

ICC-Georgia Finance Commission

Recommendations for Submission to The Georgian Government

In view of the current situation characterized by what seems to be a long-term occupation of the country's main port in Poti and land transport routes which are jeopardized by dozens of Russian checkpoints, an extraordinary meeting of ICC's Finance Commission was held on August 26th to address the instability and lack of visibility resulting from the situation on the ground. Representatives of different business sectors assessed the impact of the current situation on their activities, identified the problems and proposed emergency measures designed to give them sustenance power in a country at war.

Problems

Businesses today, more than ever, face two main problems: Getting adequate financing and streamlining erratic cash flows. Companies from all sectors of the economy (i.e. Tourism, banking, consulting, construction, industry, agriculture, trading etc.) suffer from lack of visibility and uncertainty resulting from occupation yet they feel that government should consider giving them support in these times of crisis.

Banks have virtually stopped extending credit lines and when they do, they charge interest rates bordering on usury. The tax department is showing no leniency whatsoever specially as far as VAT collection or refunds are concerned. Although we are perfectly aware that government needs every Lari today in order to deal with the dramatic situation on the ground, we believe that businesses must first and foremost be able to sustain themselves in order to continue paying their taxes and reimburse their loans. Our worry is that if this situation persists for further several weeks, a downward spiral might be triggered by businesses defaulting on their loans and tax payments.

In order to avoid such a dramatic but possible domino-effect, government should consider putting together in the shortest delays possible, an emergency economic package designed to help businesses continue operating normally in an occupied country.

Solutions/recommendations

- **Any aid package pledged to Georgia for reconstruction by the EU, the US or any other source must be partly used to inject much-needed liquidity in the commercial banking system. Additional effort needs to be directed for the likes of IFC or EBRD to extend low interest loans to the banking sector, aimed at increasing liquidity, e.g. sub-loans**
- **Soften central bank requirements on commercial banks for loan extension.**
- **Establish a moratorium for up to 90 days on late payments of interest and taxes accrued in August and September of this year. It is important that for a period of 90 days, the tax department does not block bank accounts of companies unable to pay their taxes on time.**
- **Prepayment of income tax should provisionally be cancelled and corporate and property taxes should be deferred to the end of the year 2008.**
- **Commercial banks should be allowed to secure their loans with collateral other than exclusively real estate and other immovable property. Factoring receivables, inventory financing and other forms of loan security based on movable property must be allowed to give businesses easier (yet as secure) access to credit. Adoption of the Law on Registration of Rights in Movable and Intangible Property is a first and essential step in this direction.**
- **Leasing should be encouraged as a lending instrument to those businesses that do not have other means to fund their operations.**

In sum, all of the above measures aim at loosening an otherwise tight liquidity situation which, in times of war, is a recipe for disaster. By injecting liquidity in the system and introducing some fiscal leniency, government would be helping businesses developing despite Russian occupation.