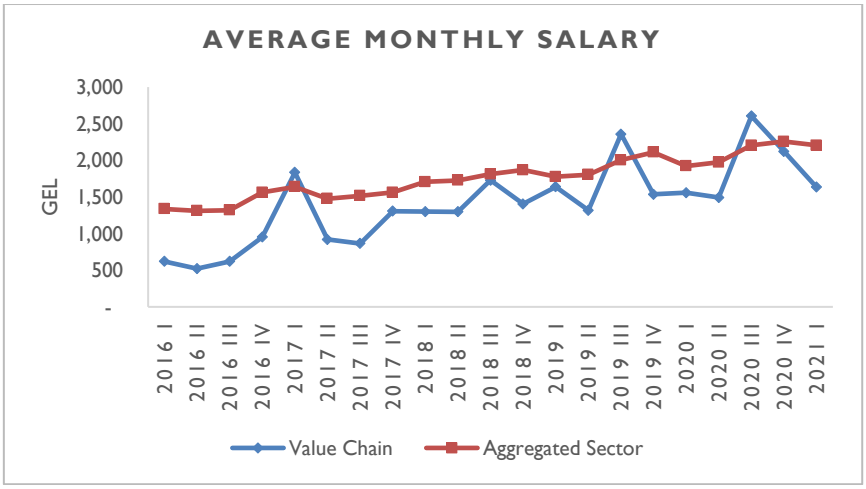
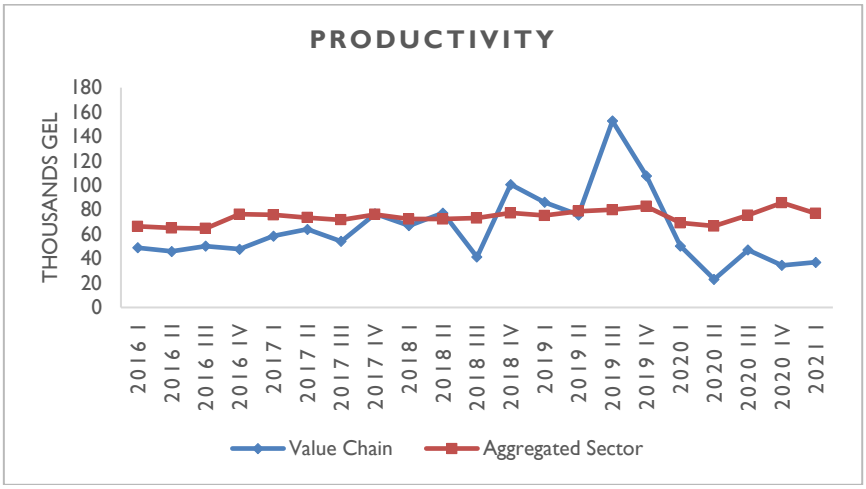


Chart 2.6 Productivity in the media content and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average salary in the media content production and post-production value chain has been on an upward trend since 2016, although it has been quite volatile. The average salary reached its highest level in the third quarter of 2020 with a value of GEL 2605. Notably, in the third quarters of the years 2018, 2019, and 2020, salaries were higher when compared to the other quarters in those given years. Overall, salaries have increased by 163.7% in the value chain and by 64.9% in the aggregated sector when compared to the first quarter of 2016 levels. The pandemic does not appear to have impacted upon the salaries of those working in the value chain, and have even increased when one calculates the difference between the average salary of the value chain in the fourth quarter of 2019 and the first quarter of 2021. It is important to note that average salaries also took a hit during the pandemic, and from the third quarter of 2020, salaries have been steadily declining, going from GEL 2605 to GEL 1635. Meanwhile, the aggregated sector saw a slight dip during the fourth quarter of 2019 and the first quarter of 2020, going from GEL 2111 to GEL 1922, after which it managed to recover somewhat, albeit growth has stalled in 2021. Whereas the average salaries have not been affected by the pandemic, productivity has been significantly affected by it. In the value chain, there was a steady increase of productivity from the first quarter of 2016 to the fourth quarter of 2019 despite some volatility, having increased from GEL 48.9 thousand to GEL 107.8 thousand. In the year 2020, productivity decreased to GEL 34.5 thousand which was expected, as the value chain's turnover had contracted faster than the labor market could adjust. Interestingly, although the average salaries decreased significantly in the first quarter of 2021, productivity saw a slight increase. This divergence indicates that the companies in this value chain reduced their number of workers with below-average productivity, which suggests more low-paid employees. With issues on both demand and supply sides (mainly funding, restrictions and logistics), the media content production and post-production value chain will struggle to expand its number of employees this year and might not even reach the numbers of 2019 in the following few years.

Overview of existing challenges and opportunities

According to the stakeholders consulted for the third quarterly report, their previous problems remained unchanged during the first quarter of 2021, and some of them have been further aggravated by an increase in pandemic-induced uncertainty. The following issues were identified by the respondents as critical:

*After consultations with stakeholders it become known that according to the Government's decision, the 'Film in Georgia' program was resumed. The following changes have been made to the program's design: the period within which the beneficiary submits an independent audit report has decreased

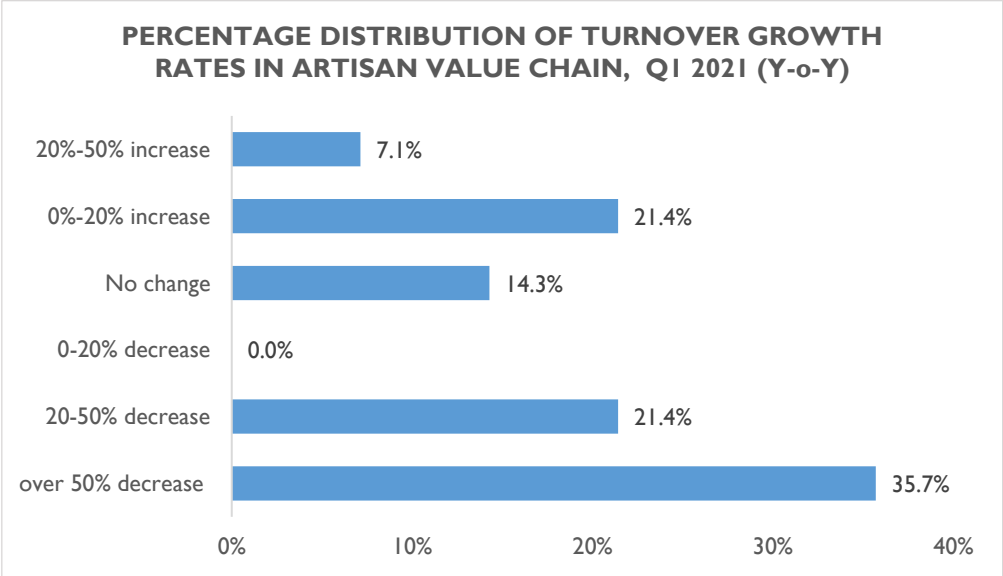
from two years to one; the period within which the agency reimburses 20% of the limited qualified expenses has been increased from three to 12 months; the criteria for audit reports have been revised; and, most importantly, a GEL 5 million annual budget for the program has been approved (before the redesign, there was not a specific budget allocated for the program). Enterprise Georgia also plans to support the development of pavilions and related infrastructure that will help to attract long-term projects, such as TV series and reality shows.

ARTISAN

As data for the artisan value chain are not available due to the niche and diverse nature of the field, a survey was conducted. The majority of the surveyed companies, drawn from the list of stakeholders, are sole entrepreneurs, with all of them operating from Tbilisi. The products that the entrepreneurs and LLCs specialize in vary from ceramics to jewelry, with custom furniture and miniature figures being the most common.

As mentioned in the previous report, during the pandemic the artisan value chain has been hit the hardest, with a near complete halt to activities for most of the businesses in the field. High freight costs, insufficient advertisement, and a lack of foreign customers have been among the main issues for most of the artisan value chain representatives. With tourism rebounding in Georgia, conditions were expected to ease for the abovementioned businesses, but the survey showed that majority of entrepreneurs are still on the brink of closure.

Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in Q1 2021 (y-o-y)



Source: Author's Calculations

Out of all the entrepreneurs and companies surveyed, only 28.5% stated that their turnover had increased in the first quarter of 2021 compared to the same period of the last year. Overall, 14.3% of the surveyed businesses estimated that their turnover this year roughly equaled that of the previous year. The majority (57.1%) reported a decrease in their year-over-year turnover, with most of them stating that the contraction in turnover had been more than 50%. Furthermore, about 7.1% of the businesses completely halted their activities this year. Thus, the overall performance of the artisan value chain in the first quarter of 2021 has been characterized by damage mitigation: businesses are still heavily dependent on foreign demand, but with tourism's recovery in sight turnover for the artisan value chain businesses should be more positive in the upcoming quarters.

The majority of businesses in this value chain are sole entrepreneurs, so it is not surprising that all of the surveyed entities this year reported that their turnover in the first quarter of 2021 amounted to less than GEL 100,000. A small number of businesses, which are labeled as LLCs, mostly reported that their year-over-year turnover had been positive, indicating that the sole entrepreneurs are still more vulnerable to high costs and low demand, compared to their larger counterparts. The number of persons employed also decreased in the value chain, with the workforce still dominated by females: more than 88.3% of those employed in the abovementioned businesses are women. Lastly, about half of the businesses reported that the average salaries year-over-year had not changed, while the rest had to cut their salaries.

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.

According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth (YoY) in Q1 2021 compared to Q1 2020, with the highest growth observed in the packaging value chain (14.0%). Employment has also increased (YoY) in every value chain, with highest growth observed in packaging (15.1%). The highest number of hired employees as of Q1 2021 was registered in the construction materials value chain, while the lowest was observed in packaging.

The average monthly salary for Q1 2021 ranged between GEL 801 (in furniture VC) and GEL 1364 (in packaging VC). Similarly, the furniture VC has been characterized by the lowest productivity[47] (GEL 65,900), and the highest productivity was identified in the packaging value chain (GEL 136,300).

Survey results for the PPE value chain and the wooden toys business activity suggest that around 50% of companies from both two groups experienced a decrease in turnover in Q1 2021, compared to Q1 2020. This decrease for most PPE producers was around 20%-50%, while for wooden toys business activity, the majority of companies reported more than 50% decrease in turnover. As for employment, 60% of PPE value chain companies reported no change in their number of employees, while 43% of wooden toys firms reported an increase in their number of hired employees in Q1 2021, compared to Q1 2020.

[47] Quarterly output per hired employee, annualized.

FURNITURE

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

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

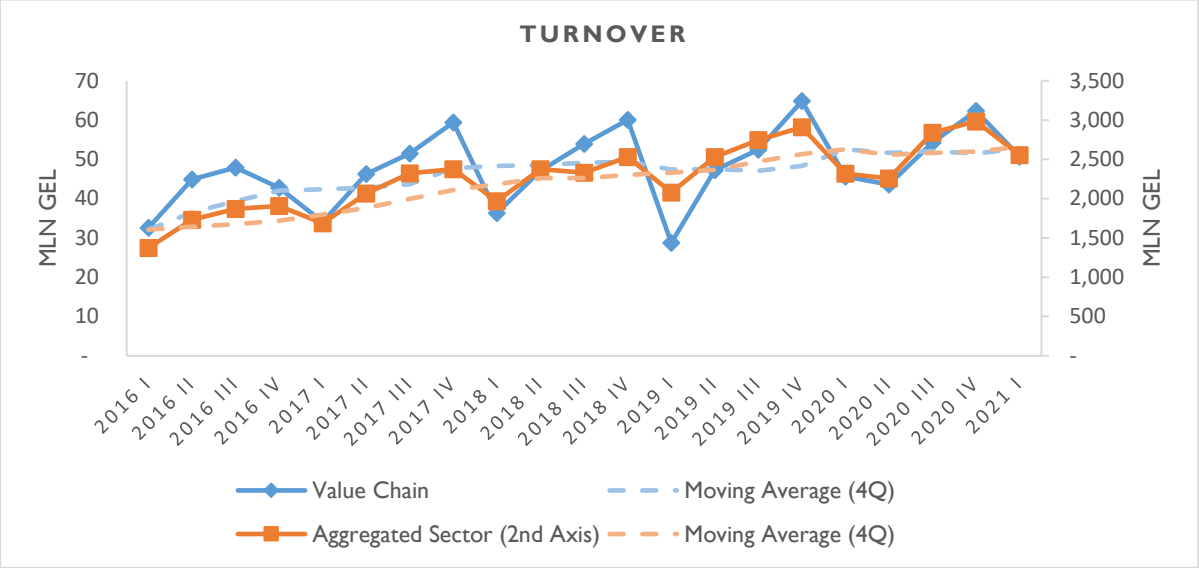
Table 3.1 Economic activities included in furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly analysis	Description of Economic Activity	Additional Classification
31	Manufacture of furniture	31	Manufacture of furniture	Furniture Output
16.1	Sawmilling and planning of wood	16.1	Sawmilling and planning of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels	16.2[48]	Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			
16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials			

Turnover for the furniture VC has been characterized by the upward trend since 2016. Even though, turbulence, caused by the spread of Covid-19 has continued in the Q1 2021, relaxation of restrictive measures led to a 11.2% (YoY) increase of turnover in Q1 2021 (GEL 51 million), compared to Q1 2020 (GEL 46 million). Turnover for the aggregated sector has repeated the pattern of Furniture VC and increased by 10.3% (YoY) in Q1 2021 compared to the same period of 2020, reaching GEL 2.6 billion. (Chart 3.1 and 3.2).

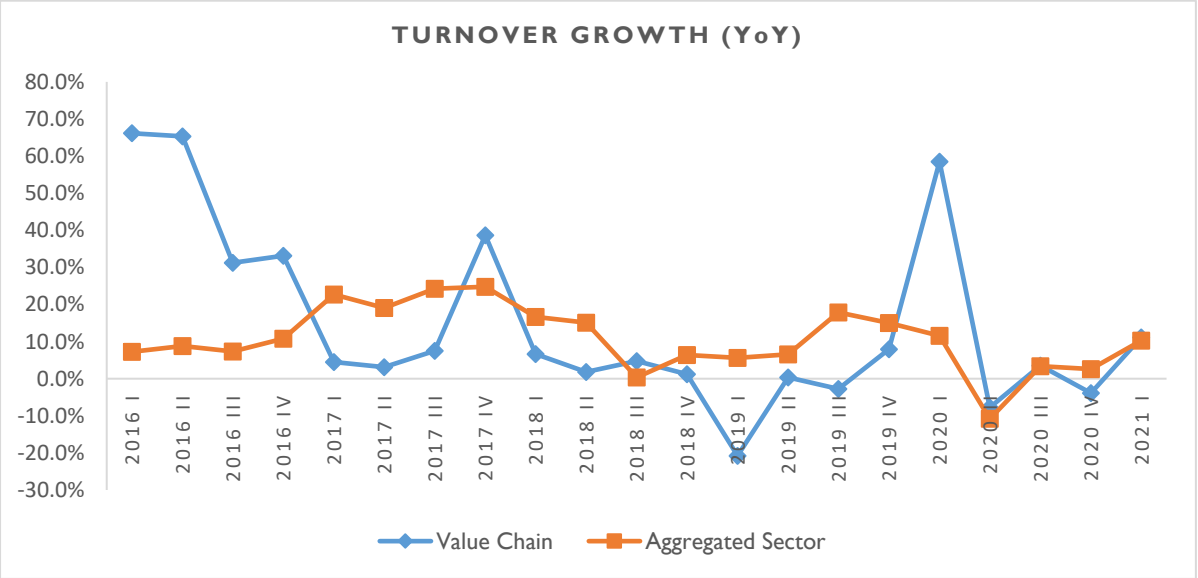
[48] 16.2 group also includes the following activities: 16.23 Manufacture of other builders' carpentry and joinery; and 16.24 Manufacture of wooden containers.

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



Source: National Statistics Office of Georgia

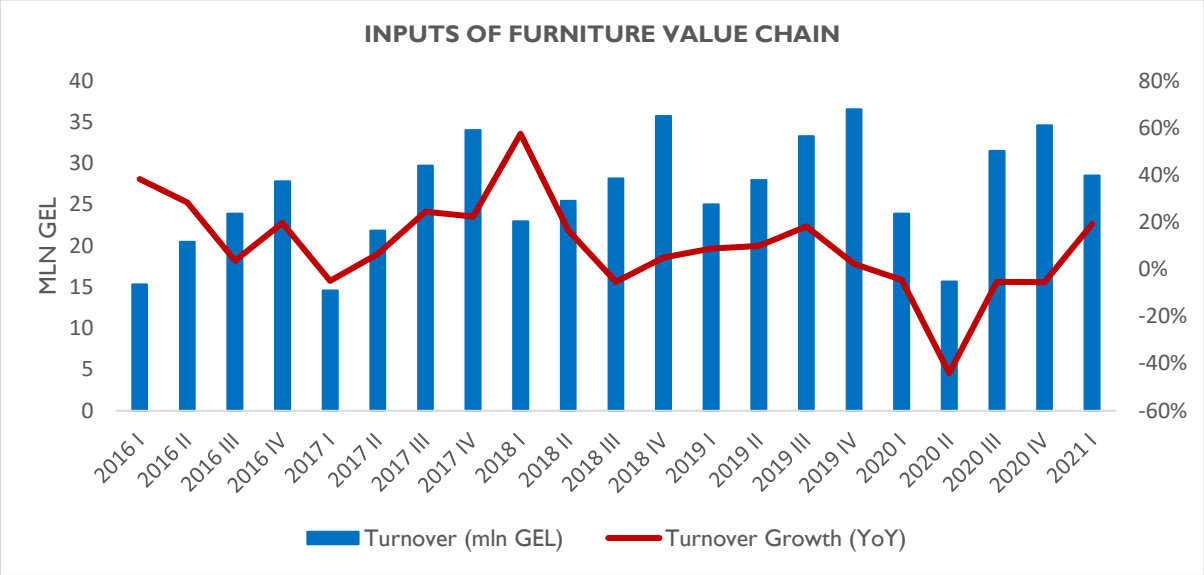
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

After the continuous YoY decline in turnover of the furniture VC inputs in 2020, the growth has renewed in Q1 2021. Quarterly turnover currently stands at GEL 28.6 million (19.3% growth (YoY) compared to Q1 2020).

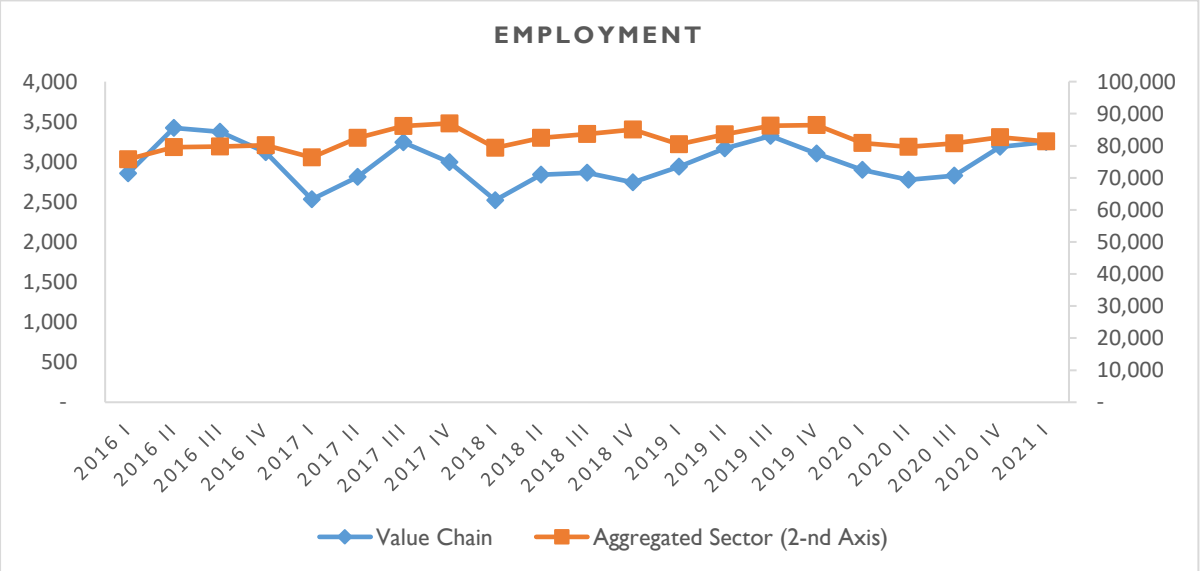
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate



Source: National Statistics Office of Georgia

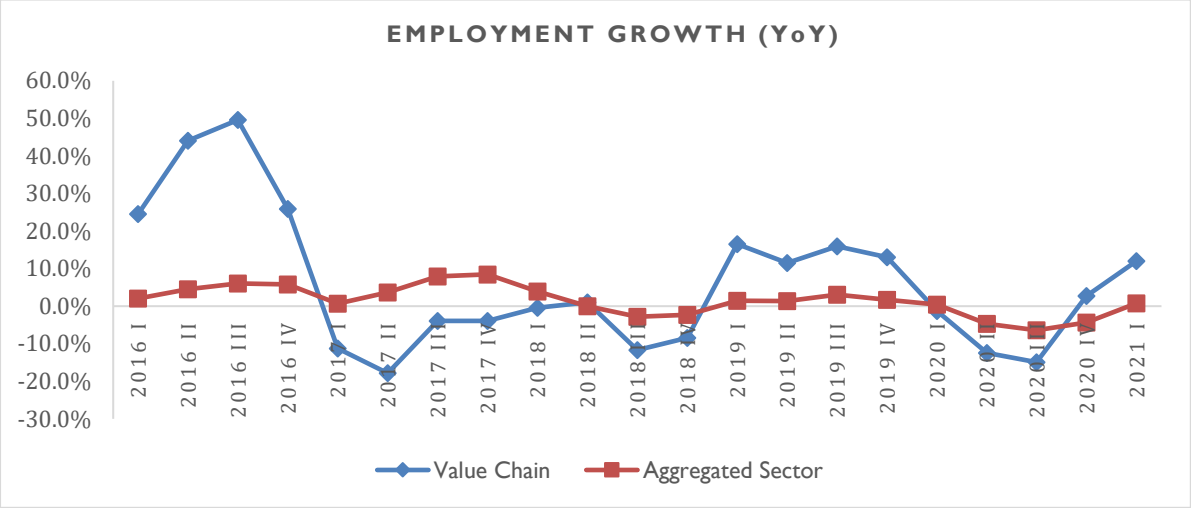
After the turmoil on the market in 2020, employment in the Furniture VC has increased in Q1 2021 both compared to Q1 2020 (12%, YoY) and Q4 2020. Similar positive trends are observed in the aggregated sector. Even though the employment has declined slightly in Q1 2021, compared to Q4 2020, positive growth has been observed with respect to Q1 2020, amounting to 0.7% YoY. (Chart 3.4 and 3.5).

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



Source: National Statistics Office of Georgia

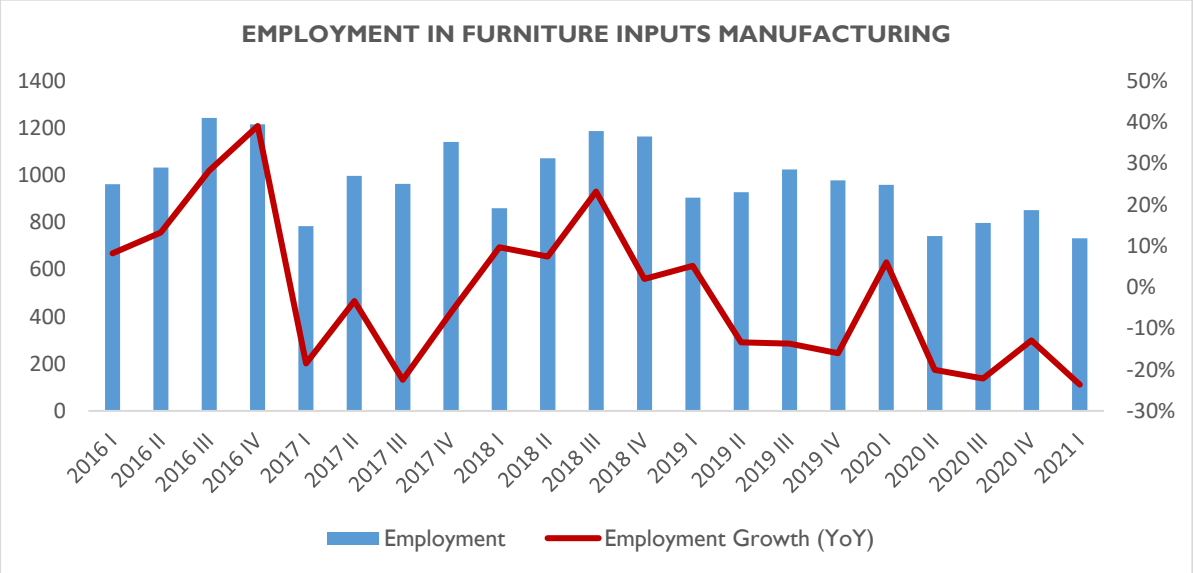
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Employment in the furniture inputs value chain was decreasing (YoY) for the most part of 2020. The number of hired individuals declined again in Q1 2021 by 23.6%, compared to Q1 2020 and reached 732.

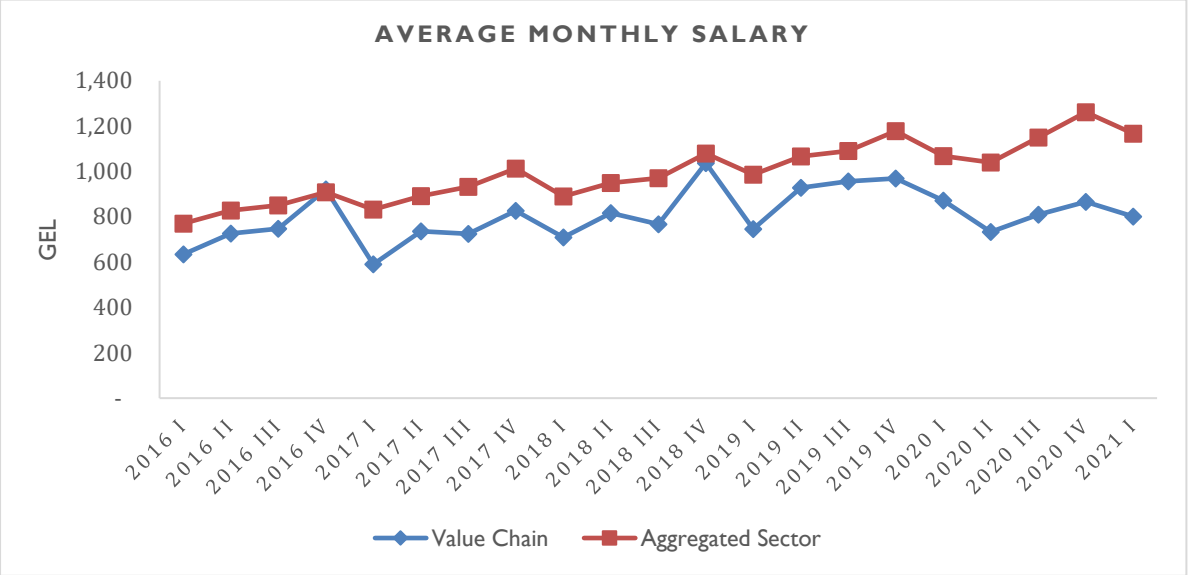
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

In 2020, the average monthly salary in the furniture value chain increased after the initial decline during the first lockdown in Q2 2020. The upward trend was reversed in Q1 2021 when the average monthly salary decreased by 8.0% YoY and amounted to GEL 801. As for the aggregated sector, the average salary amounted to GEL 1,167 in Q1 2021, which represents a 9.2% increase compared to Q1 2020.

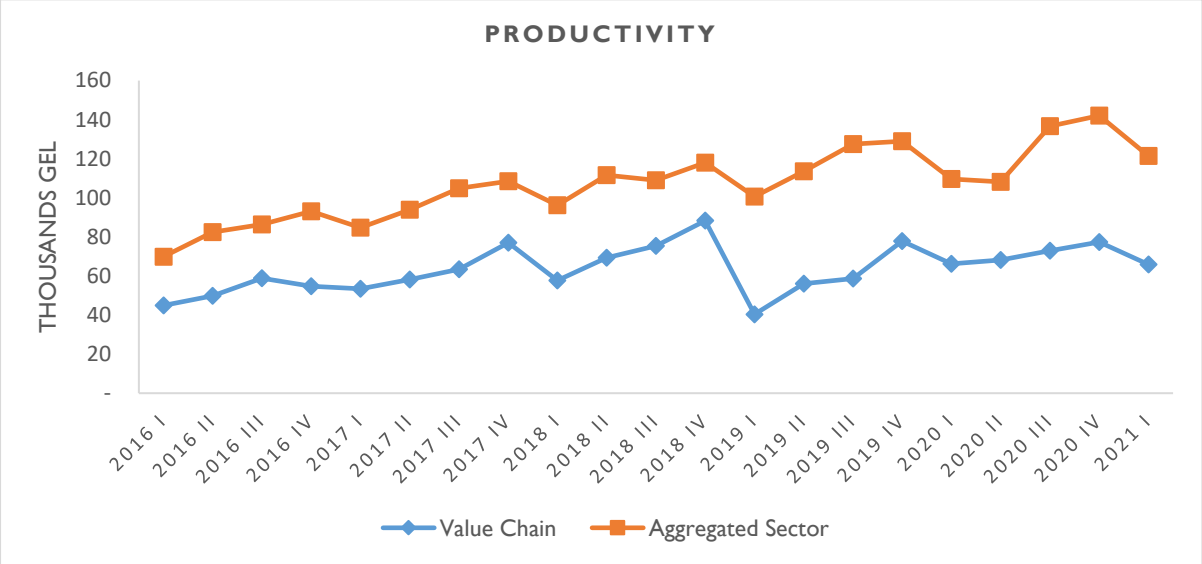
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Similar to average monthly salary, productivity for the furniture value chain decreased in Q1 2021 (-0.5%, YoY) and reached GEL 65 900. As for the aggregated sector, productivity increased significantly (10.7% YoY) and amounted to GEL 121 000.

Chart 3.8 Productivity in the furniture value chain and the corresponding aggregate sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Based on the observed trade tendencies in the furniture value chain, Georgia's imports of both furniture output and furniture inputs declined abruptly in Q1 2021, reaching USD 15.0 million and USD 13.8 million respectively. These represent 8.1% and 25% decreases compared to Q1 2020, respectively (Charts 3.9 and 3.10).

Chart 3.9 Georgian imports of furniture output

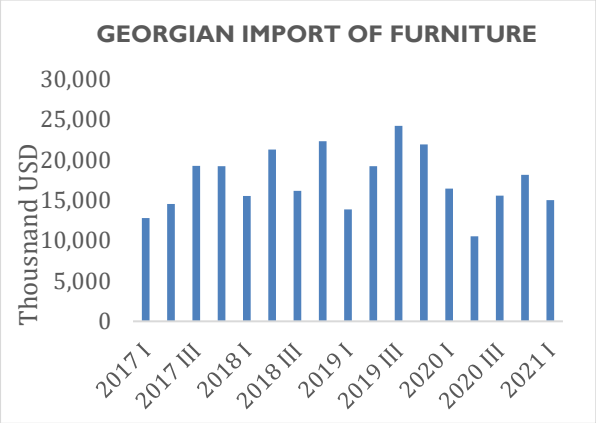
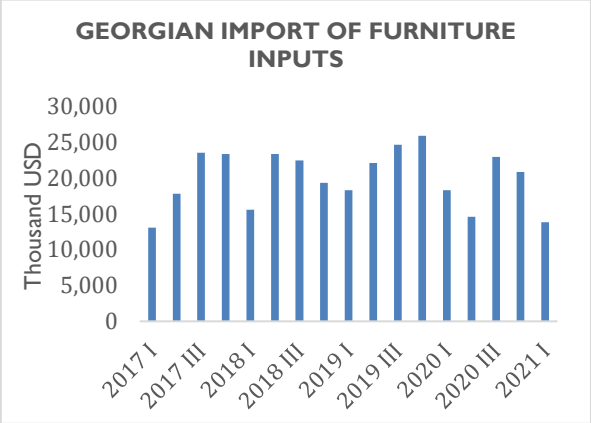


Chart 3.10 Georgian imports of furniture inputs



Source: National Statistics Office of Georgia

Chart 3.11 and Chart 3.12 below show the top importing countries of furniture inputs and furniture output for the last 12 months. In the case of furniture output, the main trade partners for Georgia were Turkey (36%) and China (17%). Meanwhile, the main importing partners for furniture inputs during April 2020 - March 2021 were Turkey (42%), China (15%), and Russia (12%).

Chart 3.12 Georgian Imports of Furniture by Trade Partners (April 2020 – March 2021)

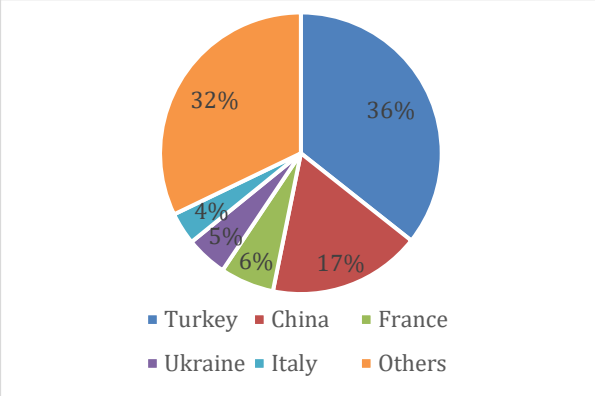
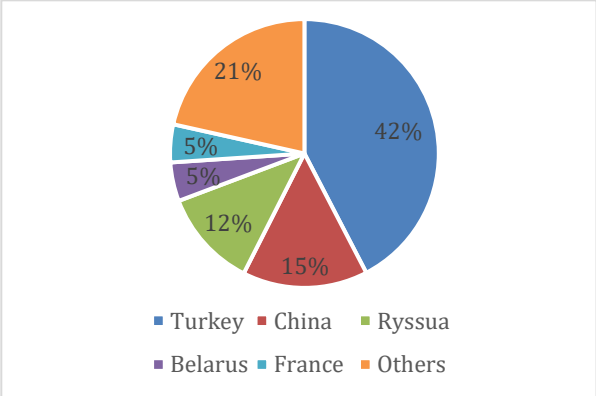


Chart 3.11 Georgian Imports of Furniture Inputs by Trade Partners (April 2020 – March 2021)



Source: National Statistics Office of Georgia

In Q1 2021, both re-exports and domestic exports of furniture inputs diminished significantly, reaching their lowest levels for the past three years. In Q1 2021, domestic exports and re-exports amounted to USD 4.1 million and USD 451 100, meaning declines of 21.7% and 56.5% respectively, compared to Q1 2020.

Chart 3.14 shows the top exporting markets for Georgian furniture inputs for the last 12 months. Armenia (21%) and Iran (19%) are the leading export destinations, followed by three EU Member States – Poland (16%), Italy (10%), and Germany (9%).

Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs

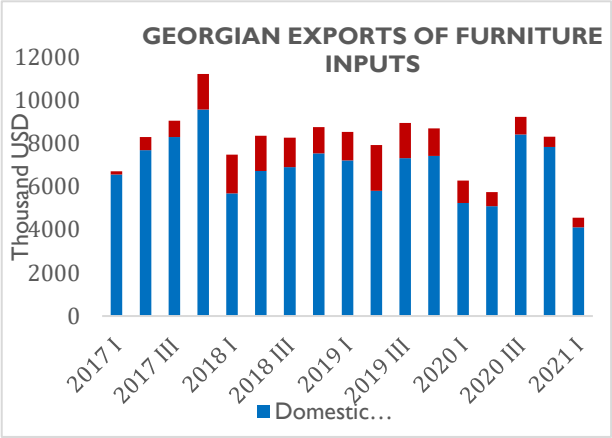
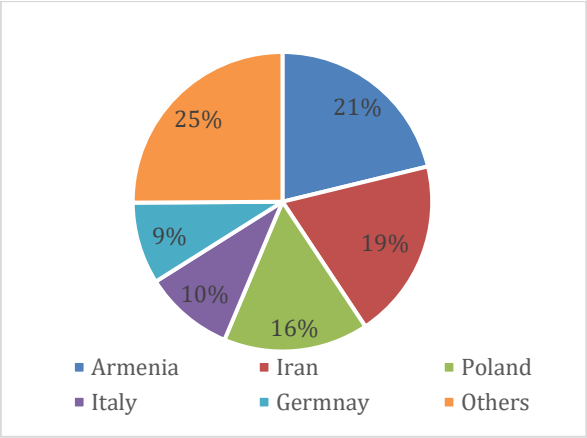


Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (April 2020 – March 2021)



Source: National Statistics Office of Georgia

Even though Georgian exports of furniture outputs experienced a sharp decline in Q2 2020, the loosening of restrictive measures contributed positively to growth of domestic exports, which peaked in Q4 2020. In Q1 2021, both indicators declined compared to Q4 2020, however domestic exports remained significantly higher (increase of 179.0 %, YoY), compared to the same quarter of the previous year (Chart 3.15).

Chart 3.15 Georgian Exports of Furniture

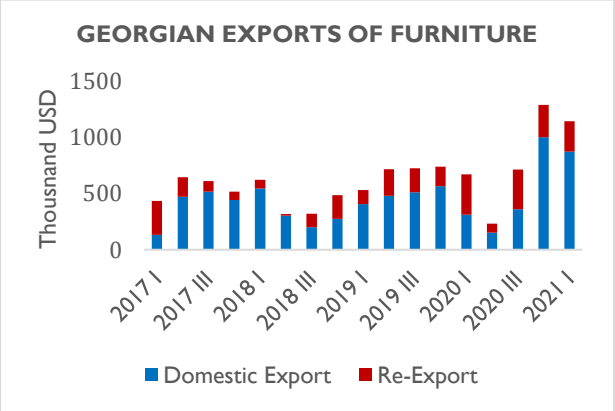
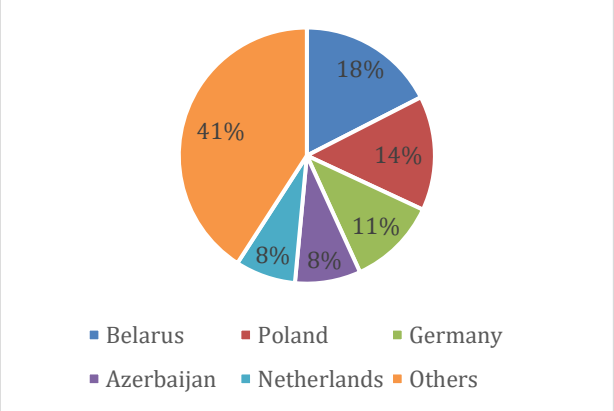


Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (April 2020 – March 2021)



Source: National Statistics Office of Georgia

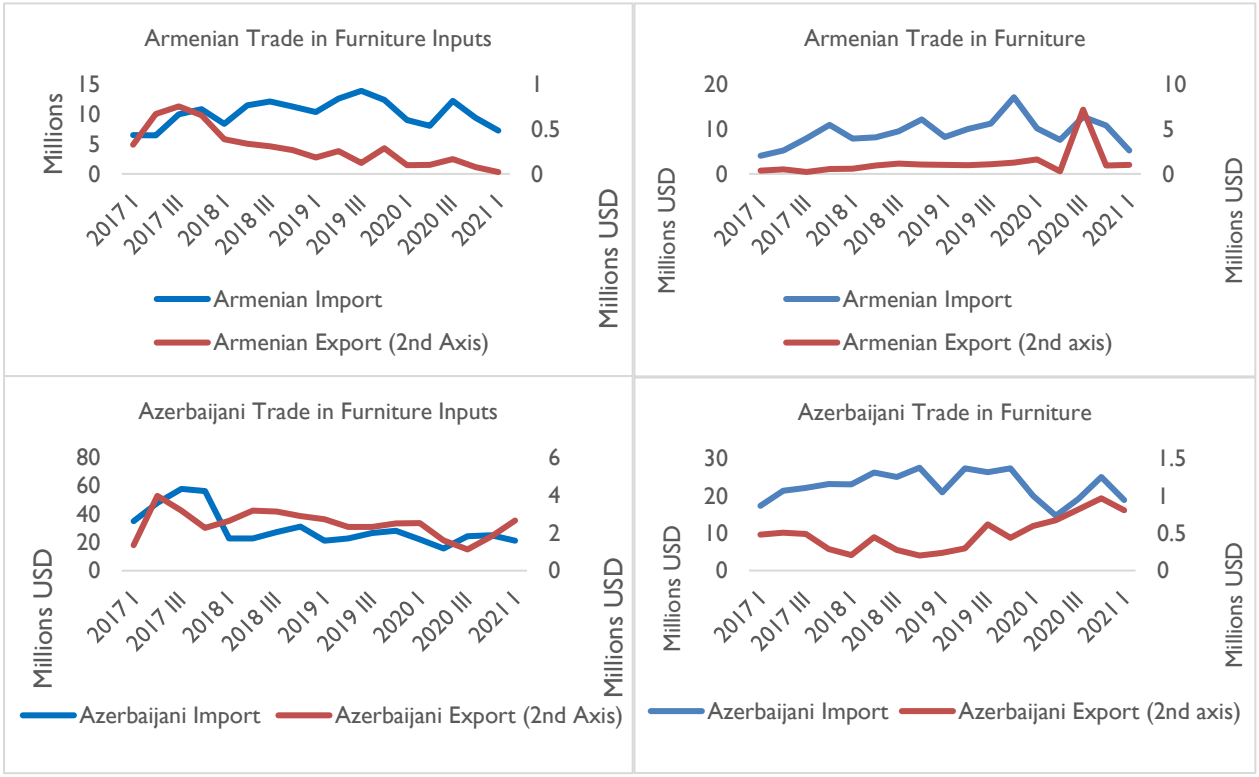
Chart 3.16 shows the top trading partner countries in the last 12 months for Georgia's domestic exports[49] of furniture output. The major export destinations during April 2020 – March 2021 were Belarus (18%) and Poland (14%), followed by Germany (11%), Azerbaijan (8%) and Netherlands (8%).

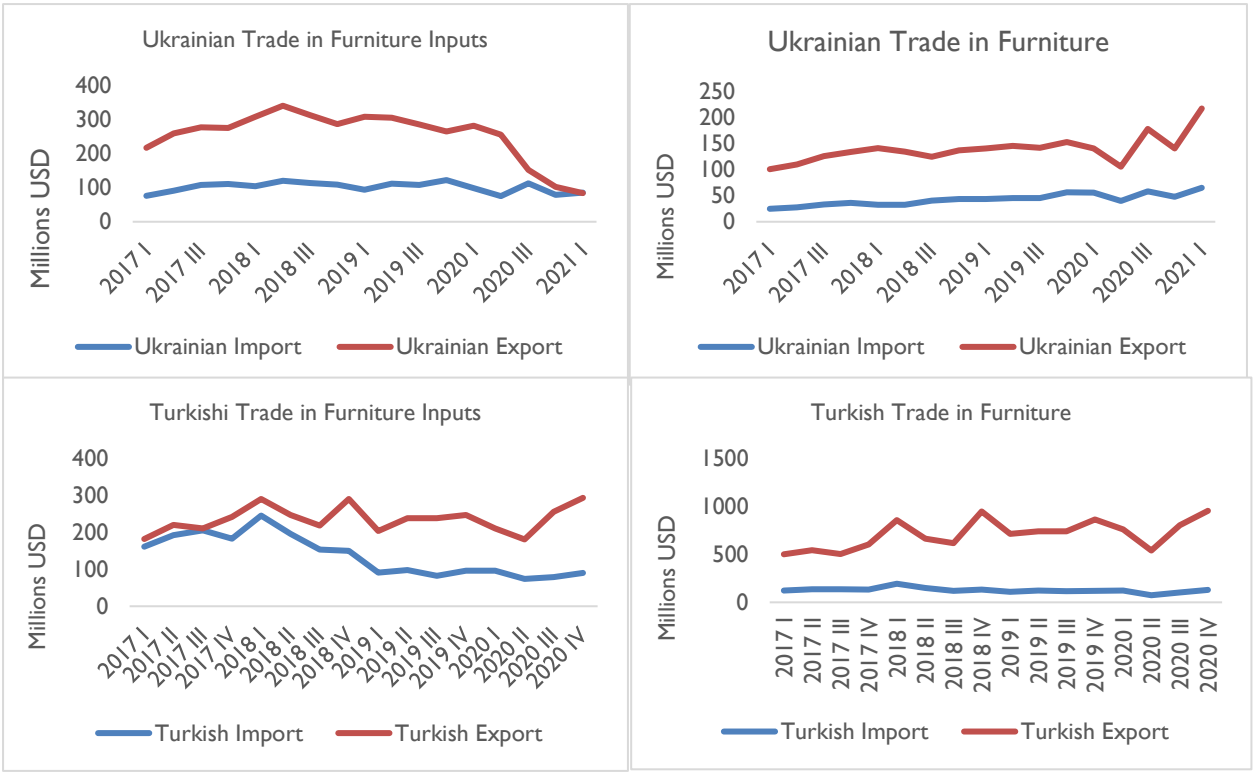
To analyze regional trade flows, the following countries are considered in the following section: Armenia, Azerbaijan, Turkey, and Ukraine. Exports of furniture output depicted a moderate upward trend in this regard for Ukraine, in Q1 2021, compared to Q1 2020. Contrastingly, exports have diminished significantly for Armenia and Azerbaijan in Q1 2021. Import of furniture followed the same trend as exports of furniture in the respective countries, it has declined notably in Armenia and Azerbaijan and has increased in Ukraine.

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

Exports of Furniture inputs increased in Q1 2021 for Azerbaijan and declined for Ukraine and Armenia. Contrastingly, imports of furniture inputs have declined in all countries.

Chart 3.17 Regional trade patterns in the furniture value chain





Source: UN Comtrade[50][51]

Overview of existing challenges and opportunities

The insights gleaned from the focus group discussions and individual interviews with relevant stakeholders suggest that the furniture value chain has potential for growth, although it is still developing at a slow pace. Most Georgian producers face similar challenges concerning the unavailability of a skilled workforce, low access to finance, a lack of relevant technologies, and limited access to high-quality raw materials. In relation to the unavailability of a skilled workforce, a representative of the Georgian Furniture Cluster has been engaged in designing the curricula of VET programs, in collaboration with the National Center for Educational Quality Enhancement. Furthermore, the Georgian furniture cluster plans to launch a new educational center tailored to the needs of the cluster's member companies. There are also some promising initiatives in the private sector in this direction. For instance, a representative of LTD Randi, a furniture manufacturer from Batumi, declared that the company aims to establish its own training center. However, despite various initiatives being undertaken, the value chain is vividly lacking in terms of tangible progress when it comes to upskilling the workforce.

In addition to the lack of a qualified workforce, the sector is characterized by high internal staff turnover that further constrains the operations of furniture manufacturers. Due to the insufficient skills of vocational school graduates, manufacturers usually have to 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

[50] Quarter 4 2020 values for Ukrainian trade presents sum of October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade

[51] Quarter 1 2021 values for Azerbaijani trade in furniture output presents sum of January and February 2021, since trade for March is not reported for Azerbaijan on UN Comtrade

giving them what could be considered an unfair competitive advantage versus their corporate counterparts.

According to our interviewees, the problem concerning low access to high-quality wood materials is attributable to several factors. On the one hand, large amounts of hardwood are exported from Georgia, and it is rarely sold on the domestic market. According to one of the interviewed stakeholders, using a certain portion of this exported hardwood for local production could significantly boost employment within the value chain. On the other hand, due to illegal logging, the furniture manufacturers also face problems related to the unstable supply of domestic timber resources. They often cannot find legal manufacturers who can supply local wood materials of the needed quality systematically. The arrangement of "business yards" under the new Forest Code adopted in May 2020 seems to have provided no major relief for manufacturers so far either. Nevertheless, according to the interviewed stakeholders, 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 of raw materials obtained from the business yards, making them less attractive for furniture manufacturers.

One of the interviewees suggested that the problem of limited accessibility of local raw materials originated from a lack of strategic vision in the country towards developing wood processing as a separate business activity. Primarily, the absence of an institutional base for educating carpenters was named as an impediment. Moreover, the furniture cluster and associations under this value chain were criticized for not prioritizing the long-term development of wood processing in their operational activities.

Although the competition amongst Georgian producers themselves was rated as moderate by respondents, Georgian furniture products face stiff competition from imported goods, especially those from countries where manufacturers have access to inputs domestically. 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 works. This potential has been vivid during the pandemic-driven disruptions to global supply chains (involving China and Europe especially), when domestic demand for Georgian furniture production increased. According to the interviewed representatives of this value chain, recent tendencies 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.

With respect to input materials, such as laminates, medium-density fiberboard (MDF), veneer, textile, and other components, these are mainly imported. Sometimes, local furniture manufacturers also import solid wood since local materials are often improperly processed and are unsuitable for production purposes. For some components, such as glue for example, several manufacturers have already started to use locally produced options. Recently, value chain representatives have suffered from an increase in raw materials prices. In terms of imported inputs (e.g. veneered panels and furniture parts), besides an increase in product prices on the international markets, the volatility of the national currency (GEL) has significantly increased producers' expenses. Focus group participants also reported increased electricity tariffs as an emerging concern for their business operations.

The interviewed stakeholders claimed that replacing imported inputs with local materials would be impossible without substantial investments in this sector. Nevertheless, 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 (therefore, potentially generating vast employment opportunities in the country). Producing solid wood panels, drawers or slides, rotary veneer, plywood shells, and plywood sheets and selling them as semi-finished

products to international markets was also recommended in a study by GIZ52. According to the same study, such semi-finished goods have high export potential for Georgia compared to finished furniture.

There are two companies in Georgia, Madera Georgia and CRP Wood, producing wooden panels locally. Madera Georgia has been a continuous success story, currently exporting mainly to the US and Europe. Through Madera's business activity indicators slightly decreased in 2020, during the first quarter of 2021 the company reported a 45% increase in product sales. Moreover, it reported a quadrupling in demand from one of its European partners. On the other hand, LTD Madera plans to launch a workbench knife-sharpening service in Western Georgia as well. The existence of such equipment and services is of particular importance in wood processing. There are also some new initiatives being undertaken by other companies, such as introducing adaptive furniture for people with disabilities, which is planned to be manufactured mainly using local input materials. Another distinguished success story is that of Georgian Products (GEOP), a local manufacturer of pet furniture, which is rapidly growing and expanding to new export markets. GEOP exports to the UK and the EU.

There have also been some successful precedents set in selling furniture through e-commerce, such as Funduki's hanging tables that are successfully sold on Etsy to European countries and the US. Lately, more firms seem to have followed Funduki's path and begun to position themselves on Etsy. However, there are some challenges related to the increasing service fees charged by PayPal and a temporary restriction on new registrations on the Etsy platform as of June 2021. In general, there is a clear tendency toward 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. One of the focus group participants representing furniture manufacturer LTD Conibe declared that digital sales constituted 90% of their annual sales volume in 2020.

The interviewed respondents from the private sector claimed that they constantly focus on developing innovative products and integrating international practices into their production. While Georgia does not have the capacity for large-scale production, it was highlighted by some relevant stakeholders that in order to become established on global markets, it is vital for Georgian furniture producers and designers to work together and offer niche and innovative products of a high quality. A good example and successful case of such niche production is that of Rooms Studio, which is already well-established on the European market and exports products to the US as well. According to many interviewees, such collaboration has intensified lately as more manufacturers begin to employ designers at their production sites and more designers become motivated to be associated with furniture manufacturers.

In this regard, private sector efforts are supported by the Association Design Georgia, which has been operating in the field since 2019. The association consists of 13 companies as well as some individual members. Along with other activities, all of them work on furniture design as this constitutes an obligatory criterion for membership. Among other services, the association actively supports the private sector in the creation of a Georgian identity and niche directions in furniture design, and assists the value chain's members to participate in international exhibitions. Benefitting from donor support, the association is due to launch a new e-commerce gallery during the summer. Elsewhere, the Georgian Heritage Crafts Association operates in a wider field and enhances networking opportunities between different crafts actors, including those working on furniture, although its main focus is still on handmade and cultural crafts. There are already some good examples of collaboration between furniture manufacturers and designers in this respect. One recent initiative was the establishment of Design Bazaar, envisaging collaboration between individual furniture manufacturers and designers, mainly focused on producing experimental and new furniture products for interior design. These types

[52] Value Chain Analysis and Action Plan. Furniture and other wood products. EU. GIZ (2019)

of linkages need to be developed further though, since there are still many Georgian manufacturers who instead produce copies of famous furniture brand items and supply it to the local market.

The Association Design Georgia cooperates with the Georgian Furniture Cluster (established in 2017), which currently unites 35 member companies. In the 1st quarter of 2021, 3 additional companies became the cluster members. Since its establishment, the cluster has been actively looking for new partnership opportunities with companies operating in the furniture value chain. Most of the cluster members are manufacturers of furniture, but it also includes producers of semi-finished wood products, trade companies, and different service providers. 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 acts as a platform for dialogue between public and private sectors. One of the participants of the focus group discussion with industry representatives claimed that his company's recognition on the market greatly increased due to its cluster membership and that he highly valued the access to joint projects and partnership opportunities offered by the cluster.

Along with the Furniture Cluster, the Georgian Woodworkers and Furniture Manufacturers Association has 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 basically absent due to limited scope of their operations and apparent differences in their advocacy interests.

CONSTRUCTION MATERIALS

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

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

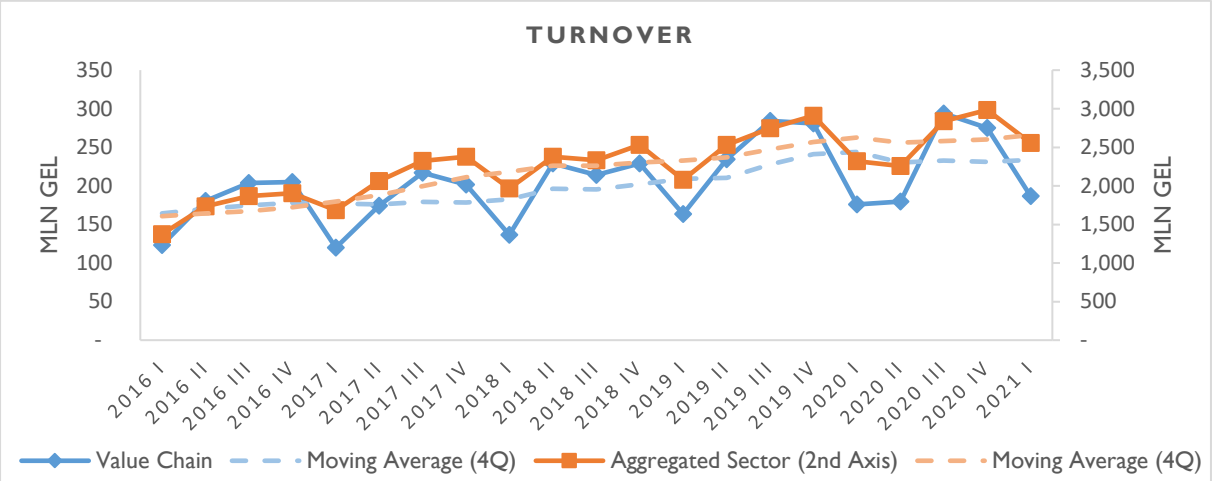
Table 3.2 Economic activities included in the construction materials value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly analysis	Description of Economic Activity
16.23	Manufacture of other builders' carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials
23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products
23.12	Shaping and processing of flat glass		
23.13	Manufacture of hollow glass		
23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.3	Manufacture of clay building materials
23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster

23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
24.33	Cold forming or folding	*Not used in the analysis due to data availability only at a very high-level aggregation*	
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

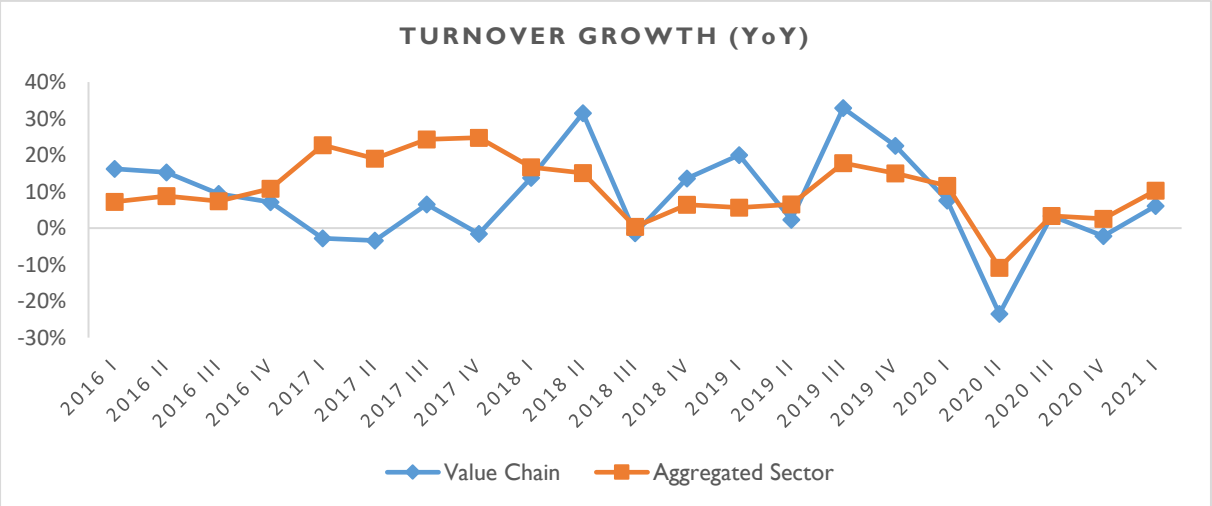
Charts 3.18 and 3.19 present the dynamics of turnover and its annual growth for the construction materials value chain. The turnover in Q1 2021 diminished compared to Q4 2020 and amounted to GEL 187 million. Despite seasonal decline, turnover has increased, compared to Q1 2020 (6.0% YoY). The turnover of the aggregated sector also increased in Q1 2021 compared to the same period of the previous year (10.3% YoY).

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



Source: National Statistics Office of Georgia

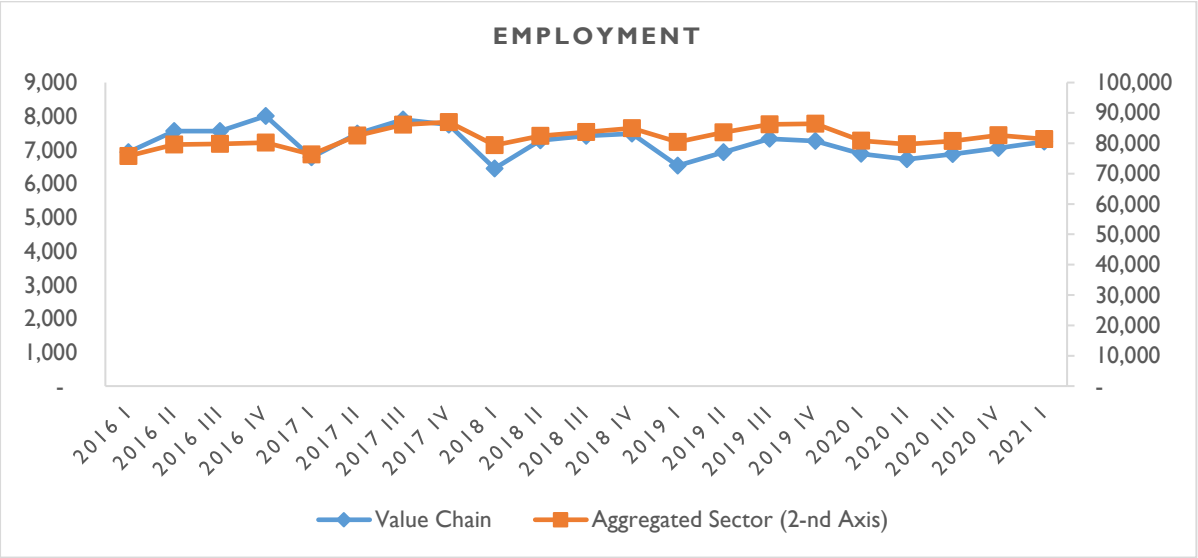
Chart 3.19 YoY Growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

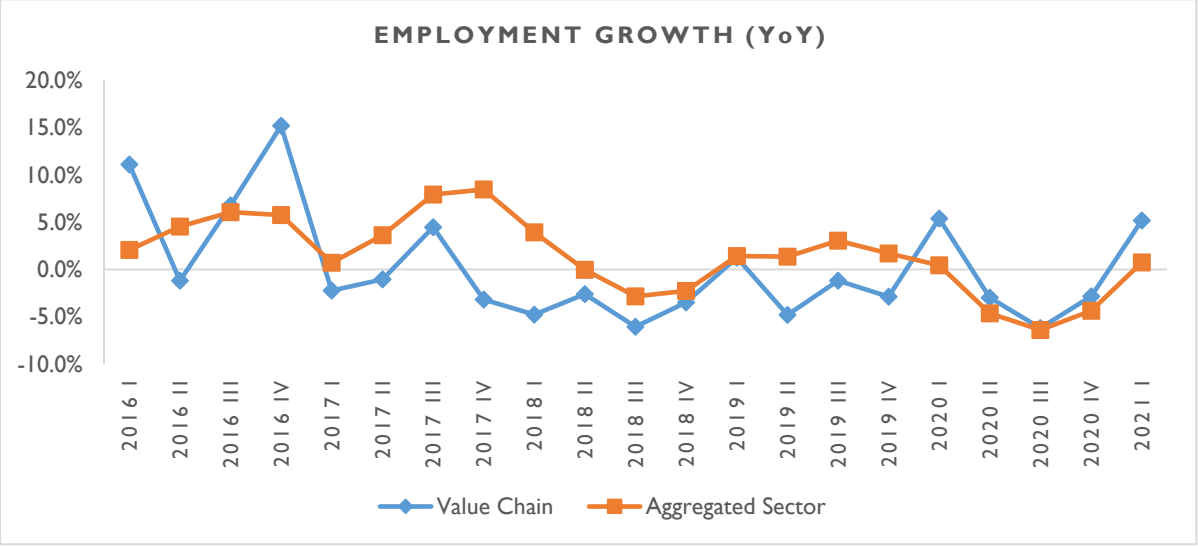
Charts 3.20 and 3.21 present the number of hired employees and its growth rate in the construction materials value chain and the respective aggregated sector. According to the data, the number of hired employees has increased in the value chain, compared to Q1 2020 (5.2% YoY) and amounted to 7,245 people. Relatively low growth has been observed in the aggregated sector's employment in Q1 2021, compared to Q1 2020 (0.7% YoY).

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



Source: National Statistics Office of Georgia

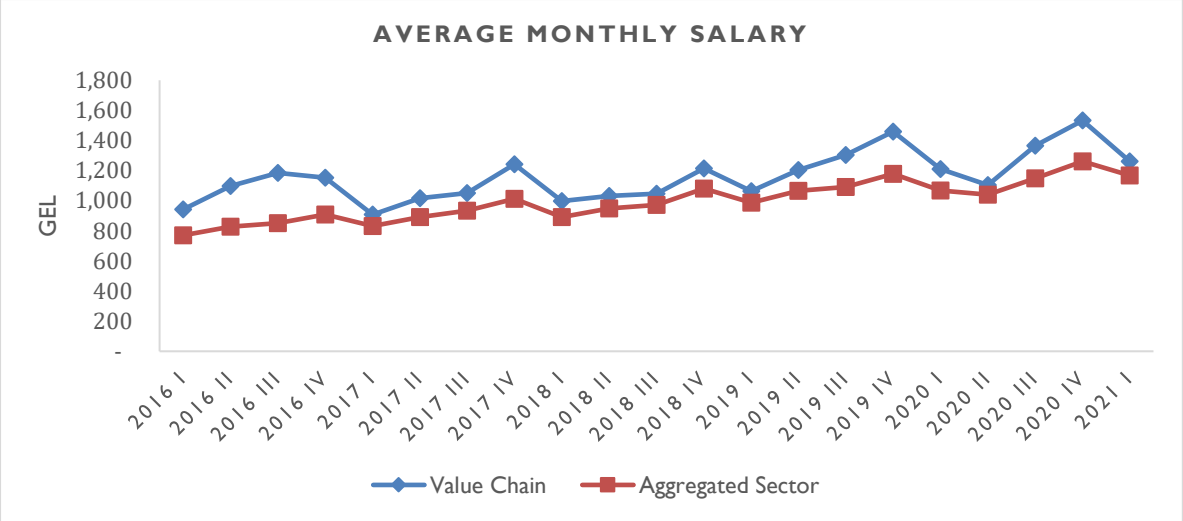
Chart 3.21 YoY Growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Even though the average monthly salary in the construction materials value chain reduced to GEL 1,262 in Q1 2021, compared to GEL 1,533 in Q4 2020, it still stood above the Q1 2020 level (4.2% increase YoY). The aggregated sector presented a lower average monthly salary in Q1 2021 (GEL 1,167), compared to the value chain (Chart 3.22).

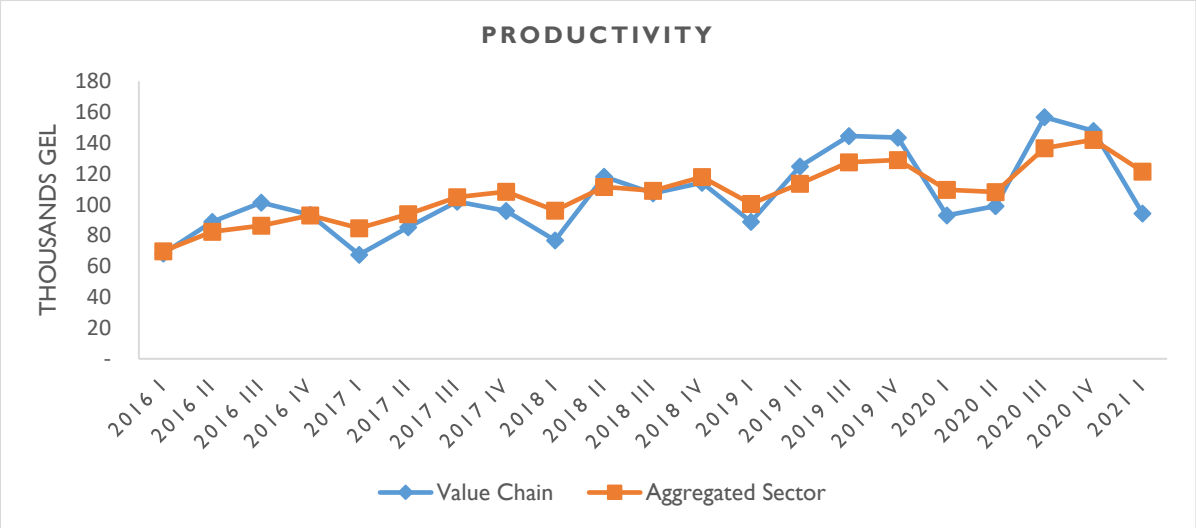
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 3.23 shows, labor productivity in the construction materials value chain increased (1.4% YoY) in Q1 2021 as opposed to Q1 2020, and amounted to GEL 94,000. Productivity for the aggregated sector also increased compared to Q1 2020, recording higher YoY growth of 10.7%.

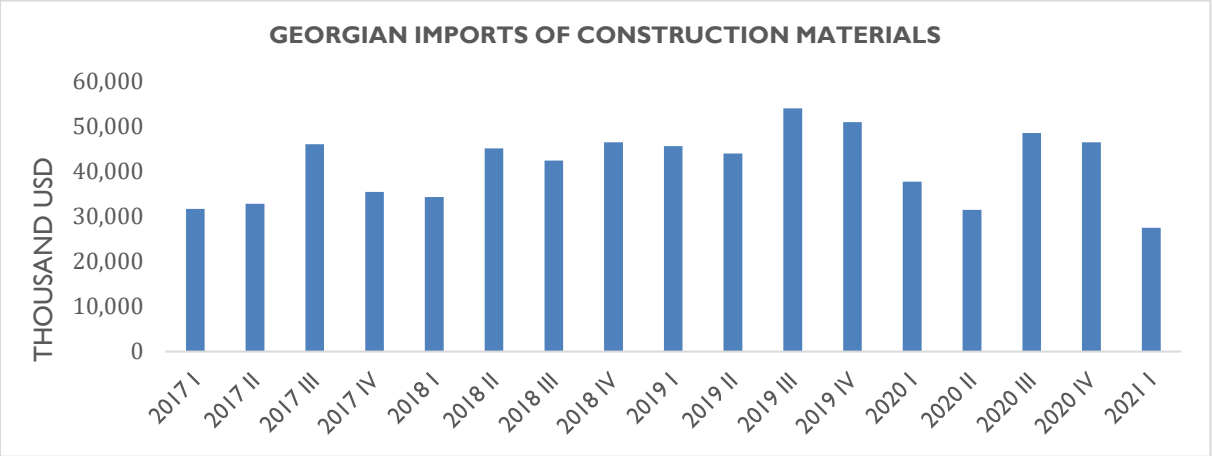
Chart 3.23 Productivity in the construction material value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

In the following charts, the trade dynamics of the construction materials value chain is presented. Chart 3.24 depicts the figures regarding Georgian imports of construction materials. The value of imports declined in Q1 2021 compared to Q1 2020 by 27.0% (and decreased by 40.8% compared to Q4 2020) and amounted to USD 27.5 million. The drop in imports follows the introduction of a second lockdown in December 2020 due to the COVID-19 pandemic.

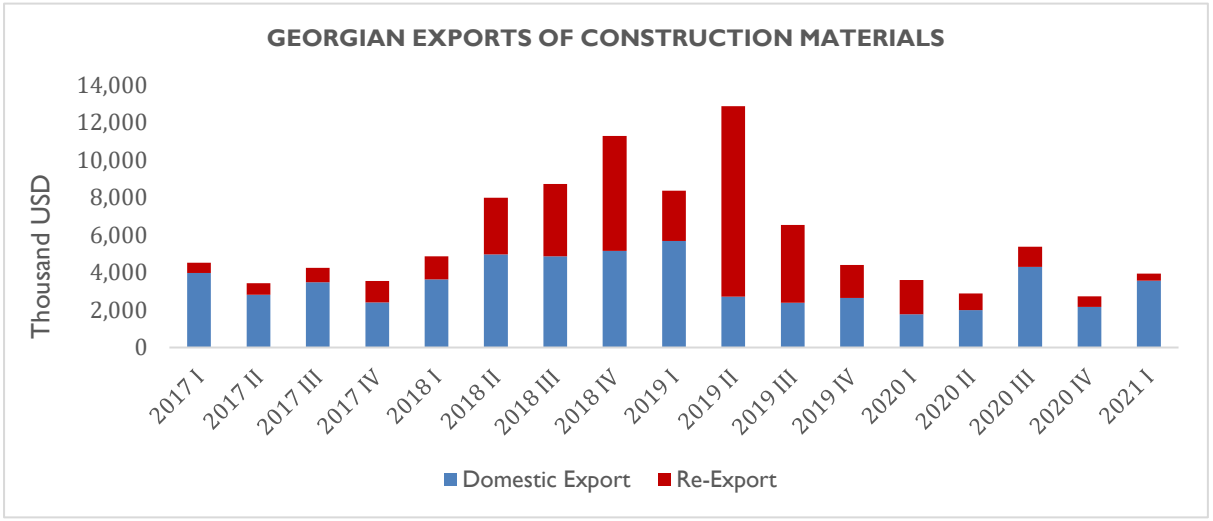
Chart 3.24 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials increased significantly in Q1 2021 (100.3% YoY) and reached USD 3.6 million, while re-exports declined by 79.5% YoY, amounting to USD 375 000 (Chart 3.25). Despite the rebound in growth, the values of domestic exports and re-exports in Q1 2021 were still significantly lower, compared to Q1 2019.

Chart 3.25 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

Charts 3.26 and 3.27 below present Georgia's top trading partner countries for construction materials in the last 12 months. The main destinations for domestic exports during April 2020 – March 2021 were Armenia (65%), France (22%), Azerbaijan (7%), Russia (2%), and the US (1%) (Chart 3.27). Meanwhile, the main trade partners for imports were Turkey (45%), Russia (17%), Armenia (8%), China (7%), and Italy (3%) (Chart 3.28).

Chart 3.27 Georgian imports of construction materials by trade partner (April 2020 – March 2021)

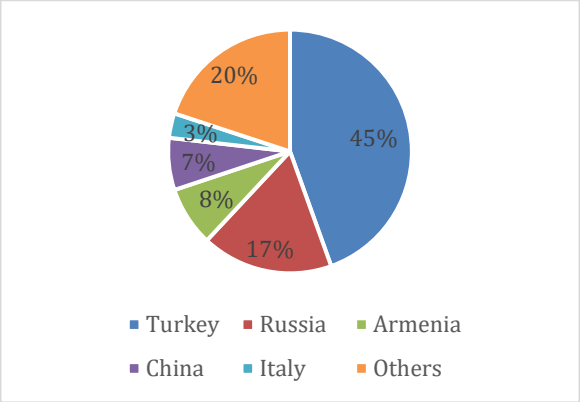
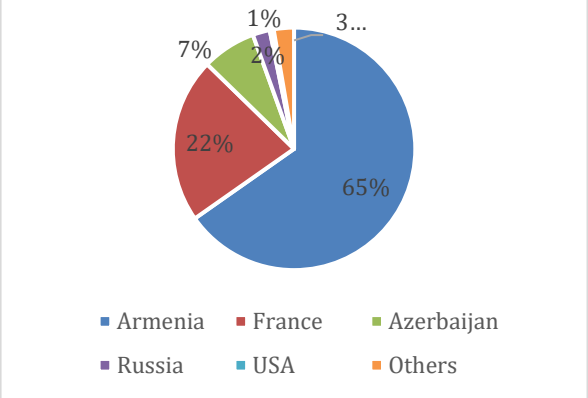


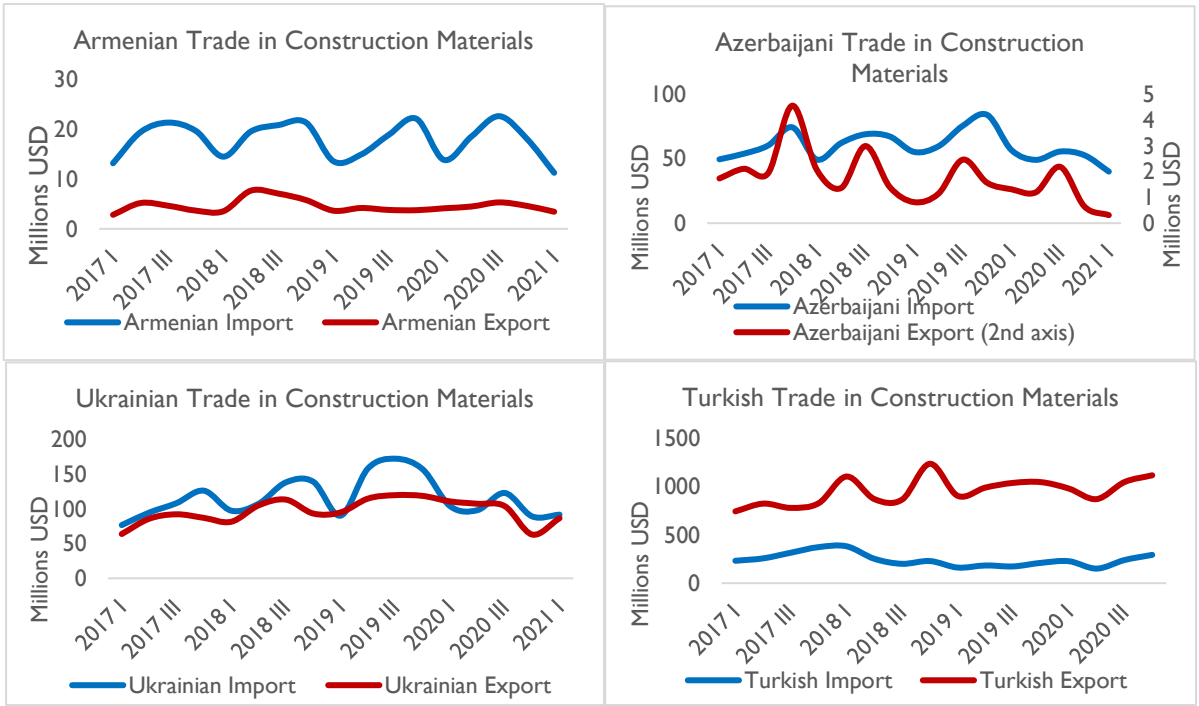
Chart 3.26 Georgian domestic exports of construction materials by trade partner (April 2020 – March 2021)



Source: National Statistics Office of Georgia

Below (Chart 3.28), we overview the construction materials value chain's regional trade patterns for Armenia, Azerbaijan, Turkey, and Ukraine. Exports displayed a sharp decline for Azerbaijan in Q1 2020, compared to Q1 2020, while Armenia and Ukraine recorded moderate decreases compared to the same period of the previous year. Imports have followed the same pattern, with a relatively sharp decrease for Azerbaijan in Q1 2020, compared to Q1 2020 and moderate decreases compared to the previous year for both Armenia and Ukraine.

Chart 3.28 Regional trade patterns of construction materials



Source: UN Comtrade

Overview of existing challenges and opportunities

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. Core insights for this qualitative analysis were taken from a few representatives of the private sector and the newly established institutions - Georgian Construction Materials Cluster, as well as Georgian Cement Association (GCA).

Private sector leadership in the value chain is moderate. Each of the business activities, that make up the value chain, has its own frontrunner(s). There are several platforms that, to some extent, bring together the industry representatives. However, not all of them target the needs of the value chain as a whole. Primarily, there is the Georgian Construction Materials Cluster, which was established in December 2020, with the support of European Union and German Agency for International Cooperation (GIZ). The cluster has increasing membership numbers. It addresses core challenges of the value chain through offering networking, advocacy, communication, and educational services to its members. It also fosters dialogue between the private and public sectors. Besides this cluster, Georgian Cement Association (GCA) is also active. The association was founded in 2017 by Heidelberg Cement Caucasus (GCC) and the Georgian Building Group (GBG) and targets specific challenges that are typical for production and realization of cement in Georgia. There is also the Infrastructure Construction Companies' Association (ICCA) operating in the value chain. However, while it does unite some construction materials' manufacturers, ICCA is more focused on the construction sector at large.

The value chain faces a few noticeable obstacles:

Lack of access to finances represents an obstacle that limits further growth in this sphere. According to the interviewees, long-term investment projects are typical for this value chain. Even though the value chain falls under the priority sectors listed by Enterprise Georgia, its offered subsidy schemes are relatively short-term and do not exceed a duration of 36 months. Private sector representatives claimed that even though some business activities have high investment attraction potential, both domestic and foreign investors are reluctant to engage in the long-term projects while seeking for relatively quick returns.

Lack of a qualified workforce was named as an additional 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. In this direction, to address shortage of labor, Georgian Construction Materials Cluster and GIZ plan to collaborate and deliver professional training to the employees of this value chain.

Dependence on imported inputs is yet another important barrier that restricts the chances of the value chain upgrading. Apart from some exceptions, most of the business activities are largely dependent on imported inputs. This dependence is especially worrisome for those inputs that are available but underutilized domestically. For example, 80% of the gypsum market in Georgia is import-dominated while gypsum deposits are largely underused in the country mainly due to a lack of information regarding available natural resources and an outdated regulatory framework for their utilization. Nevertheless, recently, businesses in this value chain have tended to switch to the utilization of domestic inputs. As one of the interviewed firms pointed out, in light of the sharp currency devaluation, they modified their product profile and became increasingly interested in producing construction materials that necessitate inputs, which can be mined domestically. This should be considered as a positive development as the enhanced local availability of inputs is perceived as a fundamental prerequisite for the future advancement of this value chain.

Limited accessibility to product certification represents another significant impediment that has persisted over time in this value chain. Nevertheless, the severity of this impediment differs from one producer to another as the certification process is product-specific, and different construction

materials necessitate different certifications. The majority of necessary certification (e.g. safety and quality certificates), which is often a precondition for exporting construction materials, cannot be obtained in Georgia. As a result, product certification is associated with substantial costs. To this end, some business operators emphasized the need to co-finance 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. Hence, the research revealed the need to inform value chain representatives about specific details of the certification requirements.

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. International exhibitions organized to build connections with buyers and sellers were emphasized as being less efficient in this direction by some stakeholders. Hence, the Government's assistance in making business matchmaking services accessible was proposed as a potential solution.

Finally, logistical difficulties were regarded as 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 and 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 the value chain have exporting experience. Regional and post-Soviet markets represent the main export destinations, where Georgian construction materials have a competitive advantage in terms of its price and quality. However, due to recent geopolitical developments in Nagorno-Karabakh, some interviewed private sector representatives have reported a drop in regional export volumes. Some of the interviewed businesses have established trade ties with European and overseas partners. For instance, LTD Kamara has entered foreign markets such as the US and Portugal. The company plans to penetrate the Czech and Canadian markets soon and to further develop its export potential in the US. Germany is also considered to be another favorable market for Georgian-produced cladding materials. Elsewhere, LTD Basalt Fibers has penetrated the South African market, where it has successfully competed with Chinese products. Moreover, the company has stably exported to Germany, the UK, Austria, Netherlands, Turkey, and UAE. Entry to the US and Canadian markets is also being planned.

Final goods produced in the value chain face stiff competition from imported products, however. In the case of construction materials, Georgian customers tend to opt for cheaper imported products. Moreover, importing companies are often better known on the local market than Georgian producers. A representative of A1 Group, a licensed miner and distributor of pumice, expressed further concerns that due to lapses in the classification of economic activities (with no differentiation between pumice and road metal), imported pumice has a more favorable tax regime and hence wins in terms of price competition against the local supply. In terms of non-price competition, some of the interviewed companies highlighted their positioning as providers 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. Some private sector representatives believe that, in the longer term, local production has import replacement potential, but at this stage the greater affordability of imported products remains a core hindrance.

Demand for construction materials is mostly derived from the Georgian construction sector. Thus, the economic performance of the value chain is tightly linked to the dynamics of this industry. Some of the interviewed business operators have successful experience of participating in the public

procurements. However, the procurement process has been evaluated as unhealthy to a certain extent, with cheaper bids offering lower quality given priority.

COVID-19 has had a drastic toll on manufacturing of Georgian construction materials as demand on it has dropped sharply, following the stringent lockdown measures applied nationwide. As regulations are loosened and positive expectations unfold, the value chain representatives project growth in all economic parameters. However, unstable epidemiological situation in the country does not enable the interviewed producers to make accurate projections of the future.

PACKAGING

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

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

Table 3.3 Economic activities included in the packaging value chain

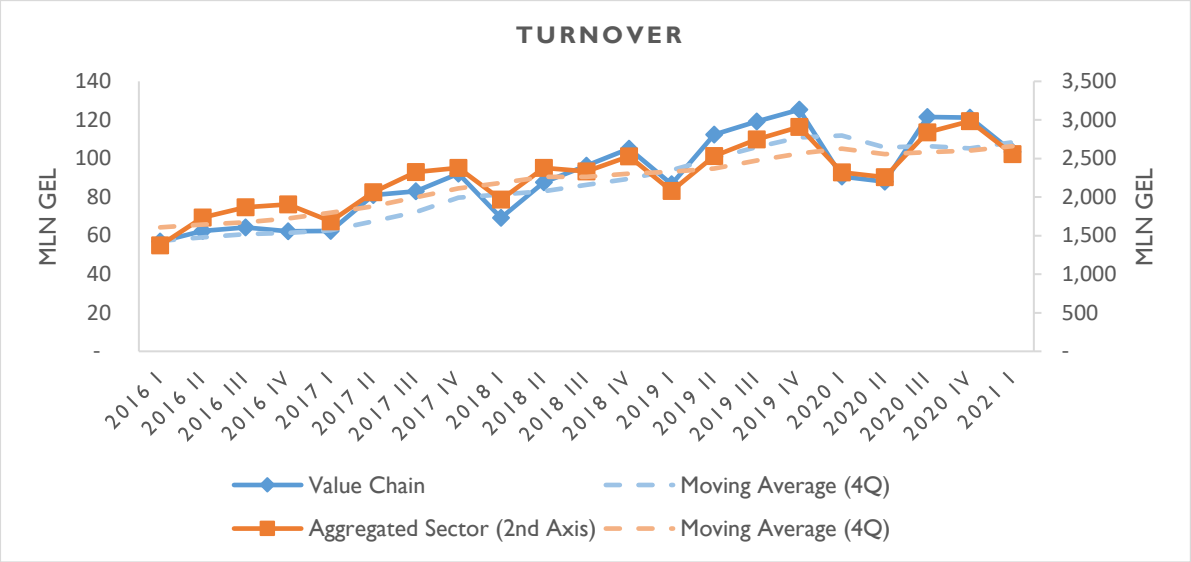
NACE	Description	NACE	Description	NACE	Description
Preferred		**Available at annual frequency**		**Available at quarterly frequency**	
16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.2[53]	Manufacture of articles of paper and paperboard
17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard		
22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	*Not used in the analysis due to data availability only at a very high-level aggregation*			

Following the general declining trend due to COVID-19-related lockdowns, turnover in the packaging value chain amounted to GEL 103 million in Q1 2021, which represents 14.0% YoY growth. It should

[53] 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.

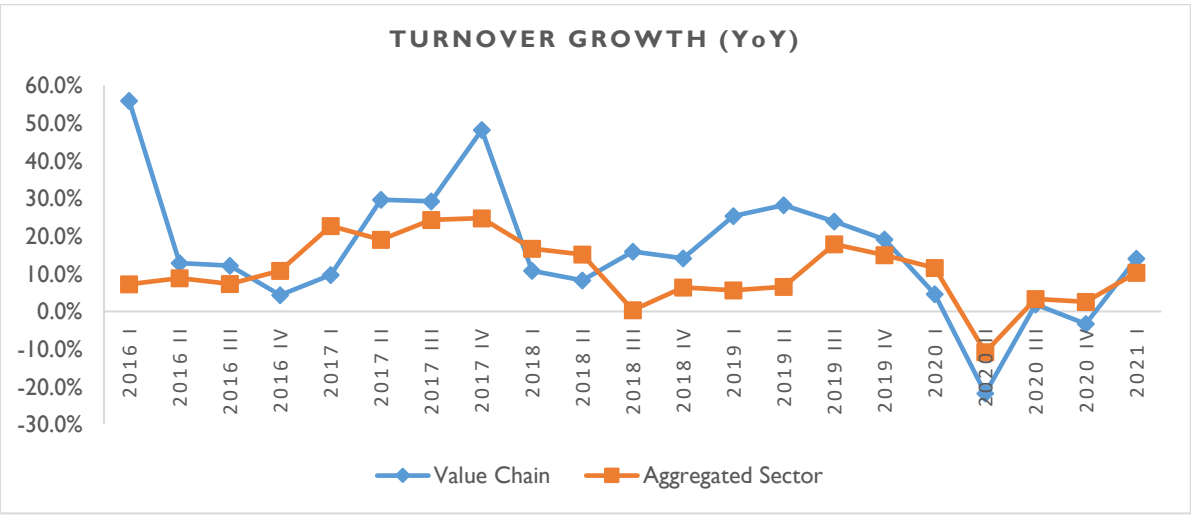
be mentioned that the packaging materials value chain recorded higher YoY growth compared to the respective aggregated sector of manufacturing (10.3% increase, YoY) (Chart 3.29 and Chart 3.30).

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



Source: National Statistics Office of Georgia

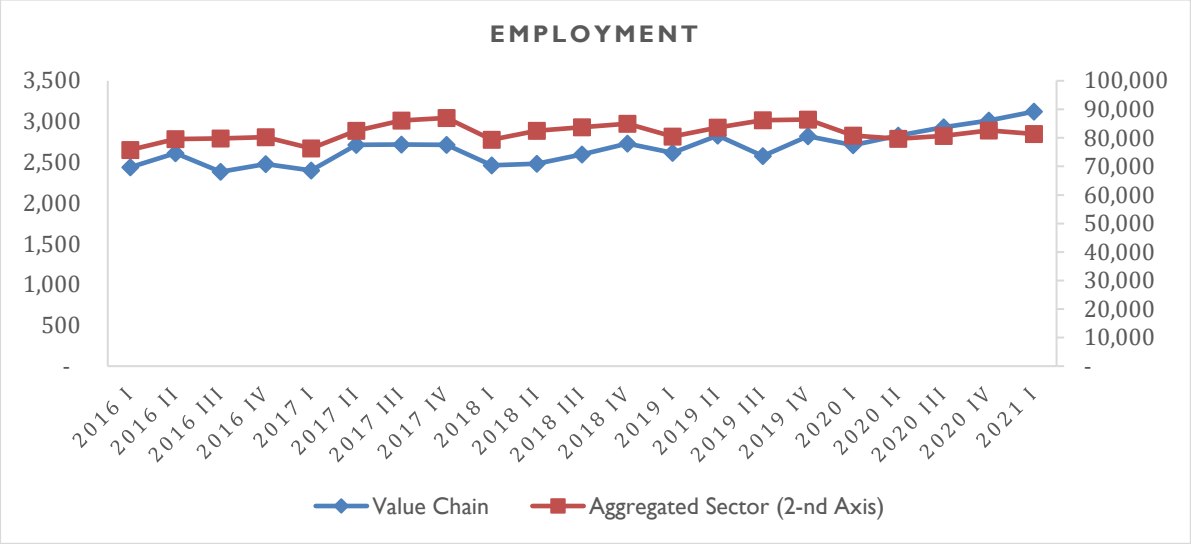
Chart 3.30 YoY Growth rate of turnover for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

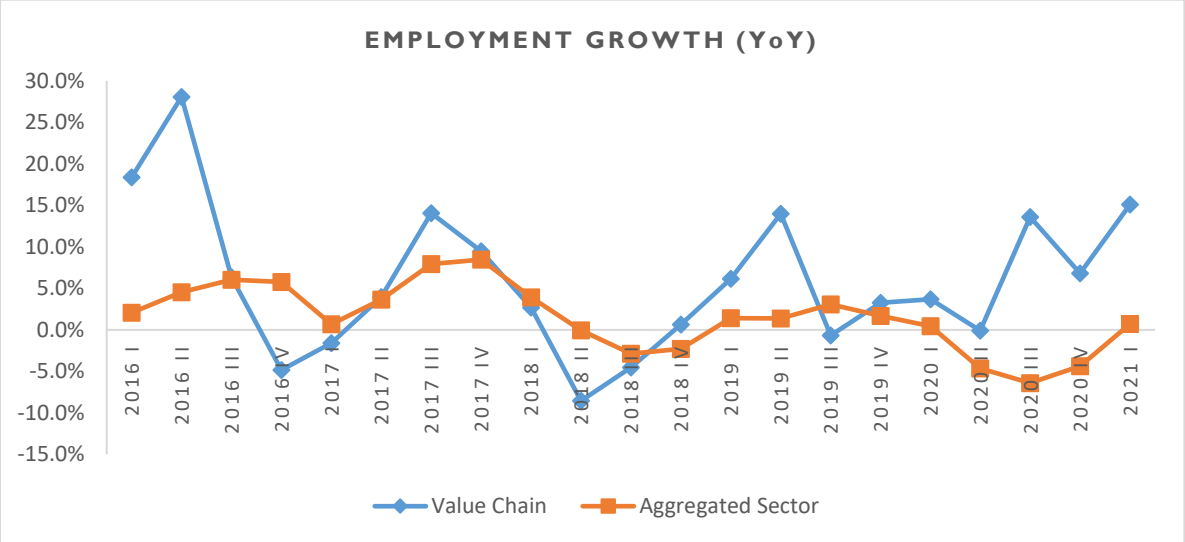
Employment in packaging VC has been rising throughout 2020. The upward trend continued in Q1 2021 as well, reaching the annual growth rate of 15.1%, compared to Q1 2020 and 3,122 hired employees. This growth rate has been the highest for the last 3 years, indicating the start of the recovery after the turbulent year.

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



Source: National Statistics Office of Georgia

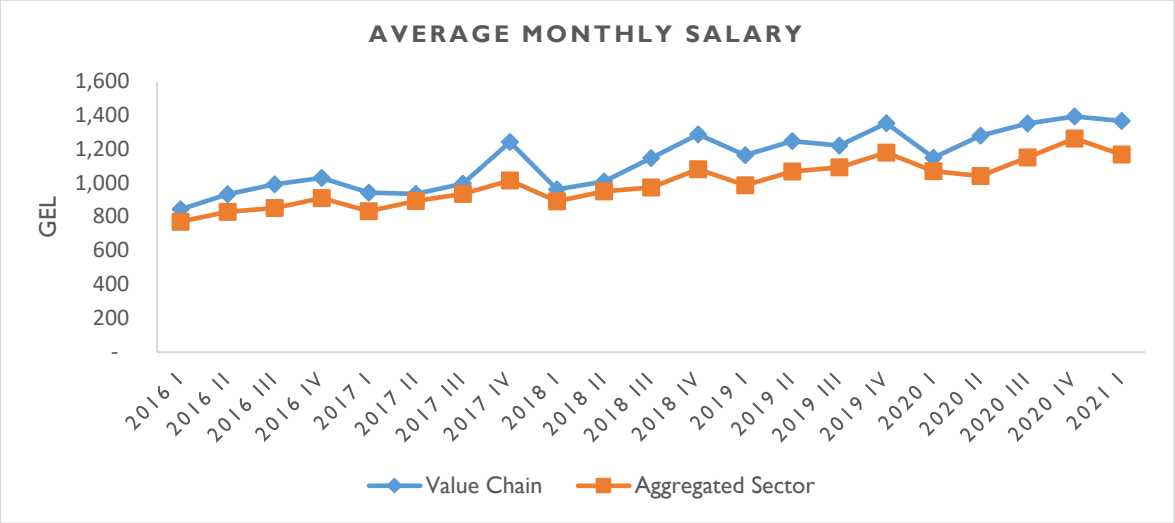
Chart 3.32 YoY Growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased significantly in Q1 2021, compared to Q1 2020 and reached GEL 1,364, which is higher than the average salary of the respective aggregated sector (GEL 1,167) (Chart 3.33).

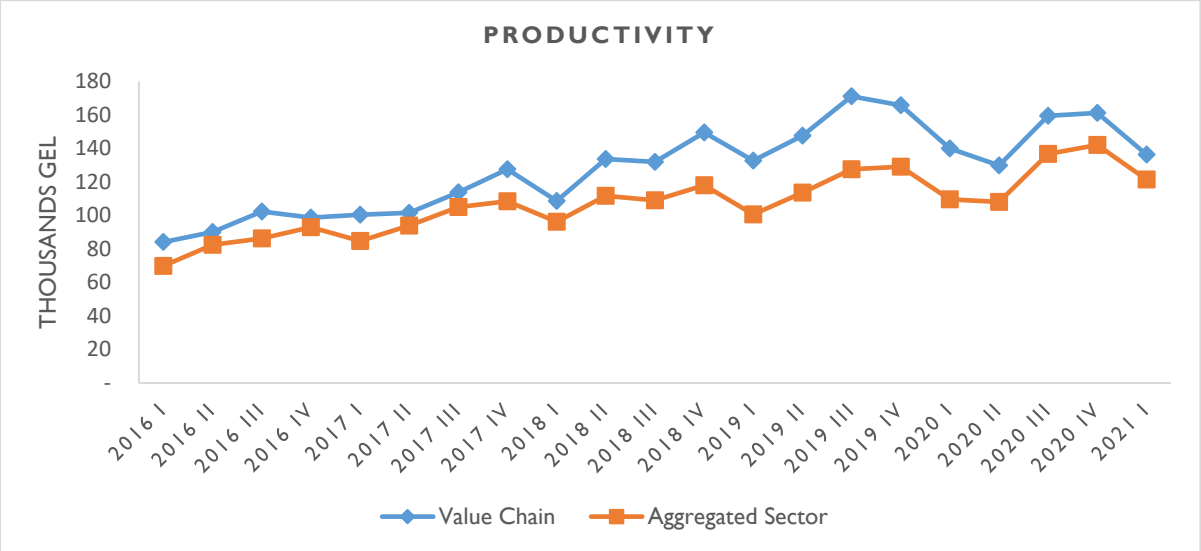
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.34 demonstrates the dynamics of productivity for both the packaging value chain and the aggregated sector. Productivity for the packaging value chain decreased moderately (-2.6% YoY) in Q1 2021 compared to Q1 2020, and settled at GEL 136 000. While productivity for the aggregated sector increased by 10.7% compared to the previous year, productivity in the packaging value chain still exceeds that of the aggregated sector (GEL 121 400).

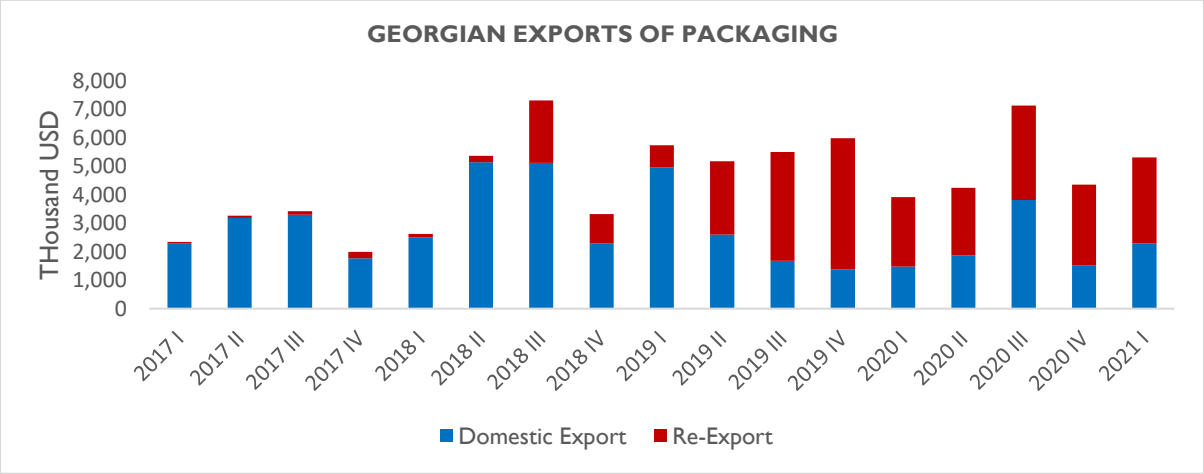
Chart 3.34 Productivity in the packaging value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Charts below provide the analysis of trade tendencies of packaging materials. In the first quarter of 2021, both Georgian domestic export and re-export has increased, compared to Q1 2020, amounting to USD 2.3 million and USD 3.0 million, respectively (Chart 3.35). The value of domestic export is also higher, compared to Q4 2020, indicating the rebound in growth, following the relaxation of lockdown measures.

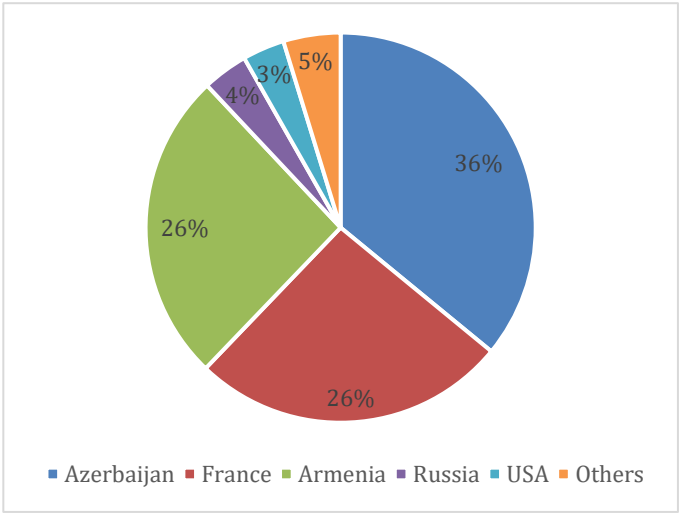
Chart 3.35 Georgian Exports in the Packaging Value Chain 2017-2020



Source: National Statistics Office of Georgia

Of the total exported volume, 36% of Georgian packaging goods were shipped to Azerbaijan, 26% to Armenia and 26% to France (Chart 3.36). Top three trade partners in exports were followed by Russia (4%), and the US (3%).

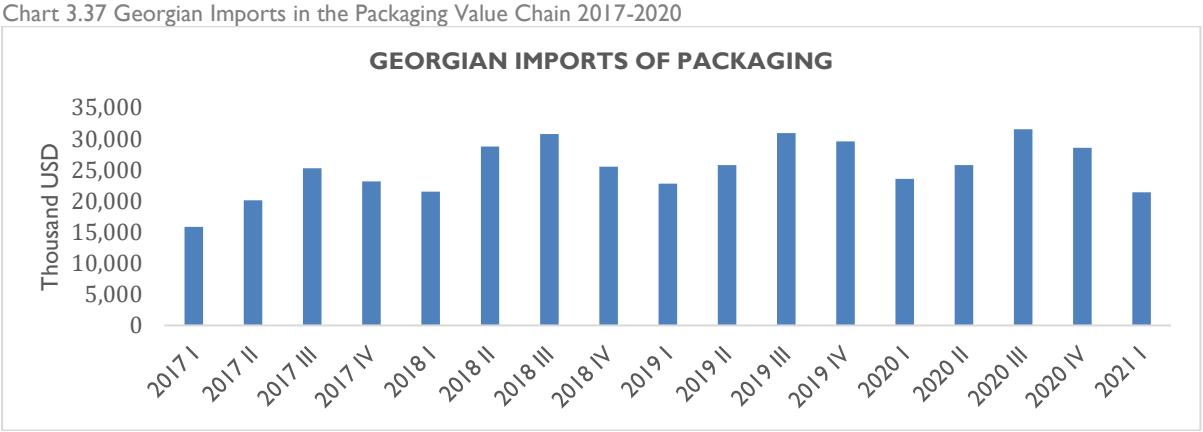
Chart 3.36 Georgia's Domestic Exports of Packaging Goods by Trade Partner (April 2020 - March 2021)



Source: National Statistics Office of Georgia

Georgian imports of packaging goods decreased in Q1 2021 (-9.2% YoY), compared to Q1 2020 and amounted to USD 21.4 million (Chart 3.37).

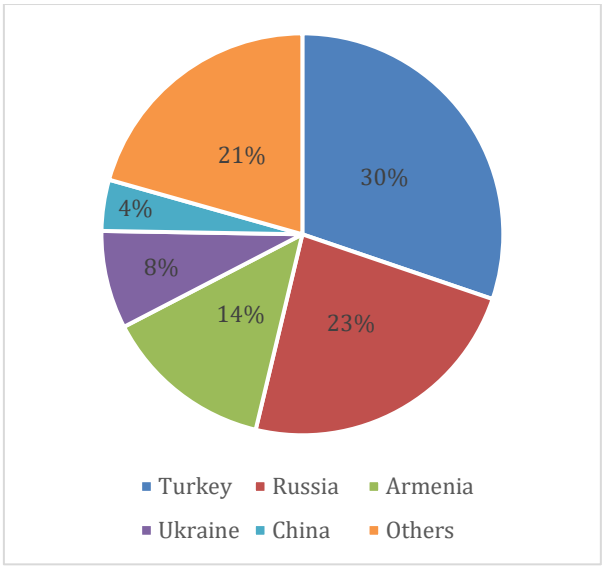
Chart 3.37 Georgian Imports in the Packaging Value Chain 2017-2020



Source: National Statistics Office of Georgia

The profile of trade partners in Georgian packaging imports in the last 12 months was more diversified than for packaging exports. Almost 74% of Georgian packaging imports in the previous year were produced in Turkey (30%), Russia (23%), and Armenia (21%), while 8% of imports were shipped to Georgia from Ukraine and 4% from China (Chart 3.38).

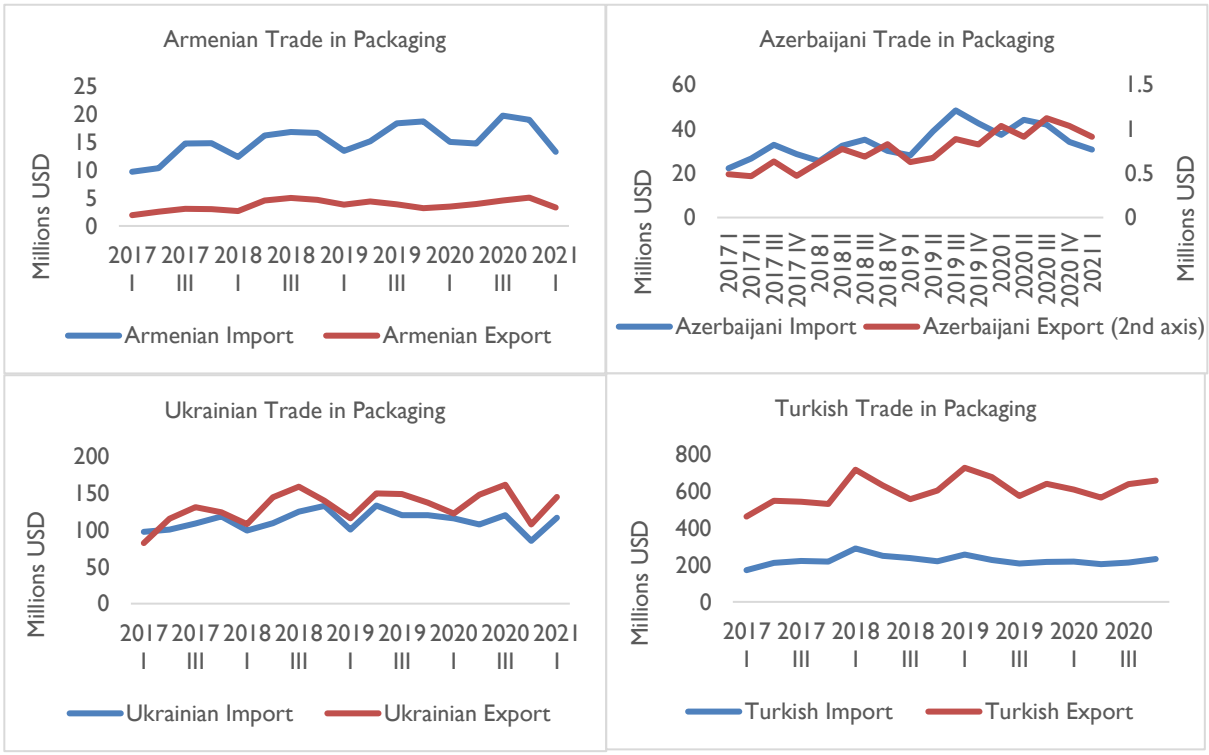
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (April 2020 - March 2021)



Source: National Statistics Office of Georgia

Exports of packaging commodities in Ukraine increased compared to Q1 2020 (Chart 3.41), while Armenia and Azerbaijan, experienced a YoY drop in exports. As for the imports of packaging products, Armenia and Azerbaijan presented a YoY decline in Q1 2021, while Ukraine experienced a moderate rise in in Q1 2021.

Chart 3.39 Regional trade dynamics in the packaging value chain



Source: UN Comtrade[54]

Overview of existing challenges and opportunities

Based on the conducted qualitative analysis, private sector leadership within the packaging value chain has been evaluated highly. The value chain clearly benefits from the PMAG Packaging Cluster, which was established in 2020 on the basis of the Packaging Manufacturers Association of Georgia (PMAG) with the support of the EU and UNDP. As of June 2021, the cluster unifies 52 upstream and downstream companies of the value chain, including 11 new memberships in the last quarter. The cluster aims to scale up and promote the competitiveness of the value chain through various service offerings, such as assisting members in communication, advocating the value chain needs, organizing and managing networks, gathering and analyzing industry-specific knowledge, and building partnerships at various levels. The cluster currently works closely with the UNDP to develop an e-commerce platform for its member companies to boost their sales potential.

Overall, this value chain has significant and growing potential for expansion at both the domestic and international levels. Such growth potential is mainly borne out by a few leading players in Georgian packaging production. Some of the leading players in the field include LTD Fabrica 1900 (producer of corrugated cardboard packaging), LTD Georgian Packaging (food grade paper packaging), LTD Greenpack (reusable packaging bags), and LTD Caucas Pack (disposable plastic packaging). They have considerably contributed to the development of the packaging value chain, including through their efforts as the founding members of the Packaging Cluster.

The overall development of the value chain 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. While the demand from some of these activities decreased amid the initial outbreak of COVID-19, recently there has been a tendency of revival in demand following the loosening of lockdown measures in Georgia. The value chain representatives perceive increasing local awareness of Georgian packaging production as one of the key steps toward utilizing their full potential.

Within the value chain there is some experience of partnership with the public sector. Packaging is listed among priority economic directions of Enterprise Georgia, meaning that the value chain can benefit from its support programs. Moreover, recently, the Packaging Cluster has collaborated with some public entities. An example of such a partnership is the one with the Rural Development Agency (RDA), which intends to establish a cluster of greenhouse producers and is in the process of idea- and experience-sharing with the PMAG.

Georgian packaging manufacturers face stiff competition from imports, while the level of competition between local firms is insignificant due to high local demand on packaging and small size of domestic packaging manufacture. Packaging goods imported from Turkey, China, and Russia are the most competitive in this regard. There are several factors that determine the competition landscape across packaging activities. First of all, Georgian businesses that need packaging products frequently demand them in small quantities, making it unprofitable for Georgian manufacturers to produce them. Instead, these can then be imported easily from foreign firms, which enjoy large economies of scale and cheap per-unit cost. Frequently, the cheaper price of imported goods reflects their lower quality compared to Georgian products. Moreover, the poor implementation of Georgian legislation banning plastic bags remains a challenge. Following the ban, some manufacturers began producing biodegradable bags, however plastic bags are still available on the local market. To enhance their competitive advantage,

[54] Quarter 4 2020 values for Ukrainian trade presents sum of October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade

Georgian businesses are constantly searching for means to create niche products. Furthermore, the manufacturers attempt to be capable of supplying the market with a wide range of packaging production, instead of specializing in manufacturing only certain types of packaging goods.

Recently, and especially during the pandemic, Georgian packaging manufacturers have shown promising import replacement potential, mostly due to being able to meet the 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.

Leading players in the packaging value chain export their products mostly to the neighboring markets of Armenia and Azerbaijan. LTD Caucas Pack also stably exports to the US and Canada, and has experience of shipping its products to Panama, Ukraine, and Turkey as well. The company has recently started trade negotiations with companies in Uzbekistan. LTD Caucas Pack has also diversified its export production. Among other packaging materials, the company now produces punnets, which are plastic packaging for berries. As of June 2021, LTD Georgian Packaging had considerably advanced its negotiations with some international food and beverage brands (e.g. Coca-Cola and KFC) and expects to soon supply selected brand chains across the South Cauasus. LTD Fabrica 1900 plans to enter the Greek, Bulgarian, and Romanian markets (shipping thin cardboard packaging products that are easy and cheap to transport). Furthermore, the company aims to add an agricultural direction to its production and issue cardboard packaging for the export of agricultural goods (e.g. apples and herbs). Elsewhere, LTD Greenpack is considering entering the foreign markets of Belgium, the US, and Turkey. Recently, LTD Greenpack launched its first export to Azerbaijan, where demand has grown on reusable packaging products following the novel restrictions on plastic packaging enacted in the country.

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 for packaging manufacturers. The outbreak of the COVID-19 pandemic significantly affected the accessibility of imported inputs. Indeed, disruptions in the raw material supply chains and unstable input prices have increased the costs of the final goods. In the case of LTD Greenpack, the supply of one of the raw materials (non-woven fibber) was hindered as this was utilized in the production of facemasks. Moreover, the volatility of the national currency substantially increased the costs of imported raw materials and resulted in higher prices for packaging goods.

The increase in electricity tariffs has been cited as a novel impediment in this value chain, harming the further scaling-up of companies that have high electricity consumption. Following communication with responsible state entities, packaging producers expect that utility tariffs will be increased again in the future. Hence, the companies plan to diversify their electricity sources and install solar panels to gradually reduce their dependence on external supply.

Limited access to raw materials is further constrained by a lack of recycling practices, the establishment of which is projected to reduce dependence on imported inputs. In this direction, it is important that Georgia aims to implement Extended Producer Responsibility (EPR) legislation, obliging producers/importers of products that generate specific waste to organize the separated collection of the waste that they generate. Furthermore, the separate collection of municipal waste has been envisaged under the Waste Management Code (WMC). However, due to some significant restrictions, the implementation of these initiatives has been postponed several times.

Besides import dependency, manufacturers in the value chain face central challenges that limit their further growth and hamper the scaling-up of the Georgian packaging production. Notably, the majority

of these obstacles have already been noted in a recent policy brief on the light manufacturing sector55. Primarily, the value chain representatives name the lack of a skilled workforce as a fundamental challenge for Georgian packaging production. There is a small base of qualified machine operators in the country and there is a shortage of vocational trainings that target the skillset of the employees critical to the value chain. In this regard, the PMAG Packaging Cluster in partnership with the Georgian Technical Training Center (GTTC) plans to introduce short-term workforce training and retraining programs at its earliest convenience for the employees of this value chain. Furthermore, the PMAG Packaging Cluster and Akaki Tsereteli State University (ATSU) signed a memorandum to provide joint training programs focused on youth and support their employability in the value chain.

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

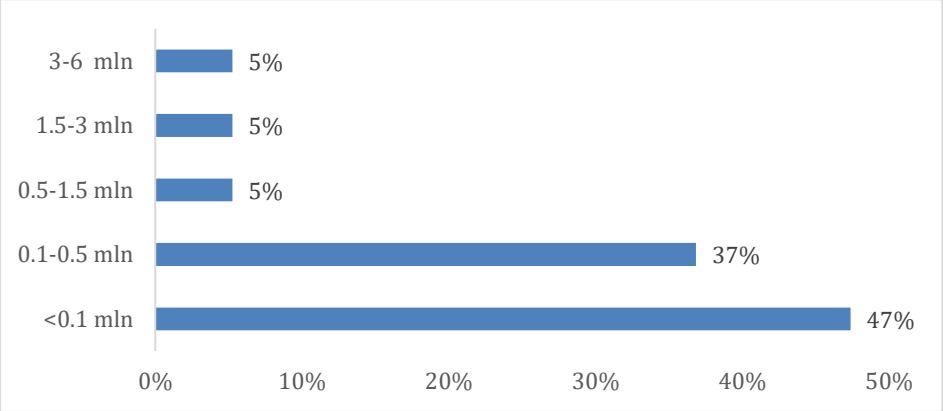
Quantitative Survey Results

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a quantitative survey. The sample of respondents constituted 19 businesses involved in the production of PPE, registered with the NACE 14.12 (manufacture of workwear) and NACE 32.99 (other manufacturing) codes.

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

The declared turnover of surveyed PPE companies in Q1 2021 ranged from less than GEL 0.1- million to GEL 6 million (Chart 3.40). Most of the companies depicted a moderate turnover level (37% of the companies had a turnover within GEL 0.1-0.5 million, 47% had less than GEL 0.1 million).

Chart 3.40 Distribution of PPE Companies by Turnover Range, 2021 Q1 (Gel)

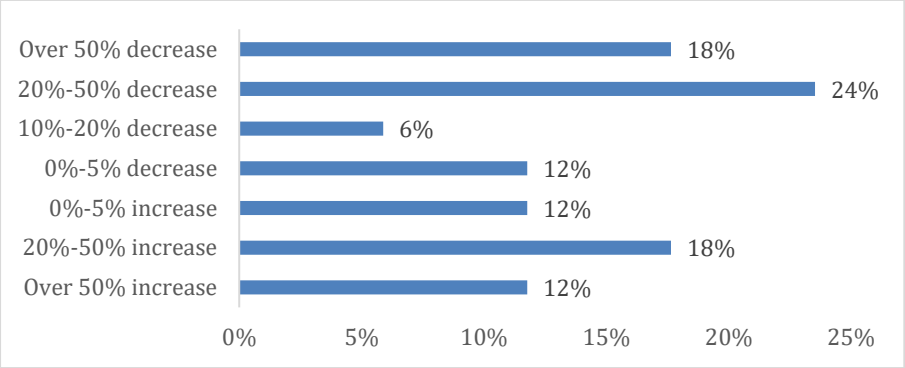


Source: Authors' calculations

The majority of the companies (24%) reported that their turnover decreased by 20%-50% in Q1 2021 compared to Q1 2020 (Chart 3.41). For 18% of surveyed businesses the decrease was over 50%. Moreover, several companies (41% in total) reported rise in the turnover in the first quarter of 2021.

[55] Policy Brief. Light Manufacturing Sector. USAID (2020)

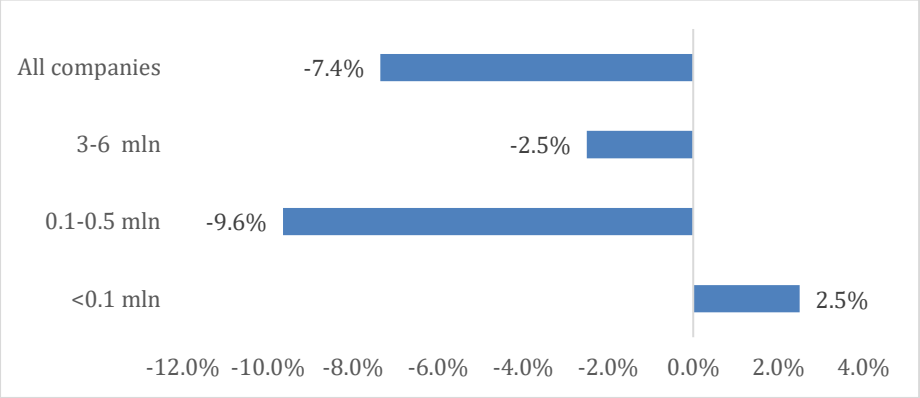
Chart 3.41 Percentage Distribution of Turnover Growth Rates in the PPE Value Chain, 2021 Q1 (Y-o-Y)



Source: Authors' calculations

In Q1 2021, turnover has decreased by 7.4% (YoY) on average. Large companies have experienced a moderate decline of 2.5% (YoY), while the companies with turnover below GEL 0.1 million had some positive trend (2.5% increase, YoY) (Chart 3.42).

Chart 3.42 Distribution of PPE Companies Growth Rates by Turnover Range, 2021 Q1 (Y-o-Y)

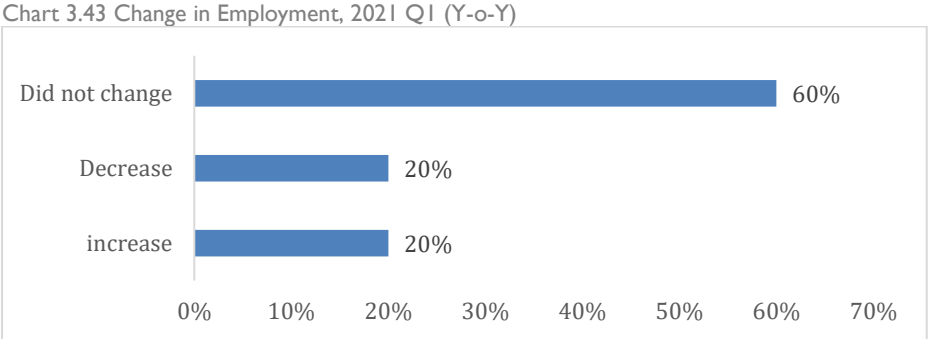


Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 0 to 57, with the median number of 13 employed persons. Women accounted for 79% of employed individuals, while the share of young people (under 30 years old) made up almost 7% of the total employees of surveyed companies.

Meanwhile, the majority of companies (60%) indicated no change in the number of employees compared to Q1 2020 (Chart 3.43). The average salary equaled GEL 846.

Chart 3.43 Change in Employment, 2021 Q1 (Y-o-Y)

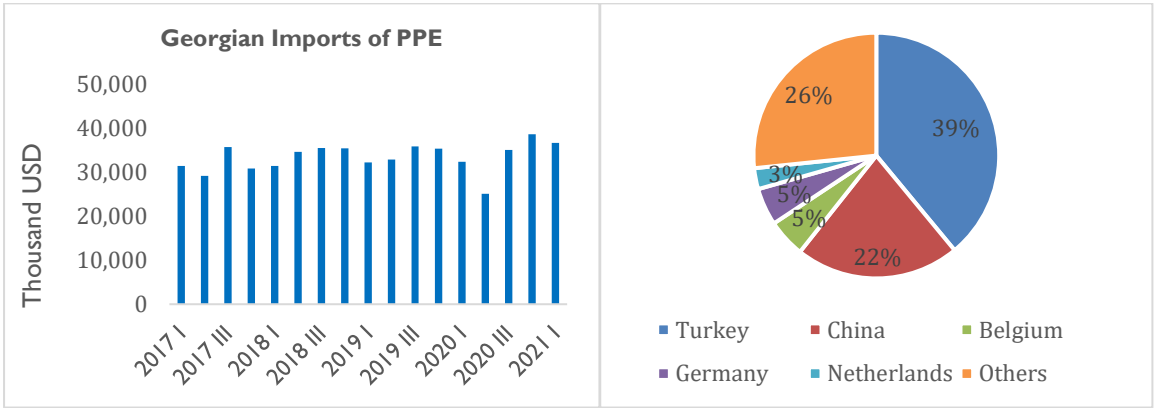


Source: Authors' calculations

The charts below outline Georgian, regional, and global trade patterns of PPE. The categorization of these goods and applicable HS codes were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization and the World Health Organization[56], HS code classification of PPE based on EU market survey 2004[57], Commission Implementing Regulation (EU) 2020/402[58] 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.[59]

Chart 3.44 below presents the value of Georgian PPE imports for the period of 2017-2021 along with its top trade partners during April 2020 – March 2021. Georgia's import of PPE increased in Q1 2021 by 13.3% compared to Q1 2020, but declined moderately compared to Q4 2020, reaching USD 36.7 million. This increase compared to the previous year could be attributed to an increase in PPE demand during the COVID-19 pandemic. In terms of the equipment's origin, most PPE was imported from Turkey (39%), China (22%), and Belgium (5%). Imports from other countries constituted 26% of total imports.

Chart 3.44 Georgia's Imports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE import (April 2020 – March 2021)

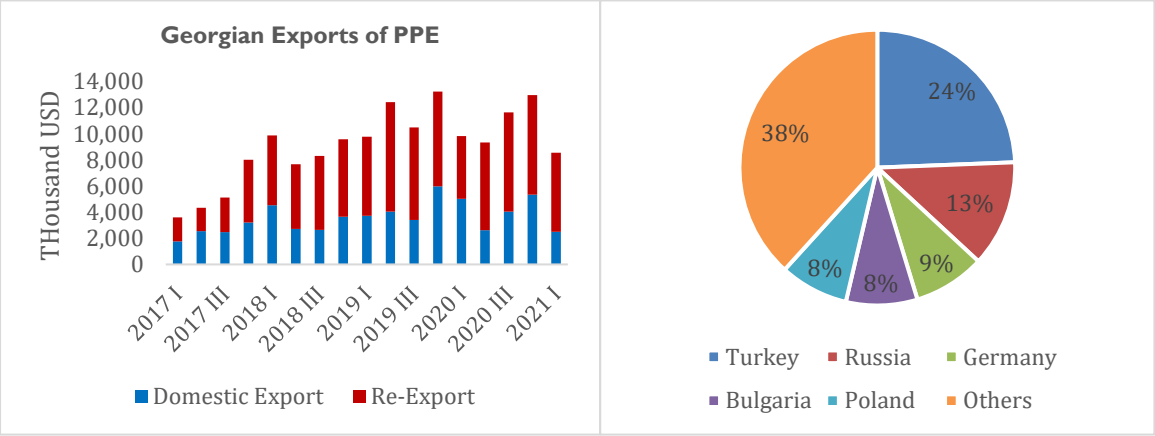


Source: Geostat; UN Comtrade

Chart 3.45 presents dynamics of Georgian exports and its top trading partners in this regard. Domestic exports of PPE equipment decreased by 50.2% in Q1 2021 compared to Q1 2020, and by 53.2% compared to Q4 2020. During April 2020 – March 2021, the majority of Georgian PPE goods were exported to Turkey (24%), Russia (13%), Germany (9%), Bulgaria (8%), and Poland (8%).

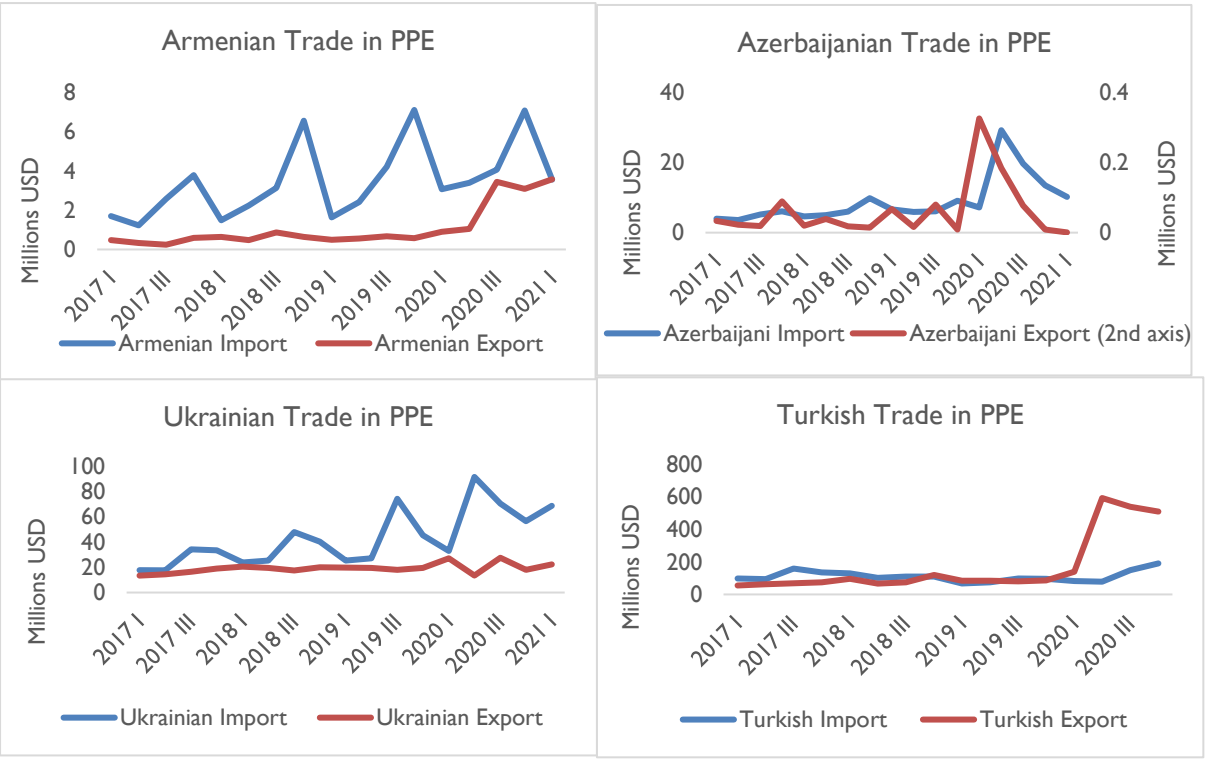
[56] HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)
[57] http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf
[58] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402
[59] https://matsne.gov.ge/ka/document/view/4841418?publication=0

Chart 3.45 Georgia's Exports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE export (April 2020 – March 2021).



As Chart 3.46 presents, Armenia experienced a significant increase in PPE exports in Q1 2021, compared to Q1 2020. Contrastingly, Azerbaijani and Ukrainian exports declined YoY. On the other hand, imports rose in Azerbaijan, Armenia, and Ukraine in Q1 2021 compared to the same period of 2020.

Chart 3.46 Regional Trade in PPE



Source: UN Comtrade[60][61]

Overview of existing challenges and opportunities

[60] Quarter 4 2020 values for Ukrainian trade presents sum of October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade;
[61] Quarter 1 2021 values for Azerbaijani trade presents sum of February and March 2021, since trade for January is not reported for Azerbaijan on UN Comtrade

The focus group discussion with private sector representatives revealed both long-lasting challenges that constrain the value chain's future development and some prospects presented to PPE manufacturers by the pandemic. In terms of challenges, the following are among the value chain's restricting factors:

Shortage of human capital. The competence level of vocational school graduates is said to be insufficient, and manufacturers usually must train their employees at their own expense. 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. Some of the stakeholder companies seem to be reluctant to cooperate with vocational schools and plan to introduce their own training courses or educational programs and offer paid training for interested individuals. In addition, it was mentioned that employees often find it difficult to adapt to the required quality standards, particularly in the manufacture of protective medical clothing and equipment. When it comes to the development of innovative products, the shortage of intellectual capital on the Georgian labor market was identified as a major impediment. For example, a representative of a PPE startup, LTD Elven Technologies, developing high-technology uniforms for fire-fighters for overseas markets (e.g., the US, Canada, and Australia), mentioned that it took the company two years to find a competent professional, capable of developing such products.

Lack of locally produced raw materials. Around 95% of inputs used in production are imported (mainly from China and Turkey), resulting in two potential problems. First, the imported inputs from Turkey increase the products' sales prices and therefore make them less competitive. This issue became especially problematic in the light of the recent depreciation of Georgian national currency. Second, in case of input materials, delivery takes longer and thus delays the domestic production process, resulting in a failure to meet clients' urgent needs. The latter hindrance has become more prevalent amidst the pandemic when flight restrictions and lockdown measures increased the frequency of delays in input 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.

Limited access to modern technology. A problem that mainly concerns the manufacturers of workwear and service apparel (e.g. military and police uniforms) working on government tenders relates to the need for expensive machinery for eco-friendly production (the latter is a tender requirement, according to respondents). As was mentioned during the focus group discussion, the market is relatively small and considering the current low demand, it would be difficult for the sector to invest in modern technology and scale up without substantial support.

Low access to finance. Even though certain representatives of this value chain have benefitted from the Enterprise Georgia's support mechanisms, lack of financing is still perceived as one of the major hindrances in PPE. For example, LTD Elselema outlined that a lack of finances restricts the company to produce one of the inputs material- three-layer membrane fabric, even though Elselema possesses the necessary knowledge and professional base to launch the project.

Lack of cooperation among industry representatives. 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. Despite recently increasing demand for COVID-related PPE products, apparel cluster membership does not seem to offer special focus for medical textile and apparel manufacturers. Based on our interviews, such companies would expect to benefit more from the creation of association that would explicitly focus on medical clothing manufacturers.

Along with the existing challenges, there are also some prospects in this field, arising from the COVID-19 pandemic. In response to the sudden and heavy demand for PPE, many apparel manufacturers also switched to making the face masks, for example. Georgia is now producing this product locally replacing imports to a certain extent. Several companies adjusted their production lines to meet the high demand for other varieties of PPE. In the wake of the pandemic, the value chain representatives (LTD Elselema, JSC Sewing Company Imeri, Materia Fashion House, LTD Nitex, etc.) also participated in the government-subsidized program for face masks production.

Out of the several established companies of the value chain, LTD Elselema is one of the distinguished players. The company has operated for more than 28 years and has produced military and police uniforms (e.g. bulletproof and protective vests), working uniforms, waterproof garments, as well as casual and knitwear clothing. It is one of the largest players on the market that successfully participates in public procurements. Elselema has prominent international connections, it supplied its Swiss partner with Georgia-produced police uniforms. Besides LTD Elselema, the industry also has a newly emerged leader on medical PPE side. Doctor Goods, which has been operating in Georgia since September 2019, is the only enterprise that produces sterile medical textiles in Georgia, medical coveralls, and gowns for surgery and post-operative care. The organization currently employs 70 individuals and is almost fully meeting the demand on surgical kits from local hospitals.

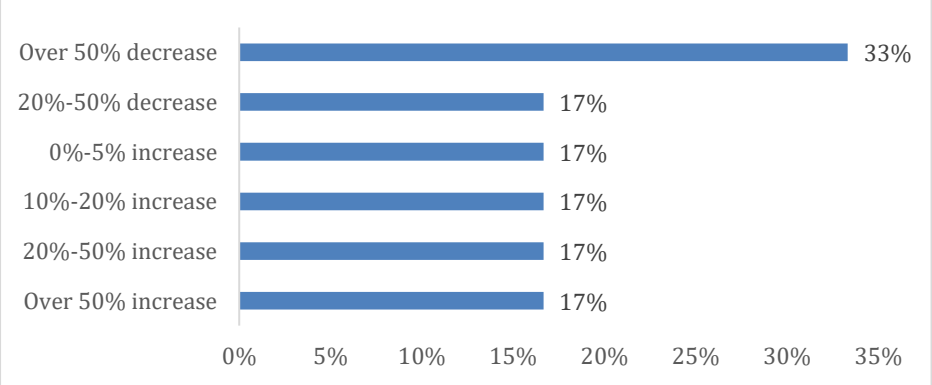
WOODEN TOYS

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 seven companies.

Declared turnover in Q1 2021 in this business activity was under GEL 0.1 million for all surveyed firms. In Q1 2021, two interviewed producers (33%) experienced a turnover decline of more than 50%, compared to Q1 2020 (Chart 3.47). One company (17%) indicated a decline in turnover between 20% and 50%. The other companies all reported an increase in turnover compared to Q1 2020. The average decline in turnover for all companies was 8%.

Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, Q1 2021 (Y-o-Y)

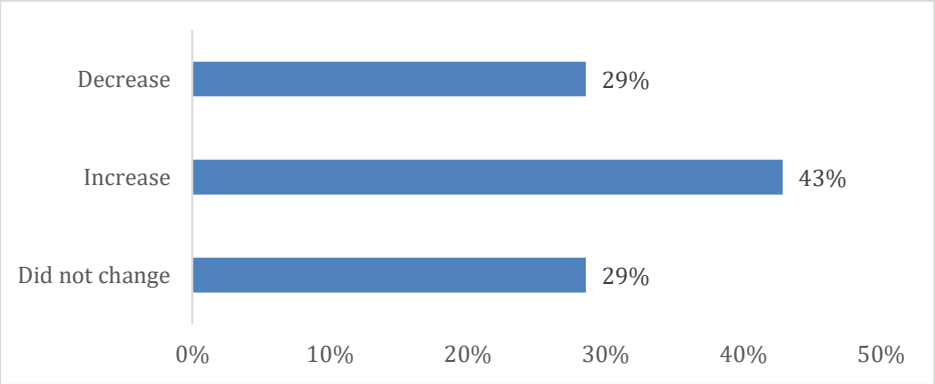


Source: Authors' calculations

The number of persons employed in the wooden toys value chain varied between one and 20, with a median number of four. Women constituted 42.5% of employed people, while workers aged below 30 accounted for 41% of the total employed. The average gross salary amounted to GEL 740 in the surveyed firms. Meanwhile, half of the producers reported that the average salary had increased in Q1 2021, compared to the same quarter of the previous year.

Most wooden toy manufacturers (43%) increased their number of employees in Q1 2021, while 29% of respondents declared no change in employment (Chart 3.48). The other 29% indicated that they had reduced the number of persons employed in Q1 2021.

Chart 3.48 Change in Employment, Q1 2021 (Y-o-Y)



Source: Authors' calculations

Overview of existing challenges and opportunities

The focus group discussion conducted with the representatives of the wooden toys market helped to identify the key challenges and needs of local manufacturers. In short, these challenges relate to access to finance, the lack of relevant technologies and equipment, an unqualified workforce, limited availability of adequate local raw materials, product certification problems, specificities of the public procurement system and high competition from imports.

Access to finance was mentioned by respondents as a key problem. Due to the small scale of production, wooden toy manufacturers usually cannot afford expensive bank loans and often have problems with regard to paying their employees. For most of the donor assistance programs available to the toy manufacturers, there is a cash contribution requirement that also seems to be problematic for most local entrepreneurs due to their low liquidity. The interviewed representatives of companies mentioned that they would value the possibility of offering in-kind contributions (e.g. in the form of equipment/machines) instead of cash contributions.

The manufacturing process for wooden toys is also constrained by the unavailability of high-quality local wood materials. Several interviewees claimed that they mostly relied on imported wooden inputs from Russia since adequately processed and dried wood materials intended for toy manufacturing are rare in Georgia. In addition, in most cases, when purchasing Georgian wood materials, manufacturers cannot obtain a certificate for the wood's origin, possibly due to illegal logging. This further constrains product realization and particularly exports, at the same time incentivizing the purchase of more expensive imported wood materials from Russia.

The product certification process is another problematic area. Many interviewees highlighted the need for local product testing capacity. Currently, they all have to send their sample products to Turkish laboratories to obtain certificates, thereby greatly increasing the cost and the sale price of their toys.

Some manufacturers also declared to have low access to information regarding the certification process and requirements.

Considering the abovementioned factors, Georgian wooden toy manufacturers find it difficult to compete with relatively low-quality imported toys from China and second-hand toys from the US. Imported toys often win over domestically manufactured ones in public procurements held for the Georgian kindergartens. As was argued by the focus group participants, the procurement process does not prioritize eco-friendly wooden toys' manufacture, thus putting Georgian wooden toy manufacturers at a disadvantage. Many private sector representatives claim that they have potential to meet 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.

Evidently, Georgian wooden toy manufacturers have already started to comply with international safety standards. They mainly use high-quality wood and ISO-certified German painting materials that are safe to use for children. For this reason, the interviewed manufacturers expected their products to compete successfully with imported toys soon in light of the GoG's Decree on the Approval of Technical Regulation on Toy Safety based on the EU's toy safety directive62. The new law entered into force from 1 July 2021, and is effective for both locally-manufactured as well as imported toys. The successful implementation of the regulation is expected to boost the sales of domestic wooden toy manufacturers.

Representatives of this business activity have limited experience when it comes to exports. However, it has been revealed that Germany and France could be profitable export destination countries for Georgia due to the high demand for such toys and limited local production in these countries. While the export precedents are limited, some companies operate on Etsy platform and successfully use e-commerce in their sales strategies. For instance, LTD Mtsvervali, a Georgian manufacturer of wooden toys, exports its products to the US, the UK, and UAE through Etsy.com. Moreover, LTD Katamura, a Georgian manufacturer of toy souvenirs of local fauna, has also been placed on Etsy since the summer of 2020 and mainly supplies the US market through this platform.

The interviewed companies highlighted 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 membership of the Association of Toy Manufacturers. There have been several attempts made by local producers to establish an association of wooden toy manufacturers, but the attempts are unsuccessful. One of the interviewed stakeholders revealed future plans to join the Entrepreneurs Association that offers a good networking platform and provides support in different directions, including the process of grant applications.

[62] 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

4. SOLID WASTE MANAGEMENT AND RECYCLING

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)[63].

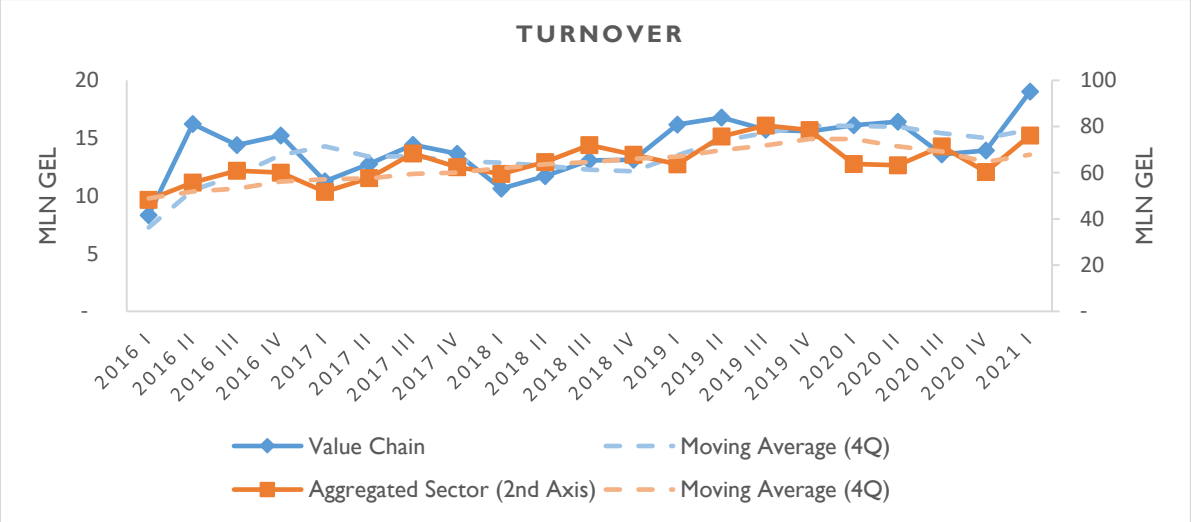
The solid waste management and recycling sector is matched with the following economic activities as classified in NACE Rev. 2 at 2-digit level (Table 4.1). The data on these NACE codes are available at both annual and quarterly frequencies.

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

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

In the first quarter of 2021, turnover for the solid waste management and recycling sector has increased, amounting to GEL 19 million, that is 18.0% higher compared to Q1 2020 (YoY). The turnover for the corresponding aggregated sector increased as well in Q1 2021 (19.2%) and reached GEL 76 million (Charts 4.1 and 4.2).

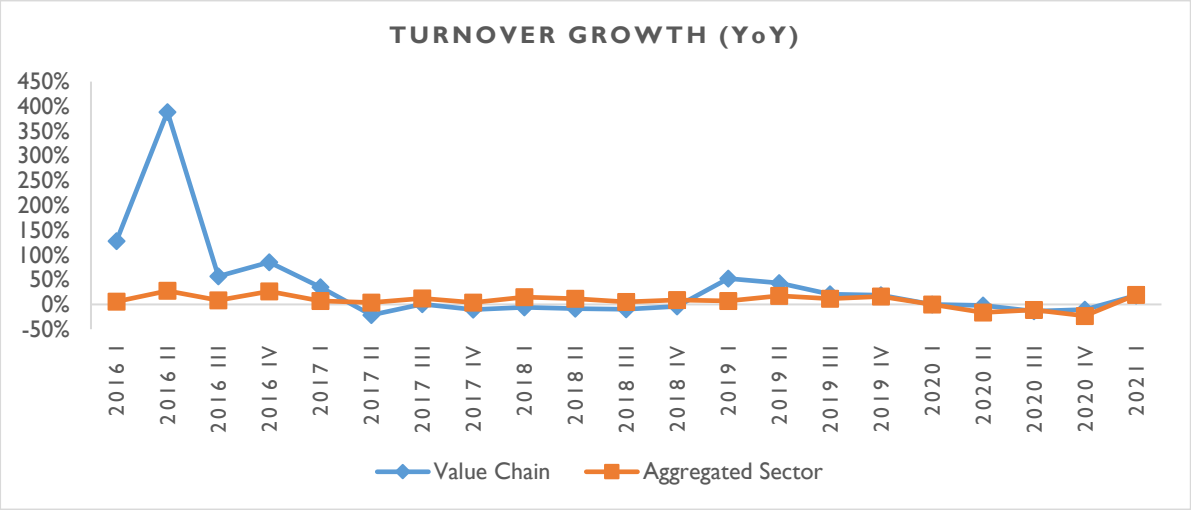
Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

[63] Throughout this section, "sector" will refer to solid waste management and recycling, while "aggregated sector" will refer to water supply, sewerage, waste management and remediation activities.

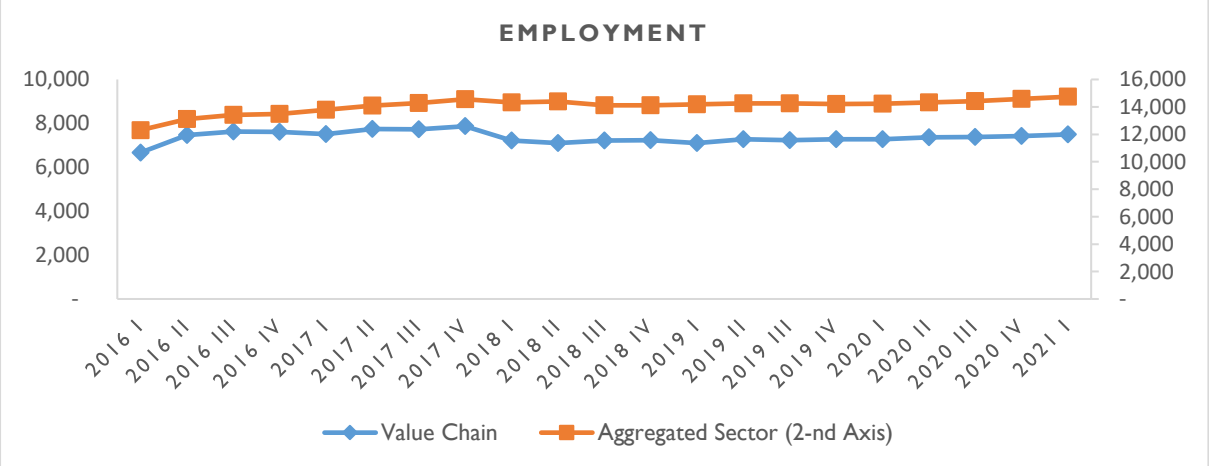
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

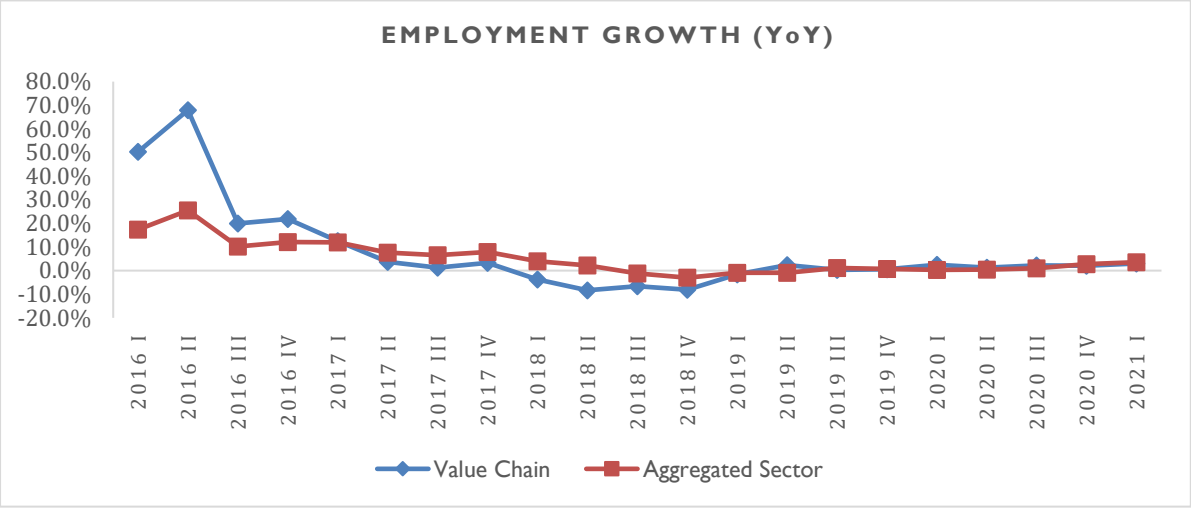
Charts 4.3 and 4.4 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In the first quarter of 2021, employment increased slightly (3.0% YoY), compared to Q1 2020 and reached 7,502 people. The number of hired employees also increased in the aggregated sector at a relatively similar speed, growing by 3.5% (YoY) in Q1 2021, compared to Q1 2020 and amounting to 14,742 people.

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



Source: National Statistics Office of Georgia

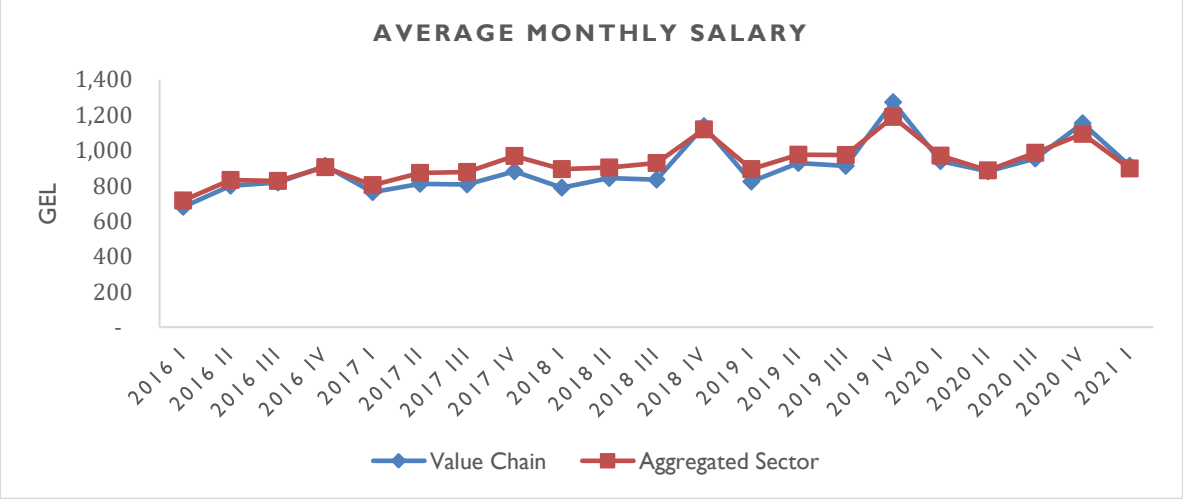
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 4.5 shows, the average monthly salary in the solid waste management and recycling sector diminished in Q1 2021, amounting to GEL 912, which is 3.0% lower than in Q1 2020. The average monthly salary in the aggregated sector also declined by 7.4% YoY to GEL 898 in Q1 2021.

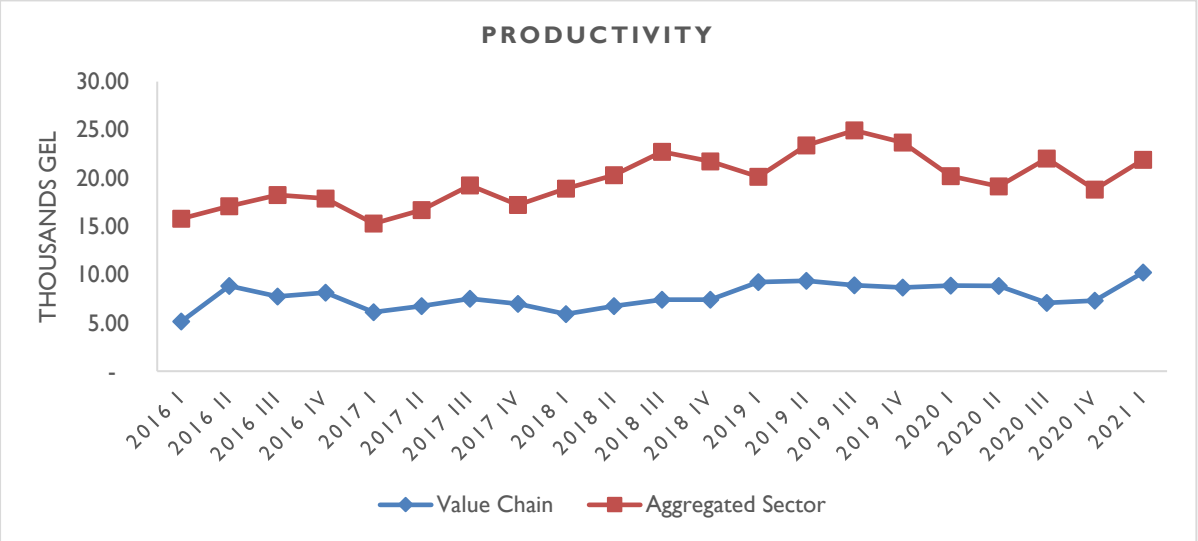
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Despite decreasing salaries, productivity in the solid waste management sector increased significantly (15.5% YoY) in Q1 2021 and amounted to GEL 10 200. Productivity in the aggregated sector increased as well by 8.3% YoY, amounting to GEL 22 000.

Chart 4.6 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Overview of existing challenges and opportunities

The key challenges faced by the sector representatives remain mostly homogeneous across waste streams. 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. In this regard, the absence of separated waste collection practices is considered a major obstacle at the national level. There have been several significant steps 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 been competing 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. Outbreak of Covid-19 and subsequent economic crisis further impeded access to raw inputs following the slowdown in business activities and waste generation.

Together with state institutions, the private sector is also responsible for waste management. However, frequently, the only representatives of the private sector engaged in separated waste collection are international manufacturers with zero waste obligations. 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. As of June 2021, implementation of EPR is postponed mainly due to lack of capacities and readiness in both public and private domains. According to the sector representatives, growth in all sectoral parameters is conditional on adequate implementation of the two above-mentioned legislative obligations, namely separated collection of municipal waste and EPR.

While the local availability of inputs is critically limited, only a small share of the raw materials utilized in the production process are imported. There has been a precedent set for waste imports in Georgia but only in small amounts. As revealed in the course of the interviews, Georgia is moving towards further restricting imports of unprocessed plastic waste on its territory. 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 in the country.

Packaged goods produced in the sector cannot properly compete with imported products. In addition, the majority of final manufactured goods in the sector are of moderate quality due to the outdated machines used in the production process. 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 however increase the value-added of final products.

Restricted access to finance was named as a core hindrance to updating the technological base of the companies engaged in waste recycling. However, recently Enterprise Georgia amended its programs to cover solid waste management and recycling activities. To properly exploit this opportunity, businesses in the sector need to undertake functional training on how to apply for such financing schemes. The Waste Management Association (WMA) operating in this sector is envisaged to have an institutional role in taking up this responsibility.

The relatively low quality of final products also explains why businesses representing the sector in Georgia lack a competitive advantage on international markets. Most of the interviewed manufacturers declared having no export orientation in their operations. Nevertheless, some examples of exported recycled products were mentioned including PET64 bottle flakes, glass, paper packaging materials, tire rubber granules, biodiesel, and electrical and electronic equipment. In this regard, synthetic fiber, final product of Polyvim LLC is projected to have substantial export potential.

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, while in other cases there are several producers competing over the available amount of waste resources. The situation has not changed noticeably in the first quarter of 2021, with only exception captured in case of wooden waste recycling, where novel players emerged in brickets production. Moreover, due to a lack of standardization requirements in Georgia, there are cases when specific types of waste go to the producer who lacks certification and might be unaware of the specificities of the corresponding recycling process. Such practices might bring lasting harmful consequences when it comes to, for instance, used cooking oils that can damage human physical health. In this regard, the interviewees highlighted the importance of introducing standardization requirements for businesses operating in the country's solid waste management and recycling sector.

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. The only known case of significant investment in the sector is that of Polyvim LLC, an Iranian venture constructing a PET bottle recycling factory in Georgia. However, while investments are lacking, international organizations actively support the improvement of Georgia’s waste management sector. For instance, the European Bank

[64] Polyethylene Terephthalate

for Reconstruction and Development (EBRD) recently extended its sovereign loan to Tbilisi municipality to upgrade the leachate system at Tbilisi's solid waste landfill65.

Private sector consolidation in this sector is high. The majority of market players are members of the Waste Management Association (WMA), which unifies 25 members. As of June 2021, the WMA projected that its members would soon be increased by three companies. The Association has different service offerings for the sector representatives, including networking, advocacy, technical assistance, and information-sharing. It also plans to conduct a series of trainings regarding environmental protection and waste management. Through the Association, member companies participate in international fairs and exhibitions as well.

The WMA has been engaged in several multi-sectoral partnerships, such as, for instance, a recent memorandum signed by the association itself, Tbilisi City Hall, Tbilservice Group, and Caucasus Environmental NGO Network (CENN). As a pilot project, the memorandum envisaged placing bins for separated waste collection in different parts of Tbilisi. The partnership agreement sought to accomplish piecemeal introduction of separated waste collection practices in Tbilisi municipality in line with the WMC. However, the partnership turned out to be a one-off and has not been continued. Nevertheless, some positive trends have emerged lately in this sector. In partnership with Rustavi City Hall, the WMA now plans to introduce separable recycle bins across Rustavi municipality. After separate collection of waste, the Association will ensure distribution of the collected raw materials to respective companies operating in the sector.

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

[65] More information available at: https://www.ebrd.com/news/2021/ebrd-supports-solid-waste-management-in-tbilisi.html

5. SHARED INTELLECTUAL SERVICES

SECTOR SUMMARY

Under Shared Intellectual Services sector, this report observes economic trends in Business Processes Outsourcing (BPO) Value Chain. Two business activities of the BPO value chain are covered in this given quarterly analysis: human resource management (HRM); and customer relations management (CRM).

Survey results for the CRM and HRM value chains suggest that in both of them the majority of surveyed companies were small businesses, with turnover below GEL 100,000. Moreover, a significant proportion of the companies from both value chains (56% of HRM companies, and 60% of CRM companies) reported an increase in turnover compared to Q1 2020. Despite the positive tendencies, on average, the HRM value chain presented an 8% decrease in turnover, while the CRM value chain recorded an increase of 19%. As for employment, the majority of companies from both value chains (44% of HRM companies, and 50% of CRM companies) reported no change in their number of employees compared to Q1 2020.

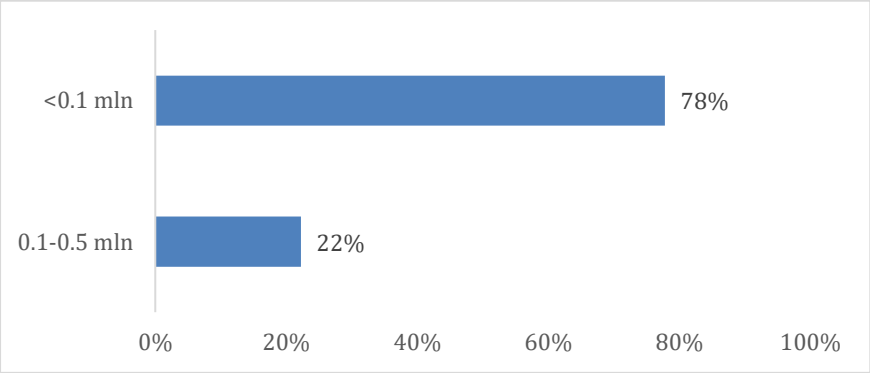
HUMAN RESOURCE MANAGEMENT (HRM)

Quantitative Survey Results

In this section, the dynamics of HRM business activity is assessed based on a quantitative survey conducted with 9 HRM companies. The surveyed firms were predominantly small-scale businesses providing outsourcing of HRM services, recruiting, and organizing trainings and employment (incl. abroad). The majority of them are based in Tbilisi, albeit there are also Batumi- and Mtskheta-Mtianeti-based companies.

The surveyed firms are mainly Limited Liability Companies (LLC). The declared turnover of each firm was under GEL 0.5 million. More specifically, 78% of firms declared to have turnover below GEL 0.1 million, the rest indicating range between GEL 0.1 – 0.5 million (Chart 5.1).

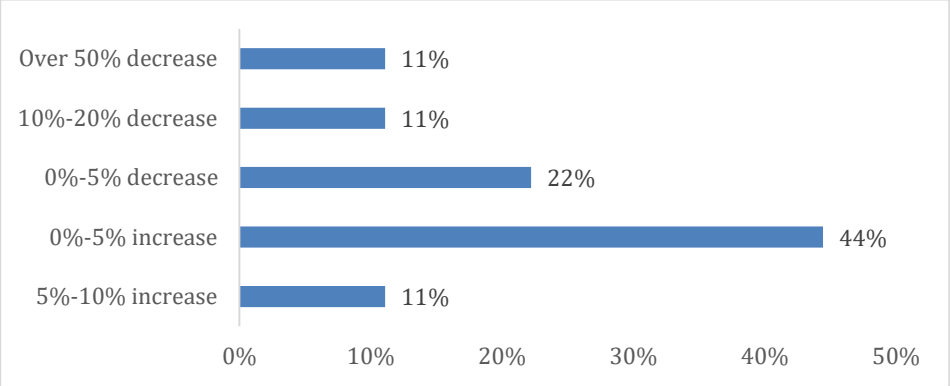
Chart 5.1 Distribution of HRM Companies by Turnover Range, 2021 Q1 (Gel)



Source: Authors' calculations

In Q1 2021, the ease of lockdown measures seems to influence positively the turnover growth, as 56% of surveyed companies reported increase in turnover compared to Q1 2020. Despite the positive tendencies, almost half of surveyed firms still experienced a moderate decline in their turnover (Chart 5.2).

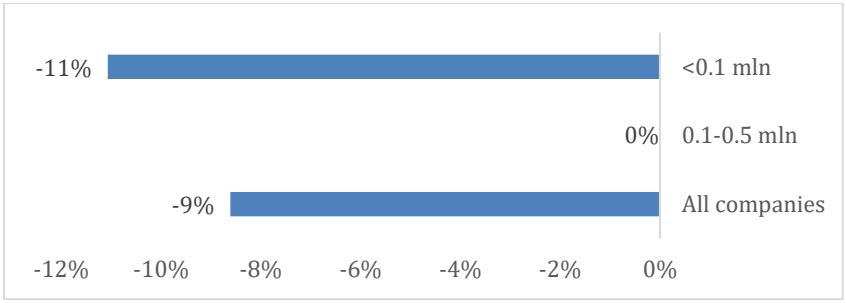
Chart 5.2 Percentage Distribution of Turnover Growth Rates in the HRM Value Chain, 2021 Q1 (Y-o-Y)



Source: Authors' calculations

On average, the turnover growth rate in HRM companies constituted -9% in Q1 2021, compared to the same quarter of the previous year. This decline has been mainly driven by firms, whose turnover was below GEL 0.1 million (Chart 5.3).

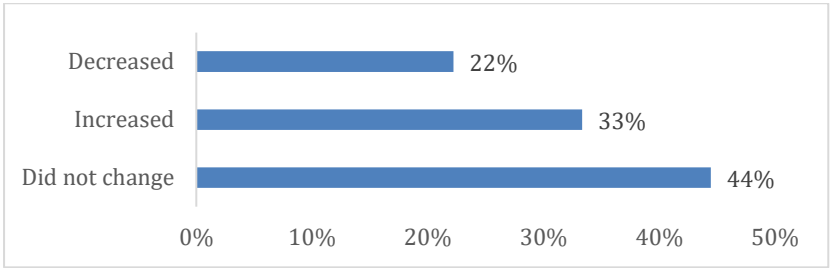
Chart 5.3 Distribution of HRM Companies Growth Rates by Turnover Range, Q1 2021 (Y-o-Y)



Source: Authors' calculations

The number of employed people in HRM companies in Q1 2021 varied between 0 to 10, the median number being 3 employed persons. At the same time, share of women in those firms equaled 92% and the proportion of staff aged under 30 years has been almost 36%. Employment in most of the companies (44%) did not changed in Q1 2021, compared to the same quarter of the previous year. In 33% of firms, employment increased, while the minor part of them experienced decline in number of hired people (22%) (Chart 5.4).

Chart 5.4 Change in employment, Q1 2021 (Y-o-Y)



Source: Authors' calculations

The average monthly salary of the HRM employees was equal GEL 988 in Q1 2021. The salaries mostly increased, 66% of firms reporting the rise in the monthly salary. Only one company reported decline in the monthly salary.

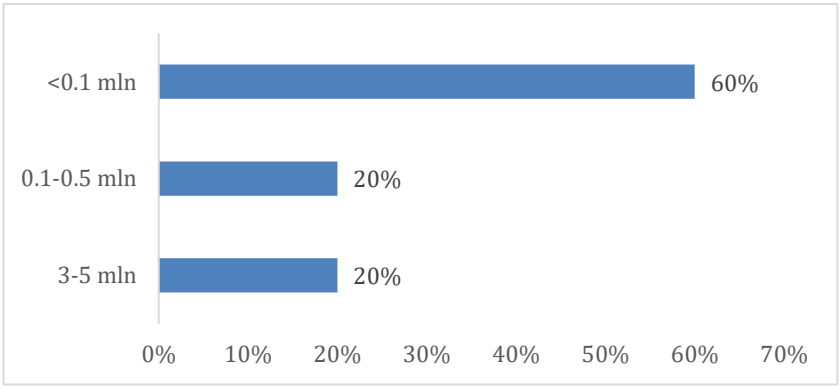
CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Quantitative Survey Results

In this section the dynamics of CRM business activity is assessed based on a quantitative survey conducted with 6 CRM companies. Surveyed firms were all small-scale businesses, providing outsourcing of CRM services, and IT and call-center services (incl. abroad). The majority of them are based in Tbilisi, albeit there are also Batumi-, Kutaisi- and Akhaltsikhe-based companies, distinguished by their provision of call-center and outsourcing services.

Surveyed companies are mostly limited liability companies (LLC). In Q1 2021, the declared turnover of majority of firms was under GEL 500 000. More specifically, 60% of firms declared to have turnover below GEL 0.1 million, 20% percent of companies stated to have turnover between GEL 0.1-0.5 million. The remaining 20% of firms performed relatively well and their turnover varied between GEL 3 –5 million (Chart 5.5).

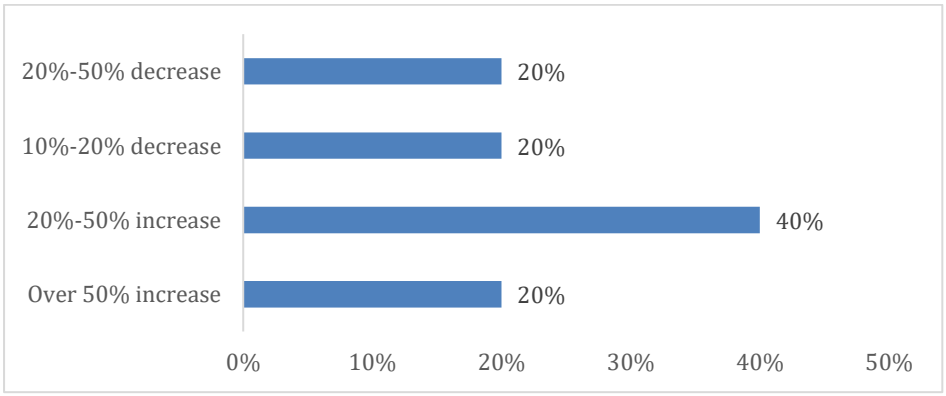
Chart 5.5 Distribution of CRM Companies by Turnover Range, 2021 Q1 (Gel)



Source: Authors' calculations

In Q1 2021, the ease of lockdown measures seems to influence positively the turnover growth. 60% of companies reported increase in turnover, compared to Q1 2020. Majority of firms (40%) stated that their turnover had increased utmost 50%. 40% companies indicated the decline in their turnover up to 50%. (Chart 5.6).

Chart 5.6 Percentage Distribution of Turnover Growth Rates in the CRM Value Chain, 2021 Q1 (YoY)

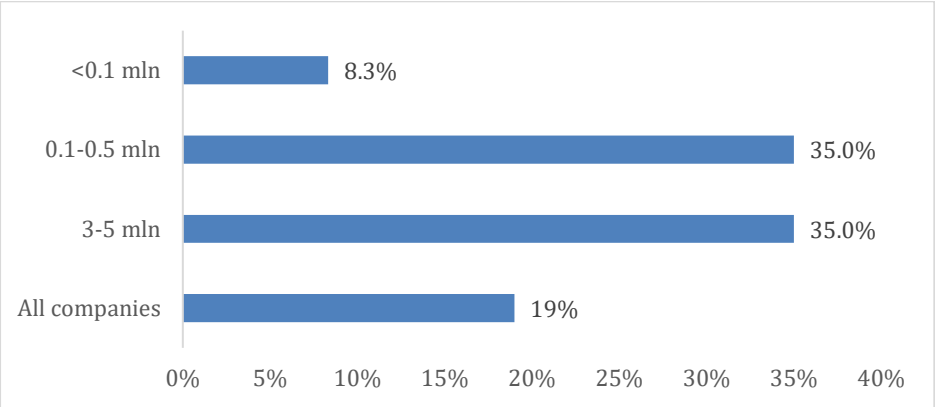


Source: Authors' calculations

On average, the turnover growth in CRM companies constituted 19% in Q1 2021, compared to the same quarter of the previous year. Firms with turnover between GEL 3– 5 million and GEL 0.1- 0.5

million, have experienced growth of 35% (Chart 5.7). The small firms only have grown by 8.3% on average.

Chart 5.7 Distribution of CRM Companies Growth Rates by Turnover Range, Q1 2021 (Y-o-Y)



Source: Authors' calculations

The number of employed people in CRM companies in Q1 2021 varied between two and 2000, with the latter figure being that of the largest firm surveyed (with a turnover of between GEL 0.3 – 0.5 million). The share of women equaled 59% and the proportion of staff aged under 30 years was almost 42%. For 50% of companies, the number of persons employed did not change in Q1 2021, compared to the same quarter of the previous year, while the other half of companies increased their number of employees.

The average monthly salary of the CRM employees equaled GEL 887.5 in Q1 2021. In this period, salaries largely increased, with 80% of firms reporting a rise in monthly salaries.

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

A rebounding economy in the first quarter of 2021 did not boost the cross-cutting sector as much as expected. Before the rebound, the cross-cutting sector value chains experienced a significant fall in turnover in the first quarter of 2020. However, neither the ICT nor the e-commerce value chain experienced a significant contraction during the pandemic as they were less susceptible to restrictions, according to the data of Geostat and the NBG. It is quite logical that demand for the aforementioned services did not decrease. Indeed, the quantity of e-commerce transactions did not decline throughout the pandemic, but the percentage of e-commerce transactions within the gambling sector declined. ICT hardware experienced a positive quarter-on-quarter trend in turnover, but experienced an abrupt contraction in the first quarter of 2021. The sector only employs 52 people, so a shift in any one company's strategy could change the overall picture dramatically. It cannot be said with a high level of certainty that the pandemic was the root cause of the economic slowdown in the first quarter of 2020, as the transport and logistics chain – the largest value chain among all cross-cutting sector value chains – routinely experiences a slight contraction by the first quarter of every year due to the value chain's seasonality. Another factor to consider is that the ICT value chain was already experiencing a decline before the pandemic hit, thus the actual effects of the pandemic on the cross-cutting sector are harder to evaluate.

The value chains in the cross-cutting sector have experienced a limited recovery, and some companies have managed to contain their declining turnover. The ICT software sector managed to revert its turnover to pre-2020 levels, but it is uncertain as to when other value chains will reach pre-pandemic trajectories, especially the transport and logistics value chain, which in the second quarter of 2020 recorded its lowest number of persons employed since 2016. It is unclear if the pandemic has affected the ICT value chain at all, as even though a slight reduction in turnover was noticeable in 2020, similar reductions have been observable in other years.

As for the e-commerce value chain, currently available data pertaining to this value chain during the pandemic are gleaned through the value and quantity of transactions made via bank cards through the internet. As such, the first year-on-year contraction in the value and quantity of online purchases occurred in the first quarter of 2020, and a contraction also occurred in the first quarter of 2021. The contraction was then reversed in the third and fourth quarters of 2020 with the value and quantity of online transactions increasing every single month. The difference between these two periods is possibly due to decreasing consumption in the first quarter, and then an increase in demand for online purchases in the subsequent quarters due to restrictions being imposed on traditional stores, and the general economic recovery of the sector. However, in the first quarter of 2021, this value chain experienced a contraction both in the value and quantity of online transactions, which could be due to the restrictions imposed on traditional stores being loosened, and the demand for online transactions being lower.

The recovery of the e-commerce sector during 2020 is due to a growing demand for both e-commerce and ICT: as the first quarter of 2020 passed, expectations shifted towards a more prolonged pandemic, with ICT equipment becoming more vital for everyday life and work. The increased demand in subsequent quarters could explain the recovery of the aforementioned value chains. The transport and logistics value chain also demonstrated similarly impressive turnover growth in the third and fourth quarters of 2020, and the first quarter of 2021, which can be attributed to the overall flexibility of the value chain. Due to the nature of their work, cross-cutting sector value chains (like transport and

logistics, and ICT) have neither particularly rigid wages or workforces, thus companies have been able to reduce monthly salaries and lower the number of employees. This implies that the flexibility and adjustability of the value chains is a lot more important than the online/offline nature of their business models.

Unfortunately for the transport and logistics value chain, the airline industry has been hit heavily by the pandemic, with no flexibility in contrast to other parts of the value chain. As such, Georgian exports of airline services contracted significantly in 2020 and in the first quarter of 2021, compared to the fourth quarter of 2019, exports were reduced by 49.5%, but this was still an increase of 80.3% compared to the fourth quarter of 2020. Fortunately, Georgian transport services exports mostly rely on pipeline and electricity transmission, which remained stable throughout the pandemic, and the total value of exported services in the first quarter of 2021, having increased when compared to the fourth quarter of 2019. Overall, in 2020, Georgian exports of transport services experienced a deficit except in the second quarter of 2020, when a surplus was recorded. In the first quarter of 2021, Georgian exports of transport services recorded a small trade surplus.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

Interestingly, ICT is a value chain that showed significant expansion during the pandemic as there was a higher demand for digital technology due to nationwide stay-at-home directives. This surge in ICT demand is a global phenomenon, and due to the global shortage of semiconductors the prices for everyday technologies have skyrocketed.

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

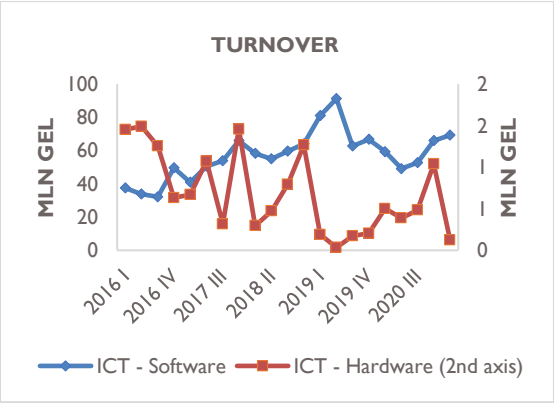
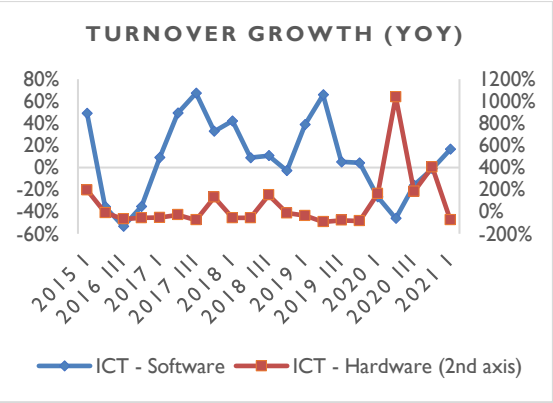


Chart 6.2 Annual growth rate of the ICT value chain, divided by software and hardware



Source: National Statistics Office of Georgia

In Georgia, the software value chain is far larger than the hardware value chain, having experienced a steady expansion before reaching its peak in the second quarter of 2019, with a turnover of GEL 91.3 million. In contrast, the hardware value chain experienced its peak in the fourth quarter of 2017, with a turnover of GEL 1.46 million, highlighting the difference in size between the two value chains. Despite its steady increase, after the second quarter of 2019, the software sector contracted significantly, with its turnover decreasing to GEL 49.2 million by the second quarter of 2020, a sharp 46.1% contraction, before increasing again in the subsequent quarters, and reaching GEL 69.3million by the first quarter of 2021. It looks now as if the recovery for the ICT software value chain has halted, an important reason for which could be that as the economy opened up in Q1 2021, consumers and workers became less dependent on ICT, meaning that demand for software services would have decreased too. The hardware value chain, however, experienced a steady increase during 2020, having reached a turnover of GEL 1.0 million in the fourth quarter of 2020, but sharply contracting to a GEL 130

thousand in the first quarter of 2021. Economic trends would not be sufficient to explain this abrupt contraction as ICT hardware employed only 52 people in the first quarter of 2021, meaning any changes in a single company could change the overall picture dramatically.

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

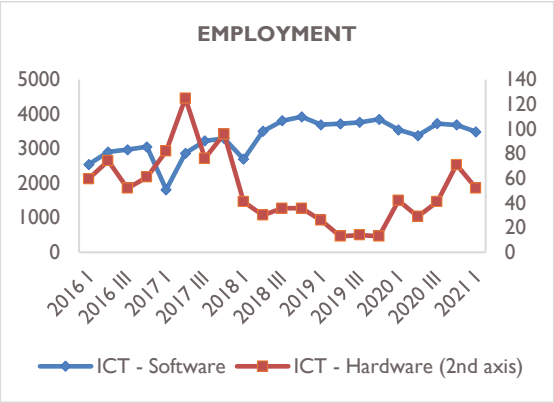
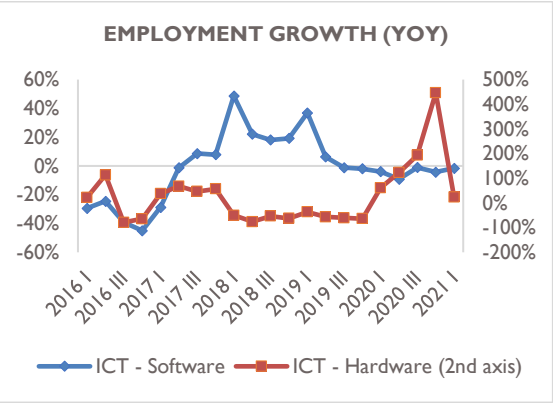


Chart 6.4 Growth rate of the ICT value chain's employment, divided by software and hardware



Source: National Statistics Office of Georgia

The software value chain employed 67.2 times more employees than the hardware value chain in the first quarter of 2021, employing 3491 employees, compared to 52. In addition to the difference in employment figures, there seems to be a low level of correlation between employment and outputs in the software value chain. The software value chain experienced its highest level of employment in the fourth quarter of 2018, when it employed 3925 employees. In contrast, the hardware value chain experienced its highest level of employment in the second quarter of 2017, employing 125 people. There is little to no correlation between the employment dynamics and turnover growth in the software industry, whereas there was an increase of 16.6% in turnover in the first quarter of 2021, employment decreased by 1.6%, meaning there was an increase in productivity per worker. In contrast, the hardware sector saw a turnover contraction of 75.1% in the first quarter of 2021, and at the same time there was a contraction in employment of 23.8%. As mentioned above, the hardware value chain is highly volatile due to its scale.

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

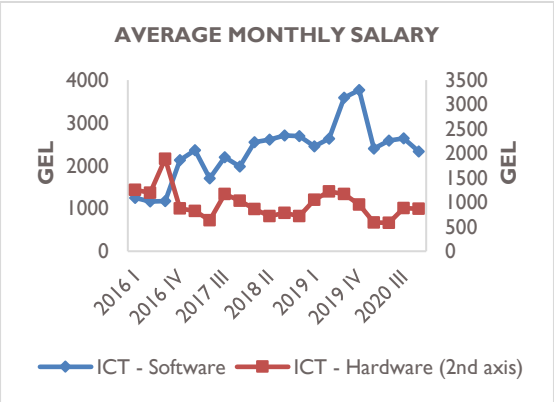
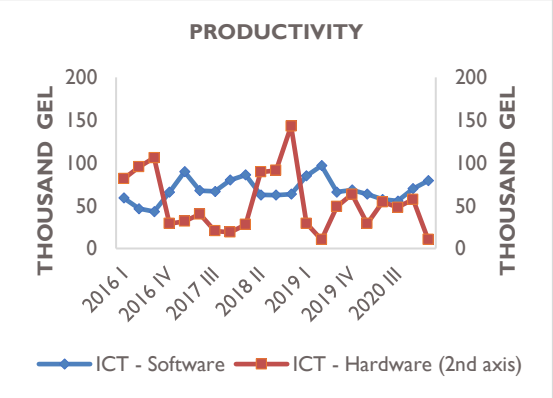


Chart 6.6 Quarterly output per hired employee, annualized for the ICT value chain, divided by software and hardware



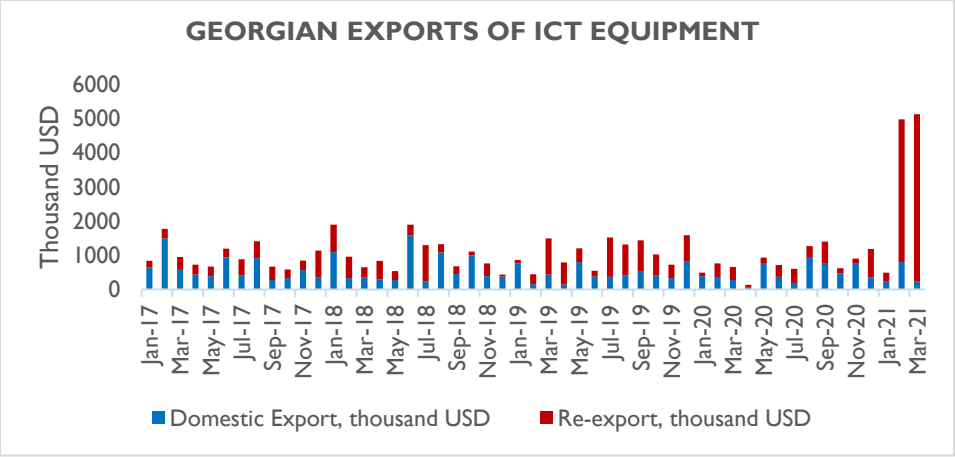
Source: National Statistics Office of Georgia

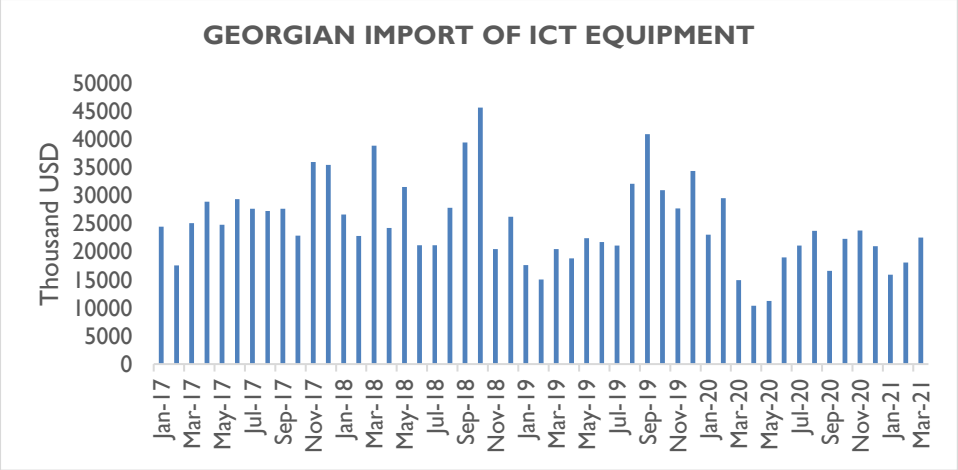
The average monthly salary in the software value chain had been rising steadily from the first quarter of 2016 to the fourth quarter of 2019, whereas the hardware value chain experiences a high level of volatility, remaining stagnant throughout, with its average salary lower in the fourth quarter of 2020

than in the third quarter. The software value chain – overall – has a higher average salary than the hardware sector. In both industries, the pandemic led to a significant contraction in salaries: in the fourth quarter of 2019, the average monthly salaries were GEL 3766.4 and GEL 955.8 for the software and hardware value chains, respectively, whereas in the first quarter of 2020, the average salaries contracted to GEL 2401.1 and GEL 584.6, equaling a 36.3% decrease for the software value chain, and a 38.8% decrease for the hardware value chain. Salaries in both value chains recovered slightly throughout 2020, where the software sector rose in the second and third quarters, but then dipped in the fourth quarter, reaching its lowest point for 2020. As for the hardware value chain, the average salary rose to GEL 867.3 in the fourth quarter of 2020. Even before the pandemic, productivity had been experiencing a declining trend in ICT software, starting from the second quarter of 2019. As mentioned above, the pandemic has partially positively affected the value chain, as is visible in its productivity increase since the third quarter of 2020. This positive momentum has continued into 2021, whereas for the hardware value chain the opposite is true: due to record low turnover and a rigid workforce, productivity has decreased significantly and reached its lowest point since 2014. It is much harder to forecast how the hardware value chain will develop in the near future, as the small size of the value chain means there is a high level of volatility in most of the indicators, making its turnover and productivity numbers harder to predict.

From January 2017 to November 2020, Georgia was primarily an importer of ICT equipment rather than an exporter. In November 2020, the value of imports reached GEL 21.0 million, compared to the exports which were GEL 906.4 thousand (a significant GEL 20.0 million difference). Despite such a small amount of exports, a significant share of the exports is then re-exported, with November 2020's exports being divided into GEL 773.5 thousand in domestic exports, and GEL 132.9 thousand being re-exported. Notably, imports seem to correlate well with the total turnover of the ICT, while exports do not seem to be following any long-term trends, being mostly stagnant throughout. However, this stagnation in exports was broken due to a sudden re-export surge caused by an abnormal increase in digital processing units exported from Georgia to Ukraine in February and March 2021. In January 2021, the value of re-exports was GEL 259.9 thousand, while in February and March of 2021, it rose to GEL 4.2 million and GEL 4.9 million, respectively. It appears, so far, that this sudden surge was a one-off phenomenon.

Chart 6.7 Georgian exports and imports of ICT equipment





Source: National Statistics Office of Georgia

Overall, during april 2020 to March 2021 25% of ICT equipment imports come from UAE, 15% from Russia, 13% from Hong Kong, 11% from Czech Republic, 9% from China, and 27% from other countries. Interestingly, compared to last years' main import partners, China overtook the Netherlands in 5th place. Notably, Georgia currently has free trade agreements with both of the abovementioned countries (the DCFTA with the EU, and the China-Georgia FTA), meaning that neither of these countries should have an advantage when it comes to import duties. Unlike imports, exports are predominantly concentrated among countries with closer geographical proximity to Georgia, where 20% of ICT equipment exported goes to Armenia, 18% to Azerbaijan, 16% to Kazakhstan, 15% to Israel, 11% to Germany, and 20% to other countries.

Chart 6.8 Georgian imports of ICT equipment by trade partner (March 2021)

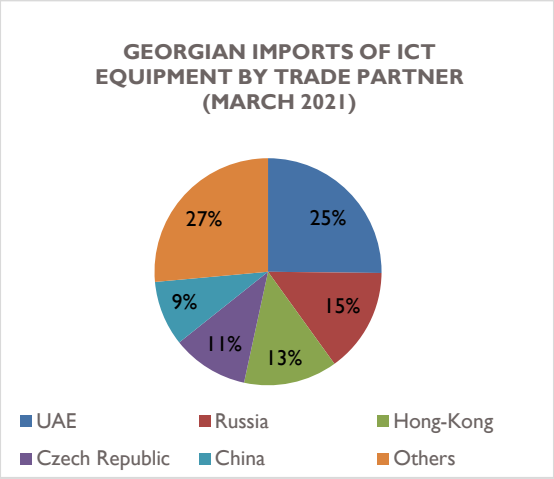
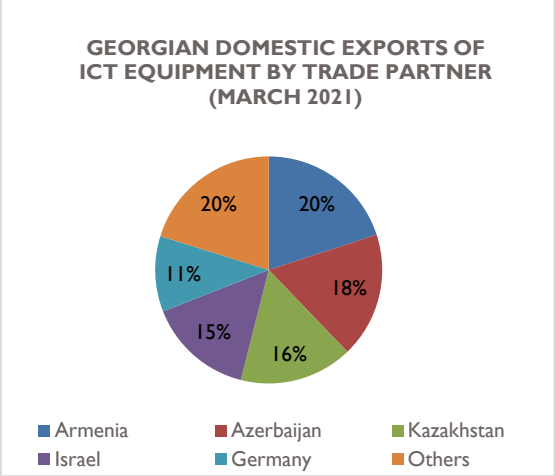


Chart 6.9 Georgian exports of ICT equipment by trade partner (March 2021)

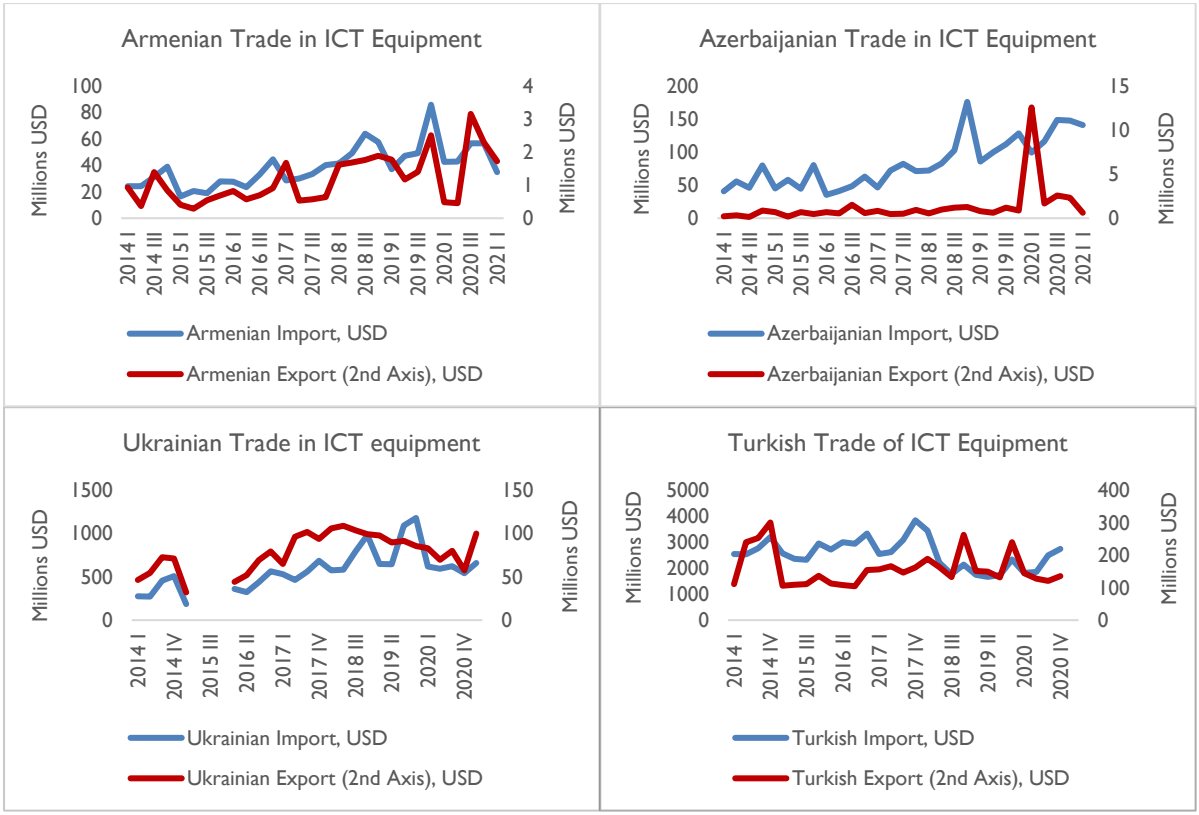


Source: National Statistics Office of Georgia

There are four countries of note in the region here, namely Armenia, Azerbaijan, Turkey and Ukraine. Turkey is the largest importer and exporter of ICT equipment among all four of these countries; in the fourth quarter of 2020, Turkey imported roughly USD 2.7 billion worth of ICT equipment, while exporting USD 136 million. There is however no data on Turkish trade of ICT equipment for the first quarter of 2021. This is in stark contrast to Armenia, Azerbaijan, and Ukraine, which imported roughly USD 35.0 million, USD 141.0 million, and USD 660.3 million, respectively, and exported roughly USD 1.7 million, USD 607 thousand, and USD 100 million respectively, in the first quarter of 2021. There is no significant ICT production sector in any of these countries, which makes their exports limited in scope compared to their imports. Interestingly, Azerbaijan's exports suddenly increased dramatically

in the first quarter of 2020, although this could be a one-off phenomenon, similar to what appears to have occurred in Georgia in the months of February and March of 2021. This will become clearer in subsequent quarters. The export/import values correlate well with each country's currency exchange rates. In Turkey, a currency depreciation in 2018 led to a 61.7% contraction of imports, with only a slight recovery thereafter in the third and fourth quarters of 2020. In Ukraine, a temporary appreciation of the national currency led to an increase of imports by the second and third quarters of 2019. The first quarter of 2021 was quite different for ICT trade in the region: Ukraine increased its imports (partially due to the high level of Georgian re-exports in the same period, amounting to 90.9% of total ICT re-exports in Q1 2021), whereas Armenia and Azerbaijan continued their trend of import and export contraction.

Chart 6.10 Regional trade patterns in the ICT value chain



Source: UN Comtrade

E-COMMERCE

For many years, e-commerce has been considered a niche segment of the wholesale and retail trade sector. However, this perception has changed globally as e-commerce value chains have become among the most dominant and fastest-growing in modern times. The ongoing pandemic has further cemented e-commerce's place as a vital part of economies and, as the data show, Georgia is no exception in this regard. As no quarterly or annual data are available for e-commerce in 2020 and 2021, the 2014-2019 trends will be analyzed in a similar way to the previous report, in addition to the updated payment card transactions, in order to better reflect the turnover changes in the value chain during the pandemic.

It is important to highlight that, as set out in the methodology, the Geostat data applied for the e-commerce value chain analysis covers the economic activities of only those enterprises that operate under the Nace code 47.9 "Retail trade not in stores, stalls or markets," the closest statistical

classification of e-commerce. Nevertheless, as the qualitative analysis revealed, there might be a number of enterprises on the market engaged in e-commerce but operating under a different Nace code (for example as a distribution company), making it impossible to distinguish and include their data in our analysis.

Chart 6.11 Turnover of the e-commerce value chain and the corresponding aggregated sector

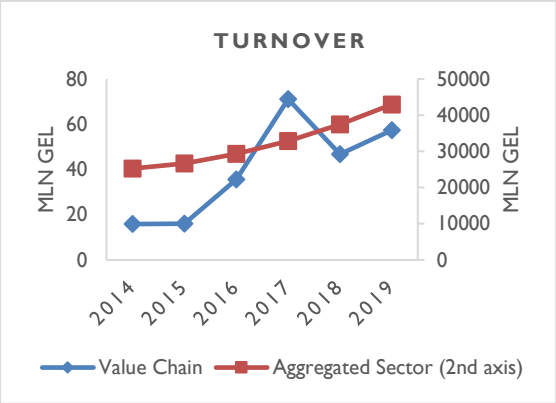
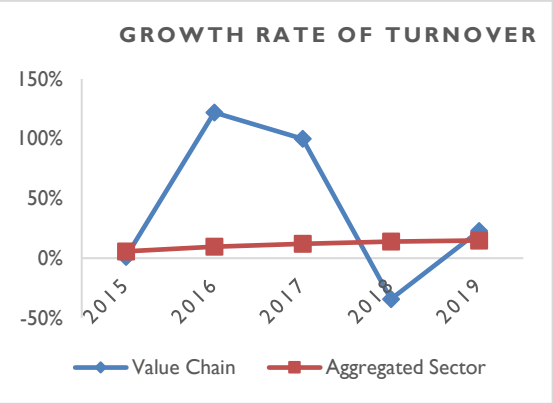


Chart 6.12 Annual growth rate of the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

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

Chart 6.13 Employment in the e-commerce value chain and the corresponding aggregated sector

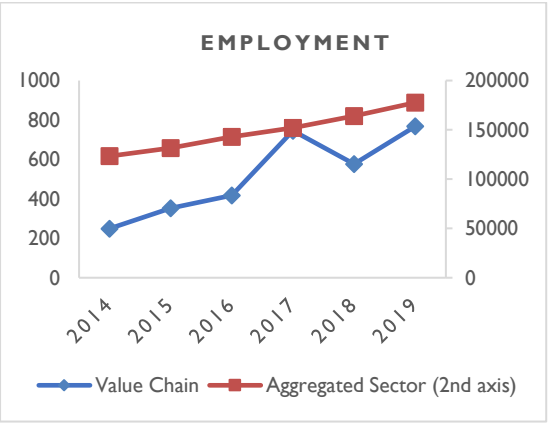
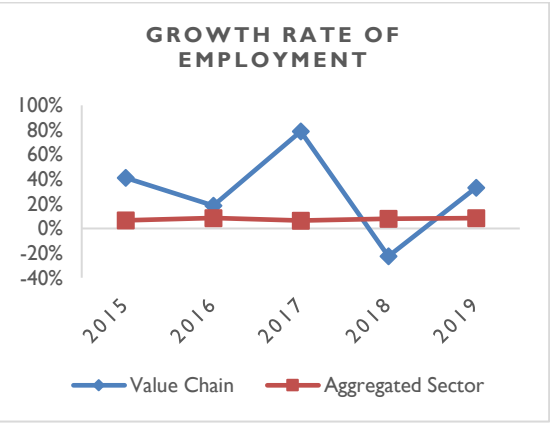


Chart 6.14 Growth rate of e-commerce value chain employment and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of hired employees in this value chain has been steadily increasing since 2014. Since then, the e-commerce value chain has added more than 470 employees, and in 2019 its total employees amounted to 768. E-commerce only employs a tiny proportion of the total persons employed in the

wholesale and resale trade sector – 0.4%. Similar to the turnover and value-added trends, the number of people employed in e-commerce increased by 78.8% in 2017. The value chain then saw a contraction in the number of employees (by 22.6%) in the following year. When it comes to the share of women working in the value chain, 82.9% of the overall workforce cutback in 2018 was due to a decline in the number of employed women. Thereafter, men outnumbered women by 50% in both 2018 and 2019.

Chart 6.16 Average monthly salary for the e-commerce value chain and the corresponding aggregated sector

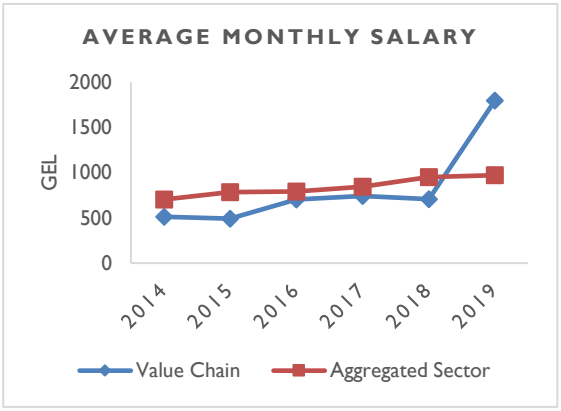
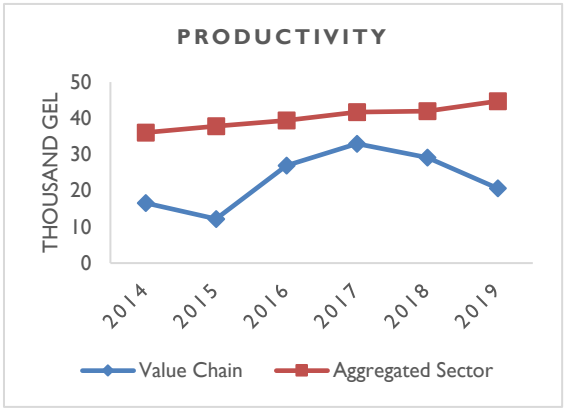


Chart 6.15 Quarterly output per hired employee, annualized for the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary increased from GEL 511 in 2014, to GEL 706 in 2018, equating to 38.1% growth. During this period, the average monthly salary in the e-commerce value chain was on average 22.7% lower compared to the aggregated sector. In 2019, the average monthly salary for the e-commerce value chain surged to GEL 1794, which represented 154.1% growth. As mentioned above, fewer than 800 workers are employed in the value chain, therefore changes made by even a single outlier company can have a substantial effect on the data. The latter is a plausible explanation, as productivity in the value chain has been decreasing since 2017 by 20.4% on average. Even compared to the aggregated sector, the productivity of the e-commerce value chain was less than half in 2019 (GEL 20,600 compared to GEL 44,700). Even with falling productivity in the e-commerce value chain, the cumulative growth of productivity from 2014 to 2019 equaled 24% in both the value chain and the aggregated sector.

Chart 6.18 Number of online transactions in Georgia decomposed by gambling and E-commerce

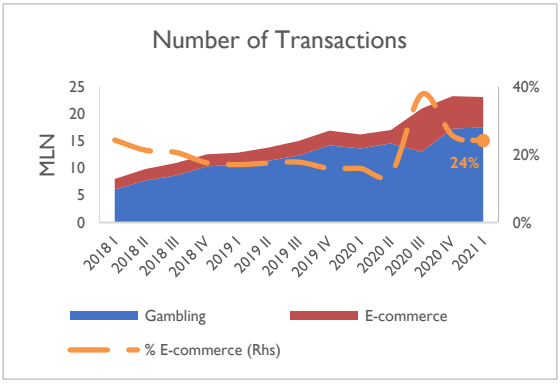
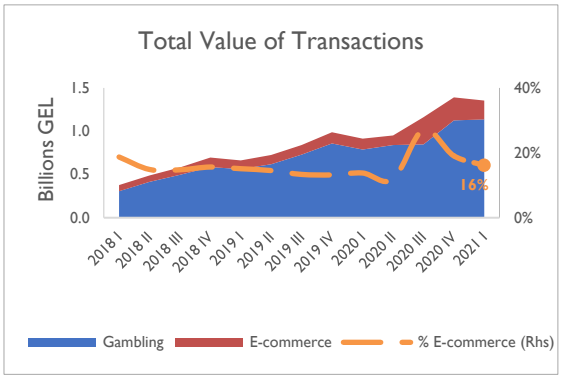


Chart 6.17 Total value of online transactions in Georgia decomposed by gambling and E-commerce



Source: National Bank of Georgia

The analysis of the e-commerce value chain in 2020 up to the first quarter of 2021 covers online transactions via bank cards (VISA, MasterCard, etc.). Pertinently, some but not all of the transactions with bank cards would contribute to this value chain's turnover, as some corporations are labelled under different sectors. Furthermore, according to the research by Galt and Taggart only fourth of such transactions were local in 2020, while the rest are cross-border. Thus, an assumption will be made that the data will reflect non-cash operations of e-commerce companies, and the gambling sector is also presented for purposes of comparison.

It is important to note that unlike Galt and Taggart we do not exclude food delivery services and other miscellaneous online services from our data, therefore the number of the total value of e-commerce is considerably larger compared to the abovementioned source: GEL 818 million in 2020 compared to 597 million of Galt and Taggart (the difference between the two numbers is caused by the exclusion of food delivery services, digitally distributed services and other transactions in the latter; after adding the excluded sectors two values should be equal). Detailed data of number and volume of transactions can be found in the appendix 6.

While online transactions in the gambling sector often hovered around 80% from the first quarter of 2018 up to the first quarter of 2020, from the second quarter to the third quarter of 2020, the overall percentage dropped from 86% down to 62% (e-commerce value increased from GEL 112.1 million to 315.1 million, whereas gambling transaction value stayed around GEL 840 million). It recovered slightly in subsequent quarters up to 76% in the first quarter of 2021 but has not returned to levels prior to the second quarter of 2020. During the pandemic e-commerce transactions increased substantially, more importantly the increase of such transactions outpaced the growth of (in our case temporary decrease) of gambling related transactions. This increase from 14% down to 38% of e-commerce transaction shares in the total online transactions from the second to third quarter of 2020 can be explained by two separate phenomena. First, the pandemic led consumers to rely on online stores more as traditional stores were less available: according to the abovementioned research by Galt and Taggart, food delivery and electronics online shopping experienced a significant proliferation during the pandemic, former of which saw its volume of orders more than doubled during 2020 year. Secondly, due to the recession total disposable income had been significantly hit, urging consumers to spend less per order. These two combined reasons led to an increase in total e-commerce operations as a whole, but also to less being spend on average transaction, particularly in e-commerce. Interestingly, while the quantity of gambling operations recorded a reduction from 14.6 million down to 13.1 million from the second and third quarters of 2020, respectively, this reduction is not reflected in the total value of gambling operations which increased from GEL 838.1 million up to GEL 847.0 million. This implies that while fewer gambling operations were conducted, consumers gambled more money within each operation. Nevertheless, e-commerce and gambling online transactions have similar patterns and tend to correlate closely with each other, as both have increased from 2018 up to the first quarter of 2021, with the total number of gambling operations having increased from 6.1 million up to 17.6 million, while the total value of such operations increased from GEL 306.0 million up to GEL 1.1 billion. In contrast, the total number of non-gambling e-commerce operations increased from 1.9 million up to 5.4 million, while the value increased from GEL 64.8 million up to GEL 204.2 million. With the recovery of the Georgian economy in the first quarter of 2021, overall, the total e-commerce transactions have decreased both in quantity and in value when compared to the fourth quarter of 2020. Having dropped from 23.2 million down to 23.0 million in quantity, the value of these reduced from GEL 1.4 billion down to GEL 1.3 billion. This reduction in total e-commerce operations is due to the loosening of restrictions related to the pandemic, with more people paying by cash than bank card in tandem with less need to order consumer goods or food delivery services primarily online. Using this explanation, there is an expectation that bank card operations will reduce further in subsequent quarters, but not to pre-2020 levels. While the pandemic has forced people to utilize

online stores and other forms of e-commerce transactions, even as the pandemic subsides people might continue to use online and e-commerce transactions due to their convenience, coupled with the increased trust.

Chart 6.20 Number of online transactions in Georgia decomposed by gambling and E-commerce in Q1 2021

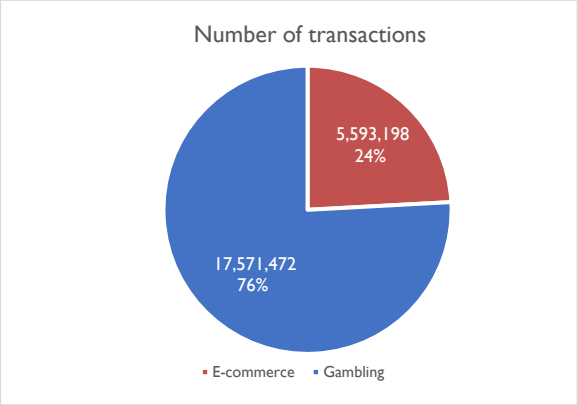
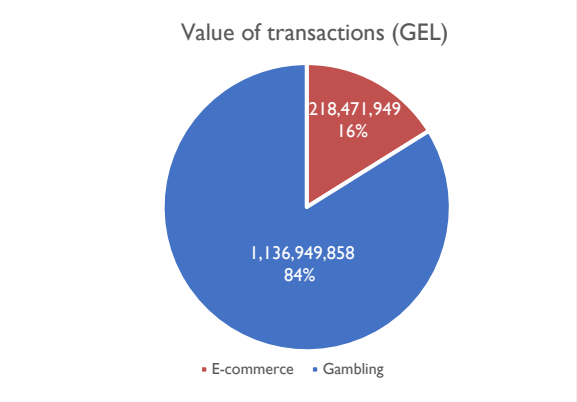


Chart 6.19 Value of online transactions in Georgia decomposed by gambling and E-commerce in Q1 2021



Source: National Bank of Georgia

When it comes to online transactions made via non-Georgian bank cards, more than 99.9% were conducted for non-gambling e-commerce operations in 2020. The non-Georgian bank cards' e-commerce operations follow a seasonal trend, whereby the third quarter of every year were the peak quarters as tourism usually increases at this time. Due to the pandemic and the air restrictions imposed to combat it, 2020 saw lower total values and quantity compared to 2019 in all quarters; as a point of comparison, the third quarter of 2019 saw 19 thousand non-Georgian bank cards' e-commerce operations and a value of GEL 13.6 million, while the third quarter of 2020 saw a reduction in 10 thousand in e-commerce operations and a drop of GEL 10.1 million in value for foreign bank card transactions. Interestingly, in the first quarter of 2021 – with the loosening of COVID-19 restrictions, the quantity and value of the abovementioned e-commerce transactions increased significantly, exceeding the third quarter of 2019, which might be explained by tourism's rebound, mainly fueled by a return of high-spending tourists, who generally prefer non-cash transactions.

TRANSPORT AND LOGISTICS

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

Chart 6.21 Turnover of the transport and logistics value chain

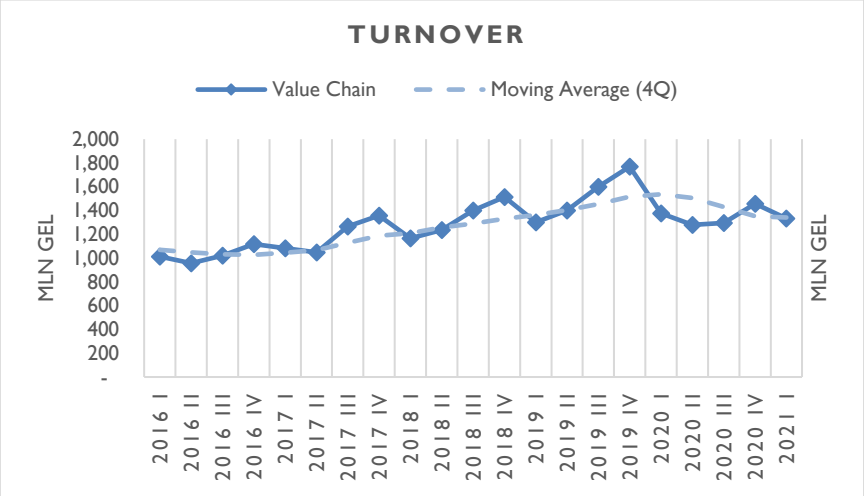
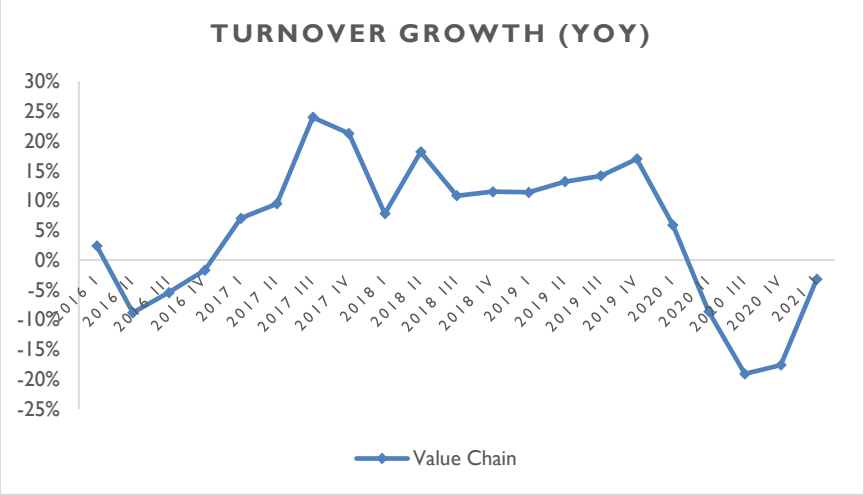


Chart 6.22 Annual growth rate of turnover for the transport and logistics value chain



Source: National Statistics Office of Georgia

From the first quarter of 2016 to the fourth quarter of 2019, the transport and logistics value chain experienced steady and stable growth. However, there is noticeable seasonality in the value chain, with turnover contracting in the first quarter of every year, while also reaching an annual high by the fourth quarter. Overall, the value chain increased from GEL 1.0 billion to GEL 1.8 billion, an increase of 74.8%. However, the value chain has been significantly impacted by the pandemic, with the turnover contracting to GEL 1.4 billion in the first quarter of 2020, a 22.2% contraction compared to the previous quarter. The value chain's turnover continued to decline in the second quarter of 2020, down to GEL 1.3 billion, experiencing a slight recovery in the fourth quarter of 2020 at GEL 1.5 billion. Thereafter, most likely due to the abovementioned seasonality, the value chain experienced a contraction in the first quarter of 2021, which is still above the corresponding figure for the same quarter of 2019, meaning that the value chain could surpass 2019 levels in 2021. As the economy started its slow recovery in the first quarter of this year, it was expected that transport and logistics would have recovered too regardless of seasonality, but the value chain seems to be lagging behind.

Chart 6.23 Employment in the transport and logistics value chain

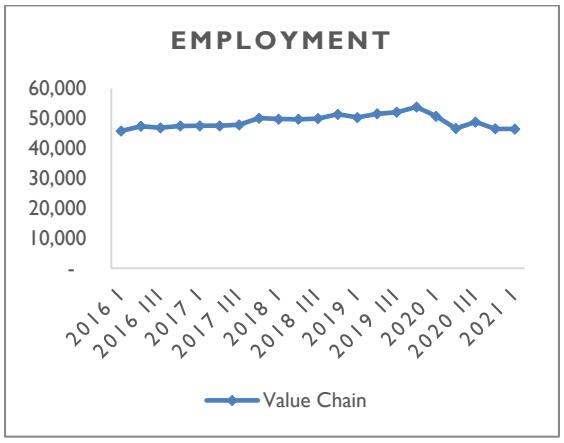
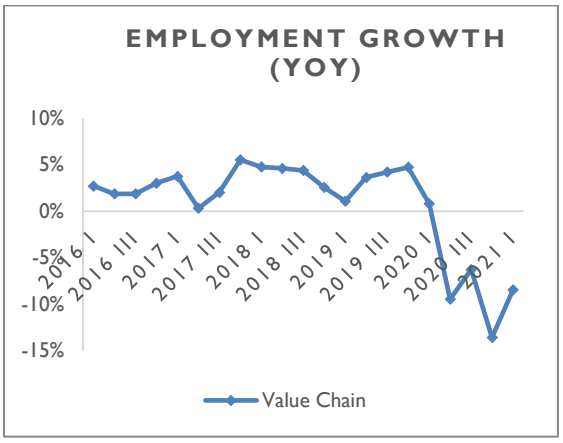


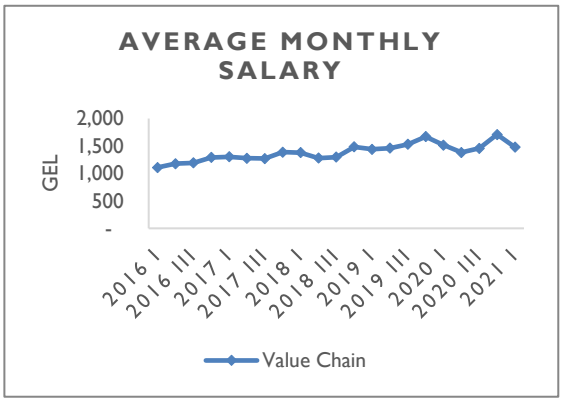
Chart 6.24 Growth rate of employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

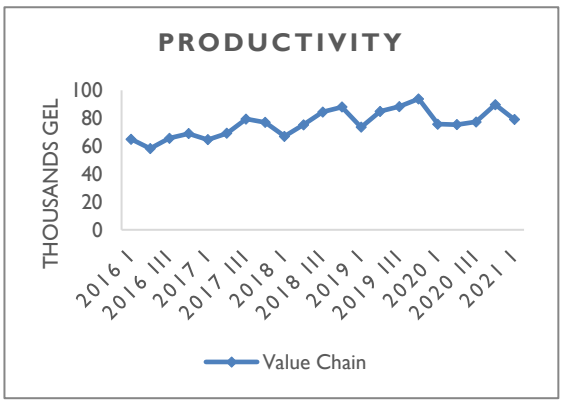
While the employment numbers appear to be rigid in this value chain, from the first quarter of 2016 to the fourth quarter of 2019, there was a 17.5% increase in the value chain's labor force. Notably, seasonality trends are visible in employment, which can be seen from the figures in 2017 and 2019. Due largely to the pandemic, the number of employees reduced from 53.9 thousand in the fourth quarter of 2019, down to 46.5 thousand in the first quarter of 2021. There was a slight recovery in the third quarter of 2020, but this proved only temporary. Unlike for turnover, employment numbers look to have reached a stable point, decreasing by only 0.1% quarter-over-quarter in 2021.

Chart 6.25 Average monthly salary for the transport and logistics value chain



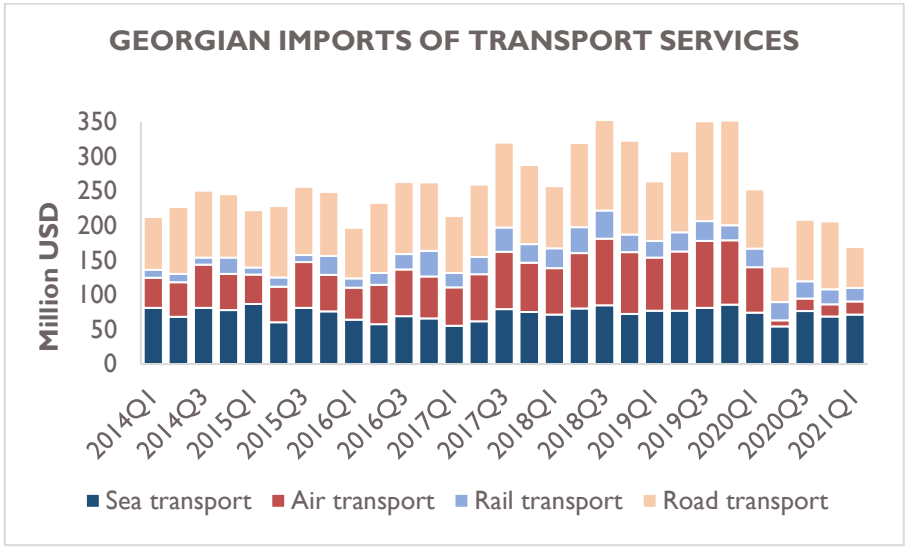
Source: National Statistics Office of Georgia

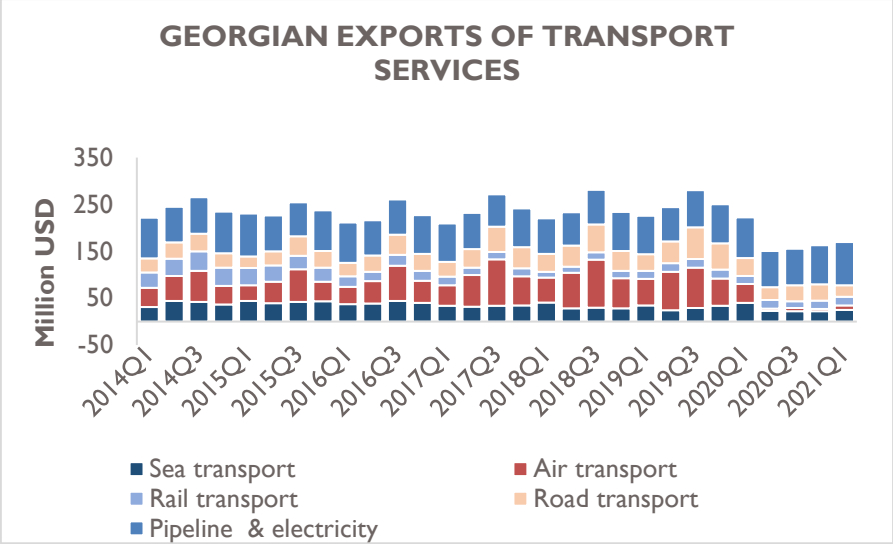
Chart 6.26 Quarterly output per hired employee, annualized for the transport and logistics value chain



The average monthly salary for the transport and logistics value chain expanded considerably from the first quarter of 2016 to the fourth quarter of 2019, having gone from GEL 1109 to GEL 1672, which represents a 50.8% increase. During the pandemic, the average salary slipped down to GEL 1381 by the second quarter of 2020, but then grew to GEL 1710 by the fourth quarter of 2020; interestingly, salaries in the value chain during the last quarter of 2020 were higher than the maximum of the pre-pandemic levels (fourth quarter of 2019). However, this sudden increase in average salary has not continued, as by the first quarter of 2021, the average salary dipped to GEL 1478, representing a significant decrease of 13.6%. This unexpected decrease was probably due to the seasonality in this value chain, according to which salaries are at their highest in the last quarter of the year. While productivity is more volatile, it still correlates well with the average monthly salary. Interestingly, the seasonality trend observed in the value chain's turnover is also evident with respect to the value chain's productivity: in every first quarter there is a noticeable contraction in productivity. Looking at the contraction in the first quarter of 2020 is not of particular interest on its own, however it is interesting that subsequent quarters failed to recover until the fourth quarter of 2020. However, productivity in the fourth quarter of 2019 was still higher than for the fourth quarter of 2020. As expected, the first quarter of 2021 saw a contraction in productivity, from GEL 89.7 thousand in the fourth quarter of 2020 down to GEL 79.1 thousand in the first quarter of 2021. The contraction in productivity from the fourth quarter of 2020 to the first quarter of 2021 was not as significant as the contraction from the fourth quarter of 2019 to the first quarter of 2020, having contracted by 11.8% and 19.3% respectively. This emphasizes again that the performance of the value chain is highly dependent on the economy as a whole, and if the Georgian economy is able to recover swiftly and even surpass 2019 levels, then the transport and logistics value chain is also expected to expand significantly in the upcoming quarters.

Chart 6.27 Georgian imports and exports of transport services

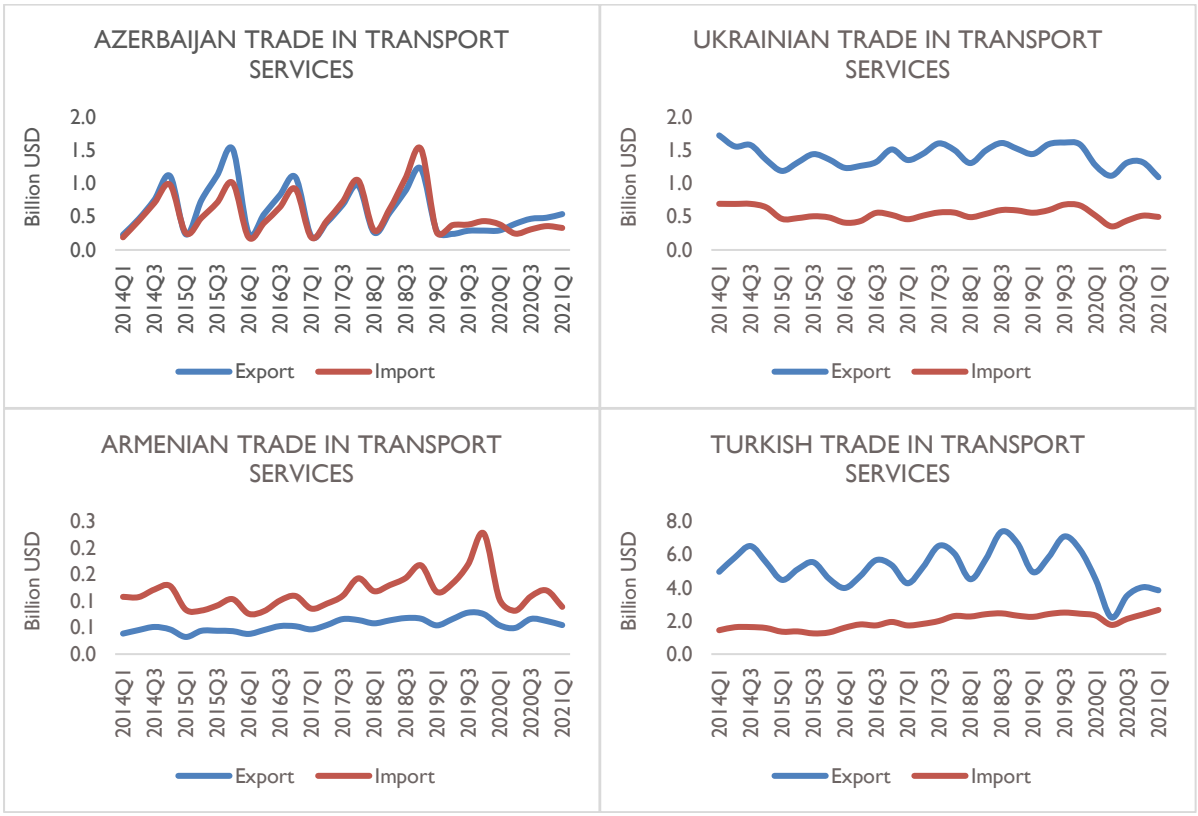




Source: National Bank of Georgia

At the turn of the decade, in the first quarter of 2020, the trade deficit in the transport and logistics sector decreased from 101.5 million in the fourth quarter of 2019 down to GEL 30.0 million. Interestingly, by the second quarter of 2020, Georgia experienced a trade surplus of GEL 10.0 million. The year of 2020 was somewhat different for the transport and logistics service trade as Georgia had mostly experienced a constant and persistent trade deficit in the years before 2020. Part of the reason for that is the reduction in the imports of air transport compared to exports, having gone from USD 92.8 million in the fourth quarter of 2019, down to USD 65.5 million in the first quarter of 2020, and then USD 8.8 million in the second quarter of 2020. This reduction in air transport service import was due to COVID-19 restrictions imposed on air travel at the time. While the same trend can be seen in air transport exports, Georgia maintained stable imports and exports of sea, rail, and road transport. In the third and fourth quarters of 2020, Georgia experienced trade deficits as air travel became less restrictive, albeit without recovering to pre-2020 levels. Interestingly, by the first quarter of 2021, Georgia experienced a surplus again, though this equaled less than USD 1 million; the surplus was mostly due to the reduction in road transport service imports from USD 97.8 million from the fourth quarter of 2020, down to 59.3 million in the first quarter of 2021, mainly courtesy of decreased trade and regional tourism. Since 2014, Georgia has exported (or rather has been paid) USD 2.3 billion for pipeline services and the importance of pipeline and electricity service trade has to be emphasized here, as this has been a vital source of transport service exports for Georgia, amounting to up to 33% of transport service exports pre-pandemic, and to almost half (49.2%) during the pandemic.

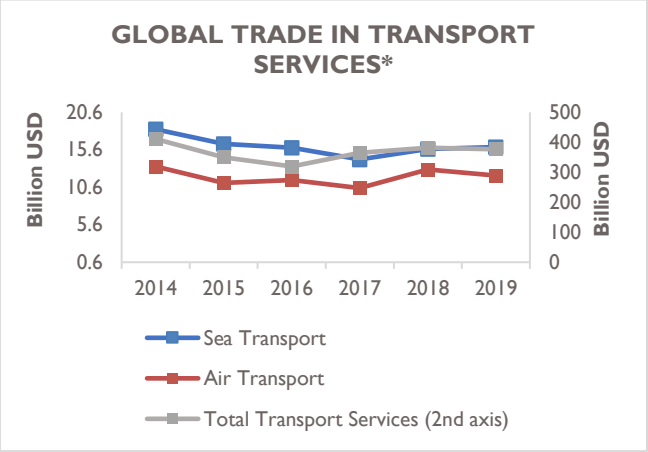
Chart 6.28 Regional trade patterns in the transport and logistics services



Source: Respective central banks

As far as regional trade is concerned, Turkey and Ukraine both experienced significant surpluses in the transport and logistics trade, while Armenia has consistently experienced trade deficits, and Azerbaijan maintains a balance between imports and exports. Turkey's transport services are well-established and are exported worldwide, as Turkey has a significant tourism industry; as such, Turkey's exports of transport services are characterized by seasonality, whereby it reaches its highest point in the third quarter of every year. Due to the air travel restrictions imposed in 2020, Turkey's exports of transport services experienced a harsh contraction from USD 4.5 billion in the first quarter of 2020, dropping to USD 2.2 billion, which represents a 51.1% decrease. However, as air restrictions slowly lift, Turkey's exports of transport services have been slowly recovering in subsequent quarters. A similar pattern is observed in Ukraine, where seasonality is also visible, but not as significant as that of Turkey. Ukraine also suffered a contraction from the first quarter of 2020 to the second quarter. Having gone from USD 1.3 billion down to USD 1.1 billion, it recorded a 15.4% decrease. As for Azerbaijan, a significant proportion of its total transport services comprises pipeline exports and imports, whereby Azerbaijani companies and its government pay for rights to operate oil and gas pipelines in foreign territories. Interestingly, the contraction in both Azerbaijani exports and imports happened before the pandemic, in the first quarter of 2019. According to the Central Bank of the Republic of Azerbaijan, this shift was solely caused by fluctuations in the oil and gas sector. Unlike domestic demand, transportation services trade does not seem to have recovered in Q1 2021, and with no significant easing of restrictions expected in the near future, it cannot be surely predicted that the recovery for the aforementioned services will be as swift as initially expected.

Chart 6.29 Global trade patterns in the transport and logistics value chain[66]



Source: UN Comtrade

International transport services data reflect global tendencies with respect to trade, tourism, and economic growth: most of the air transport services are driven by tourism, whereas international sea freight contributes the majority of sea transport services. The most noticeable and common trend here is that transport services in general were contracting from 2014 onwards, before rebounding in 2017 and 2018. There are multiple reasons behind this contraction, including the global slowdown in economic expansion in the mid-2010s, deteriorating international trade, and the appreciation of the US Dollar. The aggregated data is presented in USD, and hence the depreciation of international currencies against the USD affects the total value of trade in USD negatively. The following years can be described as being characterized by slow recovery, before the ongoing pandemic heavily affected international services trade. The global data for transport services in 2020 are unavailable as yet, but certain countries like the US can be analyzed. According to the Bureau of Economic Analysis, overall transport service trade in the US decreased by 37.7% in 2020 year-over year, while the same indicator for sea and air transport services equaled -2.1% and -49.6% respectively. Sea transport services experienced only a slight contraction due to two reasons. First, international trade has been more resilient during the pandemic compared to tourism. Second, most sea transport services entail port fees and as the pandemic has not affected the demand for shipping services, shipping companies have still had to pay for these services. The global economy is expected to rebound in 2021 and global sea transport services will most likely surpass 2019 levels at the same time, whereas the future performance of air transport services is mostly dependent on the length of the pandemic and the speed at which travelling restrictions are eased.

[66] Selected countries were used for each type of service, based on availability and consistency of reporting. Therefore, numbers are not representative of the true scale, but rather are used as an indicator of aggregated transport service trend. Although imports and exports are equal in aggregated global trade with slight error and emissions discrepancies, only imports are presented due to their higher reliability.

APPENDIX 1- 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	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. როგორი 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

Organization	Name
TOURISM	
Associations	
Gastronomic Association of Georgia	Levan Qoqiashvili
Georgian Tourism Association	Nata Kvachantiradze
DMOs	
Kakheti DMO	Tinatin Khanjaliashvili
Samtskhe-Javakheti DMO	Nino Khazalashvili
Samegrelo-Zemo Svaneti DMO	Levan Tsulaia
Private Sector	
Iberia Tours	Maia Murachashvili
Inn Group Hotels	Erekle Kokaia
Hotel Collection International	Ketevan Mikashavidze
Chateau Mukhrani	Tamar Buadze
Oda Family Winery	Ketevan Ninidze
Amo Rame	Nikoloz Ivanishvili
CREATIVE INDUSTRIES	
GoG	
Enterprise Georgia	Tatia Bidzinashvili
Associations	
Georgian Film Cluster	David Vashadze
Georgian Heritage Crafts Association	Ano Shanshiashvili
Media Production and Post-Production	
Enkeny Films	Sophio Bendiashvili
Sarke Studio	Lika Mezvrishvili
Post Red (Post-production)	Beso Katcharava
Studio Phonograph	Paata Godziashvili
Artisan	
Textile: Felt	Ana Lagidze
Fashion accessories and home décor	Nino Liparteliani
'Madeline'	Eleonora Kutsia
Textile: Felt	Nana Eliboshvili
'Blue Tablecloth'	Nikoloz Nutsubidze
LIGHT MANUFCTURING	
Associations	
	Nika Tsipuria

Georgian Furniture Cluster	Besik Verdzeuli	
Georgian Woodworkers and Furniture Manufacturers association	Mamuka Khoshtaria	
Design Georgia	Keta Buachidze	
Georgian Construction Materials Cluster (GCMC)	Lika Kardava	
Georgian Cement Association	Irakli Makharoblidze, Irakli Giorgadze	
Packaging Association of Georgia	Revaz Topuria	
Private Sector		
Furniture	LTD Avangardi	Besik Verdzeuli
	Madera Georgia	Beso Matkava
	LTD Funduki	Alexander Tsivtsivadze
	I.E. Akaki Gurgenidze	Akaki Gurgenidze
	LTD Conibe	Nika Tsipuria
	LTD Factory	Nikoloz Menabdishvili
	LTD Ifani	Zurab Shubitidze
	LTD Randi	Londa Shavadze
Packaging	LTD Caucaspack	Guram Makarov, Amiran Tsertsvadze
	LTD Georgian Packaging	Veronika Gogokhia
	LTD Fabrika 1900	Zura Alavidze
	LTD Greenpack	Archil Abramia
		Salome Kareli
Personal and Protective Equipment (PPE)	LTD Doctor Goods	Mamuka Khaduri
	LTD Respiratori	Sergo Galustiani
	Elven Technologies	Vamekh Kherkheulidze
	LTD Boldi	Keti Bogveli; Giorgi bogveli
	LTD Elselema	Elguja Mamasakhlisi, Marina Tsiklauri
	LTD Materia Fashion House	Tina Kuprashvili; Mirian Koiava
Wooden Toys	LTD Sheni Mtsvane Satamasho	Melano Tkabladze
	LTD Mtsvervali	Tina Datukishvili
	LTD Katamura	Tatia Tvaladze
	Geostyle Wood Art	Dato Gvantseladze
Construction Materials	LTD Basalt Fibers	Iveri Kutsnashvili
	LTD Smarter	Dimitri Abuladze
	LTD Akustiko	Avtandil Kraveishvili
	LTD A1 Group	Shalva Khargelia
	LTD Universal Building Group (UBG)	Romani Badalyan

	JSC Panex	Otar Kurdiani
	LTD Kamara	Kakha Bikashvili
WASTE MANAGEMENT AND RECYCLING		
Waste Management Association	Giorgi Guliashvili	
	Ana Tskhadadze	
	Mari Bendeliani	
LTD Neoprint	Archil Tvaradze	
LTD TRC	Zurab Bazghadze	
LTD "Bio Diesel Georgia"	Murman Pataraia	
LTD "Geo Mulch"	Nika Maghradze	
LTD KERE	Giorgi Kereselidze	
LTD "Polivimi"	Beka Ponjavadze	
LTD Mtsvane Sachukari	Ana Beridze; Akaki Darchia.	

APPENDIX 4 - Focus group questionnaire

თარიღი	
ფოკუს ჯგუფის პლატფორმა	☐ ონლაინ ☐ 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 ?	☐ დაბალი ☐ საშუალო ☐ მაღალი

3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

ძირითადი შუალედური პროდუქტები. იმპორტზე დამოკიდებულება	ადგილობრი წარემოების (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	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-გაყიდვები	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ფასები	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ექსპორტი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ინვესტიცია	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-გამოშვება	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმება	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული ქალი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული კაცი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული ახალგაზრდა	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

APPENDIX 5 - Associations questionnaire

თარიღი	
შეხვედრის პლატფორმა	☐ ონლაინ ☐ პირისპირ
ასოციაციის დასახელება:	
რესპონდენტის სახელი/გვარი:	
დაკავებული პოზიცია:	
საიდენდიფიკაციო ნომერი:	
საკონტაქტო ინფორმაცია (Tel, email):	

	ამჟამად	ცვლილება მომდევნო 3 თვეში
ასოციაციის წევრთა რაოდენობა		☐ შემცირდება ☐ იგივე დარჩება ☐ მაღალი
სულ სექტორში არსებული ასოციაციები/ბიზნეს კლასტერები		☐ შემცირდება ☐ იგივე დარჩება ☐ 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 ?	☐ დაბალი ☐ საშუალო ☐ მაღალი

11. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

კონკურენტულობის დონე სექტორში	☐ დაბალ კონკურენტული ☐ საშ. კონკურენტული ☐ მაღალ კონკურენტული	კომენტარი

სექტორის კონკურენტული უპირატესობა საერთაშორისო ბაზრებზე (თუ ასეთი არსებობს)?	☐ ხარისხი; ☐ ფასი; ☐ ინოვაცია; ☐ სხვა	
ძირითადი საექსპორტო ბაზრები?		
ახალ ბაზრებზე გასვლის პოტენციალი მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციალი უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

ძირითადი შუალედური პროდუქტები. იმპორტზე დამოკიდებულება	ადგილობრი წარემოების (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	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-გაყიდვები	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ფასები	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ექსპორტი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-ინვესტიცია	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-გამოშვება	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმება	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული ქალი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული კაცი	☐ შემცირდება	☐ გაიზრდება	☐ უცვლელი დარჩება
-დასაქმებული ახალგაზრდა	☐ შემცირდება	☐ გაიზრდება	☐ 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 - TOTAL VALUE AND NUMBER OF TRANSACTIONS IN E-COMMERCE AND GAMBLING

Transactions			
Q	Gambling	E-commerce	% E-commerce
2018 Q1	6,082,711	1,955,192	24.3%
2018 Q2	7,754,673	2,103,381	21.3%
2018 Q3	8,699,328	2,267,273	20.7%
2018 Q4	10,342,687	2,212,269	17.6%
2019 Q1	10,678,956	2,200,953	17.1%
2019 Q2	11,388,823	2,421,611	17.5%
2019 Q3	12,355,149	2,679,917	17.8%
2019 Q4	14,231,278	2,702,089	16.0%
2020 Q1	13,645,599	2,589,661	16.0%
2020 Q2	14,605,711	2,469,423	14.5%
2020 Q3	13,070,767	7,962,065	37.9%
2020 Q4	17,323,039	5,980,708	25.7%
2021 Q1	17,571,472	5,593,198	24.1%

Value (GEL)			
Q	Gambling	E-commerce	% E-commerce
2018 Q1	306,149,014	70,463,235	18.7%
2018 Q2	415,102,132	72,512,698	14.9%
2018 Q3	494,744,286	85,701,701	14.8%
2018 Q4	585,458,012	108,415,905	15.6%
2019 Q1	563,384,296	100,214,595	15.1%
2019 Q2	619,407,159	105,348,547	14.5%
2019 Q3	728,343,123	112,137,296	13.3%
2019 Q4	856,462,267	130,227,017	13.2%
2020 Q1	787,825,502	125,868,008	13.8%
2020 Q2	838,119,285	112,085,990	11.8%
2020 Q3	847,114,879	315,133,449	27.1%
2020 Q4	1,125,349,643	265,159,049	19.1%
2021 Q1	1,136,949,858	218,471,949	16.1%

Source: NBG

APPENDIX 7 – About the program and project

ABOUT THE PROGRAM

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

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

Through its four components, the Program:

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

ABOUT THE PROJECT

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

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

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

The specific objectives of the project are:

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

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

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

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

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

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

REPORT OBJECTIVES AND STRUCTURE

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

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

The report is structured as follows:

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