The Impact of COVID-19 on Trade and Structural Transformation in Georgia:

Evidence from UNECE’s survey of Micro, Small and Medium-Sized Enterprises

30 September 2020
Scope of the Assessment

330 micro, small and medium enterprises (MSMEs) from across the country, including 226 manufacturing enterprises and 104 farmers and main forwarders operating in the country.

The transmission channels of the pandemic’s effects on the economy and the influence of non-tariff measures (NTMs) governing trade in goods therein.

Supply chain disruptions and their impact on trade activities.

The MSMEs’ coping strategies: how they used their assets to maintain operations.

The ripple effects of the trade disruptions on the economy, particularly those generated by the MSMEs’ coping strategies.
Scope of the Assessment

Surveyed MSMEs by sector (% of responses)
- Agriculture, 27%
- Manufacturing, 65%
- Trade, 8%

Surveyed MSMEs by Size (% respondents)
- Micro, 49%
- Small, 36%
- Medium, 15%

Source: UNECE Survey of Georgian MSMEs
**NTMs**

**Harnessing NTMs to reduce supply chain disruptions**

<table>
<thead>
<tr>
<th>Restrictive measures kept to the minimum</th>
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<tr>
<td>• <em>Temporary ban</em> on imports and transit of live animals originating from the People’s Republic of China.</td>
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<td>• <em>Temporary export bans</em> of pharmaceuticals and medical equipment to address supply shortages.</td>
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<th>Tariff reduction</th>
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<td>• <em>Value added tax exemption</em> on imports of some medical goods.</td>
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Harnessed towards generating efficiency gains

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<tr>
<th>Trade facilitation measures upscaled</th>
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<tr>
<td>• <strong>Transparency in trade continued to be ensured</strong>: online publication of new NTMS and Revenue Service 24/7 call centre.</td>
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<td>• <strong>Trade documents continued to be issued online</strong>: though the national paperless trading system and conformity assessment agencies issuing paper-based documents stepped up efforts.</td>
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<td>• <strong>At the border control continued to proceed within the context of the well-established integrated border management system and was risk-based</strong>.</td>
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<td>• <strong>Physical inspection of cargo was re-allocated</strong> from the Customs Clearance Points to the Customs Clearance Zones to pre-empt congestion at border crossing points.</td>
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<td>• <strong>Customs and tax payments continued to be made online</strong> through the Revenue Customs Service Platform and were further streamlined through additional simplified procedures for tax refunds.</td>
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<td>• <strong>Transit traffic continued to be facilitated by cooperation arrangements</strong> anchored in regional agreements, UNECE international transport conventions and protocols, and electronic data exchange.</td>
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Linking Relief to Development

- Sweeping relief measures
- Targeted loan schemes & advisory services for enterprise development
- Continued focus on long term development efforts
Transport Disruptions

*Rising maritime transport costs:* Modal choices based on trade-offs between financial costs and delivery times were no longer possible.

*MSMEs shifted to road transport:* Road transport was by no means more efficient. It involved significant delays (detours to go around border closures) and additional costs (higher freight fees).

*Isolation from mainstream transport routes:* The conditions for achieving connectivity with international supply chains have become like those prevailing in landlocked countries. MSMEs are isolated from mainstream transport routes by distance and high transport costs.
Impact

Efficiency gains
Trade Facilitation measures

Inflated transport costs
Wiped out trade facilitation efficiency gains

Dwindling international demand
Closure of non-essential businesses in partner countries and global economic crisis
Stunted Trade

• Only 45 percent of MSMEs regained pre-pandemic export levels due to the accumulated purchase orders.
• Around 50 percent of farmers suspended export activities.

Reduced imports
• Supply shortages.
• Food waste.
MSMEs’ Strategies to Cope with Trade Disruptions

**Downscaled production**
- 27 percent of MSMEs scaled down production.
- 11 percent suspended all production.
- MSMEs that kept produced faced efficiency loses and shortages of spare parts.

**Production Repurposing**
- Only 10 percent of MSMEs repurposed production.

**E-commerce**
- Only 17 percent of MSMEs increased e-commerce engagement.
- The majority of these were to boost domestic market sales.
Increased Economic Vulnerability

DIRE NEED OF GOVERNMENT SUPPORT
- 79 percent of manufacturing MSMEs
- 85 percent of farmers

REDUCED PRODUCTIVE CAPACITIES

MSMEs' HOUSEHOLDS: DETERIORATING LIVING CONDITIONS
- MSME owners used personal savings to maintain operations
- Several reported losing property because of loan defaults

INCREASED ECONOMIC VULNERABILITY
Emergency and Long-Term Needs

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<tr>
<th>Emergency Needs</th>
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<tr>
<td>MSMEs are struggling with bank loan repayments.</td>
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<td>MSMEs are experiencing shortages in working capital.</td>
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<tr>
<td>MSMEs lack experience in disaster risk management.</td>
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<tr>
<td>MSMEs are facing prohibitive maritime transport costs.</td>
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<th>Long-term needs (Structural transformation)</th>
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<tr>
<td>MSMEs are showing increased reliance on road transport.</td>
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<td>Georgia’s certification bodies are experiencing challenges to adequately meet demand and trafficking in counterfeit products remains a challenge.</td>
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<td>Micro enterprises are becoming increasingly isolated.</td>
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<td>SMEs are experiencing difficulties in linking with transnational corporations.</td>
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<td>MSMEs are exhibiting low rates of international standards implementation.</td>
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<td>MSMEs are struggling to find skilled workers.</td>
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THANK YOU

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