Independent Office of Evaluation
IFAD
Investing in rural people
Number 47, December 2017

insights

©IFAD/Nick Bourguignon

GEORGIA COUNTRY STRATEGY AND PROGRAMME EVALUATION

Microfinance in Georgia and IFAD's role in the sector

Since 2013, Georgia's rural finance policy has been based on providing subsidized credit through commercial banks to rural segments of the population.

Microfinance in Georgia - as elsewhere in the world - consists of providing loans and other financial services to poor people for self-employment and business development. Generally, small amounts are disbursed as loans, and the timeframe for repayment is also smaller compared to commercial banks. Together with providing financial services, some microfinance institutions (MFIs) work for social development in the areas in which they operate and generally have the following characteristics:

- Providing small loans for the working capital requirements of the rural poor.
- Softer appraisal of borrowers and investments as compared to commercial banks.
- Collateral demanded to a lesser extent by those MFIs having more capacity to operate sound versus safe credit practices, applying innovative guarantee schemes.
- Flexibility to provide increasing larger loans to the individual members, based on their loan repayment history.

The key challenges in rural financial markets have been: lack of credit in rural areas; absence of modern technology in agriculture in which to invest; low savings capacity in rural areas; and prevalence of usurious moneylenders, which the rural poor are forced to approach since commercial banks do not extend their credit schemes to them as they are not considered creditworthy. Georgian MFIs with socially oriented credit practices started to emerge in the late 1990s and early 2000s. However, only about a dozen organizations out of 100 officially registered organizations nominally called MFIs have the capacity to perform in the socially oriented credit sector.

Innovative practices in microfinance institutions of the Rural Development Project

Capital and expertise provided by international donors has enabled Georgian MFIs to provide the necessary monetary support to the rural population. MFI activities also include providing training for basic skills required for doing business, as well as marketing courses to undertake activities to improve agricultural practices and financial literacy. The following MFIs supported by the Rural Development Project developed multiple novel practices:

- Credo has a **system of village counselors**. Acting as MFI agents, counselors identify potential clients, disseminate information in the community, and carry out the initial paperwork for the loan application without the farmer having to go to a branch. Dealing mostly with a rural population that has no banking experience, counselors provide training in repayment planning, and facilitate special trainings in those aspects of farming where financing is provided. "This is one of the main keys to our success in reaching out to rural clients," says Zaal

Pirtkhelava, Credo's Chief Executive Officer. Although this system has enabled Credo to reach the most remote rural areas and keep loan non-repayments to minimum, it is being criticized by some peer microfinance practitioners for being outside corporate management, and thus outside of the bank's control, which sometimes ends up in conflict with good practices, i.e. when dealing with problem loans, respecting the dignity and privacy of the client often becomes an issue.

Gulnari Gigiloshvili (Gulnari), age 47, from the village of Mukuzani, Kakheti region, had no hopes to get the financing she needed to make her tiny cattle farm productive enough to feed her family of four children and husband. One day, a village counselor of Credo visited her and told about the MFI's rural financing opportunity and its terms and conditions. "I got very enthusiastic about this possibility"- she says. She decided to apply and received her first loan, 500 Lari, which was used to purchase forage to feed the cattle in the winter as well as to make a stock of food for the family. In a year, right after the successful repayment of this loan, Gulnari took a bigger loan of 3,500 Lari in 2013 to purchase new cattle and piglets and started a new enterprise. She said: "My very first ever loan from Credo gave me a stimulus and confidence, and later I was able to take a risk which was rewarded with increased income for my family. I also use other services offered by Credo: agricultural purchase credit card, short term purchase loans, payments and remittances".

- Crystal places its **emphasis on value chain development and financing schemes**, and works with professional non-commercial organizations in its areas. On example of a positive result was the financing of a hazelnut value chain in western Georgia using the innovative warehouse receipt financing, which led to a successful launch and operation of the enterprise. "The biggest priority for us is forging partnerships to raise the productivity level of rural farming, which is very low and has great potential for growth. Better farming practices that lead to higher outputs is where the new market opportunities for Crystal and other Georgian MFIs are," says Crystal's Chief Operations Officer, Kakha Gabeskiria, who adds, "IFAD's programme played a significant role in getting our internal systems in line with rural crediting."
- Finca and Lazika use **agricultural experts**, either in-house or on a service contract, who provide periodic trainings in agricultural cycles for the front office loan officers and the risk management unit of the MFIs. The loan officers then provide necessary information to the clients during their monitoring visits or when requested by the farmers.

Institutional strengthening and rural outreach

New clients came from both the existing and new branches opened during programme implementation. Almost 100 per cent of the IFAD credit resources were directed to rural areas, as was mandated. All MFIs had rural presence to different degrees prior to the programme and nearly all expanded their outreach in the course of implementation. Credo and Finca, as the largest of the five institutions, had been consistently increasing their rural presence and expanding their branch network. RDP contributed to this process. Lazika benefited the most relative to others. According to the Chief Executive Officer, "Back in 2009, we had just started operating as an MFI, and the IFAD programme helped us to raise new funds over the next few years. Although, the programme did not directly result in the decision to open new branches from 2010 to 2013, it significantly helped to expand our rural clientele." Crystal management decided to repay the credit line before its due date by replacing it with a cheaper credit line. Again, as in Lazika's case, RDP's credit line was a crucial factor in raising the additional funds in parallel to the programme and enabled the MFI to triple its portfolio from 2012 to 2015.

Issues remaining at the institutional level

MFIs, as non-banking financial institutions engaged in rural financing, have no mechanisms for compulsory savings for the rural poor, which is an important factor to reduce risk, as well as a means to promote general financial literacy and business prudency. Credo and Finca became banks in 2016, which enabled them to resolve this problem. However, their long-term strategy and competition in the formal banking sector will force them to concentrate on small and medium enterprises, eventually drifting away from traditional rural financing.

Other types of financial products have not yet developed to a reasonable degree. There has been some success in developing a platform for an electronic purse where rural clients can make transactions without handling cash. This was the result of an IFAD-supported grant. National Bank regulations still need to allow for minimum saving mechanisms. Additionally, agricultural insurance for rural poor is still in rudimentary form. Products are too expensive and coverage for most risks are not yet available.

The grant "Reaching Georgia's Rural Poor through Mobile Remittances" (2010 – 2012) implemented by International Organization for Migration and funded through IFAD's Financing Facility for Remittances was an interesting pilot initiative, focused on Tianeti region. The project facilitated access and use of remittances for Georgian migrants in Greece and their families in Georgia. It was also a piloting outreach to rural communities who normally have very little contact with and access to formal financial institutions.

The grant provided a springboard for other long-term results. After the closing of the project, Crystal Fund established a multi-stakeholder private sector coalition on Financial Literacy whose advocacy work contributed to the adoption of a National Strategy on Financial education. Since the end of the project Crystal Fund has grown five-fold, creating employment opportunities for 800 people.

Crystal now serves 25,000 farmers, who use agro loans and agro-insurance services. The platform 'Akido' allows farmers to acquire agricultural components online with an interest-free loan. Crystal Fund's private sector partners (JSC MFO Crystal and JSC Mobile Finance Eurasia) continue working in this comparatively new field. JSC Mobile Finance Eurasia obtained a license from the National Bank of Georgia to launch a new mobile money service.

Further information:

Georgia, Country Strategy and Programme Evaluation, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 00142 Rome, Italy,
www.ifad.org/evaluation | e-mail: evaluation@ifad.org | www.twitter.com/IFADeval | www.youtube.com/IFADevaluation