COVID-19

Follow-up survey of Georgian business in the face of the COVID-19 Pandemic

October 2020

pwc

The study was created in cooperation with the Investors Council and EBRD

Introduction

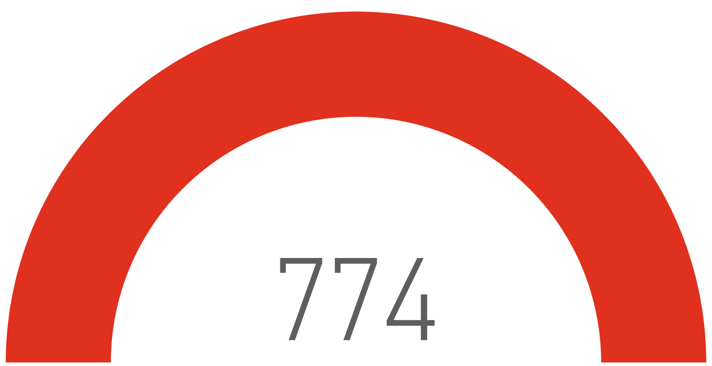
The spread of the COVID-19 virus raises the question of the effects of the pandemic on Georgian companies and different ways that micro, small, medium-sized and large enterprises deal with the crisis. It is important to understand the current problems that businesses have already encountered, their expectations moving forward and areas of support they require.

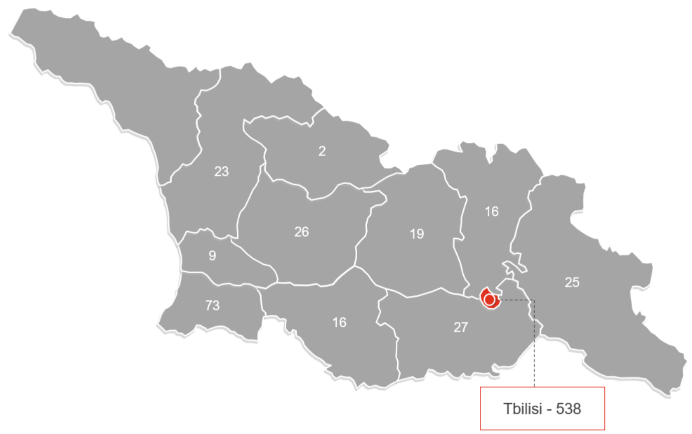
The first study was conducted between 16–27 April this year via an online survey and was distributed using diverse channels to a large group of businesses operating throughout Georgia, generating 1,938 full responses. The research was carried out in enterprises from micro, self employing entities to large companies employing more than 250 people. The survey aimed to capture the "**first**" reactions of businesses to the pandemic situation. The study results have been delivered to the Prime Minister's Office, the Ministry of Economy and Sustainable Development of Georgia and the Investors Council. The survey results allow the government to properly assess the scale of the impact that companies face during a pandemic and consider challenges they will face after it.

The current study was conducted between 11 September and 2 October this year generating a total of 774 responses (582 full and 192 partial responses). The survey was undertaken using the same methodology as in the first study; however, more questions were asked to expand the analysis areas. Compared to the previous study, the aim of this study was to capture the **follow-up** reactions of businesses to the pandemic situation. The survey answers the following questions: current COVID-19 related difficulties, their actions related to combating the effects of the virus, financial liquidity, businesses' predictions regarding the development of the situation in their companies, utilization of the government initiatives and supply chain-related problems. In addition to the online survey, ten in-depth interviews were conducted to explain better the causes of the issues identified during the online survey.

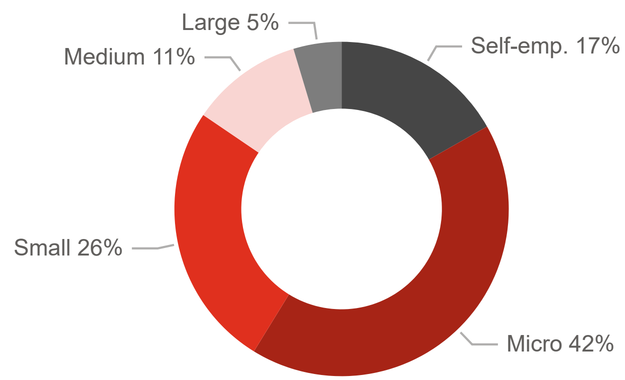
We invite you to read the report, at the same time treating it as a contribution to the debate on the necessary actions aimed at supporting companies and the Georgian economy.

Number of Responses





Size of Businesses



Note:
The number of responses varies by question. The survey was partially completed by 774, out of which - fully completed by 582 respondents. 19% of respondents have left the survey after question # 12.
Throughout the report, terms: companies, enterprises, businesses and respondents are used interchangeably and refer to the companies that participated in the current survey.

1 Key Facts and Findings

Key findings - online survey

A decrease in demand remains to be the most significant side effect of COVID-19 for all sectors. The demand reduction has considerably affected the surveyed companies' revenues, which has dropped by more than half for 68% of respondents since May 2020. This figure has slightly increased from 65% for all companies in the April survey. The closure of borders has mainly affected the accommodation and food service companies, with more than 84% of respondents experiencing significant revenue reduction. Projections from the respondents are more positive than the April's survey, and only around one-fourth, compared to half of companies expect to have more than a 50% drop in revenue in the upcoming 3 months, compared to the same period of the last year. Almost the equal number of surveyed respondents (66%) in accommodation and food service companies still expect to have more than a 50% revenue drop.

During the current survey, other challenges have become more visible as well. The main differences from the previous survey in terms of the COVID-19 related difficulties the companies are facing are: 1) the increased issues related to the closed borders for all companies, especially problematic for self-employed respondents (39% compared to 28% in April); 2) late payments from clients for self-employed and micro enterprises (22% and 33% compared to 15% and 24% in April); 3) exchange rate-related difficulties mostly affecting micro and small-sized companies (49% and 56% compared to 39% and 49%).

Supply chain disruption has become less problematic for all companies, as the surveyed companies started to adjust to the new reality. There was an overall reduction in supply chain disruption as one of the main COVID-19 related problems - from 33% to 13%. When specifically asked if they still experience any supply chain-related disruptions, almost 80% of all respondents confirmed that they continue to have supply chain issues. The increased transportation price is named the main supply chain disruption cause, followed by reduced transportation between countries and the seizure of business activities by their suppliers or customers.

The changes introduced by companies since May 2020 have reduced the pressure on liquidity. The number of respondents that already face liquidity issues has declined from 28% in April to 10% by the end of September. Large companies are the most optimistic among surveyed companies, with around 70% having no expectation of any liquidity issues in the upcoming six months. Suspension of business activity was among the most widely used protective measures undertaken by self-employed, micro, small, and medium-sized companies in the April survey and employees working from home among small, medium and large enterprises. During the current survey, all surveyed companies, except large, had to limit the size of their production. The majority of large companies enabled their employees to work from home.

Various available protective measures were used by the surveyed companies to solve their liquidity issues. Around 16% of respondents have approached tax authorities for deferment of their tax liabilities. Approximately 75% of companies were able to either fully or partially postpone their liabilities. Mostly medium and large companies have approached the financial institutions for loan restructuring and additional funding attraction purposes. Finally, almost half of the respondents have used salary subsidy and personal income tax exemption initiatives offered by the Government.

The trend of employee reduction has also improved when compared to the April's survey. During the current survey, more respondents indicated that they plan either no reduction or smaller reduction in the headcount. 75% of the respondent companies who suspended their business activities during the quarantine were able to renew operations. Closed borders remain the major constraint for 51% of still closed companies hampering them from restoring their operations.

Key findings - in-depth interviews (1/2)

All interviewed businesses experienced decrease in demand/revenue due to the following five main reasons:
1. Quarantine – businesses that relied on direct sales to customers encountered significant decrease in revenues due to the closure of business activities during the quarantine period. Moreover, even after quarantine, customer flow to retailers is reduced due to safety concerns of the population;
2. Closed borders and reduced number of tourists – has predominantly affected the hotels, restaurants and cafes (HORECA) and their suppliers (food and beverage) and the construction sector (reduced residential sales to foreigners and traffic in retailers, viability of new hotels construction). Even though international tourism was partially substituted by national tourism, the spending of local tourists is considerably less compared to the foreign visitors (on average around 50% less according to the interviewee);
3. Timely collection of payables – was mainly problematic in HORECA sector, as well as for a smaller retailers;
4. Shift in consumption behavior – local consumer habits have shifted to cheaper products and increased spending on basic needs (e.g. food and less on luxury products or long-term investments);
5. Tension in the export markets – some of the sectors in foreign countries were directly affected by the pandemic. Accordingly many of foreign customers reduced or cancelled/delayed their orders, while others had to request price decreases due to the exchange rate fluctuations in their own countries. Certain exports that rely on intermediary agents, encountered significant drops. This was mainly due to the exchange rate fluctuations and lack of predictability.

Solution identified by the respondents:
Some companies switched their focus to Government related orders due to stability (e.g. construction or HORECA sector) and shifted their business activities to Tbilisi. Majority of the businesses where possible were forced to move to increased online sales. In order to compensate for the reduction in revenues, most of the interviewed companies attracted more financial resources or restructured loans.

Interviewed companies experience diverse issues in operations:
1. Lack of predictability of the situation made it hard for companies to plan their operations and forecast inventory needs;
2. Although certain companies were granted permits to work during the quarantine, their suppliers were not (e.g. construction materials). Respectively, they were not able to continue operations once they ran out of supplies;
3. Companies faced difficulties in timely supply of inputs/raw materials due to the COVID-19 related delays in respective supplier countries. In some cases, they had to substitute smaller-size suppliers who seized operations due to COVID-19;
4. Since all contracts with suppliers outside Georgia are in foreign currency (mainly USD and EUR), companies faced increase of raw material/input costs due to the exchange rate fluctuations;
5. According to the interviewees, the transportation costs increased, even though the oil price dropped. The number of trips were reduced thus affecting the overall transportation price;
6. Internal transportation related issues evolved due to the tight time frames within which companies needed to find solutions and get the transportation permits. As a result, they were not able to ensure transportation of their staff, especially if they live outside of Tbilisi;
7. The process of obtaining permits for operations was difficult, since it required effort to understand the procedures and ensure that companies received timely responses. In certain cases, it was difficult to obtain official responses related to work permits. There was limited time on the Government side to properly train staff who made on-site checks for granting permits. Respondents think that due to this reason, there were differences in approaches that inspection staff were using. These differences made it difficult for companies to follow the uniform guidance (e.g. different standards were applied by different inspectors);

Details of the in-depth interview participants:

Number of interviews:
10

Sectors:
Tourism
Construction
Manufacturing
Agriculture
Health
Retail & Wholesale
Oil & Gas

Coverage of operations:
Georgia and export markets

Size of companies:
Large

Key findings - in-depth interviews (2/2)

8. Difficulty to bring in specialists from foreign countries for renovation or machinery related issues;
9. Increased costs due to COVID-19 related safety measures, that were partially offset by other costs (e.g. travel costs).

Solution identified by the respondents: ordering stock in advance, attracting new financing or restructure existing loans, increasing the size of orders to limit issues in operations, establishing no-contact delivery process, reducing costs – increasing efficiency; conducting online consultations with machinery manufacturers, incurring additional expenses related to COVID-19 sanitary measures (amounts vary significantly, however those companies that had Hazard Analysis and Critical Control Points (HACCP) or International Organization for Standardization (ISO) certification were better prepared for the new sanitary measures), hiring company to deal with COVID-19 sanitary and health and safety regulations.

Pressure on the employment:
The most affected staff that companies had to reduce were part-time/hourly employees, the majority of which was younger generation;
Most of the interviewed large companies were able to maintain the headcount. In case if personal income tax is not further deferred, companies will have to pay the tax for the retained employees as well. Thus respondents consider that they will be punished for the decision to maintain the maximum number of staff;
If borders remain to be closed, there is no flow of tourists and the purchasing power of the population is not restored, there is a risk that companies will have to revisit their current decisions regarding the reduction of the overall headcount.

Solution identified by the respondents: Most of the interviewed large companies reduced cost in order to maintain the majority of the full-time staff. This was due to the costs that they have to incur in future to rehire staff, as well as to maintain the professionals and trust of the employees. Some staff reductions in full-time employees until now was made based predominantly on the qualifications/quality as well as recent performance of staff. In some cases, there was a reduction in the number of shifts. Additionally, some of the interviewed companies had to hire staff living closer to the workplace to avoid further transportation issues.

During this period the most important task for the interviewed large companies was to **reduce cash outflows** in order to maintain operations and employees, as well as to create extra inventory where needed. In this regard, deferment of taxes (property tax and personal income tax) was important. However, since the situation has not yet improved, it is important for companies that the Government announces further deferment of taxes.

In addition to savings from tax payments, companies had to **restructure their existing loans or attract new financing** for the expected further complications. In general, due to their positive credit history, the majority of large companies did not have problems with the financial institutions. The biggest concern was related to the difficulty of making realistic forecasts that the banks continued to request. Another problem that the interviewed companies expect to have in the future is related to the trust of large suppliers and buyers due to the notes in the audited financial statements indicating their needs for loan restructuring and bad debt write-offs in some cases.

The above mentioned changes undertaken by the interviewed companies enabled them to reduce liquidity issues and, in some cases, companies even continued their planned investments. The majority of them will not need additional support if the situation is back to normal. However, if the economic situation worsens and borders remain to be closed, they will require additional support from the Government to reduce expected liquidity problems. The most widely requested support is further postponement of property tax and personal income tax, as well as continuation of wage subsidies.

2 Current Effect of Pandemic on Business

A decrease in demand was identified as the major COVID-19 related challenge by 68% of all surveyed companies, compared to 65% in April's survey

September 2020

What are the causes of difficulties the company is facing?

.	Closure of external borders	A decrease in demand	Difficulties related to change in GEL exchange rate	Disruption in supply chain	Employees on quarantine or sick leave	Employees on special leave	Impossibility to fulfill health and safety regulations	Late payments from clients
Self-emp.	39%	58%	29%	10%	2%	2%	0%	22%
Micro	37%	71%	49%	11%	5%	9%	4%	33%
Small	36%	64%	56%	19%	8%	11%	3%	41%
Medium	36%	57%	49%	12%	11%	12%	5%	37%
Large	33%	53%	47%	6%	8%	3%	0%	22%
All together	38%	68%	50%	13%	6%	9%	3%	35%

April 2020

What are the causes of difficulties the company is facing?

.	Closure of external borders	A decrease in demand	Difficulties related to change in GEL exchange rate	Disruption in supply chain	Employees on quarantine or sick leave	Employees on special leave	Impossibility to fulfill health and safety regulations	Late payments from clients
Self-emp.	28%	67%	29%	30%	5%	2%	3%	15%
Micro	29%	66%	39%	31%	16%	13%	5%	24%
Small	27%	65%	49%	38%	20%	16%	5%	33%
Medium	28%	72%	52%	41%	19%	21%	6%	43%
Large	23%	70%	50%	27%	9%	16%	2%	25%
All together	28%	65%	40%	33%	15%	12%	4%	26%

Up to 10% | 10%-20% | 20%-30% | 30%-40% | 40%-50% | 50%-60% | Above 60%

How to read the map?

Heat map indicates what percentage of various sized entrepreneurs pointed out particular difficulty during the pandemic. Figures in the column "All together" indicate what percentage of all enterprises pointed out particular difficulty. For example: closure of borders caused difficulties for 39% of self-employing enterprises. Please note, that respondents could choose more than one answer and percentages do not add up to 100%.

- Based on the responses' analysis, the top four most problematic issues for companies remain to be the decrease in demand, the currency rate fluctuations, closure of external borders, and late payments from clients.
- Nearly half of all surveyed companies, except self employed enterprises, indicate difficulties related to the exchange rate fluctuations.
- GEL exchange rate fluctuations are also causing significant challenges for more than half of the respondents in the construction, information and communication technology (ICT) and manufacturing sectors.
- The late payments from clients are comparably less of an issue for self employed and large companies.
- In terms of sectoral analysis, closure of external borders creates difficulties mostly for the surveyed accommodation and food service (68%) and the transportation and storage businesses (59%).
- Disruption in the supply chain was identified as a difficulty by companies operating in the wholesale and retail trade (21%) and manufacturing (24%) sectors.
- Overall, compared to the April survey results, more respondents in the current survey are facing difficulties related to exchange rate fluctuations (50% compared to 40% in April), late payments from clients (35% compared to 26%) and closure of external borders (38% compared to 28%).

In-depth interview insights:

- Decrease in demand is also major concern for all interviewed large companies.

61% of employees among the surveyed large companies, continue to work from home, similar to 61% in April's survey

September 2020

What kind of protective measures has the company undertaken so far in response to the emerging difficulties?

.	Change in business activity	Employees on home office / teleworking	Employment reduction	Granted unpaid leave to the employees	Limitation in production/provided services	Made use of commercially available liquidity facilities	Moved business activity on-line	Production shutdown/service suspension	Reduction in orders	Suspension of business activity
Self-emp.	4%	6%	7%	4%	22%	2%	10%	17%	14%	22%
Micro	5%	15%	19%	13%	29%	7%	13%	15%	17%	20%
Small	6%	24%	26%	15%	30%	13%	16%	12%	19%	12%
Medium	5%	25%	24%	24%	21%	23%	17%	8%	14%	11%
Large	0%	61%	22%	17%	14%	14%	14%	11%	17%	11%
All together	6%	22%	22%	15%	30%	11%	15%	15%	19%	19%

April 2020

What kind of protective measures has the company undertaken so far in response to the emerging difficulties?

.	Change in business activity	Employees on home office / teleworking	Employment reduction	Granted unpaid leave to the employees	Limitation in production/provided services	Made use of commercially available liquidity facilities	Moved business activity on-line	Production shutdown/service suspension	Reduction in orders	Suspension of business activity
Self-emp.	3%	5%	3%	4%	13%	2%	6%	32%	14%	59%
Micro	3%	19%	10%	22%	16%	3%	12%	35%	15%	52%
Small	5%	33%	17%	28%	21%	5%	14%	30%	17%	43%
Medium	8%	57%	25%	32%	37%	8%	25%	26%	17%	34%
Large	2%	61%	18%	23%	27%	11%	23%	25%	16%	25%
All together	4%	24%	12%	21%	18%	4%	13%	32%	15%	48%

Up to 10% 10%-20% 20%-30% 30%-40% 40%-50% 50%-60% Above 60%

How to read the map?

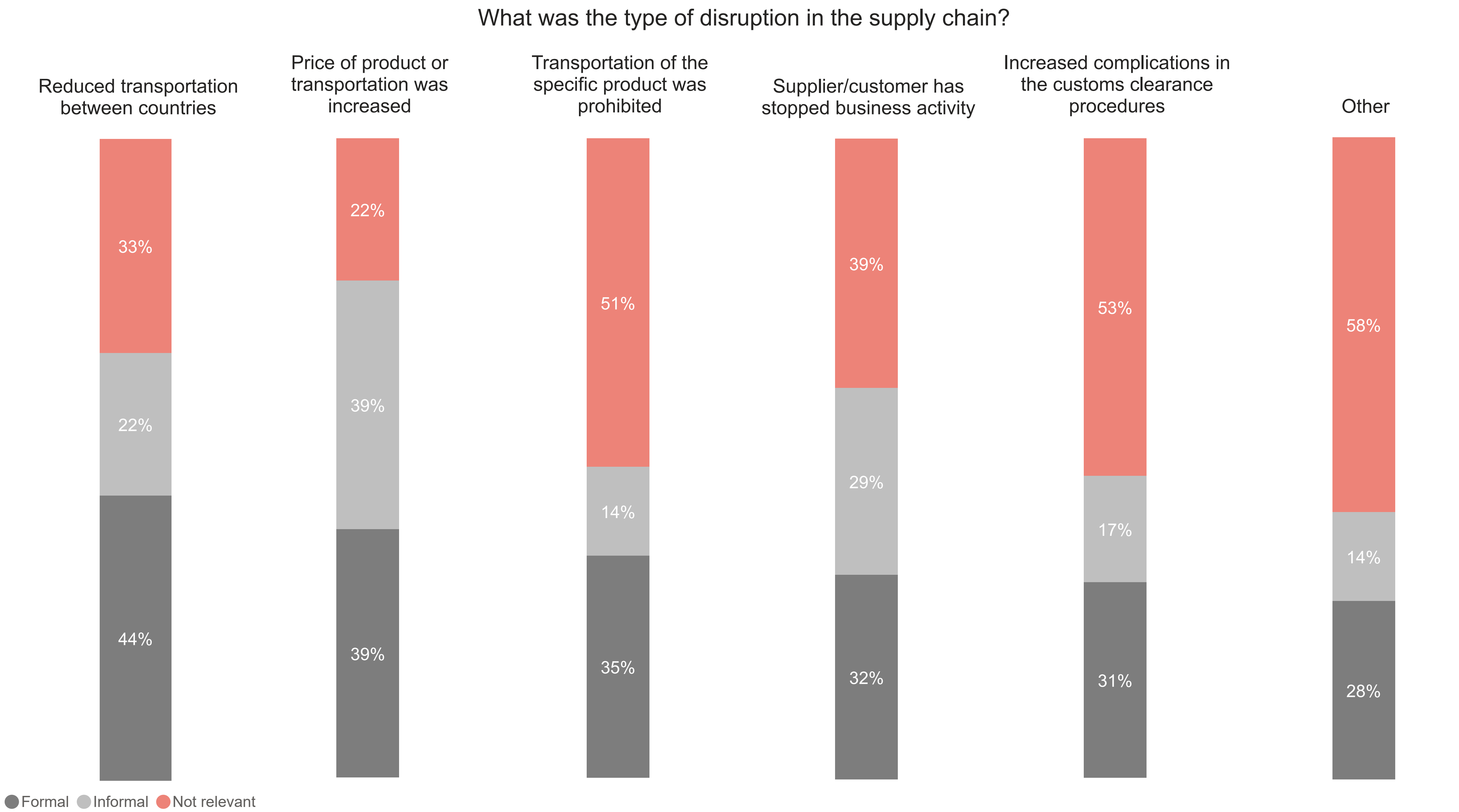
Heat map indicates what percentage of various sized entrepreneurs has undertaken particular measure during the pandemic. Figures in the column "All together" indicate what percentage of all enterprises has undertaken particular measure. For example: employment reduction was undertaken for 24% of medium enterprises. Please note, that respondents could choose more than one answer and percentages do not add up to 100%.

- Similar to the April's survey results, the most widely used protective measure by large companies continues to be employees working remotely / teleworking. However, the distance working indicator has been reduced for all other surveyed companies: micro (from 19% to 15%), small (from 33% to 24%) medium-size (from 57% to 25%) companies. This can be caused by the fact that the large companies can afford large investments in digital area.
- Compared to the previous survey, fewer respondents indicate the suspension of business activity as the response to COVID-19 related difficulties (19% all-together). Currently, the production limitation is the most frequently (30%) used protective measure for all of the surveyed companies.
- Slightly more than a fifth of all respondents continue to reduce the number of employees, and around 15% of the respondents grant unpaid leave to their employees.
- From a sectoral perspective, 38% of accommodation and food service businesses suspended their activities, followed by construction with 18% and wholesale and retail trade - 16%.

In-depth interview insights:

- During the in-depth interviews, it was mentioned that part of the construction companies shifted from private to government orders, since the demand on the private sector construction has declined.

Almost 80% of all respondents experienced supply chain disruptions during this period. However, there are differences in types of issues encountered



Types of disruption:

Formal is considered to be caused by the decree or regulation by the relevant agency, while informal is caused by all other external factors. Example of formal regulation is the closure of borders for transportation or ban on export of certain products.

- Increased transportation price was named the main supply chain disruption by almost 80% of all respondents, with equal split between the formal and informal causes of such disruption.
- The second most problematic issue was related to reduced transportation between the two countries (66%). From all companies that experienced this issue, around 70% of cases were related to formal restrictions.
- Another major source of supply disruption for half of respondents was related to the prohibition of transportation of specific products and increased complications in the customs clearance procedures.
- Other types of supply chain disruptions suggested by companies are related to lack of staff on the suppliers' side, longer delivery time and reduced demand from the customers' side.

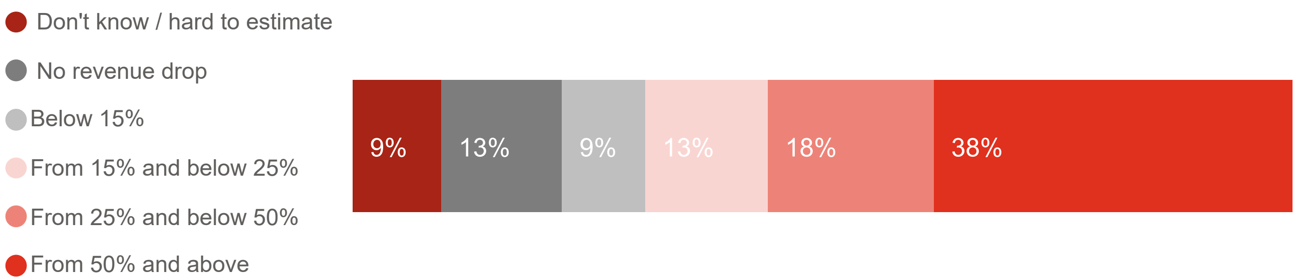
In-depth interview insights:

- According to the in-depth interview respondents, they faced increased transportation costs despite the overall reduction in oil prices. They explained this by the reduced frequency and increased costs of the transportation companies. Additional problems were created because of the testing of drivers, which was partially solved by the contactless delivery implementation.

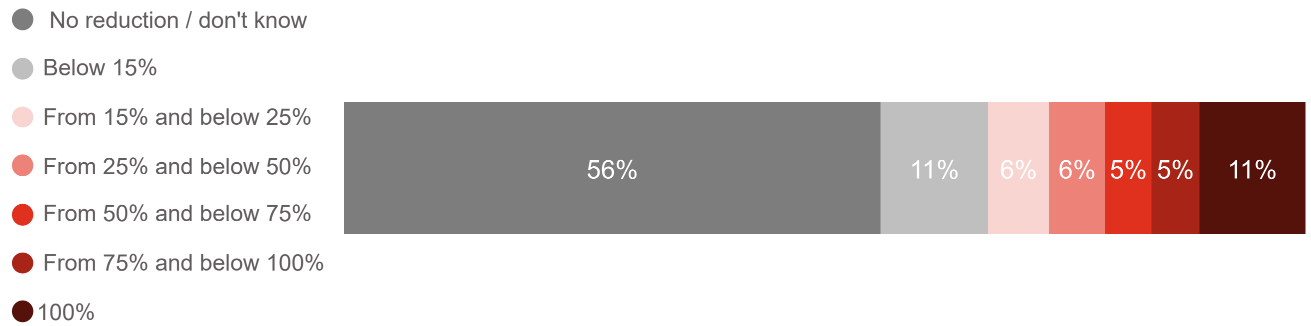
Compared to the previous survey, less respondents expect the revenue drop of 50% and above

September 2020

How much drop in revenue did you have in May-July 2020 compared to May-July 2019?

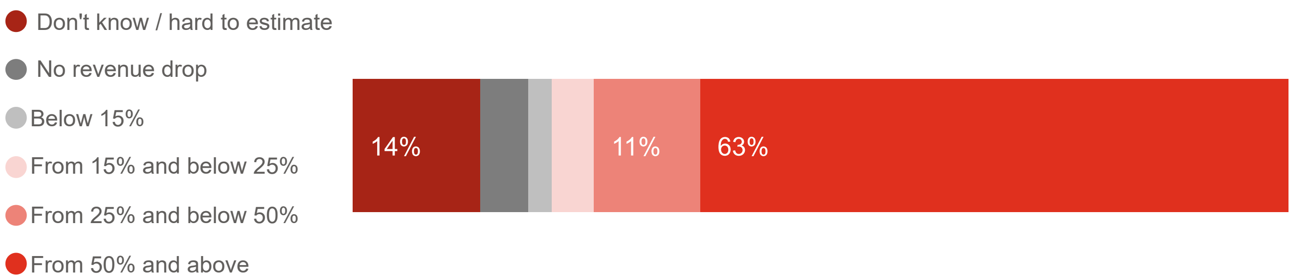


In case if you have reduced the number of employees, what was the size of the reduction since the beginning of COVID-19?



April 2020

How much drop in revenue did you have in March-April 2020 compared to March-April 2019?



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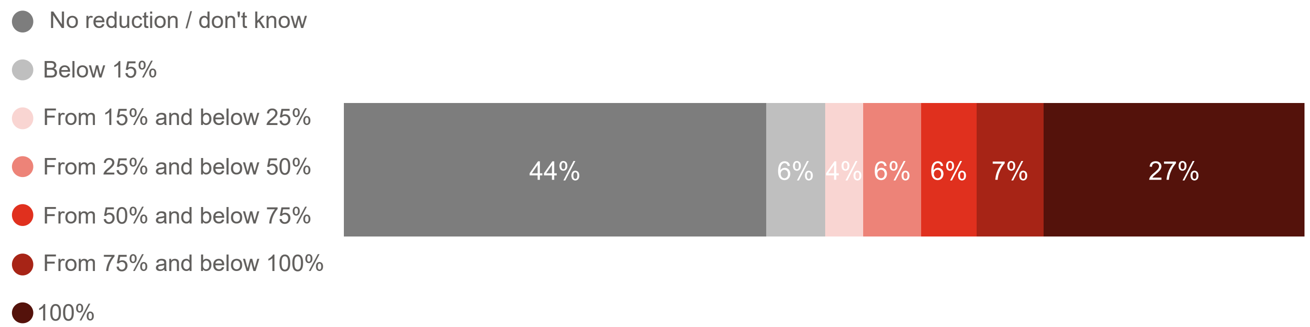
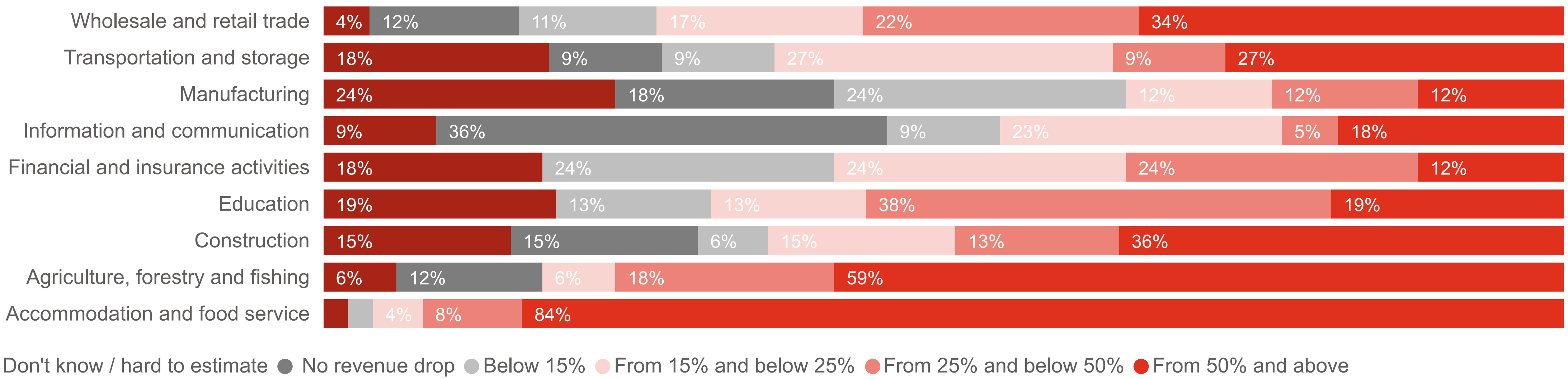


39% of respondents indicated more than 50% revenue drop in May-July 2020 compared to last year, while the figure in previous survey was equal to 61% (March-April 2020 compared to last years)

September 2020

How much drop in revenue did you have in May-July 2020 compared to May-July 2019?



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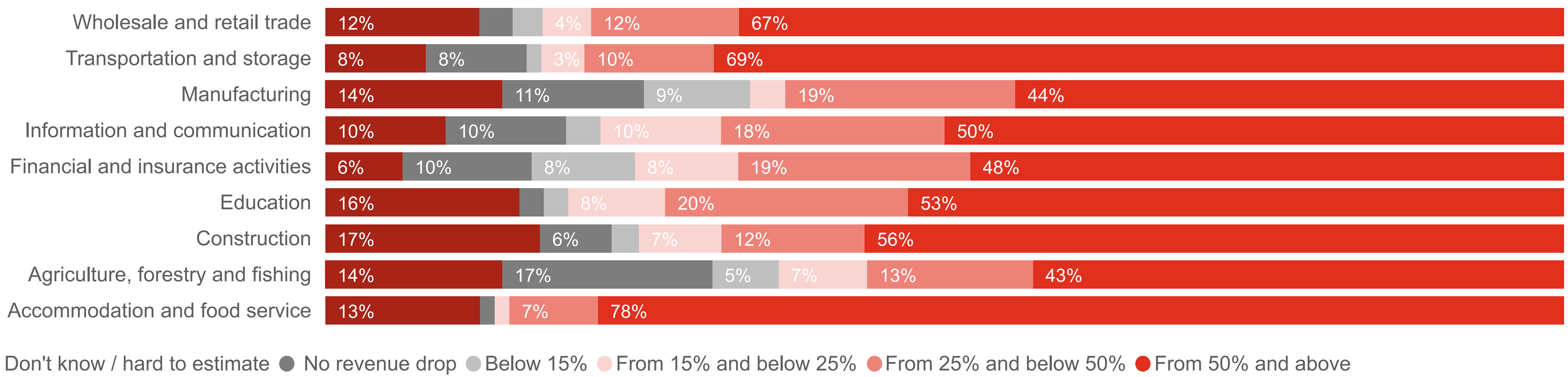


- The most affected sectors in May-July with more than 50% drop in revenues are accommodation and food service-related businesses (84%), agriculture, forestry and fishing (59%) and construction (36%).
- Only around 12% of companies in the financial and insurance and manufacturing sectors reported more than a 50% drop in revenues, which is lower compared to other sectors. Additionally, the information and communications sector reported the largest figure (36%) with no revenue drop at all.
- In total, only 11% of respondents disclosed no decrease in revenues in May-July 2020.
- There are differences in revenue drops by size of the company: 46% of the micro businesses stated above 50% of revenue decline followed by small (35%), medium (35%), 31% of self-employing and large companies (28%).
- Compared to the previous survey, more respondents expect no revenue drop (11% compared to 6%).

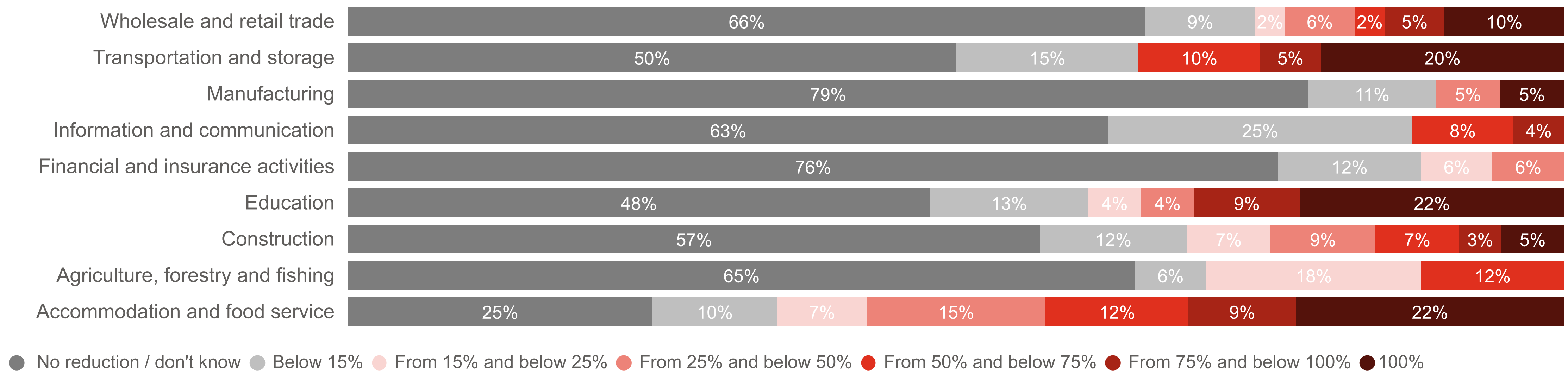
In-depth interview insights:

- The results of the in-depth interviews, similar to the online survey, demonstrated that the significance of revenue drop varies by sector. The most significant decrease in revenue is in businesses associated with the tourism sector, while there are cases of revenue increase in the food-related manufacturing and agricultural businesses.

The lowest number of staff reductions or absence of information is observed in the manufacturing sector (79%), compared to 56% in April's survey

September 2020

In case if you have reduced the number of employees, what was the size of the reduction since the beginning of COVID-19?



April 2020

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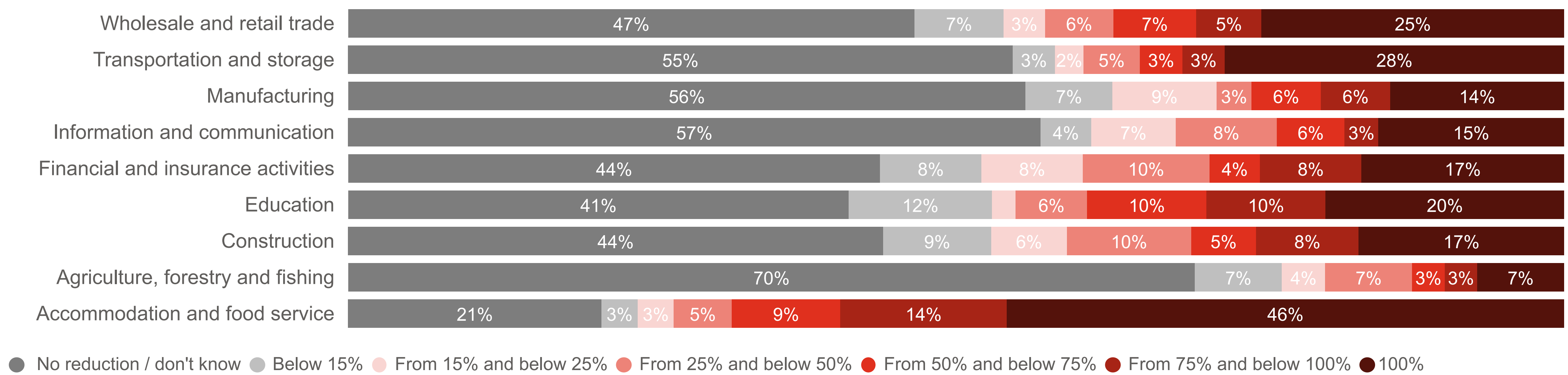


- 56% of companies, in the current survey, have not reduced their headcount since the beginning of COVID-19.
- Accommodation and food service sector was the only sector where 75% of all surveyed companies had headcount reductions.
- Service industries, including accommodation and food services, education and transportation and storage sectors, have the highest number of complete staff reductions with 22%, 22% and 20% respectively, being the most affected sectors by the COVID-19 related difficulties.
- All medium-size companies in the accommodation and food service sector report a staff reduction from up to 75%.
- Majority of the micro and small-size companies, except education, information and communication and accommodation and food services, report no reduction of staff or absence of information.
- Compared to the previous survey, fewer companies reported the reduction of headcount by 100%.

In-depth interview insights:

- According to some of the in-depth interview respondents, majority of reductions took part among part-time or contract employees, which might suggest that the employees with the flexible working arrangements are the most likely to be laid off.

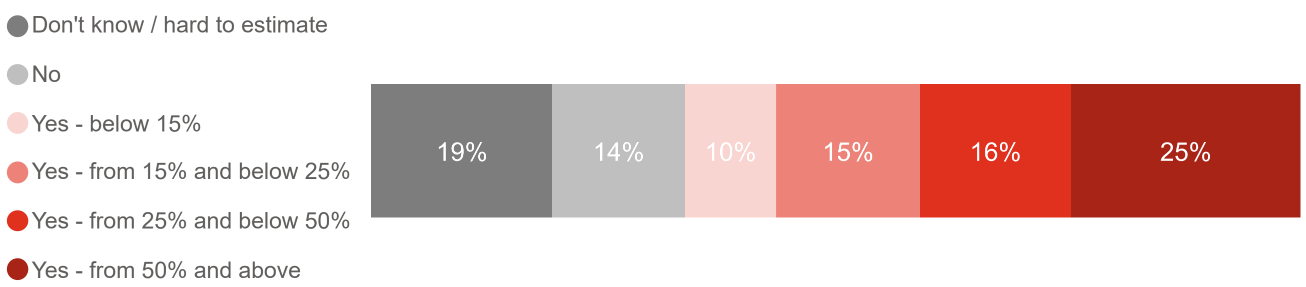
3

Expectations of Future Effects of Pandemic on Business

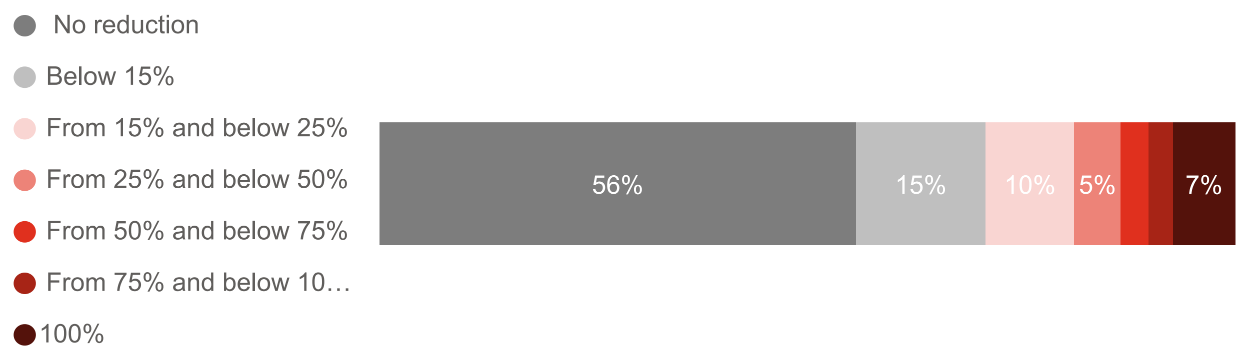
Based on the responses from various sectors of the economy, 56% of enterprises do not plan to reduce the number of employees during the upcoming three months

September 2020

Do you forecast a drop in revenue in the coming 3 months in comparison to the corresponding 3 months of the previous year?



In case if you are planning reduction in number of employees, how many employees do you think you will need to reduce or grant unpaid leave in the upcoming 3 months?



April 2020

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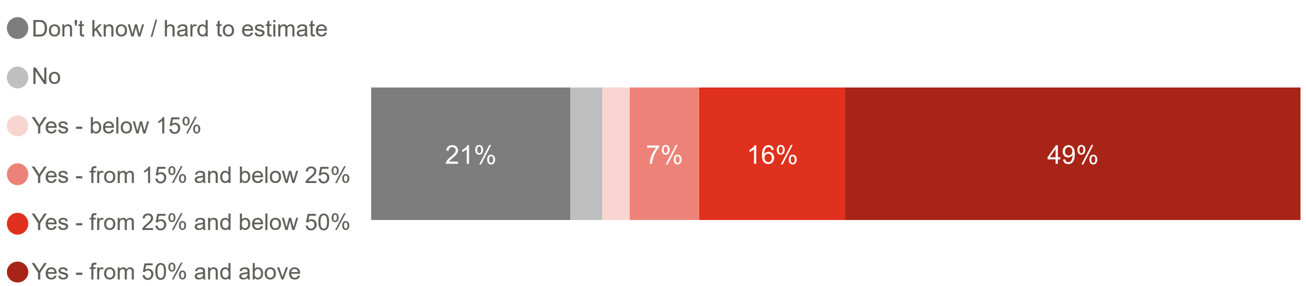

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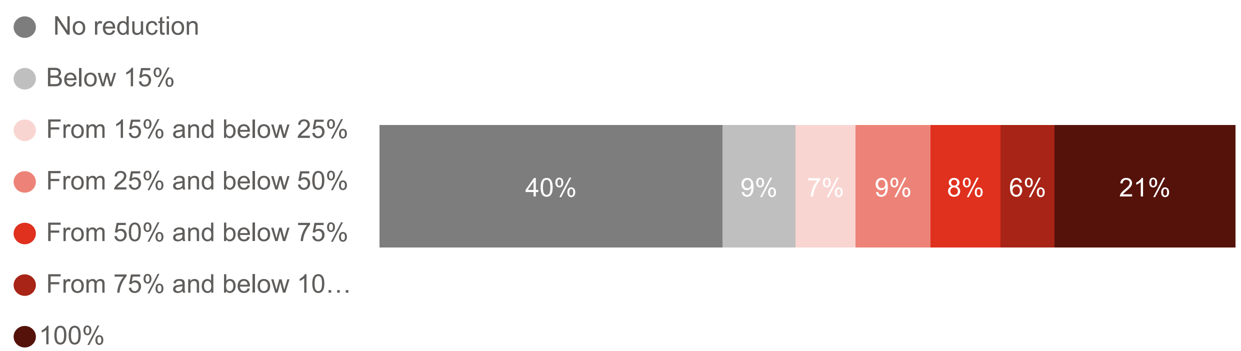
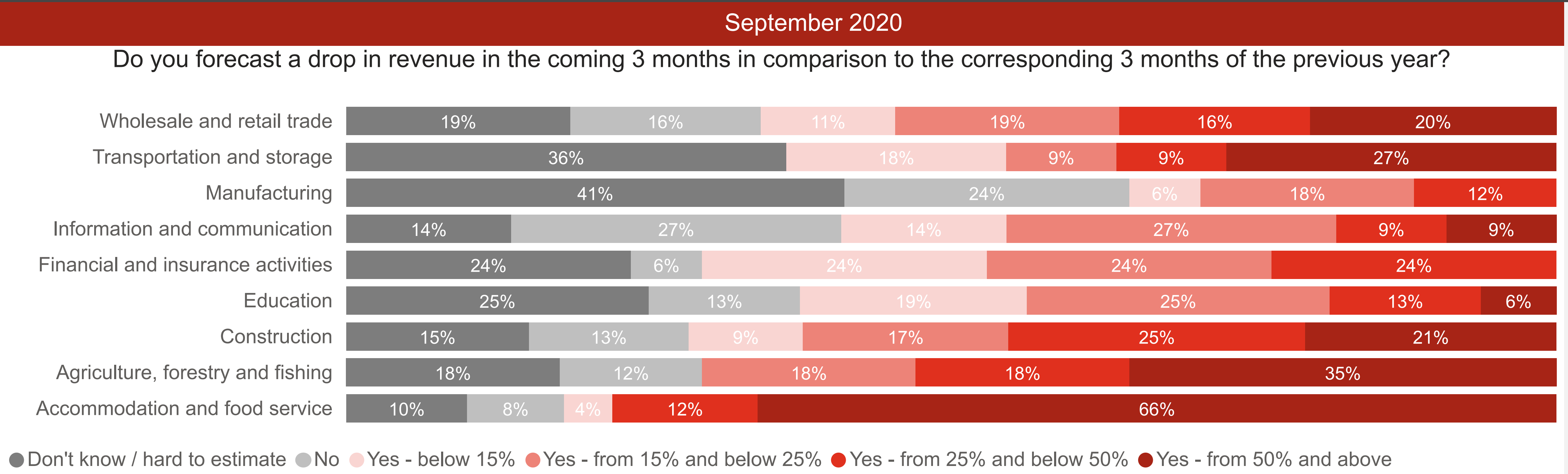
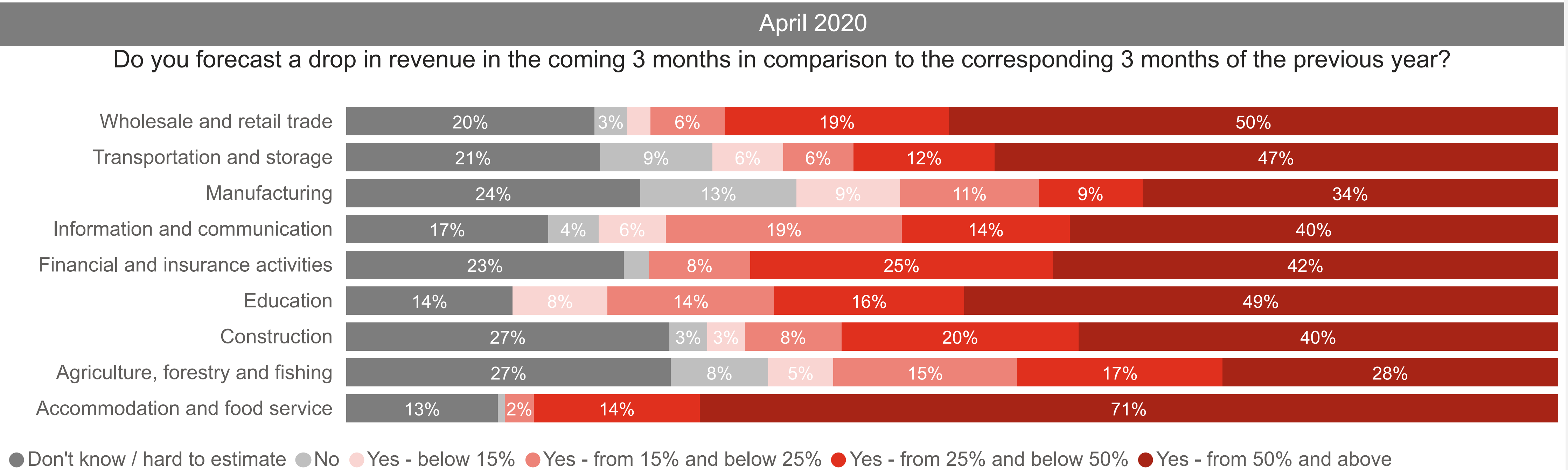


66% of respondent companies operating in the accommodation and food service sectors predict a revenue drop of above 50% in the upcoming three months compared to the previous year, as opposed to 71% in April's survey





- Around fifth of all companies in all sectors forecast a drop of more than 50% in revenues in the upcoming three months compared to the last year. 19% of all companies cannot precisely estimate their expected decline in revenues.
- The highest uncertainty (don't know / hard to estimate answer) is in the manufacturing sector (41%).
- Only 14% of companies predict no revenue drop in the upcoming 3 months.
- Companies from accommodation and food service (66%) and agriculture, forestry an fishing (35%) sectors predict revenue drop of more than 50%.
- There are differences in expectations in terms of more than 50% revenue drop by size of companies. 28% of self-employed, 27% of micro and 27% of medium enterprises forecast more than 50% revenue drop in the next three months, compared to the previous year. In contrast, only 21% of the surveyed small and 22% of large companies expect more than 50% drop in revenue.
- During the April's survey, more surveyed companies were expecting over 50% drop in revenue in the upcoming three months.

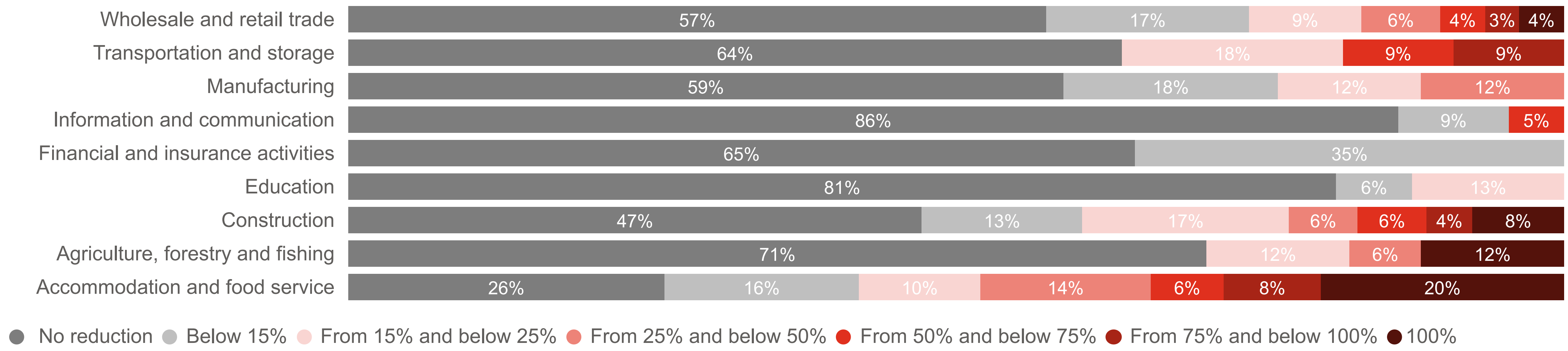
In-depth interview insights:

- During in-depth interviews, large companies have emphasized that currently, they expect the crisis to last for more than a year compared to the short-term forecast at the beginning of the pandemic.

More than 80% of companies in the education sector do not expect a reduction in the headcount or unpaid leaves for the employees in the upcoming three months, in contrast to 31% in April's survey

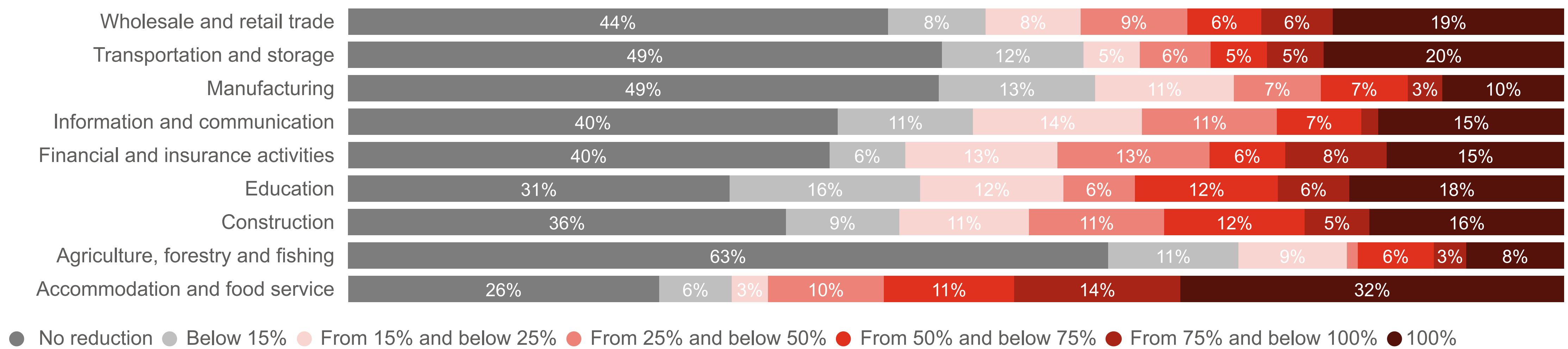
September 2020

In case if you are planning reduction in number of employees, how many employees do you think you will need to reduce or grant unpaid leave in the upcoming 3 months?



April 2020

In case if you are planning reduction in number of employees, how many employees do you think you will need to reduce or grant unpaid leave in the upcoming 3 months?



- Respondents in the current survey are more optimistic than in the previous survey, where the big majority either do not plan or plan to reduce their employees below 25%.
- Around 6% of all the respondents indicate a reduction of headcounts by 100%. The most negative responses come from accommodation and food service providers, 20% of which predict a 100% reduction in employment.
- Looking at the responses from the company size perspective, 16% of self-employing, 9% of micro enterprises, 1% of small-size and 3% of medium-sized businesses plan to reduce 100% of their staff in the upcoming three months. Large enterprises do not indicate projection in the total reduction of their workers.

In-depth interview insights:

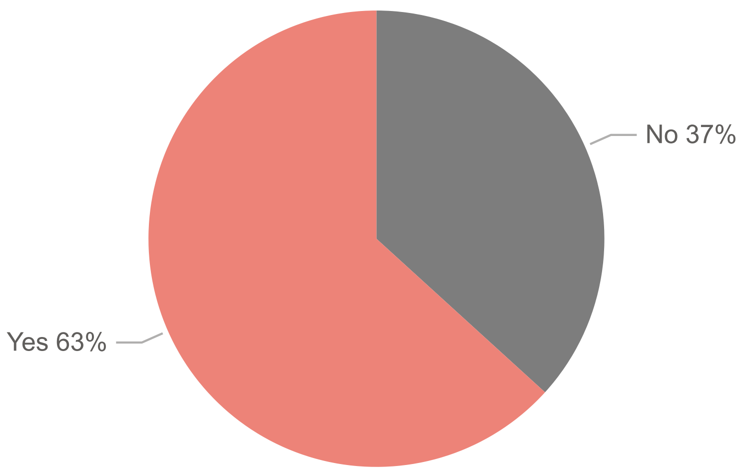
- Most of the interviewed large companies indicate that they have significant investment in their employees. Thus, the reduction in the number of employees is one of the last measures they plan to use to deal with the pandemic results.

4

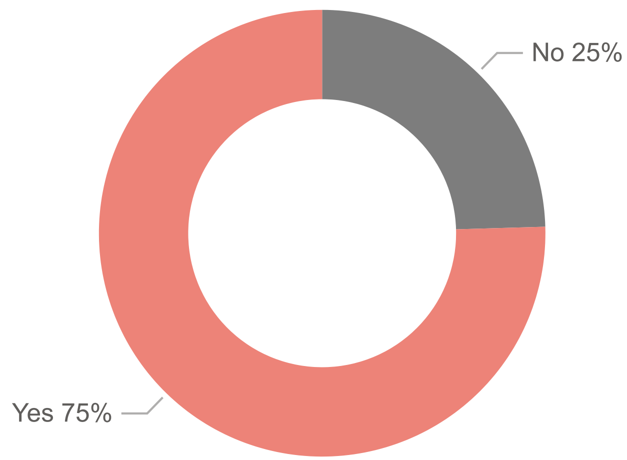
Financial Challenges of Business in Pandemic and the Government Initiatives

63% of all the surveyed businesses have suspended business activity during the quarantine, while 75% of those businesses have renewed their activity

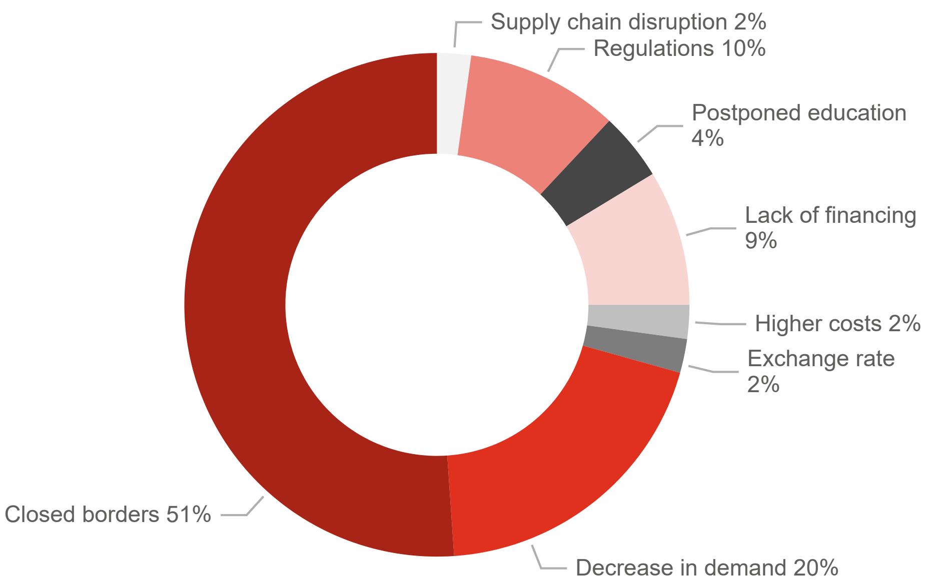
Has your business been suspended during quarantine?



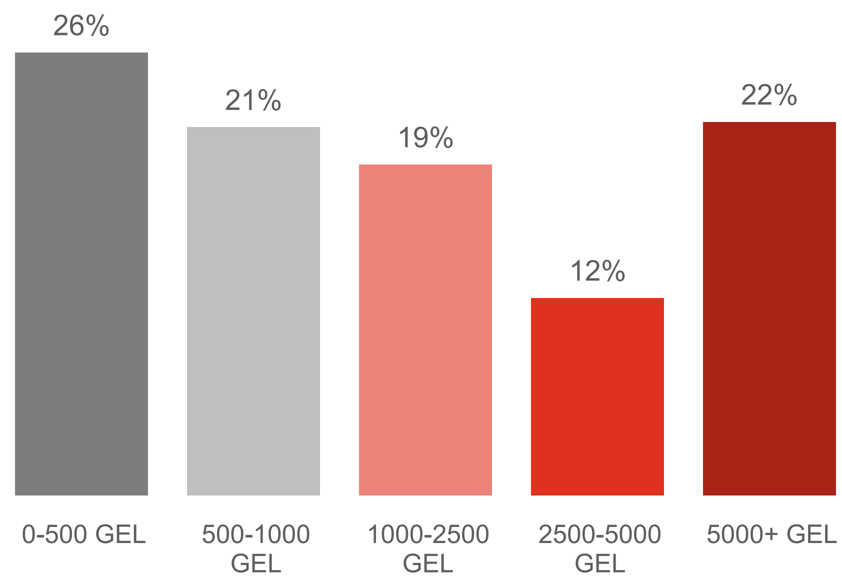
Have you renewed the activity after quarantine?



What was the main reason that hindered you from renewing the operations?



How much money did you spend in order to fulfill the COVID-19 safety requirements requested by the Government? (GEL)



- The closed borders (51%) were named a major reason for companies unable to renew their operations (25% of all respondents). This problem occurs to be the most significant difficulty not only for the tourism related sectors, but also almost for every other sector as well.
- The next two largest issues were related to decrease in demand (20%) and regulations (10%).
- Self-employing companies had the lowest operation renewal rate – only 57% succeeded in continuing business after temporary suspension. 61% of those companies indicate closed borders as the major reason for the inability of operations renewal.
- Companies that avoided suspension during quarantine are mostly the large ones - only 24% of them have stopped their operations during the quarantine. Almost 90% of those suspended large companies managed to renew their operations.
- Only 22% of responses show more than 5,000 GEL spending to fulfill COVID-19 related safety requirements; the rest of the companies' spending is between 0-5000 GEL.

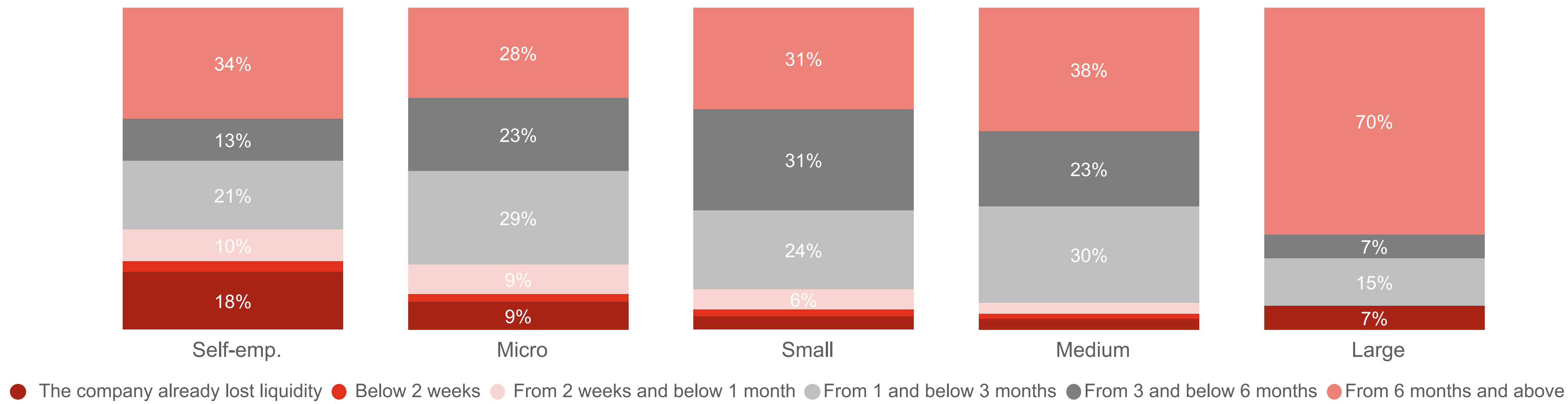
In-depth interview insights:

- During the in-depth interviews, respondents indicated that they had to use personal contacts to accelerate the operations renewal permit, as well as the transportation permit process.

33% of companies, as opposed to 15% in April's survey, forecast that they can maintain their liquidity over the next six months

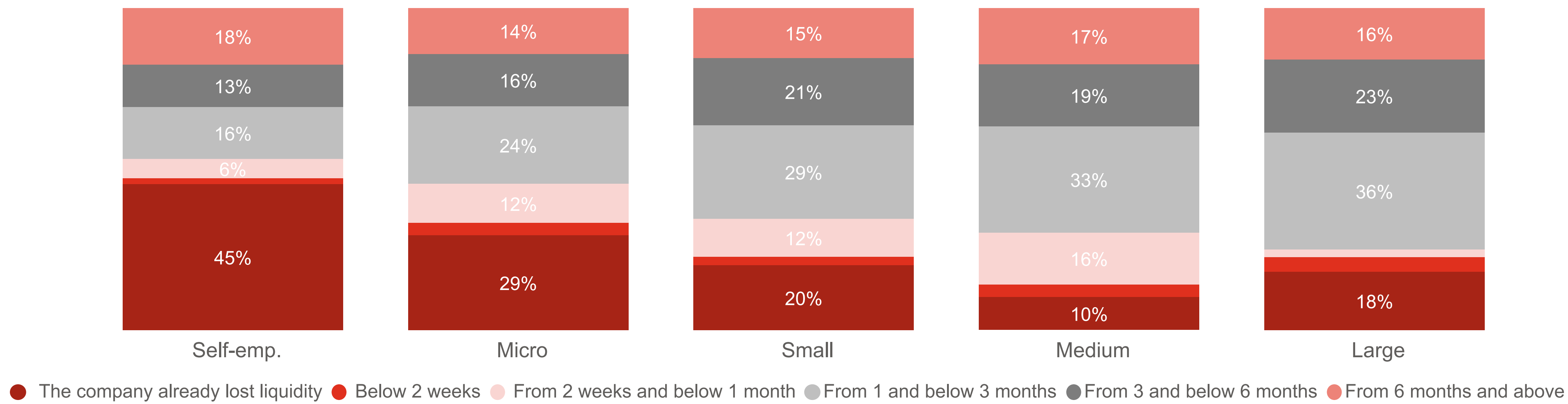
September 2020

How long is the company capable of maintaining liquidity, while paying all liabilities and without a reduction in employment?



April 2020

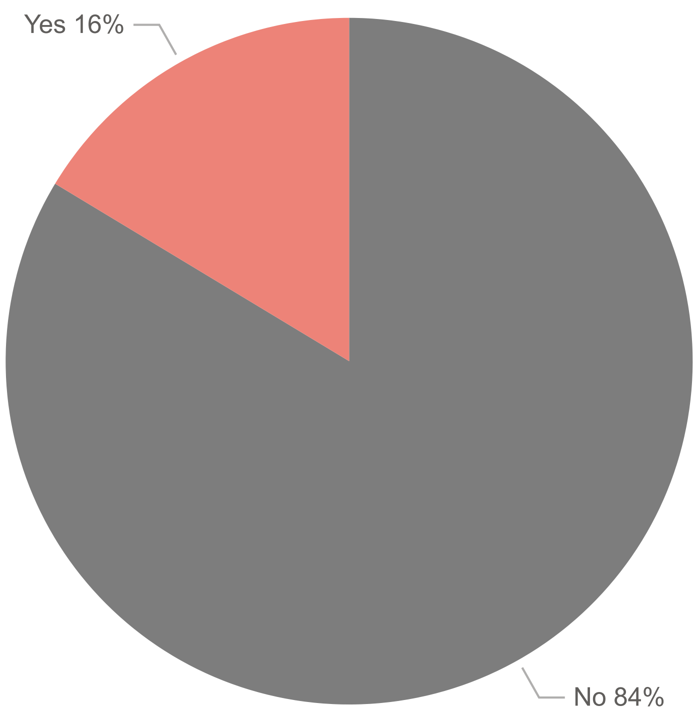
How long is the company capable of maintaining liquidity, while paying all liabilities and without a reduction in employment?



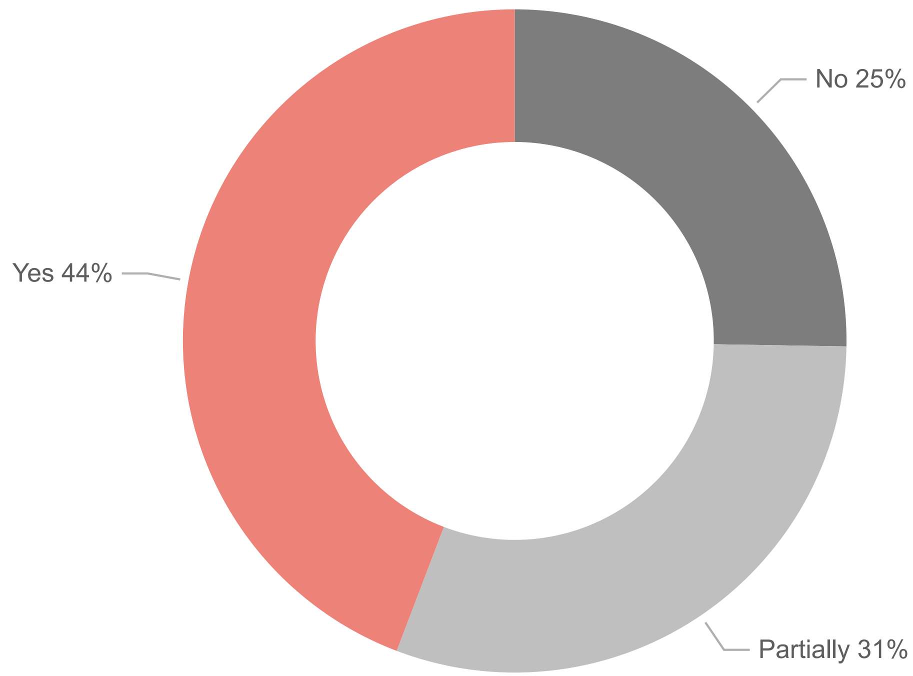
- Less than 10% of all the respondents indicate that their business already faces liquidity challenges; most of the such companies are self-employed enterprises.
- The trend varies significantly across the different groups. Around two-thirds of small, medium and large businesses admit that they can maintain financial liquidity for over three months, 62%, 61%, and 77%, respectively.
- This is significantly different from the previous survey, where more than a quarter of respondents already faced liquidity challenges during the survey period.
- Most of the companies that already have liquidity problems are operating in the accommodation and food service (18%), other services (12%), and wholesale and retail trade (6%) sectors.
- The most sustainable sectors during the pandemic, which can continue operations without a reduction in employment and maintain liquidity after three months, are construction (53%) and wholesale (55%) sectors.
- Compared to the April survey, less companies have immediate liquidity problems and more companies are able to maintain liquidity over the next six months.

Only 16% of companies have approached tax authority for deferment of tax liabilities, 44% of which have been approved

Have you approached tax authority for deferment of your tax liabilities?



In case if you have approached tax authority, has your request of deferment been approved?



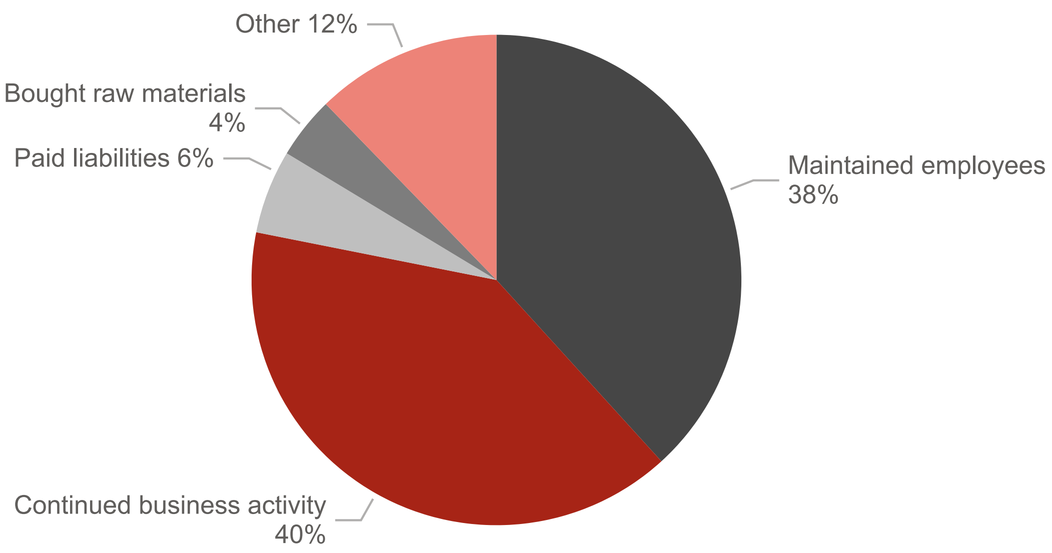
- Medium-sized companies are the most likely to apply for tax deferment. 28% of medium-sized companies have approached tax authority for deferment of tax liabilities, followed by 21% of large, 20% of small, 15% of self-employing and 11% of micro-companies.
- Self-employing respondents had the highest rejection rate (42%) across all the company sizes, while 89% of micro businesses have at least obtained partial deferment.
- Out of all large-size companies, only 21% approached tax authority for deferment of tax liabilities. There is an equal split of companies who fully, partially or did not receive the deferment.
- Among sectors, respondents in the real estate sector had the largest (47%) indicator of approaching tax authority for the deferment of tax liabilities.

In-depth interview insights:

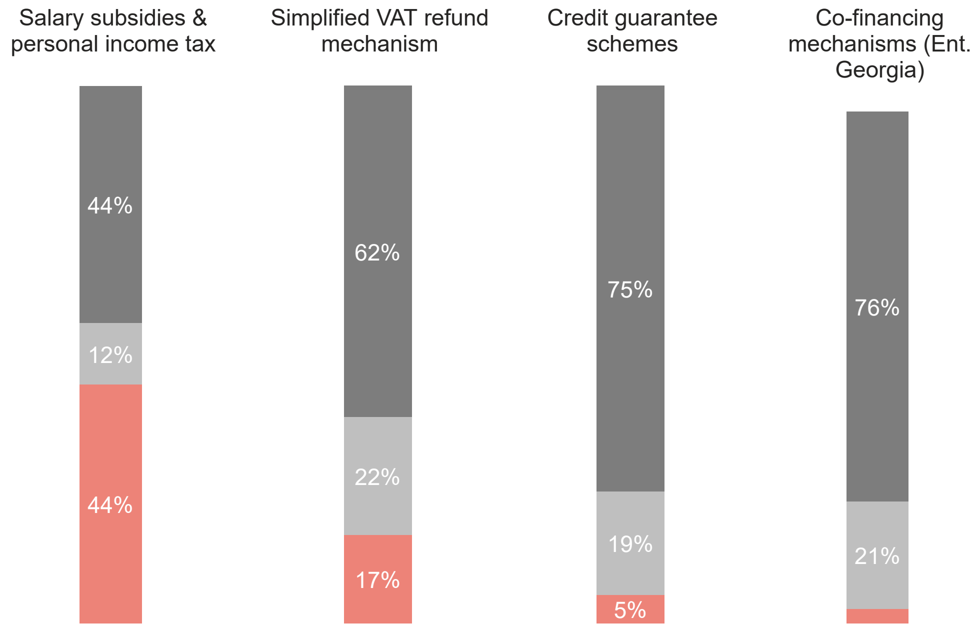
- All interviewed large companies have approached tax authorities to defer tax liabilities and received a full or partial deferment.
- One of the issues with tax authorities, outlined during the in-depth interviews, was related to the obsolete inventory write off during the pandemic.

44% of all companies have used salary subsidies and exemption from the personal income tax

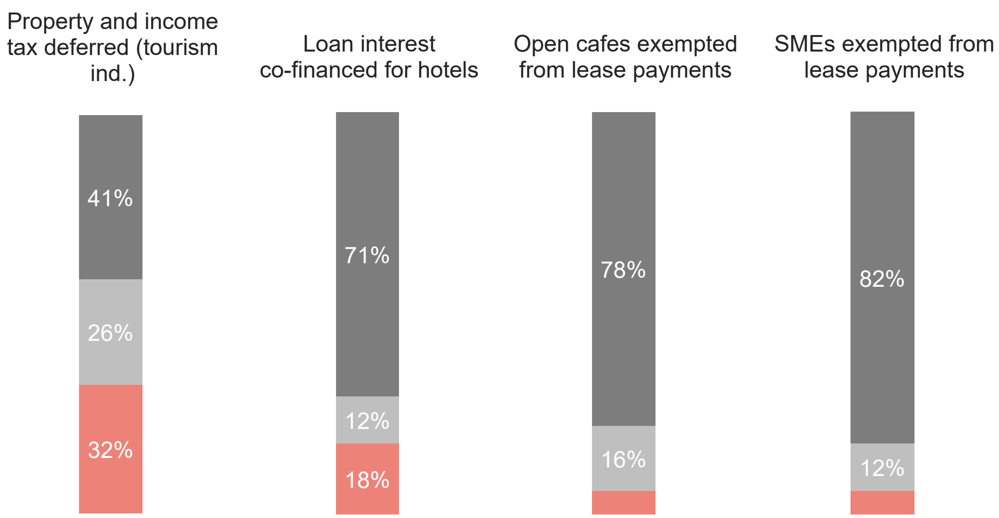
How did you benefit from the Government initiative which was relevant for your business?



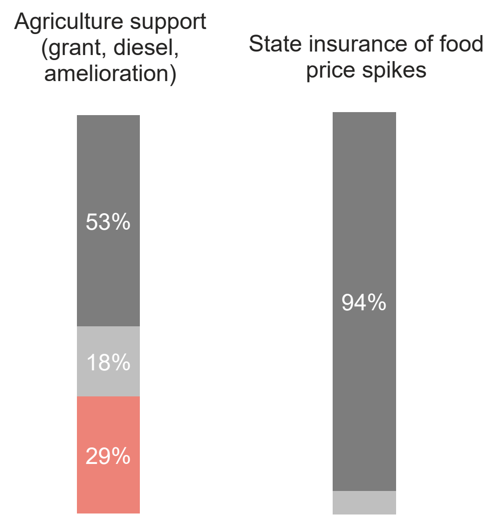
Which recently announced initiatives suit your needs? (all sectors)



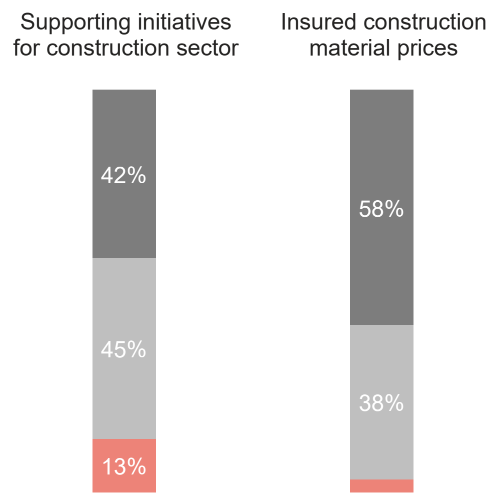
Which recently announced initiatives suit your needs? (accommodation)



Which recently announced initiatives suit your needs? (agriculture)



Which recently announced initiatives suit your needs? (construction)



Have used   Will use   Not relevant

- The major positive outcome of government initiatives for companies was related to continuing business activity (40%), while 38% of companies have used it to maintain employees.
- The most widely used initiative for all surveyed respondents is the subsidy of employee wages and personal income tax.
- Interviewed companies in the accommodation and food service sector indicate "property and income tax deferment as the most widely used initiative.
- 47% of respondents in the agriculture, fish and forestry sector either have or plan to use the government initiative related to additional grants, agrocredit for the financing of annual crops, support in amelioration activities and subsidy for the price of diesel for SMEs in agriculture sector.
- Around 13% of companies in the construction sector have already benefited from initiatives dedicated to support the sector, while 45% of respondents plan to use such initiatives in future.

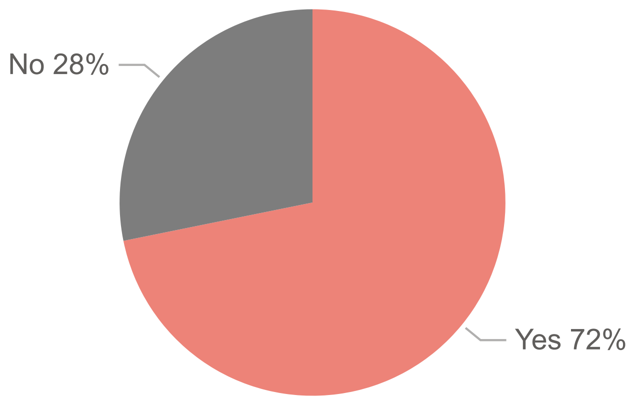
In-depth interview insights:

- Respondents during the in depth interviews have stressed the importance of continuation of the personal income tax initiative. Companies have outlined that maintaining employees should not be penalized by the government in form of obligation to pay the personal income tax for the retained staff.

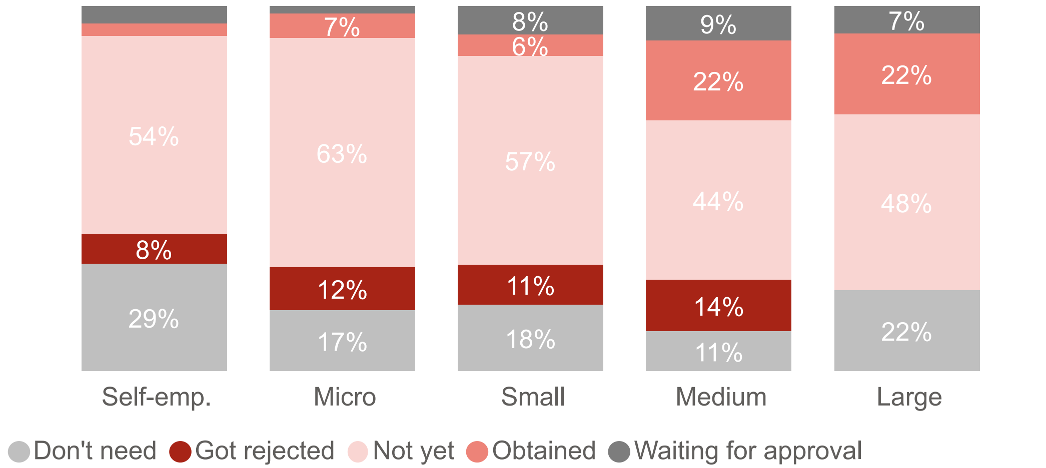
24% of surveyed companies who require additional financing have already approached the financial institutions since the beginning of the COVID-19 pandemic, compared to the 15% in April's survey

September 2020

Does your business require additional financing due to COVID-19 related issues?

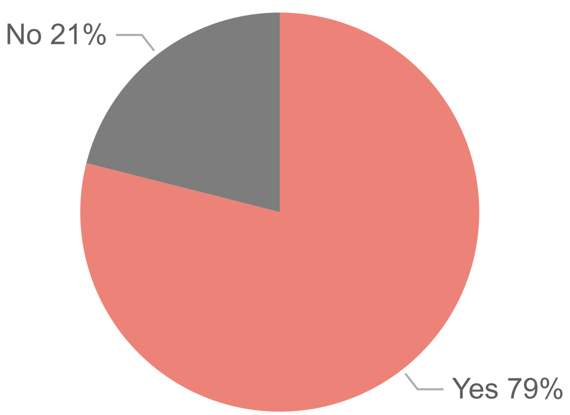


Have you approached any financial institution since the beginning of COVID-19 to attract additional financing?



April 2020

Does your business require additional financing due to COVID-19 related issues?



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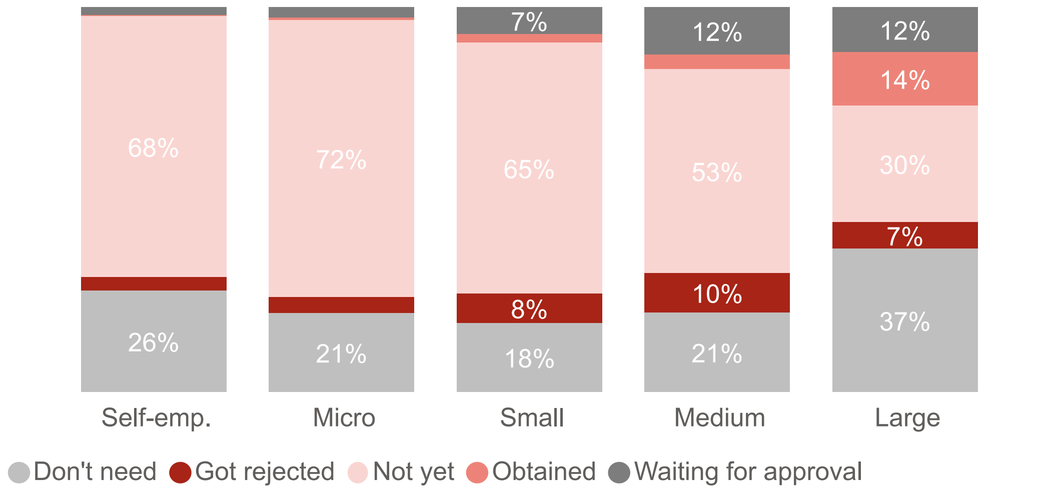
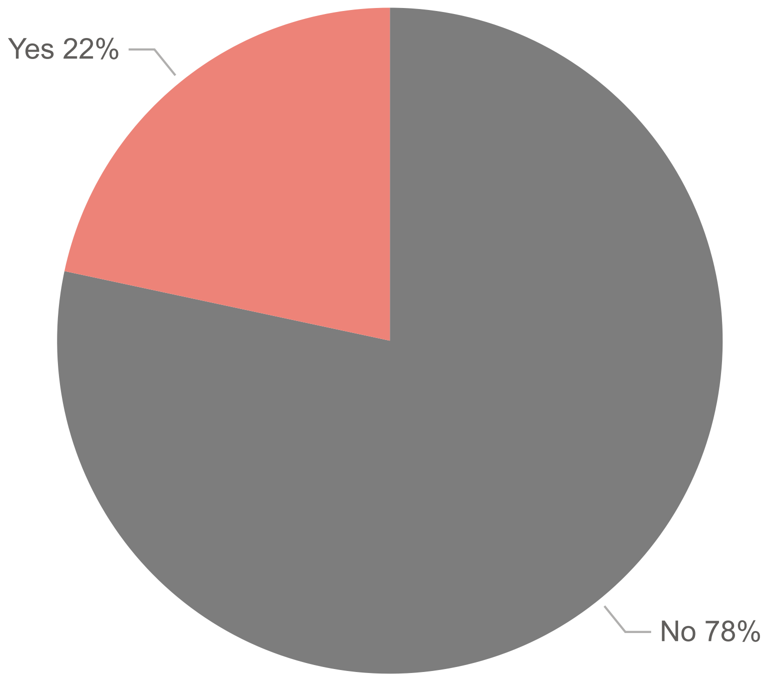


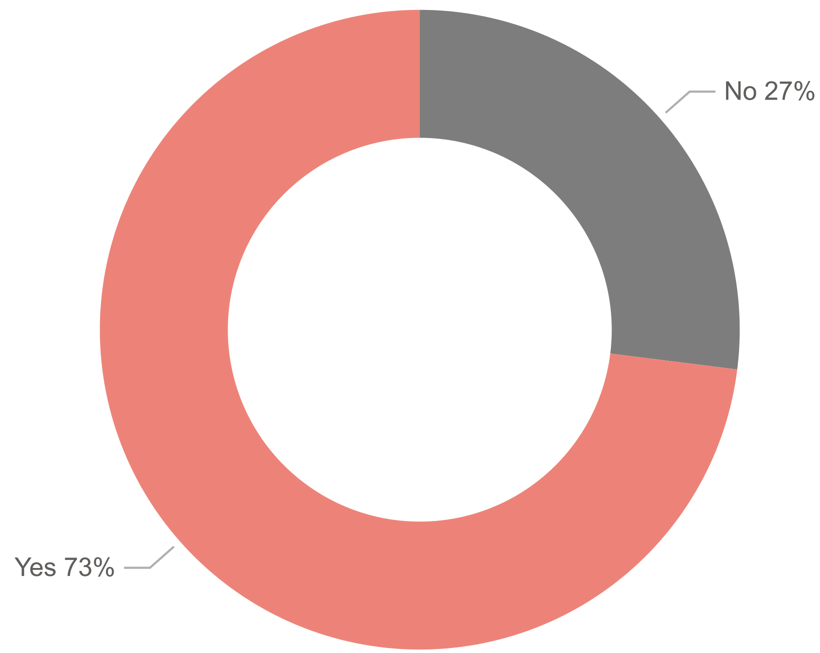
- Statistics of companies who have approached financial institutions vary by company sizes. 63% of micro businesses have not yet approached the financial institutions. The situation is different for large and medium-sized companies, where less than 50% have not yet contacted the financial institutions.
- The highest rejection rate of requests for additional financing is among medium-size companies (14%), micro companies (12%) and small companies (11%), which is similar to the previous survey.
- The highest success rate in obtaining additional financing was among an equal number (22%) of medium and large-size companies. Also, 9% of medium and 7% of large-size companies are waiting for the decision. In contrast to the previous survey, more medium-size companies obtained financing.
- There is a visible difference compared to the previous survey among large companies, where the percentage of companies who do not need financing has dropped from 37% to 22%. While the number of large companies that do not yet need additional funding has increased from 30% to 48%.

22% of all surveyed companies have approached financial institution for the restructuring of loans, more than 70% of which have succeeded to obtain financing

Have you approached any financial institution for restructuring of loans since the beginning of COVID-19?



Was your request for restructuring approved by the financial institution?



- When comparing additional financing and restructuring of existing loans, slightly fewer companies (22%) have approached financial institutions for the restructuring of loans compared to attracting new funding (24%).
- The largest number of companies that approached financial institutions to restructure loans were medium-size companies (31%), followed by large (30%), small (24%), micro (20%) and self-employing (13%) enterprises.
- Restructuring of loans for businesses required agreement between the bank and the company, while in case of physical persons it happened automatically. In case if self-employing enterprises had registered their loans as physical persons, they would not require to apply for restructuring.
- Big majority of companies (73%) have been approved restructuring of loan by the financial institution.
- Medium-size companies had the greatest difficulty obtaining consent on restructuring existing loans (35%), while most approvals were among large-sized companies (88%).

In-depth interview insights:

- All respondents of the in-depth interviews could either attract financing or postpone their liabilities towards the financial institutions. However, they expressed concern regarding the significant effort required to convince the banks regarding the exceptionality of the current cases and their inability to produce long-term forecasts.

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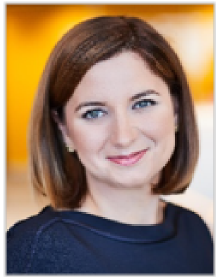

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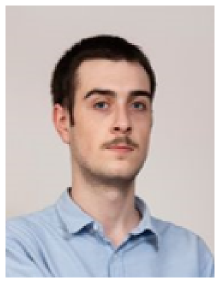

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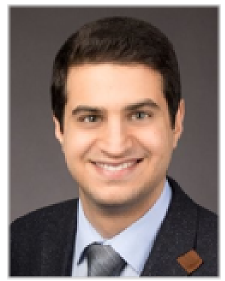

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Dear Sir/Madam

Support to the Secretariat of the Investment Council in Georgia - COVID-19 Business Survey

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Yours sincerely,
Lasha Janelidze