



Georgia

Sector Competitiveness Overview

**Identification of Most Promising Manufacturing Sectors
and Priority Actions to Accelerate Investment and Growth:
Presentation of Recommendations**

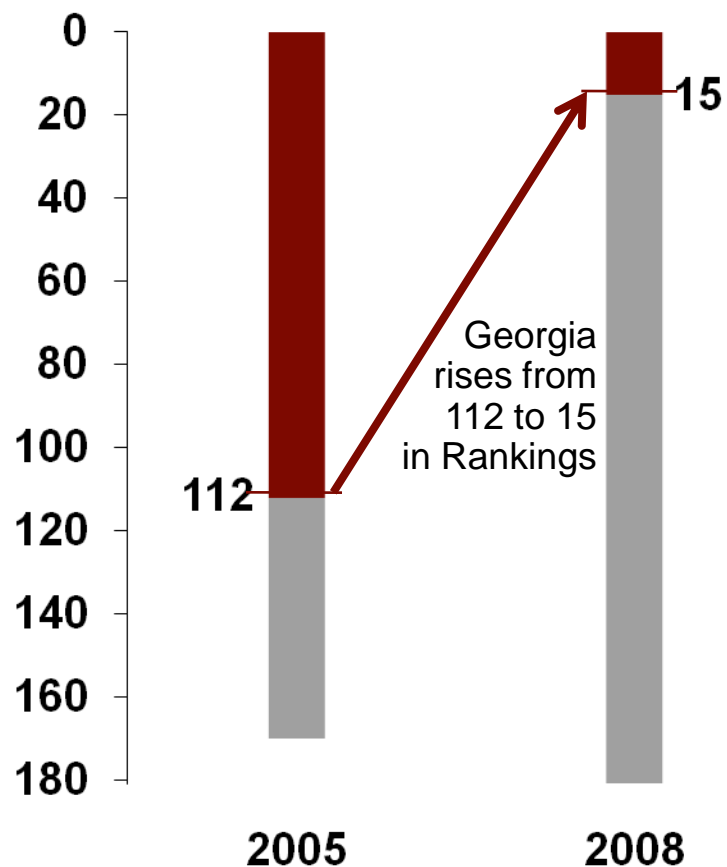
Presentation overview

- Project background, objectives and approach
- Overall findings and conclusions
 - Most promising manufacturing sectors
 - Promising sectors beyond manufacturing
 - Cross-cutting issues
 - Recommended next steps
- Example of one full sector assessment
- Key recommendations for other top 5 sectors

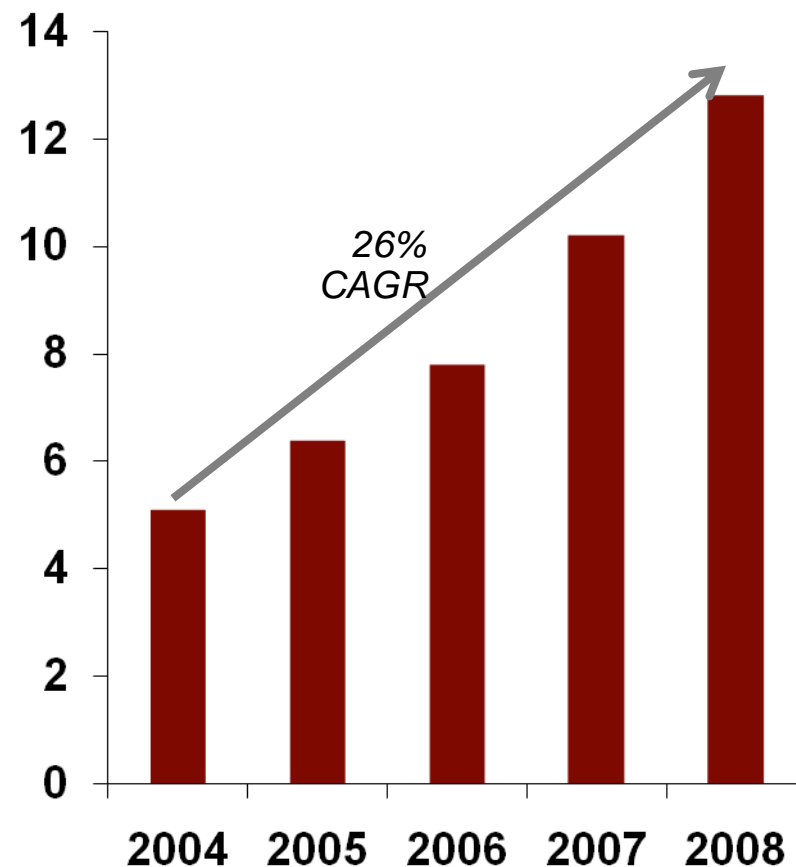
Project background, objectives and approach

With liberalization and deregulation, the Georgian economy has taken off in recent years

World Bank Ease of Doing Business Ranking, 2005 and 2008

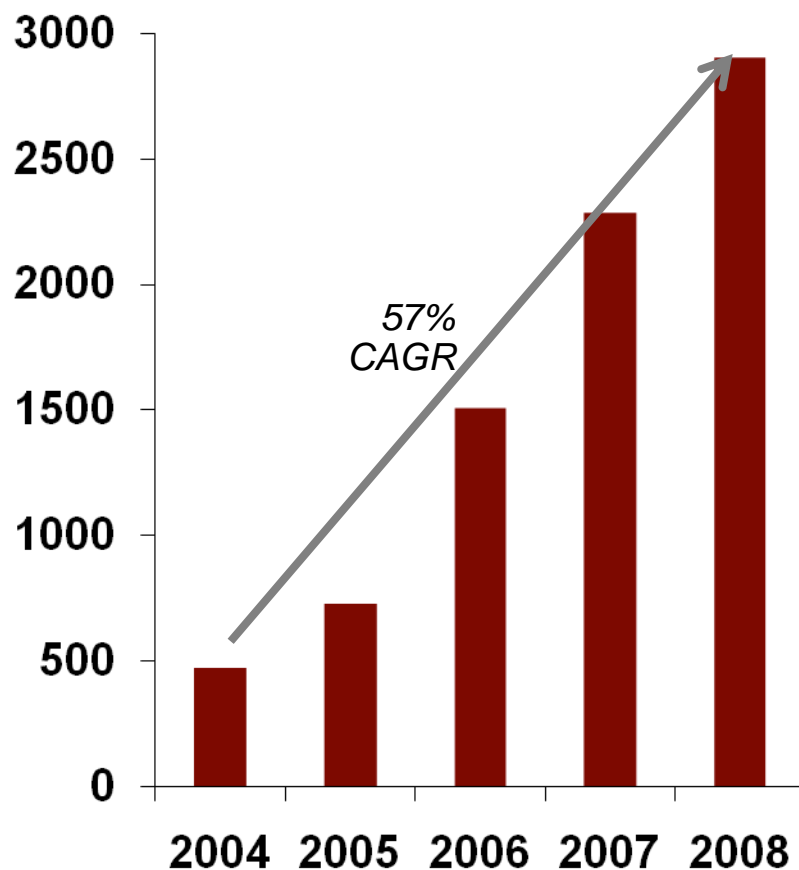


Nominal GDP US\$ billions, 2004-2008

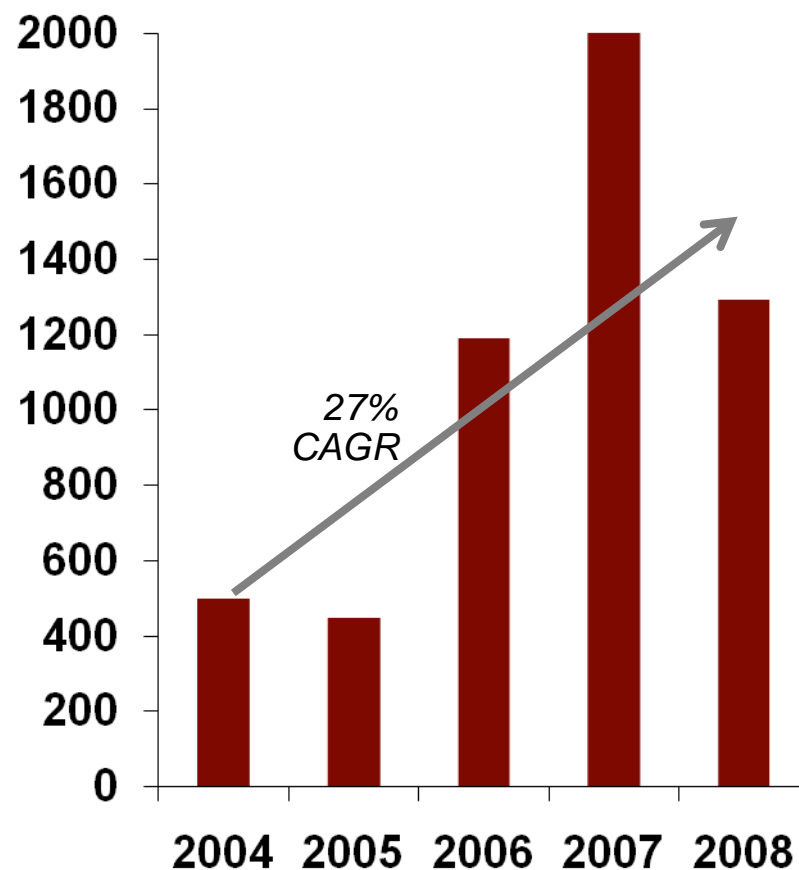


Both foreign and domestic investment have boomed, as investors have tapped into the growing market opportunities

Total Private Capital Inflows
US\$ millions, 2004-2008

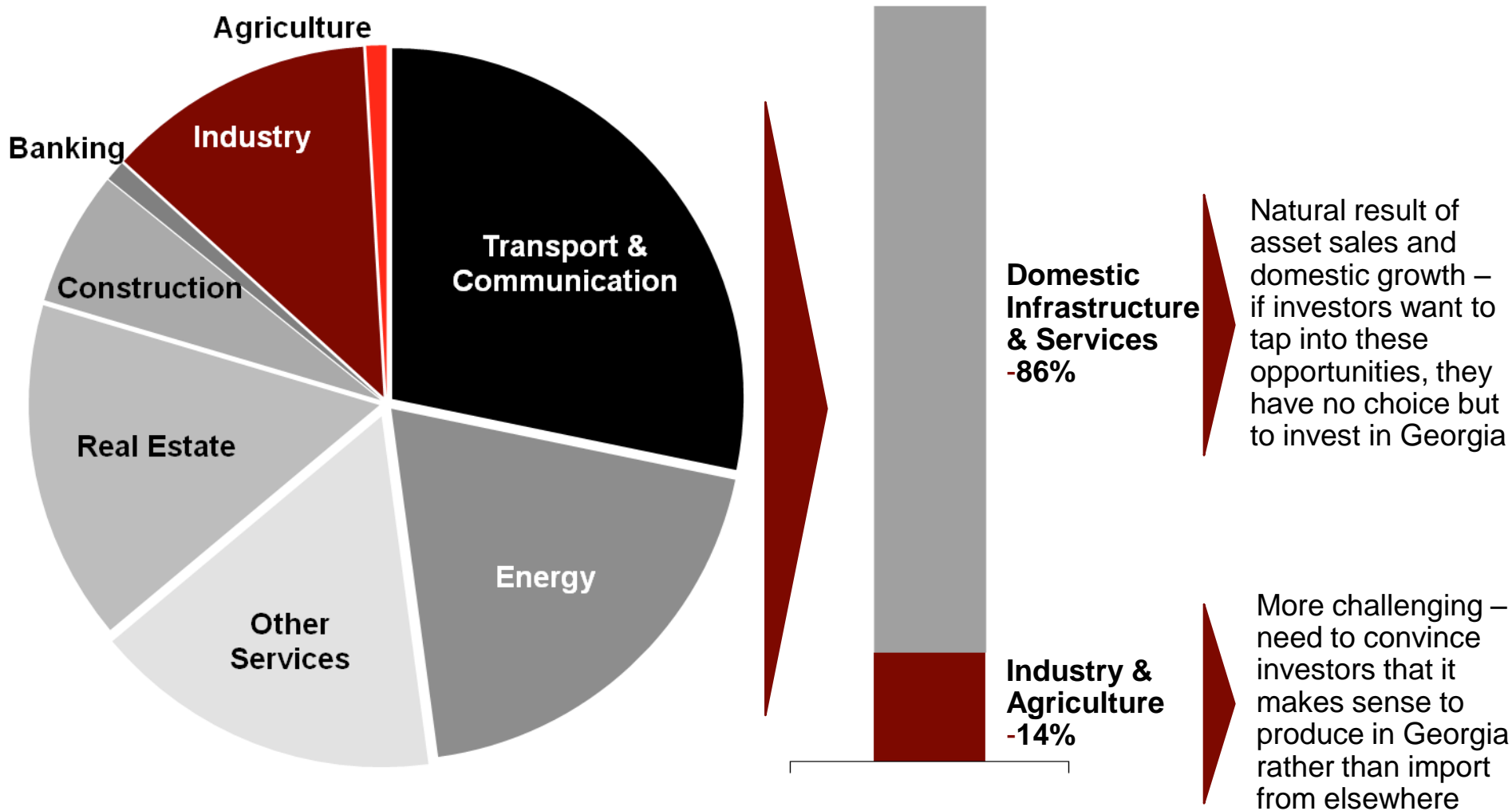


Net FDI Inflows
US\$ millions, 2004-2008



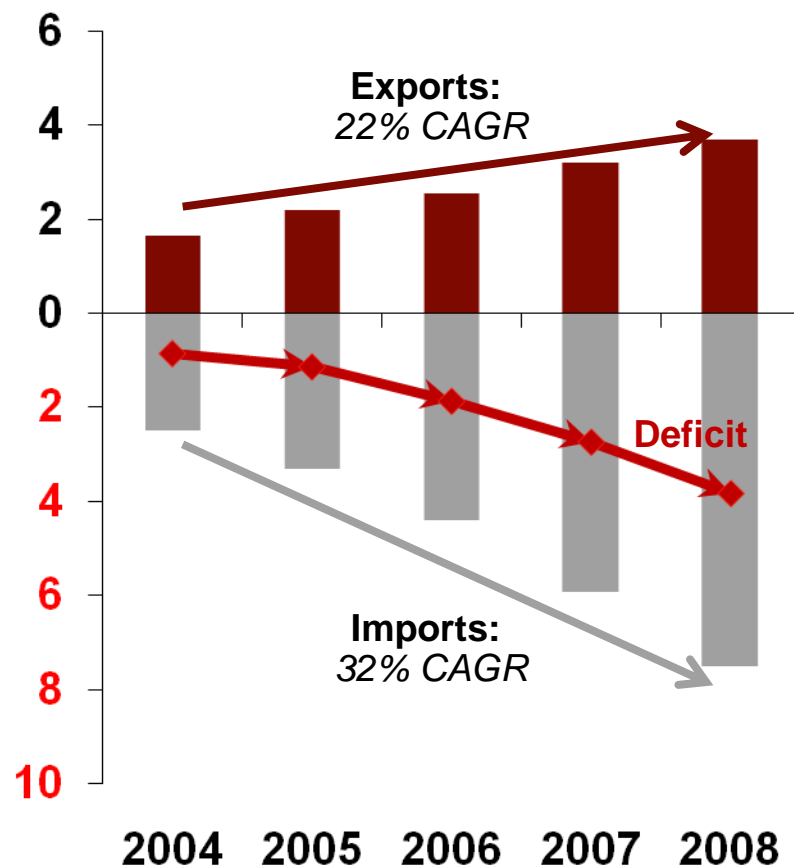
However, most FDI has flowed into domestic infrastructure & services – as happens naturally when assets are privatized and demand takes off

Composition of FDI by Sector, 2008

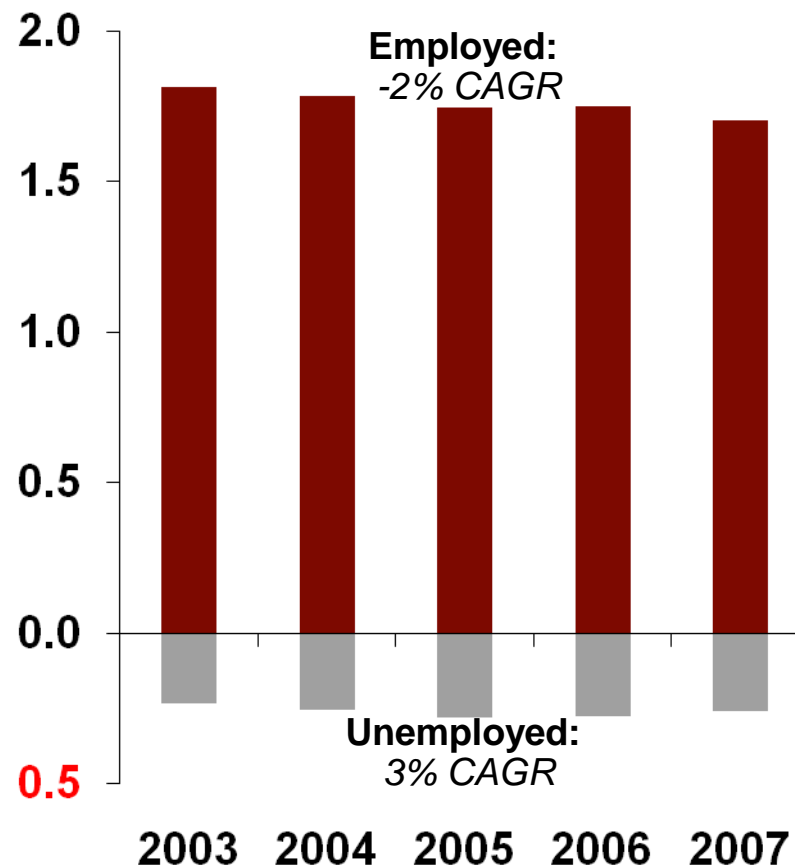


With investment flowing into infrastructure and services, and little into production, the trade gap has widened and employment has stagnated

Exports and Imports
US\$ billions, 2004-2008



Employed and Unemployed
Millions, 2003-2007



The Government therefore asked the World Bank Group's Investment Climate Advisory Services (ICAS) to conduct a quick analysis of the competitiveness of Georgia's agribusiness & manufacturing sectors

Project	Rapid preliminary assessment of competitiveness of agribusiness and manufacturing sectors in Georgia
Desired outcomes	<ul style="list-style-type: none"> • To quickly identify the most promising sectors where the government and other players should focus their attention - rather than analyzing all sectors in depth, to quickly identify the most competitive sectors for further analysis and intervention • To make an initial identification of the issues holding back growth in these sectors and the types of actions that the government and other players may be able to take to accelerate growth – again, these actions will need further elaboration, but this report should provide pointers for further study
Key Questions	<p>Which agribusiness and manufacturing sectors in Georgia have the most potential for growth and employment generation – given:</p> <ul style="list-style-type: none"> • Local, regional and global supply and demand conditions? • Georgia's relative competitive position in terms of factor costs, skills, resources, market access and so on? • Their potential impact on Georgia's employment and balance of trade?
Timeline & Resources	1 month, utilizing global competitiveness expert – full competitiveness assessment will clearly require longer, but aim is to maximize efficiency by first identifying most promising sectors and then focusing analysis on specific constraints and solutions in these sectors

The Government initially proposed 3 priority sectors for analysis; after stakeholder input, the ICAS team decided to include other manufacturing sectors

Original Scope

Sectors to be evaluated

- Secondary agribusiness production
- Paper
- Mechanical sectors, particularly automotive

Revised Scope

Sectors	Subsectors	Rationale
• Agribusiness	<ul style="list-style-type: none"> • Wine • Nuts • Tea • Vegetables • Fruit • Meat & Dairy • Fish & Sea Products • Grains & Pulses 	<ul style="list-style-type: none"> • Sectors where Georgia traditionally had significant exports and/or where large enterprises employed significant numbers
• Traditional Industries	<ul style="list-style-type: none"> • Automotive Equipment • Aircraft Equipment • Railway Equipment • Shipbuilding • Wood & Pulp • Glass Packaging 	
• New Industries	<ul style="list-style-type: none"> • Apparel (& other skilled manual operations) • Construction Materials • Pharmaceuticals & Medical Devices • Plastic & Paper Packaging 	<ul style="list-style-type: none"> • Sectors where regional or global demand growth suggest opportunity

To evaluate the competitiveness of these sectors, the preliminary analysis has drawn on three primary sources of information

Stakeholder interviews

- The ICAS team met and interviewed more than 50 stakeholders with insight on each of the sectors: government ministers, policy-makers and advisers; donors; chambers of commerce and business organizations; individual enterprises in each of the sectors
- The team also conducted site visits to key enterprises in each sector in Tbilisi, Kutaisi, Batumi, Poti, and elsewhere
- During the interviews, the team collected information on current trends in each of the sectors and Georgia's competitive position relative to alternate locations
- A full list of organizations visited and interviewed can be found in the appendix

Existing reports and studies

- The team reviewed and consulted more than 70 existing reports by government agencies, donors, industry associations and others - on Georgia's overall economic performance, as well as studies of specific sectors and competitiveness factors
- A full list of reports and studies reviewed can be found in the appendix

Data analysis

- The team collected and analyzed key data that provides indicators of potential market opportunity and relative competitiveness in each target sector:
 - Export data for Georgia and neighboring countries
 - Import data for Georgia and neighboring countries
 - FDI data for Georgia and neighboring countries
 - Import data for major regional blocs (EU and CIS)
 - Key competitiveness drivers for Georgia and relevant competing countries in each sector: factor costs, skills supply, business environment, etc.

Each sector was then evaluated against the following criteria

Sector Evaluation Criteria

To what extent:	Score	Evidence
• Is there good export potential for this product in major global markets (EU, CIS, Mid-East, etc.)?	1-5	• Data on imports and consumption in key global markets
• Is there good import substitution potential for this product in Georgia, Armenia and Azerbaijan?	1-5	• Data on imports and consumption in Georgia, Azerbaijan and Armenia
• Are prices attractive and/or rising?	1-5	• Data showing rising global prices, and/or attractive local prices
• Is supply from key competitors being constrained?	1-5	• Data on declining exports from competing countries, and underlying reasons
• Is the market opportunity attractive?	1-5	• Weighted average of scores on 4 questions above
• Are there existing enterprises successfully competing in this sector in Georgia?	1-5	• Examples of successful firms in the sector already in Georgia
• Does Georgia have better cost factors (labor, infrastructure, taxes) than key competitors?	1-5	• Labor, property, utility, taxes and other costs relative to key competitors
• Does Georgia have resources or other natural advantages ?	1-5	• Natural resources, climactic conditions or other factors that benefit Georgia relative to key competitors
• Does Georgia have market access advantages (due to location, logistics or trade deals)?	1-5	• Trade agreements, location or infrastructure advantages that benefit Georgia relative to key competitors
• Does Georgia have the skill base to compete in this sector?	1-5	• Georgia's supply of key skill sets needed in this sector relative to key competitors
• Are any barriers to competitiveness in this sector relatively simple to remove?	1-5	• Estimate of time or resources or political will required to remove any major barriers (infrastructure, skills, policies)
• Can Georgia be competitive?	1-5	• Weighted average of scores on 6 questions above
• Will investment in this sector impact jobs, incomes, exports, etc.?	1-5	• Relative size of sector in terms of export revenues, job creation, value-add, etc.
• Are we aware of prospects already interested in this sector in Georgia?	1-5	• Examples of companies in this sector already making inquiries in Georgia
• Will focus on this sector generate impact?	1-5	• Weighted average of scores on 2 questions above
Overall Evaluation:	1-5	• Weighted average of scores on all 12 questions

Evaluation Key:	5 = Very positive	4 = Positive	3 = Neutral	2 = Negative	1 = Very negative
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Note: weightings for each criteria can be adjusted depending on priorities; analysis presented in this report assumes equal weight for each criteria; we tested alternate weightings (e.g. more emphasis on competitiveness, less on impact) but results did not change significantly

Overall findings and conclusions

Based on the data analysis, interviews and existing reports, the relative competitive potential of each sector has been assessed as follows

Agribusiness/Forest Products

Sector	Market Attractiveness				Georgia Competitiveness						Likely Impact		Overall
	Export market	Import Sub market	Good prices	Competitor constraints	Existing investors	Cost factors	Natural advantages	Market access	Skill base	Limited barriers	FDI impact	Likely prospects	
Wine	2.8				4.5						4.5		3.92
	4	2	3	2	5	4	5	5	4	4	5	4	
Fruit	3.3				4.5						5.0		4.17
	5	3	3	2	5	4	5	5	4	4	5	5	
Vegetables	3.3				4.3						4.5		4.00
	4	3	3	3	4	3	5	5	4	5	5	4	
Nuts	1.8				4.3						4.5		3.50
	3	1	2	1	5	4	5	5	4	3	5	4	
Tea	1.3				2.3						2.5		2.00
	2	1	1	1	2	1	1	5	4	1	4	1	
Fish & Sea products	4.0				3.5						2.5		3.50
	4	4	4	4	2	3	5	5	2	4	2	3	
Meat & Dairy	2.5				2.7						3.5		2.75
	1	4	3	2	4	2	2	3	3	2	3	4	
Grains & Pulses	2.3				2.2						1.5		2.08
	1	4	3	1	2	2	2	3	2	2	2	1	
Wood & Pulp	2.3				2.7						2.5		2.50
	2	4	2	1	3	2	4	3	3	1	3	2	

Evaluation Key: 5 = Very positive 4 = Positive 3 = Neutral 2 = Negative 1 = Very negative

Relative competitive potential of each sector (continued)

Manufacturing

Sector	Market Attractiveness				Georgia Competitiveness						Likely Impact		Overall
	Export market	Import Sub market	Good prices	Competitor constraints	Existing investors	Cost factors	Natural advantages	Market access	Skill base	Limited barriers	FDI impact	Likely prospects	
Plastic & Paper Pack'g	3.0				4.3						2.0		3.50
	1	5	3	3	5	5	3	5	3	5	1	3	
Glass Packaging	2.0				3.2						2.0		2.58
	1	4	2	1	4	2	4	4	4	1	1	3	
Automotive Equipment	2.0				2.0						2.0		2.00
	2	3	1	2	1	3	2	3	2	1	2	2	
Railway Equipment	2.3				2.5						2.5		2.42
	1	3	1	4	2	4	2	4	2	1	3	2	
Aircraft Equipment	2.3				2.7						2.5		2.50
	3	1	4	1	3	4	2	3	3	1	3	2	
Shipbuilding	1.5				2.3						1.5		1.92
	2	1	2	1	1	4	3	3	2	1	1	2	
Construction Materials	3.5				4.2						5.0		4.08
	2	5	3	4	5	4	4	5	3	4	5	5	
Apparel, etc.	3.0				4.3						5.0		4.00
	5	1	2	4	5	4	3	5	4	5	5	5	
Pharma & Med Devices	3.3				4.0						3.0		3.58
	3	5	4	1	4	5	3	5	3	4	2	4	

Evaluation Key: 5 = 4 = 3 = 2 = 1 =
 Very positive Positive Neutral Negative Very negative

Based on this analysis, ICAS recommends that government, donors and other players focus attention particularly on the following sectors

Sector	Rationale
Fruit	<ul style="list-style-type: none"> ■ Traditional leading exports of Georgia; while main historical market (Russia) now closed, alternate markets (rest of former USSR, plus European Union) are larger and higher income
Vegetables	<ul style="list-style-type: none"> ■ In the case of fruit and vegetables, despite assets, Georgia has become importer in recent years – opportunity exists to produce for local market, as well as export
Wine	<ul style="list-style-type: none"> ■ Georgia has production basics (orchards, vineyards, etc.) and underlying know-how. All cost factors are favorable vs. alternate locations. Main weaknesses are small scale & inconsistent quality/standards, but attracting more large-scale investors is key to changing this ■ Very high employment impact
Construction Materials	<ul style="list-style-type: none"> ■ Despite global slowdown, construction sector in Georgia, Azerbaijan and Armenia (GAA) likely to remain relatively robust due to oil and gas, infrastructure and public sector projects ■ Most larger volume, lower value materials make sense to manufacture in region vs. import (aggregates, metal/wood/plastic components, stone and ceramic, electrical, etc.) ■ Georgia has best cost factors, logistics position and business environment for serving GAA market, and some key raw materials. Several investors in Georgia already targeting opportunity – cement, gypsum, metal components, windows and doors, electrical parts, etc. ■ Significant employment impact
Apparel, etc.	<ul style="list-style-type: none"> ■ Turkish firms have relationships/trust with major buyers, but face rising costs and labor shortages; therefore looking for expansion locations ■ Georgia offers competitive cost factors (labor, utilities, real estate, taxes), privileged access to EU (and potentially US) markets, plus proximity and familiarity ■ Some historical skill-base, albeit limited ■ Very high employment impact
Pharma & Medical Devices	<ul style="list-style-type: none"> ■ Like construction materials, significant market in Caucasus and Central Asia, with growing demand for lower-cost generics ■ Tough competition from India and China, but existing Georgia-based producers appear to compete with combination of cost, quality/image, market relationships/language, etc.

While beyond the scope of this project, the team also noted significant potential for export and job generation in non-manufacturing sectors

Sector	Rationale
Exportable Services	<ul style="list-style-type: none"> ■ Given barriers to many manufacturing sectors (subscale market; limited natural resources and space; logistics constraints – large part of border closed to traffic; conflict risk), makes sense in general to focus on services ■ Thanks to success of India, every country/region is now marketing “offshore” services: IT programming, business process management, call centers, etc. It is crowded market, and Georgia is too small to be major supplier to EU or US ■ But with high education levels, multilingual population, pro-business environment, there is potential to become services hub for region (like Costa Rica for Latin America) – call centers, finance, HR, engineering, architecture, etc., for Caucasus, Central Asia, Turkey, Iran
Logistics / Transport Services	<ul style="list-style-type: none"> ■ As natural entry/exit point between Caucasus, Central Asia and rest of world, Georgia should also be logistics and transport services hub for the region: inbound/outbound shipping, rail and road services; air-cargo hub; transshipment and intermodal hubs, etc. ■ Plans for development of Poti Port, Tbilisi Aviation Park, rail and road corridors reflect this
Tourism	<ul style="list-style-type: none"> ■ Conflict-image issues are serious constraint, but tourism should be largest industry in Georgia: tourism is the largest industry in the world and the fastest growing in absolute terms, and clearly the most important sector in similar countries (Turkey, Greece, Bulgaria, Egypt, etc.) blessed with Mediterranean climate, ancient civilization, spectacular mountains etc.
Utilities	<ul style="list-style-type: none"> ■ With connector to Turkey, projects to export hydro-electricity to Turkey are already under development. Given natural resources and liberalized utility sector, could be more of the same, with significant export revenue potential – power, and even water exports
Primary Process Industries	<ul style="list-style-type: none"> ■ Government said that current study does not need to cover primary processing industries like metallurgy and petrochemicals, since investment in these sectors is taking off anyway ■ Nevertheless, important to note (given oil and gas pipelines, energy supply, mineral deposits, existing metallurgy cluster, favorable business environment and position as gateway to/from Caucasus/Central Asia) that these sectors could also be major contributors to export revenues and job creation

Specific barriers to be addressed in each sector are identified in the sector analyses, but one cross-cutting weakness stands out

Weakness	Observations
Education	<ul style="list-style-type: none"> ■ The single most important factor driving investment decisions today is the sustainable supply of skills. It is what keeps many industries in high-cost locations like Silicon Valley or London or Munich; it is what attracts IT operations to India and Ireland; and it is what maintains Israel's agriculture exports or Turkey's textile exports, despite high wages ■ With 100% literacy and a historical reputation, skills should be a major asset for Georgia, But by all accounts, they are not: quality of technical graduates has virtually decreased. ■ Particularly in Georgia's traditional engineering sectors (auto, aircraft, trains and ship-building), the main reason why investors might choose to invest would be if there were a strong skill-base of engineering skills which gives Georgia a head-start over alternate locations – the factories themselves and the products are so out-dated that they are of virtually no value. But with all the engineers and management at these factories over 50 years in age, and no new generation coming up, there is very little case for investment ■ Even in sectors where other factors may be the main motive (e.g. climate and growing conditions for wine, fruit and vegetables; labor costs and market access for apparel), lack of technical personnel will slow sector growth and reduce the benefits to Georgia. If investors have to import the more specialist technicians (e.g. production engineers, chemists, agro-engineers), this means immediate lost income for Georgia, but also limits the ability to move up the value chain and generate higher incomes from these sectors ■ Because of the critical link to long-term competitiveness, governments all over the world tend to invest in education. Even in countries where the private sector provides most higher education, the government plays a major role in stimulating production of science and engineering graduates (through direct subsidies, government-funded R&D programs, promoting science and engineering to school children, etc.) ■ Unless Georgia does the same, it will be unable to retain industries like heavy engineering, and it will get limited value from sectors like agribusiness, apparel and pharmaceuticals

Other cross-cutting themes are also evident

Issue	Observations
Promotion (internal and external)	<ul style="list-style-type: none"> ■ In many sectors, there is no need for special government incentives or support; investors just need to be made aware of the opportunities and potential non-commercial risk mitigation instruments ■ For example there are many areas where increased local production requires relatively limited investment or simple technology, well within the capacity of local investors (e.g. in vegetable and fruit processing for export; or in dairy and meat production for the local market), but local entrepreneurs are unaware of the opportunities or of the technologies and techniques required ■ And in many sectors, potential international investors are likely unaware of Georgia's competitive cost factors (e.g. in apparel, or in veg and fruit processing for Europe) or of the regional market size (e.g. in construction materials, pharmaceuticals, packaging etc.) ■ Well targeted promotion of the opportunities in key sectors to local entrepreneurs and foreign investors would likely create significant additional investment at little cost
Standards	<ul style="list-style-type: none"> ■ In many sectors (e.g. fruit and veg, wine, pharmaceuticals), Georgia's ability to grow exports and investment will be greatly enhanced if producers meet international standards ■ In some cases, meeting minimum standards is a pre-requisite for exporting (e.g. for exporting food products to the EU); in other cases, voluntary standards and quality-grading by industry players will increase quality-assurance and provide Georgian producers with a source of competitive differentiation and potential price premium (e.g. denomination standards in wine, labor standards in apparel, GMP standards in pharma production, etc.) ■ Government and donors can aid the competitiveness of key sectors by at minimum providing education on standards, their benefits and the process for meeting them; and, where necessary, imposing industry-wide standards to ensure rogue operators do not damage the image of all Georgian producers – in wine, fruit and vegetables, pharmaceuticals, and so on

Cross-cutting themes (continued)

Issue	Observations
Collaboration	<ul style="list-style-type: none"> ■ In many sectors, increased collaboration between producers would greatly enhance competitiveness – e.g. shared sourcing and joint marketing in wine and other agribusiness sectors; joint development of supporting industries for apparel, etc. ■ At minimum, shared performance of business functions (e.g. joint marketing, sourcing, distribution, training, certification, R&D, etc.) would reduce individual producers' costs. And in some areas, establishment of sector-wide brands and norms (like Colombian Coffee) may be critical to successful market-entry and higher price realization ■ In a small country like Georgia, joint action is all the more important to achieve critical mass, rather than competition between multiple small players
Access to Finance	<ul style="list-style-type: none"> ■ Investors in several sectors commented favorably on the government's "cheap credit" program, which had enabled them to access the finance to develop their operations ■ Given commercial banks' reluctance to lend to start-up manufacturing enterprises (as in most countries, when there are easier returns to be made in government treasuries, real estate and so on), now compounded by the global credit crisis, it is recommended that the government and donors continue (and if possible expand) programs like this that facilitate investors access to finance for agri-processing and manufacturing enterprises
Tax Administration	<ul style="list-style-type: none"> ■ While there was widespread recognition of the improvement in the business environment in recent years, in terms of taxes, red-tape, corruption and so on, one area where investors continue to find fault with the government is in tax administration. Across sectors, there is a widespread perception that the tax authorities are overly aggressive in levying taxes and penalties on those companies that are doing their best to comply; and they are overly slow in processing appeals or reimbursing VAT ■ While this may be inevitable given a residual culture of tax avoidance, the government needs to be careful not to discourage investment in manufacturing (as opposed to imports and distribution) and/or drive production into the informal and unregulated sector

Based on our findings, ICAS recommends the following next steps

1. Disseminate findings of this preliminary analysis as widely as possible

- As noted above, in many sectors, the conditions for production in Georgia are very favorable, but local entrepreneurs and/or international investors are simply unaware of the opportunities. There is also a widespread perception among investors and donors that the government prefers a laissez faire approach and does not want to help organize/promote specific sectors
- All stakeholders interviewed during this project were therefore very excited to hear that this project has been launched and expressed great interest in obtaining the results
- Taking the opportunity to present this analysis to private sector groups in each major city and to foreign embassies and donors will help to make more people aware of the opportunities, and will help donors and business organizations to direct their support to the most promising sectors

2. Develop and launch coordinated sector strategies for the identified priority sectors: fruit and vegetables, wine, construction materials, apparel, and pharmaceuticals

- In these priority sectors, now need to develop detailed sector development strategies:
 - Segment and quantify the competitive opportunities in more detail (e.g. to segment which specific fruits and which specific markets offer the best opportunities for Georgian producers; to quantify Georgia's cost advantage in apparel or construction materials over alternate locations)
 - Develop materials to present these opportunities to local and foreign investors
 - Identify specific target investors and develop a practical plan for approaching them
 - Flesh out the recommended actions that the government and donors can take to accelerate growth in these sectors (through supporting skill development, collaboration, standards, etc.)
- In developing these sector strategies, two key principles should be followed:
 - Don't reinvent the wheel: in many areas, donors or private investors (e.g. GTZ in the wine sector; RAKIA for Poti Free Zone) have already identified the opportunities and targets and the barriers to be removed; leverage these studies, and update where necessary, rather than starting afresh
 - Emphasize collaboration from the start: convene sector working groups, bringing together private players, interested donors and others, to develop coordinated, rather than overlapping, strategies for promotion, standards, skill development, etc.

Recommended next steps (continued)

- 3. Repeat preliminary analysis and prioritization for other sectors, particularly services and tourism**
 - As noted above, the ICAS team believes that similar opportunities for increasing exports and employment exist in non-manufacturing sectors, particularly exportable services, logistics/transport services, and tourism
 - In these sectors, the government should undertake a similar process to assess the competitiveness of different segments and thereby identify the priority segments for further research and development

Example of one full sector assessment

Wine: overview of sector trends and competitive drivers

Global Industry Trends

- Global wine market is basically flat – declining in short-term due to credit crisis, but expected to grow at reasonable rate in medium term, driven by increasing consumption in emerging markets like China, India and Brazil
- Major shift in production, with “New World” producers (US, Australia, New Zealand, Argentina, Chile, South Africa) increasing share of world exports from ~3% in 1990 to ~30% in 2008, at the expense of traditional European leaders (France, Italy, Spain, Germany and Portugal – down from ~80% in 1990 to ~60% in 2008) and Central/Eastern European/Maghreb producers (Romania, Bulgaria, Hungary, Algeria, Tunisia, Morocco – down from ~10% to ~3%)
- Consolidation of industry, with global beverage conglomerates (e.g. Constellation, Diageo, Pernod Ricard, Fosters, Gallo, etc.) grabbing increased share of large retail and distribution channels; but industry as whole remains fragmented with “long tail” of small producers reaching consumers through internet and other non-traditional channels

Key Competitors for Georgia

- Traditional European leaders: France, Italy, Spain, Germany, Portugal
- Traditional Central European leaders: Romania, Bulgaria, Hungary, Croatia
- New World leaders: US, Australia, New Zealand, Argentina, Chile, South Africa
- Regional alternates: Russia, Moldova, Ukraine

Factors driving investors' location choices	Georgia's position
1. Grape growing conditions – varieties, soil, climate, etc.	✓ Very distinctive varieties, growing conditions and unique history as cradle of wine
2. Brand / consumer image	– Strong brand image in countries of former Soviet Union, but less awareness and mixed quality-image in major markets like EU and US and growing markets like China, India, etc.
3. Competitive cost factors: —Wages, grape costs, packaging costs, productivity/technology, economies of scale	– Good grape and wage costs, but high packaging costs and weak technology/productivity and economies of scale, compared to major competitors

Wine: Georgia's competitive position

To what extent:	Score	Evidence
• Are there existing enterprises successfully competing in this sector in Georgia?	5	<ul style="list-style-type: none"> • Several Georgia-based firms (e.g. Teliani Valley, Telavi, Tbilvino) are successfully exporting to major regional/global markets, demonstrating competitiveness of sector • Several foreign firms and individuals have also invested in the sector (e.g, Badagoni, Pernod Ricard, etc.)
• Does Georgia have better cost factors (labor, infrastructure, taxes) than key competitors?	4	<ul style="list-style-type: none"> • Although there is much comment on the high price of Georgian wine, this seems to be the result of producers' traditional ability to charge a brand premium in the markets of the CIS, rather than underlying cost factors • All significant cost factors (wage costs, grape costs, land costs) are less than in other major wine-producing countries (EU, US, Southern Hemisphere), with the possible exception of Moldova • Georgian producers pay high rates for imported bottles, labels and corks, but these costs are not core • With economies of scale, efficient technology and management, there is no reason why producers in Georgia can not make money even at low price-points
• Does Georgia have resources or other natural advantages?	5	<ul style="list-style-type: none"> • With more than 6000 years of sector development, 300+ varieties and ideal climactic conditions, Georgia has distinct natural advantages in the wine sector
• Does Georgia have market access advantages (due to location, logistics or trade deals)?	5	<ul style="list-style-type: none"> • Compared to global competitors (Southern Hemisphere, US, EU), Georgia is better located and has well-established distribution networks to serve core CIS market • Compared to New World competitors, Georgia also well-located to serve EU market
• Does Georgia have the skill base to compete in this sector?	4	<ul style="list-style-type: none"> • With 30,000+ families and 100+ wineries involved in wine production and export, Georgia has a large number of people with experience in the industry • However, quality is variable; if Georgian wine is to compete in mature markets, will need significant investment in training people in new techniques and standards at each step of the value-chain
• Are any barriers to competitiveness in this sector relatively simple to remove?	4	<ul style="list-style-type: none"> • Barriers are significant: better marketing, research, quality/standards, consolidation and economies of scale. But these are not insurmountable/structural – these are all issues that determined private investors can fix, if they work together
• Can Georgia be competitive?	4.5	

All scores on scale 1 to 5 (5=positive, 1=negative); total scores assume equal weight for each criteria

Sources: Investor Interviews, Department of Statistics of Georgia, Investment guide.ge, IOS Wine Sector Strategy
 USAID/World Bank/IFAD studies on Georgian agribusiness. Economist Intelligence Unit. World Bank Doing Business .

Wine: market attractiveness, potential impact and prospects

To what extent:	Score	Evidence
• Is there good export potential for this product in major global markets (EU, CIS, Mid-East, etc.)?	4	<ul style="list-style-type: none"> • Georgia's traditional lead market (Russia) closed and likely to remain so • However, Georgian wine has similar brand recognition in rest of Former Soviet Union (FSU) – a market of similar size and growth potential • Plus, despite the credit crisis, wine consumption in major global markets except EU and Russia (US, Canada, Asia, South America) continues to grow • Competition in all markets is intense, but success of Argentina, Chile, South Africa, etc., shows potential for new-comers to enter market and move up value chain
• Is there good import substitution potential for this product in Georgia, Armenia and Azerbaijan?	2	<ul style="list-style-type: none"> • Domestic market is large (~100 million per year), but already well served – limited scope for new investors to make profits from local market: low prices/quality, limited consumer interest in trade-up
• Are prices attractive and/or rising?	3	<ul style="list-style-type: none"> • Despite the credit crisis, prices for the bulk of the wine market have remained stable –even trending upwards since production glut in 2004
• Is supply from key competitors being constrained?	2	<ul style="list-style-type: none"> • Although some key producers (France, Italy, Spain, Australia) have been losing share, other new contenders (South Africa, New Zealand, Chile, Argentina) have been quickly expanding; there is no reason to expect them to be constrained in near future
• Is the market attractive?	2.8	
• Will investment in this sector impact jobs, incomes, exports, etc.?	5	<ul style="list-style-type: none"> • Impact of investment/growth in this sector is very high: estimated 30,000 families involved in grape farming, and more than \$100 million in exports
• Are we aware of prospects already interested in this sector in Georgia?	4	<ul style="list-style-type: none"> • Not aware of specific prospects, but given sector potential/reputation, undoubtedly regional investors (Russian entrepreneurs) and global wine companies will be interested in investment opportunities
• Will sector focus generate impact?	4.5	
Overall Evaluation:	3.92	

All scores on scale 1 to 5 (5=positive, 1=negative); total scores assume equal weight for each criteria

Sources: Investor Interviews, ITC Trade Map, FAOSTAT, CBI, OIV, Department of Statistics of Georgia

Wine: sector summary, and recommendations to accelerate growth

Strengths

- Distinctive growing conditions – varieties, history, soil, climate, etc.
- Low grape costs and wage costs
- Established brand image in countries of CIS
- Potential location / logistics cost-advantage for serving CIS and EU markets
- Large base of people with experience in sector
- Donor support/willingness to focus on the sector

Weaknesses

- Russian embargo
- Small scale – sector as whole is less than 10% of size of major EU and New World producers, and much smaller even than Moldova, Ukraine, Russia, Bulgaria, etc.; and individual farms & wineries are much smaller than global competitors
- High costs for imported bottles and corks
- Limited image / brand-awareness outside CIS
- Variable quality and weak productivity – as a result of weak institutions, standards, education, technology, etc.
- Lack of joint action in marketing, sourcing, research, certification, etc.

Recommendations to accelerate investment & growth

1. Strengthen framework for joint action:
 - Joint promotion organization – to research markets, develop umbrella brand, lead joint promotion efforts
 - Joint standards agency – to educate and enforce standards
 - Joint research agency – to research and improve varieties, pest-control, vine-growing and wine-making techniques and technologies
2. Encourage industry players to pursue much more joint action – in marketing, sourcing, research, skill development, certification, etc.
3. Strengthen/modernize skill-base:
 - Strengthen vocational, undergraduate and graduate programs dedicated to needs of wine industry
 - Bring in more international expertise – launch targeted promotion to encourage more international wine companies to invest in Georgia – in partnership with existing players or in new ventures
4. Continue/expand programs to make affordable finance available to agribusiness enterprises

Key recommendations for other top 5 sectors

Fruit: sector summary, and recommendations to accelerate growth

Strengths

- Good growing conditions for wide range of temperate and subtropical fruit
- Competitive factor costs: wages, land, energy
- Climate and topography means less investment needed in greenhouses and irrigation
- Proximity and duty-free access for serving EU and CIS markets
- Large base of people with experience in sector
- Donor support/willingness to focus on the sector

Weaknesses

- Russian embargo
- Small-scale producers and lack of investment in new trees, technology, irrigation, etc., limits yields and quality of raw produce; Lack of processing and storage capacity limits raw fruit supply
- Small scale puts exporters at disadvantage in terms of transport costs / frequencies and other costs (packaging, chemicals, etc.) – “cluster” of support industries is limited
- Lack of joint action in marketing, sourcing, research, certification, etc.
- Limited know-how / expertise in latest techniques and equipment for growing and processing fruit

Recommendations to accelerate investment & growth

1. Promote opportunities in fruit processing to investors – most local entrepreneurs and small-holders are unaware of the export-market opportunity, and most foreign firms are unaware of Georgia’s competitive advantages
2. Provide assistance to local entrepreneurs and small-holders in latest techniques and equipment, quality standards and certifications, export marketing, etc. – leverage many donor programs already targeting this area – e.g. USAID, CBI, GTZ, etc.
3. Continue/expand programs to make affordable finance available to agribusiness enterprises
4. Encourage joint industry action – at minimum through establishment of industry associations/cooperatives, and potentially through creation of national fruit promotion, research and standards agencies
5. Strengthen/modernize skill-base:
 - Strengthen vocational, undergraduate and graduate programs dedicated to needs of fruit industry
 - Bring in more international expertise: encourage more foreign fruit firms to invest in Georgia – in partnership with existing players or in new ventures

Vegetables: sector summary, and recommendations to accelerate growth

Strengths

- Good growing conditions for wide range of vegetables and herbs
- Competitive factor costs: wages, land, energy
- Climate and topography means less investment needed in greenhouses and irrigation
- Proximity and duty-free access for serving EU and CIS markets
- Large base of people with experience in sector
- Donor support/willingness to focus on the sector

Weaknesses

- Russian embargo
- Small-scale producers and lack of investment greenhouses, irrigation, etc., limits yields and quality of raw produce
- Lack of cold storage and shipping capacity
- Small scale puts exporters at disadvantage in terms of transport costs / frequencies and other costs (packaging, chemicals, etc.) – “cluster” of support industries is limited
- Lack of joint action in marketing, sourcing, research, certification, etc.
- Limited know-how / expertise in latest techniques/ equipment for growing and processing vegetables

Recommendations to accelerate investment & growth

1. Promote opportunities in vegetable cultivation to investors – most local entrepreneurs and small-holders are unaware of the export-market opportunity, and most foreign firms are unaware of Georgia’s competitive advantages
2. Provide assistance to local entrepreneurs and small-holders in latest techniques and equipment, quality standards and certifications, export marketing, etc. – leverage many donor programs already targeting this area – e.g. USAID, CBI, GTZ, etc.
3. Continue/expand programs to make affordable finance available to agribusiness enterprises
4. Encourage joint industry action – at minimum through establishment of industry associations/cooperatives, and potentially through creation of national vegetable promotion, research and standards agencies
5. Strengthen/modernize skill-base:
 - Strengthen vocational and degree programs dedicated to needs of horticulture industry
 - Bring in more international expertise: encourage more foreign vegetable firms to invest in Georgia – in partnership with existing players or in new ventures

Construction materials: sector summary, and recommendations to accelerate growth

Strengths

- Low labor costs
- Raw material supply
- Business environment
- Open borders and good transport links with Armenia and Azerbaijan
- Large, growing regional market

Weaknesses

- Global slow-down in private construction
- Higher energy costs than Azerbaijan and Armenia
- Governments in Armenia and Azerbaijan may offer subsidies or other incentives to attract investors to set up manufacturing units within those countries
- Inconsistency and lack of transparency in awarding licenses for key raw material reserves

Recommendations to accelerate investment & growth

1. Conduct full analysis of construction materials demand in Georgia, Armenia and Azerbaijan: prioritize most attractive product-segments based on size and growth, localization advantage, raw material supply, etc.
2. For priority segments, quantify opportunity and launch targeted campaign to introduce opportunities to local entrepreneurs and foreign investors
3. Review process for acquiring licenses to access key raw material reserves; where necessary, improve efficiency and transparency of process, to ensure that investors can access critical raw materials on competitive terms
4. Expand/deepen skill-base:
 - Work with local universities and others to expand vocational and degree programs dedicated to the needs of the industry – in aggregates, metal fabrication, engineering, etc.

Apparel: sector summary, and recommendations to accelerate growth

Strengths

- Very competitive factor costs: wages, real estate, utilities, transport, taxes and business environment
- Good transport links and GSP+ access to EU, world's largest apparel market
- Proximity and familiarity for Turkish investors seeking expansion options
- Educated, underemployed workforce with some experience in apparel industry

Weaknesses

- With growth of the sector as well as agribusiness and tourism in the Batumi area, labor supply in area may become restricted. Need to create clusters in other population centers
- Long term, to move up value chain and remain competitive, need to develop local design and technical skills and local supply base

Recommendations to accelerate investment & growth

1. Identify potential expansion locations for the apparel industry – traditional industrial centers with underemployed workforce, empty factories and good transport links – Kutaisi, Zestaponi and perhaps others. Secure support of local governments for site development, training, etc.
2. With help of Turkish Chamber of Commerce and existing investors, launch targeted campaign to attract more Turkish firms to expand operations in Georgia
3. Expand/deepen skill-base:
 - Work with Kutaisi University and others to expand vocational and degree programs dedicated to the needs of the apparel industry
4. Pursue duty-free access to US market, similar to GSP+ access to EU market

Pharmaceuticals: sector summary, and recommendations to accelerate growth

Strengths

- Large, growing regional market in Caucasus and central Asia, with virtually no local medical manufacturing capacity
- With 3 existing manufacturers, good location and transport links, good skill base, low labor costs and strong business environment, Georgia is well placed to serve this market

Weaknesses

- Potential skill shortage
- Weak standards and inconsistent quality
- Uneven enforcement of IP regulations and other standards
- Lack of vertical integration – bulk chemicals, packaging, etc.
- Competition from shadow market and smuggled and/or falsified and expired medicines

Recommendations to accelerate investment & growth

1. Expand/deepen skill-base:
 - Work with local universities and others to expand vocational and degree programs dedicated to the needs of the industry – in pharmacy, chemistry, production engineering, etc.
2. Establish clear timeline and targets for all manufacturers to meet minimum standards for drug approval, GMP, ISO, etc.
3. Launch targeted campaign to introduce Georgia's assets in medical manufacturing to local entrepreneurs and foreign investors