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The creative sector in Georgia: Situation, potential and policy issues

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The German Economic Team Georgia (GET Georgia) advises the Georgian government and other Georgian state authorities such as the National Bank on a wide range of economic policy issues. Our analytical work is presented and discussed during regular meetings with high-level decision makers. GET Georgia is financed by the German Federal Ministry for Economic Affairs and Energy. Our publications are publicly available at our website (www.get-georgia.de).

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The creative sector in Georgia: Situation, potential and policy issues

Executive Summary

Georgia has a rich cultural tradition as well as an affinity for unique designs. Can this creativity be an economic asset? This can in principle be assessed by using the standard “creative industries” approach, which measures several industries in the creative sector. Due to data limitations, we develop and use a slightly simplified method based on the international approach for Georgia.

At present, the measurable creative industries – 7 out of 11 industries – together make up 1.5% of gross value added (GVA) of the Georgian economy and 1.1% of employment. The creative sector is hence small, but has been growing considerably, almost doubling its share of the economy between 2010 and 2015. However, the configuration of the sector is heavily tilted to only one creative industry. Advertising makes up more than half of current economic activity in the sector and almost all of the gain of the share in the economy. Other large components of the sector are radio & TV and the books and press industry, which both make up around 20% of the creative sector each, but did not substantially contribute to growth in the past.

The potential for future growth of the creative sector appears positive, but limited. At the same time, some complementarities may arise with tourism, textile & furniture and the production of beverages. However, large potential industrial users of design or other creative services do not exist in Georgia. There is some potential for a creative scene in the capital Tbilisi, but it is as of now unclear whether this can develop into an economically relevant scene.

Due to the limited current economic significance and unclear potentials for its own growth or contribution to growth of other sectors, we do not recommend large-scale measures with sizeable funding for developing the creative sector of Georgia at the moment. The current cash rebate programme for international film productions in our view is unlikely to produce significant and sustainable economic results. However, we recommend establishing a “creative cluster management” under the umbrella of the “Produce in Georgia Agency” in order to improve monitoring and understanding of the creative industries, strengthen their networking among themselves and with potential users and in order to leverage the creative sector for location branding (tourism and investor attraction) purposes. A close monitoring of the sector and its interaction with the rest of the economy appears warranted.

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1. Introduction

Georgia's rich cultural tradition, ranging from traditional crafts to internationally famous poets and musicians as well as a unique "Georgian design touch" are easily identifiable characteristics of the country and important elements of Georgian identity. However, does the country – or can it in future – also benefit economically from these creative and cultural traditions?

Culture and creativity are increasingly being recognised as important economic factors. In recent years, many countries have begun to seriously consider the economic contribution of creativity and the production of cultural goods. The government of Georgia has, to this end, launched the Creative Georgia initiative, hosted by the Ministry of Culture of Georgia, supported by the EU-Eastern Partnership culture and creativity programme and involving the Ministry of Economy and Sustainable Development of Georgia. A roadmap created in this context foresees measures ranging from collection of data on creative industries and activities to grants programmes for developing creative companies and the creative sector.

In order to inform this roadmap process, as well as to focus other policy activities, it is important to get a clear view of the current economic role and potential that the "creative sector" – composed of several different "creative industries" - has for Georgia. This paper will analyse the current economic contribution of the creative sector and creative industries in Georgia and their potential for facilitating the further growth of the Georgian economy. It will also aim at identifying what role economic policy can and should play in facilitating the further development of the creative industries. This paper follows our Policy Briefing¹ that explained the concept of creative industries and highlighted relevant international approaches and experience in developing creative sectors and creative industries.

¹ PB/01/2017 "Developing creative industries: Approaches and international experience"

2. The role of creativity in the economy

2.1 Sectoral or occupational definitions

The origin of the concept of a creative sector lies in cultural policy: In order to promote cultural activities and companies, an economic justification was sought. In this course, the role of creativity for the economy was emphasised, especially in the context of an (alleged) transition from industrial mass production towards an “innovation economy” in which creative and cultural products play a larger role.

Especially relevant from an economic policy point of view is the concept of “creative industries” or “cultural and creative industries” that together make up the “creative sector” of a country. Creativity also plays a role in many other parts of the economy, but in creative industries, the production of cultural goods and other creative activities constitute the core of the companies’ activities. Hence, creative industries can be seen as a separate *sector* of the economy. A first definition of creative industries was made by the UK Department for Culture, Media and Sport (UK DCMS) in the “Creative Industries Mapping Document” in 1998. Originally, 13 creative industries were defined. Later, this approach was refined to include 11 creative industries.

It is important to note that this sectoral approach is not the only way of defining the contribution of creativity to the economy. Indeed, many important creative activities are performed outside the creative sector (e.g. designers working in the car industry). A sectoral approach only captures those companies whose focus is on the identified creative activities. The most important other concept is the “creative economy” approach, an *occupation-based concept*. This concept recognises that creativity is not restricted to the creative industries. Many workers in creative occupations work outside the creative industries (“embedded creatives”, e.g. designers in automotive companies) and many non-creative staff work in the creative industries. It hence is usually applied as an extension of the creative industries approach by adding the creative staff outside the creative industries to the picture of the “core” creative industries.

For policy use, the sectoral creative industries approach is generally appropriate and commonly used. It can be implemented using common economic statistics, delivers an understanding of the economic contributions of groups of companies as well as specific development challenges these companies may face and how the government may be able to support their growth. However, the approach also has downsides: Firstly, it encompasses widely different companies (e.g. the creation of cultural/creative goods and services as well as trade in these goods and services; the production of reproducible goods or services (e.g. books, advertising services, music recordings) and the production of unique works or performances). Secondly, it excludes many creative workers outside the creative industries

The first aspect must be recognised and dealt with by internally differentiating within the different creative industries when using this approach. The second aspect could be dealt with by using the “creative economy” approach and extending the scope of a study. However, the creative economy approach has more demanding requirements on data collection (typically requiring extensive coding of occupations in labour force surveys) such that it is at present not applicable to the Georgian case. We will hence focus on creative industries in this paper, trying to differentiate accordingly between different industries and activities within the creative sector.

2.2 Normal statistical definition of creative industries

The creative sector is usually conceptualised as constituting of the 11 individual creative industries summarised in table 1. It should be noted that creative industries are not industries in the conventional meaning of the term. Firstly, they are not goods-producing industries and secondly, they do not correspond to main categories within statistical classifications such as NACE or ISIC (typically the 2 digit level identifying industries such as “Manufacture of food products and beverages”). Several efforts have hence been made to statistically define the 11 industries by allocating them with finer statistical entities, usually at 4 digit level.

Table 1

Definitions of creative industries

Creative sector
Advertising
Architecture
Archives, libraries, cultural heritage
Books & press
Cultural education
Design & visual arts
Music
Performing arts & artistic creation
Radio & TV
Software & games
Video & film

Source: UK DCMS, EU DG GROW

Classifying a statistical category “creative” is not trivial (for example, is “retail sale of newspapers and stationery in specialised stores” part of the creative industry “books and press” or a non-creative trade activity?). Hence, different efforts at defining creative industries in statistics have led to different definitions. Three important definitions (EU Commission DG GROW, UNESCO and the current German classification) are summarised in the annex to this paper. The key distinction between these definitions is whether they focus creative industries closely on cultural activities (as the UNESCO definition does) or include marketing and trade activities in a more business-oriented definition such as the German definition.

2.3 Current issues with statistical analysis of creative industries in Georgia

In Georgia, very limited availability of statistical data at present does not permit a conventional statistical analysis of the 11 creative industries. Data collection of individual economic sectors still follows the older NACE rev. 1.1 rather than the newer NACE rev. 2 classification. This does not permit

exact identification of some creative industries (Design and visual arts; Cultural education) as some newer statistical are lacking. This leads to, for example, the exclusion of the telecommunications category from the creative sector definition as otherwise, including data on (non-creative) mobile phone and internet service providers would lead to a massive overestimation of the creative sector. Even more, data availability at 4-digit level is very incomplete, such that a conventional approach cannot be taken and an alternative approach towards statistical identification has to be created. Out of 35 NACE rev. 1.1 4-digit categories that compose the 11 creative industries, data on turnover or gross value added was only available for 13 categories.

Table

Statistical data availability for creative industries in Georgia at NACE 4 digit level

Creative industries	# of associated 4-digit codes	Data availability
Advertising	2	1
Architecture	(not feasible in NACE rev. 1.1)	-
Archives, libraries, cultural heritage	5	0
Books & press	9	7
Cultural education	(not feasible in NACE rev. 1.1)	-
Design & visual arts	2	0
Music	4	1
Performing arts & artistic creation	2	0
Radio & TV	2	2
Software & games	3	0
Video & film	6	2
Total	35	13

Source: Geostat, own calculation

Reasons for inadequate data availability are, according to Geostat staff, mainly difficulties with classifying companies into fine categories. Activities at 4-digit level are relatively narrowly defined, making it difficult to determine what the relevant core activity of a company is. However, this difficulty appears to be a largely due to capacity gaps at the statistical authority as these issues have been successfully resolved by other countries. Another reason might be a very small size of some creative industries, in which case confidentiality rules might restrict data availability. However, to our information, classification was the main problem leading to limited data availability.

If a statistically up-to-date analysis of the creative industries is desired, Geostat should devote resources to improving the statistical classification and treatment of companies in the constituent NACE 4-digit level, potentially aided by technical assistance. We would recommend using the German classification, included in the Annex with both NACE rev. 1.1 and NACE rev. 2 codes, as it includes commercial activities directly related to creative activities and hence captures the economic sector focused on creativity more broadly than e.g. the UNESCO approach that focuses the production of cultural goods.

2.4 A practicable approach for statistical analysis of creative industries in Georgia

In order to deal with restricted availability of statistical data, we propose an alternative approach using available data at only 10 NACE 1.1 codes (mainly at 3 digit level). This approach entails a loss of accuracy. Firstly, an analysis with NACE rev. 1.1 data is necessarily inaccurate as described above. Secondly, using higher aggregations of available statistical data (mainly 3 digit level) entails that 13 categories at 4 digit level (see annex) are not included in our data and 4 categories at that otherwise would not be considered part of the creative industries are included due to using larger levels of aggregation at 3 digit level. Nevertheless, this approach strikes a reasonable balance between accuracy and practicability.

Table 3

Proposed use of NACE codes for statistical analysis of creative industries in Georgia

NACE rev. 1.1 code	Description	Creative industries included
22.1	Publishing	Books & press*
22.2	Printing and service activities related to printing	Books & press
52.47	Retail sale of books, newspapers and stationery	Books & press
52.5	Retail sale of second-hand goods in stores	Books & press
74.4	Advertising	Advertising
92.1	Motion picture and video activities	Video & film
92.2	Radio and television activities	Radio & TV
92.3	Other entertainment activities	Performing arts & artistic creation
92.4	News agency activities	Books & press
92.5	Library, archives, museums and other cultural activities	Archives, libraries, cultural heritage

*Source: UK DCMS, EU DG GROW *Also includes publishing of sound recordings*

In the following, we will use these codes for delivering a statistical picture of the creative industries in Georgia. Four industries cannot be statistically identified at present: Architecture, design & visual arts, software & games, cultural education.

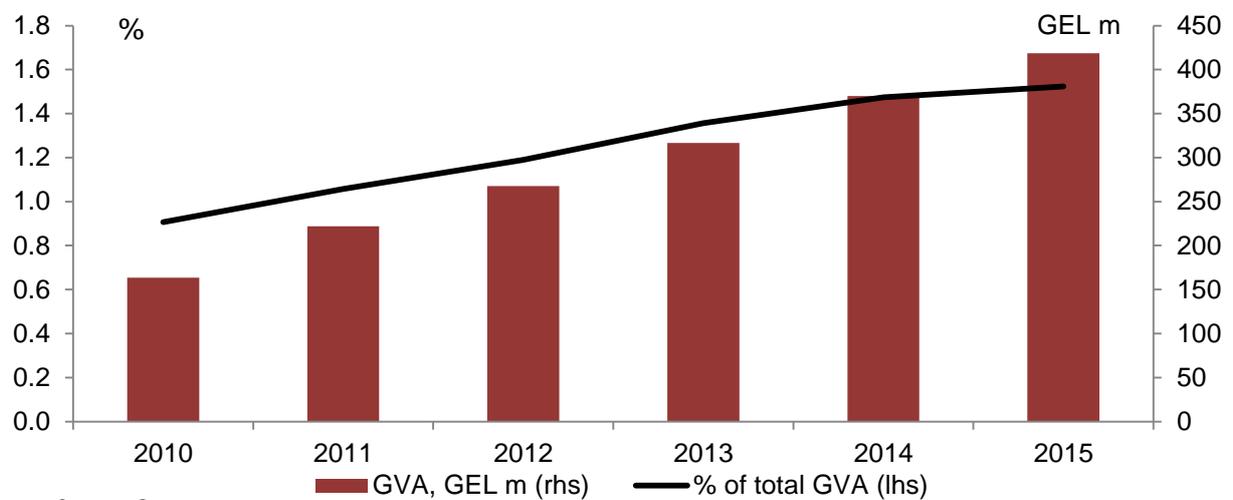
3. The creative sector and creative industries in Georgia at present

3.1 The creative sector

In 2015, the measurable creative sector of Georgia accounted for a gross value added (a similar measure to GDP, but excluding taxes and subsidies) of GEL 419 m, corresponding to a share of 1.5% of the Georgian economy. Although clearly very small in relation to the rest of the Georgian economy, the creative sector has exhibited constant growth both in absolute and relative terms over the past years, raising its GVA share from 0.9% in 2010 to 1.5% in 2015

Figure 1

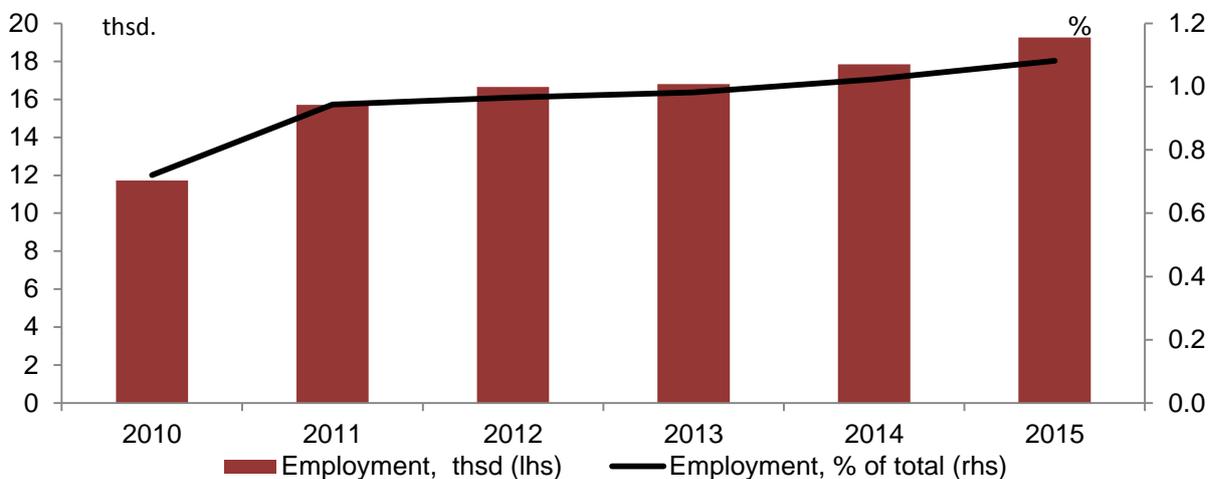
GVA of the creative sector, 2010-2015



The number of employed persons in the creative sector has also risen during 2010-2015 from roughly 11700 to 19300 jobs, which corresponds to roughly 1.1% of total employment in Georgia

Figure 2

Employment in the creative sector, 2010-2015



Although not perfectly well comparable due to different methodologies, Georgia’s creative sector hence is significantly smaller in proportion to the rest of the economy than the creative sector in Germany or the UK (see Box 1). In the UK, the creative sector – encompassing especially a very large “IT and software services” sector (roughly comparable to the software and games industry usually used) – accounted for 5.2% of GVA and 11.2% of employment in 2012. In Germany, the creative sector accounted for 2.4% of GVA and 3.2% of employment in 2014.

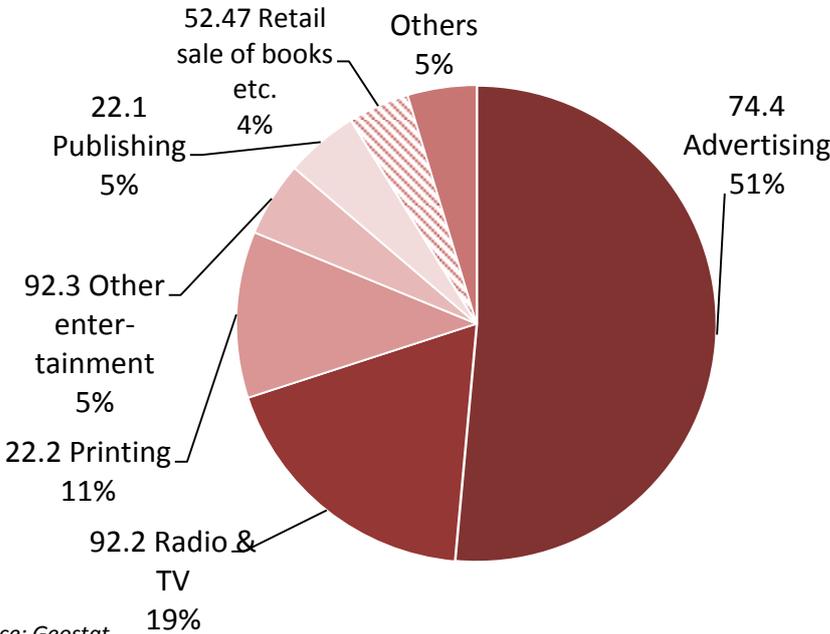
Hence, it appears that the creative sector in Georgia remains relatively small in comparison to other countries. Lack of data in some categories will lead to an underestimation of the creative sector of Georgia, however, it is highly probable that the economic activity and employment in the categories not captured by Geostat are very small, such that the underestimation will not be very large. However, the constant growth of the creative sector, which has almost doubled its GVA share between 2010 and 2015, is encouraging.

3.2 Individual creative industries

Moving from an analysis of the entire creative sector to considering the individual creative industries, we find that the creative sector is dominated by a relatively large advertising industry that accounts for more than half of the entire GVA of the sector.

Figure 3

Share of creative industries in creative sector GVA

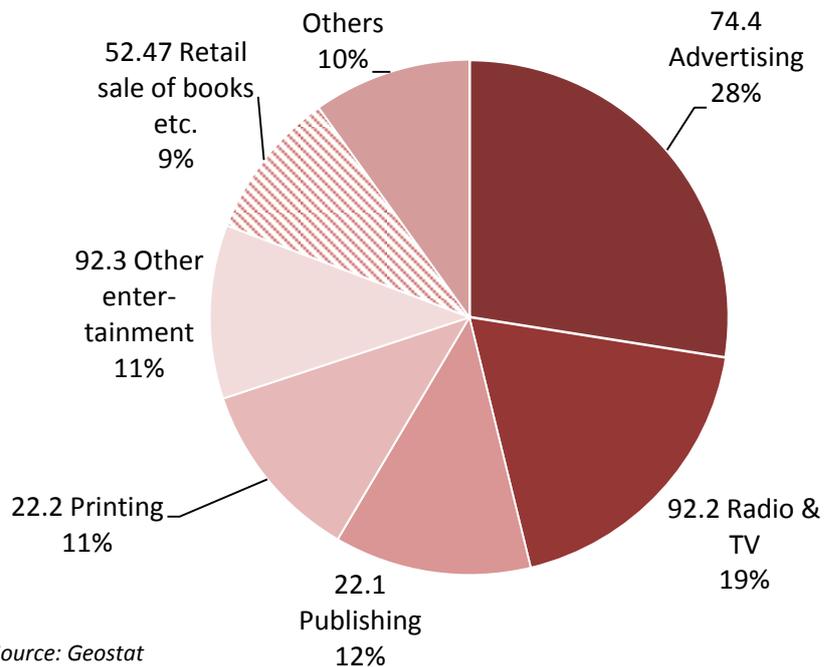


Source: Geostat

The other notable components of the creative sector are radio & TV, printing and services activities related to printing, other entertainment activities (encompassing “artistic and literary creation and interpretation”, “operation of arts facilities”, “fair and amusement park activities” and entertainment activities not elsewhere classified) as well as publishing and retail sale of books, newspapers and stationery. A film industry does not appear to exist in any significant size in Georgia. This picture is mirrored in the distribution of employment in the creative sector.

Figure 4

Share of creative industries in creative sector employment

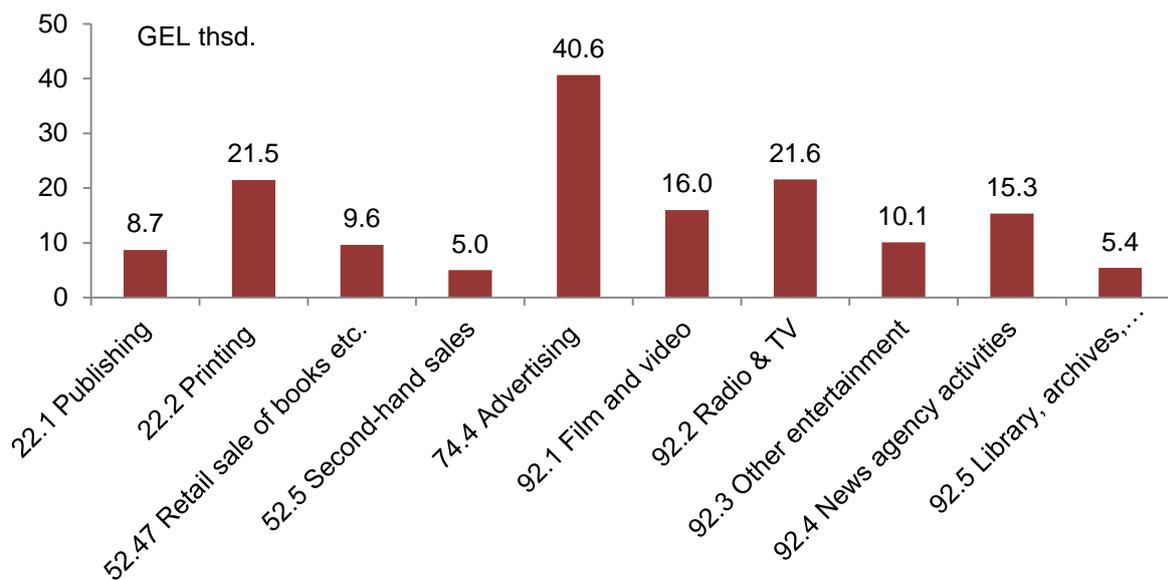


Source: Geostat

Except for a significantly smaller share of advertising on total employment – indicating a higher productivity per employee – and a higher employment share of publishing (indicating low productivity), the distribution of employment in the creative industries is quite the same as for GVA. Indeed, the value added per employee differs widely across the different creative industries:

Figure 5

GVA per employee in creative industries, 2015



Source: Geostat

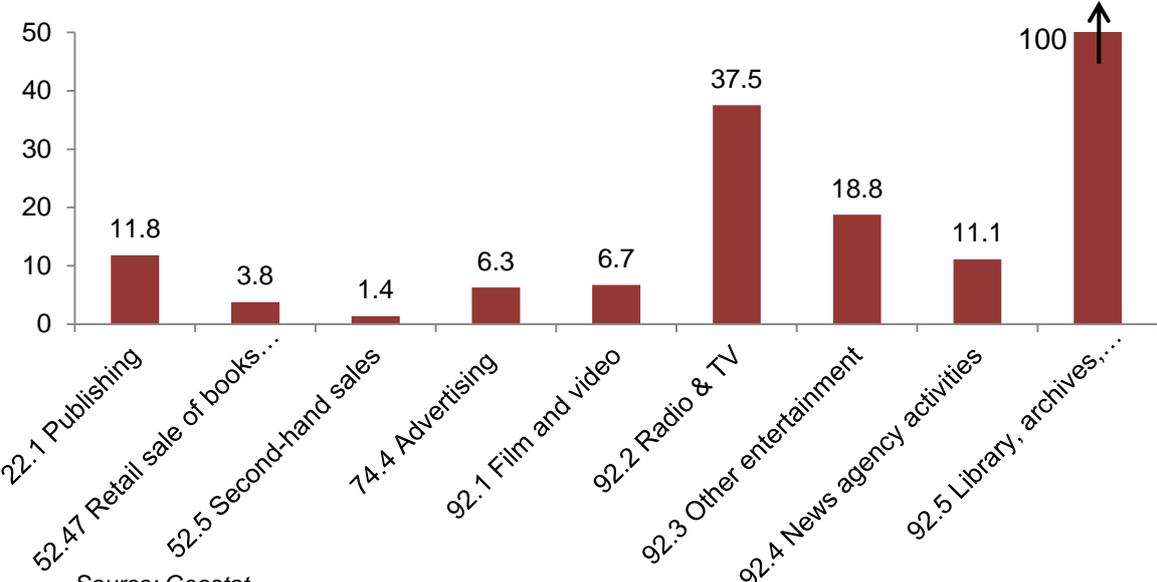
On average, an employee in the creative sector produced a GVA of GEL 21.7 thsd (roughly USD 9-4 thsd) in 2015, which is somewhat the Georgian average of GEL 15.4 thd (USD 6.8 thsd.) However, the

national average is essentially depressed due to the huge share of self-employment in agriculture that essentially covers unemployed or retired individuals earning a side income. Also, a wide variance existed between employees in the advertising sector, generating on average a GVA of GEL 40.6 thsd and employees in libraries, archives, museums etc., generating on average a GVA of GEL 5.4 thsd. Part of this variation is likely to be reflected in different wages. However it should be noted that for subsidised services (which museums and libraries etc. generally are), the subsidies are not included in the GVA measure (as the service provided cannot be measured like a normal private good provided by a company). Also, part-time and marginal employment such as security guards etc. is much more likely in the latter industry, driving down averages. Nevertheless, a clear difference in worker productivity can be seen between the “commercial” part of the creative sector (advertising, printing, radio & TV) and the “cultural” part.

Finally, Fig. 6 considers the company structure in the creative sector. It is apparent here, that for the most part, SMEs dominate the creative sector. This is indeed a characteristic of the creative sector that is often cited as one of its crucial feature, as many providers of cultural or creative services are small enterprises (e.g. crafts workshops, collectives of fashion designers). The picture evident in Georgia fits in with the expectations on company structure.

Figure 6

Average number of employees per company, 2015



Libraries, archives and museum stand out because of the large average number of 100 employees per company, mainly due to the required number of guards, ticket sellers and wardens per institutions. Next biggest are companies in radio and TV with 37.5 employees on average, unsurprising as TV or radio stations or production companies generally involve a certain minimum number of staff to operate. “Other entertainment” companies also have a relatively large average staff number of 18.8 (probably due to the fact that “operation of arts facilities” or “fair and amusement park activities” – e.g. Mtatsminda park – will involve a large number of staff in some

instances). The other creative industries, including the quantitatively big advertising industry (with 844 companies registered), however, are characterised by very small average numbers of staff. The creative sector in Georgia is hence also dominated by SMEs, with an average of 7.7 employees per company.

3.3 Conclusions

Georgia's creative sector is not big, but has been growing steadily in economic importance over the last few years. A small numbers of creative industries make up most of the sector. In terms of the usual classification of creative industries, these are:

- Advertising
- Radio & TV
- Books & press (encompassing printing and retail sale of books, newspapers and stationery)
- Performing arts & artistic creation (encompassing most of "other entertainment")

Three other creative industries are very small in economic importance in today's Georgia:

- Archives, libraries, cultural heritage
- Music
- Video & film

Georgia's creative sector is hence currently dominated by "commercial activities" such as advertising, radio and TV rather than "cultural activities" such as music, museums or visual arts. Not statistically identifiable due to limitations on the structure of data collection and the availability of data are:

- Architecture (due to limitations of NACE rev. 1.1 data)
- Design & visual arts (due to limitations of NACE rev. 1.1 data)
- Software & games (due to lack of data)
- Cultural education (due to limitations of NACE rev. 1.1 data)

Comparing Georgia to Germany or the UK (see Box 1), one thing that stands out is that the creative industry of IT/software and games cannot be identified statistically in Georgia. A lack of available data strongly suggests that activity in this industry is at best marginal at present. Hence, a usually major creative industry, making up 43% of the UK's creative sector and 19% of Germany's, appears entirely absent in Georgia at the moment.

Summing up, although specific and identifiable traits of Georgian creativity and design are clearly visible in the country, the economic impact of Georgia's creative sector remains limited. This can have different reasons:

- Designers or talents for design and arts may already be utilised within other parts of the sectors (examples: designers working in industry or the tourism sector would not be registered as parts of the creative sector). This cannot be analysed at presents due to unavailability of occupation-based data
- The economic potential may not be exhausted and is potentially locked by shortfalls or constraints (e.g. education, networking with "consumer industries") that policy could address. This will be analysed in the next sections

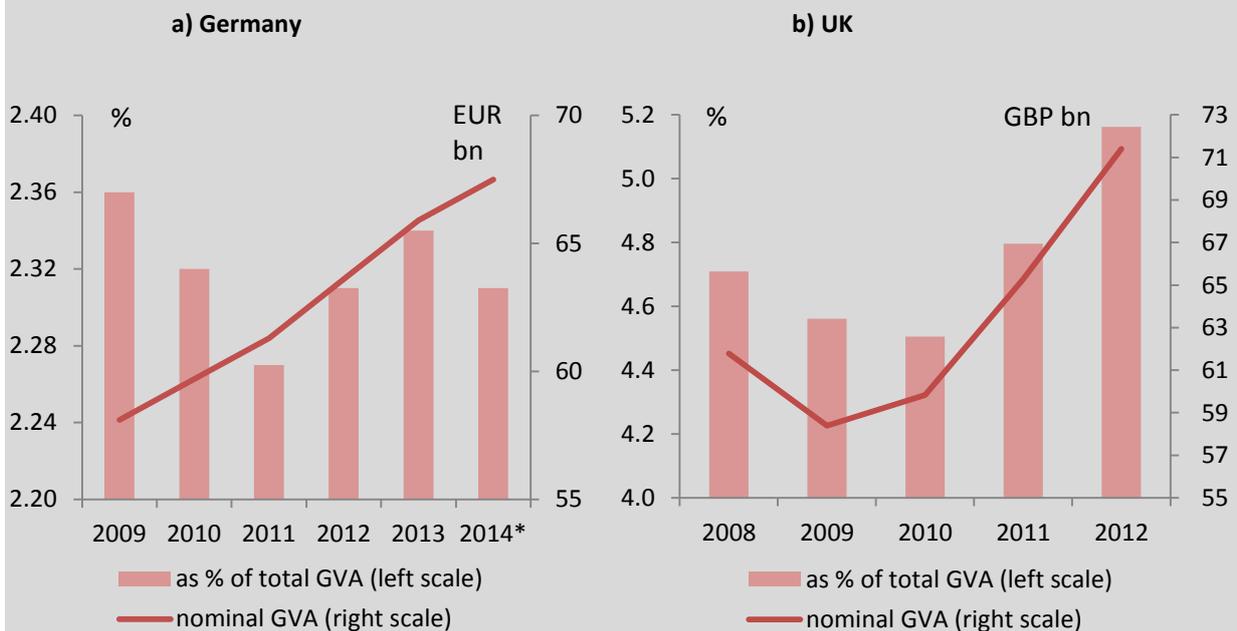
- Not all parts of culture and creativity lead to large economic returns. Some aspects of culture are usually and legitimately provided as public services, justified by cultural policy objectives, not by economic policy reasons (e.g. opera). Other traded arts and crafts, although discernible and culturally valuable, will never lead to large numbers in economic statistics. Hence, especially the more culture rather than commercial parts of the creative sector may not have a large economic impact

Box 1

The creative sector in Germany (DE) and the UK

Figure B1

GVA of the creative sector



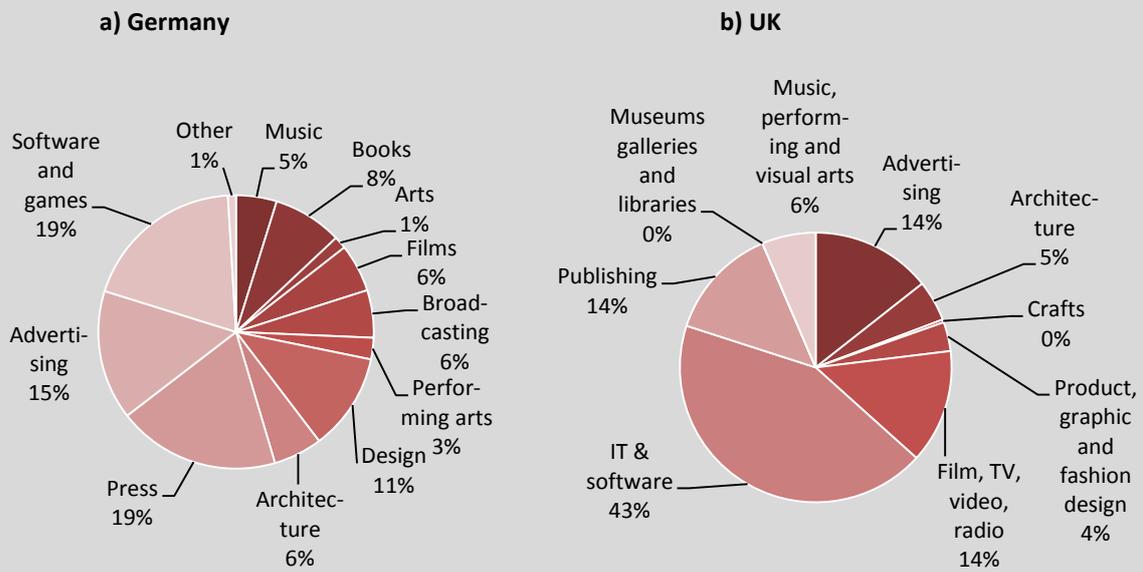
Source: German Federal Ministry for Economic Affairs and Energy, *Estimation

Source: UK Department for Culture, Media and Sport

The size of the creative sector of the economy, measured using similar but not equal methods, varies quite considerably between the UK and Germany. Whereas the creative sector made up 5.1% of UK total GVA in 2012 and was rising constantly between 2009 and 2012, the German creative sector kept a relatively constant share of around 2.3% of GVA between 2009 and 2014. A key reason for this relatively stark difference may lie in the fact that the German economy is on average more focused on industrial production, whereas services provision (which the creative sector is essentially a part of) is the central focus of the UK economy. In tune with this, IT & software services play a much larger role in the UK's creative sector than in Germany's.

Figure B2

Composition of creative sector, 2012



Source: German Federal Ministry for Economic Affairs and Energy

Source: UK Department for Culture, Media and Sport

4. Potential for further development of creative industries in Georgia

Georgia is generally considered a country with a large pool of creativity and certainly has a rich cultural tradition. Given the small state of the creative sector of Georgia and its relatively constant growth over the observation period in the data from 2010 to 2015, does Georgia’s creative sector hold the potential for significant further economic growth?

Deducting the economic growth potential is no trivial matter. International comparison will not be helpful as too many country-specific factors (e.g. demand for cultural and creative services, the education system in creative professions, and perception of quality of life by artists or creative entrepreneurs) are likely to influence the potential. Judging from present size alone will not help much, because present size does not imply growth potential: It is a characteristic of creative and cultural enterprises that they are often not scalable. For example, a fashion design company centred on one designer will often not be able to increase its turnover despite demand for additional services. Of course, changing work and production processes in order to increase output is always a theoretical possibility, but it is often not desired by the actual company owners and entrepreneurs.

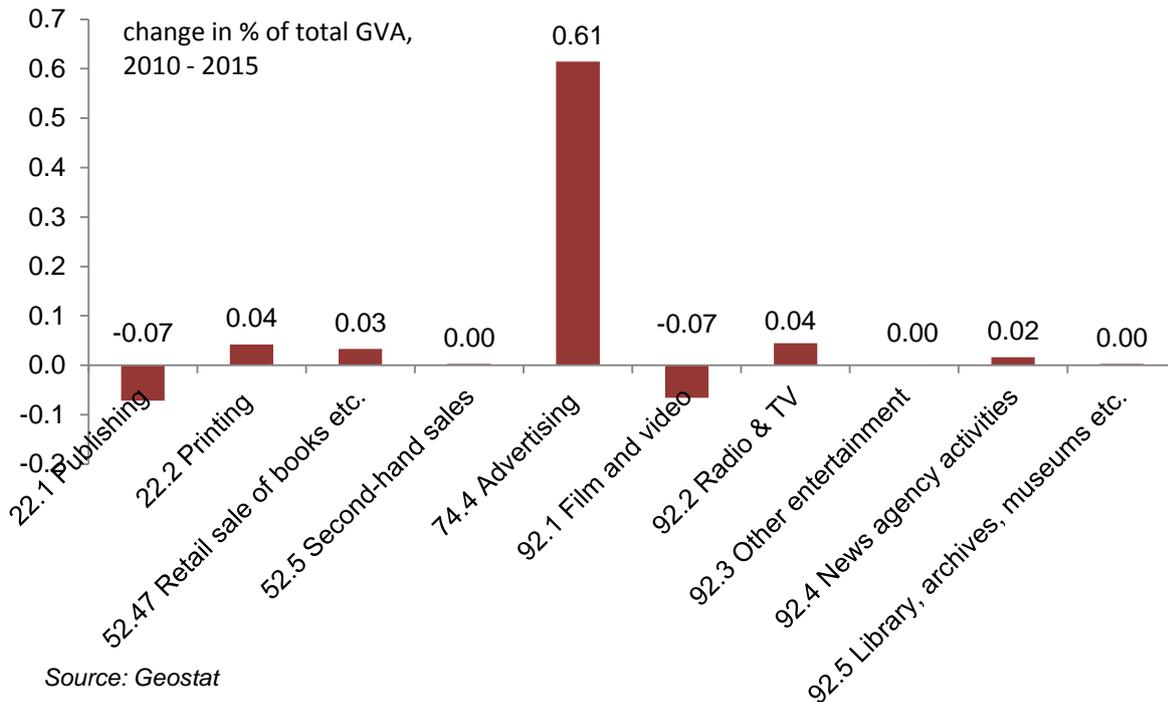
Hence, we opt for a three-pronged approach to make conclusions about the growth potential of the creative industries in Georgia. We first look at industry-level growth in the past years to see which creative industries contributed most strongly to the 0.6% increase in the creative sector’s share of total GVA. We also consider how demand from industries outside the creative sector may drive the growth of creative industries. Finally, we qualitatively consider the quality of the general growth environment for creative enterprises in Georgia.

4.1 Recent growth of creative industries

The analysis of where the recent growth of the GVA share of the creative sector of Georgia came from reveals a disenchanting picture: Almost all of the growth was delivered by a sharp increase in the size of the advertising industry, from 0.17% to 0.78% of total GVA between 2010 and 2015. The rest of the creative sector essentially stagnated.

Figure 7

Change in GVA share of creative industries, 2010 - 2015



The conclusion of a dynamic creative sector does not hold up. The singular growth of the advertising industry appears to be solely a consequence of a growth in other industries such as consumer goods, tourism or the move towards structured retail trade in food. There was apparently very little “intrinsic” growth due to creative entrepreneurs in areas such as software, video or TV.

Of course, there may have been growth in the creative industries that cannot be statistically accounted in NACE rev. 1.1 data (architecture, design & visual art, cultural education). Design for example accounts for 10% of the German creative sector and appears, on a skills level, to be a strength of Georgia – but whether it is economically relevant cannot be judged at the moment for want of data. The strong economic performance of the construction industry in Georgia in recent years would indicate that architecture may have thrived. However, much construction activity was in infrastructure (not requiring many architectural services). Among housing construction, some may have indeed used Georgian architects. Cultural education generally is a small creative industry and unlikely to have grown much in recent years. Thus, overall, the data indicates that except advertising, there was not much dynamism in Georgia’s creative sector in the past few years.

4.2 Complementary sectors in the economy

A source of growth for the creative sector may be demand from “user industries” of creative services, especially commercial services such as design, software or advertising. At the same time, the existence of creative service providers may be a prerequisite or accelerator for the growth of these sectors, especially if design services can increase the branding and value added generated by these sectors. For Georgia, three sectors exhibit potential for complementarity with creative industries:

- **Tourism:** The tourism sector has been one of the large contributors to growth for Georgia in recent years. Hotels and restaurants made up around 2.8% of Georgian GVA in 2016, up from 2.3% in 2010. The income generated by the tourism sector exceeds the entirety of Georgian goods exports. This sector is heavily complementary with the creative sector: It requires both commercial services (such as architecture, advertising etc.) as well as generating demand for cultural goods and services. Creativity and culture are and will remain cornerstones of the “country brand” of Georgia for attracting tourists. Growth in the tourism sector is expected to remain strong and the complementarity with the creative sector will remain high.
- **Textiles:** In recent years, a successful textile industry has been set up, concentrated in Adjara region and dominated by Turkish companies aiming to benefit from duty-free access to the EU market. Generally, coupling a textile industry with fashion designers can lead to increasing the value-added of this sector. However, in order to benefit from designers, the companies must usually be able to implement small scale production of individual goods, which currently does not appear to be feasible in Georgia. Hence, although a textile sector as well as Georgian fashion designers (including multiple regular fashion shows and events) exist in Georgia, the complementarity of these sectors is at present limited. A similar basic complementarity exists for furniture production. Textiles, furniture, together with wood and paper products accounted for 1.2% of Georgian GVA in 2016 but have not increased their GVA share much since 2010.
- **Beverages (wine, waters, spirits):** Georgia is well known as a producer of highly special wines (e.g. traditional Qvevri wines), mineral waters (Borjomi) and spirits such as Chacha. These branded export goods can benefit much from design and advertisement services and are likely to increasingly demand these as the producers will try to enter new geographic markets. In the past year, the GVA share of beverage production has remained around 2%.

These three sectors should provide at least a limited rise demand for creative goods and services in the next few years, especially the tourism sector, the boom of which may in part explain the rise of advertising activity. However, at the same time, the existence of these sectors has not led to much else growth of the creative sector in past years. That may be due to two reasons: Firstly, creative staff may have been employed directly in these sectors, hence escaping our statistical approach. Secondly, there may be a shortage of supply of creative goods or services usable for these sectors. That may be due for example to inadequate education and training. What is clearly lacking as a source of economic complementarity in Georgia is a large industrial sector based on innovation-intensive industries (such as automotive or consumer goods) that could use design or other creative

services, such as the German automotive industry. This somewhat restricts the economic potential of the Georgian creative sector and is unlikely to change in the near future.

4.3 Environment for growth of creative industries

Finally, creative industries can sometimes emerge and become economically relevant (as industries in their own right as well as parts of an attractive “location brand” that may attract other industries/sectors) if conditions are conducive to founding creative companies. For example, cheap living conditions and a creative and artistic social environment have attracted many different creative entrepreneurs, from music producers to software entrepreneurs, to the German capital of Berlin in recent years such that now on the one hand the software industry offers genuine economic potential to previously economically distressed Berlin and the creative environment attracts tourists and tech entrepreneurs alike.

Does such a potential exist in Georgia as well? Some conditions clearly exist: Tbilisi is an attractive city, rich in history and with an arts scene that includes authentically traditional and contemporary aspects. Living is relatively cheap. Indeed, seeds of such a creative environment are visible for example in the cluster of creative companies located at the new “Fabrika” hostel complex, events such as the Mercedes Benz Fashion Show or the Georgian Innovation and Technology Agency that offers equipment and spaces for creative and technology entrepreneurs.

However, this potential should not be exaggerated either: International competition for the mobile successful creative entrepreneurs is high and some downsides exist for the economic development of a creative scene in Georgia. Among these are the limited domestic demand and buying power for cultural and creative goods or services, relatively high interest rates for investment as well as a largely outdated system of public education institutions for the creative domain that have often lost the connection with contemporary methods and technologies as well as not preparing graduates for the business side of their professions. This is especially likely, and has been confirmed by interviews, to adversely affect the development in the creative industries of advertising, design and software where companies struggle to find qualified staff in Georgia due to inadequacy of the education system.

4.4 Conclusions

The observed growth of the creative sector of Georgia has its sole origin in the growth of the advertising industry. While advertising has developed dynamically in past years, the rest of the creative sector has essentially stagnated, which leads to questions about its dynamism and capacity for future growth. Nevertheless actual (tourism) and potential (textiles, beverages) complementarities with other sectors of the economy exist that could lead both to growth of the creative industries and of the “user” industries through creative services such as design contributing to increasing the value added generated by the user industries. A certain potential for the independent development of a creative scene also exists in Tbilisi, but is not certain.

5. Policy recommendations

Can or should policy support the growth of the creative industries in Georgia? As with any call for policy intervention, this should be justified by an identification of potential market failures (growth obstacles removable by policy) and economic potential to be unlocked. In the creative sector, care

should be taken to distinguish cultural policy objectives from economic policy objectives. For cultural policy, it can be entirely fine to permanently subsidise certain activities. For economic policy, this does not apply. Hence, the two objectives – preservation/development of culture and the generation of jobs and value added – should not be confused. Within the creative industries, this will usually imply that most support for the arts will be due to cultural policy objectives whereas measures aimed at design, advertising or software companies will usually be motivated by economic policy concerns.

In Georgia, some activities are already being undertaken with regard to developing the creative sector from an economic point of view. The roadmap process in the “creative Georgia” framework undertaken by the Ministry of Culture of Georgia with participation of the Ministry of Economy and Sustainable Development, supported by the EU Eastern Partnership culture and creativity programme contains both economic and cultural policy objectives. In terms of existing, concrete support, a cash rebate programme for international film productions in Georgia and the Georgian Innovation and Technology Agency stand out. As the size of the creative sector is small at present, economic dynamism has only been detected in the advertising industry and no obvious potentials for future growth of the creative sector have been detected, we do not recommend large-scale measures with large financial needs for developing the creative sector of Georgia at the moment.

In this regard, we are highly sceptical of the cash rebate programme for international film productions. Such programmes have existed or exist in several countries and are highly attractive for film companies as they are direct subsidies to production expenditures. However, from the standpoint of countries, they are expensive subsidies and do not generate sustainable business models. If such programmes run out, productions usually move on to another country that still offers subsidies. Natural beauty, availability of production equipment/technology and other unique selling points of countries usually have less of a binding effect than hoped for by authorities as productions usually bring their own technology and can heavily use studio technology rather than actual scenery to generate the desired images. The economic impact of such subsidies schemes is hence usually restricted to a temporary effect on local services such as hotels and restaurants. On balance, we would therefore recommend against continuing this programme.

However, we do recommend a close monitoring of the sector and its interaction with the rest of the economy through a “creative cluster management”. This could take the form of a secretariat at the newly-established Produce in Georgia Agency, including two to five permanent staff who should act as “cluster managers” for the creative industries. Their tasks should include

- Interacting with companies, contributing to networking within the sector and of creative with non-creative industries (e.g. fashion designers with textiles companies)
- Gathering knowledge about, and aiming to remedy, obstacles faced by creative companies related to the setup of public institutions (e.g. driving a reform of education for the economically most relevant parts of the creative sector: Advertising, design, software, where lack of qualified staff has been identified as a constraint for growth)
- Improving the statistical monitoring of the creative sector and improving the understanding of potential further needs for policy action
- Once a better understanding of the sector has been gained, the “creative cluster management” could organise networks or marketplaces – e.g. through networking events or

schemes such as “design vouchers” for potential customers. A key need of creative industries often concerns marketplaces where creative companies can find customers

- Furthermore, the creative cluster management should also compile and present information on creative companies and cultural activities in Georgia for the purpose of marketing the country as an attractive tourist destination and an attractive place to live and invest.

Annex: Definitions of creative industries

1) EU DG Growth*	
NACE Rev. 2	
Advertising:	M 70.21 Public relations and communication services
	M 73.11 Advertising agencies
	M 73.12 Media representation
Architecture:	M 71.11 Architectural activities
Archives, libraries, cultural heritage:	R 91.01 Library and archives activities
	R 91.02 Museums activities
	R 91.03 Operation of historical sites and buildings and similar visitor attractions
	R 93.21 Activities of amusement parks and theme parks
	R 93.29 Other amusement and recreation activities
Books & press:	C 18.11 Printing of newspapers
	C 18.12 Other printing
	C 18.13 Pre-press and pre-media services
	C 18.20 Reproduction of recorded media
	G 47.61 Retail sale of books in specialised stores
	G 47.62 Retail sale of newspapers and stationery in specialised stores
	G 47.79 Retail sale of second-hand goods in stores
	J 58.11 Book publishing
	J 58.13 Publishing of newspapers
	J 58.14 Publishing of journals and periodicals
	J 63.91 News agency activities
	M 74.30 Translation and interpretation activities
	Cultural education:
Design & visual arts:	M 74.10 Specialised design activities
	M 74.20 Photographic activities
Music:	C 32.20 Manufacture of musical instruments

	G 47.63	Retail sale of music and video recordings in specialised stores
	J 59.20	Sound recording and music publishing activities
Performing arts & artistic creation:	R 90.01	Performing arts
	R 90.02	Support activities to performing arts
	R 90.03	Artistic creation
	R 90.04	Operation of arts facilities
Radio & TV:	J 60.10	Radio broadcasting
	J 60.20	Television programming and broadcasting activities
Software & games:	J 58.21	Publishing of computer games
	J 58.29	Other software publishing
Video & film:	J 59.11	Motion picture, video & television programme production activities
	J 59.12	Motion picture, video and television programme post-production activities
	J 59.13	Motion picture, video and television programme distribution activities
	J 59.14	Motion picture projection activities
	N 77.22	Renting of video tapes and disk

2) UNESCO

ISIC Rev.4

Advertising:	7310 Advertising
Architecture:	7110 Architectural and engineering activities and related technical consultancy
Archives, libraries, cultural heritage:	9101 Library and archives activities
	9102 Museums activities and operation of historical sites and buildings
Books & press:	1811 Printing
	1812 Services activities related to printing
	1820 Reproduction of recorded media
	4761 Retail sale of books, newspapers and stationary in specialized stores
	5811 Book publishing
	5813 Publishing of newspapers, journals and periodicals
	5819 Other publishing activities
	6391 News agency activities
Cultural education:	8542 Cultural education
Design & visual arts:	7410 Specialized design activities
	7420 Photographic activities
Music:	3220 Manufacture of music instruments
	4762 Retail sale of music and video recordings in specialized stores
	5920 Sound recording and music publishing activities
Performing arts & artistic creation:	9000 Creative, arts and entertainment activities
Radio & TV:	6010 Radio broadcasting
	6020 Television programming and broadcasting activities
Software & games:	5820 Software publishing
	6312 Web portals
Video & film:	5911 Motion picture, video and television programme production activities

	5912	Motion picture, video and television programme post-production activities
	5913	Motion picture video and television programme distribution activities
	5914	Motion picture projection activities
	7722	Renting of video tapes and disks
Others	2640	Manufacture of consumer electronics
	3211	Manufacture of jewellery and related articles
	4742	Retail sale of audio and video equipment in specialized stores
	6110	Wired telecommunications activities
	6120	Wireless telecommunications activities
	6130	Satellite telecommunications activities
	7220	Research and experimental development on social sciences and humanities
	9103	Botanical and zoological gardens and nature reserves activities

3) German classification

	a) NACE Rev. 2	
Advertising:	M 73.11	Advertising agencies
	M 73.12	Media representation
Architecture:	M 71.11	Architectural activities
Cult. heritage:	R 91.02	Museums activities
Books & press:	C 18.11	Printing of newspapers
	C 18.12	Other printing
	C 18.13	Pre-press and pre-media services
	C 18.14	Binding and related services
	G 47.61	Retail sale of books in specialised stores
	G 47.62	Retail sale of newspapers and stationery in specialised stores
	G 47.79	Retail sale of second-hand goods in stores
	J 58.11	Book publishing
	J 58.12	Publishing of directories and mailing lists
	J 58.13	Publishing of newspapers
	J 58.14	Publishing of journals and periodicals
	J 58.19	Other publishing activities
	J 63.91	News agency activities
	M 74.30	Translation and interpretation activities
	Cultural education:	P 85.52
Design & visual arts:	M 74.10	Specialised design activities
Music:	C 32.20	Manufacture of musical instruments
	G 47.59.3	Retail sale of musical instruments in specialised stores
	G 47.63	Retail sale of music and video recordings in specialised stores
	J 59.20	Sound recording and music publishing activities

Performing arts & artistic creation:	R 90.01	Performing arts
	R 90.02	Support activities to performing arts
	R 90.03	Artistic creation
	R 90.04	Operation of arts facilities
	G 47.78	Other retail sale of new goods in specialised stores
Radio & TV:		
Software & games:	J 58.21	Publishing of computer games
	J 58.29	Other software publishing
	J 62.01	Computer programming activities
	J 63.12	Web portals
Video & film:	J 59.11	Motion picture, video & television programme production activities
	J 59.12	Motion picture, video and television programme post-production activities
	J 59.13	Motion picture, video and television programme distribution activities
	J 59.14	Motion picture projection activities
	N 77.22	Renting of video tapes and disk
	G 47.63	Retail sale of music and video recordings in specialised stores
Others	32.12	Manufacture of jewellery and related articles

3) German Classification

b) NACE Rev 1.1

Advertising	74.14	Business and management consultancy activities
	74.40	Advertising
Archives, libraries, cultural heritage:	75.14	Supporting service activities for the government as a whole
	92.51	Library and archives activities
	92.52	Museums activities and preservation of historical sites and buildings
	92.53	Botanical and zoological gardens and nature reserves activities
Books & press:	92.34	Other entertainment activities n.e.c
	22.21	Printing of newspapers
	22.22	Printing n.e.c.
	22.24	Pre-press activities
	52.47	Retail sale of books, newspapers and stationery
	52.50	Retail sale of second-hand goods in stores
	22.11	Publishing of books
	22.12	Publishing of newspapers
	22.13	Publishing of journals and periodicals
	92.40	News agency activities
Design & visual arts:	74.85	Secretarial and translation activities
	74.87	Other business activities n.e.c.
Music:	74.20	Architectural and engineering activities and related technical consultancy
	36.30	Manufacture of musical instruments
	22.31	Reproduction of sound recording
	52.45	Retail sale of electrical household appliances and radio and television goods
Performing arts & artistic creation:	22.14	Sound recording and music publishing activities
	92.31	Artistic and literary creation and interpretation
Radio &	92.32	Operation of arts facilities
	64.20	Telecommunications

TV:	92.20	Radio and television activities
Software & games:	72.21	Publishing of Software
	72.40	Database activities
	22.33	Reproduction of computer media
Video & film:	92.11	Motion picture and video production activities
	92.12	Motion picture and video distribution
	92.13	Motion picture projection
	22.32	Reproduction of video recording
	71.40	Renting of personal and household goods n.e.c.