EVALUATION OF MICRO & SME CREDIT ACTIVITIES IN GEORGIA

FINAL REPORT

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Objective and Purpose

This evaluation centers on four USAID-supported credit programs that provide loans for micro and small and medium sized enterprises (SMEs). The results of the evaluation shall be used to inform activities under USAID/Georgia's forthcoming project entitled The Georgia Microfinance Stabilization and Enhancement Activity. The evaluation team was asked to focus on issues related to sustainability of the credit programs and on their outreach and impacts.

Of the four credit programs, two are legally registered in Georgia as non-profit foundations: Constanta (established with assistance of Save the Children) and FINCA Georgia. The other programs operate under the umbrella of ACDI/VOCA and the International Orthodox Christian Charities (IOCC), which are the international non-profit organizations that established and manage them.

Methodology

The evaluation, carried out in Georgia from July 14th through August 1st, 2003, was planned and conducted as a modified participatory evaluation. Key senior managers of each of the credit programs actively participated in the evaluation process. They facilitated the conduct of a survey of a randomly selected sample of clients from their programs, provided information on their programs, and responded to a 'self-assessment' of the strengths and weaknesses of their programs and provided opinions on the credit environment. In addition, interviews were held with representatives of three banks that offer micro and small credit.

Key Findings and Conclusions

The four credit programs represent a range of objectives, focus and loan products, and to some extent, geographic coverage. Constanta and FINCA tend to be the most similar. Both offer group and individual loan products, serve primarily women, and reach clients in the greater Tbilisi area as well as outside this area. IOCC's credit program works outside greater Tbilisi and offers relatively large sized individual loans. Approximately one-third of its clients are women. ACDI/VOCA's program, working through registered rural cooperatives, also offers larger sized individual loans. Its program focuses on commercial agricultural related activities and is primarily accessed by men.

The credit programs have good financial systems in place. They limit their handling of cash through use of banks. All rely on banks for loan repayment transactions. ACDI/VOCA and IOCC loan disbursements are made through banks and, where feasible, Constanta also relies on banks for loan disbursements. The use of banks lowers the risk of mismanagement and robberies.

In spite of the challenging context in which non-banking credit programs operate, Constanta and FINCA Georgia have achieved financial self-sufficiency, and ACDI/VOCA's program appears to have reached this stage at the end of June 2003. To maintain this status, the credit programs will need to remain responsive to the market and continue to introduce new financial products. Changes in key laws and regulations would help the credit programs to reduce their operating costs, which could lead to them to lower interest rates.

Constanta has emerged as a shining example in Central Asia and Eastern Europe. It is a microfinance institution (MFI) controlled and managed by Georgians. It has the greatest number of clients of any non-bank MFI in the region.

The client assessment suggests that the credit programs have had a significant impact on paid employment. Also, credit appears to have enabled a large percentage of the clients to increase their enterprise profit levels. The findings suggest that these profits tend to be allocated for both enterprise and household uses. The clients tend to be satisfied with their credit program and recognize that they have options.

Key Recommendation

1. The USAID Georgia Microfinance Stabilization and Enhancement Activity task focused on *Develop partnerships between commercial banks with branch networks and non-bank MFIs to provide additional financial services to MFI clients* should be revisited by USAID to reconfirm that this is an activity that is needed to achieve its objective of Accelerated Development and Growth of Private Enterprises.

2. USAID should consider providing financial support for activities directed at changes in the laws, regulations and practices related to collateral registration and notarization, and enforcement of contracts. Representatives from a number of non-banking credit programs as well as banks should be involved in the process of proposing the changes needed, advocating for the changes, and reviewing draft laws and regulations.

3. Non-bank credit program managers should be provided access to training by high-level professionals. The four programs have experienced and knowledgeable staff, which could benefit from the knowledge, skills and experience of high level professionals especially on cutting edge approaches, such as product development, costing, testing and marketing. In addition, the managers should be trained to direct and manage client assessment activities. This will enhance their capacity to conduct market assessments, and monitor and obtain feedback on pilot tests of new products and so forth.

4. Funds should be accessible to non-bank credit programs to develop, test and launch new products. The funds should be managed on a competitive basis. Access to these funds would help non-bank MFIs to identify viable niche markets and develop products for these markets.

I. INTRODUCTION

A. Objective and Purpose of the Evaluation

This report presents and analyzes the findings from a participatory evaluation of four credit programs focused on micro, small and medium sized enterprises in Georgia. The evaluation results shall be used to inform activities under USAID Georgia's forthcoming project entitled The Georgia Microfinance Stabilization and Enhancement Activity. The evaluation team was asked to address specific aspects of nine issues. These issues are: 1) *implementation; sustainability; opportunities; constraints; future directions; and,* 2) *beneficiaries; economic and social impact; client satisfaction and gender.* The first set of issues is covered in Sections II and III. Section IV focuses on beneficiaries, impact, client satisfaction, and gender.

The evaluation centers on two microfinance institutions and two credit programs:

- Constanta, a microfinance institution established with the assistance of Save the Children
- FINCA Georgia, a microfinance institution
- The International Orthodox Christian Charities (IOCC)'s credit program and
- ADCI/VOCA's credit program.

Herein, for ease of reading and presentation all are referred to as 'credit programs'.

B. Methodology and Approach

The three-week evaluation was carried out from July 14th through August 1st, 2003. The evaluation was conceived by USAID/Georgia and conducted as a ***modified participatory evaluation*.** Consistent with the Scope of Work for the evaluation, the four credit programs participated in data collection, through the provision of information to the MSI team, the conduct of client interviews, and assistance with locating some of the sampled clients whom the MSI team interviewed. Constanta, FINCA, ACDI/VOCA and IOCC actively participated in the evaluation. At the time of this evaluation, ACDI/VOCA and IOCC are active USAID implementing partners, whereas Constanta and FINCA are not currently receiving funds from USAID or funds managed by USAID.

Under an IQC Contract, Management Systems International provided the team leader, Dr. Carolyn Barnes, and a local specialist, Ramaz (Maruka) Erikashvili. The work was carried out on site in Georgia and concluded with a presentation of the draft report to USAID prior to the departure of the team leader. This final report takes into account the comments received on the draft from USAID/Georgia.

The MSI team's approach was to begin with meeting USAID/Georgia's Evaluation Officer and persons in the Private Sector Office to obtain direction and comments on the scope of the work. Thereafter, USAID invited key implementing partners to attend meetings to discuss the conduct of the evaluation and their contributions. The first meeting was held with FINCA, Constanta and

ACDI/VOCA, who have been implementing partners under USAID's economic growth strategic objective. At the meeting, the draft data collection instruments were discussed, and suggestions provided on revisions in the client survey questionnaire. The second meeting was attended by Save the Children, CARE, Mercy Corps, and IOCC, with activities under the mission's humanitarian strategic objective. Based on these initial steps, a work plan and set of data collection instruments were submitted to the USAID Technical Officers for this evaluation, Inga Tsutskiridze and Rezo Ormotsadze.

Information for this evaluation was derived in four basic ways:

1. Small sample survey of clients from ACDI/VOCA, FINCA, Constanta, and IOCC
2. Information provided by the four credit programs following a standardized format
3. In-depth interviews with three banks, ACDI/VOCA, FINCA, Constanta, IOCC, Mercy Corps, and CARE and
4. Review of secondary data (reports).

The evaluation was conducted in four stages: planning; information gathering; data input, processing and analysis followed by preparation of the draft report; and report review and finalization (Table 1). The list of persons on the 'full' evaluation team and stakeholders interviewed are provided in Annex 1.

Table 1. Evaluation Stages: MSI Team

Stage 1: Planning	Meeting with USAID. Development of data collection instruments and workplan. Meeting with partners. Development of data entry program and data analysis plan
Information Gathering	Interviews with select banks, the credit programs and select PVO implementing partners. Client interviews in Akhaltsikthe and greater Tbilisi.
Analysis and report preparation	Entry and analysis of survey data Analysis of credit program data. Report writing and development of tables. USAID briefing and submission of draft report.
Report review and finalization	Receipt of written review comments from USAID Finalization of the report Submission of final report to USAID

A survey approach was used to gather information from clients. The team leader proposed and it was accepted that the survey be based on a random selection of clients who had completed their loans in March 2003. (See Annex 2 for more information on methodology used). Given time constraints, it was agreed that the client survey would be carried out with a randomly selected sample from the largest branch of each organization and that 15 clients from each program would be interviewed. The interview protocol and interviewing skills were discussed at the meeting with the implementing credit partners. The questionnaire was translated into Georgian and then the translated version was crosschecked.

The MSI Georgian team member interviewed some of the IOCC clients and provided on-site orientation and guidance to IOCC in the selection of the sample. The MSI team leader worked with FINCA, Constanta and ACDI/VOCA to derive the sample population list and select the sample. The team leader working with an interpreter conducted interviews with four FINCA clients, and the interpreter carried out an additional seven interviews with Constanta clients. FINCA loan officers, a Constanta intern, and ACDI/VOCA officers carried out the other client interviews.

The sampling process gave hands-on experience to the credit programs in the selection of a random sample of clients. Although the absolute number of clients interviewed is small, the clients interviewed are representative of the sample population from which they were selected. The client respondents were interviewed at their place of business, with the exception of the ACDI/VOCA clients who were interviewed at the ACDI/VOCA office in Gori.

Two data collection forms were completed by the members of the evaluation team from each credit program. The forms covered: a summary profile of the credit program; information on main loan products; opinions on competition, opportunities and constraints; self-assessment of institutional strengthens and weaknesses; and financial data. Each program was requested to provide the team leader with additional reports related to the evaluation.

C. Evolution of USAID Support for Credit Program

For the past six years, USAID has supported the development of credit programs and institutions in Georgia. Credit has been supported under two strategic objectives (SOs): *Reduced Human Suffering in Targeted Communities,* and *Accelerated Development and Growth of Private Small and Medium Enterprises (SMEs) in Targeted Areas*. USAID partnered with eight organizations, most of which had prior microfinance experience and established models of lending. There were variations among the organizations in their approaches to institutional development and sustainability issues, related largely to which SO their activities supported. In September 1997, USAID provided funds for the establishment of the Trans-Caucasus Enterprise Fund. Through the SME finance program, technical assistance and training were provided to three Georgian commercial banks. The assistance was focused on enabling these banks to better meet SMEs' demand for credit nation wide. USAID also supported the introduction of new financial products for SMEs through the three Georgian partner banks.

In addition, the U.S. government provided funds for technical assistance to the European Bank for Reconstruction and Development (EBRD), using Freedom Support Act appropriations via the U.S. Treasury Department. These funds support EBRD-financed microcredit programs through the Microfinance Bank of Georgia and select commercial banks. Also, the U.S. Department of Agriculture (USDA) has indirectly assisted with funding ACDI/VOCA and IOCC. Based on the agreement between the Government of Georgia and USDA, ACDI/VOCA and IOCC receive from the Government of Georgia funds generated through the commoditization of USDA food imports. USAID is responsible for oversight management of the use of these funds received by ACDI/VOCA and IOCC.

Under its Economic Growth Strategic Objective, in 1998 USAID provided a grant to ACDI/VOCA to help transform agricultural cooperatives into western style cooperatives, which provide business services and loans to members. USAID support to Save the Children (and their affiliate, Constanta) began in the fall of 1999.

By the time of this evaluation, July 2003, USAID's focus is on establishment of commercially viable and sustainable credit institutions serving micro, small and medium sized enterprises. Nearly all of the smaller credit programs established by US PVOs under its strategic objective *Reduced Human Suffering in Targeted Areas* were handed-over to local NGOs in 1999. CARE and Mercy Corps, however, have cooperative agreements with the mission, which were signed in the fall of 2000, which include credit as a component in their four-year Georgia Community Mobilization Project. Their programs are to address the intermediate result of more *active participation of vulnerable groups in the economy.*

At the time of this evaluation, a Request for Proposals has been issued for a contractor to carry out The Georgia Microfinance Stabilization and Enhancement Activity. The activity addresses the mission's strategic objective *Accelerated Development and Growth of Private Enterprises* and specifically the intermediate result *Increased access to credit*. The four-year activity focuses on *improving the stability of small and microfinance institutions in Georgia and enhancing their capacity to provide sustainable financial services to small and microenterprises.* To achieve this, the activity contractor is to carry out the following tasks:

- Promote the establishment of unambiguous legal status and tax treatment of non-bank MFIs
- Increase operational and financial sustainability of MFIs
- Develop partnerships between commercial banks with branch networks and non-bank MFIs to provide additional financial services to MFI clients
- Increase MFI institutional stability
- Develop baseline indicators and small and microenterprise financial/market information and statistics
- Develop a public information program to promote the values and practice of sustainable microfinance, and
- Design, launch, manage and monitor the Credit Innovation Grant Program.

II. THE FOUR CREDIT PROGRAMS AND THEIR SUSTAINABILITY

A. Their Environment and Significance

1. General Context

Georgia is still in the process of transitioning to a market economy and democratic society. At the end of the Soviet period, the population was 5.2 million, but it is estimated that 1.2 million have migrated to seek better opportunities. Nearly 58 percent of the population resides in urban areas, with 1.27 million people living in the capital of Tbilisi.

Georgia is attempting to re-establish its export position in the region. During Soviet times, Georgia was an exporter of food, wine and mineral waters to markets in the Soviet Union. In the second half of the 1980s, Georgia had 10 percent of the food market of the Soviet Republics. Approximately 44 percent of the land is used in agriculture, with nearly two-thirds of this devoted to pastures. Sixty percent of the arable land needs artificial irrigation. Most of the cropland is devoted to cereal crops

Agriculture is considered as the main source of income and employment for a large segment of the population. Land privatization has focused on the smallscale (household) sector, with little real progress in restructuring the former large state farms. Land reform involved allotment of small parcels of land up to 1.25 hectares to each rural family and the lease, through district authorities, of state-owned land to persons or legal entities. Low yields, poor infrastructure, outdated machinery and high costs associated with transport and marketing have had a negative impact on food production and the earning capacity of farmers and thus on household livelihoods.

Although progress has been made, institutions, policies, and laws still hinder economic activity and widespread corruption and incidents of lawlessness curtail the activities of legal, private sector businesses. Electricity and gas supply is erratic, marketing chains for movement of agricultural produce are weak, and transport infrastructure in need of repair.

Compared to five to ten years ago, significant improvements have occurred. The 1990s were a time of establishing the independent nation. It also was a period of upheaval as Georgia experienced two civil conflicts, leading to large numbers of displaced people and a substantial decline in economic output. A number of humanitarian efforts have helped to stabilize and integrate the displaced people. Inflation and exchange rates appear relatively stable, especially compared to the hyperinflation of 1993 (of 13,000%) and devaluation of 40 percent in 1998. A number of inefficient banks have been closed. Currently the banking system is noted as the sub-sector most aligned with Western business principles, a status achieved through USAID and other donor investment.

2. Overall Significance of Credit Programs

The credit programs, which are the focus of this evaluation, are significant in a number of ways. First, they have demonstrated the effective demand for credit by micro, small and medium sized enterprises. The poor economic situation has led to the establishment of enterprises as a household livelihood strategy. The programs have permitted entrepreneurs access to operating capital and, to a less extent, to funds to invest in enterprise fixed assets. Moreover, the programs have demonstrated to entrepreneurs the basic principals of operation in a market economy.

Constanta and FINCA have developed financially self-sufficient credit institutions, and ACDI/VOCA's credit program appears to have reached the stage of financial self-sufficiency. IOCC has indicated its' intent to join this group. Nevertheless, the experience of these programs has revealed major constraints to operating a credit program in Georgia, as well as constraints to the growth and diversification of enterprises. The constraints on credit programs affect their operating costs and lower their efficiency. As a result, the credit programs in consort with others have highlighted the need for a more enabling environment for credit institutions in Georgia.

Second, the four credit programs have demonstrated the feasibility of establishment of cooperative relations with local bank branches, which increases their efficiency and reduces their risks. IOCC and ACDI/VOCA loan disbursements and repayments are transacted through commercial banks. IOCC also use the banks to provide collateral storage services. In addition, where feasible, Constanta loan disbursements and repayments are handled through banks. Constanta has service points located in some bank branches. FINCA uses urban and rural bank branches to receive client repayments. In urban areas where banks use a bank client management information system (MIS), FINCA has direct access to their system. Thus, the credit programs have close working relations with banks.

Third, the credit programs have demonstrated their willingness to collaborate and cooperate with humanitarian PVOs/NGOs. Mercy Corps transferred funds to ACDI/VOCA for a pilot credit program, which ACDI/VOCA managed. Also CARE has provided funds for Constanta to provide credit in one of its program areas. In both instances the credit was to support achievements under USAID's Georgia Community Mobilization Project, under USAID's humanitarian strategic objective. A recent evaluation of this project recommended that the PVOs increase their income-generating activities in selected communities. In response, Mercy Corps plans to increase grants to community-organized income generating activities and CARE is awaiting the recommendations of a consultant to decide what actions it will take.

Fourth, since its founding six years ago Constanta has emerged as a fully Georgian-controlled and managed microfinance institution (MFI), which is financially self-sufficient. Furthermore, it has the greatest outreach of any non-bank MFI in Central Asia and Eastern Europe. Its average loan size is notably lower than MFIs in Eastern Europe, reflecting both its group loan focus and economic conditions in Georgia.[1] Constanta was established with assistance from Save the Children (US) with funds from UNHCR for operations and a small amount for loan capital. Constanta has received funds directly and indirectly from USAID, almost all of which have been

[1] The Microfinance Bank of Georgia has more active clients, when taking into account all loans including those for small enterprises and consumer loans.

for loan capital ($1.04 mil). Save the Children and Constanta have demonstrated initiative and responsiveness to opportunities that meet Constanta's objectives. In short, Constanta has not been entirely dependent on USAID funds to advance its activities.

B. Program Profiles

1. Comparison

The four credit programs vary in mission, geographic coverage, and outreach (Table 2). FINCA's mission clearly states that its objective is to reach very poor households. Constanta's mission is to serve micro and small entrepreneurs, supporting development of socioeconomic conditions in the country. The mission of IOCC's credit program is to provide economic opportunities to farmers and entrepreneurs. In comparison, ACDI/VOCA's mission is to establish a nation-wide system of rural credit cooperatives, providing micro, small and medium sized loans to commercial enterprises.

Constanta and FINCA offer group guaranteed loans, plus individual loans backed by collateral. Their client base is largely in the greater Tbilisi area. In comparison, the credit programs of IOCC and ACDI/VOCA offer only individual loans backed by collateral, and operate outside the Tbilisi area. Their clients are primarily men, whereas Constanta and FINCA's loans are accessed mainly by women.

Table 2. Key Features of the Four Credit Programs

Key Features	Constanta	FINCA	IOCC	ACDI/VOCA
Target population	Micro & small enterprises Men and women, IDP/refugees	Micro & small enterprises Men and women, IDP/refugees	Farmers and entrepreneurs.	Small and medium sized enterprises.
Number of offices/branches:				
Urban	9 including service points	3 main, 2 satellite	Headquarters only	Headquarters only
Rural**	9 including service points	4 main, 4 satellite	2 branches	8 cooperatives
Last annual period:	(2002)*	(2002)	(4/02-3/03)	(2002)
# loans disbursed	45,488	15,612	134	779
# of active clients	15,608	6,575	134	1,205
% female clients	70%	67%	33%	4%
% loans in rural areas**	25%	15%	100%	100%
Number of loan products	3	2	1	2
Staff:				
# loan officers	62	34	4	3
# total local staff	187	78	8	47
# foreign staff, directors	none	1	1	1
Legal status	Georgian NGO (foundation)	Georgian NGO (foundation)	International PVO	International PVO

* Constanta disbursed 34,116 urban and11,372 rural loans to 12,489 urban and 3,119 rural clients.
** Rural means outside the greater Tbilisi area.

2. Constanta

The mission of Constanta, which gave its first loan in October 1997, is to provide easily accessible, long-term and sustainable financial services to micro and small entrepreneurs. Its vision is to (a) establish itself as a highly professional microfinance institution that provides diverse and competitive micro-loans to micro and small entrepreneurs living and active in Georgia and thus (b) support the development of socio-economic conditions in the country. Initially it provided loans to women only, but has expanded to provide loans to both men and women. At the end of 2002, 70 percent of its clients were woman.

It currently offers three loan products: basic group guaranteed loans, advanced group loans and individual loans. Constanta is piloting a seasonal loan product aimed at those in the service sector of the seaside tourist industry in western Georgia, as well as traders and others in the service sector. In addition, with recently received grant funds, Constanta will develop and pilot an agricultural loan product.

At the end of 2002, 25 percent of Constanta's loans went to clients outside the greater Tbilisi area. Constanta has seven branches, two outlets and nine service points in seven regions. Branch offices and outlets are permanently staffed, but outlets are smaller in size than a branch office. Since the fall of 2001, Constanta has established service points, which are staffed two days per week by a loan officer and a part-time supervisor, both of whom may divide their time between service points and nearest branch office (ideally between 30-60 km. from the service point). Service points are rented locations where Constanta holds client interviews and meetings. Constanta selects a partner bank with a branch office in that location and if possible will rent space in the bank office. If the chosen partner bank has a management information system (MIS) that provides client data on a daily basis, Constanta will pay an agreed amount per transaction to the partner bank for the teller function. If the bank is unable to provide this service, then a Constanta teller will sit in the rented bank space for two days each week to disburse loans and collect repayments, and transactions will be inputted directly into the Constanta MIS. If neither option is available, Constanta only uses the bank for moving funds from the Constanta branch office. The service points open-up access to smaller secondary towns, with populations between 15,000 – 50,000 (Pearce 2002).

3. FINCA Georgia

Locally registered as a non-profit organization, FINCA Georgia's mission is to support the economic and human development of families trapped in severe poverty. This mission consists of three interrelated factors: product, financial, and employees. It seeks to develop and disburse loans tailored to the needs of microentrepreneurs, develop strong client/credit officer relationship, and team spirit and solidarity among solidarity credit group members. FINCA aims to operate on a sound financial basis of profitable growth and less than five percent arrears. Its mission involves hiring "above average" people, providing a culture of continuous learned and directly rewarding employees for their accomplishments and contributions.

Since disbursing its first loans in mid-1998, FINCA has established three main offices and two satellite offices in the greater Tbilisi area, and four branches and four satellite offices outside this area. The satellite offices are rented premises where loan officers and supervisors from the branch office meet with clients, but are not permanently based. These offices are normally located in or adjacent to busy market centers. In 2002 approximately 15 percent of the loans disbursed went to clients outside greater Tbilisi.

FINCA offers two loan products: a solidarity credit group loan and a small enterprise loan. In 2002, it disbursed approximately 15,500 loans to 6,300 borrowers, of whom two-thirds were women.

4. IOCC

IOCC launched its credit program in May 1999. The credit program operates from two IOCC offices in the regional towns of Akhaltsikhein in Southern Georgia, and Poti in Western Georgia. These offices serve both townspeople and villagers from the surrounding areas. Currently the credit program has approximately 550 active borrowers and one-third of them are women. IOCC disburses loans to individuals, backed by collateral.

The credit program is integrated into IOCC Georgia's organization's structure, with regional managers actively managing both the credit and school feeding programs. Each regional office has three staff devoted fulltime to the credit program: two loan officers and a fulltime administrative assistant. Also, IOCC has secured the services of a lawyer on a retainer basis to provide services to the credit program. IOCC's Assistant Country Representative, an expatriate, oversees the credit program. IOCC, a humanitarian organization, demonstrated its willingness to operate its credit program according to good business practices when it filed and carried out court action against defaulters.

IOCC's Regional Officer, based in Lebanon, as well as its managers in Georgia appear committed to establishing a separate, distinct IOCC credit institution in Georgia. A consultant is scheduled to work with them in September 2003 to investigate the feasibility of establishing an operationally self-sustainable credit institution.

To date IOCC's credit program has received a small grant from USAID for operations and $250,000 for loan capital. In addition, it has received a total of $712,000 for operations and loan capital from the Georgian Ministry of Agriculture from the U.S. Department of Agriculture's monetization program. Since the credit program is part of IOCC's operations as an International PVO, it is tax exempt.[2]

5. ACDI/VOCA

ACDI/VOCA's credit program disbursed its first loan in late 1996. Its mission is to establish a nationwide non-depository cooperative credit program. ACDI/VOCA's program currently works through eight local and legally registered rural cooperatives. The program offers two types of

[2] The tax status of the credit programs of IOCC and ACDI/VOCA does require these organizations to pay payroll taxes.

secured credit: operating loans and term loans. In 2002 it had 1,205 active clients and disbursed 779 loans.[3] Approximately four percent of its borrowers are women.

ACDI/VOCA has received funds directly from USAID for operations and loan capital and $1.2 million in loan capital through the Georgian Ministry of Agriculture from the U.S. Department of Agriculture's monetization program. The credit program operates under ACDI/VOCA's legal status as an International PVO and is tax exempt. A fulltime expatriate director leads the program, with three loan officers and 45 other staff.

C. Implementation and Financial Performance

1. Internal Controls

The four credit programs have established good internal controls over the loan approval and disbursement process, and the collection of loan repayments. Each has a series of checks over the loan approval process. In the programs of ACDI/VOCA and IOCC the director must sign off on each loan. Both of these programs also have a procedure for checking on the 'character' of the applicant. FINCA and Constanta have internal auditors. The internal auditors examine loan actions to verify whether or not lending policies and procedures have been followed. Actions are taken when the findings are negative. ACDI/VOCA plans to hire an internal auditor in the near future. All programs have annual external audits.

The four credit programs rely on banks for loan repayment transactions. In addition, all ACDI/VOCA and IOCC loan disbursements are made through banks. To the extent feasible, Constanta relies on banks for loan disbursements. FINCA requires that group members save a particular percentage of the requested loan amount. To reduce the risk of mismanagement of these savings, they are 'held' by a bank, but clients can have access to their funds if needed to make a loan installment payment.

The evaluation did not uncover any suspicious practices or laxity in the application of financial controls. ACDI/VOCA did report that the financial reporting system for its credit program operates on a monthly schedule and needs to move to a daily balancing system. Efforts are currently underway to secure funding for a satellite communications system and new bank accounting software. The new accounting system will be used by an internal audit division under a national institution, which is in the process of being formed. In the self-assessment focused on institutional strengthens and areas for improvement, the respondent for Constanta noted that more staff and additional training in financial management would strengthen the program.

2. Financial Performance and Status

Key financial data provided by the four credit programs indicate differences in the total volume and value of loans disbursed, the average loan size and the risk status of the financial portfolios. In addition, the value of the assets and the operating expenses vary greatly. Variances are also

[3] Because loans may be for over 12 months, the number of active clients exceeds the number of loans disbursed.

found on key ratios related to efficiency and the extent to which the programs are operationally and financially self-sufficient. The definitions the credit programs were requested to use for each item in Table 3 are included in Annex 3.

For the period April 1, 2002 through March 31, 2003, a total of $17 million was disbursed by the four credit programs. Constanta loans account for two-thirds of this amount. The Constanta and FINCA loan amounts reflect high turnover of loan capital since most of the loans are for four to six month duration. In contrast, the IOCC and ACDI/VOCA loans tend to be for 12 or more months. The average loan size was similar for Constanta and FINCA ($251 and $215 respectively), while the average loan size for IOCC and ACDI/VOCA was $1,697 and $2,155 respectively. In the most recent quarter, the average loan size for IOCC was slightly higher than ACDI/VOCAs.

Both ACDI/VOCA and IOCC have suffered from loan defaults, with the drought of 2000 accounting for some of these. Where feasible the loans have been rescheduled and otherwise the loans have been written off the books but repayment actively pursed. Due to arrears and defaults, IOCC halted loaning funds for four months in late 2002 and early 2003 as it analyzed and refocused its procedures and mode of operation. This explains the relatively low number of loans disbursed in the April 1, 2002 – March 31, 2003 period. The IOCC data for last quarter suggest that they pursue a loan strategy similar to ACDI/VOCA: relatively large size loans to a small number of people. This strategy can be very cost efficient.

The asset base of the four programs varies by a magnitude of three. The IOCC credit program's $1.1 million asset base is one-third the asset base of Constanta ($3.6 million). The asset value of ACDI/VOCA's credit program ($3.1 million) is nearly the same as Constanta, whereas FINCA's assets amount to $2.1 million. As indicated in the previous section, with the exception of Constanta, the loan capital has come primarily from U.S. taxpayers through USAID and USDA.

The operating expenses of the four credit programs vary greatly, as does their outreach and number of loans disbursed (Table 3). Since Constanta is a completely Georgian institution, the data provided covers all of their personnel expenses. In contrast, the data from ACDI/VOCA and FINCA exclude the cost of the programs' expatriate directors. Also the operating expenses for IOCC during the 12-month period are higher than normal since it includes the value of loans written off. Otherwise, IOCC's operating costs are relatively low since the cost for the regional credit managers' is billed at 50 percent.

The tax expense data from FINCA and Constanta indicate the tax burden on the non-profit, non-governmental credit organizations. It should be noted that the data stated on taxes in Table 3 is not comparable between FINCA and Constanta, since the FINCA data include personnel taxes.

As of June 2003, the data indicate that the credit programs of Constanta, FINCA and ACDI/VOCA were operationally and financially self-sufficient. Constanta and FINCA were self-sufficient at the end of March 2003, whereas ACDI/VOCA reached this stage at the end of the April – June 2003 quarter (Table 3). IOCC did not report on these indicators, but appears to have made progress towards operational self-sufficiency. The reader should recall that the data are self-reported; the programs may have used different calculations for their adjusted operating revenue and adjusted operating expenses to derive their self-sufficiency statistics.

3. Efficiency of Operations

The data on key ratios provided by credit programs indicate their efficiency/productivity (Table 3). The findings suggest that loan officer productivity[4] is similar in FINCA and Constanta, especially for the quarter April – June 2003, and much lower in ACDI/VOCA's credit program. Also, for the April – June 2003 period, the personnel productivity ratio was similar in FINCA and Constanta and their rates were higher than those for the credit programs of ACDI/VOCA and IOCC. When comparing the April- June 2003 quarter to the previous 12-month period, IOCC and Constanta experienced decreases in productivity.

The self-assessments of institutional strengths and weaknesses, completed by a key person in each of the four credit programs, yielded the following comments on operational efficiency.

- Constanta: Excellent vision leading to reaching planned targets. Novelty and flexibility. Excellent MIS.
- FINCA: Productive loan officers and experienced supervisors. Lower transportation cost through reliance on local transportation. Satellite offices and bank payment system keep down costs.
- IOCC: Potential applicants well aware of the procedures required to obtain IOCC credit. Currently less emphasis needed on advertising and marketing, especially in southern Georgia.
- ACDI/VOCA: Approval to funding of loans is under two weeks for small loans and under 30 days for larger loans.[5]

The self-assessments also noted key factors impinging on the efficiency of their operations.

- Constanta: Credit staff need training to introduce and refine new products.
- FINCA: Security costs are high. New MIS needs to be installed.
- IOCC: Loan approval process is lengthy compared to newly available, higher interest commercial credit.[6]
- ACDI/VOCA: Staff and travel costs need to be reduced, while keeping loan servicing and oversight at current levels.

[4] Loan officer productivity is the number of active borrowers divided by the number of loan officers.
[5] Comparable information was not provided by the others on loan turn-around time.
[6] The loan approval process can take up to 30-40 days.

Table 3. FINANCIAL PERFORMANCE AND STATUS
April 1, 2002 – March 31, 2003 and April 1 – June 31, 2003

	Constanta		FINCA		IOCC		ACDI/VOCA	
	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03
Loans								
Number of loans given	45,896	12,005	15607	3933	134	66	932	110
Percent loans given to women	71	69	67	65	34	35	6	7
Average size of loans ($)	251	258	215	377	1,702	1,750	2 155	1 661
Total value of loans this period ($)	11,517,563	3,100,203	3,355,813	1,481,629	228,080		2 008 364	182 716
Number of loans outstanding, end of period	15,862	16,607	6757	7006	458		1033	1094
Number of loans written off (or over 90 days in arrears)	390	123	56	52	135* (241)	(253)	500 934	485 323
Number of loans rescheduled	14	4	1	2	39	1	31	6
Assets								
a. Cash and deposits at end of period ($)	662,416		568,421		458,059 (4%)		227 062 (4%)	53 052.97
b. Total value of loans outstanding at end of period ($)	2,642,387		1,505,767		619,537		2 766 053	2 729 142.69
c. Loan loss reserve ($)	113,569		30,331				0	000
d. Net fixed assets ($)	415,092		16,563		32,903		102 809	105 947.63
Total assets: (a+b) - (c+d)	3,606,326		2,060,420		1,110,499		3 095 925	2 888 143.29
Risk Status								
Portfolio at risk: % and value of loans between 31-90 days in arrears	115,643	143,368	2%	2.6%	4.4% 27,382	46,588	1,063	566
Client Revenue								
Total value of interest income collected from clients ($)	1,716,322	513,502	999,284	298,157	33,942	10,886	322,862	128,062
Total value of pre-loan fees, commissions from clients ($)	129,012	35,610	33,558	14,816			0	0
Total value of after loan distribution fees, from clients ($)	27,538	9,411	11,001	3,648	9,896	2,027	0	0
Other Revenue								
Total value of grants received for capital-lending ($)	355,000 (USAID)	0	645,944 (USAID)	0	0	0	242,252.72 (USDA)	41,742 (USDA)
Total value of grants received for operations expenses ($)	9,100 (Save) 16,520 (USAID)	0	0	0	0	0	0	0
Total value of in-kind assistance ($)		0	3,035 (SAS/USAID donated equipment)	0	0	0	0	0
Interest from	19,767*	90	8,301	5,001	0	0	9,466 (4%)	823 (4%)

	Constanta		FINCA		IOCC		ACDI/VOCA	
	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03	4/1/02-3/31/03	4/1/03-6/31/03
Investments								
Operating Expenses							469,285	122,769
Personnel expenses** ($)	637,329	189,879	321,435	77,166	79,492	12,677	280,557	71,115
Administrative expenses ($)	439,971	116,665	226,714	50,041	64,691	9,889	188,729	51,654
Interest paid on debt ($)	0	0	0			-	0	0
Value of loans written off ($)	5,693	4,405	7,440	2,328	180,570†	-	0	0
Taxes ($)	67,046	74,714	182,344††	66,786	0	0	0	0
Ratios								
Cost per borrower	78	25	35	32	1,076	342	503.52	-
Loan officer productivity	303	251	225	226	33	16	40.52	-
Personnel productivity	109	88	88	89	17	8	19.82	-
Operational self-sufficiency (%)	158	138	123	128	NA	NA	67	104
Financial self-sufficiency (%)	140	118	122	121	NA	NA	71	105

* Current accounts 3%; Time deposits 8.5% - 11%

** Does not include foreign personnel directing the credit institution operations in FINCA and ACDI/VOCA, nor the IOCC's HQ Deputy Manager's time devoted to the credit program. FINCA's total operating expenses reflect the foreign personal expenses.

† 135 loans that were disbursed between 1999-2001were written off during this period. These were not included in the ratio calculations.

†† The FINCA tax data include personnel taxes, whereas Constanta's excludes personnel taxes.

FINCA's current MIS consists of tracking loan groups but not individual clients. It also keeps a separate database on program leavers. A new MIS is scheduled to be installed next year. ACDI/VOCA also appears to have a weak MIS system. As noted previously, ACDI/VOCA receives information from its affiliated cooperatives and banks on a monthly basis. It has no centralized system for tracking individual borrowers. All individual credit records are held by the cooperatives. Plans are in place to install an MIS system that will allow ACDI/VOCA to track financial data on a daily basis. Each of IOCC's credit program offices has a financial and loan tracking system, but these are not linked into a unified system.

D. Governance and Human Resources

1. Governance

Constanta is the only credit program among the four that is governed and controlled by Georgians. FINCA Georgia's board of supervisors is composed entirely of people outside Georgia and non-Georgians. The credit programs of ACDI/VOCA and IOCC currently operate as 'projects' under the umbrella of their respective international PVO. ACDI/VOCA is in the process of institutionalizing a "cooperative credit system" under a new entity that will have a corporate management structure. In the coming months, IOCC will be investigating options for establishment of a microfinance institution.

2. Human Resources

The motivation, skills and dedication of the staff and managers of the four credit programs have contributed to the success of the programs. Training of staff and managers has been addressed by coaching, information exchange, and specific training provided by their respective international organization. The senior managers of Constanta have attended international meetings and high level training programs.

The responses to the Self-assessment of Institutional Strengths and Weaknesses that focused on human resources included:

- Need to institutionalize an elaborated human resources system.
- Continued training needed to emphasize sound professional practices and change mentalities associated with the former Soviet system
- Managers' need for more formal training in microcredit.
- Better understanding needed on how to design new loan products.

USAID's forthcoming The Georgia Microfinance Stabilization and Enhancement Activity includes a major training needs assessment, with the intent of devising a sub-activity to address key needs. Therefore, this evaluation did not delve further into human capacity development needs beyond those identified by those engaged in the self-assessment and those that arose when addressing other issues.

III. Looking Ahead

A. Opportunities

Representatives of the four participating credit programs, as well as three banks, were asked their opinions on the existing, unmet demand for current financial products and the potential for new products. In nearly all cases, the information supplied was based mainly on opinions informed by their experience. IOCC and Constanta, however, have recently launched assessments to gauge the market for specific products in specific localities.

FINCA and Constanta perceive an unmet demand for group loans. They estimate that the demand is particularly high in unserved regions. One credit program estimated the potential in unserved regions to be 200 percent of its current group loan portfolio. There were varying opinions in terms of the Tbilisi market, and one respondent considers the Kakheti market as saturated. One responder felt that the demand for group loans was greater among women than men. (This is related to women being more willing to work in groups and attend the required group meetings.)

The credit programs and the banks believe that there is an unmet demand for micro loans to individuals. The credit programs consider that this unmet demand exists in the greater Tbilisi area as well as in large regional market centers. They estimate the demand to be in the range of 180 to 200 percent of their current market. The estimates provided on individual loan products were more modest by two responding banks, which specified the demand for each of their individual loan products. The Microfinance Bank of Georgia representative estimates the demand for its micro and micro-micro loans to be in the range of 15 to 20 percent, and the demand for small and medium sized loans to be 15 percent. (See Annex 4.) The United Georgian Bank representative estimates the opportunity for expansion of its commercial and micro loans to be five percent, but higher (15 percent) for its gold pawn loans. Both of these banks felt that the unmet demand for consumer loans was about 15 to 20 percent greater than their current market.

The reason for the vast difference in estimates of the potential demand for existing individual loan products between the credit programs and banks are unclear. It may be related to the size of their existing portfolio, or the different types of individuals served. Interestingly, the responses by banks to a 2001 survey on unmet demand were much higher than reported to this evaluation team (Burkes, Bielen and Seifert 2001).

ACDI/VOCA estimates that the demand for its credit would increase if they could cover new regions. In their current regions, they estimate the number of potential new clients is only one percent. They also point out that regions with low economic productivity are the underserved areas, where demand has not been met. Similarly, IOCC feels that there is little potential for them to expand in southern Georgia with their current loan product. In contrast, for the same loan product, IOCC believes that the demand in the West is more than double their current number of clients. IOCC noted the seasonal nature of borrowing for agriculture and tourism in the catchment areas it serves.

In terms of new products, both FINCA and Constanta are considering loans for agriculture. FINCA estimates that there is a large demand for loans for small-scale agriculture, including dairy products. Constanta has received a grant to investigate and test the feasibility of an agricultural loan product. IOCC is investigating the potential for launching a solidarity group loan product in the regions it currently serves.

Consumer loans and seasonal loans were mentioned as having a large unmet demand. ACDI/VOCA considers that there is a large, potential market for lease financing for agricultural processing and production equipment in the rural areas, and manufacturing equipment in Tbilisi. The only possible new product mentioned by a bank was real estate loans, that is loans to purchase or rehabilitate real estate.

The information on market potential suggests that the credit programs might benefit from opportunities to improve their knowledge and skills in market assessments, and product development, pricing and marketing. In countries like Georgia, the introduction of new products needs to be based on a good understanding of demand (e.g. the going market price for items to be sold), costs, and cash flows in order to develop a product that carries a high probability of effective demand combined with low risks. Generic training could be provided, with examples of modifications required to assess, cost and market particular types of products. The training might also include a training module that credit programs can adapt to train loan officers in assessing the financial viability of proposed business activities or use of the fixed assets to be financed by new loan products. An option would be to provide the credit programs with access to tailored market training for a particular product that it would like to investigate and test.

B. Constraints in the Operating Environment

Constraints in the operating environment of credit programs/institutions, banks and clients inhibit credit expansion and use. Representatives of Constanta, FINCA, IOCC and ACDI/VOCA plus select banks were asked to specify what they consider to be the major constraints to increased access to credit and the corrective measures that need to be carried out to make the environment more credit-friendly.

The four credit programs covered by this evaluation mentioned the need for legislation and clearly stated regulations allowing for the existence of non-bank financial institutions. The status of non-banks should be clearly established in a new law, which includes specifying their tax and deposit taking status. Currently, when local legal entities established by U.S. PVOs with USAID funds are no longer under the umbrella of the bilateral Agreement between the GOG and USAID, their legal status of a not-for profit corporation (union or foundation) is insecure. The law under which they are registered provides that if a "not-for-profit" engages to any substantial extent in economic activity, it will be de-registered as a "not-for-profit" entity. The tax law provides that the income of the "not-for-profit" corporation from economic activity is fully taxable. Furthermore, banking laws restrict the rate of interest that can be charged, ignoring the higher costs of the methodologies of microlending.

Presently, when a credit program or institution is no longer under the umbrella of the agreement signed between the Government of Georgia and an international organization, it is subject to a host of taxes such as road tax and profit tax. It was also reported that 'heavy' and unreasonable taxes (including customs taxes) force many micro, small and medium sized entrepreneurs to operate in the shadow economy. The potential demand for credit is also constrained, responders noted, by legal procedures (such as registration of private land) and processes that are slow and often dependent on 'rent-seekers.'

One of the bank representatives specifically mentioned the need for simplifying laws related to pledged collateral and the system for processing cases, attaching the collateral and selling it to cover loan defaults. In particular, the Bank was frustrated by the appeal process, whereby there are five court levels. Each of the four credit programs has taken cases against defaulters to court. They view the process in Tbilisi as effective, but outside the capital their experience is more diverse. For example, IOCC had to spend innumerable hours researching the law and providing copies to the court in one of their regional centers since the court was unfamiliar with the law. Credit programs may also encounter a problem with liquidation of assets: the demand for bribes in order to be paid a fair market value.

The credit programs and the banks have learned to operate effectively in face of the constraints they mentioned. However, these constraints have a negative impact on their ability to operate in a cost effective manner. The current situation results in added costs, such as for security and prolonged legal cases. With reduced costs, the interest rates could be lowered.

Actions have been taken towards establishment of an unambiguous legal status and tax treatment of non-bank microfinance institutions. A microfinance working group established in early 2002 has prepared a preliminary draft law on credit-only MFIs. Under the forthcoming USAID activity, the contractor will assist the existing working group to draft amendments to the laws governing regulation, licensing and registration produce for non-bank MFIs and deal with other policy and tax issues related to their sustainability.

USAID and other international organizations are focused on reducing many of the constraints mentioned in Table 4, but some constraints are systemic and challenging to ameliorate. As the credit programs mature and become more independent from their international founding organization and USAID, they may still need relational ties to international organizations in order to have clout to deal with negative pressures within the working environment in Georgia.

Table 4. Major Constraints to Increased Credit Access in Georgia

Item	Major Constraints	Corrective Measures Needed
Legal	• No MFI law. • Very limited lender protection under the existing civil code. • Problems with pledged collateral. Long legal process. • Lack tax and other information on potential borrowers. • Process of registration of private land including influence of corrupt bureaucrats affects clients. Legal procedures slow and subject t o corruption. ▪ Lack of crop insurance	• MFI law drafting and passing • Adopt an equitable Uniform Business Code that would allow lenders to foreclose and repossess collateral without the need to file suit in a court of law. Would involve a series of laws that include, without limitation, a secured transaction registration system (collateral registry), a credit reporting system, changes in the law that would disallow parties to postpone legal proceedings arbitrarily perhaps through a Binding Arbitrage system as well as changes to the contract law, giving more over-all importance to legal documents to simplify closing a secured transaction. • The Notary system MUST be abolished or the fees must be set at minimal flat rates rather that the current fee schedule based on a percentage of loan amounts and collateral values. • Along with Lender protection, need laws to protect consumers, including truth-in-lending disclosures. • NGOs working towards landowner rights. • A nat ional system of crop insurance.
National regulations	• Corrupt customs, shadow market based system. • National Bank license and minimum assets required of any organization giving credits based on attracted savings.	• Redesign customs dept & practices. • Suitable regulations for MFIs to be able to offer savings services.
Local regulations	• Corrupt customs (same as above) • Local regulatory structure fluid following local interests and contradictory national regulations and legislation procedures harming NGOS and borrowers. • Local regulations for collection differ from region to the next.	• Change in customs (same as above) • Clarification and enforcement of existing legislation. • Adopt a Uniform Commercial Code that is mandated to be applied by all local administrations dealing with lender-borrower disputes.
Operational practices*	• Crime & robberies big hindrance. Results in high costs (MFIs) and unstable client base.	• Elimination of corruption from police force & others. More stable government.
Taxes	• Clients harassed by tax authorities. • VAT applied to business inputs and supplies, and on total lease payments. • Complex and contradictory tax laws make business development extremely difficult. • High tariffs on imported equipment and new technology hardware. • Unreasonably high employer taxes that raises employment costs by 40% or more. • Maximum expenses for travel very low (3 GEL per diem); amounts over this subject to employer taxes and employee income tax withholding. • Non-bank financial institutions cannot deduct loan losses from income. • All expenses are required to have only official tax dept receipts which bear stamp/seal of business that issued it. • Corruption	• Adopt a new, simplified tax code appropriate to businesses, simple to administer with rates that are beneath level of unofficial payments. • Tax code should be simplified and appropriate for small businesses. • For banks and MFIs, reduce number and value of taxes.
Stability of national monetary system	None noted.	(Banks and ACDI/VOCA loans indexed to US dollar, so no corrective measures noted)
Stability of national inve stment climate	• Political situation, crime and kidnapping make it a high risk. (B) • Arbitrary adherence to cumbersome legal procedure.	• Implement stricter measures to reduce crime in the country.
Other specify	• Corruption • Insufficient resources. (B)	• Corruptio n will take years to change, but must continue to tackle it. • More active links with donors and foreign banks.

*This refers to practices among the institutions, organizations etc with which your institution has to interact in order to carry out your work.

C. Competition

A number of credit programs and institutions have emerged as leaders in the micro, small and medium enterprise credit market in Georgia. Representatives of the four credit programs and three banks were asked their views on current and future competition. In addition, information provided by these organizations has been analyzed to identify where there is competition for the same clients with similar products (Table 5).[7] Annex 4 profiles the three banks and includes information on the lines of credit they access for their loan products.

Competition in the market has been cited by Constanta's Executive Director as one of the factors that moved Constanta forward to its current status, since the competition for micro and small loans required it to be innovative and cost-competitive. The positive role of competition should be remembered.

In the greater Tbilisi area, the market for group and individual micro/small loans[8] appears to be extremely competitive. Constanta, FINCA and World Vision all offer group loan products on similar terms. Constanta has recently been awarded a contract by British Petroleum to establish loan-granting facilitities to serve communities along the oil pipeline. As Constanta penetrates further into the southern region, where World Vision also operates, it may be faced with some competition.

Currently there is little overlap in the markets of IOCC and Constanta since IOC provides larger sized, individual loans. However, commercial banks in the southern region have begun to offer loans. Although their collateral requirements and interest rates are higher than IOCCs, their faster turnaround time and disbursement of loans larger than IOCC's maximum may negatively affect IOCC's credit program. In comparison, in Western Georgia, commercial credits are available at appreciably higher interest rates than IOCCs and the outreach of the credit programs of other non-governmental organizations is normally limited to towns. Therefore, in this region IOCC does not currently have a lot of competition.

Micro or small loans[9] to individual borrowers appear to be the market with the most competition inside and outside Tbilisi. The data suggest that there may be some variations associated with collateral requirements. At present, the Microfinance Bank of Georgia (MGB) has most of the market for individual loans varying in size up to $10,000.

As group loan clients advance and demand individual loans, they might seek credit from banks rather than remain with FINCA or Constanta. However, from the client assessment undertaken as part of this assessment and additional information on current clients, it appears most likely those graduating from group to micro/small loans will remain with the same credit program that they know and with whom they have a credit history. Those who may migrate to a bank will be

[7] Information on loan products of the three banks was also obtained from their websites.

[8] The institutions use different terms to refer to loans covering similar amounts. For example, FINCA's small enterprise loans ($300-10,000) are covered within the range that the Microfinance Bank and Tbiluniversal Bank classify as micro.

[9] The credit programs and banks use different terms to refer to loans covering similar amounts. For example, FINCA's small enterprise loans ($300-10,000) are covered within the range classified as micro by the Microfinance Bank and Tbiluniversal Bank.

the most successful entrepreneurs seeking larger sums than offered by their current program. Competition in the micro-small individual loan market means that FINCA, Constanta and to some extent IOCC are challenged to identify viable markets in less penetrated regional centers for their current loan products, and/or establish niche market products that carry relatively low administrative costs.

Currently ACDI/VOCA's main competitor is the Agro Business Bank (ABB). The Microfinance Bank of Georgia (MBG), as indicated in Annex 3, has an agricultural loan product, but it does not impinge on ACDI/VOCA's market. The Tbiluniversal Bank and the United Georgian Bank do not tend to loan for agricultural production, but may loan for agro-processing. ACDI/VOCA reports that their clients have indicated preference for ACDI/VOCA's credit system's rates and terms over those of ABB. More importantly, according to ACDI/VOCA, the clients report that they prefer borrowing from the ACDI/VOCA credit system because its personnel better understand the nature of agricultural lending, whereas the banks tend to dictate loan terms designed to fall within national bank regulations. Thus, ACDI/VOCA believes, for the foreseeable future, banks will not seriously impinge on its market for agricultural credit.

The four credit programs covered by this evaluation have benefited from a widespread distrust of banks. The distrust stems partially from the losses people suffered in the late 1990s when the currency was devalued some 40 percent. This had a large negative impact on savers as well as borrowers. Also, the findings from the evaluation's client assessment suggest that in rural areas, bank officers may still be demanding bribes in order to secure a loan. Nevertheless, bank deposits are increasing over time, which indicates a corresponding increase in confidence.

The information provided by representatives of the three banks reveals that the banks view other banks as their primary current and future competitors. Tbiluniveral Bank considers the Microfinance Bank of Georgia (MBG) as its the primary competitor, now and in the future, and the United Georgian Bank UGB) as a competitor. The MBG considers Tbiluniversal, and UGB as current competitors, but thinks that these banks are not likely to impinge on their market in the future. Interestingly, the UGB did not mention Tbiluniversal or MGB as current or future competitors. Instead, UGB mentioned the TBC Bank (which operates only in Tbilisi) and the Georgian Bank, which were also mentioned as current and future competitors by the MFB and the United Georgian Bank. The latter thought that TBC was likely to take some of their Tbilisi market but the other competitors are unlikely to affect their market.

The institutional objectives of the banks and information on their loan products suggest that the banks are actively making in-roads into the micro lending market for individual loans. Table 5 presents a comparative summary of the micro/small loans (especially for enterprises) of the four credit programs and three banks.[10] The data suggest that currently most Constanta and FINCA clients, that is their group loan clients, would not be able to secure a loan from one of these banks due to collateral requirements.

[10] Reliable information was not available to compare the lead-time and turn-around times across the organizations.

Table 5. Summary Comparison of Micro/Small Loan Products of the Four Credit Programs and Three Banks

	Constanta	FINCA	IOCC	ACDI/VOCA	Microfinance Bank	Tbiluniversal Bank	United Bank of Georgia
Individual, micro/ Small loans	Individual loans	Small enterprise loans	Individual	Secured Operating (OL) and Term Loans (TL) for Rural enterprises in the ag sector	Micro loans (“Micro, “Micro-Micro” and “Agriculture”)	Micro loans	Micro loans
Size (minimum/maximum)	$400-$3,000	$300-$10,000	$500-5,000	$697 -, maximum loan is 10% of capital. Largest loan in the portfolio: $80,000 USD.	“Micro-Micro”--- $100-$1,000 “Micro” --- $1,000-$10,000 “Agriculture”--- up to $2000	$200-$20,000	$ 1,000 – $15,000
Duration (months)	6-12 months	2mths-2 yrs	6-18 months	Duration of both OL and TL determined by the cash flow of the borrower. OL loans cannot exceed 18 months; TL Loans max 5 years.	“Micro-Micro”--- Up to 12 month “Micro” --- Up to 12 months in GEL and 24 in USD “Agriculture”--- Up to 12 month	Up to 12 months	3-12 months: working capital (raw material purchase, financing of current expenses) 6-24 months: Purchase of fixed assets (devices, equipment)
Interest rate (monthly)	2-3% GEL declining	1.5-3% GEL declining	15 – 21.6% declining per annum	All loans are same simple APR, 18%, calculated on the outstanding daily balance of Principal	“Micro-Micro: 4% (GEL loans) “Micro”:1.8-3% (GEL) and 2%(USD, EUR) “Agriculture”: 4% (Up to 1 000$ in GEL) 3% (More than 1 000 in USD	From $200 to $2,000 – 3% From $2,001 to $5,000 – 2.5% From $5,001 to $20,000 2%	From $1000 to $2,000 – 3% From $2,001 to $5,000 – 2.5% From $5,001 to $10,000 – 2%
Criteria and conditions	Individual or legal entity who operate a micro business. Borrower required to have minimum of 6 months business experience.	Sound business, income statement & cash flow analysis	Submit accurate application form with viable business plan.	Past experience in the proposed enterprise to be financed. Must have high integrity as measured by peers in the community which can be relied upon by the local loan committee.	Non-agriculture and Agriculture Fixed location (owned or leased); stable positive cash flow, prospect for growth & development in sector; adequate collateral. Up to 12 mths – For working Capital Up to 24 mths– For acquisition of Fixed Assets	At least 6 month working experience in running of a business to be financed; Fixed business location; stable positive cash flow; prospect for growth; non-agricultural business The main share of business to be in Georgian citizens’ ownership	At least one year working experience in any business; Permanent location (office, trade or service unit); Major share of a business should be privately-owned by Georgian citizens; Cannot be financed agricultural activities.

	Constanta	FINCA	IOCC	ACDI/VOCA	Microfinance Bank	Tbiluniversal Bank	United Bank of Georgia
Other requirements	Adm. fee 1-2% amount disbursed.	100% collateral guarantee	Meet collateral requirements (properly registered real estate, movable property, and a proportion in jewelry), good reputation in the community, appropriate knowledge or experience of proposed loan activity.	Must have collateral with marketable value equal to not less than 150% of the loan amount. Also, loans are made up to not more than 75% of the total proposed enterprise cost, borrowers must provide 25% of the cost in cash or in-kind contribution	Collateral 130% Value of loan; collateral gold, household equipment or immovable property confirmed by legal documents; fixed assets owned by company including high liquid production inventory	Collateral: Real estate and/or movable property owned by the borrower or assets owned by the business. If the loan amount doesn't exceed $1000-$15,000 then the collateral isn't mandatory to be taken under pledge. Collateral for the (Express Loan) not subject to conformation by notary but collateral must be insured. Collateral should be in the territory of Tbilisi with the book value adequate to the loan amount.	Collateral: Real Estate of t he Company Company's inventory, plant and equipment. Real estate and movable property of company managers and its founders. The market value of the collateral should correspond to the volume of the loan.
Number loans issues last fiscal year or calendar year	632	249	145	Loans Disbursed in 2002: 779	9,256	315 (Since began Mar. 2003)	This type of loan was currently implemented -new EBRD credit line N/A
# borrowers last fiscal or calendar year; % women	526 50%	203 48%	157 21%	779 4% women	8,447 32%	295 (since Mar. 2003)	N/A

D. The Future

The future for the two MFIs and two credit programs looks positive and challenging. Constanta and FINCA have established operationally and financially self-sufficient credit institutions, and ACDI/VOCA appears to have reached this stage as well. Presently the major threat to continued self-sufficiency of these programs appears to be banks drawing away those seeking micro/small sized individual loans. A number of other challenges also exist.

Reaching upwards in the credit market can be profitable, as indicated by the financial ratios of ACDI/VOCA. Micro lending carries higher costs. As a result, both FINCA and Constanta have diversified products, which permit the micro lending costs to be offset by the lower cost of individual lending. With the possible exception of the MGB, the banks are very unlikely to be serious competitors of the four credit programs for very small micro loans, due to the cost of delivering these. However, the banks are growing competitors for small sized loans. Their objective is gain clients, as savers and borrowers. One bank representative interviewed envisions the future to be: MFIs and credit programs as branches or extensions of his/her bank. A very negative aspect of that vision is *elimination of market-based competition*.

The *potential* also exists for a large sum being released for agricultural production credit, either through soft credit provided to a bank, the GOG or a credit program. Currently discussions are underway between the Ministry of Agriculture and the World Bank for soft credit that would fund micro loans for agriculture (e.g. $200). The IFC also mentions the possibility of providing funds for agricultural credit. At this stage, however, there is no evidence to indicate that the agricultural loans would be offered at interest rates below those in the current market.

The focus of ACDI/VOCA is building a sustainable financial institution serving commercial agricultural related firms. Constanta, FINCA and IOCC appear focused on building a market-led, sustainable institution with a client focus. As Constantin Tsereteli, a participating member of the evaluation team, has explained:

> The emerging competition not only requires an MFI to develop more client responsive products but also think of its institutional capacity, as well as its fitness and readiness in a fast changing environment. Environmental change may easily lead an institution to fail, if it does not have proper vision and capacity to meet it.
>
> Challenges come both at senior management and at field staff levels. In order to become more client and market oriented, the staff has to go through constant learning process and develop its know how.

As the four credit programs expand to new regions and markets, they will need to move at a pace, which strengthens, not undermines, their current status. This implies that they require competent human resources in market assessments, product development, testing and pricing, and assessing the financial viability of applicants for new products. They also need efficient and effective means to obtain accurate and useful client feedback.

IV. CLIENT ASSESSMENT

A. Introduction

The evaluation team was asked to look at the social and economic impact of the four programs as well as a) the intended and actual beneficiaries and b) client satisfaction. According the USAID/Georgia's present and future strategic objectives in economic growth, supported by a credit-related intermediate result, the intention has and will continue to be to assure that women as well as men benefit from the credit programs.

This section is based on the results of interviews carried out with a random sample of clients from each of the four credit programs. (See Annex 2 for more information.) The sample was selected from the program's branch office with the largest number of clients:

- Constanta: Tbilisi
- FINCA: Tbilisi
- IOCC: Akhaltsik
- ACDI/VOCA: Gori

The majority of interviews were carried out by officers of the credit institutions. In total 60 clients were interviewed, and the results suggest or indicate the findings that might be obtained from a larger sample. The strict random sampling process used to select the clients interviewed gives more credibility to the findings, than if a "convenience" sampling process had been utilized.

The survey covered five basic sets of data. The first set of questions yields information to suggest whom the credit institutions reach: key personal and household characteristics. The second set of questions centers on the respondent's loans and particularly the use of their last completed loan. The third set tried to elicit insights into gender dynamics related to taking and using the loans. The fourth set focuses on changes that have occurred as a result of the loans, that is the impacts of the credit programs. The last set of questions centers on client satisfaction, their likes and dislikes about the credit program.

B. Outreach

The gender distribution of the survey client respondents was nearly evenly divided between women and men: 48 percent and 52 percent respectively. Table 6 indicates that the distribution by credit program largely reflects the distribution of the program's total clientele. The vast majority (87 percent) of the respondents are married. They tend to be 47 years old, with 13 years of education. Nearly all classify their enterprise as their main source of income. The enterprises of the respondents were based mainly on trade (60 percent) and agriculture (30 percent), reflecting the focus on the credit programs. Those in trade were primarily FINCA and Constanta clients, whereas those in agriculture were ACDI/VOCA and some IOCC clients.

Table 6. Percentage Distribution of Survey Female Respondents Compared to Credit Programs Portfolio

	Constanta	FINCA	IOCC	ACDI/VOCA
Survey clients	87	73	27	7
Portfolio	70	67	33	4

Client households average four persons. These households tend to have more adults, aged 18 years and older, than younger children: on average three adults and one child. This finding is probably linked to the age of the clients. In general, half of the household's members are economically active. Most of the husbands of Constanta and FINCA's female clients are self-employed, 64 percent and 72 percent respectively. The others either have a wage income or pension. Nearly all of the households (92 percent) are dependent on a household enterprise as their main source of income.

Illustrative Client Profiles

- Merabi, aged 34 and unmarried, has a small bakery in Sabrutalo district. He lives with his parents in Tbilisi and is the main breadearner, although his mother also works. Their combined income is about $232 a month. He has a university degree, but it did not permit him to get a well-paid job so he started his own business.

- Fifty year old Klara, with 12 years of education, is married and lives with her husband, two adult children, daughter-in-law and grandchild. Only she and her husband work, so they support the others. She earns about $235 a month selling flowers, and her husband helps in her business.

- The household of Natela, 62 years old with 16 years of education has five adults and two children under 18 years old. Her husband helps with her trading enterprise in central Tbilisi. Her business plus pension are the family's only sources of income, approximating $95 a month.

- Makvala has a small kiosk in the older part of Tbilisi, from which she earns about $350 a month. A university graduate, she used to be secondary school teacher and her husband worked in a factory outside Tbilisi. Because their salaries did not enable them to support the family, they moved to Tbilsi and started this shop. Currently an adult child lives with them. Her husband helps with the shop and sometimes earns a little from other business activities.

- Tinatin, 74 years old with eight years of education, lives in a peri-urban area of Akhaltsike with her husband, two children, daughter-in law and two grandchildren. She and her husband each receive a pension of $7 a month. The family earns approximately $300 a month from their household enterprise centered on cattle fattening and livestock products.

A question related to poverty level of the household was included in the survey. Client respondents were asked, "In the last six months was there any time when you or a household member needed preventive or curative health services, but did not receive it due to a lack of funds for transport, services or medicine?" Ten percent of the respondents replied yes. These individuals were Constanta and IOCC clients.

An attempt was made to obtain income data to indicate the poverty/wealth level of the client households. However, the ability of clients to provide reasonable estimates make that data too suspect to include here. (See Annex 2 for a discussion.) The reader unfamiliar with Georgia should note that university professors get paid between $15-30 a month, school teachers less than this, and some private sector as well as government operations have not paid their workers for months/years. Thus, the incomes reported by the respondents are relatively good, but a number of household members are dependent on these.

Loans and Loan Use

The client respondents averaged 3.8 loans, with the highest averages among the Constanta and FINCA clients. Three-fourths of the respondents currently have a loan from their respective credit program. The average duration and amounts of their outstanding loans vary significantly, from 12-month loans from ACDI/VOCA averaging $3,137, to five-month loans amounting to $284 from FINCA. Data on average number of loans and current and last loan completed are provided in Table 7.

Table 7. Average Size and Duration of Current and Last Completed Loans of Respondents

	Constanta	FINCA	IOCC	ACDI/VOCA
Average number of loans taken	6.3	4.5	1.5	2.8
Last completed loan:				
Duration (mths)	4	5	15	11
Amount	$375	$284	$1,753	$3,137
Current loans:				
Duration (mths)	5.1	5	12	19
Amount	$468	$353	$2,020	$2,459

A series of questions about the last loan completed permits a better understanding of how loan funds are used. Although all the credit programs stress use of the loans in the business for which they were obtained, some clients admitted to using a small portion of the funds for other purposes, normally to purchase food, or hold some for emergencies or the first loan installment. All report that the bulk of the funds were used for the intended business purpose. The use of a some of the loan outside the business or for the first loan installment is not an unusual finding in microfinance programs, since household money tends to be fungible, repeat clients have gained confidence in their ability to repay the loan, and clients have few other income sources to meet basic household needs.

More than two-thirds of the ACDI/VOCA clients interviewed and one IOCC respondent used their loans for wheat production. Other IOCC respondents engaged in the agricultural sector include two in animal husbandry, two potato growers, a fisheries entrepreneur, and a food packer. The other IOCC respondents covered a range of business activities including a café, family hotel, a local television station owner, shopkeepers, and gold appraiser and seller.

Among the FINCA clients interviewed, 40 percent used their loan funds in an agricultural related enterprise, such as selling frozen food, cheese, and sunflower seeds. Another bakes cakes for sale. Nearly half of the FINCA respondents used the funds in their enterprise related to clothing, including the selling new and second hand clothes. In comparison, 40 percent of the Constanta clients interviewed allocated their loan funds to their clothing business, primarily retail sales but also some tailoring. Nearly half of the Constant respondents used the funds as working capital in their fresh food trade enterprise. One invested in his bakery and another in his taxi business.

The enterprise in which the loan funds were used normally belongs solely to the client (55 percent) or is classified as a household enterprise (34 percent). The others are partnerships, found largely among IOCC and FINCA clients. In only one case did the assessment uncover a female client who reported that the loan was used in a business owned solely by her husband. Three-fourths of the FINCA female clients and two-thirds of Constanta's female clients reported that they alone decided on how the loan funds would be spent. Three-fourths of Constanta's female clients and nearly all of the FINCA female respondents reported that she alone provided the funds for loan repayments.

These findings reflect that a large proportion of women have taken the lead in providing for their household. Their husbands may be involved in deciding on use of the loan funds and in helping with the enterprises, but the women are the main managers. A report on the Effect of Micro-Financing Service (sic) on Poor Entrepreneurs of Georgia 2001 noted the following:

> The new reality of 90s made corrections in distribution functions within Georgian families. Men, the former family supporters and decision-makers became unemployed and income-less. They appeared to be less adaptive to the new reality and women had to take over micro-entrepreneurial and self-employment activities. Yearning for finding income sources and support their families (sic), women became burdened…This fact underlines the significant change in social and economic functions of women.

IMPACTS

Data on impacts were collected in four ways. First, client respondents were asked if changes took place in the enterprise as a result of expenditures made with their last completed loan and then asked to explain the changes, noting whether these were short-term or sustained. Second, information was gathered on employment in the enterprise, before investing loan funds in the enterprise and last month (or in some instances, seasonal) in order to calculate changes. Third, respondents were asked if they had any profits after repaying their last loan and if so, how the money was used. They were also asked about the direction of change in the profits they earned in this enterprise over the last 12 months, and reasons for the change. Fourth, at the end of the interview respondents were asked if there were any changes in their household, enterprise or community that they would like to mention that were a result of the credit program.

Three-fourths of the client respondents reported a change in their enterprise as a result of expenditures made with loan funds. The highest proportion was among Constanta clients (93 percent) compared to 87 percent of the IOCC clients, and two-thirds of each of FINCA and ACDI/VOCA clients. Since most of the FINCA and Constanta respondents have an outstanding loan, they had difficulty distinguishing between short-term and sustained outcomes from one particular loan. Similarly, the ACDI/VOCA clients tended not to distinguish between short-term and sustained outcomes. In comparison, approximately a third of the IOCC clients mentioned the changes to be short-term. In other cases the changes made by IOCC clients have been 'sustained': for example, rehabilitation of a residence for a café and for a family hotel, and renovation of an office for a local television station.

When asked how they would have obtained funds for these expenditures if they had not taken a loan from their credit program, 37 percent reported that they would have borrowed from another formal source and another 37 percent stated that they would have borrowed from friends. Only a fifth stated that they would not have made the expenditures if they had not received a loan from their respective credit program. These findings underlie the degree of competition for clients among credit programs and banks. They also suggest a relatively high degree of informal borrowing for business purposes among friends and relatives. However, since the clients chose to take an interest-bearing loan, it is likely that friends and relatives are used as a last resort and reserved for helping with household needs.

The use of the credit led to an increase in paid employment. This occurred primarily among the IOCC clients. Overall, among the 60 client respondents, 31 fulltime paid jobs, 30 part-time paid jobs and 13 jobs for seasonal workers were created. (Table 8) The findings on employment are significant, especially those related to FINCA and Constanta. Studies of group loan as well as individual loan clients in other countries have tended to find no impacts on employment from micro sized loans.

The findings also suggest a modest increase in use of part time unpaid labor among the IOCC and FINCA clients. These workers tend to be family members. The total increase in number of part time unpaid employees was nine: five among IOCC clients and four among FINCA clients.

Table 8. Increases in Paid Employment in the Enterprises of Client Respondents

	Full time paid employees			Part time paid employees			Seasonal part time paid employees		
	Last month	Before	Gain	Last month	Before	Gain	Last season	Before	Gain
IOCC	23	7	16	11	0	11			
FINCA	22	15	7	2	2	0			
Constanta	16	9	7	0	0	0			
ACDI/VOCA	6	5	1	46	27	19	20	7	13
Total change			31			30			13

Respondents were asked about the direction of change in their profit levels over the past 12 months in the business in which they used their loan funds. For two-thirds, the profit had increased: 55 percent 'increased' and 13 percent 'increased greatly'. About one-quarter reported that the profit level remained about the same, and 8 percent noted that it had decreased. The main reasons given for the decreases were poor sales due to low demand and the departure of an unpaid worker. The increases were largely due to expanded volume of sales (47 percent), and 13 percent said it was due to buying in bulk and 13 percent had added a new business activity.

Clearly 88 percent of the respondents said that they had a profit after repaying their last loan. The responses varied from 100 percent among the Constanta and FINCA clients to 73 percent among the ADCI/VOCA clients, and 80 percent positive responses from both the FINCA and IOCC clients. In response to how they used their profits, most (85 percent) reported that they used their profits in their business. A small proportion (13 percent) launched a new business. The findings also suggest that the credit programs have a positive impact on the household, by increasing the amount of money they have to expend on food, health and education. In some instances additional funds went to support family and extended family members living in a separate household.

Examples of Use of Enterprise Profits

- Manana, who is not married, has a small stall in Samgori market and rents a small apartment in Tbilisi. The profits from her business go to support her mother, with a pension of $7 a month, and her three unemployed brothers who live in the rural areas. They keep some cows and grow produce for domestic consumption.

- Twenty-two year old Tamuna works in Didube, earning about $240 a month. Most of the profit she spends on food and puts back into her business. She also reports that with the help of the credit program she was able to graduate from Cultural University of Georgia.

- The profits from the animal husbandry activities of Tinatin in Akhaltsike enabled her son, aged 45, to buy biogas technology equipment to generate gas for household use.

Impact Comments

- Decreased stress from lacking cash.

- Enlarged business premises

- Increased income by 300 percent for three harvest periods (fisheries).

- Loan permitted me to produce high quality applies. Able to apply modern technologies and practices.

- Was able to apply modern technologies to wheat production. Bought improved seeds.

- As a result, I now have cash savings.

Only one respondent mentioned the impact of his credit program on the wider community. He stressed that ACDI/VOCA's credit program makes credit available to farmers and allows them to increase their yields through purchase of improved seed varieties.

Client Satisfaction

Client satisfaction was assessed in three ways. Respondents were asked to name the two main things they like most about the program from which they took credit and the aspects they least like. Second, members of loan groups were asked the number in their group during the first loan cycle, the number who have left the group and reasons why people departed. Finally the random sampling process used to identify persons to be interviewed allowed for interviewing individuals who were no longer in the program. However, in the case of FINCA, those who had departed could not be found for interviewing, indicating that this was a flawed method especially in urban areas.

The main likes among the FINCA clients were the group-guarantee policy (53 percent), low interest rate compared to informal lenders (33 percent), steady source of working capital (33 percent) and short turn-around time from loan application to disbursement of loan funds (33 percent). Half of the Constanta clients commented positively on the good service and attitude of Constanta staff. [11] Also half of them said that they liked having access to a steady source of working capital and a quarter of them mentioned the short turn-around time. Similarly, two thirds of the ACDI/VOCA clients liked the short turn around time and a similar proportion mentioned the interest rate being lower than informal sources of credit. In addition, nearly half liked that ACDI/VOCA's collateral requirements were easier than loan alternatives.

The likes expressed by the IOCC respondents centered on interest rates lower than those in the informal sector and the service-oriented staff. More than three-fourths of the IOCC clients mentioned the latter, which included the following comments.

- High level of service.
- Very polite relations with clients and very professional
- Advice and support in the loan application process.
- Loan officers carefully analyze each plan for use of loan funds.
- No bribes.

The respondents also identified the things they most dislike about their credit program. High interest rates or fees were mentioned by FINCA clients (53 percent), ACDI/VOCA clients (73 percent) as well as the relatively few Constanta clients who answered this question (six responded to the question and all mentioned this factor). Also the guarantee/collateral policies of the credit program were mentioned by 40 percent of the IOCC respondents and a third of the ACDI/VOCA clients. The loan duration period was a factor with which half of the IOCC clients were dissatisfied. Some pointed out that 12-month loans are too short for crop production, since the cycle from land preparation to receipt of payment for their harvest can be up to 18 months.

[11] It should be noted that all of the interviews conducted with Constanta clients were carried out either by a Constanta intern (university student) or a MSI team member.

Departure from the credit program may indicate client dissatisfaction, but this is not always the case. Departure also has significance since recruitment of new clients is more costly than servicing repeat borrowers. Information from FINCA group loan members indicates that out of an original 84 clients in the first loan cycle, 11 percent had left the program. Those interviewed were not forthcoming on the reason for departure. (The sampling process suggests that the departure rate is slightly higher than this.) In comparison, out of a total of 107 original Constanta group members, 30 percent had left the program. Among those no longer borrowing, a quarter had not repaid their loan so other group members had to pay for them, another quarter had moved, and three had died. The reader should recall that the Constanta sample had been in the program a slightly longer time than had the FINCA sample.

As mentioned previously, nearly two-thirds of the IOCC respondents and a fifth of the ACDI/VOCA respondents were no longer clients of the respective credit program. The IOCC departures were among those who had increased or even greatly increased their profits as well as a few who experienced no profit increases. A number of those departing had mentioned low loan size as a dislike and a couple had mentioned difficulty with use of gold as collateral. The others appeared to have met their objectives, such as reconstruction of office space and reconstruction of private homes for a café and a family hotel. The three ACDI/VOCA departures were among those whose profits had remained the same over the past year and two of these individuals had experienced a bad harvest due to weather conditions.

The findings suggest that departure from the program may be a result of the loan product not meeting the needs of the clients and lack of profitable returns. The findings also suggest that those borrowing large sums may have a specific objective and when achieved they no longer need to borrow.

Also the findings from the group loan members, consistent with the findings in other countries and a recent assessment by FINCA Georgia, suggest that drop out rates may increase after a number of cycles, after objectives have been achieved, others want to graduate to individual loans, and fear of the risk of guaranteeing members with relatively high loan amounts.

V. Conclusions and Recommendations

A. Major Findings and Conclusions

1. The lack of viable economic alternatives has led to Georgian household livelihood strategies based on self-employment and micro and small enterprises. This has stimulated the demand for credit and acceptance of credit on commercial terms, which in turn has aided the development and growth of the Constanta and FINCA microfinance institutions, and the credit programs of IOCC and, to some extent, ACDI/VOCA. The demand for credit from ACDI/VOCA's program is also associated with the need to regenerate commercial farming through the application of improved seeds and other 'modern' technologies. (For ease of reading, all of them are referred to as credit programs in this section.)

2. Constanta has emerged as a shining example in Central Asia and Eastern Europe. It has the greatest number of clients of any non-bank MFI in the region. It has emerged as a controlled and managed Georgian MFI, which is financially self-sufficient. It should serve as a model to others in the region.

3. The four credit programs represent a range of objectives, focus and loan products and, to some extent, geographic coverage. Constanta and FINCA tend to be the most similar. They offer group-guaranteed loans and individual loans, and the majority of their clients are women in the greater Tbilisi area. IOCC's credit program works outside greater Tbilisi in southern and western Georgia. It has low coverage and offers relatively large sized individual loans. IOCC takes into consideration the socioeconomic impact of the activities they finance. ACDI/VOCA's credit program also offers larger sized individual loans, through registered cooperatives outside the greater Tbilisi area. It focuses on commercial agricultural activities.

4. The credit programs have good financial systems in place. In particular, each program has established loan approval procedures that involve crosschecks. In addition, both FINCA and Constanta have an internal auditor, who examines loan actions and notes whether lending policies and procedures have been adhered to. ACDI/VOCA plans to hire an internal auditor in the near future. All programs have annual external audits.

5. The four credit programs limit their handling of cash through using banks. All rely on banks for loan repayment transactions. All ACDI/VOCA and IOCC credit disbursements are made through banks. Constanta also relies on banks for disbursements, to the extent possible. In some instances, Constanta has satellite offices in bank branches outside greater Tbilisi. In sum, the four credit programs have established good working relationships with banks. The evaluation data also suggest that select banks may increase as competitors with the credit programs for individual loan clients.

6. ACDI/VOCA and Constanta have demonstrated their willingness to work with non-credit giving NGOs. For example, ACDI/VOCA carried out a pilot grant-loan program on behalf of Mercy Corps, for the USAID-funded Georgia Community Mobilization Project. Linkages and collaboration between credit programs and non-credit giving NGOs is significant since it indicates that the NGOs have sought out specialized institutions to provide credit, rather than establishing credit as a component of their own program. Based on lessons learned, the latter is a 'bad' practice.

7. Constanta and FINCA are currently financially self-sufficient. ACDI/VOCA reached this stage in June 2003. To remain financially self-sufficient, they will need to be sensitive to changes in their markets and develop niche market products.

8. Constanta is the only credit program among the four that is govern and controlled by Georgians. FINCA Georgia has an international board of supervisors. Both the ACDI/VOCA and IOCC credit programs currently operated as 'projects' under their international PVO. Progress needs to occur to develop and institutionalize these other programs, giving more leadership and governance responsibility to Georgians.

9. Training of current staff and managers shall be important to the sustainability of the four credit programs. Given the current competitive environment, training in market assessments, product development, pricing, testing and marketing, as well as loan appraisal techniques for new products are areas that need attention.

   Except for Constanta, the other credit programs lag in 'training' Georgians to take management and leadership responsibilities.

10. Opportunities exist for expanding outreach of the credit programs' current loan products and for introducing new financial products. Competition is strong in the greater Tbilisi area, yet there appears to be some unmet demand for micro and small loans. The greatest competition exists in the market for micro/small individual loans. Currently the Microfinance Bank of Georgia has the largest share of this market.

12. It appears that the majority of FINCA and Constanta's current clients, those with group loans, could currently not receive loans from the Microfinance Bank of Georgia or other commercial banks, because of a lack of collateral. Many or even most of the ACDI/VOCA clients could probably receive loans from the Agro Bank, but they prefer the credit program operated through their local cooperatives. Also, many IOCC clients could probably receive loans from local banks, but the service-oriented staff of IOCC appears to attract clients.

11. The four credit programs operate in a very difficult environment. So do their clients and potential clients. A number of changes in existing laws, regulations and practices are needed to further open up the credit market and lower the operating costs of non-bank financial institutions and credit programs.

12. The future holds some possible challenges for the four credit programs. At least one bank has indicated that they would like existing programs and institutions to become their bank branches, rather than to have them as competitors.

13. USAID's focus has been on assuring that women as well as men have access to credit. The evaluation findings show that women are the majority of FINCA and Constanta's clients, a third of IOCC's clients but less than four percent of the ACDI/VOCA clients. This indicates that the larger sized loans are secured by men, for agriculture and other business activities. In contrast, most of the female clients appear to be operating their own or a household non-farm enterprise, often focused on trade. The findings suggest that the married female clients tend to be those responsible for supporting their households.

14. The client assessment carried out by the evaluation team suggests that the credit programs have had a significant impact on paid employment. Evidence from those interviewed indicates that access to loans has led to new fulltime and part-time paid jobs. Also, the loans appear to enable most clients to increase their enterprise profit levels. The assessment findings indicate that enterprise profits tend to be allocated for both enterprise and household uses. Among those interviewed, the main household use has been for purchase of food, and to lesser extents, health and educational expenses.

    The survey of clients revealed difficulty in obtaining sound estimates of per capita household income as a poverty measure.

15. The client assessment findings indicate that clients tend to be satisfied with their credit program and recognize that they have options. Dislikes tended to center on the high interest rates.

16. With the exception of IOCC, the drop out rate from the credit programs does not appear to be outside the range normally found for their type of loan product.

B. Recommendations

The following recommendations are presented for consideration by USAID/Georgia and the four credit programs.

1. The USAID Georgia Microfinance Stabilization and Enhancement Activity task focused on Develop *partnerships between commercial banks with branch networks and non-bank MFIs to provide additional financial services to MFI clients* should be revisited by USAID to reconfirm that this is a significant activity that is needed to achieve its objective of Accelerated Development and Growth of Private Enterprises. The exercise should include addressing questions such as: What financial services do MFI clients want that they cannot currently access directly from commercial banks or

non-bank MFIs? What costs and risks would non-bank MFIs incur if they were to partner with commercial banks to offer the services or make referrals? Do branch bank networks and non-bank MFIs indicate that they are willing to establish partnerships to offer additional financial services to MFI clients?

2. USAID should consider providing financial support directed at changes in the laws, regulations and practices related to collateral registration and notarization, and enforcement of contracts. Representatives from a number of credit programs, non-bank financial institutions and, when appropriate, banks should be involved in the process of proposing the changes needed, review of draft laws and regulations, and advocacy activities.

3. Non-bank credit managers should be provided access to training by high-level professionals. Constanta, ACDI/VOCA, and FINCA, for example, have experienced and knowledgeable staff, which could benefit from the knowledge, skills and experience of high-level professionals in the microfinance field on cutting edge approaches, such as product development, costing, testing and marketing. Some training might be offered to a range of non-bank MFIs and other training be tailored to a particular need of a single institution.

   Key managers of the microfinance and credit programs should be trained so that they can direct and manage client assessment activities. Also, technical skills training might be provided to increase the capacity within and outside these institutions to conduct surveys and employ other approaches that yield credible and useful information. The managers ought to have the capacity to oversee work done by others, as well as to conduct their own assessments. This will enhance their capacity to conduct market assessments, and monitor and obtain feedback on pilot tests of new products and so forth. It should also increase their capacity for socioeconomic accounting. For programs providing larger sized loans, this implies accounting for employment generation and/or other contributions to economic growth.

4. Funds should be accessible to non-bank MFIs and credit programs to develop, test and launch new products. The funds should be managed on a competitive basis. Access to these funds would help them to identify viable niche markets and develop and test products for these markets.

5. The non-bank MFIs and credit programs that are interested in knowing the poverty/wealth level of their clients should consider being an active participant in the forthcoming Poverty Assessment Project of USAID's microenterprise office. This Project shall test a number of tools centered on assessing and measuring the poverty level of microfinance clients. It is anticipated that the lead contractor for the project will be looking for partners to test the tools.

ANNEX 1

EVALUATION TEAM AND PERSONS INTERVIEWED

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Micro Finance Bank
(This bank has been renamed as Pro Credit Bank)

ANNEX 2

EVALUATION METHODOLOGY

Modified Participatory Evaluation

The scope of work for this evaluation called for a modified participatory evaluation involving USAID and USAID implementing partners. Consistent with the Scope of Work for the evaluation, the four credit programs participated in data collection, through provision of information to the team leader, the conduct of client interviews, and assistance with locating sampled clients whom the MSI team interviewed.

A meeting was held with representatives of FINCA, Constanta, and ACDI/VOCA for USAID to discuss the evaluation and introduce the MSI team. At this meeting, the draft data collection instruments were discussed, and suggestions provided on revisions to the client survey questionnaire. Given the timeframe, it was agreed that 15 randomly selected clients would be interviewed from each program. In addition, the sampling procedures were agreed upon and the protocol for introducing the survey was discussed. A second meeting was attended by Save the Children, CARE, Mercy Corps and IOCC to discuss the evaluation. It was agreed that IOCC would be an active evaluation partner and a follow-on meeting was held to discuss the process and data collection instrument.

The evaluation team leader also held interviews with key members of the evaluation team.

Client Sampling and Interviews

It was agreed that the sample would be taken from the credit program's main branch and be based on the main loan product of the credit program. The random sample was based on those who had completed loans between March 1-31, 2003. In cases where the number of clients was small or the number so small that it would entail selection of one person from a loan group, loans completed the previous months would be part of the sample population. Using the specified random selection process, 15 clients were selected for the core sample, with the name below as the alternate if the 'core' person was unavailable.

The MSI team was involved in the sampling process and sample selection. The team leader worked with FINCA, ACDI/VOCA and Constanta and the MSI local consultant worked with IOCC to draw the sample and further review the questionnaire, protocol and good interviewing techniques.

ACDI/VOCA interviewed its 15 sampled clients. Most of the respondents of IOCC and FINCA were interviewed by an officer of the credit institution, while the other clients were interviewed by a member of the MSI team. Most of the Constanta clients were interviewed by a Constanta intern, with the others interviewed by a MSI team member. In keeping with the protocol established by the SEEP Network, no clients were interviewed by their respective loan officer.

Poverty Level of Clients

The client survey questionnaire included questions to elicit estimates of the respondent's household income the previous month. The intent was to use the results together with findings on household size to derive monthly income per person for each household. However, the findings were highly suspect. Contrary to the anticipated underestimation of household income, some data appeared to be unrealistic because they were too high. This may have been the result of providing estimates based on gross enterprise income rather than net revenue of the enterprise. Because of lack of confidence in the findings, the results are not presented in this report.

ANNEX 3

DEFINITIONS OF TERMS IN TABLE 4

Loans	
Number of loans given during the period	Number of loans; when group methodology it refers to every individual who is responsible for repaying portion of group loan.
% loans to women	Number of women receiving loans divided by total number of loans given
Average size of loans given during the period	Value of loans dispersed divided by total number of loans given
Total value of all loans during the period	Value of all loans disbursed including non-performing or written off loans.
Number of loans outstanding at end of the period	Number of loans that have been neither fully repaid nor written off
Assets	
a. Cash and deposits at end of period	
b. Total Value of Loans Outstanding at end of period	Loan principal
c. Loan loss reserve	The value of the gross loan portfolio that has been provisioned for in anticipation of losses due to default. This item is usually not a cash reserve, but an accounting devise approximately the size of anticipated loan losses.
d. Net fixed assets	The purchase value or cost of all physical property and property improvements less accumulated depreciation expenses. Tangible assets.
Total assets: a+b-c+d=	Includes all assets minus loan loss reserve and depreciation (d).
Risk Status	
Portfolio at risk: percent of loans more than 30 days in arrears	Percent of all loans outstanding at the end of period that have one or more installments past due date. This item includes entire unpaid principal balance, including both the past due and future installments, but not accrued interest. Does not include loans that have been restructured or rescheduled.
Portfolio at risk: value of loans more than 180 days in arrears	Same as above but for those more than 180 days past due date.
Client Revenue	
Total value of interest income collected from clients	Item includes not only interest paid in cash but also interest accrued and not yet paid.
Total value of fees, commissions from clients	Includes application fees, late fees and penalties.

Other Revenue	
Total value of grants received for capital lending (site source)	Item includes grants and other cash donations.
Total value of grants received for operations expenses (site source)	
Total value of in-kind assistance	Includes estimate of value of in-kind goods and services provided at no cost or below market value, such as computers, consulting services, free office space. Include items that MFI would have otherwise purchased.
Interest from investments	Amount earned.
Operating Expenses	
Expenses • Personnel • Personnel minus expenses incurred for foreign personnel	Personnel expenses: includes staff salaries, bonuses, and benefits as well as employment taxes incurred by the MFI. Does not include on-going or specialized training for existing employees, which is an administrative expense.
Administrative expenses	Non-financial expenses directly related to provision of financial services, examples, depreciation of assets, rent, utilities, supplies, communications, consulting fees, transportation, and training.
Financial expenses	All interest, fees and commissions incurred on all liabilities, mortgages and facility fees for credit lines. It includes accrued interest as well as cash payment of interest.
Value of loans written off	The value of loans recognized for accounting purposes as uncollectible. Does not bear on MFI's efforts to collect the delinquent loan or client's obligation to pay.
Taxes	Business and other taxes paid BUT NOT taxes on personnel.
Ratios	
Cost per borrower	Operating expense divided by average number of active borrowers. Operating expenses include all administrative and personnel expenses. Divide by number of borrowers
Loan officer productivity	Number of active borrowers divided by number of loan officers (those in contact with clients)
Operational self-sufficiency	Operating revenue divided by (financial expense + loan loss provision expense + operating expense)
Financial self-sufficiency	Adjusted operating revenue divided by (financial expense +loan loss provision expense +operating expense)

Based on SEEP, Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance, draft 2003.

ANNEX 4

PROFILE OF THREE BANKS PROVIDING MICRO, SMALL AND MEDIUM SIZED LOANS

Microfinance Bank of Georgia. Created in 1998, the bank provides micro, small and medium sized loans of up to $300,000. Its main shareholders are the German-Georgian Foundation for the Promotion of Private Sector Development/German Development Bank (KfW)(25%), International Finance Cooperation (IFC) and the TBC Bank. Currently MGB has six credit lines, including $11.25 mil from EBRD, $5mil from Kfw, and $4 mil from IFC. In the first quarter of 2003, its assets amounted to $47 million and its liabilities $37 million.

MGB has three branches and four departments in Tbilisi, and four branches and four departments outside Tbilisi. The departments are supervised by the branches. It offers loans to individuals and companies. It has eight loan products: 'micro-micro', micro, small and medium sized loans, consumer loans, housing loans and agricultural loans. It is currently testing an express micro loan in six of its branches.

Its loans micro-micro ($100-1,000) and micro ($1,000-10,000) loan portfolio are normally for less than one year, and the express ($100- 600) loan is for six months. Loans with more than 12-month maturity are denominated in US dollars. The interest rate varies depending on the product, loan size and maturity. Generally installments are repaid at a maximum 30-day interval and no grace period is granted. In exceptional cases a grace period of six months may be granted, but accompanied by stricter monitoring during this period. None of these loans are for agriculture and the borrower is required to have a fixed business location (owned or leased premises), stable, positive cash flow, and demonstrate prospects for growth. Personal items, such as gold or movable property owned by the borrower confirmed by legal documents and company fixed assets can be considered as the collateral. Collateral of 130 percent must be pledged against the loan, and must be appropriately registered (except for express loan product). The credit committee may require the fixed assets to be insured. Last year it gave 9,256 loans to 7,747 borrowers, with an average size of $2,104.

Its small and medium sized loan products have similar eligibility and collateral criteria, as the more micro loans. However, these loans may be used for agriculture sector businesses, such as food processing. Last year they gave 641 small loans that averaged $23,738 and 58 medium sized loans that averaged $120,318.

Tbiluniversal Bank. Established in 1997, it currently offers micro, small and medium sized loans. Tbiluniversal has its head office, a branch office and service center in Tbilisi and a branch bank in Bolnisi. It has one branch outside. Currently it has a $1 mil credit line for small and medium loans as well as a $1.5 mil credit line for micro and small loans from EBRD, plus a $1mil credit line from the World Bank. At the end of 2002, its assets totaled $9 million and it had $6 million in liabilities.

Its micro loans are for $200 to $20,000 with a duration less than one year, and all loans are expressed in USD. The interest rates vary, from 2 percent per month on the higher amounts to three percent per month on those under $2,000. If the client repays on schedule, on completion the bank returns a commission fee, which is 2 percent of the total loan amount. After three years, a client can replenish or increase the loan amount without notary or other expenses. Loans are not given for agricultural activities. Collateral (real estate, movable property and/or assets owned by the enterprise) must be assigned for 100 percent of the loan amount, but collateral does not need to be confirmed by notary. However, Tbiluniversal requires insurance on the collateral. Since it began its microloans in March 2003, it has disbursed funds to 295 borrowers.

Its small and medium sized loans range from $20,000 to $200,000. In exceptional cases the interest rate may be less based on credit history of client and business activity. Also exceptional cases may be given a grace period. The borrower must have at least six months experience, a fixed enterprise premise, adequate management and adequate collateral. The average sized loan is $60,000 –70,000 and last year there were 100 borrowers.

United Georgian Bank. Since its establishment in 1995, it has provided micro loans and loans to commercial enterprises. UGB has 8 branches and 7 service centers in Tbilisi and 11 branches and 5 service centers outside greater Tbilisi. It has obtained three lines of credit: DM 7,000,000 from KFW for 1995-2032 focused on agribusiness; $7.5 mil from the European Bank for Reconstruction and Development (1997-2008) and with Bannock Consulting has started a micro lending program to finance newly established small-sized enterprises and individual entrepreneurs. It also has a line of credit of $15 mil with the Commercial Bank of Greece, until 2008.[12]

Its most popular loan product is Lombard Services, whereby credit is secured by gold and/or precious metals. For a monthly interest rate of 3 percent, clients can borrow up to six months in duration against collateral, which is appraised and then held by the bank. The size of the loan depends on the value of the collateral, but tends to average $150. UGB reports that last fiscal year they had more than 12,000 clients accessing this loan product.

UGB provides commercial loans, varying in size from $1,00 to 800,000, with an average of about $11,700. Loans can be for purchase of fixed assets, replacement and upgrade of equipment and machines, and working capital. The borrower must have at least six months of successful working experience, and be able to show a positive, profitable financial statement. The borrower must have sufficient collateral and positive credit history. The bank considers all kinds of assets with a high liquidity rate for collateral, but not living space. Collateral must equal 125-150 percent of the loan and, except for small loans, be registered in the public cadastre and notarized. When vehicles, stock and large equipment/machinery are used as collateral, they must be insured. Last year there were 253 borrowers and 95 percent of the loans were for less than one year.

UGB provides ‘micro’ loans (between $5000-15,000), with the interest rate varying according to the currency, borrower’s credit history and the type of project for which the loan is obtained. These loans for private enterprises are for a) improvement of production capacities and

[12] Current data are not available on its assets and liabilities.

machinery, with a duration of up to five years; working capital, with a duration of up to two years; and export and import trade, with a duration of up to two years. The repayment schedule takes into account the activity funded. The bank considers all kinds of assets with a high liquidity rate for collateral, but not living space. Collateral must equal 125-150 percent of the loan and be registered in the public cadastre and notarized. When vehicles, stock and large equipment/machinery are used as collateral, they must be insured. Last year there were 80 borrowers.

ANNEX 5

SUMMARY OF THE SURVEY RESULTS

Questionnaires	Constanta	FINCA	IOCC	ACDI/VOCA	Total
# of clients interviewed	15	15	15	15	60
% of those interviewed women	87	73	27	7	48
% with group loan product	100	100	0	0	--
Average age	47	44	51	45	47
% of married	80	12	14	14	87
Average years of education	13	80	93	93	13
Average number household members	4.2	3.8	5.5	6.1	4.1
Average number HH members 18 and under	0.9	0.9	1.6	2.0	1.3
Average % of household members economically active	43	53	80	49	52
% of client whose main income sources is own or household business	87	100	80	100	92
% HH main source of income is own/HH business	85	93	82	100	91
Main business activity a client					
% in Commerce	87	93	47	13	60
% in Agriculture	0	0	40	80	30
Average # of times loan obtained	6.3	4.5	1.5	2.8	3.7
% who currently have a loan	93	100	33	80	77
Average amount of current loan (US$)	468	353	2,020	2,459	1,119
Average duration (mths) of loan outstanding	5	5	12	19	8
Last loan completed, average amount	375	284	1,753	3,137	1,326
Last loan completed, average duration (mths)	4	5	15	11	8
% of respondents used portion of loan funds for					
food	53	53	7	0	28
saved for emergency or loan installment	33	27	0	0	17
% of respondents that would have borrowed from…, if loans from this program not available					
from another formal institution	27	27	60	33	37
from friends	47	53	27	20	37
% of respondents that would not have made these expenditures, if loan from this program not available	20	13	20	20	18
% of women respondents that decided on loan allocation herself	64	75	40	100	66
% of women that solely provided funds for loan payment	77	92	50	100	80

Questionnaires	Constanta	FINCA	IOCC	ACDI/VOCA	Total
Ownership of enterprise in which loan used					
% Self alone	60	67	33	60	55
% Household	20	17	53	40	34
Types of enterprise in which loan used (%)					
Agriculture	7	7	40	87	33
Trade/commerce	80	93	47	13	58
% of respondent that had changes in the enterprise	93	67	87	67	78
%Yes, had profits after repaying loan	100	100	80	67	88
% of those with profits who used the money for (multiple responses)					
Educational expenses	27	20	8	9	17
Health	20	13	0	36	17
Food	47	33	33	9	42
Savings	33	13	0	0	13
Reinvest in business	80	93	67	100	85
Start new business	20	7	17	9	13
Purchase fixed asset for household	7	0	25	0	8
% Yes, respondent or household member took a loan from another formal organization	7	0	20	0	7
% of initial group members who have left group	31	12	Na	na	23
Aggregate, net changes in enterprise employment					
Full-time paid	7*	7	16	1	31
Part-time paid	0	0	11	19	30
Part time seasonal	--	--	--	13	13
% whose enterprise profits the last 12 months					
decreased greatly	0	0	0	0	0
decreased	7	13	7	7	8
remained the same	13	20	27	36	23
increased	60	67	33	64	55
increased greatly	20	0	33	0	13
Reason for decreases among those with lower profits					
= % ag production poor			100	100	40
% poor sales, low demand	100	100			60
Main reason for increases					
% buying in bulk		30	20	0	13
% expanded volume of sales	91	70	70	44	70
% expanded hectares cultivated/herd size			0	33	8
% added new business activity	9		20	22	13

Questionnaires	Constanta	FINCA	IOCC	ACDI/VOCA	Total
% who said yes, lacked funds to receive needed health services	13	7	20	0	10
Main program likes	53% -Steady source working capital 27% Short turnaround time.	53% loan guarantee policy 33% interest rates lower than informal sources 33% steady source working capital	80% other: understanding, professional loan officer, no bribes 93% interest rates lower than informal sources	67% Short term-around time 67% interest rates lower than informal sources 47% collateral policy	
Main program dislikes		53% high interest rates 40% repayment terms 27% frequency of meetings	53% short credit period 40% collateral policy	73% high interest rates 33% collateral policy 27% frequent meetings	

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