

COVID-19 EFFECTS ON THE ALCP

CLIENT BUSINESSES

IN THE

DAIRY, MEAT, HONEY, WOOL AND AGRICULTURAL INPUT SECTORS



ALCP | Alliances
Caucasus Programme
REGIONAL MARKET ALLIANCES IN THE SOUTH CAUCASUS



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

With funding from
 Austrian
Development
Cooperation



INTRODUCTION	2
METHODOLOGY	3
KEY FINDINGS	4
BUSINESS OVERVIEW	5
SECTORAL OVERVIEW	8
SECTORAL IMPACT IN DETAIL.....	10
DAIRY SECTOR	10
MEAT SECTOR	12
WOOL SECTOR	13
HONEY SECTOR.....	15
AGRICULTURAL INPUTS SUPPLIER	16
CONCLUSION	18
ANNEX 1: IMPACT OF COVID-19 ON ALCP SUPPORTED BUSINESSES: GUIDELINE FOR QUALITATIVE INTERVIEWS.....	19
ANNEX 2 LIST OF ALCP SURVEYED CLIENTS & SCALE OF OUTREACH.....	21

In Georgia, the COVID-19 outbreak began in March 2020. The State of Emergency with full lockdown, curfew and significant restriction of movement was imposed on March 23rd and lasted for two months. In May the economy was partially reopened, although many internal restrictions have remained. Since March celebrations, ritual events, sports, and cultural events, as well as international tourism, have been limited. These factors have negatively affected the HoReCa (Hotels, Restaurants, Catering) sector, in particular, and what has been starkly obvious in the meat and dairy sectors is how much the meat sector, in particular, is dependent on the HoReCa trade. A further burden on businesses comes from the initial delays and now increased cost of imported materials such as raw materials or machinery parts others face more limited export opportunities due to varying border restrictions, suppressed demand and decreased prices being offered for processed sheep, honey and wool.

In June, restaurants and hotels were permitted to reopen but many with decreased demand or no demand at all, depending on the nature of their normal clientele. International flights resumed in August but only from five countries, France, Germany, Latvia, Estonia and Lithuania. Entry requirements even for tourists from those five countries although exempt from self-isolation or quarantine, must satisfy stringent testing requirements. Those businesses highly dependent on international tourism, which has been booming in recent years, rather than local trade, are suffering. Currently, Georgia is maintaining the reopening of the economy, but the situation is still unpredictable as it depends on the spread of COVID-19 in the country.

At the time of writing a serious outbreak has occurred in the Ajara region and is spreading across the country, schools remain closed for many pupils and the number of cases is considerably higher than at any time during the lockdown. In tandem with most governments around the world, the Government of Georgia is juggling public safety with minimizing the increasingly deleterious economic effects, using a graded system of restrictions and partial lockdowns. The Georgian lari (Gel) has significantly depreciated against the USD in recent weeks¹. Food is noticeably more expensive. Fruit, vegetables, fish, bread, meat, oil and other food products cost on average 8% more than last year, according to the latest inflation data from the *National Statistics Office of Georgia*. As elsewhere the negative economic ramifications of the outbreak are ongoing, mitigation and coping strategies continue and the time frame and ultimate impact are as yet unknown.

On this note, this study has focused on capturing the effects of COVID-19 on ALCP client businesses in the dairy, meat, honey, wool and agricultural input sectors from March 18th to September 18th, 2020. The programme submitted monthly reports on farmers, businesses and wider sectoral effects to the donor for four months from the beginning of lockdown. This report is an amalgam of the findings of those reports as well as the results of a questionnaire, which amongst other things asked businesses to compare their business health now and pre pandemic. The main research questions focused on; the effects of the COVID-19 restrictions on all aspects of business, to ascertain how businesses are coping and what additional support businesses now need in light of the ongoing crisis. The findings of this report will be used to adjust the course of ongoing interventions, develop risk mitigation strategies and provide input to the donor on development strategies for the near future.

¹ At 3.32, while before COVID 19 it was 2.90.

The ALCP team conducted semi-structured in-depth interviews with thirty-five businesses² via phone and in person (please, see the questionnaire in Annex 1) for two weeks at the beginning of September. Thirty three of these were ALCP clients in the dairy, honey meat and wool sectors, two additional slaughterhouses in Samstkhe Javakheti were also interviewed to add additional regional information³. In addition to in-depth interviews, the programme team had conversations with livestock markets, meat shops, supermarket chains, the National Food Agency, and honey and dairy associations⁴. The ALCP also used the routinely collected monthly client data pertaining to main business indicators, such as sales, costs, investments, loans and savings.

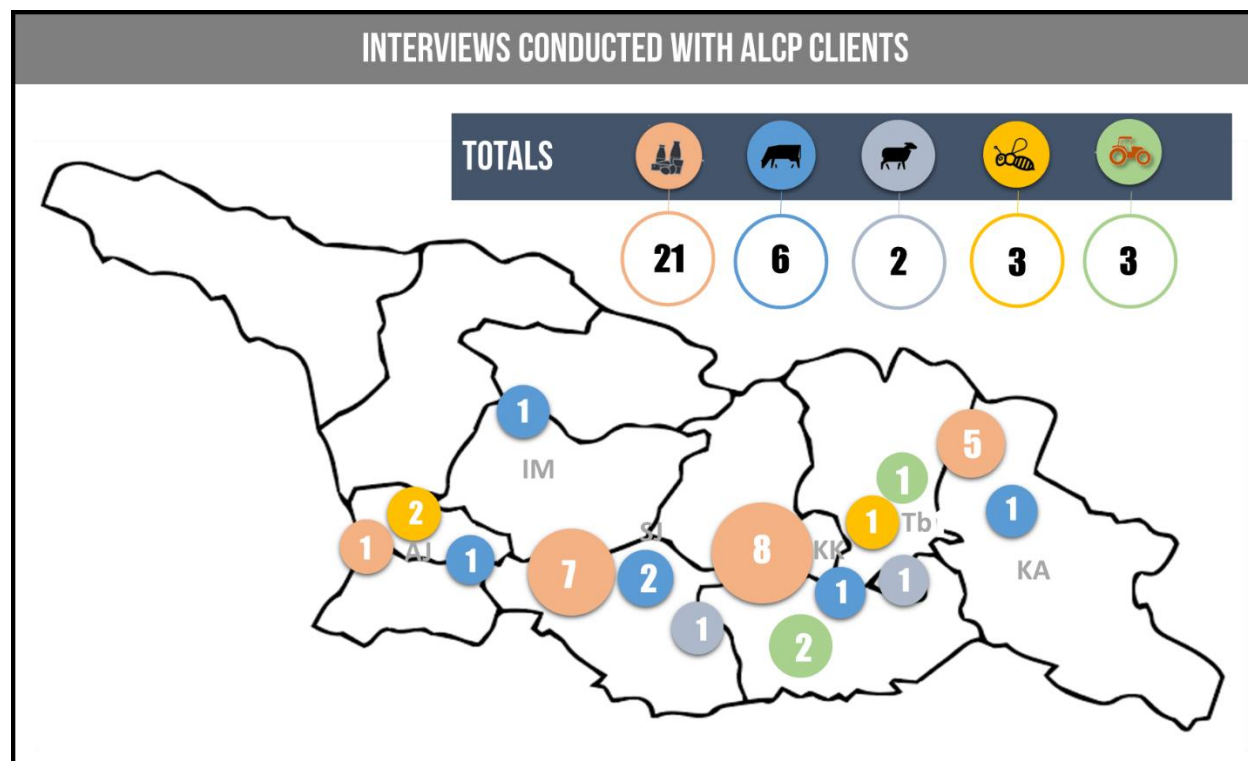


Figure 1 Location of interviewed ALCP clients across Georgia

² Dairies – five in Kakheti, one in Ajara, eight in Kvemo Kartli (KK), seven in Samtskhe-Javakheti (SJ); One slaughterhouse in Kakheti, two in western Georgia, one in KK and two in SJ; two wool companies, in SJ and KK; two honey collecting aggregating entities in western Georgia, and, and three input suppliers, one in TBS and two in KK and the Georgian Beekeepers Union.

³ Kusha Ltd cattle, Irka Ltd.

⁴ Two livestock markets, twenty meat shops, three supermarket chains, one honey, and two dairy associations,

Business Health: Overall, COVID-19 has had deleterious effects on business health (see Figure 2), dairy and agricultural input sectors seem to have been more resilient in being able to adapt production or continue to utilize national markets. The meat and honey sectors dependent on the HoReCa sector (meat and honey) and export (meat, wool, honey) are still considerably affected.

Financial Resilience: The majority of the businesses had savings before the COVID-19 outbreak but they have spent most of these to cope with the effects of the lockdown and ongoing impacts. Hence, they will be more vulnerable if a second wave or any other crisis hits again in the near future.

Effect on Employment: Most of the businesses have managed to retain their employees, only six jobs have been lost. However, working hours have been reduced with twenty-six employees in different sectors temporarily switched to part-time employment.

Opportunity: Some of the ALCP companies agree that despite the negative effects, the pandemic has created some new opportunities, or forced companies to find them. These include looking for and developing new opportunities in the development of online sales, product diversification, exploration of new markets and enhancing current capacities/production.

Outlook: It is noteworthy that despite the apparent challenges caused by COVID-19, all ALCP clients reported that they remain confident, motivated and are planning their future continuity, they want to increase production, improve the quality of their products, and enter new markets. However, the current COVID-19 situation and its surrounding uncertainty is hindering these plans.

Effect on Sectoral Governance: Whilst the NFA has been focused on assisting the government in controlling the COVID-19 outbreak, the government's control over Food Safety and Hygiene standards has slackened: slaughterhouses are complaining about reduced government control over backyard slaughtering and dairies are complaining about reduced control over non-compliant cheese production. A slackening of control always negatively impacts those who operate according to food safety and hygiene standards, fostering unfair competition.

Required Assistance: Some dairies stated that they wish for additional BDS help with marketing campaigns, entering new markets and building relationships with supermarkets. The most pressing assistance required however is financial.

The majority of the interviewed companies stated that they mostly need assistance in the form of low-interest rate loans to expand their production and that they wished that banks would improve their service and offer. The majority of ALCP clients have bank loans already, but they need additional financing to continue to expand. However, banks require higher loan collateral and co-financing for additional loans, and some businesses are not able at this point to fulfill these requirements. The income streams of many agriculturally based companies is seasonal, which is considered a negative factor by banks. Now, due to the crisis, many companies have decreased income streams, a further barrier to being granted a loan or to being granted smaller amounts than those requested. Some businesses are also waiting for the stabilization of the Georgian Lari to take a business loan. Companies mentioned that they would appreciate delays to the repayment schedules of existing loans of up to a year and grace periods for new loans and some suggested that the government subsidize interest rates this year. The government did subsidize a blanket six month repayment delay on all repayments in Georgia, but this ended in September and companies need an

extension. The majority of the clients also find that interest rates on business loans (compared to mortgages) are high. They also noted that all these constraints are always an issue however, since COVID-19; the businesses have been feeling these constraints more severely.

Resilience: ALCP client businesses have shown considerable resilience in the face of the COVID-19 crisis to date. They have built up and therefore been able to use savings to weather the first and most severe financial impacts. They have had the technical equipment, know-how, outlets and networks to modify production to suit and supply different markets when their customary markets closed e.g: producing Imeruli and Sulguni cheese for the local market rather than high-value niche cheese or the HoReCa sector, selling washed wool to the local market in lieu of export and maintaining a low but steady local cattle and pig slaughtering service for local consumption rather than processed sheep export.

Employment has been modified with the use of reduced hours rather than large-scale outright job losses. They have had enough human, technical and financial resources to adapt and even develop new opportunities. However, as in all crises, it has had and is taking its toll. Resources have been depleted and many businesses will continue to operate in straitened circumstances until markets rebound. In real terms the assistance business now most need is access to low-interest loans with preferential repayment terms and business support services as they develop their businesses.

BUSINESS OVERVIEW

SELF-PERCEPTION OF BUSINESS HEALTH

Overall, the study showed that COVID-19 has had negative effects on ALCP facilitated businesses across all sectors, with a clear drop in businesses' self-evaluation of their health in every sector. All the clients consider their businesses less healthy than a year ago. The biggest impact is in the meat sector, which has been the most severely impacted by the decreased demand from the HoReCa sector and the cessation of the processed sheep trade to Iran. The smallest is in wool, which has been able to diversify this year into the sale of washed wool to the domestic market⁵. See Figure 2 below.

NET INCOME CHANGE

The difference in net income per sector for ALCP clients was compared for identical periods from March to September in 2019 and 2020. The figures clearly show the effect of the lockdown and ongoing effects of the global pandemic. The only exception being the wool sector which although affected by lockdown, extra costs and restricted export has accessed a new market utilizing newly installed equipment for washed wool which came on line after lock down and also reflects the rising costs (due to increased transportation costs of imports) of the synthetic material formerly used in local mattress production. See Figure 3.

EXTRA COSTS

The client businesses have taken the required measures to avoid the spread of the virus in their workplaces. This has had a cost implication. They are following COVID health and safety regulations: on average, each

⁵ The ALCP invested in wool washing facilities for the export market with the Georgian Wool Company. The facilities were ready in 2020, the unexpected local demand for washed wool since lockdown was lifted, has been a boon whilst global wool prices for washed and greasy wool have dropped and export ceased. Increased transport costs have meant synthetic materials for domestic mattress making have become expensive and the GWC's improved quality washed wool (no smell due to process) is a preferred alternative. There is also less waste for the company as mattress makers are buying the lower quality former waste wool. If prices improve the company will continue to export as it provides a large influx of cash per consignment. Last year he received \$2500 profit /consignment this is currently standing at \$700.

business has spent 1,600 USD for the provision of facemasks, gloves, sanitizers, and transport for staff members⁶.

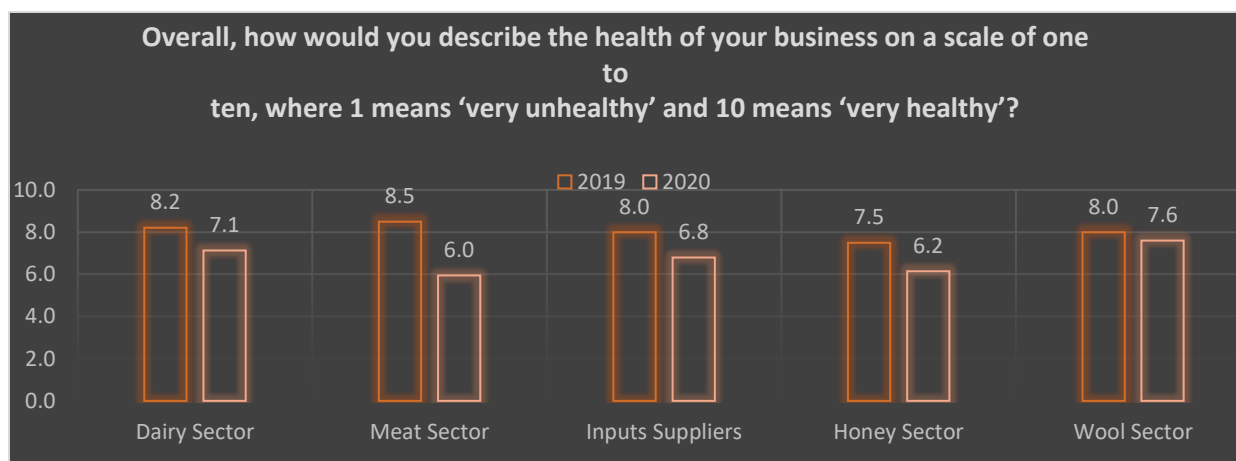


Figure 2 Clients' self-evaluation of the health of their businesses

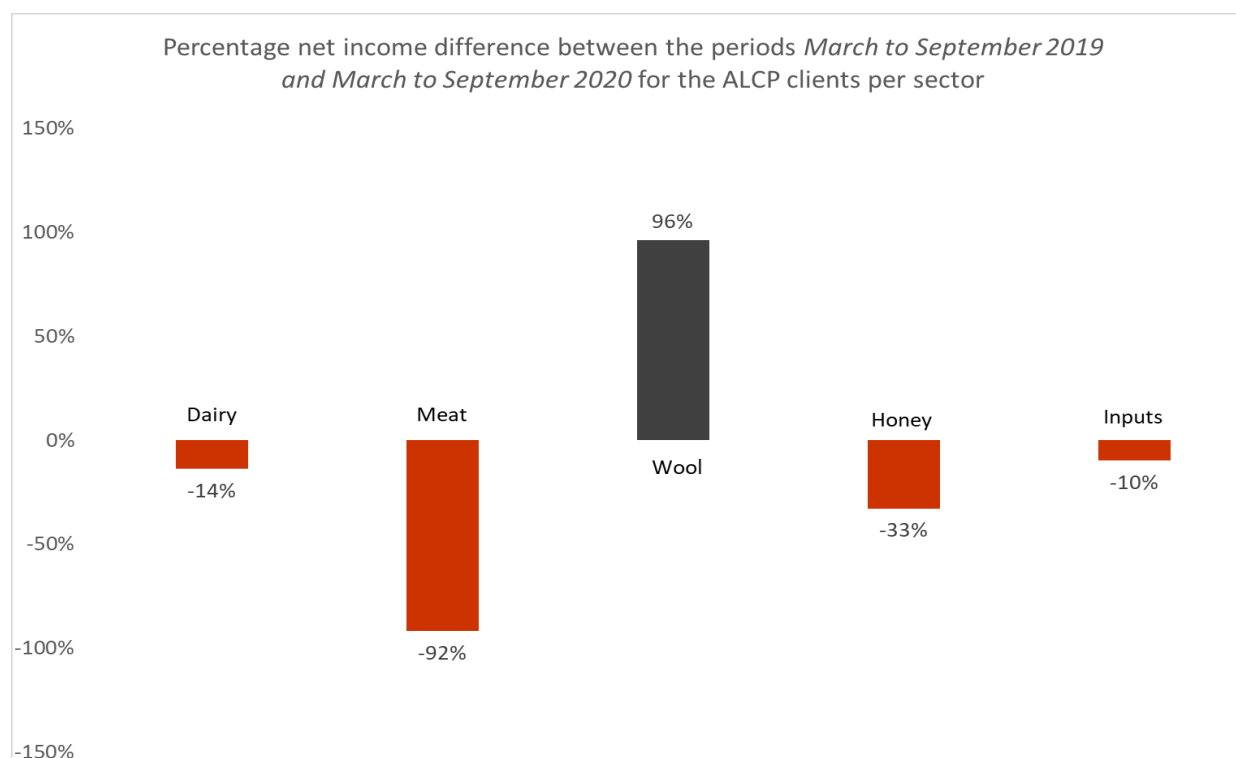


Figure 3 Percentage Difference in Net Income between two periods in 2019 and 2020

EFFECT ON EMPLOYMENT

Despite the challenges, most of the businesses have managed to retain their employees. Overall, during COVID-19, six new jobs have been created related to cheese making and sales consultancy (5 women, 1

⁶ When public transport has been cancelled or is considered too dangerous.

man). Six jobs have been lost in dairies (5 women, 1 man). The reduced income stream has seen some entities reducing working days. As a result, 25 employees switched from full time to part-time work.

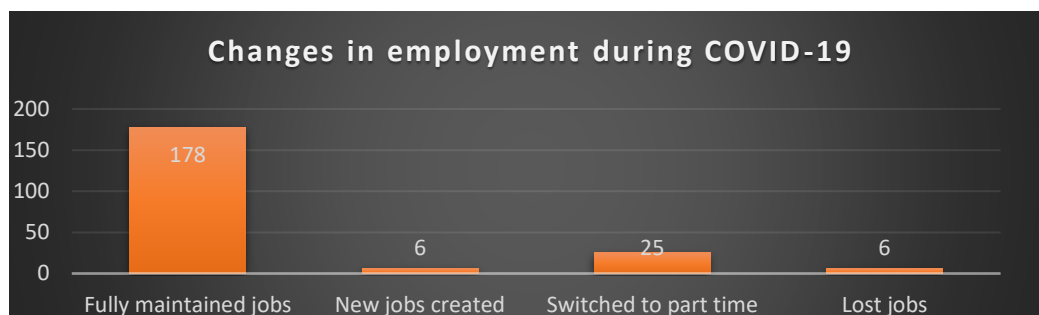


Figure 4 Changes in employment during COVID-19

EFFECT ON EXPORT

Due to the general decrease of prices in the international market most notably wool and honey and restrictions on borders, some clients have been unable to export their products or have experienced restrictions to some markets. Those unable to export are in ongoing negotiations with international partners, trying to find open markets.

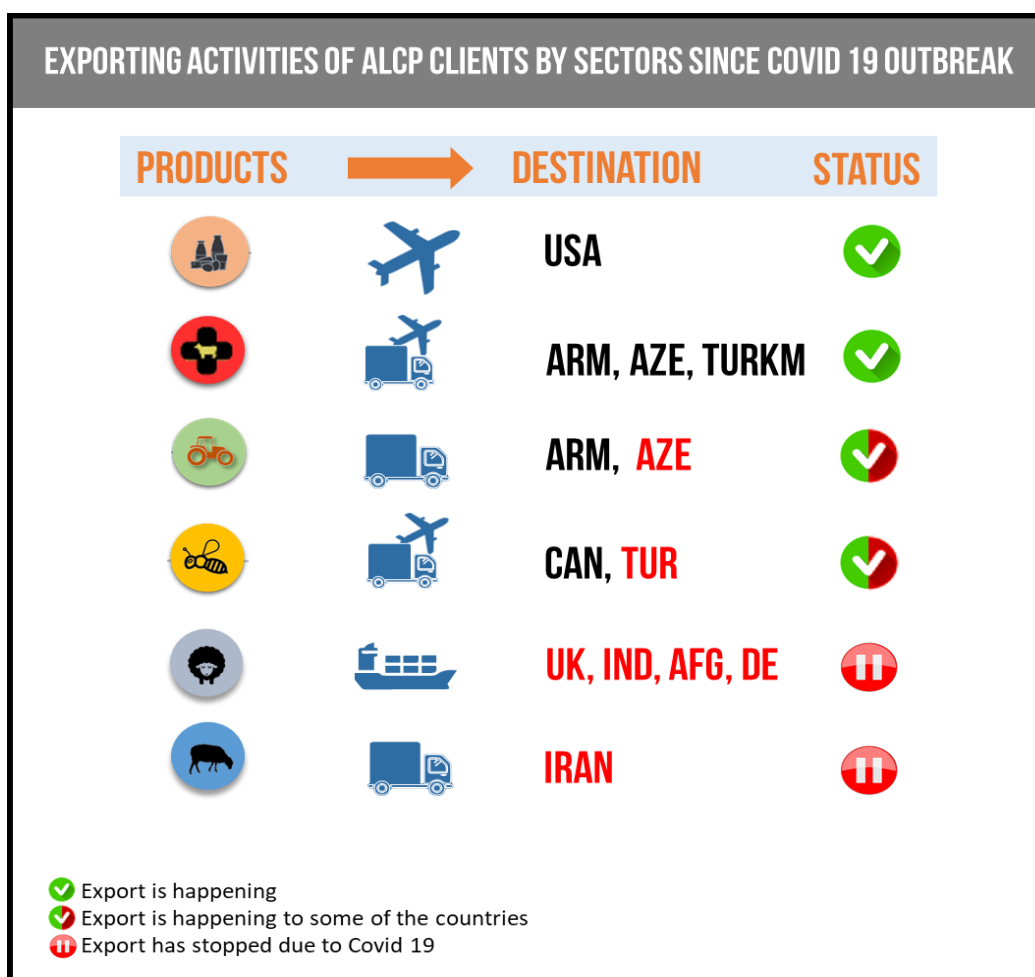


Figure 5 Export countries during the COVID-19

DAIRY

From the beginning of COVID-19, the high demand for dairy products has continued. Out of twenty-one dairy factories only one dairy has stopped operation and four have decreased their production. Demand from the HoReCa sector has decreased, especially during the lockdown. However, those dairies supplying to the sector have focused on supplying supermarkets and small shops instead. Dairies also experienced increased demand for cheese from supermarkets due to the closure of agri markets during the lockdown, and some agri-market cheese consumers are now continuing to buy cheese in supermarkets despite the reopening of agri markets in June. Those dairy factories, who export cheese to the USA, are still exporting products without any limitations. The majority of the interviewed dairies want to continue their plans to increase production, to improve the quality of their products and enter new markets. They say they will remain resilient to a possible repeat of the crisis but their ability to grow is being impacted. To continue their business development trajectory money is required; for maintaining and upgrading their factories, expanding and diversifying production, purchasing equipment and distribution vehicles, expanding storage and chilling capacity. Most factories have spent their savings and already have business loans and now need low-interest financing, with favorable conditions. Some dairies are planning to ask for help from the *Business Institute of Georgia* with marketing campaigns, entering new markets and building trust and relationships with supermarkets.

MEAT

COVID-19 has negatively affected the income and financial condition of slaughterhouses. The emergency highlighted the dependence of the meat sector on the HoReCa sector. Demand for meat and slaughtering services decreased by 30-50% in the domestic market during the lockdown in March and April. In June, the situation began to normalize. However, since August a serious outbreak has occurred in Ajara and cases are rising across Georgia and the government has re-imposed some restrictions related to the HoReCa sector, custom has been reduced and so the demand for meat and slaughtering services has decreased again. Slaughterhouses who exported or were just about to start exporting processed sheep have stopped sheep slaughtering services as the export market with Iran has remained closed. As a result, the slaughterhouses have reduced their workforce or temporarily laid-off employees who will go back to work as volumes rise. The owners of sheep slaughterhouses hope that borders and restrictions will be relaxed and the export of processed sheep will restart soon. Discussions are underway with Iranian buyers but regional unrest and rising cases in Iran and Georgia may hamper commencement. As with dairies, savings have been spent and the domestic market remains restricted so income streams have been reduced. Those servicing the domestic market wish to invest in processing and shops to diversify, add value and control direct sales. Favourable low interest loans and an extension of the grace period on the repayment of existing loans are the stated needs.

WOOL SECTOR

Two programme facilitated wool collecting and processing entities closed temporarily at the beginning of the COVID-19 outbreak, local processor and mattress producer *Wool House* for a month and the export and washed wool *Georgian Wool Company* for three months. Local demand has remained steady or grown, the main challenge is related to export. There is demand for washed and greasy wool in the UK, India,

Afghanistan, and Germany, but the price has decreased by 20-25% due to COVID-19⁷. In a positive sign, recent sales of greasy wool have been made to a local buyer for export to India for the Chinese market. The company is also selling washed wool on the domestic market where an unexpected demand has been a useful source of continued cash flow during the crisis. In fact, the income from washed wool at current prices has resulted in increased income over the identical time period in 2019. However, the share of the newly started internal washed wool sale and recent export of wool is two times lower than the average annual amount sold in the export market. The company is at present hampered only by processing capacity, the market is also so new that its stability is unknown and the *Georgian Wool Company* is continuing regular negotiations with international buyers to increase the price being offered. Both wool entities used their savings and revenue to purchase wool, pay salaries, and cover bank loans.

HONEY SECTOR

In the export market the pandemic seems to have negatively affected demand and reduced international prices of honey and all beekeepers have a more limited domestic market due to the closures in the HoReCa sector, and more limited sales to the tourism sector. The wholesale price of honey in Georgia has decreased by 30% due to the cessation of informal cross border trade with Azerbaijan and Turkey, a decrease in local demand due to the decrease not only to tourism, but because fewer local people on restricted finances due to COVID are buying honey as it is not considered a priority food item. Supermarket prices have remained stable. Before COVID-19, the two⁸ ALCP facilitated honey companies had just started exporting honey or negotiation was underway to export. COVID-19 limitations have constrained the process. The programme supported entity *KTW* is still managing to export honey but in smaller amounts. The export of honey to Turkey (smuggled in by Turkish intermediaries) has shrunk significantly over the last four years. However, it has now completely ceased due to the COVID-19 outbreak and some beekeepers who have 500 kg and more are struggling to find new markets. Small beekeepers are still managing to sell honey within their communities and local outlets and some producers and aggregators have been improving the marketing of their honey products to reach more domestic honey consumers within the country since COVID 19. Prices have remained stable. Jara beekeepers have also been affected, Jara honey aggregation is due in October and the *KTW* has recently decided to aggregate only one ton of Jara honey from twenty-three bio-certified beekeepers from the three tonnes now available. The Jara Beekeepers Association will seek to develop other sales avenues and the company will explore domestic markets. The majority of honey aggregators, including the programme clients, need help from the government or BDS with national and international marketing campaigns to enter new markets.

INPUT SUPPLIERS SECTOR

Agricultural input suppliers have faced fewer challenges compared to other sectors barring the increased prices of imported raw materials. The machinery input supplier *Mar-Mot* continued to export to Armenia⁹ but could not continue to export products to Azerbaijan where sales had just started. Nutrition input supplier *Agro trade* has continued to work without any significant difficulties within Georgia, however export to

⁷ Covid-19 is negatively effecting global demand for all textiles, buyers have reduced orders. The global wool price has decreased by approximately 34% since the beginning of 2020 due to COVID-19 restrictions in those countries where the main demand for wool exists (India, Italy). This is the lowest price for unwashed wool since 2015. The Australian Financial Review online August 2020.

⁸ *KTW* & *ApiGeo*

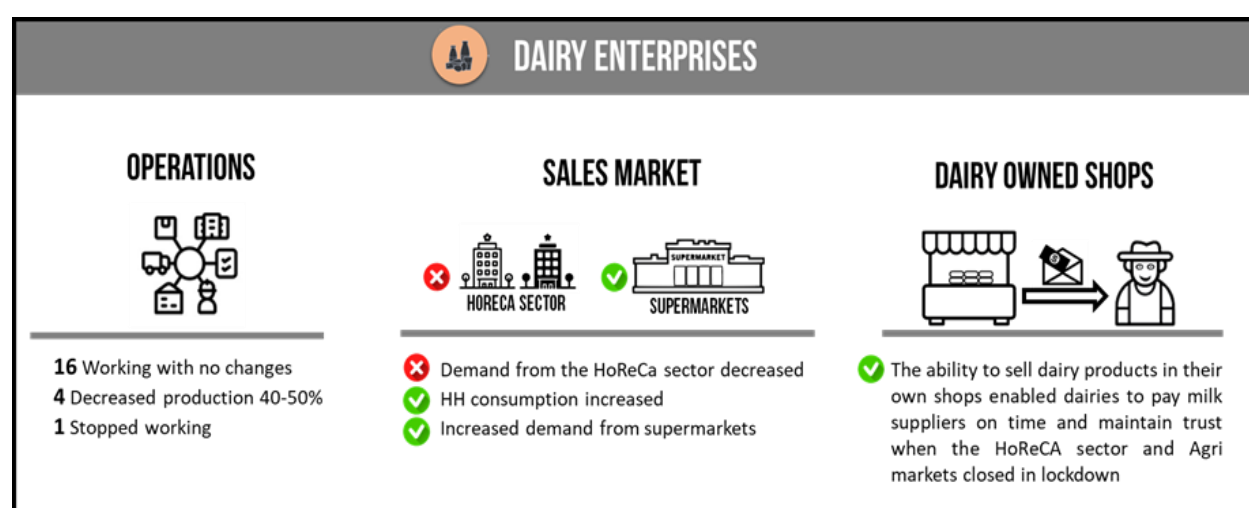
⁹ Currently ceased due to the conflict with Azerbaijan.

Armenia has ceased. A 10% increase in the price of imported grain was reflected in the 10% increased price for combined-feed. The veterinary inputs supplier *Roki* has continued to export products to Armenia, Azerbaijan, and Turkmenistan without any difficulties. The company has even started the production of different hand sanitizers as a response to increased demand within Georgia since the virus outbreak. Transportation costs on imported raw materials increased three times due to limited flights during the lockdown period. The flights are now being gradually reinstated, consequently, the transportation cost is decreasing again.

SECTORAL IMPACT IN DETAIL

This section includes more in depth data pertaining to specific clients as well as to their farmer suppliers or customers. It includes a description of client coping strategies and future needs per sector.

DAIRY SECTOR



GENERAL PROBLEMS

Out of twenty-one programme facilitated dairies, one stopped operation¹⁰. Four dairies are working with decreased production of about 40-50%¹¹. The other sixteen dairies are operating as normal with increased demand from HH's and supermarkets helping bridge deficits from the HoReCa sector. The hardest hit were those producing specialty cheeses to the HoReCa sector. Instead, these dairy factories have focused on supplying supermarkets and small shops. Delays in payment to dairies from supermarkets are always an issue in the dairy sector. Since COVID-19, it has been happening even more often, which has impacted the cash-flow of the businesses. Despite these challenges, dairies have not decreased the frequency of payments to farmers, and the price for raw milk has not changed for farmers, even during the lockdown.

FARMER SUPPLIERS

Milk supplier farmers have been relatively unaffected. Dairy producers also supply into the meat value chain but they can retain their cattle until the market improves without too much negative impact. At the beginning of the outbreak, some milk suppliers lost their market temporarily. However, they found alternate means of income, supplied to other enterprises and individuals, or made cheese at home and sold locally.

¹⁰ Since March *Tanadgoma Cooperative* has stopped working due to a case of COVID-19 at the beginning of COVID-19, and the enterprise cannot still reopen as there is now a case of disagreement between partners.

¹¹ Kvelis Kochi; Shuamta, Tsivis Kveli and Odlii Ltd.

Some milk suppliers are now going to buy either milking cows or female calves in autumn to have more milk and increase their stable income from regular milk sales. The milk price is either the same as last year or has increased. The frequency of payments has not changed for farmers. The majority of the farmers reported that after the COVID -19 outbreak, some people have lost most of their other sources of income, including temporary employment e.g. construction and tourism or in Turkey as labourers. Livestock husbandry has been their most stable livelihood option throughout the crisis. Some rural people who had internally migrated to cities prior to the pandemic, have returned to their villages, and started growing potatoes, crops, and raising cattle.

COPING STRATEGIES

The majority of the dairies had savings, which are now significantly decreased. They used their savings to cope with the effects of COVID-19 mainly during lockdown to cover staff salaries, milk collection, maintenance costs, bank loans and renovating enterprises. Some however also continued to expand their businesses¹². Some dairies have kept cheese in freezers to sell it in late autumn-winter when the demand for and price of cheese are higher after which they hope to be able to replenish their savings. The dairies, which were dependent on the HoReCa sector, have changed to the production of mainstream cheese such as Imeruli and found alternative sale outlets. Some dairies have also employed innovative sales solutions such as online ordering and delivery. Increased export orders (due to growing demand in the US) received during the COVID-19 outbreak compensated for the 30% drop in the revenue of two dairy enterprises¹³ due to the closure of the HoReCa sector. Also, three dairies¹⁴ with shops found that their ability to sell products directly in their shops helped avoid financial instability when sales to the HoReCa sector were halted due to COVID-19. In addition, when supermarkets delayed payments more than usual, stable access from 700 to 2,000 Gel cash /day from sales in their shops enabled them to pay to their milk suppliers on time and maintain their suppliers' loyalty and trust.

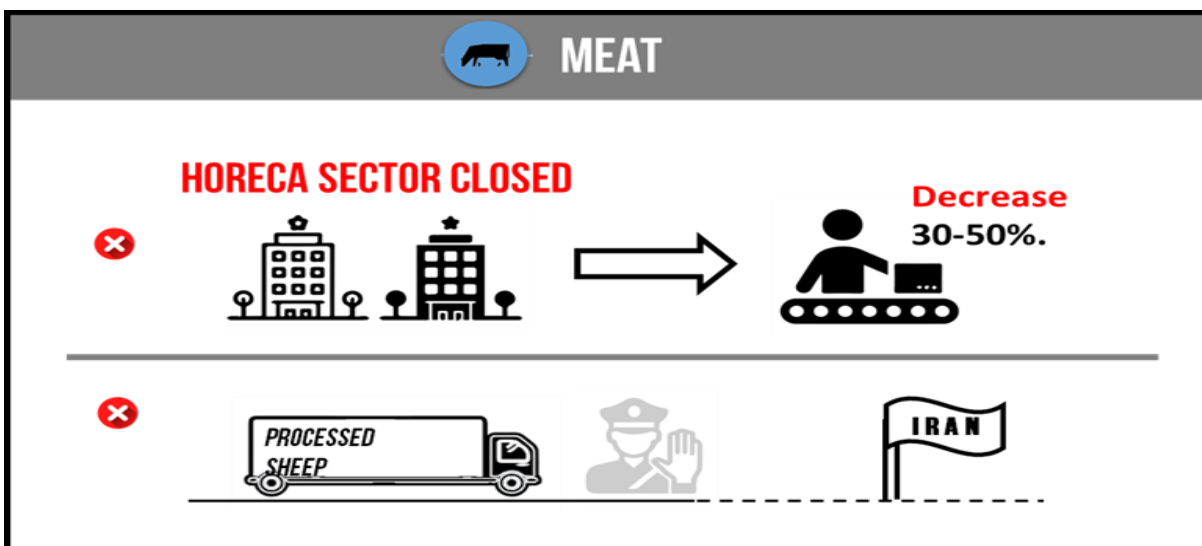
FUTURE PLANS/NEEDS

We asked the respondents what the plans are for their business in light of COVID and any need for assistance. All of them are still planning to increase production, improve the quality of their products, and enter new markets. All the dairies say they would remain resilient to a possible repeat of the crisis although it will prevent their further growth. The current need for the dairies is to continue their business development trajectory through maintaining and upgrading of factories to diversify and expand production. This includes the purchase of freezers, new equipment, expanding storage and purchasing additional distribution cars. For these purposes, they need low-interest bank loans. Also all of the dairies reported that the government should work harder to ensure fair competition as all feel that the already imperfect controls of the NFA on unregulated enterprise were further loosened as the NFA focused on assisting the government in controlling the COVID-19 outbreak. The dairies need the NFA to increase control of unregistered and non-reliable dairy producers using powdered milk for making cheese. The dairies are planning to ask for the help of the *Business Institute of Georgia* with marketing campaigns, entering new markets, building trust and relationships with supermarkets. All dairies need recourse to favourable low interest loans and an extension of the grace period for repayments on existing loans.

¹² Tsezari Ltd. invested 8,000 USD in a new cheese distribution car. Alpuri Javakheti Ltd; Tsipora-Samtskhe Ltd; and Khiza Cooperative planned investment before COVID-19 and did not delay the investments of 13,000 USD, 50,000USD, and 20,000USD respective of partial savings and also a grant. They all expanded their cheese storage capacity.

¹³ Tsezari and Natural Produktsia

¹⁴ Milkeni, Tsezari and Tsipora-Samtskhe



GENERAL PROBLEMS

COVID-19 significantly affected the income and financial stability of slaughterhouses. In March all processed sheep export stopped, consequently, sheep slaughtering services stopped as well. Also, the COVID emergency showed the dependence of the meat sector on the HoReCa sector. Low demand for meat and slaughtering services has been caused mainly by the closure of the HoReCa sector and less control over backyard slaughtering, one slaughterhouse also has a contract to supply forty six kindergartens which have been closed since the beginning of the crisis. Cattle and pig slaughterhouses decreased services by 30-50% during the lockdown in March and April. In June, the situation started to return to normal. However, since August, and the end of the tourist season, a serious outbreak has occurred in Ajara and the government has imposed some restrictions related to the HoReCa sector and demand for meat and slaughtering services has decreased again. As a result of COVID-19, the slaughterhouses have reduced their workforce or temporarily laid-off employees who will go back to work as volumes rise. Despite financial difficulties, business relationships with clients and partners have remained good.

FARMERS

The most affected by COVID 19 are those raising cows solely for beef, and sheep farmers. Some medium and large scale sheep farmers and those who are raising cows for beef have managed to export a small number of live sheep and cattle to Azerbaijan and Gulf countries. The domestic consumption of sheep meat is traditionally low in Georgia and therefore sheep farmers do not have recourse to a domestic market. Many farmers have refused to sell sheep for less to exporters of live animals and are waiting for processed sheep export to restart. Sheep farmers are fairly confident at this moment because most of them have benefited from the Government's COVID subsidy of a six month delay to bank credit repayment. In addition, better rainfall this year in Georgia has meant better pasture. Although, the price for pastures has increased by 15% due to increased demand. Demand for cattle has decreased on average by 30-50% in the domestic market according to some interviewed farmers. The decreased demand has resulted in a 25% decrease in the price paid to farmers selling live cattle (on average it was 8 Gel/kg before and is now 6 Gel/kg). Many farmers have refused to sell cattle for these prices to intermediaries buying live animals and are waiting for the full reopening of the HoReCa sector and a subsequent rise in demand and price.

COPING STRATEGIES

ALCP client cattle and pig slaughterhouses did not have any savings as they had all invested in the renovation of their slaughterhouses prior to the beginning of the outbreak on the back of a growing market for compliant meat. One slaughterhouse sold assets and took a private loan to maintain his slaughterhouse operations during the lockdown. Cattle and pig slaughterhouses are continuing to slaughter for the reduced Georgian market, and so they have decreased income but are managing to survive. Two¹⁵ are now trying to invest in meat processing facilities to diversify production. They also plan to open shops, to have their own selling points and reduce dependency on other sales outlets.

FUTURE PLANS/NEEDS

The main need for the slaughterhouses is access to finance, two are now looking for a low-interest bank loan to invest in meat processing facilities and opening shops to ensure access to and control of direct sales. The owners of sheep slaughterhouses hope that borders and restrictions will be softened and the export of processed sheep start soon.

WOOL SECTOR



GENERAL PROBLEMS

Two programme facilitated wool collecting and processing entities were closed temporarily at the beginning of the COVID-19 outbreak, *Wool House* a local processor of washed wool and producer of wool products for a month and the *Georgian Wool Company* (wool exporter) for three months. Since the COVID-19 pandemic, the price for greasy wool in the international market has dropped by 20-25% and the *Georgian Wool Company* has as yet no clear buyer for washed wool internationally. Indian and UK borders are open but prices are too low and the Afghan border (a potential new market) is closed. In a positive sign, recent sales of 44 tonnes of greasy wool have been made to a local buyer for export to India for the Chinese market. The company is also selling wool locally, which is rather surprisingly selling well in what appears to be quite a robust market. However, the share of the internal wool sales and recent export of wool is two times lower than average annual sales in the export market and the company continues regular negotiations with international buyers to increase the price being offered. After re-opening, *Wool House* has exceeded pre-COVID production by 20% also impacted by an uptick in local mattresses being made using locally processed wool rather than synthetic and now more expensive materials. Both entities are collecting wool

¹⁵ Kutaturi Ltd. and Ori Gio Ltd.

from farmers. Both wool collecting entities have positive expectations for the future. Both wool entities used their savings and revenue to purchase wool, pay salaries, and cover bank loans.

FARMER SUPPLIERS

Wool collection has so far continued as normal. Wool supplier farmers have not been affected thus far. The wool price is either the same as last year or has increased. The frequency of payments has not changed for farmers.

COPING STRATEGIES

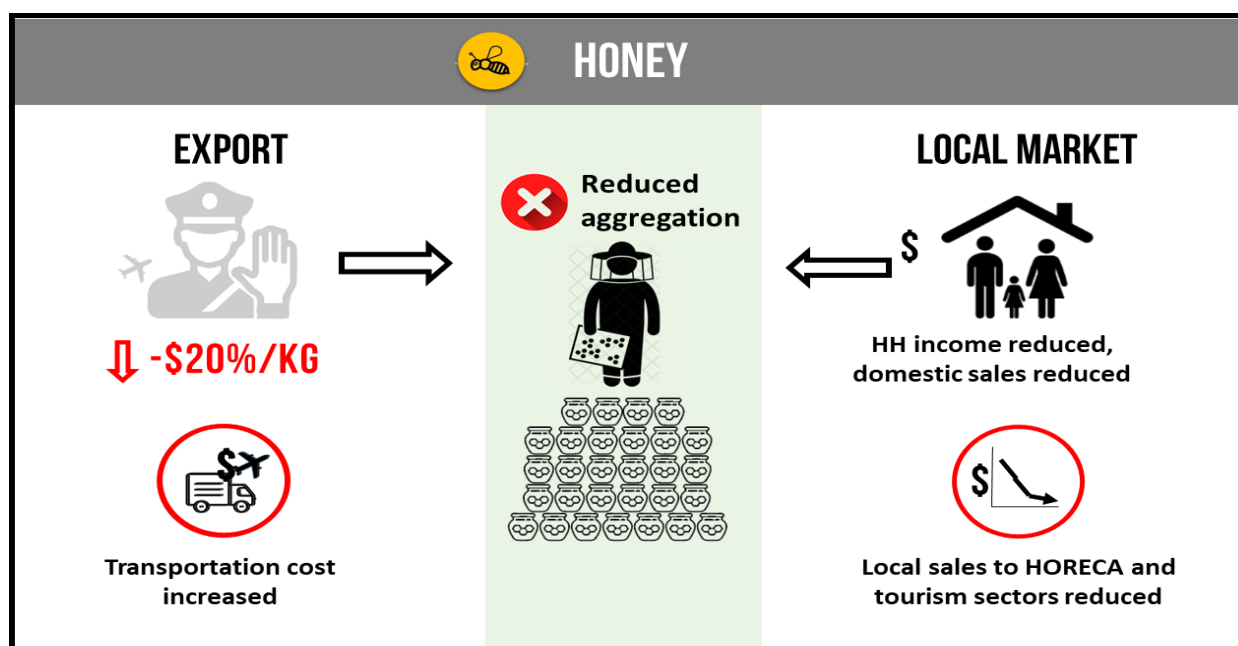
The *Georgian Wool Company* has had enough working capital and storage space to buy and keep wool this year. Therefore wool collection has continued. However if he cannot sell it this year then collection will be significantly reduced or cease next year. Regular negotiations with international buyers are ongoing, to increase the price being offered. Buyers from Afghanistan, wanting to import washed and greasy wool at a favourable price are checking daily with their government for news on when they open their border. The *Georgian Wool Company* has managed to recoup losses sustained through the lockdown and now has an increased cash flow through the ongoing sale of washed wool on the domestic market selling for 3 Gel/kg. The company has sold 50 tonnes of washed wool since February, which has enabled them to continue wool collection and operations.

Another wool collecting entity, *Wool House* invested 30,000 USD in purchasing a new building to expand its production. 15,000 USD was savings and another 15,000 USD was a bank loan. The company spent savings worth 400 USD to cover salaries when the company stopped operation. After re-opening, *Wool House* has exceeded the pre-COVID production by 20% with an increase in local demand from small mattress and quilt producers¹⁶.

FUTURE PLANS/NEEDS

Both wool collecting entities have hope for the future. The *Georgian Wool Company* is looking forward to restarting wool export but is also very pleased with the new washed wool market. *Wool House* is now looking for funds to renovate a new building and purchase equipment to increase their production capacity for further business growth and sustainability. As in other sectors low interest loans with favourable lending terms would be the main boost to business as well as an extension on repayment grace periods for existing loans.

¹⁶ In addition to increases in the cost of synthetic materials, consumers also have fewer opportunities to shop and more time at home and people are buying more produce locally due to the pandemic.



GENERAL PROBLEMS

Before COVID-19, the ALCP facilitated honey companies *KTW* (Kakhetian Traditional Winery and ApiGeo) had just started exporting honey or were in the negotiation process. Honey export requires continuous marketing. Importers prefer to taste honey and take samples, which usually happens at international exhibitions and festivals. The programme entity *KTW* is managing to export honey but in smaller amounts. In March and April, they exported 1.2 tonnes of four types of honey to Canada and they are now preparing a new order for the end of October. The planned aggregation was twenty tonnes of honey in 2020 and they have only aggregated four tonnes due to limited export orders thus far. Jara beekeepers have also been affected, Jara honey aggregation is due in October and the *KTW* has recently decided to aggregate only one tonne of Jara honey from twenty-three bio-certified beekeepers from the three tonnes now available¹⁷, buying more in line with further demand. Sales of Jara honey have decreased through *KTW* shops aimed at the international tourism market. Negotiation is underway however to export Jara honey to Canada and the USA in October and the company is also planning to get Jara honey into supermarkets in Tbilisi for the Christmas market.

The export of honey to Turkey has shrunk significantly over the last four years. Only some larger beekeepers were still exporting honey to Turkey before COVID-19. It is now completely shut due to the COVID-19 outbreak. The absence of an export market and limited international and local tourism means that unsold honey will accumulate. However, a positive effect is that some honey producers and aggregators have been redesigning their labels and improving the promotion of their honey products to reach more honey consumers within the domestic market since COVID 19. COVID-19 has delayed the opening of the programme facilitated honey company *ApiGeo Ltd*, which was just about to start operations. After the outbreak, the company could not buy and import sandwich panels and equipment from Turkey.

¹⁷ A 340% increase on the first commercial aggregation in 2018

FARMERS

Beekeepers have a more limited domestic market due to the closure of the HoReCa sector and limited international tourism. In the domestic market, the honey wholesale price for beekeepers who produce more than 500kg has reduced by 30% due to decreased demand as households are hit by reduced incomes. Honey is considered more of a luxury product and is therefore one of the first to be sacrificed when money for food is reduced. However, smaller beekeepers are selling honey locally at the same price as before COVID-19. Larger beekeepers are trying to find new markets and increase demand for honey within the country through marketing campaigns. Small beekeepers are still managing to sell honey within their communities and in small shops.




COPING STRATEGIES

The programme entity *KTW* is continuing honey export to Canada and now the US in smaller amounts. It continues ongoing negotiation with the Gulf countries to start exporting honey. Some interested parties are also contacting the company through www.jarahoney.com and www.honeyofgeorgia.com. The *KTW* is therefore continuing to aggregate honey but in smaller amounts whilst waiting for further export opportunities and further exploring the domestic market.

FUTURE PLANS/NEEDS

Some honey aggregators, including the programme clients, would benefit from assistance from government bodies with national and international representation of Georgian Honey and marketing campaigns to enter new markets.

AGRICULTURAL INPUTS SUPPLIER

INPUT SUPPLIERS		
MACHINERY 	VETERINARY 	ANIMAL NUTRITION 
<ul style="list-style-type: none">✓ Sales and distribution as before COVID-19.✗ Slightly higher prices✗ Transportation cost increased by 20%	<ul style="list-style-type: none">✓ Continued to export, increased product price by 10-15%✗ Transportation cost on imported raw materials increased by 3 fold	<ul style="list-style-type: none">✓ Demand stable✗ Transportation cost increased 10%✗ Product price increased 10%

GENERAL PROBLEMS

The main problem for agricultural input suppliers have been increased transportation costs and subsequent increased prices of imported raw materials.

Machinery equipment and spare parts importer, distributor and exporter, *Mar-Mot* has a decreased profit margin. Transportation/distribution costs to Armenia have increased by 20%, but the company has not increased the price for its partners¹⁸. Cooperation with clients in Azerbaijan stopped in March, but as the sales in Azerbaijan were low, it has not significantly affected the business. Overall, the company has had slightly higher costs, but sales and distribution are continuing as they were before COVID-19.

¹⁸ This trade has now ceased due to the conflict in Nagorno Karabakh, the partner say they will resume purchasing when the conflict has ended.

Animal nutrition production and supply company *Agro Trading* has increased the price of combined feed by 10% as the price of imported grain has risen by 10%. However, demand for combined feed has not decreased during the outbreak and the client does not have financial problems: sales and distribution are continuing within the country as before COVID-19. As for exporting to Armenia, negotiations with partners in Armenia to supply combined feed were ongoing until the outbreak.

The veterinary inputs supplier *Roki* has continued to export products to Armenia, Azerbaijan, and Turkmenistan without any difficulties. For the company, the only issue related to COVID-19 is that transportation costs on imported raw materials increased three times due to limited flights during the lockdown period. The flights are now slowly reopening and consequently the transportation cost is decreasing again. The company has managed to keep the increase in the price of veterinary inputs to 10-15%. Overall, the company has increased cash-flow, but less profit. They have maintained the loyalty and trust of their partners within Georgia and in Azerbaijan, Armenia, and Turkmenistan.

FARMERS

Almost all milk producers state that the price of agricultural inputs has increased by 15-20%. However, they say that regular sales of milk and the good price paid for milk is helping them cover the increased price of agricultural inputs and they are continuing to buy them as normal. The majority of the dairies, trying to show their support to their milk suppliers, helped them by transporting veterinary medicines, fertilizers, and other agricultural inputs during the state of emergency traffic ban.

COPING STRATEGIES

Before COVID-19, *Mar-Mot* had savings and in February the company took a bank loan of 140,000 Euro to expand/renovate its main warehouse and to order fifty tractors from China. The company has since continued the renovation process, imported the tractors and exported products to Armenia¹⁹. *Agro Trading* has the same amount of sales as before COVID-19. Simultaneously, the company is working on business diversification and business expansion. In October, *Agro Trading* plans to take a bank loan to construct a new building. Currently, the company is selling five types of products, after expansion, the company plans to have fifteen types of products. *Roki* has been producing five types of hand sanitizers since the COVID-19 outbreak as a response to increased demand. Supplies have sold out to banks, the Ministry of Education, schools, the House of Justice, National Food Agency, seven clinics, Agri markets, and beauty salons.

FUTURE PLANS/NEEDS

Agricultural input suppliers are continuing to expand and diversify their production. *Mar-Mot Ltd* machinery inputs suppliers, *Roki Ltd* veterinary inputs supplier, and *Agro Trade Ltd* combined feed producer are continuing their trade within Georgia. *Roki's* export to Azerbaijan²⁰ is also ongoing and continues to seek new markets in Central Asia and Africa to improve its market stability. *Agro Trade Ltd* is constructing a new building for expansion, which includes Armenia.

¹⁹ This has currently ceased due to the Nagorno Karabakh conflict starting on September 27th and ongoing at the time of writing.

²⁰ Information obtained after the commencement of the conflict.

CONCLUSION

The business outlook is changing very fast, depending on the status and consequent effects of COVID-19 in the country and globally. Overall, it is clear that COVID-19 has had negative effects on the economy and that businesses are struggling to cope with new challenges. Companies reliant on export are facing difficulties as many of the export opportunities are temporarily halted or restricted and global prices have fallen. There are some challenges related to the domestic market as well, because of restrictions in the HoReCa and tourism sectors. During the outbreak, the dairy sector has stayed resilient due to high internal consumption. The agricultural input suppliers are in relatively good shape as they have continued trade within Georgia, regionally and in one case further abroad.²¹ However, the processed sheep, honey and wool sectors have been more significantly affected for a longer period, because these sectors are more dependent on the export market. The ALCP client businesses are trying to adapt to the new reality: they have increased costs and decreased profit. Most of them have spent their savings, and currently, they are looking for low-interest loans with favorable repayment and collateral conditions. At this point, the businesses need support in their consultation with banks to access finance and help with marketing campaigns and entering new markets.

²¹ The current regional conflict between Armenia and Azerbaijan will test this further however with current business in machinery sales to Armenia halted.

ANNEX 1: IMPACT OF COVID-19 ON ALCP SUPPORTED BUSINESSES: GUIDELINE FOR QUALITATIVE INTERVIEWS

Note: Quantitative figures come from monthly data (cash-flow, number of beneficiaries, export figures, jobs, salaries, access to finance). However, for triangulation purposes please record exact figures whenever possible.

Q1.	How did COVID-19 affect your business? What were the main impacts on the below?
Follow ups	<p><i>Note: Ask for each of these components and add further follow up questions if necessary.</i></p> <ul style="list-style-type: none"> - Supply side (farmer supply, collections, raw materials) - Distribution - Sales - Export/cross border trade, if applicable - Employment / jobs - FS&H and working conditions for employees (+face masks, gloves, and thermal screening devices) - Salaries / Working hours, vacations, sick leaves (<i>ask about gender roles: Female/Male</i>) - Psychological well-being (Client/employees), how do you cope with it: Maintain healthy working environment? Any difficulties, conflicts? - <i>Positive effects (Opportunities), if any?</i> - <i>Charity or act of kindness, if any: Have you helped others during the COVID-19?</i>

Q2.	How did you respond to COVID-19?
Follow ups	<ul style="list-style-type: none"> - What were the main activities you carried out to avoid/mitigate business crisis? - What did you change/how have you adapted? - Did you have a risk mitigation strategy / plan, before COVID-19?

Q3.	Have there been any changes in business relations with clients, distributors, farmers, suppliers, and other value chain actors?
Follow ups	<ul style="list-style-type: none"> - How have they changed? - Did you experience complications in relationships with partners or other stakeholders? (Changes in sale points, distributions, ban on road traffic, prices pay for farmers, etc.). Export, if applicable

Q4.	What kind of additional costs did you have during/due to COVID-19?
Follow ups	Increased production costs, storage costs, FS&H costs, alternative packaging, alternative product, transport costs

Q5.	What impact has COVID-19 had on your loans/credit situation?
Follow ups	<ul style="list-style-type: none"> - Did you have any loans before COVID-19? Has the COVID-19 crisis made it more difficult to repay them? How do/did you manage to repay any loans? Do/did you have any delays, difficulties because of COVID-19? - Did you try to borrow more due to the crisis? - How has your relationship with banks/financial institutions been going?

Q6.	What impact has COVID-19 has on any savings?
Follow ups	<ul style="list-style-type: none"> - Did you have any savings before COVID-19? How did COVID-19 affect your savings? (Increased, decreased or remained the same) - Do you have any savings left? - Did you use these savings during COVID-19 (if so what for)

Q7.	Did you have any planned investments that you have not made because of COVID-19
Follow ups	<ul style="list-style-type: none"> - Have you made any investments since the lockdown? If yes, what? - Do you still plan to make your planned investment in your business in 2020? If no how long do you think it will be delayed or have you changed the planned investment? - Have your plans changed because of COVID-19 - In this regard, what are your plans for 2021?

Q8.	If there is another crisis (second wave, economic crisis or any other crisis), how do you feel you will manage, will your business survive?
Follow ups	<ul style="list-style-type: none"> - Do you feel you are more ready / adapted to cope with another crisis? Why? - What did you learn this time? - How would you respond in the case of a further crisis? - How would you evaluate your business resilience in light of COVID-19?

Q9.	Overall, how would you describe the current health of your business on a scale of one to ten, where 1 means 'very unhealthy' and 10 means 'very healthy'?
	<p>Now: 1 2 3 4 5 6 7 8 9 10</p> <p>(What was it before COVID-19)</p> <p>Before: 1 2 3 4 5 6 7 8 9 10</p>
Follow ups	In terms of cash flow, investment , business expansion, product diversification, employment export, if applicable

Q10.	What kind of support do you need now to help you survive in the case of another crisis? (Financial, information, advocacy, etc.)
Follow ups	<ul style="list-style-type: none"> - Have you received any help from government, NGOs or any other entities? - How would you evaluate governments' measures during COVID-19? – What affects have it had on your sector/business? - From whom do you expect support in future?

Q11.	What will be the main challenges for businesses working in your sector from now on?
Follow ups	<ul style="list-style-type: none"> - When / Why? - What needs to be done in your sector / what kind of support is necessary?

ANNEX 2 LIST OF ALCP SURVEYED CLIENTS & SCALE OF OUTREACH

SECTORS	COMPANY NAME	PROFILE	NUMBER OF CUSTOMERS / SUPPLIERS
Dairy ²²	Milkeni Ltd	Georgian Milk Mark member dairy processing enterprises collecting milk from small farmers and making dairy products for domestic and US export market	15,251
	Tsezari Ltd & Natural Produktsia		
	Tsivis Kveli Ltd		
	Tsintskaro Ltd		
	I.E Badri Gogoladze	Georgian Milk Mark member dairy processing enterprises collecting milk from small farmers and making dairy products for the domestic market	
	Cheese Line Ltd		
	Teleti Ltd		
	Disveli Cooperative		
	Tanadgoma Cooperative		
	Tsalka +		
	Tsipora-Samtskhe Ltd		
	Askanaz Markozian Cooperative		
	I.E Hakob Hambaryan		
	Alpuri Javakheti Ltd		
	Dertseli Product Cooperative		
	I.E Tsolak Grigorian		
	I.E Karen Simonian		
	I.E Levan Bejanishvili		
	Odlisi Ltd		
	Lianka Ltd		
I.E Tamaz Tagiashvili			
Meat	Alali Ltd	Slaughterhouse provides cattle slaughtering services for the domestic market and exports processed sheep meat to Iran	10,118
	IE. Akhmed Neazovi	Slaughterhouse provides cattle slaughtering services for the domestic market and about to start slaughtering sheep for export markets	
	Kutaturi Ltd	Slaughterhouses providing slaughtering services for the domestic market	
	Ori Gio Ltd		
	Kusha Ltd		
	Irka Ltd		
Wool	Georgian Wool Company Ltd	Wool collector of greasy and washed for domestic and export market	4,466
	Wool house Ltd	Wool collecting and washing company making mattresses and quilts for the domestic market	
Honey	KTW Ltd	Honey aggregation for the domestic and export markets	4,077
	Api Geo Ltd		
	Georgian Beekeepers Union	The Georgian Beekeepers Union is an umbrella association uniting more than four thousand Georgian beekeepers	
Inputs	Agro trading Ltd	Livestock feed producer selling and distributing animal nutrition in Georgia and Armenia	513,177
	Marmot Ltd	Machinery input supplier selling to domestic and export markets (ARM,AZ)	
	Roki Ltd	A national veterinary inputs supply company working on domestic and export markets (ARM, AZ, TJ)	

²² These are the dairy factories the ALCP is working with in the current phase under the GMM intervention. In the previous phases, the programme worked with 31 dairy enterprises and total number of dairy suppliers were 12,869 SSLPs.