

The Impact of COVID-19 on trade and structural transformation in Georgia

Evidence from UNECE's survey of Micro, Small and Medium Enterprises



NOTE

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PREFACE

As the new coronavirus disease (COVID-19) continues to spread, its disruptive impact is becoming more pronounced, posing unprecedented challenges for all countries. Governments have seen their priorities shift overnight towards upscaling public health preparedness and emergency support measures to cater for the vulnerable segments of their population. The challenges facing Governments are further complicated by supply-chain disruptions that have left enterprises struggling to survive. In many countries pay cuts, furloughs and lay-offs have been on the rise, so that losses in lives are compounded by a livelihood crisis.

If anything, countries across the globe are suffering setbacks that are akin to complex humanitarian emergencies associated with disasters. The coping strategies of enterprises and State agencies are being depleted by the unfolding economic crisis, so that vulnerabilities are aggravated and the impact on productive capacities, institutional dexterity and business confidence is severe. Therefore, it stands to reason to avoid treating the pandemic as a temporary shock whose effects can be swiftly reversed once normalcy is attained.

The implication is that any attempt to assess the impact of COVID-19 must proceed from a clear understanding of the development challenges that occupied Governments' agendas at the eve of the pandemic and that ground the analysis in the context of economic vulnerability. For if there is one lesson to draw from development experiences, it would be that disasters aggravate deep-seated structural weaknesses. Without an understanding of these weaknesses, relief and development efforts might miss the target.

It is from this perspective that the United Nations Economic Commission for Europe (UNECE) assessed the impact of the pandemic on Georgia's trade and structural transformation. Consistent with the UNECE's trade mandate¹, the assessment traces the way non-tariff measures (NTMs) governing trade in goods influenced end-to-end supply chains and captures the lingering ripple effects in the economy and their implications for achieving the 2030 sustainable development goals (SDGs).

The assessment is based on a survey of micro, small and medium-sized enterprises (MSMEs) belonging to the agricultural, manufacturing and trade sectors, drawing on the experience gained from the UNECE study on Regulatory and Procedural Barriers to Trade in Georgia.² The focus on MSMEs is consistent with their strong presence in the Georgian economy in that they account for over 90 per cent of active enterprises.³ Such a focus is also dictated by the MSMEs' limited resources, which renders them inherently vulnerable to negative shocks and changes.

¹https://www.unece.org/fileadmin/DAM/trade/documents/ToR_SCTCS_Apendix5.pdf

²https://www.unece.org/fileadmin/DAM/trade/Publications/ECE_TRADE_443E_Georgia.pdf

³National Statistics Office of Georgia (GeoStat), Statistical Survey of Enterprises (1999-2019); available at: <https://www.geostat.ge/en/modules/categories/326/statistical-survey-of-enterprises>

The assessment was carried out over the period from mid-May to mid-July 2020 using the UNECE evaluation methodology, which was adapted to support building stronger and more resilient economies in the aftermath of the pandemic. The assessment proceeded in two phases. The first phase focused on pilot-testing the UNECE actor-oriented questionnaires targeting MSMEs and freight forwarders through phone interviews with 20 export-oriented enterprises and three of the major forwarders operating in Georgia. The second phase was implemented in June-July 2020 to achieve a representative sample. It also involved follow-up interviews with the forwarders to gain further insights into some of the issues raised by the MSMEs.

In total, 330 enterprises from across the country participated in the survey, and their experience provides valuable insights into the immediate and long-term development challenges facing the Georgian economy.

The findings and recommendations were shared with the relevant Government agencies, and their comments were integrated into the report. UNECE has shared the findings and recommendations with the UN Resident Coordinator Office in Georgia to inform the UN Country Team (UNCT) planning processes. The report was also shared with United Nations Department of Economic and Social Affairs (UNDESA) as part the United Nations surge effort for supporting MSMEs.

The findings of this assessment will also be reported to UNECE member States during the 2021 session of the Steering Committee on Trade Capacity and Standards to form the basis for discussions over future activities in trade.

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CONTENTS

- Preface** **II**
- Acknowledgements** **IV**
- Abbreviations** **VIII**
- Executive summary** **1**
 - 1.1 Trade facilitation gains undermined by transport disruptions 2
 - 1.2 Stunted trade 3
 - 1.3 Increased economic vulnerability 3
- Chapter one Introduction** **9**
 - 1.1 COVID-19-induced economic regression 10
 - 1.2 Scope of the assessment 11
 - 1.3 Report outline 11
- Chapter two Trade disruptions** **12**
 - 2.1 Transmission channels 12
 - 2.2 Impact on supply-chain operations 16
- Chapter three The ripple effects of trade disruptions** **23**
 - 3.1 Stunted production 23
 - 3.2 Adverse repurposing conditions 25
 - 3.3 Limited room for e-commerce 27
- Chapter four Income fallout** **28**
 - 4.1 Manufacturing and trading enterprises 28
 - 4.2 Farmers 35
- Chapter five Recommendations** **39**
- Annexes** **45**
 - Annex 1 - Country background 45
 - Annex 2 - the government of georgia’s relief and support measures 51
 - Annex 3 - Profile of the MSMEs surveyed 53
 - Annex 4 - The Georgian government’s lockdown and social distancing measures 55
 - Annex 5 - MSMEs production repurposing 57

TABLES

Table 2.1.1.1	Georgia's special arrangements at border-crossing points (BCPs)	14
Table 2.2	Exports and imports year-over-year percentage change (2019-2020)	21
Table 3.1	Year-over-year changes in prices of consumer goods (July 2020)	24
Table 4.1	Salary cuts introduced by manufacturing MSMEs	32
Table 5.1.	Proposed measures for stronger and more resilient Georgian MSMEs	41
Table A1.1	Georgia's top 10 knowledge -intensive products	50
Table A5.1	MSMEs' production repurposing	59

FIGURES

Figure 1.1	Georgia's real GDP growth (% change)	10
Figure 1.2	Georgia's public budget, January-June 2020 (GEL in millions)	11
Figure 2.1	Manufacturing MSMEs' export earnings January-July 2020 compared to 2019 (% of respondents)	18
Figure 2.2	Manufacturing MSMEs' export earnings by ease of market access January-July 2020 (% of respondents)	19
Figure 2.3	The farmers' export earnings January-July 2020 compared to 2019 (% of respondents) .	20
Figure 2.4	Georgia's exports and imports January-June 2020 (USD million)	21
Figure 3.1	MSMEs engagement in e-commerce	27
Figure 4.1	Changes in MSMEs' domestic sales earnings January-July 2020 compared to 2019 (% of respondents)	29
Figure 4.2	Income evolution of MSMEs' with improved access to export markets January-July 2020 compared to 2019 (% of respondents)	29
Figure 4.3	Income evolution of MSMEs' with restricted access to export markets January-July 2020 compared to 2019 (% of respondents)	30
Figure 4.4.	MSMEs deferred business payments	31
Figure 4.5	MSMEs deferred household payments (% of responses)	32
Figure 4.6	MSMEs' salary cuts (Most affected departments, % of responses)	33
Figure 4.7	MSMEs' unpaid leave policy (Most affected departments, % of responses)	33
Figure 4.8	MSMEs' urgent needs for maintaining operations (% responses)	34
Figure 4.9	Breakdown of Government assistance received by the MSMEs (% of responses)	35

Figure 4.10	Changes in the farmers' total income (January-July 2020 compared to 2019, % of respondents)	35
Figure 4.11	The farmers' deferred business payments (% of respondents)	36
Figure 4.12	The farmers' deferred household payments (% of respondents)	37
Figure 4.13	Farmers' urgent needs for maintaining operations (% of responses)	37
Figure 4.14	Breakdown of Government assistance received by the farmers (% of responses)	38
Figure 4.15	Breakdown of assistance received by farmers from other sources (% of responses)	39
Figure A1.1	Georgia's labour force by sector, 2019 (% share)	48
Figure A1.2	Georgia's GDP by sector (% share, 2019)	48
Figure A1.3	Georgia's exports by sector, 2019 (% shares, SITC classification)	50
Figure A3.2	Breakdown of the surveyed MSMEs by sector (% of respondents)	54
Figure A3.3	Breakdown of the manufacturing MSMEs by activity (% of responses)	55

BOXES

Box 2.1	Most challenging export destinations	17
Box 3.1	Percentage change in the prices of industrial products (year-over-year, July 2020)	24
Box 4.1	Bringing production facilities up to COVID-19 health requirements: Main cost elements	31
Box A.1.1	Enterprise Development Services	46

ABBREVIATIONS

AA	Association Agreement
BCP	Border crossing point
CCP	Customs Clearance Point
CCZ	Customs Clearance Zone
DCFTA	Deep and Comprehensive Free Trade Agreement
EFTA	European Free Trade Association
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GEL	Georgian Lari
GeoStat	National Statistics Office of Georgia
ICT	Information and communication technology
ISO	International Organization for Standardization
LEPL	Legal Entity of Public Law
MSMEs	Micro, small and medium-sized enterprises
NTM	Non-tariff measure
OEC	Observatory of Economic Complexity
SDGs	Sustainable development goals
UNCT	United Nations Country Team
UNDESA	United Nations Department of Economic and Social Affairs
UNECE	United Nations Economic Commission for Europe
VAT	Value Added Tax
WHO	World Health Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

This UNECE assessment, funded through a United Nations Development Account Tenth Tranche project, “Strengthening the national capacities of selected ECE countries for evidence-based regulatory and procedural trade policies to achieve SDGs”, and with a view to assessing the impact of the coronavirus (COVID-19) pandemic, traces the way that non-tariff measures (NTMs) governing trade in goods, adopted in the COVID-19 context, influenced end-to-end supply chains in Georgia. It is based on a survey of 330 micro, small and medium enterprises (MSMEs) from across the country, including 226 manufacturing and trading enterprises and 104 farmers involved in on-farm food processing, harvesting and animal husbandry. The survey was conducted over the period mid-May to mid-July 2020, and the findings were cross-referenced through interviews with major freight forwarders operating in the country.

The assessment showed that the Government of Georgia has done well in its efforts to cushion the impact of supply-chain disruptions. It limited trade restrictions to the minimum; was quick to expand the suite of trade-facilitation measures available to enterprises; and it launched sweeping relief measures, such as credit schemes, tax deferrals and one-time cash injections to support vulnerable segments of the population, particularly in the rural areas, and the hardest-hit sectors.

The Government used NTMs to achieve the twin objectives of containing the spread of the pandemic and of generating efficiency gains throughout international supply chains. With those objectives, the Government limited restrictive NTMs to the minimum and upscaled trade facilitation measures as follows:

- **Transparency in trade continued to be ensured** through online publication of new regulatory and procedural measures, including health protection measures with direct bearing on trade activities, and the Revenue Service 24/7 call centre.
- **Trade documents continued to be issued online** through the national paperless trading system.
- **State agencies issuing paper-based documents stepped up efforts** to ensure prompt response to requests from supply chain actors such as agencies and companies involved in inspection, certification, clearance and similar processes.
- **Border control** continued within the context of the well-established integrated border-management system, and was risk-based.

- **Physical inspection of cargo was reallocated** from the Customs Clearance Points to the Customs Clearance Zones to pre-empt congestion at border crossing points.
- **Customs and tax payments continued to be made online** through the Revenue Customs Service Platform and were further streamlined through the introduction of simplified procedures for tax refunds.
- **Transit traffic continued to be facilitated by cooperation arrangements** anchored in regional agreements, UNECE international transport conventions and protocols, and electronic data exchange with neighbouring countries.

Moreover, despite its significant financial constraints, the Government avoided deferring development efforts until normalcy is attained. In so doing, it provided an example to follow on linking relief to development. However, the positive impact of the above-mentioned channels was undermined by health protection measures in partner countries and dwindling international demand. Reflecting the high degree of global inter-dependence, these channels disrupted supply-chain operations and carried acute lingering effects. It is not likely that these can be easily reversed post-COVID-19.

1. The lingering effects of COVID-19 on the Georgian economy

1.1. Trade facilitation gains undermined by transport disruptions

Moreover, despite its significant financial constraints, the Government avoided deferring development efforts until normality is attained. In so doing, it provided an example to follow on linking relief to development. However, the positive impact of the above-mentioned channels was undermined by health protection measures in partner countries and dwindling international demand. Reflecting the high degree of global inter-dependence, these channels disrupted supply chain operations and carried acute lingering effects. It is not likely that these can be easily reversed post COVID-19.

- **All MSMEs surveyed were abreast of applied trade regulations and procedures** and the Revenue Service was quick to respond to queries.
- **Among the MSMEs surveyed, only two instances of increased clearance times were reported**, and all border crossing points were properly manned.
- **Trade facilitation efficiency gains were undermined by** transport disruptions under the weight of health protection measures and border closures in partner countries. These translated into delayed deliveries while inflating transport costs, particularly for shipments by sea.

1.2. Stunted trade

- **Isolation from global supply chains:** Rising maritime transport costs forced MSMEs to shift towards road transport, which rendered its conditions of connectivity with international supply chains similar to those prevailing in landlocked countries. Georgian MSMEs became increasingly isolated from mainstream transport routes by increased distance (as trucks had to make detours to circumvent border closures in partner countries) and high transport costs (as forwarders struggled to cover additional operating cost that were out of their control).
- **Supply shortages:** MSMEs were struggling with shortages of raw material and machinery equipment under the weight of transport disruptions, travel restrictions and the reduced production activities of their international suppliers. Food shortages were also aggravated, with the shift towards road transport, causing delays in inbound freight and making wastage in perishable goods the norm rather than the exception.
- **Hesitant export recovery:** Only 45 per cent of the MSMEs surveyed regained their pre-pandemic export levels, partly due to the accumulated purchase orders that could not be shipped during the nationwide lockdown. MSMEs in the manufacturing sector fared worse, and 45 per cent of farmers suspended export activities altogether.

1.3. Increased economic vulnerability

- **Reduced productive capacity:** Around 27 per cent of the MSMEs surveyed scaled down production due to the lack of raw material and machine equipment, and another 11 per cent suspended production altogether. MSMEs that were able to maintain production levels experienced efficiency losses, with shortages of spare parts translating into increased wear and tear on machines.
- **Adverse conditions for production repurposing:** Only 10 of the MSMEs surveyed repurposed production. The repurposing was aimed at catering to the domestic market and yielded mixed results. Several were forced to abandon repurposing because their products faced fierce import competition. MSMEs that managed to successfully repurpose were struggling with inflated transport costs and supply shortages. They were also in dire need of financial assistance for maintaining/expanding their new production lines.
- **Lack of incentives for engaging in e-commerce:** Only 17 per cent of the MSMEs surveyed increased their engagement in e-commerce. The majority did so to boost sales in domestic markets. Transport disruptions and the high degree of uncertainty made enterprises reluctant to use e-commerce as a tool for export enhancement and import diversification.

- **Sharp increase in the MSMEs' debt burden:** Despite the Government's sweeping financial support measures, the majority of the MSMEs surveyed were in debt, and postponed business expenditures and loan repayments to cope with falling revenues. Around 79 per cent of the manufacturing MSMEs surveyed and 85 per cent of farmers emphasized that their survival hinged on continued Government support.
- **Marked deterioration in the living conditions of the MSMEs' households:** MSME owners used personal savings to maintain operations at the expense of their households' living conditions. Several also reported losing their property to commercial banks after defaulting on mortgage and/or business-loan payments.

2. Policy implications

There is no doubt that the return to normalcy will breathe new life into the Georgian economy. However, the course of recovery is dependent on addressing the lingering effects of the pandemic. Table 1 provides action-oriented recommendations for the Government's consideration as it forges ahead in rebuilding stronger and more resilient MSMEs in the aftermath of COVID-19.

The recommendations address emergency and capacity-building requirements for structural transformation and for the achievement of several 2030 sustainable development goals (SDGs), including SDGs 1 (no poverty), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure) and 11 (sustainable cities and communities). Given the Government's financial constraints, the need for donor assistance cannot be over-emphasized.

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
Financial support	MSMEs are struggling with bank loan repayments	<p>Temporarily increase the debt threshold requirements associated with creditor-initiated bankruptcy proceedings.⁴</p>	SDG 1.1: By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day.
	MSMEs are experiencing shortages in working capital.	<p>Promote affordable online legal advisory platforms for helping MSMEs settle commercial disputes with international buyers and suppliers.</p> <p>Temporarily expand the scope of emergency credit schemes to cover all sectors and publish detailed information on application procedures.</p> <p>Introduce credit schemes for subsidizing shipment costs.</p> <p>In launching such schemes, consider:</p> <ul style="list-style-type: none"> - Involving micro-finance and non-banking financial institutions to further facilitate the MSMEs' access to finance. - Involving community-based financial institutions, such as savings and credit cooperatives, as these have experience in channelling funds to micro enterprises. 	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Enterprise support	MSMEs lack the experience in disaster risk management	<p>Expand the suite of information resources published on the COVID-19 portal (StopCov.ge) to include:</p> <ul style="list-style-type: none"> - Guidelines on supply chain management. - Guidelines and best practices on emergency preparedness and business continuity plans. 	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Enterprise support	MSMEs are facing prohibitive maritime transport costs ⁵	<p>Create a specialized body to help MSMEs obtain competitive terms from shipping lines, drawing on the experience of shippers' councils across the globe. The specialized body, which could be housed within an existing agency or established from scratch, would represent and protect the transport interests of the Georgian business community, including retailers, wholesalers and manufacturers, who are end-users of maritime shipping, air freight and land transport, in their dealings with:</p>	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

⁴The Government of Australia introduced similar measures as part of its Coronavirus Economic Response Package Omnibus Bill 2020 (https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bid=r6521)

⁵Maritime transport development has ranked and continues to rank high on the Government of Georgia's development agenda, given its vital role in enhancing the country's position as a regional logistical hub and transit corridor. The Government is fully aware of the need to address the high port fees, improve hinterland connection, and multimodal transport networks. It is in the process of assessing options for scaling up the maritime sector, including in terms of physical infrastructure and facilities. In addition, work is under way to establish a National Maritime Single Window to transform customs clearance across Georgian ports.

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
		<ul style="list-style-type: none"> - Transport services providers (shipping companies, forwarders, land and rail transportation, and warehouse operators). - Relevant regional and international bodies, including, among others, the European Shippers' Council, the Asian Shippers' Association, the World Shipping Council, and the Global Shippers Alliance. 	
Structural Measures			
Transport development	MSMEs are showing increased reliance on road transport	Upgrade Georgia's rail track and structures to handle increased loaded car weights.	<p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p> <p>SDG 11.2: By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.</p>
Conformity assessment ⁶	Georgia's market surveillance system could benefit from further strengthening	<p>Develop a regional approach to curb trafficking in counterfeit products.</p> <p>Strengthen relevant line Ministries with financial resources and expertise to establish guidelines and management systems for issuing Good Manufacturing Practice Certificates for cosmetics, pharmaceutical products, dietary supplement and medical devices.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
	Georgia's certification bodies are experiencing challenges to adequately meet demand	Strengthen the Georgian Accreditation Centre with the required financial resources and expertise skills to increase the number of accredited product certification bodies, medical laboratories and accredited bodies for undertaking auditing and certification of management systems in the areas of approximate EU acquis.	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>

⁶For a detailed analysis of Georgia's system of conformity assessment, see UNECE Study on Regulatory and Procedural Barriers to Trade, Chapter four (https://www.unece.org/fileadmin/DAM/trade/Publications/ECE_TRADE_443E_Georgia.pdf).

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
Enterprise support	Micro enterprises are ill-equipped to achieve economies of scale and scope	<p>Strengthen Enterprise Georgia with additional resources so that it can forge ahead with its efforts to expand and extend the outreach of its networking programme, so that it covers a broader segment of micro-enterprises.</p> <p>Strengthen business associations with additional resources and expertise, with a view to enabling them to launch sector-focused networking programmes. Such programmes could feature, among others:</p> <ul style="list-style-type: none"> - Coaching and mentoring support to help micro-enterprises improve their business and management skills - Linkage programmes to help enterprises pool resources and enter contracting arrangements with national small, medium and large enterprises. - Focused training on supply-chain management and incoterms. - Legal advice on sales contracts and commercial dispute resolution. 	SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.
	MSMEs are experiencing difficulties in networking with regional and transnational corporations	<p>Equip Enterprise Georgia and the Chamber of Commerce and Industry with the required financial resources and expertise to enable them to participate in enterprise development initiatives and networking opportunities offered by the Enterprise Europe Network.</p> <p>Establish dedicated networking programmes for linking Georgian MSMEs with regional and global value chains. Such programmes should be sector-specific and provide, among others:</p> <ul style="list-style-type: none"> - Matchmaking with potential partners, including suppliers and buyers, particularly from EU and the European Free Trade Association (EFTA) countries, which SMEs consider as strategic partners in light of the Deep and Comprehensive Free Trade Agreement between Georgia and the EU (DCFTA). - Mentoring and guidance for ensuring beneficial partnership arrangements with regional and transnational corporations - Legal advice on commercial dispute resolution <p>In designing such programmes, the Government needs to proceed with a clear understanding of existing linkages between MSMEs and transnational corporations.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p>

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
	Georgian MSMEs are exhibiting low rate of international standards implementation	<p>Develop training programmes on international standards implementation, particularly the European Union (EU) harmonized standards, to enable them to benefit from the DCFTA. Such programmes could be championed by the National Agency for Standardization and Metrology potentially in co-operation with higher-education institutions and Vocational Education and training institutions as well as Enterprise Georgia and the Georgian Innovations and Technologies Agency. The programmes could involve:</p> <ul style="list-style-type: none"> - Awareness-raising modules for familiarizing MSMEs with standards implementation and their critical importance for improving overall productivity and competitiveness in domestic and global markets - Thematic training programmes. Of particular importance under the current conditions are programmes on the role of standards implementation in strengthening enterprises' resilience in the face of the crisis and transitioning towards circular production models - Sector-specific training programmes to help enterprises choose the appropriate standards of relevance to their activities <p>Enterprise Georgia should consider including standards-implementation plans as part of business development loan eligibility.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
	MSMEs' are struggling to find skilled workers	<p>Strengthen vocational training institutions with resources to develop targeted training for: (i) existing MSME employees to improve their skill sets within their areas of work; and, (ii) unemployed individuals whose skills could be upgraded to the specific requirements of the demanding jobs within their areas of work. The emphasis should be on enabling the individuals to acquire the necessary skills for engaging in production activities with high value added.</p> <p>Develop advanced, forward-looking curricula and programmes within the higher-education institutions, which tailor both the content and approaches to industry needs.</p> <p>Establish a national skills-matching strategy (or sectoral/ field-specific matching strategies) for guiding the above.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>

1. Introduction

Georgia, located on the eastern shore of the Black Sea, is an upper-middle-income country that shares borders with Armenia and Turkey to the South; Azerbaijan to the South and West; and the Russian Federation to the North. It stands as an exemplary case of successful trade-driven development experiences. The Government used trade liberalization¹ for improving market access conditions facing enterprises and accorded priority to gearing non-tariff measures (NTMs) and associated reforms towards supporting structural transformation. In so doing, it created synergies between trade reforms and other policies, and was consistent in addressing supply-side constraints.

As shown in Annex 1, the Government's reforms bore fruit. Georgia saw increased specialization in knowledge-intensive products and enjoyed a strong comparative advantage for many of its exports. The challenge facing the Government on the eve of the pandemic was how best to improve enterprises' productive capacity, particularly that of micro, small and medium-sized enterprises (MSMEs).²

Associated with this challenge was the imperative of increasing foreign direct investment (FDI) inflows, which fell from USD 1.7 billion in 2017 to USD 1.2 billion in 2019 with negative consequences for gross fixed capital formation and technology transfer.³ Above all was the overarching concern of achieving inclusive growth. Despite its declining trend, poverty affected a significant segment of the population, with 20.1 per cent living below the absolute poverty line in 2018.⁴ As it forged ahead in addressing the above challenges, the Government was reassured by the economy's positive growth rates.

Gross domestic product (GDP) grew by 5.1 per cent in real terms in 2019 continuing an upward trend since 2017 (figure 1.1). Unemployment was registering a positive performance record, declining from 14.6 per cent in 2014 to 11.6 per cent in 2019.⁵ The Government was also encouraged by its improved budgetary performance, with the share of the budget deficit relative to GDP decreasing from 4 per cent in 2016 to 2.9 per cent in 2018.⁶

¹Georgia does not apply quantitative restrictions on imports or exports and maintains a simplified tariff schedule for imports (0 per cent, 5 per cent and 12 per cent). Around 82 per cent of the tariff lines (or 8,214 out of 10,054 tariff lines defined at Harmonized System, HS, 11-digits) are set at zero per cent. The remaining are set at 5 per cent (235 tariff lines), 12 per cent (1,394 tariff lines) or carry non-ad valorem tariffs (211 tariff lines).

²See the Government of Georgia SME Development Strategy of Georgia 2016-2020; Social-economic Development Strategy of Georgia "Georgia 2020"; and, Georgia Rural Development Strategy (2017-2020). A detailed account of the Government's priority reforms in the area of trade is provided in the UNECE Study on Regulatory and Procedural Barriers to Trade in Georgia (https://www.unece.org/fileadmin/DAM/trade/Publications/ECE_TRADE_443E_Georgia.pdf).

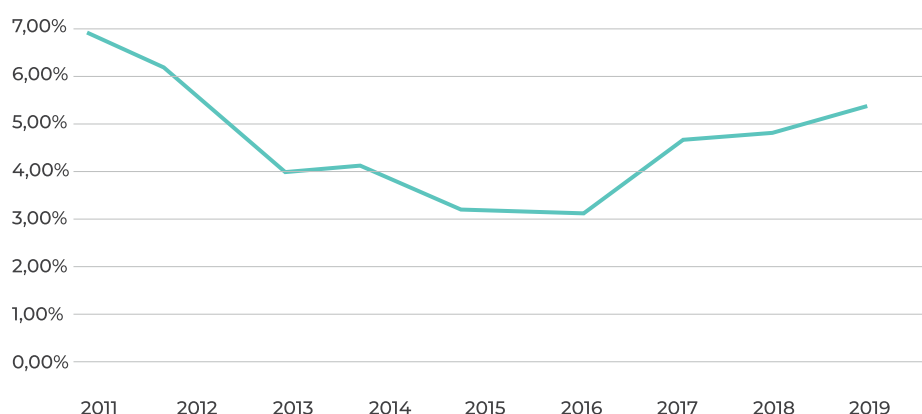
³GeoStat (<https://www.geostat.ge/en/modules/categories/191/foreign-direct-investments-9>)

⁴World Bank Database (<https://data.worldbank.org/country/GE>)

⁵GeoStat (2020) Rapid estimates of economic growth, June; available at: <https://www.geostat.ge/en/single-news/1902/rapid-estimates-of-economic-growth-june-2020>

⁶Ministry of Finance of Georgia (<https://mof.ge/en/4555>).

Figure 1.1 - Georgia's real GDP growth (% change)



Source: GeoStat (<https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>)

1.1 COVID-19-induced economic regression

The outbreak of the COVID-19 pandemic dealt a strong blow to the Georgian economy. The economic fallout was deeper than during the 2008 global financial crisis, with real GDP plummeting by 5.8 percent year-over-year during January-June 2020⁷. The ripple effects of the fallout were softened by the Government's sweeping relief efforts (Annex 2). In this respect, unemployment increased by only 0.9 percent over the period January - June 2020 in relation to the previous period, or from 11.4 percent to 12.3 percent, suggesting limited job cuts and furloughs.⁸

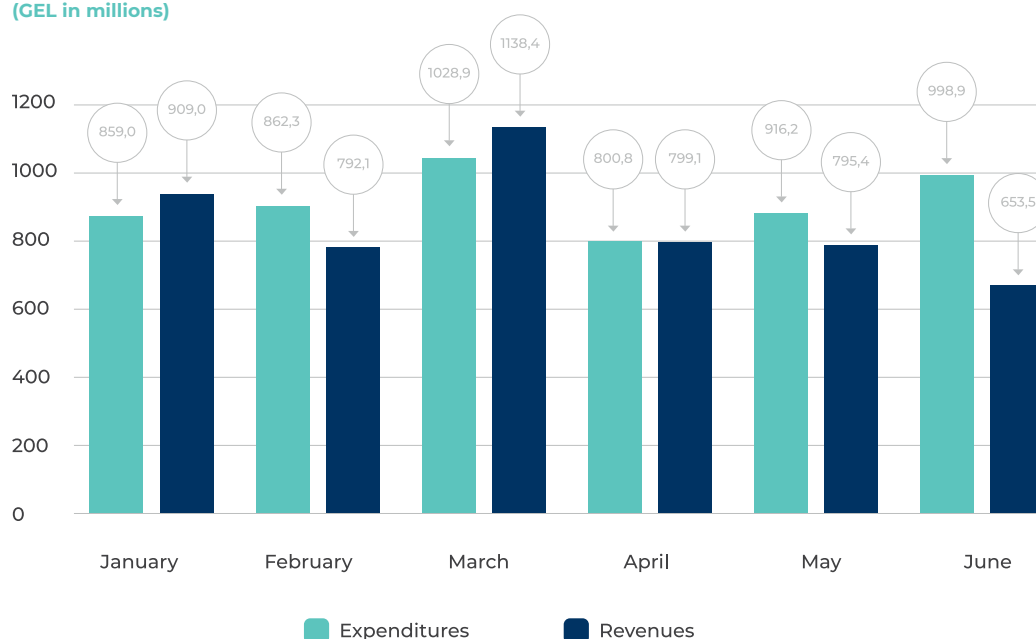
The Government also maintained its support to enterprise development through targeted lending schemes (Annex 1). However, the Government is finding it increasingly difficult to maintain its support measures and attend to long-term strategic objectives. By June 2020, it was struggling with mounting financial constraints, as the economic crisis continued to reduce the national tax base (Figure 1.2).

⁷GeoStat (2020) Rapid estimates of economic growth, June; available at: <https://www.geostat.ge/en/single-news/1902/rapid-estimates-of-economic-growth-june-2020>. The global financial crisis caused the Georgian economy to contract by about 2.7 percent in 2009 in relation to the previous year (https://mof.ge/images/File/Georgia-The-Outlook_ENG_Apr-2018.pdf).

⁸GeoStat (<https://www.geostat.ge/media/33021/Indicators-of-the-Economic-Activity-of-the-Population---II-Q-2020.pdf>).

Figure 1.2 - Georgia's public budget, January-June 2020

(GEL in millions)



Source: GeoStat (<https://www.geostat.ge/en/single-news/1902/rapid-estimates-of-economic-growth-june-2020>)

1.2 Scope of the assessment

This assessment draws on a survey of 330 MSMEs from across the country, including 226 manufacturing enterprises and 104 farmers involved in on-farm food processing, harvesting and animal husbandry (Annex 3). The assessment aimed at capturing:

1. The transmission channels of the COVID-19 pandemic effects and the influence of NTMs governing international trade in goods therein.
2. Supply-chain disruptions and their impact on international trade activities.
3. MSMEs' coping strategies, understood in terms of the manner in which they used their assets to maintain operations.⁹
4. The ripple effects of the pandemic on the economy, particularly those generated by the MSMEs' coping strategies.

1.3 Report outline

This report is organized in five sections. After the introduction, Section 2 discusses the transmission channels of the pandemic's effects. The section shows how NTMs and health protection measures deployed by Georgia and its trade partners disrupted supply-chain operations. The section captures the way in which these measures influenced the MSMEs' trade activities,

⁹Development experiences show that coping strategies often aggravate economic vulnerability by transforming assets into liabilities, as the case when loans become unmanageable. To arrive at a clear understanding of economic vulnerability, the capital base in the broadest sense to include financial capital, natural capital (i.e. land), physical capital (i.e. infrastructure), human capital (i.e. skills), and social capital (social networks). For a concise overview of vulnerability analysis, see, for example, Cannon, Terry (2008) Reducing People's Vulnerability to Natural Hazards: Communities and Resilience, UNU-WIDER Research Paper No. 2008/34

highlighting instances of supply-chain disruptions and their impact, with a view to setting the context for analysing the MSMEs' coping strategies.

Section 3 discusses MSMEs' strategies to cope with supply-chain disruptions. It shows how these strategies created new realities with direct consequences for structural transformation. Section 4 provides an overview of MSMEs' income losses, the strategies used by the owners to withstand these losses and the resulting impact on enterprises' economic vulnerability and the welfare of their households. Section 5 proposes recommendations for supporting the Government's efforts to build a stronger and more resilient economy in the aftermath of the pandemic. The recommendations address emergency and long-term development needs, with a view to bolstering the trade sector's contribution to economic recovery and structural transformation.

2. TRADE DISRUPTIONS

The period since the outbreak of the COVID-19 pandemic has seen Governments across the globe deploy NTMs along with health-protection measures to contain the spread of the virus. In most cases, NTMs involved trade restrictions in the form of temporary export bans, particularly on medical equipment as part of a broader effort to address supply shortages.

Trade restrictions were accompanied by an easing of the financial burden on enterprises through customs duties and value-added tax (VAT) exemptions on imports of, among others, medical equipment.¹⁰ Governments also relied on trade facilitation measures as advanced under the World Trade Organization (WTO) Agreement on Trade Facilitation¹¹ for generating savings for enterprises and ensuring compliance with the World Health Organization (WHO) safety guidelines.¹²

As shown below, Georgia used NTMs as a means of reducing supply-chain disruptions. However, the expected benefits were undermined by transport disruptions and health protection measures in partner countries.

2.1 Transmission channels

The Government of Georgia used restrictive NTMs on a limited basis to pre-empt the spread of the virus,¹³ and to address shortages of pharmaceuticals and medical equipment.¹⁴ Otherwise, it relied on generating financial savings through tax exemptions on imports of medical equipment¹⁵ and reinforced trade facilitation measures as follows:

¹⁰<https://www.macmap.org/COVID19>

¹¹The Agreement on Trade Facilitation clarifies and improves the General Agreement on Tariffs and Trade articles V (Freedom of Transit), VIII (Fees and Formalities connected with Importation and Exportation), and X (Publication and Administration of Trade Regulations). These articles correspond to the following chapters of United Nations Multiagency Support Team (UN/MAST) NTM classification system (<https://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-Classification.aspx>):

Sanitary and phytosanitary measures (Chapter A); technical barriers to trade (Chapter B); pre-shipment inspection and other formalities (Chapter C); price control measures, including additional taxes and charges (Chapter F); finance measures (Chapter G); measures affecting competition (Chapter H); distribution restrictions (Chapter J); government procurement restrictions (Chapter M); rules of Origin (Chapter O); and, export-related measures (Chapter P).

¹²See updates by the Government of the Republic of Moldova published at UNECE Observatory on Border Crossings (<https://wiki.unece.org/display/CTRBSBC/Moldova>). Cross-border measures are geared to comply with the WHO guidelines on social distancing.

1. Transparency in trade is ensured through online publication of new regulatory and procedural measures, including health protection measures with direct bearing on trade activities.¹⁶ The Revenue Service of Georgia also publishes up-to-date information on customs clearance procedures on its institutional website,¹⁷ upgraded the capacity of its call centre to ensure continuous engagement with supply-chain actors, and published user-friendly explanatory materials.¹⁸ In addition, trade partners are kept abreast of changes in NTMs through prompt submission of notifications to the WTO¹⁹ and the UNECE Observatory on Border Crossing Status.²⁰

2. Trade documents continued to be issued online through the national paperless trading system:

- Traders and forwarders could apply for permits and licenses online through a single interface.²¹

- Customs declarations were issued online through the Revenue Service e-Portal.²²

- Requests for obtaining veterinary and phytosanitary certificates could be submitted online.²³

3. State agencies issuing paper-based documents, namely testing laboratories and product certification bodies, stepped up efforts to ensure the smooth issuance of conformity assessment results and certificates.

4. At the border, controls continued within the context of the well-established integrated border management system, and was risk-based.²⁴

5. Physical inspection of cargo was reallocated from the Customs Clearance Points (CCPs) to the Customs Clearance Zones (CCZs) to pre-empt congestion at border crossing points (BCPs).²⁵

¹³Georgia imposed a temporary ban on imports and transit of live animals originating from the People's Republic of China on 28 January 2020 (<https://www.macmap.org/COVID19>).

¹⁴Export bans were applied as of 3 April 2020 to diagnostic or laboratory reagents, certified reference materials, gloves, facemasks, medical caps, thermometers, mechano-therapy appliances, disinfectants (<https://www.macmap.org/COVID19>). Georgia lifted the temporary export ban on certain pharmaceutical products and medical devices as of on 9 July 2020 (https://www.wto.org/english/tratop_e/COVID19_e/trade_related_goods_measure_e.htm).

¹⁵These exemptions were introduced on 24 March 2020 with a limited duration till 1 October 2020.

¹⁶[http://gov.ge/index.php?lang_id=ENG&sec_and_Government_\(StopCov.ge\)_website](http://gov.ge/index.php?lang_id=ENG&sec_and_Government_(StopCov.ge)_website) <https://matsne.gov.ge/>.

¹⁷<https://www.rs.ge/en/1340>

¹⁸The call centre's working hours were extended, so that it can operate from 9 a.m. to 8 p.m. throughout the week, including weekends (previously working hours were from 9 a.m. to 6 p.m., excluding weekends). The Revenue Service also created online explanatory material (<https://www.youtube.com/watch?v=NLqecP3I7OQ>) and added a new category of frequently asked questions (FAQs) to its institutional website (www.rs.ge)

¹⁹https://www.wto.org/english/tratop_e/COVID19_e/trade_related_goods_measure_e.htm

²⁰<https://wiki.unece.org/display/CTRBSBC/Georgia>

²¹Traders can make their online submissions at: <https://my.gov.ge/en-us/services/10>.

²²www.rs.ge

²³<http://www.nfa.gov.ge>

²⁴For a detailed overview of this system, see UNECE Study on Regulatory and Procedural Barriers to Trade in Georgia, Chapter three.

²⁵Traders have a choice of six CCZs (Tbilisi, Tbilisi2, Tbilisi Airport, Adlia, Batumi port, and the Port of Poti), four clearance divisions (Kutaisi, Akhaltsikhe, Telavi, Rustavi), and 20 CCPs (land, air and maritime) to clear their goods. All the CCPs and CCZs operate 24 hours a day throughout the week and are equipped with modern control equipment, parking areas and rest facilities. Detailed lists of Georgia's CCZs and CCPs are available at: http://www.rs.ge/Default.aspx?sec_id=5107&lang=2#; and http://www.rs.ge/Default.aspx?sec_id=4954&lang=2#

6. Customs and tax payment continued to be made online through the Revenue Service Customs Platform,²⁶ and were further streamlined through the introduction of simplified procedures for tax refunds.²⁷

7. Transit traffic continued to be facilitated by cooperation arrangements anchored in regional agreements, UNECE international transport conventions and protocols,²⁸ and electronic data exchange with neighbouring countries.²⁹

The above measures were meant to cushion the impact of the border special arrangements, which were established at all BCPs to ensure compliance with WHO safety guidelines and to curb the inflow of individuals from highly affected countries³⁰ (Table 2.1).

TABLE 2.1.1.1 Georgia's special arrangements at border-crossing points (BCPs)

NTMs	Description
<p>Movement restrictions at commercial border crossing points in compliance with the WHO safety guidelines.</p> <p>Measures to protect staff were also introduced and these involved, among other things, the distribution of face masks and single-use gloves.</p>	<p>By Road³¹</p> <ul style="list-style-type: none"> • Drivers should wear protective masks during interactions with customs officials. • Before entry into Georgia, drivers have their temperatures taken by customs or health officials and are subjected rapid diagnostic tests, which takes 15-20 minutes to complete. If the drivers have a fever, they are denied entry. Drivers with positive test results are redirected to undergo PCR testing. If possible, the driver will be replaced with another driver from Georgia or a non-risky country once the cargo trailer disinfected under the supervision of customs officials. • Drivers who travelled through highly affected countries over the past 14 days are considered high-risk. Foreign drivers are sent back to the country from which they arrived, while Georgian drivers are be sent to quarantine. The cargo trailer is disinfected under the supervision of customs officials and the truck is sent back in the direction from which it arrived. If replacement of the driver is not possible at the BCP of entry, the truck is sent to the nearest checkpoint, and there the cargo trailer is disinfected and transferred to another truck.³² • Drivers with negative PCR tests are allowed to proceed if the test is taken less than 72 hours before entering Georgia as required by law. • Drivers in transit are subject to health screening.³³ Upon passing control procedures at the designated customs checkpoint, they must exit the territory of Georgia within a specific period (calculated using data registered in the "Electronic Vehicle Queue Management System"). Drivers may only stop at designated Stop Points to refuel, purchase a road usage card, clean up and purchase item/food for personal use. Foreign drivers are not permitted to stay within Georgia for more than: 7 days in case of reverse shipping operations or must use a ferry and 96 hours in any other cases. If the driver is in the country for over 72 hours, he/she must be tested again by Georgian health officials.

²⁶https://www.rs.ge/Default.aspx?sec_id=5071&lang=2

²⁷<https://www.rs.ge/6461>

²⁸For a detailed overview of this system, see UNECE Study on Regulatory and Procedural Barriers to Trade in Georgia, Chapter three.

²⁹The Revenue Service of Georgia exchanges information electronically with its counterparts in Azerbaijan, Turkey, and Ukraine. As of September 2020, efforts were underway for establishing electronic data exchange with the Armenian customs authorities.

³⁰As of 23 March 2020, travellers from highly infected countries were subjected to entry restrictions and self-quarantine (14-day period at travellers' own expense).

As of 13 July 2020, Georgia opened its borders without reservations to citizens/permanent residents from 5 of the 27 EU member states (Germany, France, Estonia, Latvia, and Lithuania) as long these travel by air and take direct flights (otherwise, these travellers would be subjected to quarantine measures). Citizens/permanent residents of EU countries listing Georgia as a green country (Croatia, Cyprus, Greece, Italy, Luxembourg, the Netherlands, Poland, Portugal, Romania, Spain and Sweden) and those belonging to EU countries imposing travel restrictions on Georgia are subjected to quarantine measures (<https://www.macmap.org/COVID19>).

³¹A more detailed, up-to-date account of Georgia's special arrangements for road transport is available at UNECE Observatory on Border Crossings Status due to COVID-19

³²https://www.rs.ge/Default.aspx?sec_id=4845&lang=1&newsid=5780

³³https://www.rs.ge/default.aspx?sec_id=6491&lang=1

NTMs	Description
<p>Movement restrictions at commercial border crossing points in compliance with the WHO safety guidelines.</p> <p>Measures to protect staff were also introduced and these involved, among other things, the distribution of face masks and single-use gloves.</p>	<p>By sea</p> <ul style="list-style-type: none"> · All ships calling on the Georgian ports must submit a Maritime Health Declaration together with its Annexes at least 24 hours before calling the port. · If a ship, crew, or passengers have travelled through highly affected countries within the last 21 days, passengers and crew are subjected to thermal screening by authorized officers from the Customs Department of the Revenue Service of Georgia. · While a ship's Master has the obligation to submit completed forms before entering Georgian ports, he/she is also responsible for observing the safety and health of ship's crew and passengers while alongside, at anchorage points or in waiting areas and shall communicate any suspicious cases to the Harbour Master and appropriate authorities of subject Port without undue delay. · If submitted documents show the existence of COVID-19 case or after screening the existence of COVID-19 is proved on board the ship, all possible contacts will be restricted with the vessel in question as per the WHO recommendation.³⁴ · As of 15 June 2020, crew change is allowed at all Georgian ports, irrespective of their nationality. Seafarers are designated as "Key Workers" in Georgia. The requirements for joining or leaving ships at Georgian ports are as follows: <ul style="list-style-type: none"> a) The crew has served his/her full employment contract period. b) The crew is no longer medical fit to work on board the ship. c) Additional crew on board whose sign-off would not violate the international certificate for safe manning of the ship granted by the flag state. d) Change of crew due to the sale or purchase of ship. e) Personnel who are not part of the ship's crew such as superintendents and service engineers.³⁵

The above transmission channels operated alongside the nationwide lockdown and other in-country health protection measures that were introduced in March 2020 pursuant to the WHO inspired guidelines. These measures also involved a nationwide lockdown during the period 21 March-22 May 2020, which saw the sealing-off of six major cities (Tbilisi, Kutaisi, Batumi, Rustavi, Marneouli and Bolnisi) and the closure of educational institutions, non-essential businesses and all forms of public transport.

The lockdown and health protection measures in Georgia's partner countries constituted another channel for the pandemic's effects. Reflecting the high degree of global inter-dependence, these measures set in motion adverse dynamics with negative ripple effects that are unlikely to be easily reversed once normalcy is attained.

³⁴Reported by the Government of Georgia: http://www.traceca-org.org/en/news/single-news/n/urgent_georgia_regime_of_cargo_transportation_in_terms_of_COVID_19_pandemics/

³⁵Information was provided by the Ministry of Economy and Sustainable Development of Georgia on 4 September 2020.

2.2 Impact on supply chain operations

The assessment shows that trade-facilitation measures played an important role in enabling MSMEs to reduce trade costs, both in time and financially. However, efficiency gains were undermined by transport disruptions that inflated transaction costs and, in so doing, isolated MSMEs from global supply chains. Combined with dwindling international demand and the diminished domestic purchasing power, transport disruptions dealt a blow to the trade sector and to MSMEs' ability to recover and compete post-COVID-19.

2.2.1 Business uncertainty alleviated by transparency and trade facilitation measures

The additional information services launched by the different State agencies were effective in maintaining transparency in trade procedures and in ensuring clarity over applied cross-border control and customs-clearance formalities.

None of the enterprises reported lacking information about applied procedures. Forwarders were also well informed about the health protection measures and special movement arrangements at BCPs. They listed, in addition to online sources, the Government COVID-19 online portal (StopCov.ge) email notification system,³⁶ and email alerts from the Georgian Forwarders Association, which was in constant communication with the Revenue Service of Georgia. The forwarders noted that, when in doubt, they contacted the Revenue Service, which was always quick to answer their queries.

Moreover, neither the forwarders nor the enterprises experienced delays in obtaining documentary requirements. The enterprises and forwarders were also appreciative of the additional trade-facilitation measures introduced at BCPs and the Revenue Service's commitment to maintaining business as usual. They noted that BCPs were properly manned and customs officials kept to established procedures, so that fears of delays and increased reliance on physical checks proved to be unnecessary. Among the MSMEs surveyed, only two instances of increased clearance times were reported.

At issue, noted the forwarders, was the speed at which the health protection measures were implemented, particularly those associated with in-country movement restrictions. At the same time, the imperative of ensuring compliance with the WHO's social distancing recommendations meant that the agencies proceeded towards implementation without consulting the private sector.³⁷ When considering the unpredictable lockdown measures in partner countries, the result has been a high degree of uncertainty, making it difficult to plan.

³⁶<https://matsne.gov.ge/>

³⁷It was not possible to hold physical consultative meetings.

2.2.2 Efficiency gains wiped out by disruptions in transport

The assessment shows that efficiency gains from trade-facilitation measures were undermined by transport disruptions. The disruptions were particularly pronounced during the nationwide lockdown period, which saw the sealing-off of Batumi. Arranging shipments was also complicated by lockdown measures in partner countries, which often involved the closure of border posts.

These measures forced trucks to make long detours, so that delays were inevitable. It was also difficult to find drivers who were willing to make the journey to and from countries included on Georgia's list of highly infected destinations, owing to the 14 day quarantine rule. Road transport became prohibitively expensive, as forwarders increased their fees to cover additional operating cost that were out of their control. Similarly, transport by sea became increasingly expensive as shipping lines introduced additional fees such as the peak-season surcharge to cater for the special health and safety arrangements that came to define port operations across the globe.³⁸

2.2.3 Reduced export and import activities

Inflated transport costs rendered several export destinations difficult to access (Box 2.1). Most challenging were destinations involving shipment by sea, particularly Germany, China (especially during the peak of the pandemic in the country), the Russian Federation, Ukraine, and the United States of America.

Some export destinations presented additional challenges. For example, shipping goods on wooden pallets to the Russian Federation during lockdown periods involved significant delays as the authorized companies tasked with disinfecting the pallets (as part of pest control process) were unable to make it to BCPs. To avoid delays and safeguard their market shares in the Russian Federation, some Georgian MSMEs switched to plastic pallets at additional cost.

BOX 2.1		Most challenging export destinations		
Australia	Egypt	Kuwait	Poland	Ukraine
Azerbaijan	Germany	Latvia	Russian Federation	United Arab Emirates
Bahrain	Iraq	Lithuania	Saudi Arabia	United States of America
Belarus	Italy	Netherlands	Spain	Yemen
Bulgaria	Italy	Oman	Sweden	
Czech Republic	Japan	PRC	Turkey	

Source: UNECE Survey of Georgian MSMEs

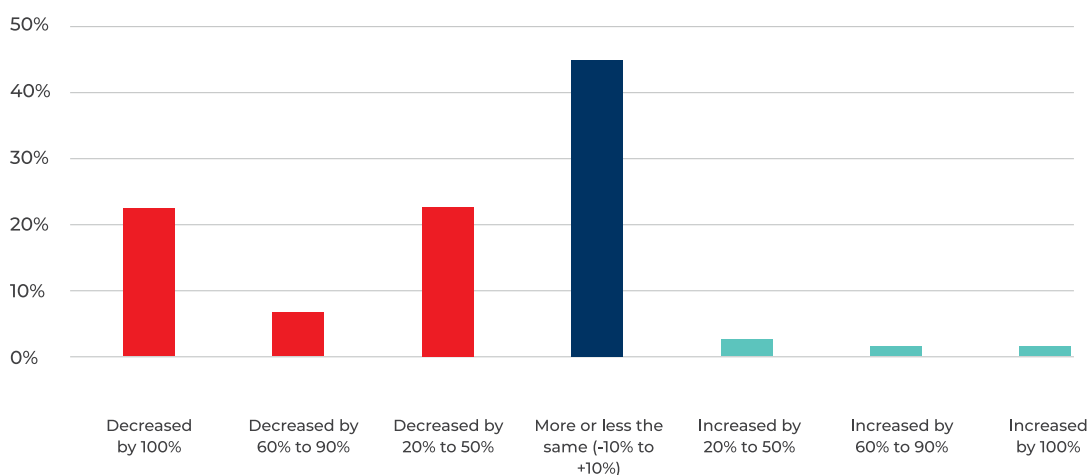
³⁸These charges were introduced to withstand the increased costs associated with ensuring compliance with the special arrangements introduced by ports across the globe. See UNCTAD's compilation of such measures at: [tft.unctad.org/ports-COVID-19/](http://unctad.org/ports-COVID-19/)

Exports were also undermined by travel restrictions. This was particularly the case of MSMEs involved in machinery and equipment manufacturing, since sales contracts are usually signed once the products in question pass the buyer's technical inspection (which requires fielding experts to Georgia).

Yet-another factor undermining exports was the closure of non-essential businesses in partner countries. MSMEs engaged in food and beverages were the most affected. Reflecting the strong blow that the pandemic dealt to the hospitality industry, the MSMEs reported suffering dwindling demand, as their traditional buyers either suspended activities by law or, in the best of cases, reduced operations to cut down on costs. Enterprises engaged in non-food manufacturing also reported losing their traditional international buyers, who either suspended operations or closed for good.

These conditions have meant that exports remained well below the pre-pandemic levels for the majority of the surveyed MSMEs, with export-oriented farmers faring worse. Around 45 per cent of manufacturing MSMEs reported regaining their pre-pandemic export earnings levels by July 2020. This was partly due to the accumulated purchase orders that could not be shipped during the nationwide lockdown (Figure 2.1).³⁹

Figure 2.1 - Manufacturing MSMEs' export earnings
January-July 2020 compared to 2019 (% of respondents)



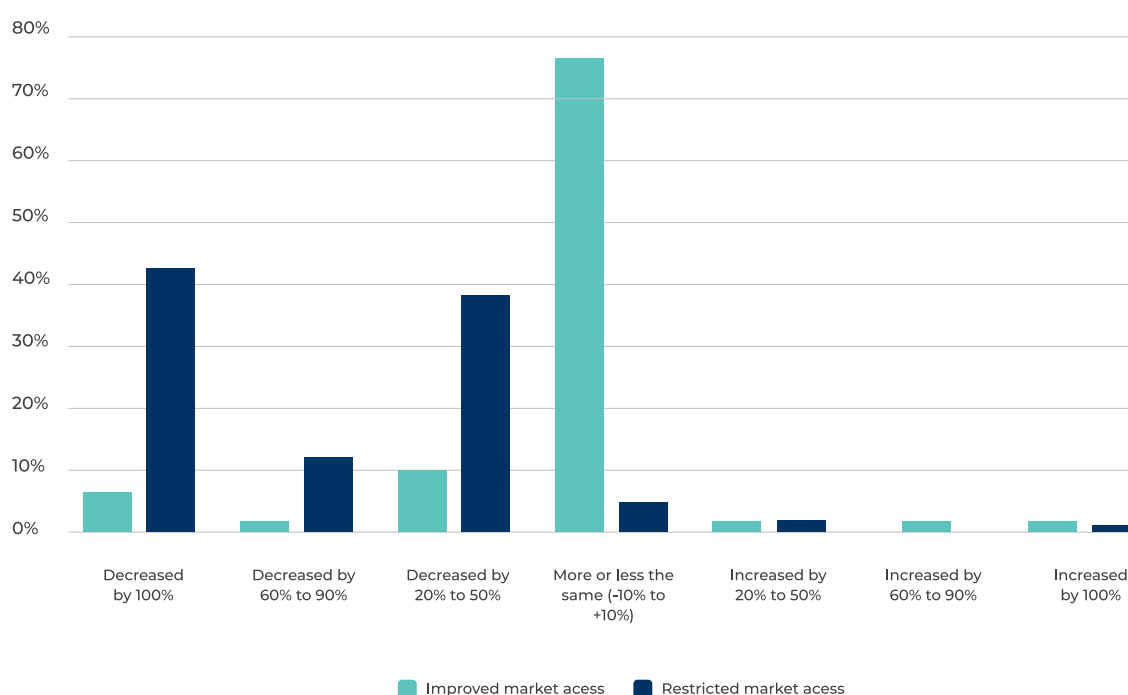
Source: UNECE Survey of Georgian MSMEs

³⁹The MEMEs were asked to compare the evolution of their export earnings over the period January-July to the period leading up to the spread of the pandemic and the introduction of the nationwide lockdown measures.

The remaining manufacturing MSMEs were yet to recover, with 22 per cent registering up to a 50 per cent decline in export earnings over the period January-July 2020 compared to the pre-pandemic period. Another 7 per cent saw their export earnings drop by up to 90 per cent, while the remaining 22 per cent reported suspending export activities altogether (i.e., a 100 per cent decline in export earnings). Enterprises belonging to the last category were dominated by micro and small enterprises, with each accounting for 42 per cent of MSMEs that suspended exports.

The above figures mask the reduced export earnings of manufacturing MSMEs that could not cover transport costs. Around 32 per cent of the MSMEs from across the surveyed sectors were unable to afford transport, and this segment included not only micro and small enterprises but also medium enterprises. For these MSMEs, access to international markets was effectively restricted. The discrepancies in the export earnings of this segment and the remaining MSMEs (that were able to afford transport costs following the lifting of the nationwide lockdown) are captured in Figure 2.2 remaining MSMEs (that were able to afford transport costs following the lifting of the nationwide lockdown) are captured in Figure 2.2.

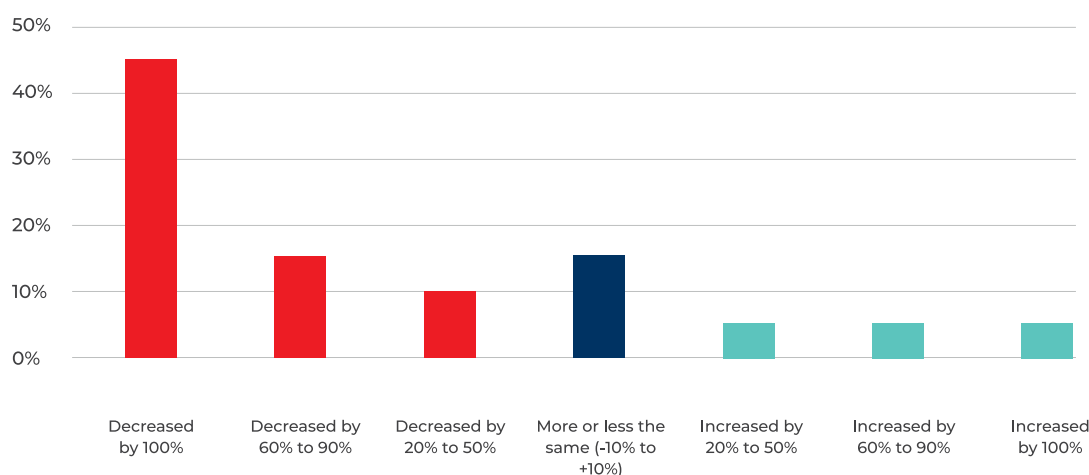
Figure 2.2 - Manufacturing MSMEs' export earnings by ease of market access January-July 2020 (% of respondents)



Source: UNECE Survey of Georgian MSMEs

Export-oriented farmers were the hardest hit, with around 45 per cent suspending exports altogether (Figure 2.3). At issue, explained the farmers, is the high degree of financial risk that export activities have come to pose. The current conditions of uncertainty surrounding lockdowns in partner countries make it difficult to guarantee that the consignments would reach their destination damage-free and/or that the buyer would not charge late delivery penalties.

Figure 2.3 - The farmers' export earnings
January-July 2020 compared to 2019 (% of respondents)



Source: UNECE Survey of Georgian MSMEs

On the import side, transport disruptions translated into supply shortages. Most affected were farmers and MSMEs operating in the food and beverages industries, with delays in inbound freight translating into damaged goods. Wastage in perishable goods became a norm rather than the exception, causing acute shortages in, among others, seedlings and animal feed.

Food shortages were also caused by export bans in partner countries, particularly on wheat,⁴⁰ and the breakdown of communications with suppliers. In this respect, several farmers reported that negotiations with European suppliers came to a halt, given the lack of clarity over the duration of border closures and lockdown measures in the region, and/or their suppliers' abrupt decision to suspend activities.

For the remaining enterprises, supply shortages were caused by delayed deliveries and the closure of non-essential businesses in partner countries. Most of the enterprises said that they have effectively depleted their reserves of raw materials, spare parts, and packaging supplies. Other contributing factors were the protracted travel restrictions, which had a strong effect on sourcing manufacturing machinery. Sourcing from abroad became an impossible undertaking, since sellers could not field technicians to install the machinery and train their Georgian counterparts.

⁴⁰The Russian Federation, along with the remaining Eurasian Economic Union countries, introduced temporary export bans on cereals and other food items over the period 12 April-30 June 2020 to hedge against food shortages (<https://www.macmap.org/COVID19>). The Russian Federation is one of Georgia's main trade partners (Annex 1).

Similar concerns were raised by MSMEs in the textile industry. Several noted that they could not field staff abroad to sample fabrics and negotiate sales contracts. For enterprises integrated into regional and international supply chains,⁴¹ the disruption in imports was akin to a death sentence. These enterprises were left without the raw material and support that was usually furnished by their partners.

The experience of the MSMEs surveyed mirrors national trends. Official statistics show exports and imports as picking up steam as of May 2020, which marked the easing of the national lockdown measures (Figure 2.4). However, both imports and exports remained below their previous levels. A cursory examination of available statistics reveal that the impact of supply chain disruptions was more pronounced on imports, reflecting diminished domestic purchasing power.

Imports dropped by 19.1 per cent over the period March-June 2020 in relation to the same period last year. In contrast, exports declined by 15.9 per cent over the said period and, as shown in As shown in Table 2.2, rose faster than imports; something which could be partly explained by the accumulated purchase orders that could not be shipped during the nationwide lockdown.

Figure 2.4 - Georgia's exports and imports
January-June 2020 (USD million)

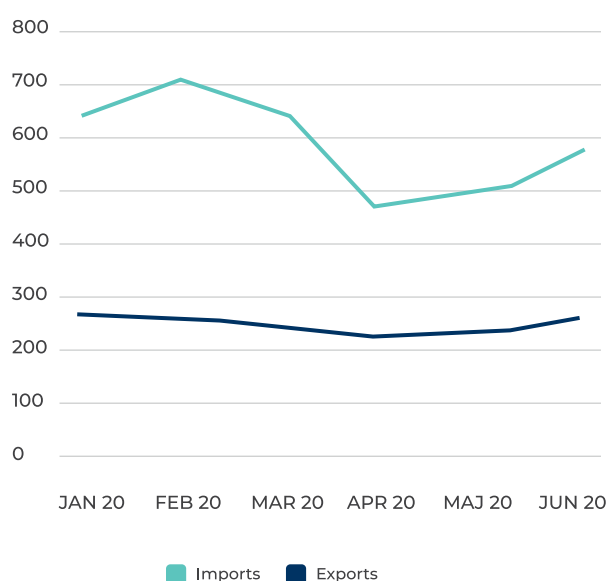


TABLE 2.2		Exports and imports year-over-year percentage change (2019-2020)	
Month	Exports	Imports	
March	-23%	-17%	
April	-29%	-39%	
May	-31%	-37%	
June	-14%	-22%	

Source: GeoStat

There is no doubt that the return to normality will breathe new life into the Georgian economy. However, the course of recovery is dependent on addressing the lingering effects of the pandemic. The experience of the enterprises surveyed points to a strong economic fallout, which is likely to set the limits to their ability to respond to positive market signals.

⁴¹The Georgian MSMEs were integrated into international supply chains through subcontracting arrangements that assigned them part or all production activities.

2.2.4 Isolation from global supply chains

Trucks have consistently stood out as the MSMEs' transport mode of choice. Depending on the trade route, distance and type of cargo carried, trucks were used in combination with maritime transport. Maritime transport was used only when necessary due to its high costs, while shipping by air was discounted as prohibitively expensive. It was to be avoided altogether, even if this meant foregoing export opportunities requiring fast delivery.⁴²

The outbreak of the pandemic seems to have triggered a similar attitude towards shipping by sea, with only a limited segment of the surveyed MSMEs showing continued reliance on this means of transport. The majority reported shifting towards road transport, even if this involved limiting their supply sources and export destinations.

Transport by road was by no means more efficient. All the MSMEs interviewed lamented that this means of transport has become more expensive. For micro-enterprises and farmers, transport by road has become unaffordable, with several pooling resources in combined shipments. Road transport also involved considerable delays, which translated into additional losses in the form of damaged goods.

Thus, modal choices based on trade-offs between financial costs and delivery times were no longer possible, and the choice of transport mode became a function of the MSMEs' financial capacity. These dynamics rendered the conditions of achieving connectivity with international supply chains similar to those prevailing in landlocked countries. The long detours that trucks made to avoid border closures and additional freight fees meant that Georgian MSMEs were isolated from mainstream transport routes by distance and high transport costs.

This shift mirrors a nationwide trend, with evidence pointing to a surge in the demand for international road freight transport permits. Official statistics show the number of single and multiple-trip permits issued over the period January-June 2020 increasing by 24 and 15 per cent, respectively, in relation to the previous period.⁴³

The shift towards road transport was also caused by the lack of efficient rail services, with forwarders noting that this transport mode could benefit from further service optimization. Indeed, less than 2 per cent of the MSMEs surveyed reported shifting to rail, and this group consisted of farmers and food producers shipping products to/from Armenia and Azerbaijan.

⁴²UNECE Study on Regulatory and Procedural Barriers to Trade in Georgia, Chapter six.

⁴³Statistics provided by the Land Transport Agency under the Ministry of Economy and Sustainable Development.

3. THE RIPPLE EFFECTS OF TRADE DISRUPTIONS

The enterprises surveyed adopted several coping strategies to withstand supply shortages and dwindling demand. These strategies involved in addition to a move away from maritime transport, scaling down production, and repurposing production. These strategies created new realities, which should be considered as the Government proceeds to set the MSMEs on a path towards recovery. This section discusses these realities, while the next section looks into the impact of these coping strategies on the MSMEs' income.

3.1 Stunted production

The assessment suggests that import disruptions had more impact on the MSMEs production capacities than dwindling demand, with the majority struggling to maintain operations under the weight of supply shortages. Around 27 per cent of the enterprises surveyed scaled down production, and this involved postponing expansion plans, including production upgrading and the launching of new products. Another 11 per cent suspended production altogether. MSMEs that were able to maintain production levels experienced efficiency losses, with shortages of spare parts translating into increased wear and tear of machines.

The enterprises were unable to address supply shortages, with the inflated transport costs and travel restrictions undermining their ability to find alternative sources. Only 10 per cent switched to alternative international suppliers, mainly to Turkey instead of the Russian Federation, China and the EU. This coping strategy was also risky because it meant doing without the advantageous arrangements with traditional suppliers. These arrangements involved pricing deals, training, advisory support, and maintenance services, which are based on strong relations of trust that are difficult to replicate at short notice.

For other MSMEs, seeking alternative international suppliers did not make business sense, given their modest import volumes, which made it difficult to obtain competitive terms. MSMEs explained that the slightest increase in production costs would translate into reduced market shares, since Georgia is flooded with cheaper and counterfeit products. MSMEs' hesitancy is all the more rational when taking into account the inflated costs of imports caused by the national currency (the Lari) devaluation⁴⁴ against the United States dollar (USD) and the euro; a measure that came as part of the Government's effort to address its widening budget deficit.

Switching to local markets figured as a viable coping strategy for only 17 per cent of the MSMEs surveyed and came at the expense of product quality. This coping strategy also resulted in increasing production costs, in view of the increased prices of industrial products (Box 3.1). MSMEs belonging to the textile sector reported teetering on the brink of insolvency, with their production effectively paralysed by supply shortages. For these enterprises, switching to domestic suppliers is simply out of the question, since it increases the risk of being wiped out by import competition.

⁴⁴National Bank of Georgia (<https://www.nbg.gov.ge/index.php?m=304&lng=eng>).

BOX 3.1**Percentage change in the prices of industrial products
(year-over-year, July 2020)****Manufactured products**

Prices increased by 7.3 per cent on average.

Highest increase: food products (10.6 per cent), beverages (5.5 per cent), other non-metallic mineral products (10.3 per cent) and basic metals (5.2 per cent).

Mining and quarrying

Prices increased by 20.5 per cent.

Highest increase: metal (33.2 per cent).

Electricity, gas, steam and air conditioning

Prices decreased by 0.1 per cent.

Source: GeoStat⁴⁵

Under such conditions, increasing the final price became the main strategy for maintaining production. Most of the MSMEs reported having no choice but to pass on the inflated production costs to consumers, thereby contributing to the rising inflation pressures (Table 3.1).

TABLE 3.1**Year-over-year changes in prices of consumer goods
(July 2020)**

Commodity group	Price changes (Year-over-year, July 2020)
Food and non-alcoholic beverages	11.5%
Alcoholic beverages and tobacco	9%
Clothing and footwear	3.2%
Housing, water, electricity, gas and other fuels	2.8%
Furnishings, household equipment and maintenance	9.8%
Health	7.2%
Domestic Transport	(9.3%)
Communication	0.5%
Recreation and culture	(1.2%)
Education	3.2%
Restaurants and hotels	7.4%
Miscellaneous goods and services	10.9

Source: GeoStat

⁴⁵<https://www.geostat.ge/media/33132/Producer-Price-Index-for-Industrial-Products-in-Georgia---July-2020.pdf>

3.2 Adverse repurposing conditions

Production repurposing, which has become an important tool for enterprises across the globe to remain relevant and maintain operations, did not figure prominently among the coping strategies of MSMEs surveyed. Only 10 reported repurposing production lines, reflecting at once the prevailing adverse conditions of supply-chain disruptions and the enterprise sector's deep-seated weaknesses. The experience of these enterprises provides valuable insights into the economy's recovery prospects, since they represented strategic sectors.

As shown in Annex 5, the MSMEs were involved in metal fabrication, textile manufacturing, food and beverages, and the retail sector. Their repurposing involved launching new products in order to:

- Cater to supply shortages of personal protective equipment (PPE): The MSMEs repurposed production lines to cloth masks, face shields and protective plastic dividers for cars.
- Respond to increased demand for construction material, which was generated by relief measures for enterprises involved in national infrastructure development initiatives (Annex 2): The MSMEs launched dyes, pigments for construction materials, and dowel bars for pavement.
- Generate domestic demand: This was the case of agri-enterprises, which repurposed to new lines of vodka and frozen fruits and vegetables, or started marketing their produce in smaller containers in order to reduce prices.
- Withstand supply shortages: This was the case of a food producer that repurposed production from salt and pepper to raisins.

The repurposing experience of the 10 MSMEs above offers valuable insights into how adverse conditions, such as the those created by the pandemic, can serve as a catalyst for entrepreneurship. The enterprises were quick to identify opportunities and marshal the necessary resources to implement their business plans. In this respect, the majority used retained earnings to finance repurposing activities. Only two used bank loans, and this was only because they needed to acquire new machinery.

However, some appear to lack the capacity to conduct proper market assessment. They ventured into highly competitive areas that are beyond their capacities, and this was the case of the textile manufacturers. Enterprises that managed to successfully repurpose were suffering a liquidity squeeze. They all reported lacking financial resources to acquire raw materials and/or machinery equipment for maintaining and/or expanding production.

The lack of financial resources was also cited as a critical constraint by MSMEs with repurposing plans, including 30 per cent of the manufacturing MSMEs. In this respect, a manufacturer of construction adhesives and paint noted that, despite the high demand for the new product and the enterprise's high-quality products⁴⁶, he was still unable to obtain a bank loan.

Other MSMEs singled out the lack of skilled labour as a major impediment to bringing their repurposing plans to fruition, having lost their technical specialists to other Georgian enterprises or to international companies. Then there were those who were unable to proceed under the travel restrictions. In this respect, a textiles manufacturer reported that plans to repurpose to PPE were on hold pending the completion of the technical assessment, which required fielding experts from the international supplier.

Otherwise, the enterprises cited shortages of raw materials and machine equipment as major impediments to pursuing their repurposing plans, along with the high degree of uncertainty surrounding the pandemic. This was particularly the case of farmers. The majority noted that repurposing was simply impossible since there was no guarantee that the products would not go to waste. Others noted that their modest production volume was an issue. They simply lacked the required machinery and raw material, which makes it difficult to venture into a new production line (e.g., food processing) without financial support.

Another major theme running through the MSMEs' repurposing activities relates to international standards implementation. Given their extensive coverage of production processes, these standards enable enterprises to properly select and acquire modern production methods, skill sets and supply-chain expertise, which are vital for production repurposing. The majority of MSMEs have implemented international standards in the past, which explains their ability to venture into new products quickly and reliably.

However, standards implementation is not common among Georgian MSMEs. As shown in a previous study, the dominant view among these enterprises is that standards are of limited value, especially since they are voluntary.⁴⁷ There is also a lack of awareness of international standards among micro-enterprises. The micro-enterprises interviewed seemed unfamiliar with the concept of international standards, with some reporting that they implement their own company standards.

⁴⁶The enterprise implements ISO 9001:2015 Quality Management Systems; and ISO 14001:2015 Environmental Management Systems.

⁴⁷UNECE Study on Regulatory and Procedural Barriers to Trade in Georgia, Chapter six.

3.3 Limited room for e-commerce

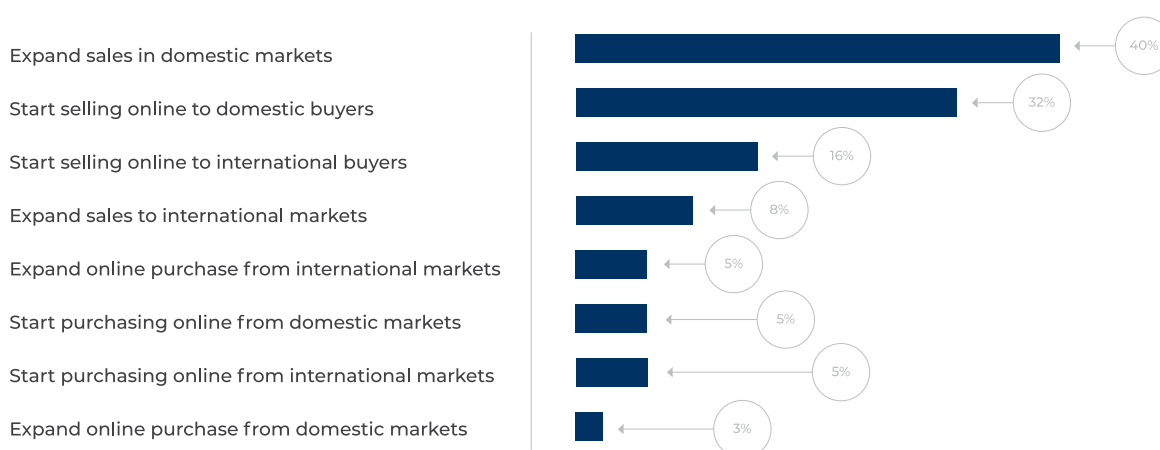
E-commerce did not figure among the coping strategies of the MSMEs surveyed. Only 17 per cent of manufacturing and trading enterprises reported increased use of e-commerce. The lack of equipment and information and communication technology (ICT) skills were cited among the reasons for such a limited engagement, and this was particularly the case for farmers, as well as for micro and small enterprises.

More important was the lack of incentives, something that was emphasized by all the MSMEs interviewed. First, navigating international e-commerce legislation pertaining to, among others, customs issues, currency fluctuations, shipment and fraud, presented significant challenges even under normal conditions. Second, the difficulties surrounding shipments meant that there was no guarantee that supplies would be of good quality or be shipped on schedule. On the export side, there is the risk of assuming additional costs in the form of fines due to delayed deliveries and/or damaged goods.

Third, achieving meaningful engagement in e-commerce is particularly challenging for certain MSMEs. In this respect, enterprises specialized in manufacturing customized and personalized products explained that engaging in e-commerce involves creating a multifaceted platform for enabling buyers to tailor and preview the product on the company's website. As this requires considerable time to perfect through trial-and-error, venturing into e-commerce under the current conditions of fluctuating demand was not financially prudent.

Thus, for MSMEs at issue is not only the lack of resources but also the high level of uncertainty that rendered e-commerce a risky undertaking. This is demonstrated in Figure 3.1, which shows the enterprises using e-commerce for boosting sales in domestic markets but not as an export-enhancing tool.

Figure 3.1 - MSMEs engagement in e-commerce



Source: UNECE Survey of Georgian MSMEs

Similarly, the MSMEs surveyed did not consider e-commerce as a tool for diversifying supply sources. As previously mentioned, the MSMEs saw in their international suppliers a reliable vehicle for technology transfer. They were the trusted partners, who could provide technical support and advice on production methods. For MSMEs, branching out of these relations of trust did not make any business sense.

The implication is that any effort to promote e-commerce should proceed within the context of a broader strategy that addresses the structural constraints cited by the MSMEs. Of equal importance is to help MSMEs implement international standards. This would enable the MSMEs to engage in e-commerce and use it as tool for export enhancement and import diversification.

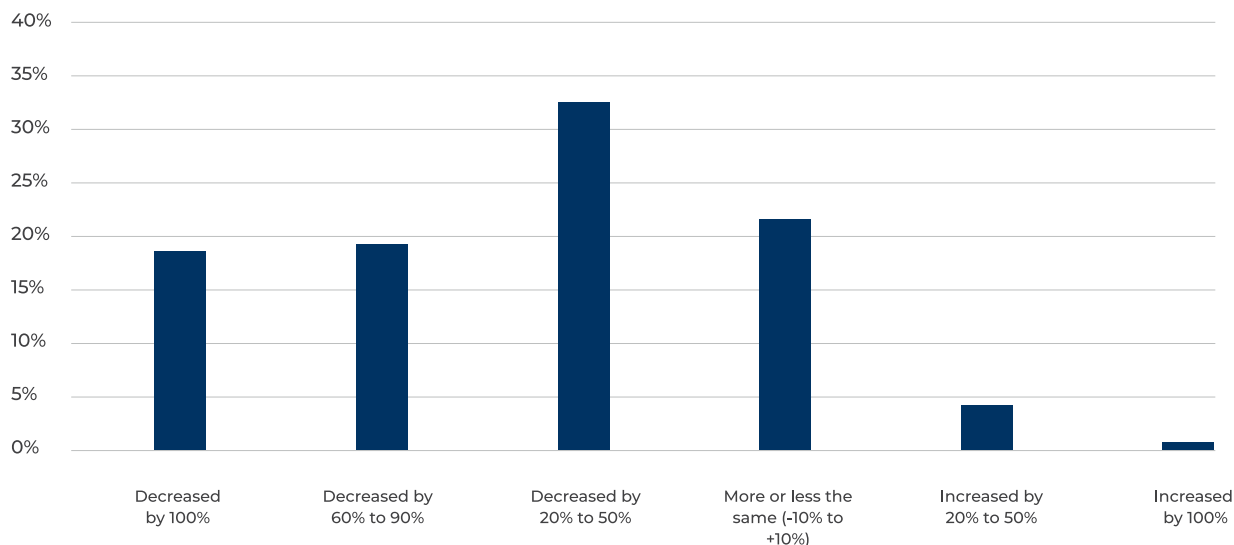
4. INCOME FALLOUT

The current conditions of dwindling international demand have increased the importance of domestic markets for the export-oriented MSMEs. However, domestic demand was weakened by diminished purchasing power, leaving the export oriented MSMEs with limited possibilities to compensate for falling revenues and siphoning away the livelihoods of domestic-oriented enterprises. This section discusses the ripple effects of trade disruptions and diminished domestic purchasing power on the MSMEs' overall income and economic vulnerability. Given the marked differences in their salient features, the section distinguishes between the farmers and the remaining MSMEs.

4.1 The manufacturing and trading enterprises

As shown in Figure 4.1, only 23 per cent of manufacturing and trading MSMEs regained their pre-pandemic domestic sales earnings by July 2020, and another 5 percent experienced a boost in domestic sales. The latter comprised manufacturers of fertilizers, food, and beverages (which saw a surge in demand during the first few months as consumers rushed to stock up on supplies) and manufacturers of fabricated metal and construction materials (linked to road development projects).

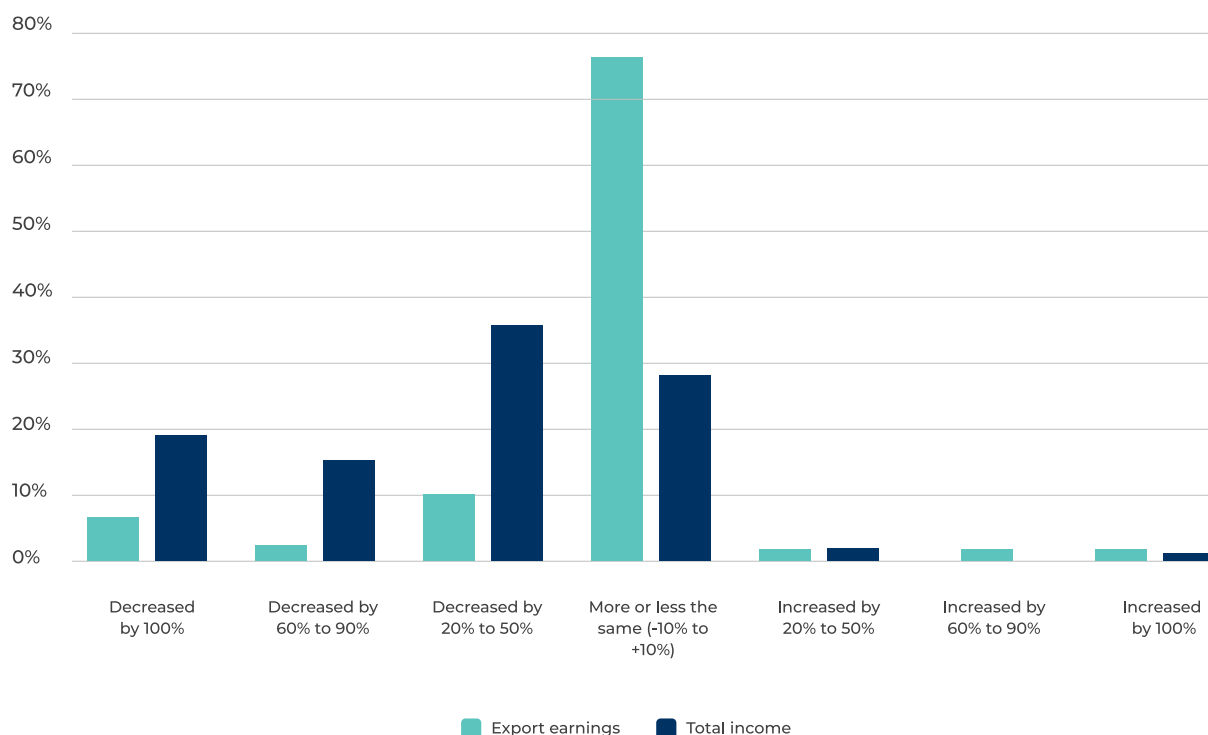
Figure 4.1 - Changes in MSMEs' domestic sales earnings
January-July 2020 compared to 2019 (% of respondents)



Source: UNECE Survey of Georgian MSMEs

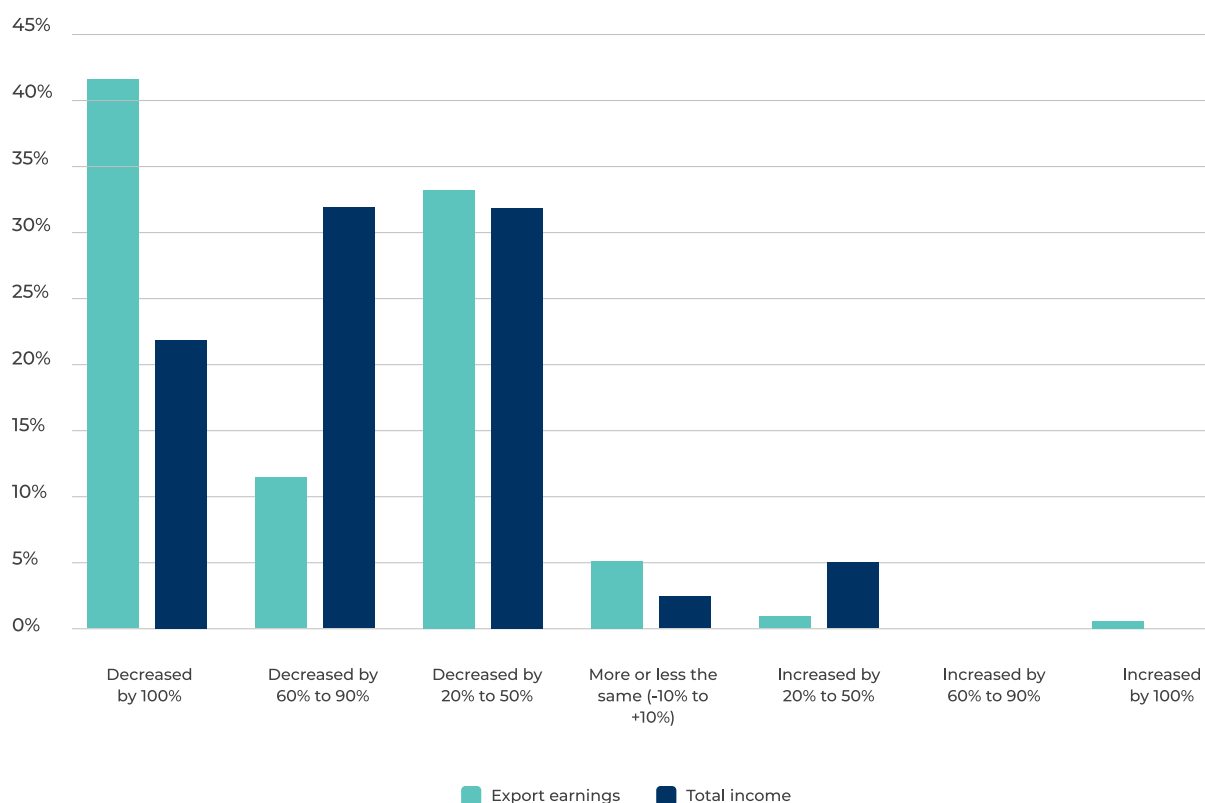
Under such conditions, the enterprises saw their overall income take a nosedive. The income fallout was less pronounced for MSMEs that managed to regain their pre-pandemic export earnings levels. As shown in Figures 4.2 and 4.3, only 3 per cent of MSMEs experiencing restricted access to export destinations were able to regain pre-pandemic income levels, as opposed to 28 per cent, the corresponding figure for enterprises that could afford the inflated transport costs.

Figure 4.2 - Income evolution of MSMEs' with improved access to export markets
January-July 2020 compared to 2019 (% of respondents)



Source: UNECE Survey of Georgian MSMEs

Figure 4.3 - Income evolution of MSMEs' with restricted access to export markets
January-July 2020 compared to 2019 (% of respondents)



Source: UNECE Survey of Georgian MSMEs

The above conditions of dwindling revenues came at a time when most of the MSMEs were assuming additional costs for achieving compliance with the Government's health protection requirements (Annex 4). Given the nature of their activities, working from home, which is the main strategy for ensuring the staff's safety, was implemented by only 8 per cent of the enterprises surveyed and their managers drew attention to the fact that this policy was only suitable for a limited segment of their staff (accountants and human resources).

Thus, all the enterprises surveyed had to repurpose their production facilities. As shown in Box 4.1, this exercise carries additional running expenses, which must factor in future budgets at least for the coming few months.

Partitions to ensure social distancing.

Laptops for staff working from home.

Arranging for the transport of staff hesitant to make the journey back and forth for fear of being infected by the COVID-19 virus.

Hand sanitizers.

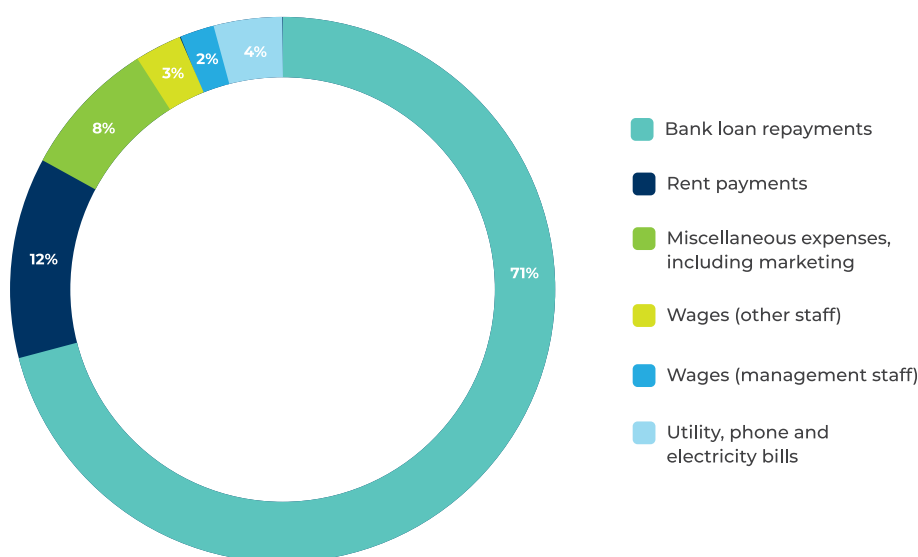
Thermometers for temperature screening.

Additional maintenance generated by extending working hours from 8 hours to 12 hours to keep in line with the health requirements of limiting the number of workers per shift to 3 persons.

Source: UNECE Survey of MSMEs

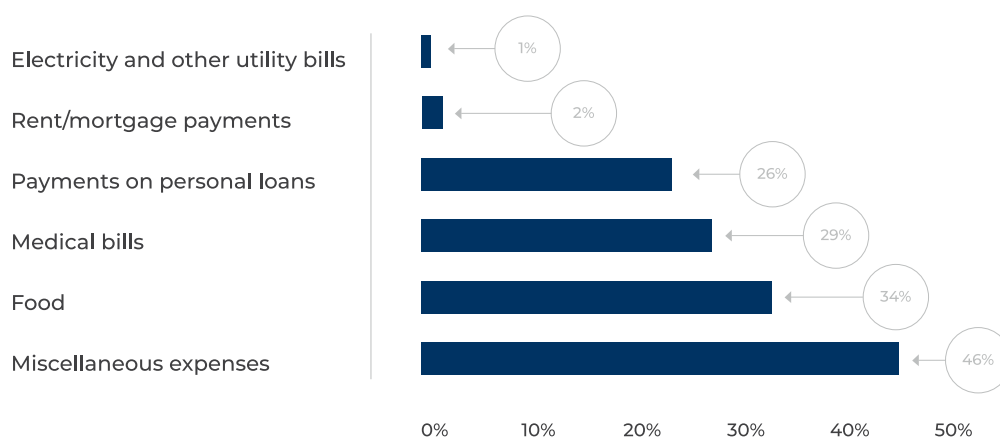
The assessment also shows that the MSMEs appear to have exhausted their financial resources, as around 37 per cent reported deferring business payments, particularly loan repayments (Figure 4.4). Moreover, around 44 per cent of the owners used their personal savings to cover business expenses. As shown in Figure 4.5, this came at the expense of their households' welfare, as owners postponed the payment of medical bills and cut back on food expenditures.

Figure 4.4 - MSMEs deferred business payments



Source: UNECE Survey of Georgian MSMEs

4.5 - MSMEs deferred household payments (% of responses)



Source: UNECE Survey of Georgian MSMEs

The owners resorted to the above strategies to avoid laying off staff, reflecting their strong sense of social responsibility. Only 23 MSMEs reported laying off staff, and most of the layoffs involved early retirements. The remaining layoffs were triggered by production downsizing, and several owners used their own savings to offer severance packages to staff who lost their jobs.

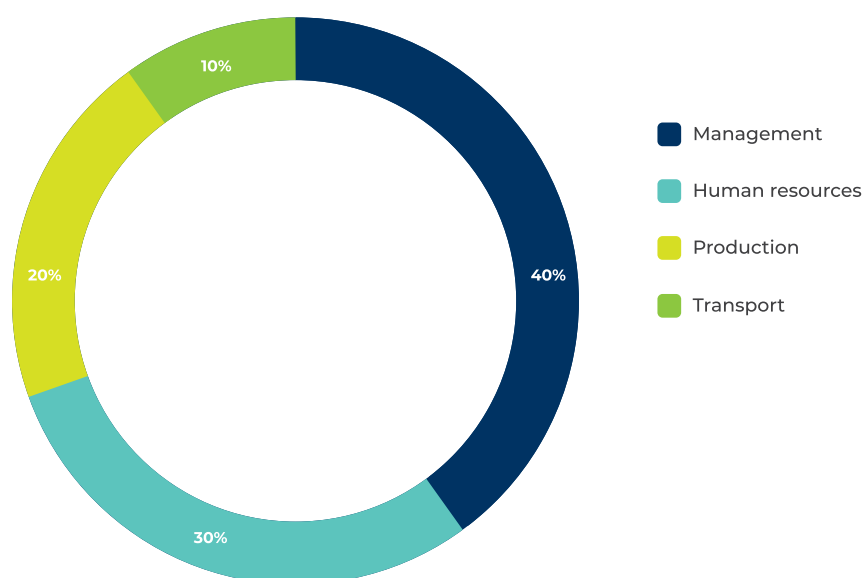
Otherwise, the owners introduced salary cuts (37 per cent of the manufacturing MSMEs surveyed) and/or put their staff on unpaid leave (30 per cent).

TABLE 4.1		Salary cuts introduced by manufacturing MSMEs
Responses	Number of SMEs	
10% or less	0	
11% - 20%	7	
21% - 30%	5	
31% - 40%	8	
41% - 50%	12	
51% - 60%	1	
61% - 70%	1	
71% - 80%	2	
81% and more	16	
Total	52	

Source: UNECE Survey of Georgian MSMEs

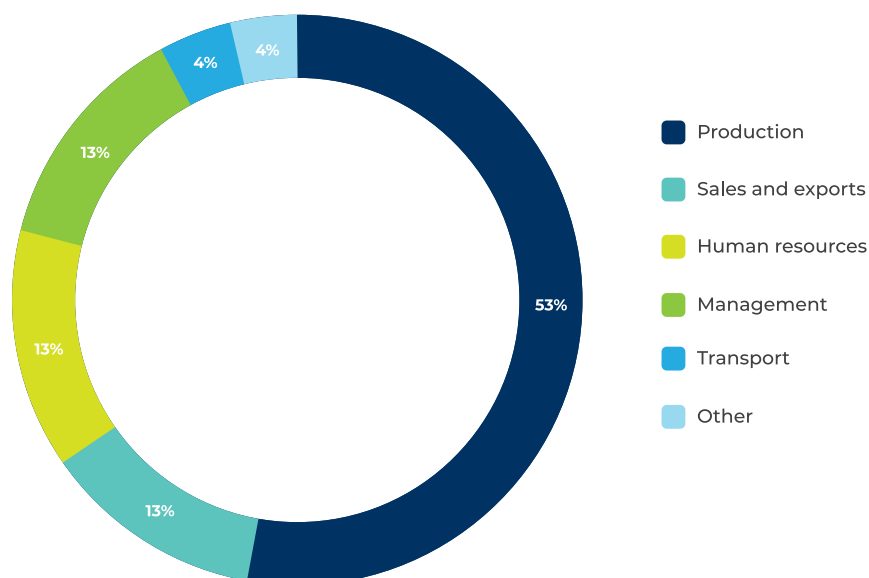
As shown in Figure 4.6, the management and transport assumed the brunt of salary cuts (Table 4.1). In contrast, production departments were the most affected by unpaid leave measures, reflecting the scaling down of production activities (Figure 4.7).

Figure 4.6 - MSMEs' salary cuts
(Most affected departments, % of responses)



Source: UNECE Survey of Georgian MSMEs

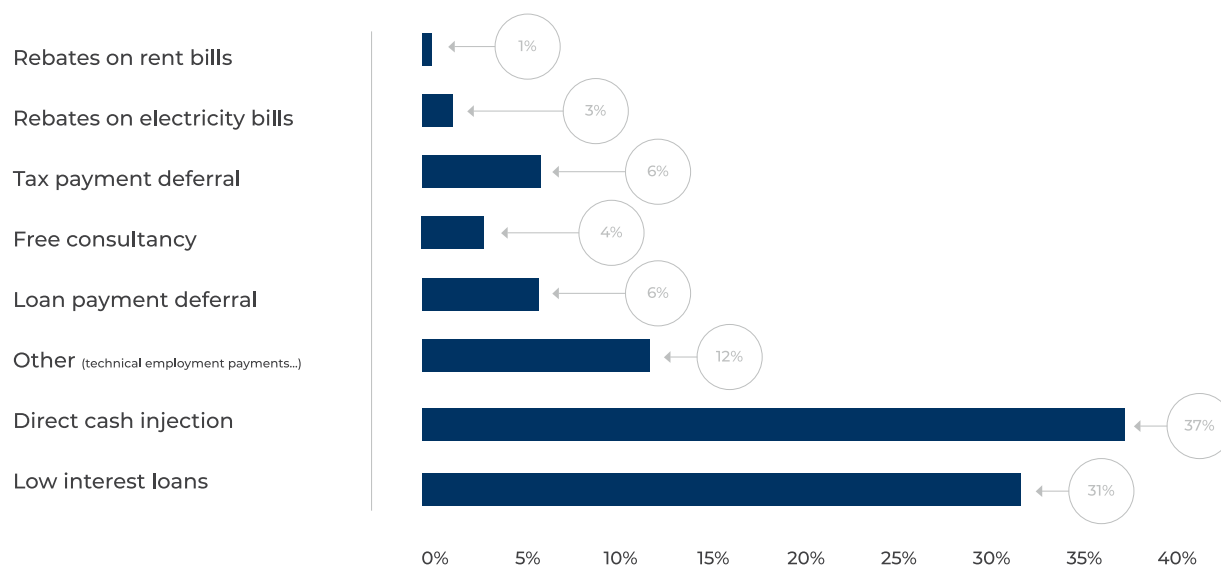
Figure 4.7 - MSMEs' unpaid leave policy
(Most affected departments, % of responses)



Source: UNECE Survey of Georgian MSMEs

The magnitude of the MSMEs' income fallout is reflected in the fact that around 79 per cent emphasized that their survival hinges on continued Government support to cover running expenses (Figure 4.8). Of these, 69 per cent noted that they need "a lot of support". Several also reported losing their property to the banks for defaulting on mortgage or business loan payments .

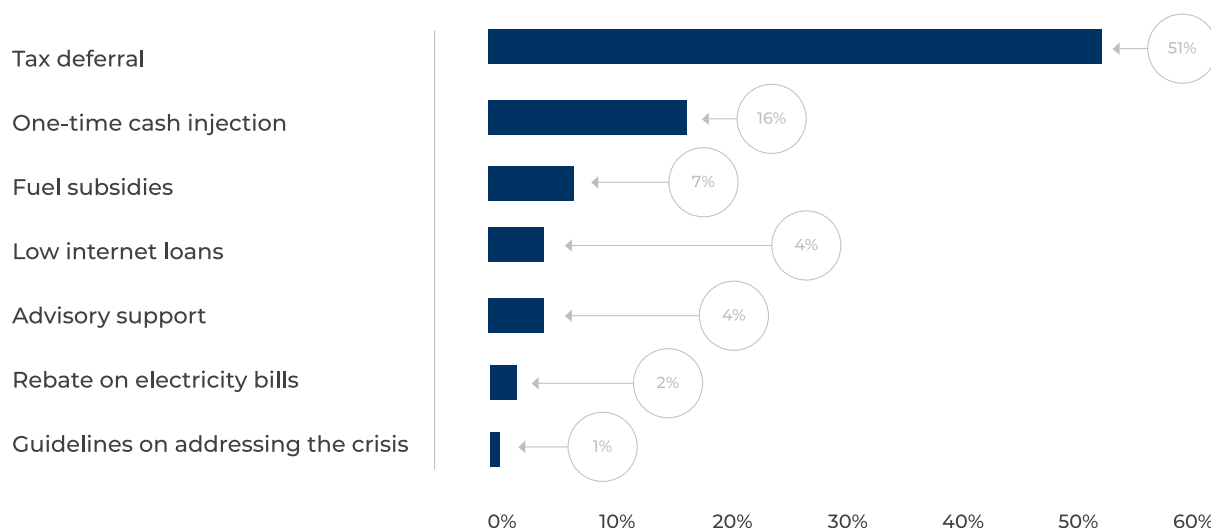
Figure 4.8 - MSMEs' urgent needs for maintaining operations (% responses)



Source: UNECE Survey of Georgian MSMEs

The income fallout could have been more severe for many of the MSMEs had it not been for the Government's sweeping relief measures (Annex 2). Around 42 per cent of the MSMEs reported direct receipt of relief assistance, particularly in the form of tax deferrals (Figure 4.9). The remaining did not meet the Government's eligibility criteria. This was the case for credit schemes that targeted a limited number of sectors (mainly agriculture and tourism). Others found the application procedures too complicated.

Figure 4.9 - Breakdown of Government assistance received by the MSMEs (% of responses)



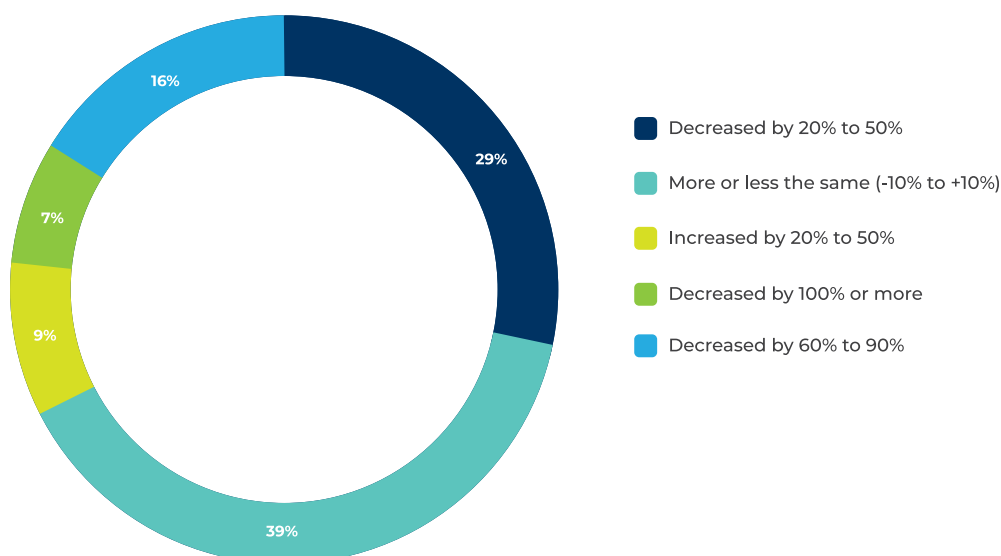
Source: UNECE Survey of Georgian MSMEs

It is worth noting that only 10 manufacturing MSMEs reported receiving support from other sources. This support was received from non-governmental organizations and involved free consultancy advice.

4.2 Farmers

As previously mentioned, farmers engaged in export activities have effectively suspended export activities (Section 2.2). Thus, to this group of MSMEs, domestic markets became the main source of income generation. As shown in Figure 4.10, the farmers fared slightly better than the manufacturing MSMEs, with 39 per cent regaining their pre-pandemic income levels and another 9 per cent registering a slight increase in income over the January-July 2020 period, as compared to 2019.

Figure 4.10- Changes in the farmers' total income (January-July 2020 compared to 2019, % of respondents)



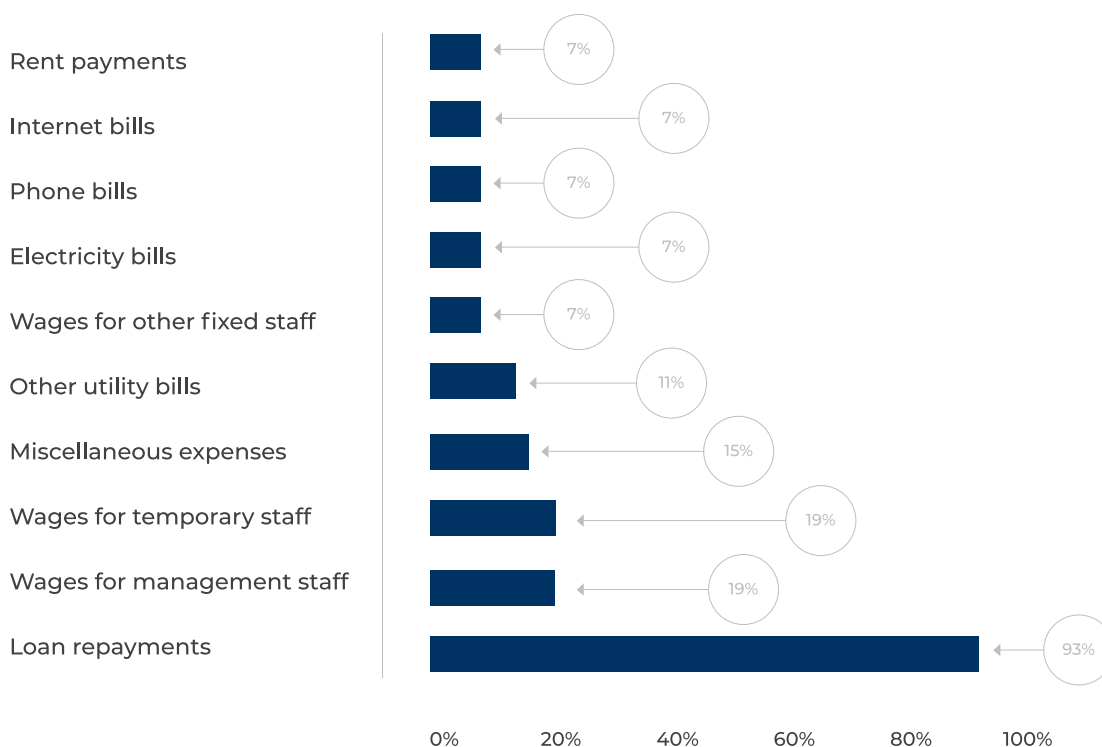
Source: UNECE Survey of Georgian MSMEs

The remaining farmers were still unable to reverse their income decline, given the closure of small grocery shops and the severe blow to the tourism industry. Several reported experiencing difficulties in collecting payments. Buyers pay contract amounts after much delay, often in the form of small instalments over several months and refuse to offer more lenient terms of sales. Farmers noted that advance payments could go a long way in relieving their financial squeeze.

Under such conditions, around 73 per cent reported using their own savings to pay for electricity and gas bills; the transport of seasonal workers to and from farms; fertilizers; seedlings; and machine equipment. This coping strategy helped farmers avoid deferring business payments (Figure 4.11), with only 24 per cent suspending such payments till their financial situation improved.

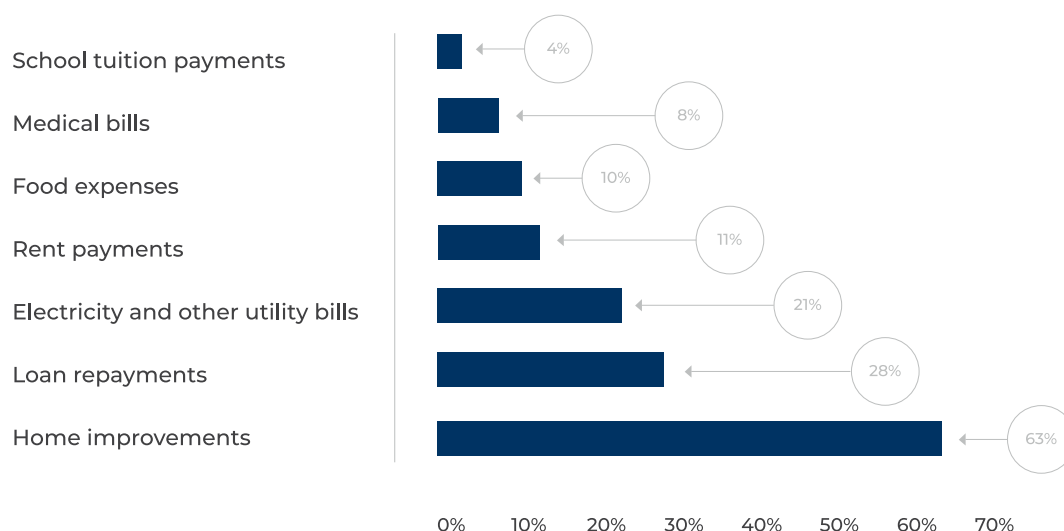
However, this came at the expense of their households' living conditions. As shown in Figure 4.12, farmers reported having to put on hold home improvement plans (renovations and construction works) and to delay the purchase of electrical appliances. The farmers also took over additional responsibilities, as they had to dispense with administrative staff (e.g., accountants) and seasonal workers (most of the farmers ran family-owned enterprises). Around 7 per cent had to lay off staff; and another 13 per cent introduced salary cuts; and around 10 per cent put workers on unpaid leave.

Figure - 4.11 The farmers' deferred business payments (% of respondents)



Source: UNECE Survey of Georgian MSMEs

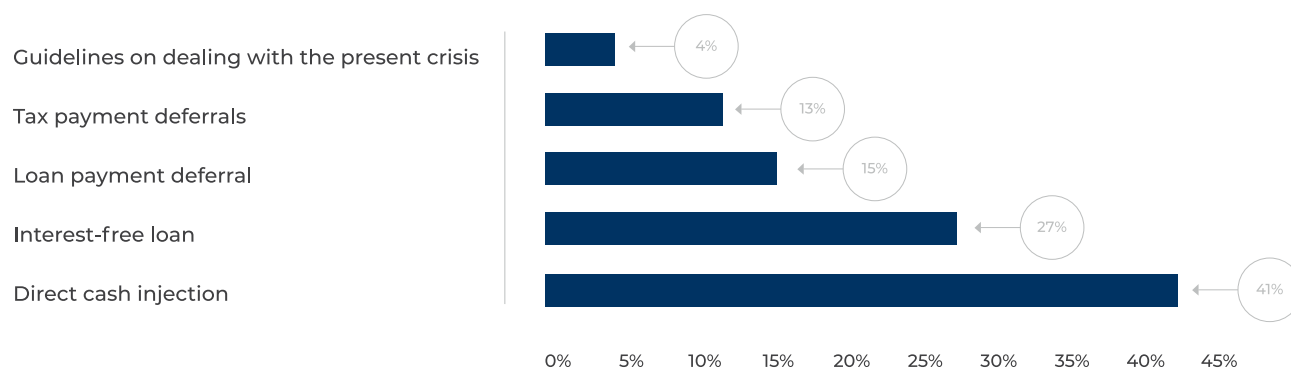
Figure 4.12 - The farmers' deferred household payments (% of respondents)



Source: UNECE Survey of Georgian MSMEs

The magnitude of farmers' income drop is reflected in the fact that around 85 per cent emphasized that their survival hinges on continued Government support for covering running expenses (Figure 4.13). Of these, 81 per cent noted that they need "a lot of support".

Figure 4.13 - Farmers' urgent needs for maintaining operations (% of responses)

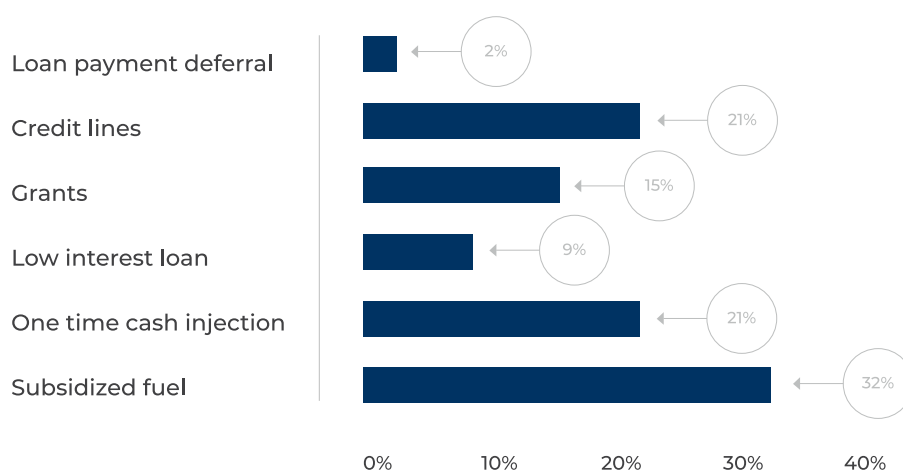


Source: UNECE Survey of Georgian MSMEs

As with the manufacturing MSMEs, farmers' income drop could have been more severe had it not been for the Government's relief measures. Around 42 per cent benefited from these measures. The remainder did not meet the eligibility criteria (in the case of low-interest loans) or found the application procedures too complicated. Some also noted that their businesses were beyond help.

As shown in Figure 4.14, farmers received one-time cash injections in the amount of GEL 300; subsidized fuel; credit lines for sourcing supplies, particularly fertilizers; and grants for upgrading their productive capacities from Enterprise Georgia. Farmers were appreciative of the assistance received. They drew attention to the fuel subsidies programme, which could benefit from some improvement. Several noted that they were assigned to petrol stations that were far from their farms, and that some of the stations provided low-quality fuel.

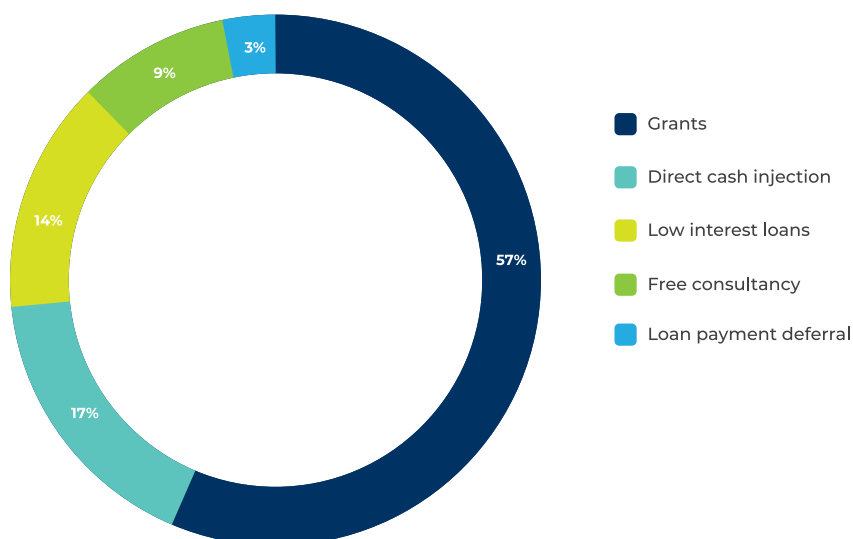
Figure 4.14 - Breakdown of Government assistance received by the farmers (% of responses)



Source: UNECE Survey of Georgian MSMEs

Many farmers, around 23 per cent, also received assistance from international organizations and national non-governmental organization (NGOs). As shown in Figure 4.15, the bulk of this assistance was in the form of grants, which were disbursed within the context of donor-funded initiatives to enable farmers to purchase raw material and machinery equipment. The NGOs offered free advisory services and, above all, moral support, as well as promotional campaigns. In addition, 3 per cent were granted the possibility (by their commercial banks) to defer business-loan payments.

Figure 4.15 - Breakdown of assistance received by farmers from other sources (% of responses)



Source: UNECE Survey of Georgian MSMEs

5. RECOMMENDATIONS

This assessment traces the way non-tariff measures (NTMs) influenced end-to-end supply chain activities in Georgia. It shows the Government of Georgia as using NTMs for the twin objectives of containing the spread of the pandemic and generating efficiency throughout the international supply chain. In so doing, it transformed NTMs into effective channels for curbing supply-chain disruptions.

The Government limited restrictive NTMs to the minimum and upscaled the suite of trade facilitation measures available to supply-chain actors. It boosted transparency in trade through, among others, expanding online information sources and introduced additional measures to increase the efficiency of cross-border trade formalities. The well-established paperless trading system was used for maintaining an unfettered flow of cross-border trade while dispensing with physical contact. Agencies issued paper-based documents, namely testing laboratories and product-certification bodies, and stepped up efforts to ensure prompt issuance of conformity assessment results and certificates.

NTMs were complemented by sweeping relief measures for supporting the vulnerable segments of the population, particularly in rural areas, as well as the hardest-hit sectors. Moreover, despite its significant financial constraints, the Government avoided deferring development efforts until normalcy is reached again.

In so doing, it provided an example to follow on linking relief to development efforts; a challenge that has been at the centre of the shifting debate on post-disaster recovery.⁴⁸

However, the positive impact of the above-mentioned channels was undermined by health protection measures in partner countries and dwindling international demand. Reflecting the high degree of global interdependence, these channels disrupted supply chain operations and carried acute lingering effects that are unlikely to be easily reversed once normality is attained.

These lingering effects were amplified by the MSMEs' coping strategies. Most notable was the MSMEs' shift from shipment by sea towards road transport. Given that this transport mode is inefficient, this coping strategy isolated the MSMEs from international supply chains. Combined with the closure/scaling down in the activities of major international suppliers, supply shortages became inevitable with the consequence of stunting production.

E-commerce did not figure among the MSMEs' coping strategies. The adverse conditions of transport disruption and the high degree of uncertainty surrounding e-commerce rendered this tool too risky. Repurposing production was also difficult. Only 10 MSMEs managed to repurpose and did so with mixed results. MSMEs with a successful track record in international standards implementation were able to venture into new products quickly and reliably. However, several were unable to maintain their new production lines in the face of import competition, and the remainder were struggling with supply shortages and in dire need of financial support.

Under such adverse conditions, the MSMEs saw their overall income take a nosedive. The majority were struggling under rising debt levels and were forced to use their personal savings to maintain operations at the expense of their households' living conditions. No doubt the return to normality will breathe new life into the Georgian economy. However, the course of recovery is dependent on addressing the lingering effects of the pandemic.

Table 5.1 provides action-oriented recommendations for the Government's consideration as it forges ahead in rebuilding a stronger and more resilient MSMEs in the aftermath of COVID-19. The recommendations address emergency and capacity-building requirements for structural transformation and the achievement of the 2030 sustainable development goals (SDGs): SDGs 1 (no poverty), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure) and 11 (sustainable cities and communities). Given the Government's financial constraints, the need for donor assistance cannot be over-emphasized.

⁴⁸While there is a broad consensus on avoiding a segmented treatment of relief and long-term development objectives (whereby efforts are structured along a continuum with relief measures succeeded by development initiatives once normalcy is attained), there remains much debate on how best the link relief to development. <https://www.preventionweb.net/publications/view/42097>

TABLE 5.1

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
Financial support	MSMEs are struggling with bank loan repayments	Temporarily increase the debt threshold requirements associated with creditor-initiated bankruptcy proceedings. ⁵⁵	SDG 1.1: By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day.
	MSMEs are experiencing shortages in working capital.	<p>Promote affordable online legal advisory platforms for helping MSMEs settle commercial disputes with international buyers and suppliers.</p> <p>Temporarily expand the scope of emergency credit schemes to cover all sectors and publish detailed information on application procedures.</p> <p>Introduce credit schemes for subsidizing shipment costs.</p> <p>In launching such schemes, consider:</p> <ul style="list-style-type: none"> - Involving micro-finance and non-banking financial institutions to further facilitate the MSMEs' access to finance. - Involving community-based financial institutions, such as savings and credit cooperatives, as these have experience in channelling funds to micro enterprises. 	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Enterprise support	MSMEs lack the experience in disaster risk management	<p>Expand the suite of information resources published on the COVID-19 portal (StopCov.ge) to include:</p> <ul style="list-style-type: none"> - Guidelines on supply chain management. - Guidelines and best practices on emergency preparedness and business continuity plans. 	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Enterprise support	MSMEs are facing prohibitive maritime transport costs ⁵⁶	Create a specialized body to help MSMEs obtain competitive terms from shipping lines, drawing on the experience of shippers' councils across the globe. The specialized body, which could be housed within an existing agency or established from scratch, would represent and protect the transport interests of the Georgian business community, including retailers, wholesalers and manufacturers, who are end-users of maritime shipping, air freight and land transport, in their dealings with:	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

⁵⁵The Government of Australia introduced similar measures as part of its Coronavirus Economic Response Package Omnibus Bill 2020 (https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6521)

⁵⁶Maritime transport development has ranked and continues to rank high on the Government of Georgia's development agenda, given its vital role in enhancing the country's position as a regional logistical hub and transit corridor. The Government is fully aware of the need to address the high port fees, improve hinterland connection, and multimodal transport networks. It is in the process of assessing options for scaling up the maritime sector, including in terms of physical infrastructure and facilities. In addition, work is under way to establish a National Maritime Single Window to transform customs clearance across Georgian ports.

TABLE 5.1

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
		<ul style="list-style-type: none"> - Transport services providers (shipping companies, forwarders, land and rail transportation, and warehouse operators). - Relevant regional and international bodies, including, among others, the European Shippers' Council, the Asian Shippers' Association, the World Shipping Council, and the Global Shippers Alliance. 	
Structural Measures			
Transport development	MSMEs are showing increased reliance on road transport	Upgrade Georgia's rail track and structures to handle increased loaded car weights.	<p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p> <p>SDG 11.2: By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.</p>
Conformity assessment ⁵⁷	Georgia's market surveillance system could benefit from further strengthening	<p>Develop a regional approach to curb trafficking in counterfeit products.</p> <p>Strengthen relevant line Ministries with financial resources and expertise to establish guidelines and management systems for issuing Good Manufacturing Practice Certificates for cosmetics, pharmaceutical products, dietary supplement and medical devices.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
	Georgia's certification bodies are experiencing challenges to adequately meet demand	Strengthen the Georgian Accreditation Centre with the required financial resources and expertise skills to increase the number of accredited product certification bodies, medical laboratories and accredited bodies for undertaking auditing and certification of management systems in the areas of approximate EU acquis.	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>

⁵⁷For a detailed analysis of Georgia's system of conformity assessment, see UNECE Study on Regulatory and Procedural Barriers to Trade, Chapter four (https://www.unece.org/fileadmin/DAM/trade/Publications/ECE_TRADE_443E_Georgia.pdf).

TABLE 5.1

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
Enterprise support	Micro enterprises are ill-equipped to achieve economies of scale and scope	<p>Strengthen Enterprise Georgia with additional resources so that it can forge ahead with its efforts to expand and extend the outreach of its networking programme, so that it covers a broader segment of micro-enterprises.</p> <p>Strengthen business associations with additional resources and expertise, with a view to enabling them to launch sector-focused networking programmes. Such programmes could feature, among others:</p> <ul style="list-style-type: none"> - Coaching and mentoring support to help micro-enterprises improve their business and management skills - Linkage programmes to help enterprises pool resources and enter contracting arrangements with national small, medium and large enterprises. - Focused training on supply-chain management and incoterms. - Legal advice on sales contracts and commercial dispute resolution. 	SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.
	MSMEs are experiencing difficulties in networking with regional and transnational corporations	<p>Equip Enterprise Georgia and the Chamber of Commerce and Industry with the required financial resources and expertise to enable them to participate in enterprise development initiatives and networking opportunities offered by the Enterprise Europe Network.</p> <p>Establish dedicated networking programmes for linking Georgian MSMEs with regional and global value chains. Such programmes should be sector-specific and provide, among others:</p> <ul style="list-style-type: none"> - Matchmaking with potential partners, including suppliers and buyers, particularly from EU and the European Free Trade Association (EFTA) countries, which SMEs consider as strategic partners in light of the Deep and Comprehensive Free Trade Agreement between Georgia and the EU (DCFTA). - Mentoring and guidance for ensuring beneficial partnership arrangements with regional and transnational corporations - Legal advice on commercial dispute resolution <p>In designing such programmes, the Government needs to proceed with a clear understanding of existing linkages between MSMEs and transnational corporations.</p>	SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors. SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

TABLE 5.1

Proposed measures for stronger and more resilient Georgian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
	<p>Georgian MSMEs are exhibiting low rate of international standards implementation</p>	<p>Develop training programmes on international standards implementation, particularly the European Union (EU) harmonized standards, to enable them to benefit from the DCFTA. Such programmes could be championed by the National Agency for Standardization and Metrology potentially in co-operation with higher-education institutions and Vocational Education and training institutions as well as Enterprise Georgia and the Georgian Innovations and Technologies Agency. The programmes could involve:</p> <ul style="list-style-type: none"> - Awareness-raising modules for familiarizing MSMEs with standards implementation and their critical importance for improving overall productivity and competitiveness in domestic and global markets - Thematic training programmes. Of particular importance under the current conditions are programmes on the role of standards implementation in strengthening enterprises' resilience in the face of the crisis and transitioning towards circular production models - Sector-specific training programmes to help enterprises choose the appropriate standards of relevance to their activities <p>Enterprise Georgia should consider including standards-implementation plans as part of business development loan eligibility.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
	<p>MSMEs' are struggling to find skilled workers</p>	<p>Strengthen vocational training institutions with resources to develop targeted training for: (i) existing MSME employees to improve their skill sets within their areas of work; and, (ii) unemployed individuals whose skills could be upgraded to the specific requirements of the demanding jobs within their areas of work. The emphasis should be on enabling the individuals to acquire the necessary skills for engaging in production activities with high value added.</p> <p>Develop advanced, forward-looking curricula and programmes within the higher-education institutions, which tailor both the content and approaches to industry needs.</p> <p>Establish a national skills-matching strategy (or sectoral/ field-specific matching strategies) for guiding the above.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value-added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>

ANNEX 1 - COUNTRY BACKGROUND

A.1 Reform and development efforts

Georgia has successfully implemented a wave of reforms over the past decade. The emphasis has been on anchoring trade reforms in the multilateral trading system⁵⁸, while diversifying trade partners through an array of free-trade agreements and consolidating a lean, paperless trading environment, rendering Georgia compliant with 93 per cent of the WTO-administered Agreement on Trade Facilitation before the agreement's entry into force.⁵⁹

Trade reforms entered a new phase with the entry into force of the Association Agreement (AA) with the European Union (EU) and the European Energy Community and their Member States in 2016.⁶⁰ The AA provides for completing Georgia's integration into the EU regional bloc⁶¹ through the elimination of residual tariffs within the context of the Deep and Comprehensive Free Trade Area (DCFTA). It also sets the context for scaling up the country's legislative and institutional reforms in all policy areas through the approximation of national laws to the EU *Acquis Communautaire*.⁶²

Trade reforms have been complemented by targeted efforts to enable structural transformation towards increased specialization in activities with high value-added. These efforts comprise an assortment of policies, such as value-added-tax (VAT) exemptions for imports of fixed assets⁶³, and capacity-building initiatives to support start-ups and help existing enterprises develop their productive capacity. Most notable are the State programmes Produce in Georgia⁶⁴ and the Micro and Small Business Grant Programme⁶⁵ for facilitating enterprises' access to finance; and Start-Up Georgia for supporting high tech and innovative start-ups.⁶⁶ To these should be added the targeted enterprise development services by the Legal Entity of Public Law (LEPL), Enterprise Georgia and the Georgian Innovations and Technologies Agency; and, the agricultural sector development initiatives of the Agricultural and Rural Development Agency of Georgia (Box 1.1).

These initiatives were driven by a deep understanding of the challenges encumbering the road for enterprises in achieving compliance with the demanding quality, health, safety and environmental regulatory requirements in global markets. This concern was also at the centre of the Government's negotiations with the EU, during which it sought a phased approach to legislative approximation to accord sectors facing strict requirements with the longest transition periods (until 2027).

⁵⁸Georgia became a member of the World Trade Organization on 14 June 2000. Source: Revenue Service, Ministry of Finance of Georgia.

⁵⁹Georgia ratified the Agreement on Trade Facilitation on 4 January 2016. The agreement entered into force on 22 February 2017.

⁶⁰The Association Agreement was provisionally implemented in September 2014 and entered into full force on 1 July 2016.

⁶¹Georgia benefited from the EU Generalized Scheme of Preference Plus (GSP+) as of 2005.

⁶²See Georgia's Action Plan for the Implementation of the DCFTA (2018-2020); available at: <http://www.dcfta.gov.ge/public/filemanager/implimentation/2018-2020%20DCFTA%20AP.pdf>.

⁶³Ministry of Finance of Georgia (2017) Georgia-reforms to development, available at: http://mof.ge/images/File/BROSHURA/2017/Georgia-Reforms_to_Development.pdf

⁶⁴The programme provides financial assistance in the form of subsidized loans (co-financing up to 10 per cent of interest rates on bank loans taken out by the enterprises) and partial collateral support in the form of a cash deposit held at the lending bank (up to 50 per cent of the loan amount) for a limited period (up to 48 months).

⁶⁵The micro- and small-business grant programme provides up to GEL (Lari) 15,000 for enterprises and GEL 5,000 for entrepreneurs. Beneficiaries contribute 20 per cent of the loan.

⁶⁶Start-Up Georgia supports high tech, innovative start-ups with funds equivalent to up to 50 per cent of equity.

Enterprise Georgia⁶⁷**Market access**

Planning, organizing and co-financing participation in international relevant tradeshows and conferences.

Planning, organizing and co-financing international targeted trade missions.

Export Catalogue.

Enterprise Europe Network (EEN).

Online trade platform (tradewithgeorgia.com).

Connect foreign buyers with Georgian producers.

Advice and matchmaking

Export readiness test to rank companies according to their needs.

One-on-one coaching sessions with companies interested in expanding export activities.

Training opportunities for managers of export-oriented enterprises operating in the country

Advice to enterprises, especially SMEs, on export-related issues, including tariff levels in target markets.

Access to finance

Co-financing and leasing programmes.

Hotel-industry incentive scheme.

Film-industry incentive scheme.

Micro and Small Business Support

Matching grants and advisory services.

FDI attraction/promotion and after care

Providing general and sector specific information to potential investors.

Connecting investors with Government bodies and potential local partners.

Organizing exploratory visits for potential investors.

Supporting reinvestment activities.

Research

Sector-focused research to gain insights into the development challenges facing the enterprises; identify export potential; and ascertain investment potential to attract foreign direct investment.

⁶⁷<http://enterprisegeorgia.gov.ge>.

Georgian Innovations and Technologies Agency⁶⁸

Coordination among R&D scientists and firms.

Support start-ups through developmental guidance.

Facilitate cooperation among administrative officials and firms.

Skills development, especially in digital literacy and capacity building.

Engages in SME development through innovation guidance and technological solutions.

Assists firms in the financing of knowledge-based initiatives.

Implements programs for stimulation of R&D initiatives and firms.

Agricultural and Rural Development Agency of Georgia⁶⁹

Organizes training activities.

Disseminates best practices on agricultural production.

Coordinates the implementation of national rural development programmes.

Provides financial assistance through co-financing and low-interest loans.

Organizes networking events.

Provides advisory services to agricultural enterprises.

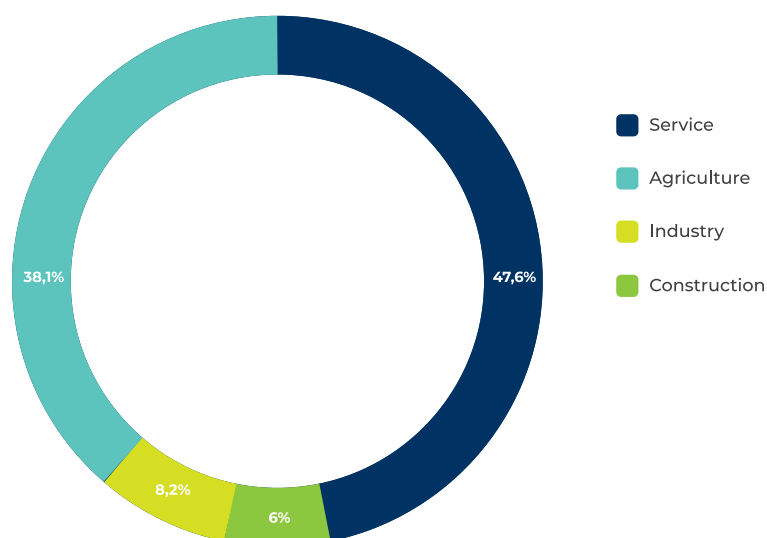
⁶⁸<https://gita.gov.ge/eng/static/31/genie>

⁶⁹<http://arda.gov.ge/projects>

A.2 Economic structure

The Georgian economy has historically been service-based, with the services sector accounting for around 70 per cent of gross domestic product (GDP) in 2019 and absorbing 47 per cent of the labour force (Figures A.1.1 and 1.2). The industrial sector (including mining and quarrying and manufacturing) stood as the second source of income generation, with a 14 per cent share of GDP, followed by construction (8.6 per cent).

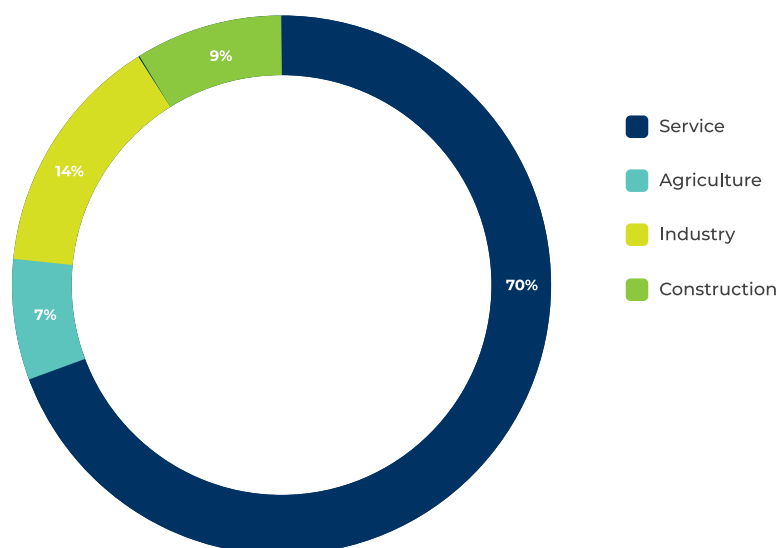
Figure A1.1- Georgia's labour force by sector, 2019 (% share)



Source: GeoStat

However, its contribution to job creation was modest, with an 8.2 per cent share of total employment. In contrast, the agricultural sector, which generated only 7 per cent of GDP, accounted for the second-largest share of total employment (38 per cent), reflecting low productivity levels.

Figure A1.2- Georgia's GDP by sector (% share, 2019)



Source: GeoStat

The industrial sector's stagnant growth cannot be understood in isolation from enterprises' weak technological capabilities; that is, their limited ability and scope for efficient specialization in technological activities, for extending and deepening these activities, and for drawing selectively on other technologies to complement existing capabilities.⁷⁰

Thus, enterprises remained awkwardly placed to venture into knowledge-intensive activities, let alone to meet the exacting health, safety, and environmental requirements in export markets. As shown below, this has set the limits to their ability to capitalize of the growth opportunities generated by trade reforms, particularly the improved market access conditions to the EU.

A.3 Trade Sector

The past few decades have witnessed the effective integration of the Georgian economy into the EU common market. The EU accounted for the largest share of Georgia's exports in 2019 (21.6 per cent), followed by Azerbaijan (13.4 per cent), the Russian Federation (13.1 per cent) and Armenia (11.4 per cent). The EU regional bloc also stood as the main source of supplies and accounted for the largest segment of Georgia's imports in 2019 (25 per cent). Turkey ranked second (17 per cent) followed by the Russian Federation (10 per cent) and China (9 per cent).

These changes have been underpinned by an impressive export diversification record, with the export product concentration index carrying a value of 0.2.⁷¹ Georgia has also managed to further diversify imports, with the import-product concentration index well below the threshold of 1.⁷²

However, as shown in Figure A1.3, exports continued to be driven by relatively low value-added manufactured goods and primary products. Combined with the enterprises' heavy reliance on international markets for sourcing raw material, this narrow export mix has meant that imports continued to outstrip exports with trade deficit standing at USD 5.7 billion in 2019.⁷³

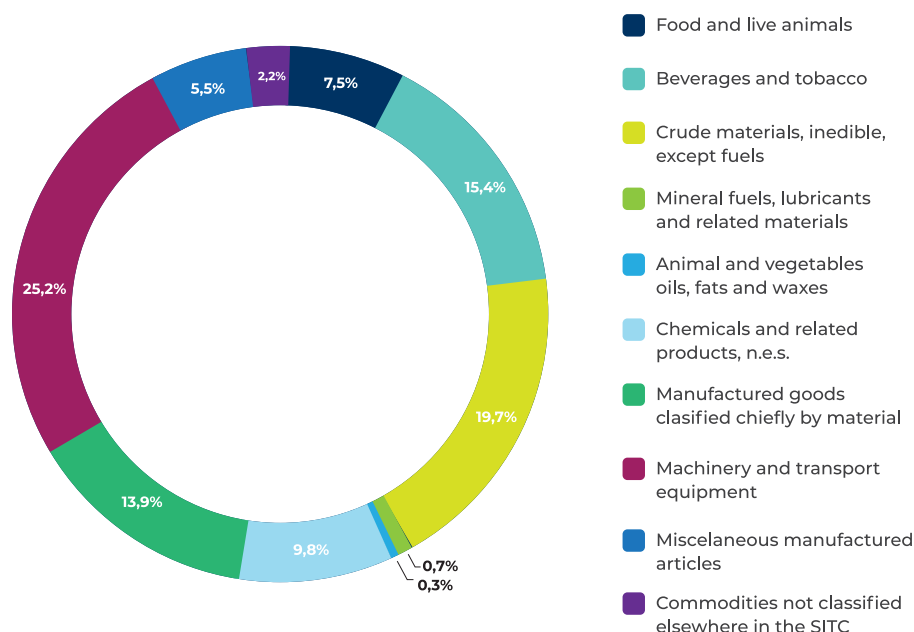
⁷⁰For a concise discussion of this concept, see Lall, S. (1992) "technological capabilities and industrialization", World Development, Vol. 20, No. 2: 165-186.

⁷¹Calculated using UN Comtrade data. The value of the export concentration index ranges between zero and one. An index with a value closer to 1 point to a heavy concentration in a limited number of sectors, with one indicating that only a single product is exported.

⁷²Calculated using UN Comtrade data. The value of the import product concentration index ranges between zero and one. An index with a value closer to zero signifies that imports are distributed among many types of products.

⁷³GeoStat

Figure A1.3 - Georgia's exports by sector, 2019
(% shares, SITC classification)



Source: GeoStat

A.4 Tangible steps towards structural transformation

The data above mask important steps towards structural transformation. Most notable has been manufacturing enterprises' increased engagement in knowledge-technology-intensive activities, with many exhibiting high scores against the product complexity index, or PCI⁷⁴ (Table A1.1).

Products (Harmonized System) HS4	Product complexity index (PCI)
Halides and halide oxides of non-metals	1.69
Air, vacuum pumps, compressors, ventilating fans, etc.	1.21
Equipment for soldering, brazing or welding	1.20
Furnace burners, equipment, liquid, powder or gas fuel	0.97
Derricks, cranes, straddle carriers, crane trucks	0.95
Rail locomotives, electrically powered	0.86
Parts and accessories of weapons	0.85
Auxiliary plant for boilers	0.85
Liquid, gas centrifuges, filtering, purifying machines	0.84
Motor vehicles for transport of persons (except buses)	0.80

Source: Observatory of Economic Complexity⁷⁵

⁷⁴The PCI ranks the diversity and sophistication of the productive know-how that went into manufacturing of individual product

⁷⁵<https://oec.world/>

Georgia also enjoyed a strong comparative advantage for 10 of its top exports, including mineral water, cyanides, ferroalloys, copper ore, and fish oil; all of which had a revealed comparative advantage (RCA) higher than one, reports the Observatory of Economic Complexity (OEC).⁷⁶ Similarly, Georgia's exports to the EU were increasingly determined by comparative advantages and must less by preferential tariff rates, the Finger-Kreinin index showing an increasing trend from 0.18 in 2005 to 0.32 in 2016.⁷⁷

ANNEX 2 - THE GOVERNMENT OF GEORGIA'S RELIEF AND SUPPORT MEASURES

Measures	Description
<p>Co-financing Mechanism for Small, Medium & Family Hotel Industry for supporting family-owned hotels</p> <p>01/03/2020- 01/03/2021</p>	<p>Targets hotels with 4 to 50 rooms (over 2,000 hotels). Provides co-financing of bank loans (80 per cent for loans in GEL and 70 per cent for loans in foreign currency, with co-financing in the amount of GEL 5 million). Eligibility criteria: loan amount should not exceed 1 million GEL (USD 300 000 or EURO 250 000) and the loan must be provided before 01.03.2020.</p>
<p>Tax payment deferrals</p> <p>01/03/2020-31/10/2020</p>	<p>Deferral of property and income taxes for enterprises engaged in the tourism industry (e.g., hotels and restaurants, travel agencies, transportation companies, organizers of cultural and sports events).</p>
<p>Tax payment deferrals for vehicle importers</p> <p>01/04/2020-01/09/2020</p>	<p>90-day deferral until 1 September 2020.</p>
<p>Insurance against price spikes</p>	<p>Insures construction enterprises involved in infrastructure development projects against price spikes.</p>
<p>Value-added tax (VAT) refunds</p>	<p>Doubling of VAT refunds: GEL 1,200 million, instead of GEL 600 million.</p>
<p>Suspension of tax payments for a limited period</p> <p>01/04/2020- 30.09.2020</p>	<p>State subsidies for every retained job: salaries up to 750 GEL fully exempted from income tax; salaries up to 1500 GEL exempted from income tax.</p>
<p>Temporary suspension of tax payments</p> <p>01/04/2020- 30.09.2020</p>	<p>VAT exemptions for imports of medical goods</p>
<p>Guidelines/explanatory brochures for enabling enterprises to adapt to the new business conditions</p>	<p>Government Order N 01-149/o of April 4, 2020 provides detailed recommendations for enterprises across all sectors.</p>

⁷⁶OEC data. The RCA indicates whether a country is specializing in products with trade potential. It is based on the idea that if a country exports more than the global average exports of a specific product, then the country has a comparative advantage in that product. If the RCA is higher than 1, then the producer is said to have an RCA in producing a certain good.

⁷⁷Calculated using UN Comtrade data. The Finger-Kreinin index sheds light on the degree of similarity between the product structures of two export destinations. The index value ranges between 0 and 1, with 1 indicating perfect similarity and 0 structurally different product portfolios.

Measures	Description
Direct cash injections for the informal sector and self-employed	One-time cash injection in the amount of GEL 300.
Ensure liquidity for financial sector	GEL 600 million cash injection for commercial banks.
Credit guarantee scheme for businesses	A comprehensive scheme in the amount of GEL 2 billion for co-financing interest rates on bank loans taken out by the enterprises: up to 90 percent Guarantees on new loans, and up to 30 per cent on loan restructuring. Co-financing conditions were revised to allow for: 1) increasing the period of co-financing of loans/leasing from 24 months to 36 months; lowering the minimum threshold for loans/leasing; increase loans using movable assets; expanding the scope of sectors benefiting from co-financing; and increasing the maximum loan amount from GEL 5 million to 10 million.
Caring for villages, agriculture, regional development	Grants in the amount of up to GEL 30,000
Caring for villages, agriculture, regional development	Agrocredit (financing annual crops)
Caring for villages, agriculture, regional development	Support for melioration activities: full exemption from melioration fees for 2020; and writing off debts in previous years.
Pandemic Unemployment Payment 01/04/2020- 30.09.2020	Financial assistance (1200 GEL in overall assistance for a period of six months - 200 GEL per month) for employees who have lost their jobs or were put on unpaid leave.
Social Program - Delay the loan service payments for individual customers 01/04/2020- 30.09.2020	Banks expressed readiness to restructure loans.
Social Program - Utility payments 01/03/2020-31/05/2020	Utility payments (gas and electricity).
Social Program - Pre-payment of pension 25.03.2020-Ongoing	Advance payment of pensions.

Source: Government of Georgia⁷⁸

⁷⁸<https://georgia.gov/COVID-19-coronavirus-georgia>; <https://stopcov.ge/en>. See also the Government Anti-Crisis Economic plan (http://gov.ge/files/288_75975_470501_GOG_ACP_COVID19_LKF.pdf)

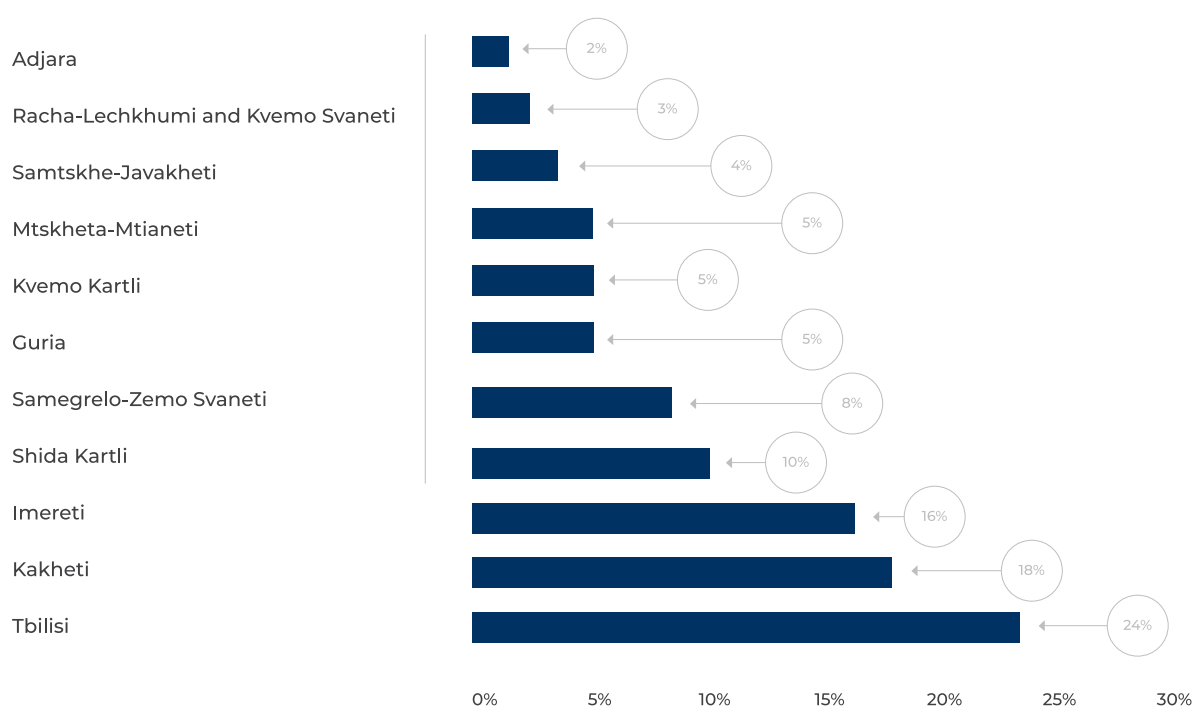
ANNEX 3 - PROFILE OF THE MSMEs SURVEYED

The assessment draws on a survey of 330 MSMEs from across Georgia, including 226 manufacturing enterprises and 104 farmers involved in on-farm food processing, harvesting and husbandry activities. This annex provides a breakdown of these enterprises by location, size and economic activity.

3.1 Location

Mirroring the country-wide spatial distribution of enterprises, the region of Tbilisi accounted for the largest share of the surveyed MSMEs.⁷⁹ The region of Kakheti was home for the second largest segment, followed by the regions of Imereti, Shida Kartli and Samegrelo-Zemo Svaneti (Figure A3.1).

Figure A3.1 - Breakdown of the surveyed MSMEs by geographic location



Source: UNECE Survey of Georgian MSMEs

3.2 Size

Micro-enterprises, employing fewer than 10 persons, represent the largest segment. These accounted for 49 per cent of the enterprises surveyed, followed by small enterprises, employing between 10 and 49 persons (36 per cent) with medium enterprises employing between 50 and 249 persons accounting for the remaining balance (15 per cent).⁸⁰

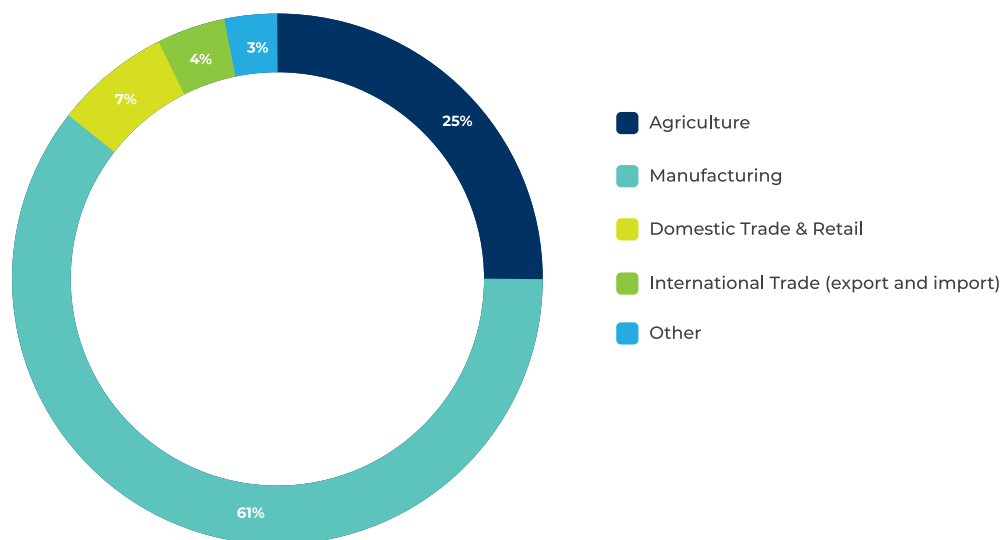
⁷⁹The region of Tbilisi accounted for 43 per cent of total registered enterprises in July 2020. A breakdown of the distribution of enterprises by region is available at: <https://www.geostat.ge/en/modules/categories/68/by-regions>.

⁸⁰The classification of MSMEs follows the EU Commission Recommendation 2003/361/EC "Concerning the Definition of Micro, Small and Medium-sized Enterprises".

3.3 Economic activities

The majority of the MSMEs belonged to the manufacturing sector (Figure A3.2). MSMEs involved in agricultural activities, including harvesting and animal husbandry, represented the second largest segment thanks to the active engagement of the Georgian Farmers' Association (GFA). The remainder were engaged in trade and domestic retail activities.

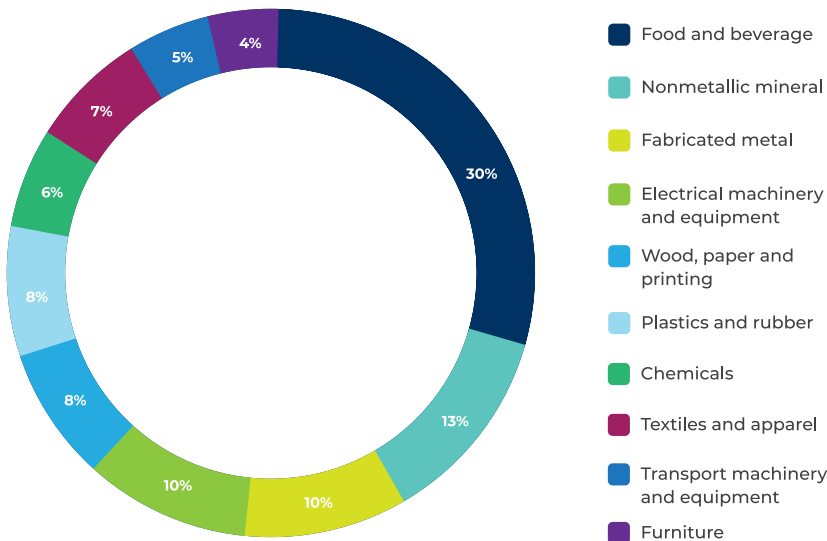
Figure A3.2 - Breakdown of the surveyed MSMEs by sector
(% of respondents)



Source: UNECE Survey of Georgian MSMEs

As shown in Figure A3.3, manufacturing enterprises represented strategic sectors, including food and beverages; non-metallic material; machine equipment; fabricated metal; wood, paper and printing; plastics and rubber; textiles and apparel; transport machinery and equipment; chemicals; and furniture. Enterprises belonging to the food and beverages industry, including on-farm food producers, accounted for the largest segment, or 30 per cent of the enterprises surveyed, followed by those engaged in non-metallic minerals and fabricated metals.

Figure A3.3 - Breakdown of the manufacturing MSMEs by activity (% of responses)



Source: UNECE Survey of Georgian MSMEs

All the MSMEs were heavily involved in international trade. Around 67 per cent of the manufacturing MSMEs were export-oriented, and the majority relied on international markets for sourcing raw material and machine equipment. In contrast, MSMEs involved in the agricultural sector, which also relied on international markets for sourcing raw materials and machine equipment, were predominantly domestic-oriented. Only 25 per cent were export-oriented, and these were dominated by on-farm food producers.

ANNEX 4 - THE GEORGIAN GOVERNMENT'S LOCKDOWN AND SOCIAL DISTANCING MEASURES

Emergency lockdown	Description
<p>Limiting entry into Georgia</p> <p>Movement restrictions within the country to curb the spread of the virus from highly affected regions</p>	<p>Pursuant to the Presidential Special Ordinance No. 1, 21.03.2020 on the Declaration of a State of Emergency was declared from 21.03.2020 until 22 May 2020. In addition to social distancing measures, the state of emergency involved restricting entry into the country: All flights except for repatriation flights for Georgian citizens organized by the Government were cancelled and travellers from highly affected countries were subjected to self-quarantine; additional checkpoints were erected in Tbilisi and other major cities to screen individuals and enforce movement restrictions; a ban on the movement of all private vehicles was established until 27 April 2020; and nationwide overnight curfew from 9 p.m. to 6 a.m.</p>

Social distancing	Description
School closures 23/03/2020-01/09/2020	Schools, universities and vocational training institutions were placed on lockdown pursuant to the Government Decree (No. 181, 23.03.2020) on Approval of Implementing Measures to Avoid Spreading of COVID-19. The decree was elaborated for the purpose of implementing the Presidential Special Ordinance No. 1, 21.03.2020 on the Declaration of a State of Emergency from 21.03.2020 until 21.04.2020.
Limitation to public gatherings 23/03/2020-21/04/2020	Public gatherings consisting of more than 3 persons were prohibited. Exceptions were hospitals, police offices and enterprises that were authorized to operate (Government decree No. 181, 23.03.2020).
Closure of non-essential production 23/03/2020-21/04/2020	All enterprises were placed on lockdown except for those engaged in the production of steel products, construction materials etc., food and feed, medical equipment and medicines and mining companies (Government decree No. 181, 23.03.2020).
Closure of non-essential services and retail trade 23/03/2020-21/09/2020	Based on the Article 7 of the Governmental Decree (N181, 23.03.2020), the country allowed the following services and trade to remain operational: food shops, clinics and medical centres, banks, pharmacies, taxis, food and feed distribution, press kiosks, accredited laboratories providing safety analysis for food and feed, disinfection services, legal services and delivery services.
Legal framework for prevention of future outbreak of COVID-19 12/06/2020-Ongoing	As per the amended Administrative Offenses code, face masks are compulsory in public places and public transport. Penalties for non-compliance amount to a fine of 20 GEL (approx. 6 USD) for individuals and 500 GEL (approx. 165 USD) for legal entities.

Source: Government of Georgia⁸¹

⁸¹<https://georgia.gov/COVID-19-coronavirus-georgia>; <https://stopcov.ge/en>.

ANNEX 5 - MSMEs' PRODUCTION REPURPOSING

As shown in Table A5.1, MSMEs that opted to repurpose production were quick to launch new products. Those belonging to the textile industry shifting production towards manufacturing cloth masks. However, their products were met with fierce import competition. Both enterprises lamented their inability to reduce production costs, being inherently limited by their reliance on international markets for sourcing raw materials. Their concerns were echoed by a retailer who repurposed his entire operations towards sourcing cloth disinfectants and masks from abroad and, to the extent possible, domestically. The retailer emphasized the impossibility of selling domestically produced PPE in Georgia because the market is flooded with cheaper imports (namely, from China and Turkey).

If anything, production repurposing further aggravated the two enterprises' economic fallout. As expected, the size of the fallout was more pronounced for smaller enterprises, those which employed fewer than 10 persons. The enterprise cited above had to discontinue face-mask production and its owner assumed additional losses in the form of depleted financial reserves, having used own personal savings to purchase the necessary machine equipment.

The second enterprise, which had the advantage of size (being a medium enterprise) and the support of Enterprise Georgia in securing raw materials, was unsure as to whether it could maintain production without continuous support. This enterprise did not seem to have benefited from production repurposing. In fact, it was operating under a severe liquidity crunch, with the management emphasizing the need for financial assistance.

The shortage of PPE also prompted a medium-sized metal manufacturer to repurpose production. However, in contrast to the textile manufacturers, the producer had the advantage of possessing the necessary machinery and raw materials. The repurposing was, thus, implemented at no additional costs by shifting part of the existing production lines to face shields and protective plastic dividers for cars. The enterprise reported that its new products were met with success. It was planning to expand production once it, hopefully, secures a bank loan for purchasing additional machinery equipment.

The remaining metal manufacturers repurposed to cater for increased demand for construction materials associated with infrastructure development projects, which was stimulated by the Government relief initiatives (Annex 1). Both enterprises managed to launch new products by repurposing part of their existing production lines. The first ventured into dyes and pigments for construction materials and the second into dowel bars for pavements, and both reported that their new products were met with success.

In contrast, the food producers' repurposing efforts were triggered by supply shortages and weak domestic demand. In this respect, one of the producers shifted production from salt and pepper to raisins, having lost recourse to his main supplier under the weight of border closures. Another, a producer of vodka, launched a new flavour to stimulate demand at no additional cost. Still another, a producer of frozen fruits and vegetables, launched new products by shifting part of existing lines at no additional costs.

Yet another, a micro-enterprise specialized in producing artisanal honey, had no means to launch a new product. The owner decided to stimulate demand by selling honey in smaller containers. Keeping with the enterprise's brand image, the smaller containers had to be made of clay, and the owner used personal savings to proceed. The enterprise's efforts were met with success. However, the enterprise was wary of the future, as there are no signs that the pandemic will not worsen. If this should be the case, it would not be able to maintain the new production line without financial support.

TABLE A5.1

MSMEs' production repurposing

Sector	Size	Product	Reason for repurposing	Size of investment	Financing source	Standards Implementation
Metals and fabricated metals	Small	Dyes and pigments for construction materials (New product)	Respond to domestic demand	Over USD 20,000 in machinery equipment	Bank loan	No
Metals and fabricated metals	Small	Dowel bars for pavements (New production line)	Respond to domestic demand	Zero (repurposed part of the production lines)	Not applicable	ISO 9001:2015 Quality Management Systems
Metals and fabricated metals	Medium	Face shields and protective plastic dividers for cars	Respond to demand associated with achieving compliance with the Government's health protection requirements	Zero (repurposed part of the production lines)		ISO 9001: 2008 ISO 9001: 2015
Textiles	Micro	Cloth face masks (New product)	Respond to supply shortages	USD 10,000 in machinery equipment	Personal savings	No
Textiles	Medium	Cloth face masks (New product)	Respond to supply shortages	Zero (repurposed part of the production lines). With the support of Enterprise Georgia, the state supplied raw materials for the face masks	Not applicable	ISO 9001:2015
Retail trade	Micro	Cloth disinfectants and masks (Started sourcing from abroad and to the extent possible domestically)	Respond to supply shortages	None	Not applicable	No
Food	Micro	Artisanal honey in smaller clay pots: 100 and 150 grams (Expand existing line. Honey is sold in larger clay containers: 300 grams)	Address the dwindling demand. Smaller pots can be sold at cheaper prices	Not provided	Personal savings	No

TABLE A5.1

MSMEs' production repurposing

Sector	Size	Product	Reason for repurposing	Size of investment	Financing source	Standards Implementation
Food	Medium	Raisins (New product) instead of salt and pepper	Raw material shortages due to supply chain disruptions. Domestic sourcing is affordable for small quantities. Given the national demand for raisins and the possibility of domestic sourcing at affordable prices, the enterprise repurposed production	USD 20,000 in machinery equipment	Personal savings	In the process of implementing ISO 9001:2015
Beverages	Small	Vodka /Chacha (New flavour)	To boost demand	Zero (Repurposed part of the production lines)	Not applicable	ISO 9001:2015
Food	Medium	Frozen fruits and vegetables	To boost demand	Zero (Repurposed part of the existing lines)	Not applicable	ISO 22000 Food Safety Management System (Combines the ISO9001 approach to food safety management and HACCP)

Source: UNECE Survey of Georgian MSMEs

Impact of COVID-19 on structural transformation in Georgia

The disruptive impact of the new corona virus disease (COVID-19) on all aspects of everyday life poses unprecedented challenges for all countries. Governments have seen their priorities shift towards upscaling public health preparedness to contain the spread of the highly infectious disease and, later, to mitigate the effects of those measures on the economy and on vulnerable segments of the population. The challenges are further complicated by supply chain disruptions that have left enterprises struggling to survive. Pay cuts and furloughs have become the norm, and some of the steepest drops in output of the past century indicate that an economic crisis is compounding this public health emergency.

This review traces how non-tariff measures (NTMs) governing trade in goods influence end-to-end supply chains in Georgia and highlights the lingering effects of the pandemic. Undertaken in the context of UNECE's Studies on Regulatory and Procedural Barriers to Trade under the Steering Committee on Trade Capacity and Standards, the assessment uses UNECE's evaluation methodology for designing targeted interventions for rebuilding stronger and more resilient post-COVID-19 economies.

UNECE supports closer economic relations among its 56 member States in the pursuit of the UN Sustainable Development Goals (SDGs) and the 2030 Agenda. Its Trade and Economic Cooperation and Integration programmes assist member States in better integrating their economies into the world economy and in promoting enabling and promoting a better policy, financial and regulatory environment conducive to inclusive economic growth, innovative and sustainable development and higher competitiveness in the UNECE region.

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