

# Assessment of Georgian Business Climate following the August Conflict

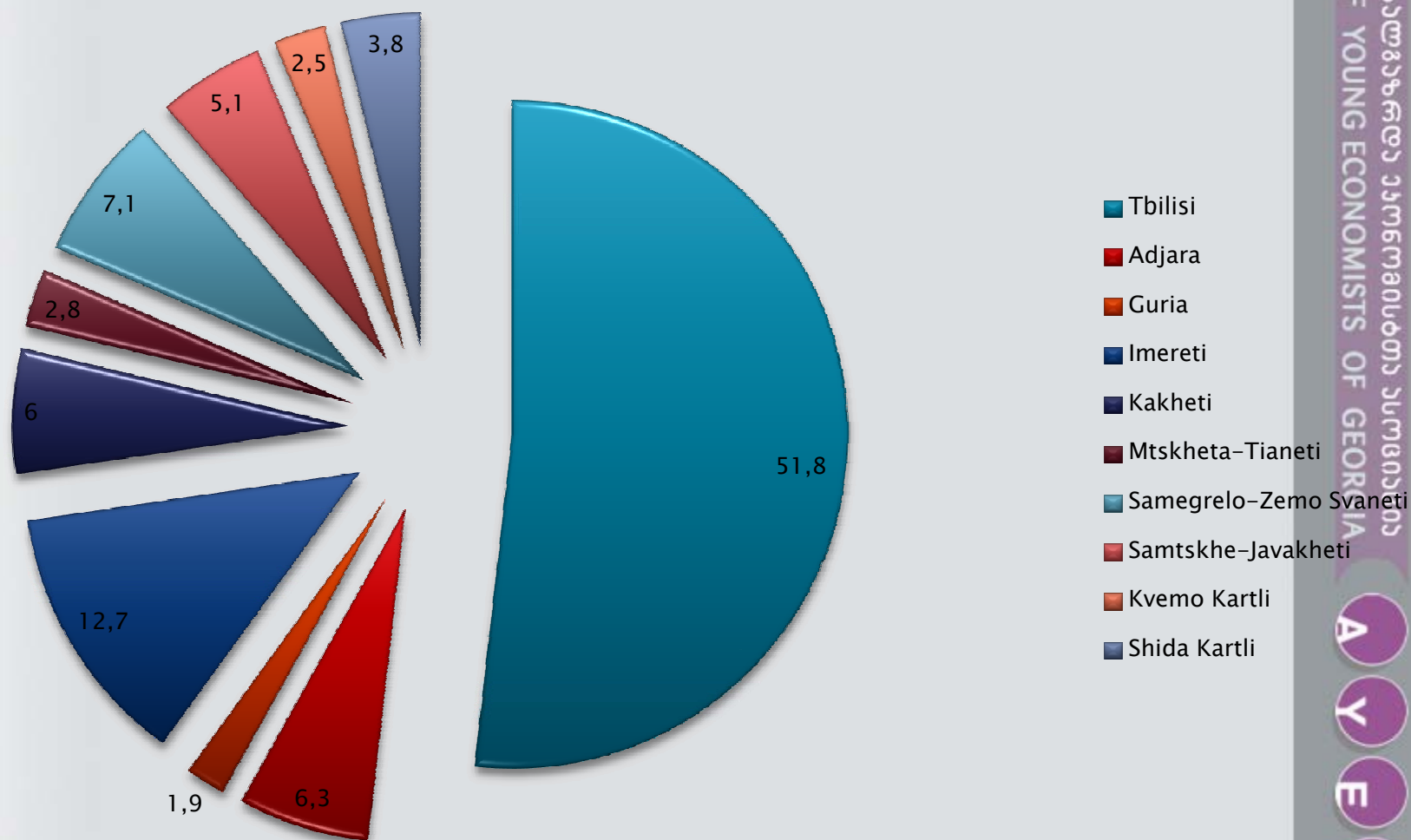
Tbilisi 2008



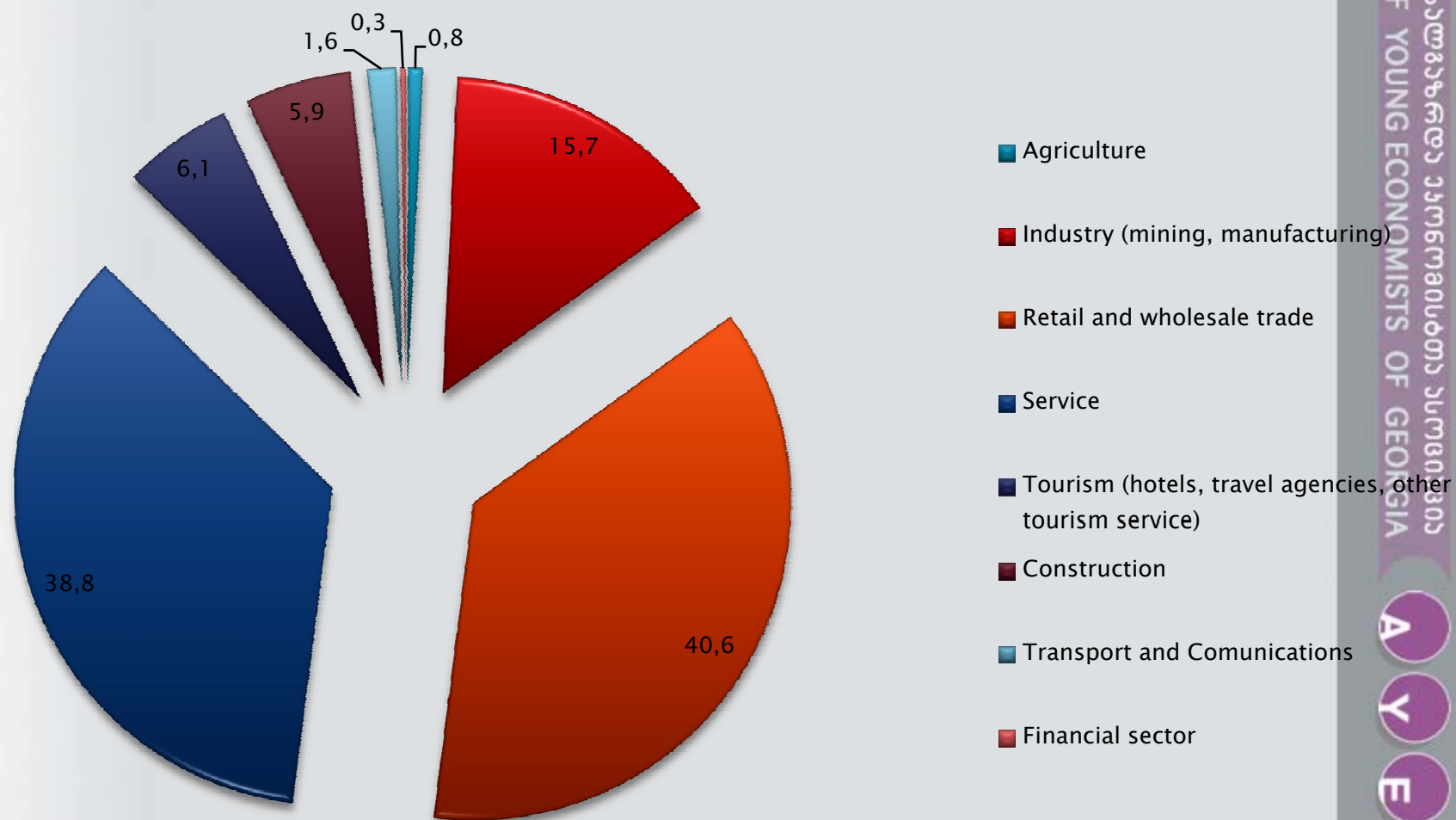
# Survey Details

- Interviews via phone;
- Sample size 1000 entrepreneurs throughout the Georgia (small, medium and large size);
- Respondents: Company managers/Owners;
- Focus on business activity in the two months after the conflict;
- Survey period: 15-24 October 2008;

# Distribution of respondents by regions

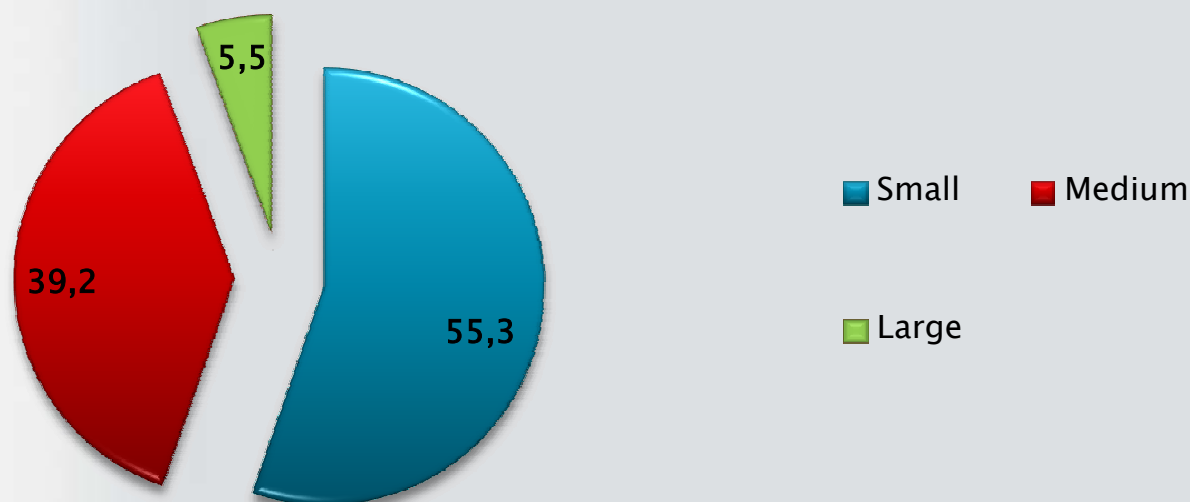


# Distribution of respondents by sectors



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the August Conflict ; AYEG 2008

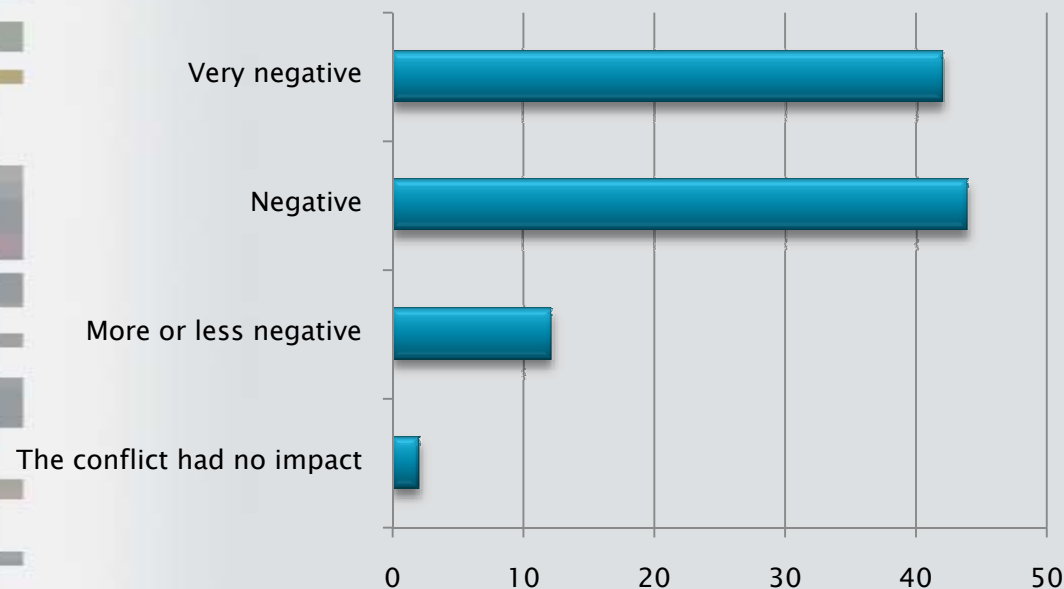
55% of companies are small (the companies defined size from their own perception)



The size of the companies was defined by self-evaluation, since there is no official definition of company sizes in Georgia.

# 86% of respondents suffered from the negative impact of the conflict

Generally, how the recent conflict in August impacted on the business climate?



The majority of businesses consider the impact as negative and very negative; 24 respondents even suffered direct losses from Russian Troops



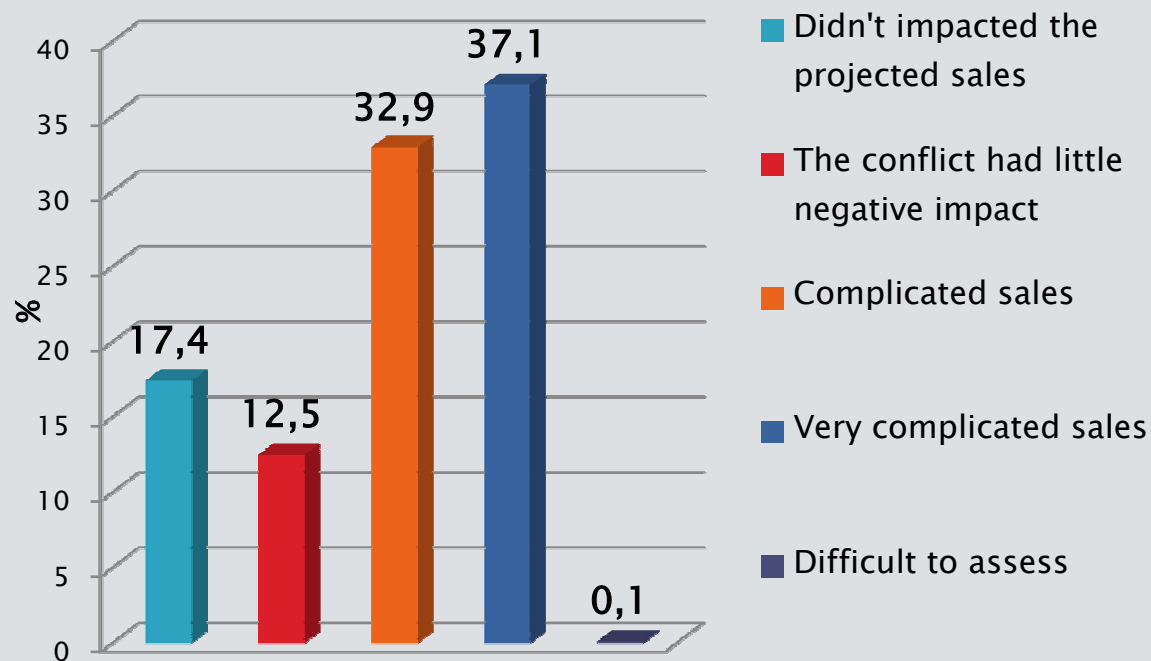
# Direct losses from armed forces

- The 24 companies located in Shida Kartli and Samegrelo-Zemo Svaneti region indicated that they suffered direct losses from armed forces.
- The total amount: **3, 191 000 GEL**  
**(approximately 2.263.000 USD);**

# Most of the companies have sales difficulties

How much did the recent conflict complicated the sales (in previous two months period)?

For 70% of the respondents the sales became complicated



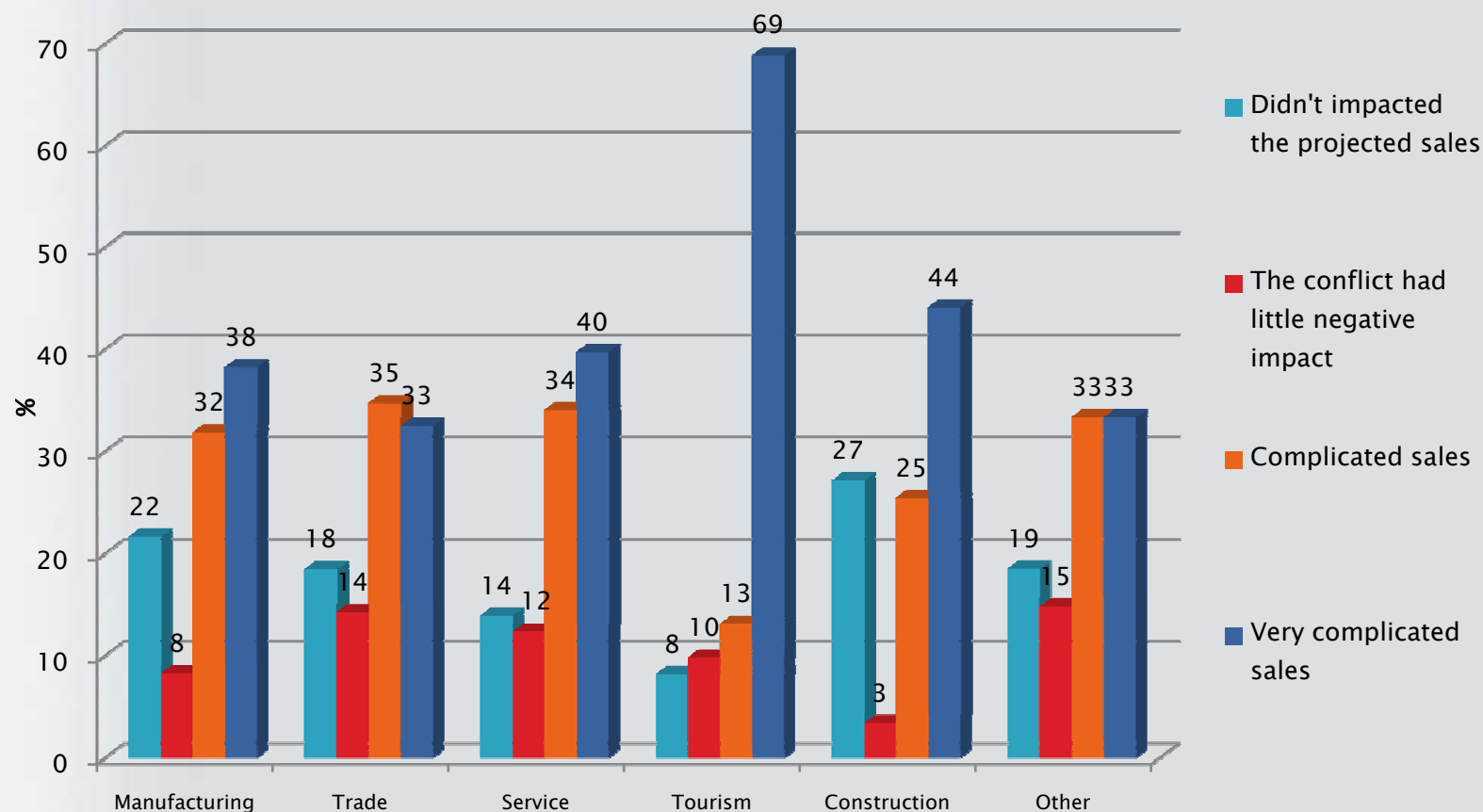


# Sales Difficulty by Company size (%)

	Doesn't reflected the projected sales	The conflict made little negative affect	Complicated	Very complicated	Difficult to asses
Small	18,3	12,3	34,5	34,7	0,2
Medium	16,3	13,3	30,9	39,5	0
Large	16,4	9,1	30,9	43,6	0

The conflict had relatively higher impact on large sized companies. It should be considered that small companies mostly trade the grocery products or are engaged in the service sector

# The conflict has most negative impact for Tourism sector



# The average sales decreased by 40%

Sales decrease by sectors

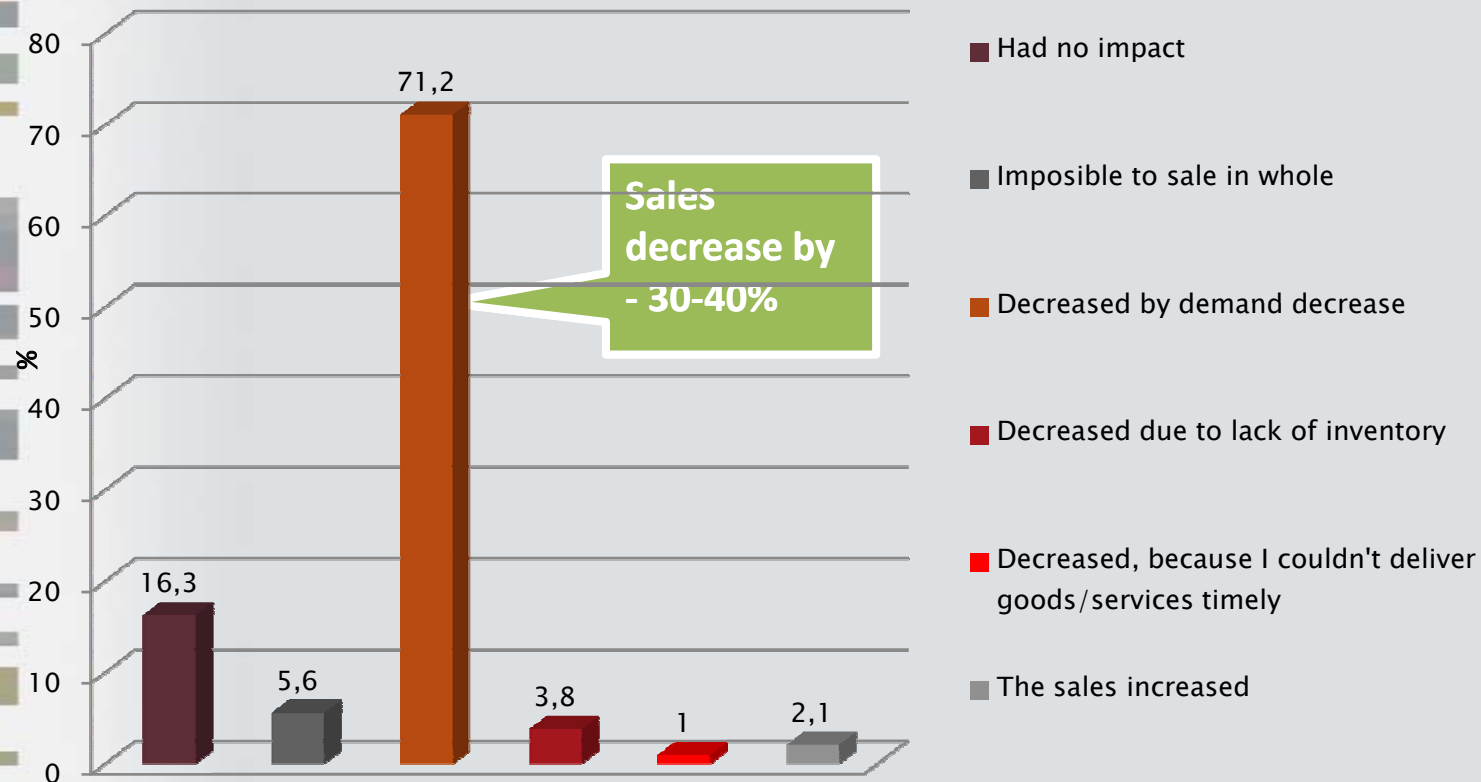
<b>Manufacturing</b>	<b>51.0 %</b>
<b>Trade</b>	<b>46.6 %</b>
<b>Service</b>	<b>49.0 %</b>
<b>Tourism</b>	<b>74.5 %</b>
<b>Construction</b>	<b>53.4 %</b>
<b>Other</b>	<b>45.7 %</b>

Sales decrease by company's size

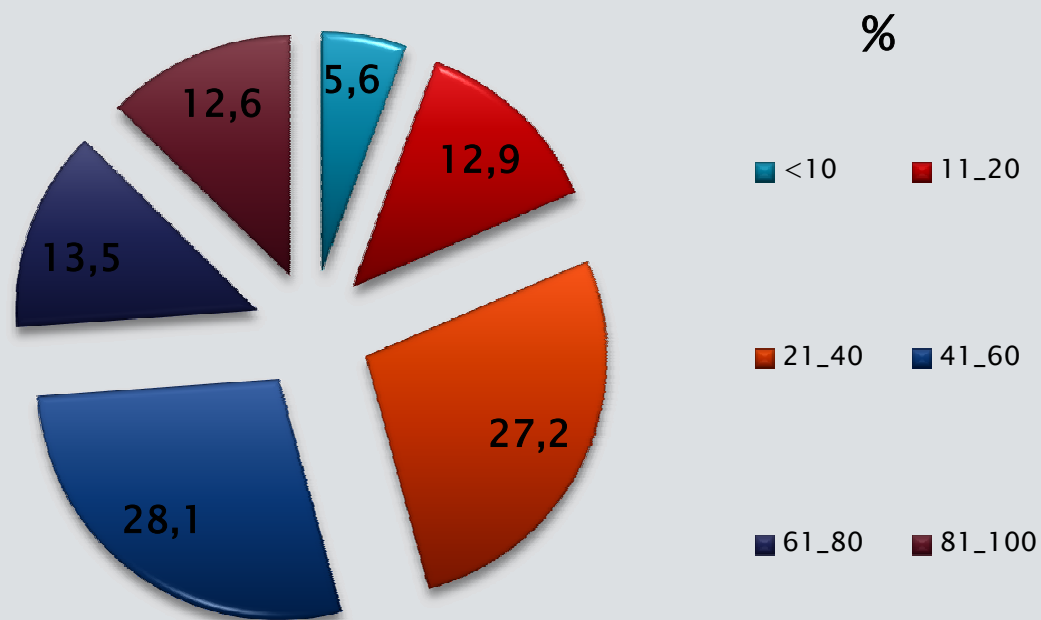
<b>Small</b>	<b>47.3 %</b>
<b>Medium</b>	<b>52.3 %</b>
<b>Large</b>	<b>48.1 %</b>

# Impact on sales

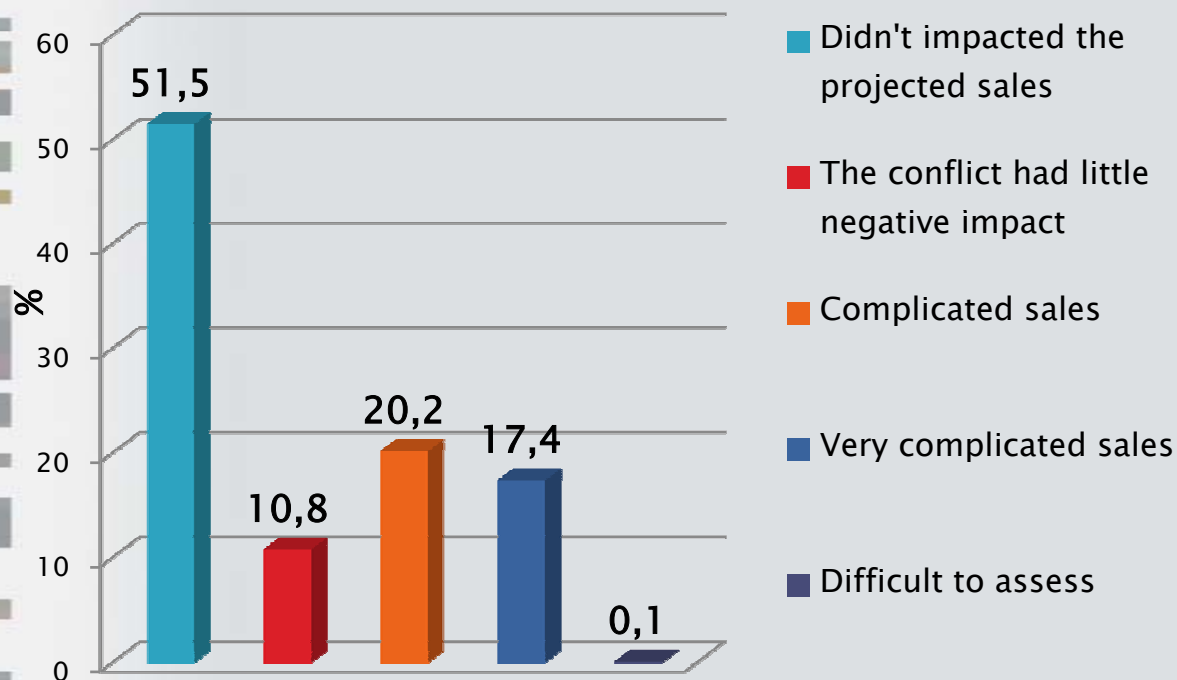
How and what factors reflected the sales in previous two months?



# Impact on sales due to demand decrease



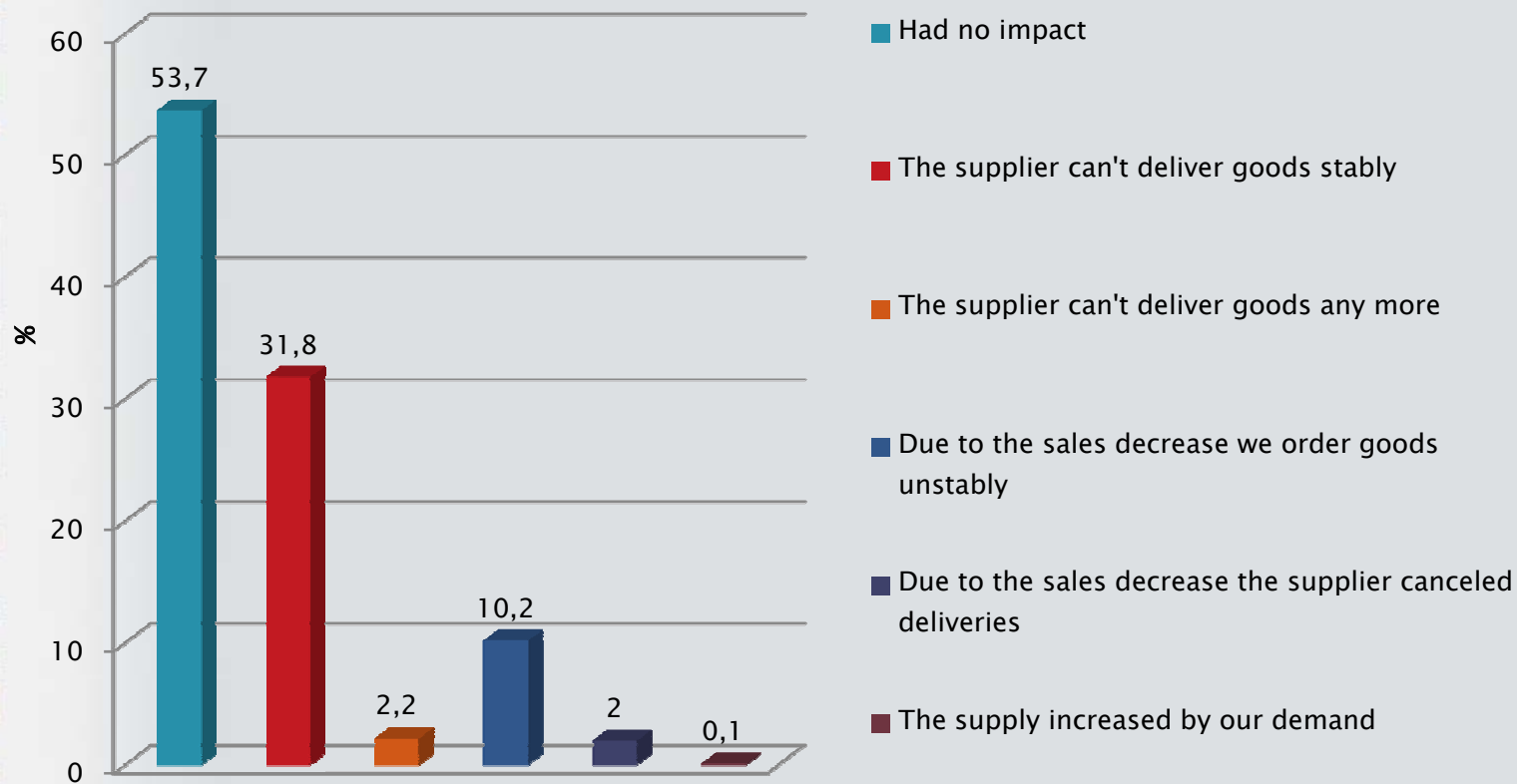
# Transportation Difficulty



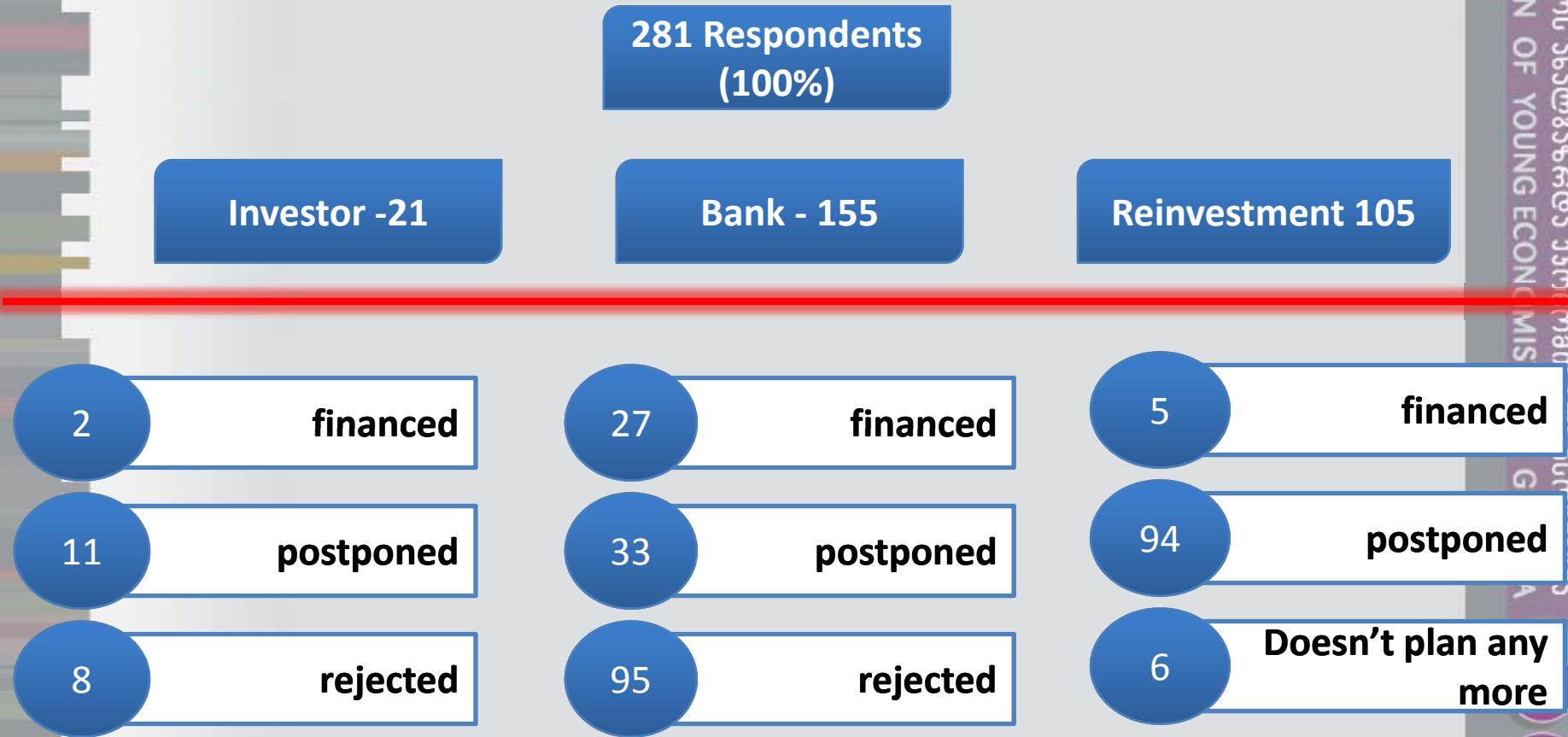
Mostly the distribution companies faced problems



# Impact on supply



## 281 Respondents planned the business enlargement/investments before the conflict



**As a result only 12% of the enlargement plans were conducted.**

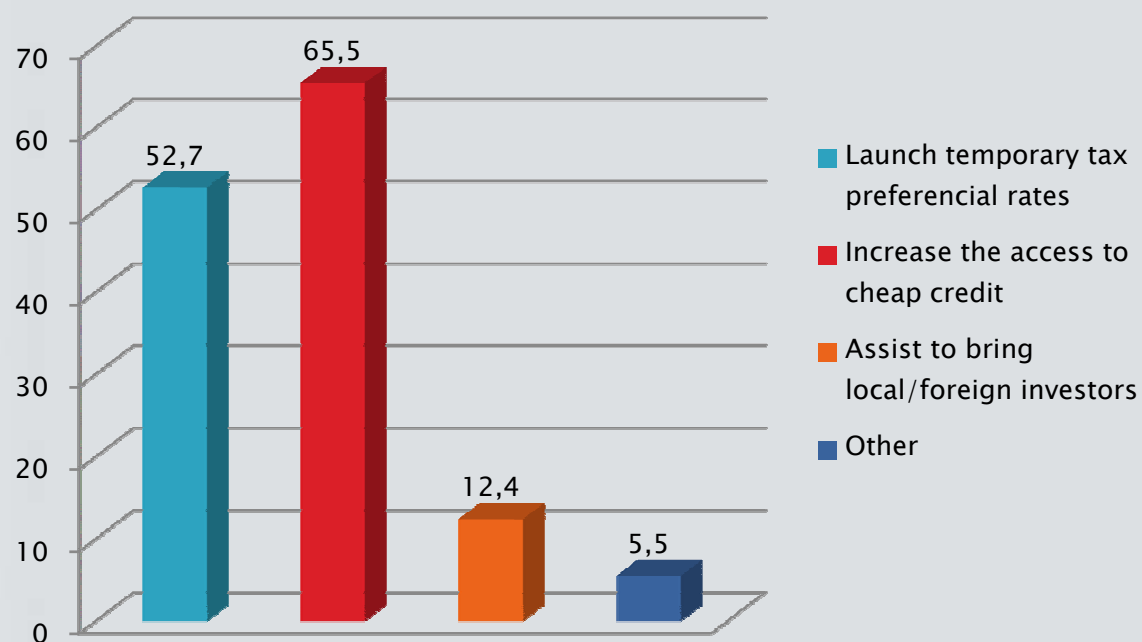
# Reflection on bank/microfinance org. loans

		Quantity	%
1	Do not plan to get loan any more	14	9,0
2	The bank/microfinance organization rejected my application and I seek the alternative funding	31	20,0
3	The bank/microfinance organization rejected my application and I wait for situation improvements	50	32,3
4	I've postponed for uncertain period	11	7,1
5	The bank/microfinance organization has postponed for uncertain period	22	14,2
6	I got the loan	27	17,4

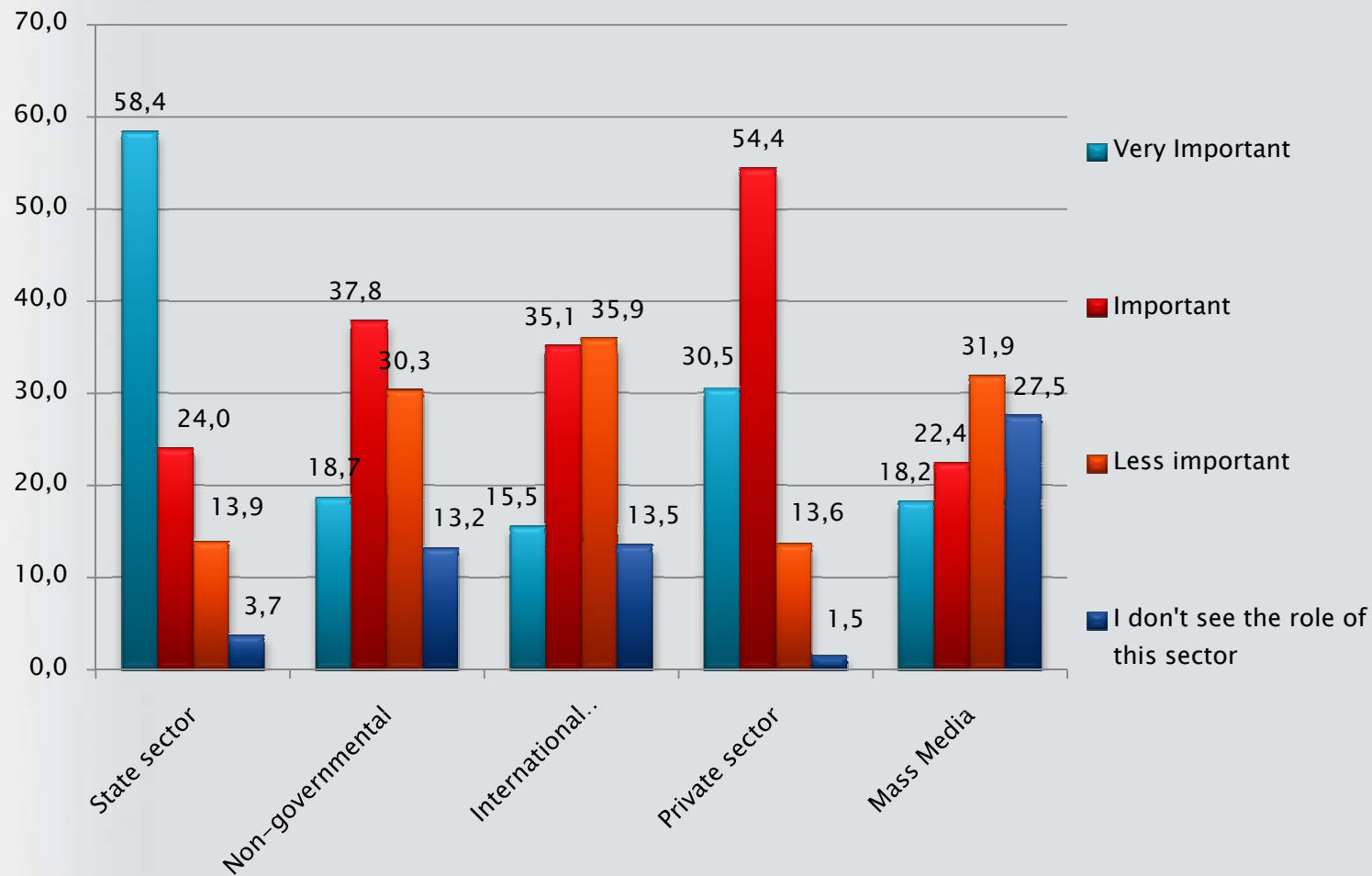
The private sector will recover without assistance in average 6 months,  
and with assistance in average – 4 months

Sector	Without assistance (Months)	With assistance (Months)
Manufacturing	6	4
Trade	5	5
Service	5	4
Tourism	7	6
Construction	5	3
Other	6	5

# How to assist the business?



# Which sectors are important for business support?





## Core Conclusions:

- Almost all private companies reported a strong impact; on average, sales decreased by 25%.
- Decrease apparently driven by a sharp drop in consumer demand (banks stopped or limited the consumer loans)
- The tourism sector suffered most; sales stopped as soon as conflict started and the recovery period is expected to more time than for any other sector;

# Core Conclusions:

- A quarter of respondents had planned to expand before the conflict; only 12% of those managed to implement their original plan, and some only in part;
- Respondents expect that the business recovery period will take approximately 6 to 12 months, but that assistance may halve the recovery period;
- Most of companies believe that the government response is critical for ensuring the business climate recovery.