DISCLAIMER:
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DATA

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Name of Component: Non-Agriculture Sectors

Practice Area: Apparel

Key Words: apparel, public private dialogue
ABSTRACT

A Public Private Dialogue (PPD) took place among representatives of Georgia’s apparel companies, the National Bank of Georgia, Tbilisi City Hall, the Ministry of Economy and Sustainable Development, and Georgian National Investment Agency. The purpose of the meeting was to identify major challenges and issues that inhibit successful operation of the apparel industry, as well as ensure a comprehensive understanding of trends, challenges, and solutions.

Participants shared their experience, knowledge, views and concerns, and jointly elaborated recommendations, the successful enactment of which requires support from the Government of Georgia, financial institutions, media and other relevant parties.
## ABBREVIATIONS

<table>
<thead>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>EPI</td>
<td>Economic Prosperity Initiative</td>
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<td>NBG</td>
<td>National Bank of Georgia</td>
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<td>PPD</td>
<td>Public Private Dialogue</td>
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<td>USAID</td>
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I. EXECUTIVE SUMMARY

The public private dialogue (PPD) pinpointed the apparel sector’s major challenges preventing success. The presence of public sector representatives at the meeting was essential in terms of their contribution to finding solutions. The National Bank of Georgia has agreed to disseminate relevant information arising from the meeting to appropriate bodies.

Important recommendations were proposed at the meeting. Recommendations can be summarized as follows:

- Encourage local apparel companies to participate in different exhibitions to increase their awareness and exposure to international markets, experience, and knowledge;
- Facilitate the formation of a healthy business environment, a pre-condition of which needs to be full support from the government, financial institutions, media and other relevant parties;
- Introduce major changes to the tax system through tax code liberalization and incentives to benefit business development;
- Establish an association to serve as a bridge between companies and the authorities; accountable for ensuring effective communication and timely delivery of key messages such as changes to the tax system, information on export markets, and other relevant topics;
- Enhance the workforce through relevant retraining to increase the competitiveness of local staff, and enable them to operate effectively, not only locally, but also at the international level;
- Facilitate the local companies’ access to raw materials to reduce dependence on imports, and boost performance efficiency;
- Ministry of Economy and Sustainable Development to support local business development by identifying and attracting markets.
II. APPENDICES

A. BACKGROUND
B. METHODOLOGY
C. FINDINGS
D. RECOMMENDATIONS
E. ADDITIONAL INFORMATION
A. BACKGROUND

The PPD took place at the EPI Office on July 14, 2011. The aim of bringing the private sector and government representatives together was to provide an opportunity for relevant parties to voice their concerns and identify major solutions through brainstorming and information sharing.

The apparel sector is characterized by challenges that can only be solved through the joint efforts of the private and public sectors. Effective communication and dissemination of relevant information can be considered as the basis to assist the sector.

The meeting enabled participants to identify challenges and trends within the apparel sector, comprehensively understand the existing environment, and find ways to address issues effectively.

The meeting proved to be successful as the brainstorming resulted in a number of useful recommendations being proposed, the implementation of which would be beneficial for successful development of the apparel sector.
B. METHODOLOGY

TARGET FEEDBACK GROUPS

In order to understand the situation in Georgia with respect to the apparel sector, EPI targeted apparel sector representatives and several public sector representatives:

- Apparel Company Representatives
- Tbilisi City Hall
- Ministry of Economy and Sustainable Development
- National Bank of Georgia
- Georgian National Investment Agency

BRAINSTORMING METHODOLOGY

The methodology was as follows:

- Participants were divided randomly into three roughly equal groups – the green group, yellow group, and orange group;
- Each group had an EPI facilitator and was asked to choose a timekeeper and a reporter;
- Each group was asked to openly and democratically discuss the themes of expectations, challenges, and potential solutions. Each discussion took place in Georgian;
- Each group member recorded their ideas on sheets of paper colored to correspond to their group color;
- Fifteen minutes were allocated to each individual themed discussion to generate ideas;
- Multiple sheets of ideas were assembled onto larger sheets of paper so that the entire body of knowledge generated from each group was kept in one place;
- The group reporter then presented to all participants the thoughts of their group on the particular theme under discussion;
- After the group reporter finished presenting, the other two groups were asked to give feedback. These ideas were recorded;
The findings below represent the comments written by participants in each working group. They do not necessarily reflect the views of EPI staff. All comments were written in Georgian. Translation into English was undertaken subsequently.

**PUBLIC PRIVATE DIALOGUE – TRENDS**

**სამუშაო ფჯუფი 1 (WORKING GROUP 1)**

**1 პრობლემა:**

საჭიროა კადრების დატრეინინგება, როგორც წარმოების დონეზე ასევე მის დამხმარე განყოფლებებში, ფინანსში, კომერციულად და ასევე გარდამავალ რგოლებში.

**1 Stated Problem:**

An urgent need for apparel skills development and training has been identified in the following areas: production process management, financial management, commercial management and other areas related to business management. Neither courses nor schools are available in Georgia providing specific knowledge in apparel business management.

**2 არსებული ტრენდები**

- საქართველოში შესაბამისი სპეციალური ტრეინინგი და ცოდნა რომელიც უშუალოდ უკავშირდება სამკერვალო ბიზნესს.

- The apparel sector is in a process of development.

- Banks associate the apparel business with high risk and therefore require additional collateral or charge relatively high interest rates.
The sewing process appears to be responding to traditional challenges, rather than current ones.

Existing skills do not comply with international standards; another major challenge is the absence of teamwork in the sewing and business processes.

Assistance from the universities is limited.

Large orders are not common within the Georgian market and companies are not familiar with how to manage them.

3 Assistance

- The sewing process appears to be responding to traditional challenges, rather than current ones.
- Existing skills do not comply with international standards; another major challenge is the absence of teamwork in the sewing and business processes.
- Assistance from the universities is limited.
- Large orders are not common within the Georgian market and companies are not familiar with how to manage them.
3 Present Conditions:

- Georgia faces unique opportunities, stemming from the fact that China has refused to be involved in brand production. Therefore, brands have had to shift to more developed countries such as Georgia.

- Foreign brands require more qualified staff, able to operate modern equipment and perform in accordance with international standards, therefore requiring significant retraining of existing staff.

- Local staff training is urgent in terms of technology and production efficiency, since foreign brands demand high quality products in a short timeframe.

- Currently all our 300 employees are offered adequate training and retraining in order to meet the demands of foreign brands. We have bought Juki sewing machines that greatly contribute to better performance up to required standards.

- There are four major companies present in the local market: BTA, Adjara Textile, Georgia Textile, and Batumi Textile. These companies are the major textile producers and exporters. Georgia proves to be an attractive location for investors due to its competitive labor costs and relatively cheap power and gas. Wages in Georgia are almost half those of Turkey.

- The average salary stands at USD 250/month.

- Other companies are smaller, serving mostly the local market, preparing uniforms for State Bodies.

- Fashion House is also present in Georgia, offering services to families with high incomes.

- Currently, our factory is being developed, mostly oriented on the creation of high quality Georgian products in order to establish itself in the local market. Indeed the following steps will be aimed at expansion, not only at the local level but also in the international market. Currently we are preparing tentative models for our foreign partner, Kardem. In addition, our factory plans to hire more people; currently we employ 200 people, though hiring is dependent on the size of order.

- The factory already has several corporate orders. Therefore we plan major developments in this regard.

- Our factory is equipped with modern equipment, such as Juki sewing machines. In addition, we have jeans boiling equipment – representing the only equipment in Transcaucasia. This can be considered as one of the areas of further development.
Existing conditions and trends in apparel sector of Georgia

- Need for upgrading skills/retraining
- Need for participation in international exhibitions
- Need for export growth
- Local production should account for 60%
- Tough competition
- Inflationary problems
- Need for concessions (VAT tax reduction, make it similar to Turkey where VAT accounts for 8% instead of 18%)

One of the major hindering factors can be attributed to a large influx of cheap goods from abroad (mostly from Turkey and China) that significantly undermines the competitiveness of local factories.

Apparent inconsistency between the prime cost and profit margin

Local companies collaborate with cheap intermediary international companies, offering goods at a cheap price in a short time, which is not common for Georgian companies.

Low indicators of State support

Existing tendencies: The local market does not represent a target for local sewing factory production. Major sewing factories manage to remain operational due to local orders/tenders, whereas the local market is saturated with foreign goods. There is apparent need for cooperation with well-known brands.

სამუშაო ფჯუფ 3 (WORKING GROUP 3)

- სამოქალაქო გარემო
- ფინანსური მხარდაჭერის არ არსებობა
- არალოიალური საგადასახადო სისტემა
- ბანკები არიან მიკერძოებულები და არ უწყობენ ხელს ბიზნესის განვითარებას
• Media does not support visibility and promotion of apparel industry
• Lack of professional staff
• Difficulties in media presentation of the industry’s activities

**Major problems identified:**

- Absence of supportive business environment for apparel industry development
- Absence of financial support
- Absence of loyal tax system (high penalties for technical and minor mistakes)
- Absence of bank support in terms of facilitating business development
- Lack of media involvement in terms of highlighting the industry’s activities
- Shortage of qualified staff

**Major improvements:**

- Access to foreign contacts is facilitated
- Transportation from certain countries has been simplified, though it does not refer to all countries
- Customs procedures are simplified

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**PUBLIC PRIVATE DIALOGUE – CHALLENGES**

**Major problems identified:**

- Poor quality of products
- Companies do not provide information on consumers
- Local market does not serve Turkish companies
- It is necessary to involve the population
- Foreign contacts have 8% in Turkey, 18% in our country
- High share of imports
- Individual companies experience high competition
- Stocks of materials on the local market are high
- Lack of modern standards in practice

**Major improvements:**

- Access to foreign contacts is facilitated
- Transportation from certain countries has been simplified, though it does not refer to all countries
- Customs procedures are simplified
Major challenges identified within the first focus group can be summarized as follows:

- Low quality of products
- Companies are poorly informed regarding export markets
- The local market is not served by Turkish companies
- There is a need for workforce enhancement through training and re-training
- VAT on textiles in Turkey accounts for 8%, in Georgia it is 18%
- High Interest rates imposed by commercial banks
- Marketing abroad costs a lot for individual companies
- The following major problems have been identified:
  - Financial management
  - Access to raw materials (companies are dependent on imported inputs)
  - Low level of competitiveness compared to foreign companies
− Insufficient productivity
− Material at the local market is 5 times more expensive than imports
− Absence of modern standards in sewing schools
− Tailors used to traditional sewing practices express less willingness to become familiar with new practices; resulting in twice the amount of thread compared to standard requirements and an increase in the cost of doing business.
− Problems in production processes and efficiency
− Shortage of material at the local market
− Apparel industry is not organized

• Absence of schools and training courses preparing professionals (sewing machine operators) complying with international standards
• The existing workforce is guided by outdated Russian standards that are inconsistent with international standards.
• In order to successfully participate in international tenders, high quality products must be able to compete with well-known international brands. Local companies must perform well in a short timeframe with possibly decreased expenses. This proves to be an acute problem since major competitors like China and Turkey have immense experience in the market that makes their production processes lucrative compared to Georgian businesses.

Major challenges identified within the second focus group can be summarized as follows:

• Need for retraining of local staff
• Urgent need for new techniques and updated equipment
• Absence of textile production at the local market
• Increasing prices of raw material
• Poor development of marketing concept
• Narrow orientation only on local market
• Absence of qualified staff able to perform in compliance with international standards
• Introduction of changes in legislation often poses problems due to inflexibility of local staff.
• Theoretical knowledge is not useful unless it is put into practice at the industrial level.
• Absence of industrial zones
• High income tax and high fines
• Complicated terms on loans discourages people to consider banks as a source of capital
• Absence of textile production locally that increases dependence on imports
• The government does not facilitate the preparation of qualified staff
- Unhealthy link between entrepreneurs and tax authorities increases the feeling of vulnerability among entrepreneurs. Minor mistakes should not be treated as crimes, but subject to adequate responses.

Major challenges identified within the third focus group can be summarized as follows:
- All raw materials relevant for sewing production are imported from abroad
- Shortage of qualified staff
- Absence of compliance with international standards
- Existing professionals are unable to perform to short turnaround times
- High taxes
- High interest rates offered by banks
- High utility expenses
- High public transport costs (for workers to go to work)
- World Trade Organization (WTO) rule – should not discriminate local and international companies.

PUBLIC PRIVATE DIALOGUE – SOLUTIONS
**NATIONAL BANK OF GEORGIA (NBG)**

- NBG will deliver the outcomes from the meeting to relevant organizations
- NBG will ensure full support for successful development of the sector
- Raw material market is poorly organized, there is apparent need for obtaining market information
- Staff: Municipal authorities concentrate on staff retraining. Ministry of Education is greatly involved in reassessment of professional institutions.
- Already trained staff can act as trainers for those in need of upgrading their skills
- Association must be established to take charge of ensuring effective communication between the involved parties, as well as clarifying issues associated with the tax system, export markets and other important aspects
- Negotiations with the government won’t be effective unless production output is increased
- The competency of companies must be escalated and aimed at meeting international standards.
- Need for staff retraining aimed at upgrading their skills to international standards
- Attraction and collaboration with foreign partners
- Existing tax system liberalization
- Support for local raw material production
- Support and promotion of participation in different exhibitions
- Establishment of association, representing the interests of a particular sector
- Continual market research

**გადაჭრის გზები:**

- სწორი მარკეტინგი
- იაფი და ხარისხიანი ნედლეულის მოძიება
- შეღავათიანი სავაჭრო რეჰი
- კადრების გადამზადება
- Consider the importance of marketing in terms of successful business development
- Attraction of inexpensive, high quality raw materials
- Concessionary trade regime
- Staff retraining
- Donor attraction
- Local companies need to acknowledge the importance of establishing themselves in the local market
- Launching new contracts with foreign countries.
- Government should pursue a facilitation policy aimed at supporting successful business development in Georgia
- Banks should no longer be biased and should implement a facilitation policy by offering reasonable interest rates.
- VAT and Income tax should be reduced
- Government and media should act in support of promoting the rating of Georgian businessmen
Photos: NBG/MOESD in Public-Private Dialogue with Georgia’s Apparel Sector – 14 July 2011
D. RECOMMENDATIONS

- Encourage local apparel companies to participate in different exhibitions to increase their awareness and exposure to international markets, experience, and knowledge;

- Facilitate the formation of a healthy business environment, a pre-condition of which needs to be full support from the government, financial institutions, media and other relevant parties;

- Introduce major changes to the tax system through tax code liberalization and incentives to benefit business development;

- Establish an association to serve as a bridge between companies and the authorities; accountable for ensuring effective communication and timely delivery of key messages such as changes to the tax system, information on export markets, and other relevant topics;

- Enhance the workforce through relevant retraining to increase the competitiveness of local staff, and enable them to operate effectively, not only locally, but also at the international level;

- Facilitate the local companies’ access to raw materials to reduce dependence on imports, and boost performance efficiency;

- Ministry of Economy and Sustainable Development to support local business development by identifying and attracting markets.
**E. ADDITIONAL INFORMATION**

**APPAREL SECTOR TRENDS AND CHALLENGES**

**AGENDA - THURSDAY, JULY 14, 2011**

**Overall Objective:** To learn about the Georgian apparel sector and collect information to identify opportunities for assistance.

**Today’s Purpose:** To meet all of you as a group and obtain a comprehensive understanding of the trends, challenges, and proposed solutions related to accomplishing the above objective.

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<thead>
<tr>
<th>Time</th>
<th>Topic for discussion</th>
<th>Facilitator</th>
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<tr>
<td>15:45 – 16:00</td>
<td>Registration of Guests</td>
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<tr>
<td>16:10 – 16:20</td>
<td>Introduction of Participants</td>
<td>Mr. Steve Wade</td>
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<td>Introduction: Goals and Objectives</td>
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<tr>
<td>16:25 – 16:40</td>
<td><strong>TRENDS in the apparel sector</strong></td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td></td>
<td>- Trends – Group I (Yellow)</td>
<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<td>- Trends – Group II (Green)</td>
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<td>- Trends – Group III (Orange)</td>
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<tr>
<td>16:40 – 17:00</td>
<td>Presentation of outcomes by groups (approx. 3 minutes per group)</td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<td>17:00 – 17:15</td>
<td><strong>CHALLENGES in the apparel sector</strong></td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td>- Challenges – Group I (Yellow)</td>
<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<td>- Challenges – Group II (Green)</td>
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<td>- Challenges – Group III (Orange)</td>
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<td>17:15 – 17:35</td>
<td>Presentation of outcomes by groups (approx. 3 minutes per group)</td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<td>17:35 – 17:45</td>
<td>Break</td>
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<tr>
<td>17:45 – 18:00</td>
<td><strong>SOLUTIONS to help the apparel sector</strong></td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td></td>
<td>- Solutions – Group I (Yellow)</td>
<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<td>- Solutions – Group II (Green)</td>
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<td></td>
<td>- Solutions – Group III (Orange)</td>
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<tr>
<td>18:00 – 18:15</td>
<td>Presentation of outcomes by groups (approx. 3 minutes per group)</td>
<td>Ms. Nino Khmaladze Ms. Tamar Razmadze</td>
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<td>Ms. Katy Chumburidze Mrs. Zviad Kvlividze</td>
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<tr>
<td>18:15 – 18:30</td>
<td>Next steps – open discussion</td>
<td>Mr. Steve Wade</td>
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INVITED GUESTS:

NATIONAL BANK OF GEORGIA
1. Vice-President of National Bank of Georgia – Otar Nadaraia
2. Head of Specialized Groups and Supervisory Policy Department – Otar Gorgodze
3. Senior Specialist of Methodology Division at Specialized Groups and Supervisory Policy Department – Davit Utiashvili
4. Senior Specialist of Methodology Division at Specialized Groups and Supervisory Policy Department – Nino Sharumashvili

PRIME MINISTER’S OFFICE
1. Tax and Customs Ombudsmen – Giorgi Pertaia

TBILISI CITY HALL
1. Zviad Archuaadze – Head of Economic Affairs Office

MINISTRY OF ECONOMY AND SUSTAINABLE DEVELOPMENT
1. Head of Department of Economic Analysis and Policy – Lali Ghoghoberidze
2. Head of Foreign Trade and International Economic Relations – Mikheil Janelidze

GEORGIAN NATIONAL INVESTMENT AGENCY
1. Deputy Director – Ia Janashia (responsible for apparel sector investment promotion)
2. Export Manager – Gvantza

REPRESENTATIVES FROM APPAREL MANUFACTURERS
(From Tbilisi)
1. Elselema
2. Miller and Company
3. Materia
4. Laura Gachava
5. Maudi
6. Pantastika Iveria
7. Nitexi
8. Unistyle
9. Madson Textile
10. State Owned Apparel & Footwear Manufacturer under the Ministry of Defense of Georgia
11. Lazeti
(From Kutaisi)
12. Imeri
(From Adjara)
13. Adjara Textile
14. BTM Textile
15. Batumi Textile

USAID GEORGIA
1. Revaz Ormotsadze
EPI GEORGIA

1. Steve Wade – Chief of Party
2. Ketl Chumburidze – Facilitator (PPD Manager, EPI)
3. Nino Khmaladze – Facilitator (Business Development Manager, EPI)
4. Tako Razmadze – Facilitator (PR Manager, EPI)
5. Zviad Kvlividze – Facilitator (Apparel Sector Manager, EPI)
6. Eka Nadareishvili – Organizer (Administrative Assistant, EPI)