# SUMMARY ANALYSIS AND REPORT OF THE USAID GMSE MICROFINANCE DEMAND SURVEY

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June 30, 2004

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# 1. INTRODUCTION

This report presents the summary analysis of the Microfinance Demand Survey performed under the auspices of the Georgia Microfinance Stabilization and Enhancement Activity (GMSE). GMSE is a four-year, $10 million project funded by the United States Agency for International Development (USAID). Its purpose is to help Georgian Non-Bank Microfinance Institutions (NBMFIs) become commercially viable and independent of donor resources through technical assistance, a grant facility, and by advocating for an unambiguous policy environment.

In line with this purpose, GMSE commissioned a survey to assess the market for microenterprise loans and other formal financial services in Georgia. Specific objectives of the survey are as follows:

- Create a socio-economic profile of microenterprise owners.
- Create an institutional profile of microenterprises.
- Measure the extent of microentrepreneurs' participation in the informal and formal financial system. Identify the principal barriers to participation in the formal financial system.
- Estimate the monetary demand for microenterprise loans in the country.
- Compare the estimated monetary demand for microenterprise loans to the volume of microenterprise loans outstanding in the country so as to determine the gap between supply and demand.
- Determine the extent of market demand among microentrepreneurs for other formal financial services, including savings, leasing, insurance, and other types of loan products.
- Assess the barriers to and potential for business growth among microenterprises.

The demand survey used a two-stage sampling strategy. In Stage 1 researchers conducted a census of microenterprises in 11 regions of Georgia (see Table 1.1). The purpose of the census in Stage 1 was to obtain information in each region on (1) the number of registered and unregistered microenterprises, (2) the rural/urban breakdown of microenterprises, and (3) the proportion of microenterprises belonging to the trade, service, production, and agriculture sectors. This information was not available from the list of microenterprises collected by the Georgia State Statistical Department.

The census of microenterprises allows for an estimation of the total number of microenterprises in Georgia and in each analytical stratum (registration status, gender, business sector, location, and region). The census, moreover, allows each survey response to be weighted according to its representation in the population of microenterprises, thereby allowing direct extrapolation from the survey to the entire population of microenterprises.

In Stage 2, researchers drew a random sample of 932 microenterprises from the microenterprise census performed in Stage 1. Researchers next administered the survey to this random sample of microenterprises. The survey response rate was 97%. (The sampling methodology is described in greater detail in Annex 1.)

**Table 1.1 Regions Surveyed**

| Region | Number | % of Sample |
|---|---|---|
| Tbilisi | 100 | 10.7 |
| Imereti | 105 | 11.3 |
| Gouria | 90 | 9.7 |
| Samegrelo | 103 | 11.1 |
| Achara | 88 | 9.4 |
| Shida Kartli | 86 | 9.2 |
| Mtskheta Mtianeti | 24 | 2.6 |
| Kvemo Kartli | 99 | 10.6 |
| Kakheti | 98 | 10.5 |
| Racha | 60 | 6.4 |
| Samtskhe-Javakheti | 79 | 8.5 |
| **Total** | **932** | **100.0** |

The survey is made up of six sections. Sections A and B ask questions about the respondent's business. Questions in these sections focus on the business sector; type of enterprise; registration status; years of operation; level of market competition; number of employees past, present, and future; and the enterprise's proportional contribution to the respondent's household income. Section C asks about the respondent's use of informal and formal sector loans, impediments to accessing formal sector loans in the past and future, and the components of demand for formal loans. Section D asks about the respondent's past, present, and future enterprise performance, plans to finance future business expansion, and impediments to business performance. Section E asks about respondent's saving in formal institutions, impediments to saving in formal institutions, and the respondent's demand for other financial services. Finally, Section F asks basic demographic questions. The information from this section was used with information from sections A and B to create a socio-economic profile of microenterprise owners in Georgia.

This report summarizes the results of the demand survey in fulfillment of the survey objectives listed above. The report is organized as follows.

- Section 2. Presents a socio-economic profile of microenterprises owners.
- Section 3. Presents a profile of microenterprises.
- Section 4. Assesses the access to formal loans among microenterprises.
- Section 5. Assesses the access to formal savings among microenterprises.
- Section 6. Assesses the composition of demand for formal loans among microenterprises.
- Section 7. Estimates the monetary values of potential and effective demand for microenterprise loans.
- Section 8. Compares the demand for formal loans to existing supply of formal loans.
- Section 9. Assesses the growth performance and growth potential of microenterprises.
- Section 10. Assesses the demand for other financial services among microenterprises.
- Section 11. Summarizes the findings and presents policy recommendations.
- Annex 1. Presents a detailed description of the sampling methodology used for the study.
- Annex 2. Presents the English-language version of the demand survey used for the study.
- Annex 3. Presents detailed information on the supply of microenterprises loans.

## 2. PROFILE OF MICROENTERPRISE OWNERS IN GEORGIA

Section 2 summarizes the profile of microenterprise owners in Georgia. The profile is based on the results of the microenterprise census and the demand survey.

### 2.1. SOCIO-ECONOMIC PROFILE OF MICROENTEPRRISE OWNERS

From the census and survey responses, it is possible to create a profile of the "typical" microenterprise owner in Georgia (see Table 2.1).

**Table 2.1. Socio-Economic Profile of Microentrepreneurs in Georgia**

| Socio-Economic Characteristic | Value |
|---|---|
| **General Averages** | |
| Age | 47 |
| Household size | 4.8 |
| Number of children under 18 in household | 1.7 |
| **Gender (%)** | |
| Female | 40.6 |
| Male | 59.4 |
| **Ethnic Origin (%)** | |
| Georgian | 93.8 |
| Russian | 0.1 |
| Armenian | 2.0 |
| Azeri | 3.2 |
| Ossetian | 0.2 |
| Kurd | 0.3 |
| Greek | 0.0 |
| Ukrainian | 0.3 |
| **Education (%)** | |
| Incomplete secondary | 0.7 |
| Secondary school | 35.9 |
| Secondary special | 31.4 |
| High school | 32.0 |
| Post-graduate, Master, etc. | 0.0 |
| Candidate of sciences/doctor | 0.0 |
| **Other Sources of Household Revenue (%)** | |
| Pension | 34.3 |
| Garden | 32.5 |
| Salary | 16.7 |
| Other business | 12.7 |
| Remittances | 9.1 |
| Leasing immovable property | 1.9 |
| Leasing technical devises | 0.8 |

For the census and survey, researchers used the USAID definition of microenterprise: an enterprise with fewer than 10 employees, including the owner, paid and unpaid workers, and full-time and part-time workers. The typical microenterprise owner in Georgia is male (60%

male vs. 40% female), of Georgian ethnicity, 47 years old, has completed secondary school, comes from a household of 4.8 persons, and has 1.7 persons in the household under the age 18. Approximately one-third of microentrepreneur households receive additional income from pensions or gardens or both. (The actual amount of pension income, however, varies considerably and generally comprises only a small percentage of household income.) Other important sources of household income include salaries (16.7% of microentrepreneur households), other businesses (12.7%), and remittances (9.1%).

## 3. PROFILE OF MICROENTERPRISES IN GEORGIA

Section 3 summarizes the profile of microenterprises in Georgia. The profile is based on the results of the microenterprise census and the demand survey.

### 3.1. PROFILE OF MICROENTEPRRISES

Extrapolating from the microenterprise census performed in Stage 1, there are an estimated 210,060 microenterprises in Georgia of which 51.4% are legally registered. The typical microenterprise has been in operation 8.7 years, operates 9.1 months out of the year, had 2.9 employees at start-up, of which 1.6 were women, currently has 2.9 employees, of which 1.6 are women, has 0.7 paid employees, and contributes 77% of household income.[1] It thus appears that while microenterprises are a vital source of employment and income for microentrepreneur households, they are not a significant source of jobs in the Georgia.

A bare majority of microenterprises operate in the trade sector with another one-third in the agriculture sector. Service and production enterprises account for 8% and 7% of microenterprises respectively. Just over 40% of microenterprises are found in rural areas with approximately one-quarter in both markets and cities and only 6% in towns.[2]

Just over one-half of all microenterprises in Georgia are found in Tbilisi (28.1%) and Achara (23.3%). Samegrelo (12.3%) and Imereti (10.9%) account for approximately another quarter of microenterprises in the country. Of the remaining seven regions, none account for more than 7% of microenterprises. Mtskheta Mtianeti and Samtskhe-Javakheti have the fewest number of microenterprises accounting, respectively, for only 0.7% and 1.1% all microenterprises in the country.

Over one-third of microenterprises in Georgia operate in markets characterized by average competition. Another one-quarter or so of microenterprises operate in markets characterized by very high or high competition. Fewer than 12% of microenterprises say that they operate in markets characterized by either low or very low competition.

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[1] The large majority of unpaid workers are most likely family members.

[2] Cities and towns are defined, respectively, as communities with populations with less than 40,000 inhabitants or communities with more than 40,000 inhabitants.

## Table 3.1 Profile of Microenterprises in Georgia

| | Number | % |
|---|---|---|
| **General Averages** | | |
| Years in business | 8.7 | NA |
| Employees | 2.9 | NA |
| Paid employees | 0.7 | NA |
| Women employees | 1.6 | NA |
| Employees at start-up | 2.5 | NA |
| Women employees at start-up | 1.3 | NA |
| Months business operates during year | 9.1 | NA |
| Percent of household income from business | NA | 77.0 |
| **Total Microenterprises** | 210,060 | 100.0 |
| **Registration Status** | | |
| Unregistered | 98,513 | 51.4 |
| Registered | 93,234 | 48.6 |
| **Business Sector from Census** | | |
| Trade | 110,259 | 52.5 |
| Service | 16,794 | 8.0 |
| Production | 15,326 | 7.3 |
| Agriculture | 67,681 | 32.2 |
| **Location** | | |
| City | 49,350 | 23.5 |
| Town | 12,883 | 6.1 |
| Rural | 90,975 | 43.3 |
| Market | 56,852 | 27.1 |
| **Region** | | |
| Tbilisi | 58,971 | 28.1 |
| Imereti | 22,945 | 10.9 |
| Gouria | 8,903 | 4.2 |
| Samegrelo | 25,785 | 12.3 |
| Achara | 48,857 | 23.3 |
| Shida Kartli | 13,645 | 6.5 |
| Mtskheta Mtianeti | 1,380 | 0.7 |
| Kvemo Kartli | 14,017 | 6.7 |
| Kakheti | 7,936 | 3.8 |
| Racha | 5,319 | 2.5 |
| Samtskhe-Javakheti | 2,302 | 1.1 |
| **Level of Competition** | | |
| Very high | NA | 26.1 |
| High | NA | 22.9 |
| Average | NA | 39.3 |
| Low | NA | 7.6 |
| Very low | NA | 4.1 |

## 3.2. PROFILE OF MICROENTEPRISES IN GEORGIA CONTROLLING FOR REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 3.2 breaks down the profile of microenterprises by registration status, gender, business sector, location, and region. Overall, employment, both paid and unpaid, is low in all strata. What differences do exist within and across strata are mostly insignificant in absolute terms. Notable exceptions are agriculture enterprises and enterprises in Achara, which each report 4.27 employees. Each, however, also has the fewest number of paid employees in its stratum, indicating heavy reliance on unpaid family labor. Overall, the low number of paid employees in each stratum suggests that heavy reliance on unpaid family labor is the norm for microenterprises in Georgia. Only six strata have on average one or more paid employees: service enterprises, city-based enterprises, Tbilisi, Gouria, Shida Kartli, and Kvemo Kartli.

Registration Status. Registered enterprises operate about one month more per year more than unregistered businesses, while unregistered businesses have operated on average approximately one year more than registered businesses.

Gender. A slightly higher percentage of female-owned businesses are registered than male-owned businesses, although both are approximately 50%. Female-owned enterprises have been operating on average three years longer than male-owned enterprises and operate six months of the year compared to 10 months for male-owned enterprises.

Business Sector. Approximately two-thirds of trade, service, and production enterprises are registered compared to only one-quarter of agriculture enterprises. Agriculture enterprises have been in operation on average nearly 17 years, compared to 3-5 years for the other three sectors, suggesting heavy concentration in family farm-based activities. Not surprisingly agriculture enterprises are the most seasonal, operating only 6 months of the year. Production enterprises also show evidence of significant seasonality operating 7 months of the year. In contrast, trade and service enterprises operate almost the entire year.

Location. Reflecting the high concentration of agriculture enterprises, rural areas have the lowest concentration of registered enterprises (36.7%), operate for only six months of the year, and have been operating for 14 years. Market-based enterprises have been operating for about one year longer than microenterprises in towns and nearly 2 years longer than microenterprises in cities. Microenterprises in cities, towns, and markets operate on average between 11-12 months of the year.

Region. Approximately two-thirds of microenterprises in three regions (Tbilisi, Imereti, and Kakheti) are registered and 40%-50% of microenterprises are registered in another four regions (Samegrelo, Achara, Kvemo Kartli, and Samtskhe-Javakheti). Finally, in Mtskheta Mtianeti and Racha, fewer than 10% of microenterprises are registered.

There exists substantial variation between regions in terms of length of operation ranging from 2.7 years in Samtskhe-Javakheti to 18.6 years in Racha. Regions in which microenterprises have tended to operate the longest (Gouria, Achara, Shida Kartli, and Racha) also tend to have a higher concentration of agriculture enterprises. In contrast, regions in which microenterprises

operate for most of the year (Tbilisi, Samegrelo, Mtskheta, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti) have a higher concentration of trade and service enterprises (see Table 3.3).

**Table 3.2. Profile of Microenterprises by Registration Status, Gender, Business Sector, Location, and Region**

| Strata | Registered (%) | Employees | Paid Employees | Women Employees | Years Of Operation | Months Operate During Year |
|---|---|---|---|---|---|---|
| **Registration Status** | | | | | | |
| Unregistered | NA | 2.77 | 0.6 | 1.2 | 9.6 | 8.7 |
| Registered | NA | 2.91 | 0.9 | 1.7 | 8.8 | 9.9 |
| **Gender** | | | | | | |
| Female | 54.3 | 2.14 | 0.8 | 1.6 | 6.3 | 10.9 |
| Male | 49.3 | 3.48 | 0.7 | 1.4 | 10.3 | 7.9 |
| **Business Sector** | | | | | | |
| Trade | 62.9 | 2.27 | 0.8 | 1.4 | 4.6 | 11.5 |
| Service | 68.3 | 2.63 | 1.3 | 1.3 | 3.5 | 11.5 |
| Production | 62.1 | 2.19 | 0.5 | 0.9 | 4.3 | 6.8 |
| Agriculture | 23.7 | 4.27 | 0.5 | 1.9 | 17.6 | 5.8 |
| **Location** | | | | | | |
| City | 68.8 | 2.67 | 1.2 | 1.7 | 2.9 | 11.4 |
| Town | 81.5 | 2.33 | 0.9 | 1.1 | 4.4 | 11.7 |
| Rural | 36.7 | 3.67 | 0.4 | 1.6 | 14.2 | 6. |
| Market | 52.7 | 2.13 | 0.7 | 1.3 | 5.8 | 11.5 |
| **Region** | | | | | | |
| Tbilisi | 63.6 | 2.70 | 1.13 | 1.7 | 3.4 | 11.5 |
| Imereti | 67.7 | 2.34 | 0.4 | 1.1 | 7.8 | 7.9 |
| Gouria | 25.7 | 3.40 | 1.0 | 1.6 | 13.3 | 5.6 |
| Samegrelo | 49.2 | 1.89 | 0.5 | 1.2 | 6.8 | 11.0 |
| Achara | 51.3 | 4.27 | 0.1 | 1.9 | 15.6 | 6.0 |
| Shida Kartli | 19.6 | 2.90 | 1.9 | 1.4 | 11.3 | 9.3 |
| Mtskheta Mtianeti | 9.6 | 1.64 | 0.6 | 0.8 | 8.3 | 11.8 |
| Kvemo Kartli | 47.1 | 2.58 | 1.0 | 1.5 | 5.2 | 11.1 |
| Kakheti | 63.2 | 2.22 | 0.8 | 0.9 | 5.1 | 11.1 |
| Racha | 5.3 | 3.06 | 0.1 | 1.4 | 18.6 | 9.2 |
| Samtskhe-Javakheti | 44.3 | 1.79 | 0.5 | 0.7 | 2.7 | 10.9 |

## 3.3. DISTRIBUTION OF BUSINESS SECTORS CONTROLLING FOR REGISTRATION STATUS, GENDER, LOCATION, AND REGION

Table 3.3 breaks down the percentage of enterprises belonging to different business sectors by registration status, gender, location, and region. When controlling for registration status, gender, and location, findings worth noting include: (1) one-third of unregistered enterprises are in the agriculture sector, while three-quarters of registered enterprises are in the trade sector; (2) three-quarters of female-owned enterprises are in the trade sector, while nearly one-half of male-owned enterprises are in the agriculture sector; (3) trade enterprises dominate in cities, towns, and, especially, markets.

Trade enterprises dominate with two-thirds or more of enterprise activity in Tbilisi, Samegrelo, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti, whereas agriculture enterprises dominate in Gouria, Achara, and Racha. Trade and agriculture enterprises account for approximately 45% each of enterprise activity in Shida Kartli. Service enterprises account for greater than 10% of enterprise activity in only 5 of 11 regions (Tbilisi, Imereti, Mtskheta Mtianeti, Kvemo Kartli, and Kakheti) are reach their peak of 20% in Mtskheta Mtianeti. Production enterprises account for 7% or less of enterprises activity in 9 of 11 regions, although in Imereti they constitute a near plurality of enterprises (35.85) and in Mtskheta Mtianeti they constitute just over one-half of enterprise activity.

**Table 3.3. Percentage of Enterprises in Enterprise Sectors by Registration Status, Gender, Location, and Region**

| Strata | Trade | Service | Production | Agriculture |
|---|---|---|---|---|
| **Registration Status** | | | | |
| Unregistered | 55.7 | 6.8 | 5.5 | 32.0 |
| Registered | 74.4 | 17.3 | 5.8 | 2.6 |
| **Gender** | | | | |
| Female | 77.8 | 7.9 | 4.6 | 9.7 |
| Male | 35.2 | 8.0 | 9.1 | 47.6 |
| **Location** | | | | |
| City | 72.9 | 20.3 | 6.4 | 0.5 |
| Town | 66.7 | 22.1 | 8.7 | 2.4 |
| Rural | 11.5 | 3.4 | 11.4 | 73.8 |
| Market | 97.2 | 1.6 | 1.3 | 0.0 |
| **Region** | | | | |
| Tbilisi | 83.8 | 12.0 | 4.1 | 0.0 |
| Imereti | 36.7 | 11.9 | 35.8 | 15.7 |
| Gouria | 28.6 | 3.0 | 1.6 | 66.9 |
| Samegrelo | 73.6 | 5.9 | 7.2 | 13.3 |
| Achara | 14.9 | 1.8 | 0.4 | 82.9 |
| Shida Kartli | 43.5 | 3.2 | 6.4 | 46.8 |
| Mtskheta Mtianeti | 8.9 | 20.1 | 52.7 | 18.2 |
| Kvemo Kartli | 69.2 | 17.6 | 3.8 | 9.4 |
| Kakheti | 69.3 | 10.6 | 2.8 | 17.3 |
| Racha | 6.0 | 1.6 | 0.5 | 92.0 |
| Samtskhe-Javakheti | 87.1 | 9.7 | 3.2 | 0.0 |

## 3.4. DISTRIBUTION OF MICROENTERPRISES IN THE TRADE SECTOR

Four enterprises falling generally under the category “small stores and market counters selling food and non-food items” account for approximately two-thirds of all enterprise activity in the trade sector and just over one-third of all microenterprise activity in the country (see Table 3.4). The only other trade activity meriting notice is small non-food stores, which accounts for 7.2 percent of sector activity.

**Table 3.4. Profile of Enterprises in the Trade Sector**

| Enterprise | % in Sector | % Overall |
|---|---|---|
| Small food store | 22.3 | 11.7 |
| Small food/non-food store | 11.8 | 6.2 |
| Market counter for selling food | 13.2 | 6.9 |
| Market counter for selling non-food | 21.4 | 11.2 |
| Water stand | 3.5 | 4.7 |
| Street trade | 3.5 | 3.4 |
| Small non-food store | 7.2 | 3.8 |
| Market food/non-food counter | 2.3 | 1.2 |
| Pharmacy | 1.6 | 1.3 |

## 3.5. DISTRIBUTION OF MICROENTERPRISES IN THE SERVICE SECTOR

In the service sector, two enterprises account for 41% of sector activity: beauty salons (31.1%) and restaurant/café (10.3%), although each of these accounts for a miniscule portion of overall microenterprise activity in the country (see table 3.5). Four other enterprises account individually for only approximately 7% of sector activity (shoe repair, telephone/fax, gas station, car repair) but collectively account for close to one-third of sector activity.

**Table 3.5. Profile of Enterprises in the Service Sector**

| Enterprise | % in Sector | % Overall |
|---|---|---|
| Beauty salon | 31.1 | 2.5 |
| Restaurant/cafe | 10.3 | 0.8 |
| Shoe repair | 7.5 | 0.6 |
| Telephone/fax | 7.1 | 0.6 |
| Gas station | 7.7 | 0.6 |
| Car repair | 6.9 | 0.5 |
| Appliance repair | 1.8 | 0.1 |
| Transport | 4.4 | 0.4 |
| Car wash | 5.1 | 0.4 |
| Internet cafe | 2.1 | 0.2 |
| Computer service | 4.3 | 0.3 |
| Bar | 1.2 | 0.1 |

## 3.6. DISTRIBUTION OF MICROENTERPRISES IN THE PRODUCTION SECTOR

The production sector is dominated by five enterprises which account for 80% of sector activity—furniture workshops, mills, carpentry, bakeries, food production, and bake houses (see Table 3.6). No enterprise accounts for more than 3% of overall microenterprise activity in the country.

**Table 3.6. Profile of Enterprises in the Production Sector**

| Enterprise | % in Sector | % Overall |
|---|---|---|
| Bakery | 10.6 | 0.8 |
| Food production | 9.1 | 0.7 |
| Mill | 13.9 | 1.0 |
| Furniture workshop | 39.7 | 2.9 |
| Boot and shoe sewing | 1.3 | 0.1 |
| Drink production | 1.8 | 0.1 |
| Carpentry | 12.7 | 0.9 |
| Bakehouse | 7.5 | 0.6 |
| Window & door workshop | 0.2 | 0.0 |
| Wood work | 0.2 | 0.0 |
| Wine/strong drink production | 0.8 | 0.1 |
| Construction material production | 1.0 | 0.4 |
| Clay production | 0.4 | 0.0 |
| Bed linen production | 0.2 | 0.0 |

## 3.7. DISTRIBUTION OF MICROENTERPRISES IN THE AGRICULTURE SECTOR

The agriculture sector is dominated by fruit production, which accounts for two-thirds of sector activity and one-fifth of overall microenterprise activity in the country (see Table 3.7). If beekeeping (12.9%), winemaking (8.6%), and crop production (5.7%) are included, then 91% of activity in the sector is accounted for by these four enterprises.

**Table 3.7. Profile of Enterprises in the Agriculture Sector**

| Enterprise | % in Sector | % Overall |
|---|---|---|
| Fruit production | 64.2 | 20.7 |
| Wine making | 8.6 | 2.8 |
| Crop production | 5.7 | 1.8 |
| Dairy farming | 1.4 | 0.5 |
| Livestock raising | 2.4 | 0.8 |
| Land cultivation | 2.2 | 0.7 |
| Greenhouse | 1.6 | 0.5 |
| Poultry farm | 0.2 | 0.1 |
| Beekeeping | 12.9 | 4.2 |
| Bay leaf production | 0.7 | 0.2 |

## 3.8. DISTRIBUTION OF MICROENTERPRISES CONTROLLING FOR REGION

Table 3.8 shows the composition of microenterprises by region.

Tbilisi. Small food stores (21.6%), water stands (11.6%), and small non-food stores (11.5%) account for 44.7% of microenterprise activity in Tbilisi. Another 30.5% of regional enterprise activity is accounted for by market counters for selling non-food (8.8%), market counters for selling food (8.1%), street trade (7.7%), and beauty salons (5.9%). All together, three-quarters of regional microenterprise activity is accounted for by these seven enterprises.

Imereti. Furniture shops account for one-quarter of microenterprise activity in Imereti, while small food/non-food stores (10.0%), market counters for selling non-food (10.0%), and crop production (8.4%) account for another 28.4%. Overall, these four enterprises account for slightly over one-half of microenterprise activity in the region.

Gouria. Enterprise activity in Gouria is dominated by fruit production, which alone accounts for exactly two-thirds of microenterprise activity in the region. Another 22% of microenterprise activity is accounted for by market counters for selling food (8.2%), small food stores (7.1%), and small food/non-food stores (6.7%). In total, these four enterprises account for 89% of microenterprise activity in the region.

Samegrelo. Small food/non-food stores comprise just under a majority (46.3%) of microenterprise activity in Samegrelo. No other enterprise accounts for more than 10% of activity in the region. The next most common enterprises are market counters for selling non-food (8.8%), small food stores (8.1%), and market counters for selling non-food (5.6%). Overall, these four enterprises account for 68.8% of microenterprise activity in the region.

Achara. Two enterprises account for 82% of microenterprise activity in Achara: fruit production at 64.3% and beekeeping at 17.7%. No other enterprise accounts for more than 5% of regional microenterprise activity.

Shida Kartli. Three enterprises account for just over two-thirds of microenterprise activity in Shida Kartli. The largest is fruit production (38.1%) followed by small food stores (15.8%) and small food/non-food stores (14.6%). The only other enterprise meriting notice is small non-food stores, which account for 8.8% of regional microenterprise activity. Together these enterprises account for 77.3% of regional microenterprise activity.

Mtskheta Mtianeti. Food production alone accounts for just over one-half of microenterprise activity in the region. Wine making and beauty salons account for another 36%. Together these three enterprises account for 89% of regional microenterprise activity. No other enterprise in the region accounts for more than 6% of regional activity.

Kvemo Kartli. Approximately one-fifth of microenterprise activity in the region is market counters selling food. Small food stores and market counters for selling non-food are the only other enterprises of significance accounting for 14.3% and 11.7% of regional activity

respectively. Together the three enterprises account for 48.4% of regional microenterprise activity.

Kakheti. Kakheti is unique in that no single enterprise accounts for a large share of microenterprise activity. Only three enterprises account for more than a 10% share of activity: small food/non-food stores at 14.3%, water stands at 13.5%, and market counters for selling non-food at 10.0%. Overall, these three enterprises account for 37.8% of regional microenterprise activity.

Racha. Racha is dominated by wine making, which accounts for 70.2% of microenterprise activity in the region. Crop production, which accounts for 15.3% of regional activity, is the only other enterprise with a greater than 4% share of regional microenterprise activity.

Samtskhe-Javakheti. Three enterprises account for just under three-quarters of microenterprise activity in the region: small food/non-food stores (34.8%), market counters for selling food (20.9%), and market counters for selling non-food (17.2%). Small food stores account for another 8.6% share. Together these four enterprises account for 81.5% of microenterprise activity in the region.

**Table 3.8. Composition of Microenterprises by Region (%)**

| | Tbilisi | Imereti | Gouria | Samegrelo | Achara | Shida Kartli | Mtskheta Mtianeti | Kvemo Kartli | Kakheti | Racha | Samtskhe-Javakheti. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Small food store | 21.6 | 6.9 | 7.1 | 8.1 | 5.0 | 15.8 | 5.1 | 14.3 | 8.1 | 1.0 | 8.6 |
| Small food/non-food store | 5.3 | 10.0 | 6.7 | 46.3 | 2.4 | 14.6 | | 3.5 | 14.3 | | 34.8 |
| Market counter for selling food | 8.1 | 6.6 | 8.2 | 8.8 | 2.3 | 1.5 | | 22.4 | 3.2 | 1.5 | 20.9 |
| Market counter for selling non-food | 8.8 | 10.0 | 0.6 | 5.6 | 1.9 | 1.5 | 0.7 | 11.7 | 10.0 | 2.4 | 17.2 |
| Fruit production | | | 66.6 | 3.1 | 64.3 | 38.1 | | | | 2.2 | |
| Street trade | 7.7 | 1.6 | 4.6 | 0.9 | 0.0 | 2.4 | 1.9 | 5.6 | 4.1 | 0.4 | 0.9 |
| Wine making | | 1.2 | | 0.8 | | 8.8 | 18.2 | | 2.0 | 70.2 | |
| Small non-food store | 11.5 | 1.6 | | 1.6 | 0.0 | 1.2 | 0.7 | | 1.9 | 0.2 | 1.2 |
| Water stand | 11.6 | | 0.4 | 0.5 | 1.1 | 4.4 | | 4.4 | 13.5 | | 0.9 |
| Market counter food/non-food | 2.3 | | | | 0.8 | 1.4 | 0.7 | 0.7 | 5.9 | | 0.4 |
| Crop production | | 8.4 | | 3.5 | | | | | 2.8 | 15.3 | |
| Beauty salon | 5.9 | 2.2 | | 0.7 | 0.1 | | 18.2 | 5.1 | 0.4 | | |
| Food production | | 0.5 | | 2.2 | | | 52.7 | | | | |
| Auto shop | 1.2 | 2.4 | 0.1 | 0.2 | | 1.7 | 0.7 | 1.9 | 7.0 | | 2.9 |
| Dairy farm | | 3.3 | | | | | | | | 3.8 | |
| Appliance repair | | | 0.3 | | | | 0.7 | 0.6 | 1.1 | 0.8 | 2.2 |
| Chemist shop | 2.9 | | | 0.5 | 0.7 | | | 2.6 | 2.3 | | 0.9 |
| Bakery | 1.0 | 0.5 | 1.3 | | 0.3 | 1.3 | | 3.2 | | | 1.6 |
| Shoe repair | 1.0 | 0.8 | | | 0.1 | 0.2 | | 2.3 | 0.8 | | 1.5 |
| Livestock raising | | 1.4 | 0.1 | 0.8 | | | | 4.3 | 5.6 | 0.5 | |
| Restaurant/cafe | 1.0 | | 0.3 | 1.2 | 0.3 | 0.5 | 0.7 | 3.2 | 1.0 | 0.8 | 0.4 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Telephone/fax | | 2.4 | | 0.1 | 0.5 | 0.2 | | 1.3 | 1.6 | | |
| Gas station | | 2.4 | | 2.3 | | | | | 1.6 | | 1.2 |
| Beauty salon | | | | | | | | | | | |
| Restaurant/cafe | | | | | | | | | | | |
| Flower shop | 1.0 | | | | 0.8 | | | 1.0 | | 0.5 | |
| Mill | 1.2 | | | 3.1 | | 4.4 | | | | | 1.6 |
| Land cultivation | | | | | 0.9 | | | 3.9 | 6.1 | | |
| Transport | | 0.5 | 1.3 | | 0.3 | 0.6 | | 1.9 | | | |
| Greenhouse | | 1.0 | 0.1 | 2.7 | | | | 1.1 | | | |
| Fruit production | | | | | | | | | | | |
| Car wash | 1.0 | | | | 0.0 | | | 1.9 | | | 0.4 |
| Construction materials | 1.0 | | 0.3 | 0.8 | | | | | | | 0.4 |
| Internet cafe | | 0.5 | | | 0.3 | | | | 1.1 | | |
| Shoe & boot sewing | | 0.5 | | | 0.0 | | | | 1.0 | | |
| Pet shop | 1.0 | | | | | | | 0.2 | 1.1 | | |
| Soft drink production | | | 0.3 | 1.0 | | | | | | | |
| Wine making | | | | | | | | | | | |
| Bar | | | | 0.7 | | | | | | | 0.6 |
| Carpentry | | 8.4 | | | | 0.2 | | | | | |
| Beekeeping | | | | 0.5 | 17.7 | | | | | | |
| Bakehouse | 2.0 | | | | | | | | | | |
| Computer repair | 1.0 | | | 0.5 | | | | | | | |
| Laundry | 1.0 | 0.2 | | | | | | | | | |
| Poultry Farm | | 0.3 | | | | | | | 0.8 | | |
| Furniture shop | | 25.5 | | 0.5 | | | | 0.6 | | | |

## 3.9. MARKET COMPETITIVENESS CONTROLLING FOR REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 3.9 breaks down the level of competition faced by microenterprises according to registration status, gender, business sector, location, and region. Overall, microenterprise markets in Georgia are characterized by average to very high competition. With a few exceptions, a relatively small percentage of microentrepreneurs in Georgia rate competition in their markets as low or very low. Only in Racha do a significant number rate competition as low, and only in Mtskheta Mtianeti do a large percentage rate competition as very low.

Registration Status, Gender, Business Sector, and Location. Controlling for registration status, gender, sector, and location, a plurality or majority rate competition as average; the only exceptions being production enterprises and city-based enterprises, although approximately one-third in each of these twos stratum still rate competition as average.

Regions. A majority or plurality in 5 of 11 regions (Gouria, Achara, Shida Kartli, Kvemo Kartli, and Kakheti) also rate competition as average. In regions where it is not a majority or plurality, a significant number still rate competition as average.

A majority or plurality of microenterprises in 4 of 11 regions (Tbilisi, Mtskheta Mtianeti, Racha, and Samtskhe-Javakheti) says that competition is high. Approximately 20% or more of microenterprises rate competition as high in nine regions. The only exceptions are Achara and Kvemo Kartli.

The percentage of microenterprises that rate competition as very high varies significantly across the 11 regions from a low of 0.6% in Racha to a high of 38.8% in Achara. Samegrelo is the only region in which very high competition is mentioned by a plurality of microenterprises. Other than Racha, very high competition is mentioned by relatively few microenterprises in Mtskheta Mtianeti and Shida Kartli. Approximately 20% or more of microenterprises rate competition as high in seven regions. The exceptions are Tbilisi, Shida Kartli, Mtskheta Mtianeti, and Racha.

**Table 3.9. Competition by Registration Status, Gender, Business Sector, Location, and Region**

| Strata | Very High | High | Average | Low | Very Low |
|---|---|---|---|---|---|
| **Registration Status** | | | | | |
| Unregistered | 21.4 | 19.1 | 44.8 | 9.8 | 4.9 |
| Registered | 25.5 | 26.4 | 38.5 | 5.7 | 3.9 |
| **Gender** | | | | | |
| Women | 19.9 | 28.4 | 39.6 | 9.2 | 3.1 |
| Men | 30.4 | 19.2 | 39.2 | 6.5 | 4.8 |
| **Business Sector** | | | | | |
| Trade | 23.1 | 35.3 | 31.2 | 8.0 | 2.5 |
| Services | 14.1 | 16.4 | 44.3 | 14.5 | 10.7 |
| Production | 44.9 | 9.2 | 38.2 | 4.7 | 3.0 |
| Agriculture | 29.8 | 7.5 | 51.6 | 5.8 | 5.3 |
| **Location** | | | | | |
| City | 20.0 | 31.9 | 30.4 | 11.8 | 6.0 |
| Town | 25.6 | 18.8 | 37.0 | 13.3 | 5.3 |
| Rural | 28.8 | 13.9 | 46.5 | 5.5 | 5.3 |
| Market | 27.2 | 30.6 | 36.1 | 5.9 | 0.2 |
| **Region** | | | | | |
| Tbilisi | 16.3 | 35.7 | 34.7 | 9.4 | 3.9 |
| Imereti | 37.8 | 24.0 | 35.5 | 1.4 | 1.3 |
| Gouria | 26.7 | 19.4 | 38.2 | 8.8 | 6.9 |
| Samegrelo | 34.6 | 22.0 | 27.6 | 12.7 | 3.1 |
| Achara | 38.8 | 6.5 | 49.8 | 0.8 | 4.1 |
| Shida Kartli | 7.3 | 21.1 | 59.5 | 11.6 | 0.5 |
| Mtskheta Mtianeti | 1.9 | 56.6 | 21.4 | 1.9 | 18.2 |
| Kvemo Kartli | 19.5 | 14.5 | 46.5 | 9.2 | 10.3 |
| Kakheti | 24.3 | 28.5 | 32.0 | 9.9 | 5.3 |
| Racha | 0.6 | 41.6 | 21.8 | 30.3 | 5.7 |
| Samtskhe-Javakheti | 26.5 | 35.3 | 23.0 | 10.2 | 4.9 |

# 4. ACCESS TO LOANS

Section 4 assesses the access to informal and formal loans among microenterprises. Outcomes assessed include the percentage of microenterprises that can self-finance; participation in the informal lending sector; the percentage of microenterprises that have sought and received loans from formal lenders, types of loan security taken by formal lenders; and obstacles to greater participation in the formal loan sector.

## 4.1. ABILITY TO SELF-FINANCE

Overall, slightly over one-half (54%) of microenterprises are able to self-finance. Table 4.1 shows the percentage of microenterprises that are able to completely self-finance, controlling for registration status, gender, sector, location, and region.

Registration Status and Gender. Approximately one-half of registered and female-owned enterprises and approximately two-thirds of unregistered and male-owned enterprises can self-finance.

Business Sector. Approximately 60% of service, production, and agriculture enterprises can self-finance compared to just over one-half of trade enterprise.

Location. Controlling for location, the percentage of microenterprises able to self-finance ranges from 46 % among market-based enterprises, to over one-half of town-based enterprises, to approximately 60% of city and rural based enterprises.

Regions. Within the regions, the percentage of microenterprises that can self-finance ranges from only 4.4% in Mtskheta Mtianeti to nearly three-quarters in Achara, Kvemo Kartli, and Racha. In the remaining regions, approximately 50% of microenterprises can self-finance.

**Table 4.1. Ability to Self-Finance by Registration Status, Gender, Business Sector, Location, and Region**

| Strata | % |
|---|---|
| **Registration Status** | |
| Unregistered | 63.1 |
| Registered | 55.8 |
| **Gender** | |
| Women | 49.4 |
| Men | 62.3 |
| **Business Sector** | |
| Trade | 51.0 |
| Services | 60.7 |
| Production | 64.8 |
| Agriculture | 64.3 |
| **Location** | |
| City | 60.5 |
| Town | 54.5 |
| Rural | 62.4 |
| Market | 46.1 |
| **Region** | |
| Tbilisi | 53.6 |
| Imereti | 46.2 |
| Gouria | 24.3 |
| Samegrelo | 49.3 |
| Achara | 72.5 |
| Shida Kartli | 52.7 |
| Mtskheta Mtianeti | 4.4 |
| Kvemo Kartli | 73.6 |
| Kakheti | 59.3 |
| Racha | 74.1 |
| Samtskhe-Javakheti | 49.8 |

## 4.2. BORROWING FROM INFORMAL LENDERS

Just under one-quarter (24.1%) of microenterprises borrowed from one informal lender over the past 12 months compared to 4.6% that borrowed from two informal lenders, 1.6% that borrowed from three informal lenders, and 0.1% that borrowed from four informal lenders (see Table 4.2).

**Table 4.2. Borrowing form Multiple Informal Lending Sources**

| Source of Financing | % |
|---|---|
| 1 source | 24.1 |
| 2 sources | 4.6 |
| 3 sources | 1.6 |
| 4 sources | 0.1 |

The most common source of informal lending by a wide margin is family and friends at 16.6% of microenterprises followed by money lenders, lotteries, suppliers and pawnshops (see Table 4.3).

(Lottery is the term in Georgia for a Rotating Savings and Credit Association, or ROSCA.) The average loan size received varied significantly by source ranging from $279 from lotteries to $680 from money lenders.

**Table 4.3. Borrowing from Informal Sources**

| Source of Financing | % | Average Loan Size (GEL) | Average Loan Size ($) |
|---|---|---|---|
| | | | |
| Lottery | 5.1 | 536 | 279 |
| Pawnshop | 3.7 | 1,016 | 529 |
| Money Lender | 8.0 | 1,305 | 680 |
| Family/Friend | 16.6 | 554 | 289 |
| Supplier | 5.2 | 847 | 441 |

4.3. BORROWING FROM FORMAL LENDERS

A total of 14.5% of microenterprises sought a loan from a formal sector lender over the last 12 months: 11.5% from a commercial bank, 2.3% from NBMFIs, and 0.7% from credit unions (see Table 4.4).

**Table 4.4. Borrowing from Formal Sources: Commercial Banks, NBMFIs, and Credit Unions**

| | Overall | Comm. Bank | NBMFI | Credit Union |
|---|---|---|---|---|
| Sought Loan (%) | 14.5 | 11.5 | 2.3 | 0.7 |
| Received loan (%) | 12.6 | 9.9 | 1.9 | 0.7 |
| Average loan size (GEL) | 9,352 | 11,548 | 1,256 | 635 |
| Average loan size ($) | 4,870 | 6,014 | 654 | 330 |
| Average loan length (Months) | 10.1 | 11.3 | 5.2 | 6.1 |
| Average monthly payment (GEL) | 936 | 1,144 | 174 | 113 |
| Average monthly payment ($) | 488 | 596 | 91 | 59 |

Overall, 87% of those who sought formal sector loans received them, including 86% of those seeking commercial bank loans, 82% of those seeking NBMFI loans, and 100% of those seeking credit union loans. The low percentage of respondents seeking formal sector loans combined with the high success rate of those who did suggests a high degree of self-selection. In other words, respondents who believed that they were more likely to qualify for formal loans tended more to seek formal financing. The large percentage of respondents either did not have access to formal loans or they judged themselves unlikely to qualify for formal financing.

The average loan size among all formal sector borrowers was $4,870, including $6,014 for commercial bank borrowers, $654 for NBMFI borrowers, and $330 for credit union borrowers. The average monthly payment made by formal sector borrowers was $488 overall, including

$596 among commercial bank borrowers, $91 among NBMFI borrowers, and $59 among credit union borrowers.

The average loan term received was 10.1 months and was longest among commercial bank borrowers (11.3 months) followed by credit union borrowers (6.1 months) and NBMFI borrowers (5.2 months). The repayment period was monthly in 61.9% of loans, weekly in 30.1% of loans, and every two weeks in 6.0% of loans.

Of the microenterprises turned down for a formal loan, 83.6% gave lack of security as the principal reason and 6.7% gave lack of security as a secondary reason. Another 33.4% gave poor business returns as the primary (16.1%) or secondary (17.3%) reason for being turned down.

## 4.4. USE OF FORMAL LOANS

A majority of formal sector loans were used to purchase business inventories and another one-third were used to increase the principal business (see Table 4.5). All other uses were trivial in comparison. Of note is that only 2.1% of borrowers diverted microenterprise loans to personal use.

**Table 4.5. Uses of Formal Loans**

| Use | % |
|---|---|
| Purchase business inventories | 52.9 |
| Increase principal business | 33.0 |
| Start new business | 5.1 |
| Purchase fixed assets | 4.3 |
| Purchase raw materials for agriculture | 2.3 |
| Personal use | 2.1 |
| Invest in secondary business | 0.3 |

## 4.5. ACCESS FOR FORMAL LOANS CONTROLLING FOR REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Access to Formal Loans. As seen in Table 4.6, the percentage of microenterprises that have received formal loans varies significantly within each of the stratum. Approximately 20% of registered, female-owned, and trade enterprises have received formal loans, the highest in each of the three strata. Nearly one-third of market-based enterprises have received formal loans compared to about 15-16% of city, town, and service enterprises. Eight percent or fewer of unregistered, males, production, agriculture, and rural enterprises have received formal loans.

Access to formal loans is highest in Samegrelo at just over one-third of microenterprises. Five regions cluster in the 10%-17% range (Tbilisi, Imereti, Shida Kartli, Kvemo Kartli, and Kakheti). Surprisingly, microenterprises in Tbilisi enjoy only the 4$^{th}$ highest access to formal loans among

the 11 regions and approximately only one-third that of Samegrelo. In the remaining five regions, access to formal loans ranges from 0% in Gouria to 8.5% in Samtskhe-Javakheti.

Loan Size. There exists substantial variation in loan size within strata. Six strata (registered, female-owned, trade, and production enterprises and enterprises in Tbilisi) borrowed on average in excess of $5,000. In contrast, seven strata (agriculture and rural enterprises and enterprises in Imereti, Shida Kartli, Mtskheta Mtianeti, and Racha) borrowed less than $1,000 on average. Another three strata (male-owned, service, and city-based enterprises and enterprises in Samegrelo) borrowed in the $3,000-$4,000 range. Finally, four strata (unregistered and town-based enterprises and enterprises in Achara, Kvemo Kartli, and Samtskhe-Javakheti) borrowed in the $1,000-$2,000 range.

Loan Length. With two exceptions (production enterprises and enterprises in Tbilisi), the average loan length was under one year, ranging from a low of 3 months in Racha to 11.3 months among city-based enterprises. The average loan length among these strata is 8.4 months. Interestingly, some of the shortest loan lengths were in rural areas and among agriculture enterprises. Presumably, agriculture-based enterprises would need larger loan length given their longer turnover cycles compared to trade and service enterprises.

Monthly Payments. The size of monthly payments is a function of loan size and loan length. Monthly payments are highest (in excess of $500) among registered, female-owned, trade, and market-based enterprises and in Tbilisi and Samegrelo. Monthly payments appear to be the smallest in strata with high concentrations of agriculture enterprises, although the monthly payment is also relatively small (under $100) in towns.

**Table 4.6. Access to Formal Loans by Gender, Business Sector, Location, and Region**

| Strata | Requested Loan (%) | Received Loan (%) | Size of Loan Received (GEL) | Size of Loan Received ($) | Monthly Payment Made (GEL) | Monthly Payment Made ($) | Loan Length (Months) |
|---|---|---|---|---|---|---|---|
| **Registration Status** | | | | | | | |
| Unregistered | 7.9 | 7.1 | 2,646 | 1,378 | 239 | 124 | 7.8 |
| Registered | 22.8 | 20.0 | 11,611 | 6,047 | 1,171 | 610 | 10.8 |
| **Gender** | | | | | | | |
| Female | 20.9 | 19.8 | 10,757 | 5,603 | 1,187 | 618 | 9.4 |
| Male | 10.1 | 7.6 | 6,850 | 3,568 | 490 | 255 | 11.1 |
| **Business Sector** | | | | | | | |
| Trade | 23.9 | 20.7 | 9,812 | 5,110 | 1,046 | 545 | 10.1 |
| Service | 14.9 | 14.3 | 7,091 | 3,693 | 254 | 132 | 9.6 |
| Production | 4.6 | 2.4 | 11,904 | 6,200 | 248 | 129 | 17.2 |
| Agriculture | 1.4 | 1.1 | 1,437 | 748 | 133 | 69 | 4.5 |
| **Location** | | | | | | | |
| City | 16.9 | 12.8 | 5,899 | 3,072 | 366 | 191 | 11.3 |
| Town | 15.8 | 10.6 | 3,246 | 1,691 | 98 | 51 | 8.7 |
| Rural | 3.0 | 2.7 | 1,666 | 868 | 132 | 69 | 7.4 |
| Market | 30.6 | 28.3 | 12,446 | 6,482 | 1,359 | 708 | 10.0 |
| **Region** | | | | | | | |
| Tbilisi | 16.8 | 13.5 | 21,772 | 11,340 | 1,020 | 531 | 12.6 |
| Imereti | 13.3 | 10.3 | 1,740 | 906 | 161 | 84 | 9.8 |
| Gouria | 0.0 | 0.0 | NA | NA | NA | NA | NA |
| Samegrelo | 35.7 | 34.5 | 5,683 | 2,960 | 1,619 | 843 | 9.9 |
| Achara | 3.7 | 3.3 | 3,318 | 1,728 | 375 | 195 | 8.1 |
| Shida Kartli | 11.9 | 11.6 | 733 | 382 | 151 | 79 | 6.2 |
| Mtskheta Mtianeti | 2.5 | 1.9 | 1,600 | 833 | 232 | 121 | 7.3 |
| Kvemo Kartli | 21.3 | 17.0 | 3,592 | 1,871 | 266 | 139 | 8.3 |
| Kakheti | 17.6 | 15.5 | 1,519 | 791 | 145 | 76 | 6.2 |
| Racha | 6.4 | 4.4 | 400 | 208 | 48 | 25 | 3.0 |
| Samtskhe-Javakheti | 18.1 | 8.5 | 2,062 | 1,074 | 142 | 74 | 7.8 |

## 4.6. SECURITY ACCEPTED FOR FORMAL LOANS

Overall, one-fifth of formal sector loans did not require security of any kind (see Table 4.7). Real property was the most common kind of security taken overall 58.3% followed by gold and jewelry at 10.7%. All other sources of security were trivial by comparison.

**Table 4.7. Security Accepted for Formal Loans**

| Security | (%) |
|---|---|
| Security not required | 19.7 |
| Technical devices | 3.6 |
| Guarantee | 2.5 |
| Money in bank/Pension fund | 2.8 |
| Real property | 58.3 |
| Gold/Jewelry | 10.7 |
| Domestic appliance/Furniture | 1.0 |
| Money | 1.2 |

## 5. ACCESS TO SAVINGS

Section 5 assesses the access to informal and formal savings among microentrepreneurs. Outcomes assessed include the percentage of microentrepreneurs with savings in informal instruments or in formal financial institutions and the reasons why microentrepreneurs do not save in formal financial institutions.

### 5.1. PERCENTAGE OF MICROENTREPRENEURS WHO HOLD FORMAL AND INFORMAL SAVINGS

Only 0.5% of microentrepreneurs across all strata analyzed hold cash savings in formal financial institutions. This does not mean, however, that microentrepreneur households do not save. In fact, all microentrepreneur households save in one informal instrument or another, including 100% who hold savings in liquid assets (e.g., livestock, domestic appliance, real property) and another one-quarter hold cash at home (see Table 5.1).

**Table 5.1. Access to Informal and Formal Savings**

| Type of Informal Saving | % |
|---|---|
| Bank | 0.5 |
| NBMFI | 0.0 |
| Credit union | 0.1 |
| Cash in home | 28.6 |
| Lottery | 4.9 |
| Loans to family/friends/others | 4.2 |
| Liquid assets | 100.0 |

## 5.2. REASONS FOR NOT SAVING IN FORMAL FINANCIAL INSTITUTIONS

In explaining why they do not save at formal institutions, three-quarters of microenterprises say that they have no money to save and another 15.9% say that they did not trust banks (see Table 5.2). If primary, secondary, and tertiary reasons are totaled, reasons for not savings are, in order of importance, no money to save (90.7% of microenterprises), lack of trust in banks (42.9%), afraid of losing money (25.6%), lack of information about banks (15.5%), excessive minimum deposits (13.9%), the distance of the bank to the primary residence (10.2%).

The 90% who say they do not have enough money to save stand in sharp contrast to the 100% of microentrepreneur households that hold informal savings. In sorting out the apparent contradiction, it helps to consider that research in other countries has found that a high percentage of low-income households, save, albeit in small amounts and often in kind. This suggests that the contradiction is perhaps explainable by different perceptions among microentrepreneurs regarding savings and the definition of savings. When responding that they saved in-kind through liquid assets, survey respondents were responding to promptings by survey enumerators, but it is possible that they might not otherwise have considered liquid assets as savings. In any case, the almost non-existent use of formal savings by microentrepreneurs, combined with the large percentage of microentrepreneurs that hold informal savings, suggests a significant potential to mobilize formal savings among microentrepreneurs

**Table 5.2. Reasons for Not Saving in Formal Institutions**

| Reason | Primary (%) | Secondary (%) | Tertiary (%) | Total |
|---|---|---|---|---|
| Do not trust banks | 15.9 | 23.6 | 3.4 | 42.9 |
| Corruption/bribery | 0.1 | 0.7 | 0.5 | 1.3 |
| Very low interest rates | 1.5 | 3.1 | 2.4 | 7.0 |
| Minimum deposit too large | 2.7 | 9.0 | 2.2 | 13.9 |
| Inflexible withdrawal rules | 0.4 | 0.8 | 5.8 | 7.0 |
| Bank far from residence | 0.0 | 0.9 | 9.3 | 10.2 |
| Lack of information about banks | 0.7 | 5.9 | 8.9 | 15.5 |
| Afraid of losing money | 2.4 | 11.0 | 12.2 | 25.6 |
| No money to save | 75.6 | 11.7 | 3.4 | 90.7 |
| Poor customer service | 0.2 | 0.5 | 0.1 | 0.8 |

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# 6. COMPOSITION OF DEMAND FOR FORMAL MICROENTERPRISE LOANS

Section 6 assesses the composition of demand for formal loans among microenterprises in Georgia. Outcomes assessed include the percentage of microentrepreneurs wanting formal loans; the loan terms demanded; reasons for not wanting formal loans; anticipated use of formal loans; and the types of loan security microenterprises are able to offer.

## 6.1. PERCENTAGE OF MICROENTERPRISES WANTING FORMAL LOANS AND REASONS FOR NOT WANTING FORMAL LOANS

A total of 65% of microenterprises will borrow from a formal lending institution if loans are offered to them at suitable terms and conditions. Among the approximately one-third of microenterprises that do not want loans, low business returns was given as the most important reason (23.0%), followed by no need for loans (20.4%), high interest rates (15.3%), and lack of credit experience (11.9%) (see Table 6.1). If all primary, secondary, and tertiary reasons for not wanting loans are totaled, low business returns is mentioned overall by 41.7%, no need for loans by 33.4%, do not like to be in debt by 28.8%, high interest rates by 27.8%, and lack of security by 25.3%.

**Table 6.1. Reasons for Not Wanting to Borrow from Formal Institutions**

| Reason | Primary (%) | Secondary (%) | Tertiary (%) | Total |
|---|---|---|---|---|
| Business not registered | 4.4 | 2.6 | 0.7 | 7.7 |
| High interest rate | 15.3 | 10.3 | 2.2 | 27.8 |
| Absence of security | 3.8 | 6.1 | 15.4 | 25.3 |
| Absence of financial documents | 0.4 | 13.7 | 0.9 | 15 |
| Long and complicated application | 2.1 | 0.0 | 2.6 | 4.7 |
| Satisfied with current financing source | 3.2 | 1.6 | 2.0 | 6.8 |
| Lack of credit history/experience | 11.9 | 0.5 | 1.0 | 13.4 |
| Corruption | 0.7 | 0.3 | 0.5 | 1.5 |
| Low business returns | 23.0 | 12.5 | 6.2 | 41.7 |
| Do not trust loan institutions | 1.5 | 3.3 | 3.9 | 8.7 |
| Do not like to be in debt | 7.7 | 12.3 | 8.8 | 28.8 |
| Do not have information on loan institutions | 0.6 | 2.8 | 0.9 | 4.3 |
| Do not need loans | 20.4 | 9.9 | 3.1 | 33.4 |
| Do not think banks will lend | 2.2 | 3.0 | 4.1 | 9.3 |
| Afraid of theft | 0.0 | 0.8 | 0.9 | 1.7 |
| Afraid that will be unable to repay | 0.4 | 0.0 | 0.0 | 0.4 |
| Afraid of inflation | 0.4 | 0.0 | 0.0 | 0.4 |
| Difficult to answer | 2.2 | 0.0 | 0.0 | 2.2 |

## 6.2. USE OF FORMAL LOANS

For microenterprises indicating interest in formal loans, just over 70% said that they would use the loan either to develop their existing business (48.8%) or to purchase business inventories (21.7%) (see Table 6.2). Another one-quarter would use the loan either to purchase raw agriculture materials (13.4%) or to start a new business (10.3%).

**Table 6.2. Planned Use of Formal Loans**

| Planned Use | % |
|---|---|
| Business inventories | 21.7 |
| Fixed assets | 1.8 |
| Start new business | 10.3 |
| Develop existing business | 48.8 |
| Develop secondary business | 2.1 |
| Purchase raw agriculture materials | 13.4 |
| Personal use | 2.0 |

## 6.3. COMPOSITION OF LOAN DEMAND

Microenterprises that expressed a demand for formal loans want loans in the average amount of $3,536, payable monthly over 23 months. The average monthly payment they can afford to make is $136.

**Table 6.3. Composition of Loan Demand**

| Terms Demanded | Value |
|---|---|
| Average loan size (GEL) | 6,790 |
| Average loan size ($) | 3,536 |
| Average loan length (Months) | 23 |
| Average monthly amount able to repay (GEL) | 263 |
| Average monthly amount able to repay ($) | 136 |
| **Periodicity Demanded** | **%** |
| Weekly | 2.6 |
| Every two weeks | 2.7 |
| Monthly | 68.0 |
| Every two months | 8.5 |
| Every three months | 6.2 |
| Every four months | 2.1 |
| Every six months | 3.7 |
| Yearly | 6.1 |

## 6.4. COMPOSITION OF LOAN DEMAND BY REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 6.4 shows the composition of loan demand controlling for registration status, gender, business sector, location, and region.

Registration Status. Three-quarters of registered enterprises want loans compared to 62% of unregistered enterprises. Registered enterprises also want loans twice as big and over five more months, can make larger monthly payments, and are more likely to have security.

Gender. The composition of loan demand is reasonably similar across genders. Generally, male-owned enterprises demand loans at a moderately higher rate, want larger loans over a month

longer, but can only afford slightly smaller monthly payments. A higher percentage of female-owned enterprises in turn can provide loan security.

Business Sector. The percentage of microenterprises that want loans is fairly similar among sectors ranging from 63% to 71%. Trade and service enterprises want larger loans than production or agriculture enterprises. Trade, services, and agriculture enterprises can afford approximately the same monthly payment around $130-$150, but production enterprises can only afford $51 a month. Service and production enterprises want loans between 2 ½-3 years, while trade and agriculture enterprises are content with loans over 19-22 months. Over 60% of trade, service, and agriculture enterprises can provide security compared to only 23% of production enterprises.

Location. The percentage of microenterprises demanding loans ranges from 57% to 70% when controlling for location. The highest percentage demand is found in towns followed by cities, rural areas, and markets. Market-based enterprises demand loans twice as large as cities and rural enterprises areas and nearly twice as large as town-based enterprises. Market-based enterprises also can afford the largest monthly payment, and rural enterprises can afford the smallest monthly payment. Enterprises in cities and towns want loans just over two years in length, while enterprises in rural areas and markets want loans just under two years in length. Over 60% of city- and market-based enterprises can provide security compared to less than 60% of town and rural based enterprises.

Region. The variation among regions far exceeds the variation in the other four strata. In terms of loan demand, the percentage of microenterprises wanting loans ranges from a low of 14% in Racha to 99% in Mtskheta Mtianeti. Approximately two-thirds or more of microenterprises demand loans in Tbilisi, Imereti, Gouria, Achara, Kvemo Kartli, and Kakheti and another one-half of microenterprises in Shida Kartli and Samtskhe-Javakheti.

Microenterprises in Tbilisi, Imereti, and Racha want loans in the $5,000 to $7,000 range. Another four regions (Samegrelo, Mtskheta Mtianeti, Kakheti, and Kvemo Kartli) want loans in the $3,000-$4,000 range, and the remaining four regions want loans in the $1,000-$2,000 range.

Microenterprises in Samegrelo can afford the largest monthly payment at $266, and microenterprises in Shida Kartli can afford the smallest monthly payment at $51. Imereti, Gouria, Kvemo Kartli, and Samtskhe-Javakheti can likewise only afford payments under $100. Microenterprises in the remaining five regions can afford monthly payments in the $100-$200 range.

The loan length demanded ranges from 15.9 months in Achara to 62.9 months in Mtskheta Mtianeti. After Mtskheta Mtianeti, the longest length demanded is in Racha (45.1%) and Imereti (31.8%). In the remaining seven regions, the loan length demanded averages between approximately 20-30 months

The percentage of microenterprises that can offer security includes 87% in Racha; about 70% in Gouria, Samegrelo, Shida Kartli, and Kvemo Kartli; approximately two-thirds in Tbilisi and

Achara; around one-half in Kakheti and Samtskhe-Javakheti; and one-quarter in Mtskheta Mtianeti.

**Table 6.4. Composition of Loan Demand by Gender, Business Sector, Location, and Region**

| Strata | Want Loan (%) | Size of Loan Wanted (GEL) | Size of Loan Wanted ($) | Monthly Payment That Can Make (GEL) | Monthly Payment That Can Make ($) | Loan Term Wanted (Months) | Can Provide Security (%) |
|---|---|---|---|---|---|---|---|
| **Registration Status** | | | | | | | |
| Unregistered | 62.0 | 4,438 | 2,311 | 238 | 124 | 19.6 | 57.0 |
| Registered | 75.0 | 8,952 | 4,663 | 288 | 150 | 25.0 | 65.0 |
| **Gender** | | | | | | | |
| Women | 61.0 | 5,616 | 2,925 | 267 | 139 | 22.1 | 68.0 |
| Men | 68.0 | 6,957 | 3,623 | 260 | 135 | 23.7 | 56.0 |
| **Business Sector** | | | | | | | |
| Trade | 63.0 | 7,585 | 3,951 | 285 | 148 | 22.4 | 61.0 |
| Services | 69.0 | 8,198 | 4,270 | 262 | 136 | 34.7 | 69.0 |
| Production | 71.0 | 5,735 | 2,987 | 97 | 51 | 30.2 | 23.0 |
| Agriculture | 66.0 | 5,437 | 2,832 | 247 | 129 | 19.4 | 68.0 |
| **Location** | | | | | | | |
| City | 69.0 | 5,214 | 2,716 | 230 | 120 | 26.1 | 66.0 |
| Town | 70.0 | 6,710 | 3,495 | 293 | 153 | 27.6 | 59.0 |
| Rural | 67.0 | 5,225 | 2,721 | 222 | 116 | 22.3 | 57.0 |
| Market | 57.0 | 11,423 | 5,949 | 358 | 186 | 20.3 | 62.0 |
| **Region** | | | | | | | |
| Tbilisi | 65.0 | 10,084 | 5,252 | 303 | 158 | 24.1 | 65.0 |
| Imereti | 79.0 | 9,452 | 4,923 | 134 | 70 | 31.8 | 23.0 |
| Gouria | 69.0 | 2,179 | 1,135 | 177 | 92 | 21.2 | 70.0 |
| Samegrelo | 52.0 | 6,663 | 3,470 | 511 | 266 | 19.8 | 74.0 |
| Achara | 76.0 | 3,672 | 1,913 | 223 | 116 | 15.9 | 65.0 |
| Shida Kartli | 47.0 | 3,006 | 1,566 | 98 | 51 | 22.9 | 74.0 |
| Mtskheta Mtianeti | 99.0 | 7,814 | 4,070 | 265 | 138 | 62.9 | 24.0 |
| Kvemo Kartli | 64.0 | 5,656 | 2,946 | 186 | 97 | 29.7 | 74.0 |
| Kakheti | 61.0 | 7,502 | 3,907 | 373 | 194 | 24.1 | 51.0 |
| Racha | 14.0 | 12,970 | 6,755 | 313 | 163 | 45.1 | 87.0 |
| Samtskhe-Javakheti | 50.0 | 2,556 | 1,331 | 117 | 61 | 20.1 | 52.0 |

## 6.5. LOAN SECURITY

Overall, 58.8% microenterprises expressing demand for formal loans can offer some kind of loan security. Of these, 69.6% can offer real property as security, 28% can offer gold or jewelry, 23.7% can offer movable property, such as domestic appliances or furniture, and another 11% can offer fixed business assets (see Table 6.5).

**Table 6.5. Security Available to Offer for Loan**

| Security | % |
|---|---|
| Fixed assets | 11.0 |
| Guarantee/Guarantor | 0.4 |
| Money in bank/Pension fund | 0.7 |
| Real property | 69.6 |
| Gold/Jewelry | 28.0 |
| Transport means | 5.0 |
| Domestic appliance/Furniture | 23.7 |
| Money | 0.8 |
| Salary | 1.0 |

## 7. MONETARY ESTIMATE OF POTENTIAL AND EFFECTIVE DEMAND FOR MICROENTERPRISE LOANS

Section 7 estimates the monetary value of potential and effective demand for formal microenterprise loans in Georgia.

### 7.1. POTENTIAL DEMAND

Based on the census of microenterprises performed in Stage 1 of this research, the number of microenterprises in Georgia is estimated to be 210,060. Extrapolating from the demand survey, 65% of microenterprises, equal to 136,539, demand loans with an average loan size of $3,536 (GEL 6,789). Total potential market demand can therefore be estimated by multiplying 136,539 by $3,536. This is equal to $482,801,904 (GEL 926, 979, 655) (see Table 7.1).

### 7.2. EFFECTIVE DEMAND

Potential demand most likely overstates actual demand. Potential demand measures what micro-entrepreneurs *want* to borrow. Arguably a better measure of demand is effective demand, which is equal to what microentrepreneurs *can afford* to borrow. According to the survey, the average monthly payment (principal and interest) microenterprises can afford is $136. Multiplying this figure by the 23 months (the average loan length demanded) equals only $3,128, which is $408 less than the average loan size demanded.

Based on information from Georgian NBMFIs, the monthly interest rate charged for microenterprise loans averages around 4% on both a declining balance and flat basis. If we assume a 4% declining balance, a monthly payment of $136, and a 23 month loan period, this implies an average loan value of $2,021 (GEL 3,880). Multiplying this amount by the estimated number of microenterprises that want a loan (136,539) produces a total effective loan demand of $275,945,319 (GEL 529,815,012).

If we substitute a 4% flat interest rate into the above assumptions, this implies an average loan value of $1,600 (GEL 3,072). Multiplying this amount by the estimated number of

microenterprises that want a loan produces a total effective loan demand of $218,462,400 (GEL 419,447,808).

**Table 7.1. Potential and Effective Microenterprise Loan Demand in Georgia**

| Type of Demand | GEL (Millions) | $ (Millions) |
|---|---|---|
| Potential demand | 927 | 483 |
| Effective demand (4% declining balance) | 530 | 276 |
| Effective demand (4% flat rate) | 419 | 218 |

## 7.3 POTENTIAL AND EFFECTIVE DEMAND CONTROLLING FOR REGISTRATON STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 7.2 breaks down potential and effective demand by registration status, gender, business sector, location, and region. The figures in Table 7.2 are based on the average demand characteristics unique to each of the stratum: percentage wanting loans, loan size, loan length, and monthly payment. For this reason, potential and effective demand differs across strata and from the figures presented in Table 7.1. Estimates of effective demand in Table 7.2 assume a 4% monthly declining balance interest rate.[3]

Registration Status and Gender. Potential and effective demand are highest among registered and male-owned enterprises at $326 million and $307 million, respectively. This is more than double the potential demand and approximately 60% larger than the effective demand among unregistered and female-owned enterprises.

Business Sector. Potential and effective demand is highest among trade enterprises at $274 million and $150 million and is approximately double that of agriculture enterprises, the next highest sector. Potential and effective demand among agriculture enterprises is in turn more than double that of service enterprises. Production enterprises have by far the lowest demand, with a potential demand one-eighth that of trade enterprises and nearly one-fourth that of agriculture enterprises. Effective demand among trade and agriculture enterprises is, respectively, 15 and 8 times that of production enterprise.

Overall, agriculture enterprises account for 26% of potential demand and 29% of effective demand for microenterprise loans.

[3] Declining balance interest rates are standard in more developed financial systems, principally because they are more transparent than fixed rates in that the effective interest rate matches the stated interest rate (assuming away loan fees). Fixed interest rates are a way for MFIs to charge higher than stated interest rates, because the effective interest rate is higher than the stated interest rate. It is assumed that as the Georgian microfinance market becomes more competitive, it will drive down interest rates and force MFIs to be more transparent about pricing.

**Table 7.2. Potential and Effective Microenterprise Loan Demand in Georgia by Registration Status, Gender, Business Sector, Location, and Region**

| Strata | Potential Loan Demand (GEL Millions) | Potential Demand ($ Millions) | Effective Demand (GEL Millions) | Effective Demand ($ Millions) |
|---|---|---|---|---|
| **Registration Status** | | | | |
| Unregistered | 271.0 | 141.2 | 195.0 | 101.6 |
| Registered | 626.0 | 326.1 | 314.6 | 163.9 |
| **Gender** | | | | |
| Female | 292.2 | 152.2 | 201.2 | 104.8 |
| Male | 590.2 | 307.4 | 332.8 | 173.3 |
| **Business Sector** | | | | |
| Trade | 526.9 | 274.4 | 288.5 | 150.3 |
| Service | 95.0 | 49.5 | 56.2 | 29.3 |
| Production | 62.4 | 32.5 | 18.5 | 9.6 |
| Agriculture | 242.9 | 126.5 | 147.4 | 76.7 |
| **Location** | | | | |
| City | 177.6 | 92.5 | 125.7 | 65.5 |
| Town | 60.5 | 31.5 | 43.8 | 22.8 |
| Rural | 318.4 | 165.9 | 197.9 | 103.1 |
| Market | 370.1 | 192.8 | 158.8 | 82.7 |
| **Region** | | | | |
| Tbilisi | 386.5 | 201.3 | 177.7 | 92.6 |
| Imereti | 171.3 | 89.2 | 43.4 | 22.6 |
| Gouria | 13.4 | 7.0 | 15.3 | 8.0 |
| Samegrelo | 89.3 | 46.5 | 92.4 | 48.2 |
| Achara | 136.4 | 71.0 | 95.9 | 50.0 |
| Shida Kartli | 19.3 | 10.0 | 9.3 | 4.8 |
| Mtskheta Mtianeti | 10.7 | 5.6 | 8.3 | 4.3 |
| Kvemo Kartli | 50.7 | 26.4 | 28.7 | 15.0 |
| Kakheti | 36.3 | 18.9 | 27.6 | 14.4 |
| Racha | 9.7 | 5.0 | 4.8 | 2.5 |
| Samtskhe-Javakheti | 2.9 | 1.5 | 1.8 | 1.0 |

Location. Market-based microenterprises have the largest potential demand at $370 million followed closely by rural enterprises at $318 million. Both have approximately twice the potential demand of city-based enterprises and 5-6 times the potential demand of town-based enterprises. In contrast, rural areas have the largest effective demand at $103 million followed in successive intervals of about $20 million by market and city based enterprises. Town-based enterprises have the lowest effective demand, that is less than one-fourth that of rural enterprises.

If cities, towns, and markets are considered urban locations, collectively they account for 66% of potential demand and 62% of effective demand for microenterprise loans. Rural areas account for the remaining 34% of potential demand and 38% of effective demand.

Region. The potential demand for microenterprise loans is highest in Tbilisi at $201 million, more than double that of Imereti and Achara, the next two closest regions at $89 million and $71

million. Among the remaining regions, potential demand is notably higher in Samegrelo, Kvemo Kartli and Kakheti and notably lower in Samtskhe-Javakheti, Racha, Mtskheta Mtianeti, and Gouria.

Effective demand is likewise highest in Tbilisi at $92.6 million nearly double that of Achara and Samegrelo, nearly three times that of Imereti, and six times that of Kvemo Kartli and Kakheti. The remaining five regions—Gouria, Shida Kartli, Mtskheta Mtianeti, Kakheti, Racha, and Samtskhe-Javakheti—all have effective demand less than $10 million.

Table 7.3 places each region into one of three categories based on its effective demand: Large Market, Medium Market, or Small Market.

**Table 7.3. Classification of Regions into Large Markets, Medium Markets, and Small Markets for Microenterprise Loans**

| Strata | Potential Clients | Effective Demand ($ Millions) | % Share of Effective Demand | Potential Demand ($ Millions) | % Share of Potential Demand | Number of Branches | Effective Demand per Branch ($ millions) | Clients per Branch |
|---|---|---|---|---|---|---|---|---|
| **Large Market** | | | | | | | | |
| Tbilisi | 38,331 | 92.6 | 35.2 | 201.3 | 41.7 | 27 | 3.4 | 1,474 |
| Achara | 37,131 | 50.0 | 19.0 | 71.0 | 14.7 | 8 | 6.3 | 4,641 |
| Samegrelo | 13,408 | 48.2 | 18.3 | 46.5 | 9.6 | 19 | 2.5 | 706 |
| **Medium Market** | | | | | | | | |
| Imereti | 18,126 | 22.6 | 8.6 | 89.2 | 18.5 | 20 | 1.1 | 910 |
| Kvemo Kartli | 8,970 | 15.0 | 5.7 | 26.4 | 5.5 | 8 | 1.9 | 1,221 |
| Kakheti | 4,840 | 14.4 | 5.5 | 18.9 | 3.9 | 16 | 0.9 | 303 |
| **Small Market** | | | | | | | | |
| Gouria | 6,143 | 8.0 | 3.0 | 7.0 | 1.5 | 1 | 8.0 | 6,143 |
| Shida Kartli | 6,413 | 4.8 | 1.8 | 10.0 | 2.1 | 4 | 1.2 | 1,603 |
| Mtskheta Mtianeti | 1,366 | 4.3 | 1.6 | 5.6 | 1.2 | 0 | NA | NA |
| Racha | 745 | 2.5 | 0.9 | 5.0 | 1.0 | 0 | NA | NA |
| Samtskhe-Javakheti | 1,150 | 1.0 | 0.4 | 1.5 | 0.3 | 6 | 0.2 | 230 |

The 8th and 9th columns in Table 7.3 provide two rough proxies of market coverage for microenterprise loans in Georgia. Clients per branch is equal to the number of potential clients (found by multiplying the estimated number of microenterprises in each region by the percentage of microenterprise that want formal loans) divided by the number of MFI (NBMFI and commercial bank) branches. Effective demand per branch is equal to the effective demand in

each region divided by the number of MFI branches in that region.[4] (See Annex 3 for a summary of supply information provided by commercial banks and NBMFIs.) Lower values in both cases indicate more extensive coverage and higher values indicate less extensive coverage.

The most striking finding in Table 7.3 is the low market coverage in Gouria and Achara according to both indicators, the latter of which has the second largest effective demand and second most potential clients among the regions. Relative to the other regions, Tbilisi and Gouria also have low market coverage according to both indicators. Mtskheta Mtianeti and Racha have no market coverage, although each is a relatively small market in terms of potential clients and effective demand.

On balance, Kvemo Kartli and Shida Kartli have moderately low market coverage. Samegrelo, on the other hand, has low market coverage according to clients per branch but high market coverage according to effective demand per branch. At the other end of the spectrum, Imereti, Kakheti, and Samtskhe-Javakheti have relatively high market coverage.

It should be emphasized however, that these two simple ratios are at best very rough proxies of market coverage. Neither take into account a myriad of other factors within regions and branches, such as economic or political conditions, infrastructure development, costs of doing business, branch accessibility, or actual volume of microenterprise lending at the branches.

## 7.4. SENSITIVITY OF EFFECTIVE DEMAND TO DIFFERENT INTEREST RATE ASSUMPTIONS

To see how sensitive the estimates of effective demand are to changes in interest rate assumptions, effective demand in each of the 11 regions was recalculated assuming declining balance interest rates of 3% and 5%. As seen in Table 7.4, a 1 percentage point decrease in the monthly interest rate increases total effective demand by $15.4 million (5.5%) to $291.5 million, and a 1 percentage point increase in the interest rate decreases effective demand by $37.1 million (13.4%) to $239.0 million. Based on this simple sensitivity analysis, the effective demand for microenterprise loans in Georgia is somewhere between $239 million and $292 million.

[4] Information on the number and location of branches was provided to GMSE consultants by the NBMFIs and commercial banks.

**Table 7.4. Effective Demand for Microenterprises Loans under Different Interest Rate Assumptions**

| Strata | Effective Demand at 3% ($ Millions) | Effective Demand at 4% ($ Millions) | Effective Demand at 5% ($ Millions) |
|---|---|---|---|
| Tbilisi | 102.9 | 92.6 | 83.8 |
| Imereti | 25.8 | 22.6 | 20.0 |
| Gouria | 8.8 | 8.0 | 7.3 |
| Samegrelo | 52.7 | 48.2 | 44.2 |
| Achara | 53.8 | 50.0 | 46.5 |
| Shida Kartli | 5.4 | 4.8 | 4.4 |
| Mtskheta Mtianeti | 5.3 | 4.3 | 3.6 |
| Kvemo Kartli | 16.9 | 15.0 | 13.3 |
| Kakheti | 16.0 | 14.4 | 13.0 |
| Racha | 3.0 | 2.5 | 2.2 |
| Samtskhe-Javakheti | 1.0 | 1.0 | 0.9 |
| Total | 291.5 | 263.4 | 239.0 |

## 8. COMPARISON OF POTENTIAL AND EFFECTIVE DEMAND FOR MICROENTERPRISE LOANS TO EXISTING SUPPLY

Section 8 compares the estimates of potential and effective demand for microenterprise loans to the volume of microenterprise loans currently outstanding at NBMFIs and commercial banks. Information on loans outstanding at credit unions is not available, so they are not included in the analysis. Based on what information is available, however, it is assumed that the volume of microenterprise loans outstanding at credit unions is relatively trivial.[5]

### 8.1. EXISTING SUPPLY OF MICROENTEPRRISE LOANS

Tables 8.1 shows the existing supply of microenterprise loans, number of microenterprise clients, average loan size, and percent women clients in Georgia as of March 2004. The total number of clients is 43,969 consisting of 34,622 (79%) at NBMFIs and 9,347 (21%) at commercial banks. The total volume of loans outstanding is $24.9 million (GEL 47.8 million), of which $11.1 million (GEL 21.3 million; 45%) is outstanding at NBMFIs and $13.8 million (GEL 26.5 million; 45%) is outstanding at commercial banks. The slight majority share of outstanding loans at commercial banks is due principally to the large microcredit portfolio at ProCredit Bank.

[5] According to the "Microfinance Mapping Survey" completed by GMSE consultant Kirsten Weiss in November, 2003, there are 23 licensed, solvent credit unions in Georgia. These credit unions have on average 115 members, for a total of 2,645 members, equal to 6% of microcredit clients at NBMFIs and commercial banks. The actual number of borrowers will be smaller than this, as not all members borrow.

**Table 8.1. Supply of Microenterprise Loans as of March 2004: Volume of Loans and Number of Clients**

| Institution | Volume (GEL 000's) | Volume ($ 000's) | Clients | Average Loan Size (GEL) | Average Loan Size ($) | % Female Clients |
|---|---|---|---|---|---|---|
| **NBMFIs** | | | | | | |
| Business Assistance Initiative | 749 | 390 | 424 | 2,275 | 1,185 | 56.0 |
| Charity Humanitarian Center | 810 | 422 | 1,061 | 1,384 | 721 | 71.0 |
| Georgian Rural Development Fund | 4,683 | 2,439 | 2,115 | 3,936 | 2,050 | 9.0 |
| Small Business Development Fund | 703 | 366 | 1,409 | 499 | 260 | 53.0 |
| Support for Development | 541 | 282 | 549 | 1,651 | 860 | 58.0 |
| Constanta | 5,737 | 2,988 | 17,792 | 326 | 170 | 71.0 |
| Association of Union Trust | 1,350 | 703 | 1,892 | 851 | 443 | 66.0 |
| World Vision | 1,628 | 848 | 1,652 | 1,812 | 944 | 68.0 |
| FINCA | 3,435 | 1,789 | 6,834 | 864 | 450 | 65.0 |
| BBK Financial | 1,160 | 604 | 1,302 | 2,500 [a] | 1,302 | 69.0 |
| Society Development Association[6] | 500 | 260 | 483 | 1,035 | 539 | 58.0 |
| **Total NBMFIs** | **21,297** | **11,091** | **34,622** | **1,558** [b] | **811** [b] | **59** [b] |
| **Commercial Banks** | | | | | | |
| ProCredit Bank [c] | 21,561 | 11,230 | 8,536 | 2,504 | 1,304 | 36.4 |
| TBC Bank [c] | 2,110 | 1,099 | 270 | 10,524 | 5,481 | NA |
| Tbil Universal [c] | 2,880 | 1,500 | 541 | 8,316 | 4,331 | 45.0 |
| **Total Commercial Banks** | **26,551** | **13,829** | **9,347** | **7,114**[b] | **3,705** [b] | **41.0** [b] |
| **Total** | **47,848** | **24,920** | **43,969** | **2,748** [b] | **1,431** [b] | **55.8** [b] |

[a] Unweighted average of group and individual loans.
[b] Unweighted cell average.
[c] Microfinance department only.

## 8.2. COMPARISON OF POTENTIAL AND EFFECTIVE DEMAND FOR MICROENTERPRISE LOANS TO EXISTING SUPPLY

Table 8.2 compares the potential and effective demand for microenterprise loans in Georgia to actual supply as of March 2004. The figures for potential and effective demand are calculated by summing up the potential and effective demand from each of the 11 regions using the unique demand characteristics from each region and assuming a 4% monthly declining balance interest rate.

The gap between potential demand and existing supply is $458 million (GEL 878 million), and the gap between effective demand and existing supply is $238 million (GEL 457 million). In terms of clients, NBMFIs and commercial banks have penetrated only 31.7% of the market. For

[6] Updated supply information for Society Development Association was not available for this study. Instead, supply information from the November 2003 "Microfinance Mapping Survey" is used under the assumption that the figures will not have changed much in the interim. In any case, SDA is small enough that some degree of measurement error will not materially affect the estimates.

NBMFIs, the relevant percentage is 25.0%, and for commercial banks the relevant percentage is 6.7%.

In terms of loan volume, NBMFIs and commercial banks have penetrated only 5.2% of the potential market and 9.5% of the effective market. For NBMFIs, the relevant percentages are 2.3% and 4.2%, and for commercial banks the relevant percentages are 2.9% and 5.3%.

**Table 8.2. Potential and Effective Demand for Microenterprise Loans in Georgia and Compared to Existing Supply of Microenterprise Loans**

| | |
|---|---|
| Potential Demand (GEL millions) | 926 |
| Potential Demand ($ millions) | 483 |
| Effective Demand (GEL millions) | 505 |
| Effective Demand ($ millions) | 263 |
| Loans Outstanding (GEL millions) | 48 |
| Loans Outstanding ($ millions) | 25 |
| Potential – Outstanding (GEL millions) | 878 |
| Potential – Outstanding ($ millions) | 458 |
| Effective – Outstanding (GEL millions) | 457 |
| Effective – Outstanding ($ millions) | 238 |
| Potential microenterprise loan clients | 138,573 |
| Current microenterprise loan clients | 43,969 |
| Potential clients – Current clients | 94,604 |

In comparing supply to demand, it is important to take note of the distribution of demand in the country. Table 8.3 breaks loan demand down further by showing the deciles of effective demand by each stratum. (In Table 8.3, the 10$^{th}$ percentile means that 10% of all responses fall below this value. The 20$^{th}$ percentile means that 20% of all responses fall below this value. And so forth. The 50$^{th}$ percentile is equal to the median loan size demanded.)

The effective demand deciles in Table 8.3 can be used to estimate what portion of the market demand loans under a certain size. For example, assume that an NBMFI offers a maximum loan size of $811 (the average loan size offered by NBMFIs); this accounts for somewhere between 50%-60% of effective demand in most strata. Exceptions include production enterprises and enterprises in Mtskheta Mtianeti and Racha, where it accounts for between 40%-50% or market demand; unregistered enterprises, Gouria, and Achara, where it accounts for between 60%-70% of market demand; and Shida Kartli and Samtskhe-Javakheti, where it accounts for between 80%-90% of market demand. If, on the other hand, we assume a commercial bank that only offers loans $1,000 and above, this institution has the potential to reach at most between 30%-40% of the market overall and in most strata.

**Table 8.3. Deciles of Loan Size Demanded by Registration Status, Gender, Business Sector, Location, and Region ($)**

| | 10th Percentile | 20th Percentile | 30th Percentile | 40th Percentile | 50th Percentile | 60th Percentile | 70th Percentile | 80th Percentile | 90th Percentile |
|---|---|---|---|---|---|---|---|---|---|
| **Entire sample** | 176 | 273 | 393 | 488 | 786 | 974 | 1,262 | 2,356 | 3,534 |
| **Registration Status** | | | | | | | | | |
| Unregistered | 189 | 273 | 273 | 393 | 488 | 786 | 1,178 | 2,444 | 2,444 |
| Registered | 158 | 270 | 488 | 652 | 794 | 977 | 1,191 | 1,969 | 5,302 |
| **Gender** | | | | | | | | | |
| Female | 158 | 273 | 439 | 488 | 733 | 974 | 1,191 | 2,207 | 4,399 |
| Male | 176 | 273 | 293 | 488 | 786 | 977 | 1,375 | 2,382 | 2,444 |
| **Business Sector** | | | | | | | | | |
| Trade | 231 | 317 | 483 | 555 | 786 | 984 | 1,365 | 2,207 | 5,891 |
| Service | 231 | 273 | 393 | 488 | 589 | 984 | 1,212 | 2,356 | 3,176 |
| Production | 244 | 270 | 270 | 645 | 974 | 974 | 974 | 974 | 1,178 |
| Agriculture | 158 | 273 | 273 | 397 | 786 | 984 | 1,969 | 2,444 | 2,444 |
| **Location** | | | | | | | | | |
| City | 244 | 273 | 472 | 488 | 733 | 1,092 | 1,375 | 2,193 | 4,399 |
| Town | 198 | 244 | 422 | 483 | 786 | 984 | 1,588 | 1,969 | 2,954 |
| Rural | 158 | 270 | 273 | 483 | 786 | 974 | 984 | 2,207 | 2,444 |
| Market | 219 | 391 | 488 | 635 | 794 | 1,191 | 1,588 | 3,910 | 7,941 |
| **Region** | | | | | | | | | |
| Tbilisi | 244 | 312 | 488 | 589 | 786 | 1,178 | 1,477 | 2,382 | 5,887 |
| Imereti | 238 | 270 | 353 | 733 | 786 | 974 | 974 | 1,178 | 2,356 |
| Gouria | 109 | 119 | 158 | 393 | 488 | 786 | 977 | 1,588 | 3,970 |
| Samegrelo | 244 | 391 | 483 | 733 | 1,178 | 1,806 | 3,910 | 3,970 | 8,246 |
| Achara | 158 | 273 | 273 | 273 | 555 | 794 | 1,969 | 2,444 | 2,444 |
| Shida Kartli | 219 | 244 | 293 | 393 | 397 | 555 | 733 | 794 | 2,207 |
| Mtskheta Mtianeti | 395 | 395 | 645 | 645 | 1,060 | 1,120 | 1,212 | 1,277 | 10,604 |
| Kvemo Kartli | 244 | 422 | 439 | 488 | 659 | 1,166 | 1,588 | 1,969 | 3,534 |
| Kakheti | 144 | 244 | 488 | 492 | 794 | 977 | 1,191 | 1,588 | 1,969 |
| Racha | 397 | 397 | 645 | 653 | 1,072 | 2,56 | 3,970 | 3,970 | 11,039 |
| Samtskhe-Javakheti | 182 | 293 | 350 | 464 | 483 | 483 | 786 | 794 | 1,262 |

## 9. BUSINESS GROWTH POTENTIAL

Section 9 examines the recent performance and future prospects of microenterprises in Georgia. Specific issues examined include expansion plans, sources of financing for planned business expansion, sales performance, job creation, and impediments to business performance.

### 9.1. BUSINESS EXPANSION AND FINANCING SOURCES FOR BUSINESS EXPANSION

Approximately one-half (53.7%) of microenterprises plan to expand their business over the next 12 months. Among these, 61.6% plan to finance expansion with commercial bank loans and another 12.2% through self-financing (see Table 9.1). As a secondary means of financing, 10%-16% plan to use one or more of the following: bank loans, NBMFI loans, credit union loans, and

loans from family or friends. An additional 28.8% say they intend borrow from money lenders as a tertiary means of financing. Overall, nearly three-quarters of microenterprises intend to finance with bank loans, one-third plan to use money lenders, one-quarter plan to borrow from family or friends, and another one-fifth plan to self-finance or borrow from NBMFIs.

**Table 9.1. Sources of Financing for Business Expansion**

| Source of Financing | Primary Means of Financing (%) | Secondary Means of Financing (%) | Tertiary Means of Financing (%) | Total (%) |
|---|---|---|---|---|
| Self-finance | 12.2 | 6.0 | 3.4 | 21.6 |
| Bank loan | 61.6 | 10.0 | 0.8 | 72.4 |
| NBMFI loan | 7.1 | 12.4 | 0.5 | 20 |
| Credit union loan | 1.9 | 10.1 | 3.6 | 15.6 |
| Loan from family/friends | 7.5 | 16.0 | 5.1 | 28.6 |
| Pawn shop loan | 0.3 | 4.5 | 0.9 | 5.7 |
| Lottery | 3.5 | 5.6 | 2.5 | 11.6 |
| Loan from money lender | 3.3 | 4.8 | 28.8 | 36.9 |
| Supplier credit | 1.2 | 3.3 | 5.0 | 9.5 |
| Loan from business partner | 1.3 | 3.6 | 3.4 | 8.3 |

## 9.2. ENTERPRISE REVENUE

On average, microenterprises in Georgia generate $5,919 (GEL 11,365) in yearly revenues (see Table 9.2). May is by far the worst month for business with average revenue of $367 (GEL 705), and December is the best month for business with an average revenue of $941 (GEL 1,807). With the exception of May, sales revenues are reasonably constant January through August (with upward spikes in April and June), but then pick up considerably during the holiday season of September through December.

Given that the typical microenterprise contributes 77% of household income, a very rough estimate of average income at microentrepreneur households can be made by dividing the average enterprise revenue by 0.77. This is equal to $7,687.[7]

[7] This is only a very rough estimate. It is not based on actual enterprise profits and it omits a host of other missing factors.

**Table 9.2. Sources of Financing for Business Expansion**

| Source of Financing | Enterprise Revenue ($) |
|---|---|
| January | 656 |
| February | 641 |
| March | 673 |
| April | 764 |
| May | 367 |
| June | 720 |
| July | 685 |
| August | 667 |
| September | 841 |
| October | 923 |
| November | 918 |
| December | 941 |
| Total | 5,919 |

The same method can be used to estimate the yearly income of microentrepreneur households in each of the 11 regions studied. These results are shown in Table 9.3.

## 9.3. ENTERPRISE REVENUE CONTROLLING FOR REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 9.3 shows enterprise revenue, enterprise income as a percentage of household income, and estimates of household income by registration status, gender, business sector, location, and region. The results in Table 9.3 reveal substantial income disparities within strata. Notable for relatively high household incomes within stratum are registered enterprises, trade enterprises, market and city based enterprises, and enterprises in Tbilisi, Imereti, and Achara. Notable for relatively low household incomes within stratum are unregistered enterprises, production and agriculture enterprises, rural enterprises, Gouria, and Mtskheta Mtianeti.

Household incomes among registered enterprises are more than four times larger than unregistered enterprises; nearly twice as large in male-owned enterprises as female-owned enterprises; more than twice as large in trade than in service enterprises; and more than three times as large in trade than production and agriculture enterprises. Distribution of household incomes is more egalitarian among locations, although still significantly lower among rural enterprises than city, town, or market based enterprises.

Aside from the three high income regions, regions cluster into five income groups: two regions with household incomes between $4,500 and $5,500 (Samegrelo and Racha), four regions with household incomes between $2,000 and $3,000 (Shida Kartli, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti), Gouria with an average household income of $1,518, and Mtskheta with an average household income of $638.

**Table 9.3. Business Revenue and Household Income by Gender, Business Sector, Location, and Region**

| Strata | Total Revenue (GEL) | Total Revenue ($) | Business Income as % of Household Income | Estimated HH Income ($) |
|---|---|---|---|---|
| **Registration Status** | | | | |
| Unregistered | 3,932 | 2,048 | 73.1 | 2,802 |
| Registered | 19,746 | 10,284 | 78.4 | 13,118 |
| **Gender** | | | | |
| Female | 8,614 | 4,486 | 80.0 | 5,608 |
| Male | 13,151 | 6,849 | 74.9 | 9,145 |
| **Business Sector** | | | | |
| Trade | 18,424 | 9,596 | 83.3 | 11,520 |
| Service | 7,269 | 3,786 | 78.0 | 4,854 |
| Production | 5,484 | 2,856 | 79.9 | 3,575 |
| Agriculture | 3,805 | 1,982 | 65.7 | 3,016 |
| **Location** | | | | |
| City | 14,114 | 7,351 | 81.2 | 9,053 |
| Town | 10,949 | 5,703 | 75.1 | 7,593 |
| Rural | 4,323 | 2,252 | 67.7 | 3,326 |
| Market | 21,516 | 11,206 | 88.5 | 12,662 |
| **Region** | | | | |
| Tbilisi | 23,135 | 12,049 | 89.9 | 13,403 |
| Imereti | 12,701 | 6,615 | 77.2 | 8,569 |
| Gouria | 1,967 | 1,024 | 67.5 | 1,518 |
| Samegrelo | 6,809 | 3,546 | 74.6 | 4,754 |
| Achara | 9,457 | 4,926 | 68.2 | 7,222 |
| Shida Kartli | 3,589 | 1,869 | 70.3 | 2,659 |
| Mtskheta Mtianeti | 1,010 | 526 | 82.4 | 638 |
| Kvemo Kartli | 4,452 | 2,319 | 79.9 | 2,902 |
| Kakheti | 2,942 | 1,532 | 74.1 | 2,068 |
| Racha | 5,485 | 2,857 | 55.6 | 5,138 |
| Samtskhe-Javakheti | 3,471 | 1,808 | 70.1 | 2,579 |

## 9.4. SALES PERFORMANCE AND PROJECTIONS

On balance, microenterprises in Georgia have not performed well relative to the previous year. Sales increased over the last 12 months at only one-third of microenterprises. Among these enterprises, sales increased by an average of 28% over last year. Notwithstanding disappointing sales growth over the last year, over one-half of microenterprise plan to increase sales over the next 12 months by an average of 29.5% (see Table 9.4).

**Table 9.4. Microenterprise Growth Performance and Projections**

| Performance Indicator | % |
|---|---|
| Plan to increase business over next 12 months | 54.0 |
| Sales have increased over last 12 months | 35.0 |
| Average increase in sales over last 12 months | 28.1 |
| Expect sales to increase over next 12 months | 56.0 |
| Expected increase in sales over next 12 months | 29.5 |

## 9.5. JOB CREATION

Overall, microenterprises in Georgia cannot be counted on to be a strong engine for job creation over the next 12 months. Only 13.2% of microenterprises intend to increase the number of employees compared to 2.7% that plan to reduce employment and 72.0% that plan to leave employment at current levels. Of those that plan to increase employment, the average projected increase is 2.7 workers and 2.5 paid workers. The small percentage of microenterprises that plan to cut employment over the next 12 months anticipate cutting employment by an average of 1.7 workers and 1.0 paid workers (see Table 9.5).

**Table 9.5. Microenterprise Job Growth Projections**

| Job Growth Indicator | % |
|---|---|
| Expect to increase employees | 13.2 |
| Expect to decrease employees | 1.9 |
| Expect to leave employees the same | 72.0 |
| Expected new employees (Average) | 2.7 |
| Expected new paid employees (Average) | 2.5 |
| Expected reduction in employees (Average) | 1.7 |
| Expected reduction in paid employees (Average) | 1.0 |

## 9.6. IMPEDIMENTS TO BUSINESS PERFORMANCE

Microenterprises identified eight significant impediments to better business performance (see Table 9.6). About one-fifth of microenterprises mentioned weak markets for goods and services or high tax payments as the primary impediment to business performance. Other relatively important primary impediments include lack of access to financial services, unstable economic conditions, and competition.

If primary, secondary, and tertiary impediments are considered, weak markets, unstable economic conditions, and competition are mentioned by approximately 40% or more of microenterprises. High tax payments are mentioned by another one-third of microenterprises, lack of access to financial services by one-quarter, and lack of raw materials, unstable economic conditions, and unstable political conditions by approximately one-fifth.

**Table 9.6. Impediments to Business Performance**

| Reason | Primary (%) | Secondary (%) | Tertiary (%) | Total (%) |
|---|---|---|---|---|
| High tax payments | 18.2 | 8.7 | 4.5 | 31.4 |
| Lack of access to financial services | 14.1 | 7.0 | 3.6 | 24.7 |
| Lack of raw materials | 6.6 | 10.0 | 5.1 | 21.7 |
| Weak markets for goods and services | 20.7 | 10.7 | 8.8 | 40.2 |
| Unstable political conditions | 7.0 | 5.9 | 4.2 | 17.1 |
| Unstable economic conditions | 11.2 | 11.6 | 23.5 | 46.3 |
| Competition | 11.5 | 18.0 | 8.7 | 38.2 |

## 10. DEMAND FOR OTHER FINANCIAL SERVICES

Section 10 assesses the demand for other financial services among microenterprises in Georgia, including savings, leasing, supplier credit, health insurance, life insurance, auto insurance, housing loans, consumer loans, land loans, education loans, and medical loans.

### 10.1. DEMAND FOR OTHER FINANCIAL SERVICES

Microenterprises expressed moderate to strong demand for several types of other financial services. Over one-third of microenterprises expressed demand for health insurance; approximately one-fifth for supplier credit and housing loans, approximately 12%-16% for land loans, auto insurance, consumer loans, and life insurance; and less than 10% for education loans, medical loans, and savings (see Table 10.1).

**Table 10.1. Demand for Other Financial Services**

| Financial Service | % |
|---|---|
| Life Insurance | 12.7 |
| Supplier Credit | 18.9 |
| Health Insurance | 38.1 |
| Housing Loan | 18.5 |
| Leasing | 15.8 |
| Consumer Loan | 13.1 |
| Land Loan | 15.8 |
| Auto Insurance | 14.1 |
| Education Loan | 8.3 |
| Medical Loan | 7.8 |
| Savings | 4.5 |

### 10.2. DEMAND FOR OTHER FINANCIAL SERVICES CONTROLLING FOR REGISTRATION STATUS, GENDER, BUSINESS SECTOR, LOCATION, AND REGION

Table 10.2 breaks down the demand for other financial services by registration status, gender, business sector, location, and region.

Health Insurance. The demand for health insurance ranges from approximately one-third to one-half of microenterprises in all but four strata: production enterprises and in Imereti, Shida Kartli, and Mtskheta Mtianeti. Demand for health insurance drops below 10% of microenterprises only in Mtskheta Mtianeti. Controlling for registration status, gender, and business sector the demand for health insurance is reasonably uniform. Among locations, the demand for health insurance is notably higher among market and city based enterprises, exceeding 40% in both cases.

Supplier Credit. Demand for supplier credit reaches approximately two-thirds of microenterprises in Shida Kartli; one-third of microenterprises in towns and Kvemo Kartli, and one-quarter of microenterprises among registered, female, and trade enterprises and in cities, Tbilisi, Imereti, Gouria, and Samtskhe-Javakheti. Demand for supplier credit is less than 10% of microenterprises among production enterprises and in Achara, Mtskheta Mtianeti, and Racha. Elsewhere, demand is between 10% and 20% of microenterprises.

Life Insurance. Demand for life insurance consistently approaches or exceeds one-fifth of microenterprise controlling for registration status, gender, business sector, and location. The sole exceptions are production enterprises, towns, and markets, where it ranges between 12.6% and 19.2% of microenterprises. Demand for life insurance exceeds 20% of microenterprises in five regions (Tbilisi, Gouria, Samegrelo, Achara, and Kvemo Kartli) and ranges between 16% and 19% in another three regions (Mtskheta Mtianeti, Racha, and Samtskhe-Javakheti).

Housing Loans. Demand for housing loans reaches one-third of microenterprises in cities and Kvemo Kartli and between 20% and 30% of microenterprises among unregistered, female-owned, trade, service, production, and market enterprises and in Tbilisi, Samegrelo, and Samtskhe-Javakheti. Another 13-19% of microenterprises express a demand for housing loans among unregistered, male-owned, and town-based enterprises and in Imereti, Gouria, and Shida Kartli.

Leasing. The demand for leasing is highly variable in each stratum. Over one-half of microenterprises in Shida Kartli express a demand for leasing compared to approximately two-thirds of microenterprises in Gouria and Samtskhe-Javakheti and 20-25% of enterprises among service, production, and town-based enterprises and in Kvemo Kartli. Another 13% to 19% of microenterprises are interested in leasing among unregistered, male-owned, and agriculture enterprises and in cities, rural areas, and Imereti.

Land Loans. The demand for loan loans is between 20% and 30% of microenterprises among unregistered, male-owned, service, and agriculture enterprises and in towns, rural areas, Achara, Kvemo Kartli, and Kakheti. Another 13% to 16% of microenterprises are interested in land loans among registered enterprises and in cities, Tbilisi, Gouria, and Samtskhe-Javakheti.

Consumer Loans. Demand for consumer loans approaches or exceeds 20% of microenterprises among trade and service enterprises and in cities, Tbilisi, Shida Kartli, Kvemo Kartli, and Samtskhe-Javakheti. Another 13% to 18% of microenterprises express a demand for consumer loans among unregistered enterprises and in towns, markets, and Gouria.

Auto Insurance. The demand for auto insurance generally lies between 10% and 20% of microenterprises. It exceeds this percentage among agriculture enterprises and in Achara, and it is less than this percentage among female and trade enterprises and in towns, markets, Samegrelo, Shida Kartli, Kakheti, Racha, and Samtskhe-Javakheti.

Education Loans. The demand for education loans is typically less than 10% of microenterprises. Demand exceeds 20% of microenterprises only among production enterprises and in Gouria and exceeds 10% of microenterprises among registered and female-owned enterprises and in markets, Imereti, Samegrelo, Kvemo Kartli, and Racha.

Medical Loans. The demand for medical loans is typically less than 10% of microenterprises. Demand exceeds 20% of microenterprises only in Kvemo Kartli and exceeds 10% of microenterprises among female-owned and trade enterprises and in cities, Tbilisi, Gouria, and Racha.

Savings. Demand for savings is less than 10% of microenterprises in all strata and is less than 6% in all but eight cases. The only regions with demand approaching 10% of microenterprises are Tbilisi, Shida Kartli, and Kvemo Kartli.

**Table 10.2. Demand for Other Financial Services by Registration Status, Gender, Business Sector, Location, and Region (%)**

| Strata | Leasing | Life Insurance | Health Insurance | Auto Insurance | Land Loan | Housing Loan | Medical Loan | Education Loan | Consumer Loan | Supplier Credit | Savings |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Registration Status** | | | | | | | | | | | |
| Unregistered | 17.1 | 20.1 | 35.6 | 18.8 | 20.3 | 12.8 | 7.4 | 7.7 | 13.2 | 16.0 | 2.8 |
| Registered | 9.7 | 27.0 | 36.6 | 11.4 | 14.2 | 21.9 | 8.3 | 10.4 | 10.7 | 22.8 | 5.6 |
| **Gender** | | | | | | | | | | | |
| Female | 10.8 | 24.4 | 41.1 | 6.9 | 9.1 | 22.6 | 13.4 | 12.6 | 18.5 | 24.1 | 4.5 |
| Male | 13.9 | 20.2 | 36.0 | 19.0 | 20.4 | 15.7 | 4.0 | 5.4 | 9.4 | 15.4 | 4.4 |
| **Business Sector** | | | | | | | | | | | |
| Trade | 9.3 | 22.6 | 39.3 | 9.9 | 11.5 | 24.2 | 11.4 | 8.8 | 19.0 | 26.2 | 7.3 |
| Service | 21.4 | 25.4 | 34.1 | 13.3 | 20.8 | 23.3 | 7.7 | 9.3 | 19.0 | 15.9 | 5.6 |
| Production | 23.1 | 16.5 | 19.2 | 14.5 | 3.9 | 25.6 | 3.1 | 21.5 | 4.1 | 6.3 | 1.1 |
| Agriculture | 13.7 | 21.1 | 41.2 | 21.2 | 24.4 | 6.4 | 3.2 | 4.3 | 4.1 | 10.6 | 0.2 |
| **Location** | | | | | | | | | | | |
| City | 13.1 | 36.0 | 47.9 | 13.1 | 15.2 | 32.0 | 14.2 | 9.1 | 21.2 | 26.9 | 7.8 |
| Town | 25.7 | 12.6 | 24.0 | 2.0 | 20.1 | 18.7 | 9.7 | 9.1 | 15.3 | 39.6 | 8.2 |
| Rural | 16.5 | 19.2 | 34.8 | 19.1 | 21.0 | 9.6 | 3.0 | 6.7 | 6.9 | 15.1 | 0.4 |
| Market | 3.2 | 16.2 | 37.9 | 9.9 | 7.1 | 20.9 | 9.6 | 10.1 | 15.5 | 13.5 | 7.2 |
| **Region** | | | | | | | | | | | |
| Tbilisi | 8.8 | 27.6 | 43.5 | 12.2 | 13.5 | 27.8 | 12.3 | 6.6 | 21.6 | 23.7 | 8.1 |
| Imereti | 18.5 | 4.4 | 14.6 | 12.1 | 3.3 | 13.3 | 2.6 | 10.8 | 1.2 | 20.7 | 1.5 |
| Gouria | 36.5 | 21.0 | 35.7 | 11.3 | 15.4 | 19.1 | 12.7 | 22.0 | 16.1 | 29.0 | 3.6 |
| Samegrelo | 4.0 | 21.0 | 38.3 | 5.6 | 5.6 | 22.2 | 5.5 | 18.1 | 11.5 | 11.0 | 3.4 |
| Achara | 0.2 | 30.2 | 49.4 | 29.3 | 29.9 | 7.7 | 1.8 | 5.9 | 4.6 | 0.4 | 0.1 |
| Shida Kartli | 55.1 | 7.7 | 18.7 | 0.4 | 11.6 | 17.8 | 0.8 | 0.0 | 26.9 | 65.9 | 9.7 |
| Mtskheta Mtianeti | 0.6 | 18.9 | 5.1 | 18.9 | 1.3 | 2.5 | 1.3 | 1.9 | 0.6 | 7.0 | 0.0 |
| Kvemo Kartli | 25.8 | 25.2 | 37.5 | 12.7 | 23.6 | 32.1 | 27.2 | 16.5 | 19.6 | 34.7 | 9.9 |
| Kakheti | 6.3 | 7.7 | 34.3 | 6.9 | 20.9 | 6.4 | 7.8 | 4.3 | 10.0 | 10.1 | 2.0 |
| Racha | 5.7 | 16.2 | 45.3 | 2.7 | 2.7 | 1.6 | 11.4 | 11.8 | 3.1 | 2.2 | 0.0 |
| Samtskhe-Javakheti | 36.0 | 16.9 | 33.4 | 8.6 | 14.2 | 27.3 | 0.4 | 1.3 | 21.3 | 22.9 | 6.2 |

## 11. SUMMARY AND RECOMMENDATIONS

The findings of the GMSE Microfinance Demand Survey raise a number of important issues that need to be considered in setting a strategic direction for microfinance policy in Georgia. This concluding section reviews these issues and, where appropriate, makes corresponding policy recommendations.

### 11.1. LOW MARKET PENETRATION

To date, Georgian NBMFIs have only scratched the surface of the potential microfinance market, reaching 31.7% of potential clients and serving 9.5% of effective loan demand. A plausible contributing factor to this outcome is that the typical microfinance institution has been in

operation only approximately 4.5 years. Indeed, the two the largest NBMFIs, Constanta and FINCA, have also been in operation seven and six years, respectively. Nonetheless, even after seven years of operation, Constanta has only 17,792 clients and an outstanding loan portfolio of $5.7 million, and after six years of operation, FINCA claims only 6,834 clients and an outstanding loan portfolio of $3.4 million. This is not to denigrate the work of Constanta or FINCA, but to point out that penetration of the Georgian microfinance market after numerous years has been slow. The question is why? The number of years of operation is certainly part of the answer, but just as certainly not the entire answer. While the survey findings do not necessarily point to specific answers, they provide clues that merit discussion and follow-up.

Gender Targeting. In line with their social missions, NBMFIs target predominantly female-owned microenterprises. On average, the percentage of female clients among NBMFIs is 59%. If the Georgian Rural Development Fund is excluded, the average share of female clients at NBMFIs is 63.5%.

From a poverty alleviation perspective, this targeting strategy makes sense, as female-owned microenterprises earn approximately one-half of their male counterparts. Nonetheless, female-owned microenterprises account for only 37.6% of effective demand and 38.0% of potential clients. A microfinance strategy that focuses on female-owned enterprises is therefore subject to natural growth limitations.

Loan Size. Four of 11 NBMFIs (Constanta, FINCA, Small Business Development Fund, and Association of Union Trust) have an unweighted average loan size of $635. These four NBMFIs account for 80% of current NBMFI clients and 52% of outstanding NBMFI loans. Constanta, which alone accounts for 51% of MBMFI clients and 26.9% of outstanding NBMFI loans, has an average loan size of $326. According to Table 8.3, loans $635 or less account for only between 40%-50% of the effective demand in the country, while loans $326 and under account for less than 20% of effective demand.[8]

It is not even clear that small loans targeted to women serve the social objectives as well as presumed. Among female-owned (low-income) and male-owned (high-income) enterprises, for example, the distribution of effective demand is remarkably similar through the 80$^{th}$ percentile, suggesting little difference in the distribution of loan size demanded between low income and high income strata. In contrast, effective demand among unregistered enterprises (low-income) is lower from the 30$^{th}$ through the 60$^{th}$ percentile than registered enterprises (high-income), and effective demand among agriculture enterprises (low-income) is lower than trade enterprises (high-income) through the 40$^{th}$ percentile, both suggesting a larger demand for smaller loans among these lower income strata. This quick analysis suggests that if the purpose is to target low-income populations, a more effective targeting strategy might be to target unregistered and agriculture enterprises with small loans.

It should also be noted that trade and service enterprises demand loans on average significantly larger than loans demanded by production and agriculture enterprises. They can also afford

[8] The average loan size implies that a substantial portion of loans are both above and below the average figures, but since the distribution of loan sizes at NBMFIs is not available, the average loan size is interpreted to represent the "typical" loan size.

larger monthly payments, generate significantly higher enterprise revenues, particularly trade enterprises, and have higher household incomes. There is thus reason to believe that trade and service enterprises can absorb larger loans than currently being offered by several NBMFIs.

In any case, targeting women with loans may or may not serve the institution's social agenda, but it is certain to limit the institution's breadth of outreach at the same time.

Other Loan Terms. NBMFIs typically offer short-term loans (less than one year), with frequent (e.g., weekly or bi-weekly) payments, at a monthly interest rate of 4%. In contrast, the average microentrepreneur wants a 23-month loan, with monthly repayments, and at a lower interest rate (23% of microenterprises say that high interest rates are in important impediment to seeking loans). Thus there appears to exist a mismatch between market demand and what NBMFIs are offering. This mismatch between the loan terms demanded and the loan terms offered will naturally limit the extent of market penetration.

Another issue to consider is the extent to which microenterprise loans offered by NBMFIs accommodate the seasonality inherent in much microenterprise activity. The enterprise revenue figures generated by the survey suggest moderate seasonality during the year, with occasional upward and downward spikes, and a surge in business beginning in September through December. Moreover, while trade and service enterprises operate on average for most of the year, both agriculture and production enterprises tend to operate only six months of the year. The borrowing needs of different enterprises operating different sectors will vary due to seasonality and other factors. In particular, seasonality among agriculture and production enterprises appears to differ substantially from that of trade and service enterprises.

Sector Targeting. Survey data (and experience elsewhere) suggest that the majority of microenterprise clients are drawn from the trade sector. (This conclusion is, for example, supported by survey data showing that 20.7% of trade enterprises have received formal loans over the last 12 months compared to 14.3% of service enterprises, 2.4% of production enterprises, and 1.1% of agriculture enterprises.) Given that trade enterprises account for 56.5% of effective demand, this outcome (whether a result of specific targeting strategy) makes sense.

Nonetheless, a focus on trade enterprises bypasses a substantial portion of the market. In particular agriculture enterprises make up 28.9% of effective demand (equal to $76.7 million and 44,669 clients) for microenterprise loans in the country. More broadly, agriculture comprises 18.3% of the Georgian gross domestic product and employs 40% of its labor force.[9] The Georgian Rural Development Fund (GRDF) is the only NBMFI specializing in agriculture lending, and it has reached only 3.2% of effective demand and 4.7% of potential clients in the agriculture sector.

Geographic Targeting. NBMFIs have targeted primarily four regions: Tbilisi, Samegrelo, Imereti, and Kakheti. The concentration of trade enterprises in each of these four regions is, respectively, 83.8%, 73.6%, 36.7%, and 69.3%. In contrast, the percentage of agriculture enterprises in these four regions is, respectively, 0.0%, 13.3%, 15.7%, and 17.3%.

[9] U.S. Central Intelligence Agency, http://www.cia.gov/cia/publications/factbook/geos/gg.html#People.

Agriculture enterprises are concentrated in four regions of the country. The regions, and the corresponding proportion of agriculture enterprises, are Gouria (66.9%), Achara (82.9%), Shida Kartli (46.8%), and Racha (92.0%). Achara, moreover, has the second largest effective demand ($50 million and 37,131 microenterprises) among regions in the country. Three NBMFIs have branches in Achara (BBK, World Vision, and Constanta), one NBMFI has a branch in Gouria (CHCA), two NBMFIs have branches in Shida Kartli (GRDF and Constanta), and no NBMFIs have branches in Racha. Overall, therefore, only five NBMFIs have operations in high concentration agriculture regions, and only one of these has branches in more than one region. In addition to Shida Kartli, the GRDF has branches in Imereti and Kakheti, so not even the GRDF is targeting high concentration agriculture regions.

Marketing. Only 2.3% of microenterprises report having requested a loan from an NBMFI over the last 12 months. The small percentage of microenterprises seeking NBMFI loans stands in contrast to the nearly one-quarter of microenterprises that took business loans over the last 12 months from one or more informal lending source.

This outcome has several potential interpretations. One is that NBMFIs have yet to reach large segments of the market, an interpretation borne out by the supply data. Nonetheless, given the significant number of NBMFI branches in areas with vibrant trade activity, one might reasonably expect a higher percentage of microenterprises to seek NBMFI loans. Another interpretation is that informal loans are frequently more accessible or better suited to the wants or needs of microenterprises. A third interpretation is that NBMFIs have not marketed themselves as well as they might have in the areas where they currently operate.

Limited Range of Financial Services. Among microenterprises that do not want enterprise loans, 41.7 percent cite low business returns and another one-third say they have no need for enterprise loans. These two reasons highlight a constraint to growth among NBMFIs throughout the world: lack of product diversity, both financial and non-financial. The prevalence of low business returns raises the question as to whether provision of business development services (BDS) might be an appropriate component of microenterprise promotion in the country. Presumably BDS would improve enterprise performance, thereby increasing the capacity, and willingness, of microenterprises to absorb debt. BDS might also play a complementary role by helping expand the sector's capacity to utilize loans more effectively (e.g., invest in productivity-enhancing assets or activities) and to create jobs, assuming that lack of business skills constitutes a significant constraint to sector growth and job creation.

It also merits note that enterprise loans are only one of many possible financial services NBMFIs might offer and which microenterprises need. Indeed, a significant percentage of microenterprises expressed demand for a variety of other financial services, including (with the potential market size in parentheses) health insurance (80,032), supplier credit (39,701), housing loans (38,861), leasing (33,189), land loans (33,189), auto insurance (29,618), consumer loans (27,517), and life insurance (26,677). Market penetration will be limited as long as NBMFIs ignore these other financial needs. Moreover, many of these other financial services are complementary to enterprise loans, and creating a market for these services will raise the demand

for complementary services. It would also create additional marketing opportunities for NBMFIs though cross-selling.

Lack of Security. Another significant impediment to borrowing is the lack of security. Just over one-quarter of microenterprises that do not want loans cite the lack of security as a primary reason. For standard group loans offered by NBMFIs, lack of security is often not an issue. But to the extent NBMFIs move into loan products that require some form of security, this impediment will take on increased importance. It is possible as well that this impediment owes as much to perception as reality, in which case the issue falls into the realm of marketing.

Of those microenterprises that do want to borrow, 58.8% can offer some form of security. Overall, 40.9% can offer real property, 16.4% can offer gold or jewelry, 13.9% can offer movable property, and 6.4% can offer productive assets. A common impediment to credit expansion in developing countries is unclear laws regarding the attachment of property, particularly movable property, as security for loans. Given the number of microenterprises willing and able to offer movable property as loan security, clarification of the relevant security laws appears appropriate.

Competition and Stagnant Growth. Microenterprises appear to play both a significant and a minor role in the Georgian economy. Significant in that microenterprises are estimated to provide paid employment to 357,203 in Georgia, equal 7.6% of the population in the country and 17% of its labor force.[10] Microenterprises are also the primary source of income (77%) to 210,060 microentrepreneur households. Thus microenterprises are a vital source of employment and income for a significant number of households in an economy with a 17% unemployment rate.

On the other hand, however, the microenterprise sector has not been, is not, and probably will not be, absent intervention, a dynamic growth sector, as evidenced by its low rate of job creation. The average microenterprise has added only 0.4 new workers after 8.7 years of operation. Overall, the survey results suggest that microenterprises in all strata are heavily reliant on unpaid family labor. Only13.2% of microenterprises plan to increase paid employment over the next 12 months by an average of 2.5 workers. If they follow through with their plans, they will add 69,319 new jobs to the Georgian economy, equal to 3% of the labor force.

Two possible contributing factors to stagnant growth within the microenterprise sector are investment patterns and competition. Observable investment patterns by microenterprises offer both good and bad news. The good news is that approximately 98% of enterprise loans are invested in the enterprise. Diversion of enterprise loans for consumption is rare. The bad news is that only 4.3% of loans are invested in fixed (productive) assets. The low level of fixed asset investment limits the growth potential of the microenterprise sector over the medium and long-term.

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[10] The paid employment figure assumes one owner for each of the 210,060 microenterprises in the country plus the average of 0.7 paid employees per enterprise. The ratio of paid microenterprise workers to population and labor force uses the following figures: population 4,693,892; labor force 2,100,000 (CIA, http://www.cia.gov/cia/publications/factbook/geos/gg.html#People).

In most strata, 40%-50% of microenterprises rate competition as either high or very high. This includes 55% of microenterprises in the trade sector. Among the four business sectors, trade is the most competitive sector, far ahead of either services or agriculture. (Production is the second most competitive sector, but it is tiny in size compared to the other three sectors.) Not coincidentally, most microenterprises operate in the trade sector and NBMFIs target most of their loans to this sector. That so much of sector activity focuses on trade is understandable, given its relatively low entry barriers and its high returns relative to the other sectors (as judged by average enterprise revenues). Nonetheless, a plausible hypothesis is that the intense activity within this sector limits long-term growth potential of enterprises operating within it.

## 11.2. SAVINGS

Apparently, the vibrant demand for other financial services in Georgia does not include a demand for formal savings. Only 4.5% of microenterprises express a demand formal savings, not much more than the 0.5% that currently holds formal savings at commercial banks. The dominant rationale for not saving is lack of money to save. Nonetheless, 100% of microentrepreneur households hold one form of informal savings or another. So, while microenterprises may or may not have much money to save, the evidence suggests unequivocally that they do save. Rather, the low demand for savings appears to be driven primarily by a lack of trust in formal financial institutions as savings intermediaries.

## 11.3. CONCENTRATION OF ENTERPRISE ACTIVITY WITHIN MICROENTERPRISE SECTOR

The microenterprise sector is dominated by a small number of enterprise types. Five enterprise types account for 56.7% of total microenterprise activity in the country: fruit production (20.7%), small food stores (11.7%), market counters for non-food (11.2%), market counters for food (6.9%), and small food/non-food stores (6.2%).

## 11.4. POVERTY OUTREACH

In terms of poverty outreach, the survey results suggest that NBMFIs have had mixed success. Poorer microentrepreneurs tend to be more heavily concentrated among unregistered, female, production, agriculture, and rural enterprises and in Gouria, Shida Kartli, Mtskheta Mtianeti, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti. NBMFIs appear to have done a reasonably good job to date reaching unregistered and female-owned enterprises and have achieved reasonable market coverage (as measured by the number of branches relative to effective demand) in Shida Kartli, Kvemo Kartli, Kakheti, and Samtskhe-Javakheti. On the other hand, NBMFIs have done a relatively poor job reaching agriculture and production enterprises, rural areas, Gouria, and Mtskheta Mtianeti.

That said, the limited breadth of outreach achieved to date implies limited outreach as well to poor microentrepreneurs. Without more information on NBMFI clients, however, it is impossible to estimate actual outreach to poor microentrepreneurs. It is entirely possible (and

with precedent in other countries), that clients drawn from lower-income market segments might be drawn from the upper socio-economic echelons of the market segment, particularly if people within the segment have limited options to borrow from other formal lenders.

It also bears noting that even within poorer market segments there can be significant demand for larger loans. For example, Mtskheta Mtianeti is the poorest of the 11 regions in Georgia, yet 50% of potential borrowers want loans over $1,000. An important implication is that a focus on small loans (assumed to be appropriate for poor borrowers) will not satisfy the demand of a significant portion of the market, even among lower-income borrowers that want and can afford larger loans. In like manner, focus on larger loans will bypass a significant share of the market that want to borrow but which can only afford small loans.

## 11.5. RECOMMENDATIONS

Following from the issues raised in this section are these general recommendations for GMSE:

- Whether the goal is to achieve significant breadth of outreach, and close the gap between supply and effective demand, or significant depth of outreach, it will be necessary to target different market segments with different demand characteristics (e.g., loan size, loan length, repayment frequency, etc.). This will entail promoting a variety of microfinance institutional models and approaches targeting a variety of market segments. An essential component of this approach is developing a strategy to increase outreach to rural and agriculture sectors.

- Promote greater lending to men. While focusing on women may serve social objectives, it unnecessarily excludes a significant portion of the microfinance market. If the goal is to reach poor borrowers, it might make more sense to focus on unregistered and non-trade enterprises, all of which have a higher concentration of lower-income households than female-owned enterprises.

- Promote expansion of NBMFI branches to relatively unserved regions, particularly regions with a high rural/agriculture concentration. In particular, promote expansion to Achara (which has a high concentration of agriculture enterprises and the second highest effective demand among regions in the country) and Gouria, and investigate expansion opportunities into Shida Kartli and Racha.

- Conduct market research to determine more precisely the composition of demand among major market segments. Promote diversification of loan terms consistent with verifiable demand characteristics. Determine also (1) whether market perceptions about impediments to borrowing (e.g., interest rate too high, lack of security) are consistent with actual conditions, (2) the extent to which lack of business knowledge and skills constitutes a barrier to enterprise growth and job creation, and (3) the level of public awareness about NBMFIs operating in their communities.

- Promote diversification of lending to enterprises outside of trade sector. The heavy concentration of microenterprises in the trade sector and the high level of competition within

the sector imply low growth and job creation prospects for the sector. Other sectors have experienced similarly low growth and job creation, but they have not received the same level of resources.

- Promote diversification of lending to other enterprises. The purpose is to identify enterprises in different sectors with higher growth and job creation potential and reduce the industry's disproportional, and dangerous, reliance on a relatively small number of trade enterprises and fruit production.

- As an alternative or complement to an incremental shift away from trade, consider integrating business development services into the strategic plan. BDS should be targeted to deal with critical impediments to enterprise growth and job creation. BDS might also focus on investing loans in more productivity enhancing assets and activities.

- Clarify the laws regarding use of movable property as loan security. If necessary, advocate changes in the law to allow the use of movable property as loan security.

- Promote the development of other financial services, both to meet market demand for the services and as a way to increase demand for enterprise loans. Other financial services that appear to have sufficient market demand to justify feasibility investigations include health insurance; supplier credit; housing, consumer, and land loans; auto insurance; and life insurance. If not feasible for NBMFIs to offer these services directly, investigate the potential for linking up with other service providers.

- Promote voluntary savings. Microentrepreneurs say they do not have money to save, but their behavior suggests otherwise. The principal barrier to savings mobilization in the country appears to be not lack of money but lack of trust in the financial system. A program to encourage savings, in which NBMFIs act as facilitators, has potential over time to restore microentrepreneurs' trust in the formal financial system. Research in other countries suggests that savings mobilization often serves as a gateway to greater participation in the formal financial system and higher loan demand.

- Continue to support microfinance. Although microenterprises may not be a sector of dynamic growth or job creation, they are nonetheless a crucial source of paid employment for a significant percentage of the labor force and the principal source of household income among microentrepreneurs.

# ANNEX 1
# SAMPLING METHODOLOGY

## A.1. RESEARCH DESIGN

Research was conducted in two stages. During Stage 1 researchers conducted a census of microenterprises in 11 regions of Georgia. The aim in this stage was to obtain information, necessary to draw a sample for Stage 2 and to weight the data file. The following information was obtained during Stage 1. This information was not available from the list of businesses available from the State Statistical Department.

1. The number of registered and unregistered microenterprises in the areas of research.
2. The urban/rural distribution of microenterprises.
3. The percentage of microenterprises belonging to the trade, service, production, and agriculture sectors.

During Stage 2, researchers administered the demand survey to a random sample of 932 microenterprises in the 11 regions. Microenterprises surveyed were selected from the microenterprise census created during Stage 1.

Two-stage cluster sampling was used for the survey. In each region, microenterprises were stratified into the following strata:

1. Large Cities (population 40,000 and above)
2. Towns (population less than 40,000)
3. Rural areas
4. Markets

The total number of interviews conducted within each region and distributed by location is shown in Table A1.

**Table A1. Number of Microenterprises Surveyed in Each Region**

| Region | City | Town | Rural | Market | Total |
|---|---|---|---|---|---|
| Tbilisi | 60 | 0 | 0 | 40 | 100 |
| Imereti | 30 | 20 | 35 | 20 | 105 |
| Gouria | 0 | 30 | 30 | 30 | 90 |
| Samegrelo | 20 | 20 | 35 | 30 | 105 |
| Achara | 30 | 15 | 25 | 20 | 90 |
| Shida Kartli | 20 | 30 | 30 | 20 | 100 |
| Kvemo Kartli | 30 | 20 | 20 | 30 | 100 |
| Kakheti | 0 | 30 | 40 | 30 | 100 |
| Racha | 0 | 15 | 35 | 10 | 60 |
| Samtskhe-Javakheti | 0 | 50 | 10 | 20 | 80 |
| Total | 190 | 230 | 260 | 250 | 930 |

To create this distribution, researchers made the following assumptions:

1. Approximately the same number of interviews was to be apportioned to each region, except relatively small regions, such as Gouria, Samtskhe-Javakheti, and Racha, in which a smaller number of interviews were used.
2. A certain number of interviews had to be conducted in urban and rural areas to make possible analysis on the urban/rural/market level.
3. In distributing interviews between cities and towns, the number of registered micro-businesses existing in each had to be taken into account.

The census of microenterprises was based on the creation of Primary Sampling Units (PSUs). PSUs in urban areas were so-called "Instruction Areas." (According to the 2002 Georgian Census, from 3-5 census areas form an Instruction Area.) There are approximately 300-400 households in each Instruction Area. PSUs in rural areas were villages. For the purpose of sampling markets, markets were considered as PSUs.

The number of PSUs sampled was based on the assumption that approximately five interviews were to be conducted in each urban and rural stratum and ten interviews in each market. Sampling was performed in two stages. In the first stage, urban PSUs were sampled systematically using random numbers. In rural areas, PSUs were sampled according to Probability Proportional to Size (PPS) taking into consideration the village population. In markets, PSUs were sampled by PPS taking into consideration the number of registered market stalls in each market. After sampling the PSUs, interviewers were sent to each PSU to register all microenterprises existing in the PSU.

In the second stage, microenterprises were randomly sampled based on the census created during the first stage.

In order to aggregate the results of the survey, the data file was weighted. Each microenterprise was given a value equal to the inverse of its probability of being sampled. The weighting was done as follows.

<u>Urban Areas</u>. In "i" instruction area of "s" urban stratum, the weighting was performed applying the following formula:

$$W_{si} = \frac{N_s}{n_s} \frac{M_{si}}{m_{si}}$$

Where

$N_s$ is the number of Instruction Areas in "s" stratum

$n_s$ is the number of instruction areas to be sampled in "s" stratum

$M_{si}$ is the number of microenterprises (obtained as a result of census) in "i" instruction area of "s" stratum

$m_{si}$ is the number of microenterprises to be sampled for the survey in "i" instruction area of "s" stratum.

Rural Areas. In "i" village of "s" rural stratum, the weighing was performed applying the following formula:

$$W_{si} = \frac{P_s}{P_{si} n_s} \frac{M_{si}}{m_{si}}$$

Where

$P_s$ is the number of population in "s" stratum

$P_{si}$ is the number of population in "i" village selected in "s" stratum

$n_s$ is the number of villages to be sampled in "s" stratum

$M_{si}$ is the number of microenterprises in "i" village of "s" stratum

$m_{si}$ is the number of microenterprises to be sampled for the survey in "i" village of "s" stratum.

Markets. In "i" market of "s" market stratum, the weighting was performed applying the following formula:

$$W_{si} = \frac{T_s}{T_{si} n_s} \frac{M_{si}}{m_{si}}$$

Where

$T_s$ is the number of microenterprises/market stalls in "s" stratum

$T_{si}$ is the number of microenterprises/market stalls in "i" market sampled in "s" stratum.

$n_s$ is the number of markets to be sampled in "s" stratum

$M_{si}$ is the number of microenterprise/market stalls obtained through the census in "i" market of "s" stratum

$m_{si}$ is the number of microenterprises to be sampled in "i" market of "s" stratum.

A total of 420 interviews were distributed to cities and towns proportionally to the number of registered microenterprises found in each.[11]

[11] The number of microenterprises in cities/towns was obtained from the list of registered organizations at the State Department for Statistics.

## A.2. FIELDWORK STAGE 1: CENSUS

Preparation Work for Census. Because city maps were not available, interviewers were sent to the sampled addresses that belonged to instruction areas in order to outline the borders of the research areas and create a census map. There were a total of 66 instruction areas in 8 cities and 20 towns. There was no need to send people to villages at this stage, because there was no need to determine village borders, as long as the census was to be conducted in the entire village. Two people worked in each instruction area to determine the borders of instruction areas for the research. A total of 132 people participated in this work from February 9-15, 2004.

Census. The census fieldwork took place from February 18 to March 4, 2004. During census implementation, interviewers were sent to instruction areas to conduct a census of microenterprises located there. Two persons were assigned to each instruction area. The researchers who determined borders and areas during the first stage accompanied them to make sure that each interviewer knew the proper location to conduct the census.

Special instructions were given to each interviewer during the training session about the specifics of the study (e.g., definition of microenterprise, necessity to interview the owner, etc). It was quite simple to find trade enterprises, as the great majority of them were located on the ground floor and had access from the street. It was relatively complicated to find some of the service enterprises (e.g., attorney, notary, construction firm, advertising agency, real estate agency, translation agency, etc), which are often located in office buildings and sometimes in apartment buildings as well. Interviewers were instructed to pay attention to the signboards under the porches of apartment buildings to make sure that microenterprises located in the apartment buildings were included in the survey. All office buildings located in the sampled areas were also included in the study. Interviewers went door to door in the office buildings seeking microenterprises located there.

In the villages, interviewers were instructed to walk around the village and talk to different people to find all microenterprises existing in the village. As a result of this work, researchers identified 4,943 microenterprises in the sampled areas.

Open markets were studied separately. Researchers surveyed 25 markets in all 11 regions. The following information was collected for open markets:

1. Number of market stalls.
2. Number of retail outlets/shops in the market.
3. Number of street traders in the market.
4. Number of hawkers in the market.
5. Number of traders in the market who sell directly from cars/trucks.

Overall, a total of 5,098 contacts were made with microenterprises in the 11 regions of Georgia (see Table A2).

**Table A2. Number of Microenterprises Contacted During Census**

| Region | Number of Completed Interviews by Regions | Non-Response by Regions | Number of Registered Businesses | Number of Unregistered Businesses | Refused |
|---|---|---|---|---|---|
| Tbilisi | 495 | 61 | 363 | 105 | 27 |
| Imereti | 396 | 9 | 217 | 177 | 2 |
| Gouria | 745 | 7 | 121 | 622 | 2 |
| Samegrelo | 517 | 11 | 268 | 248 | 1 |
| Achara | 720 | 11 | 529 | 188 | 3 |
| Shida Kartli | 401 | 16 | 136 | 231 | 34 |
| Mtskheta Mtianeti | 83 | 2 | 53 | 30 | 0 |
| Kvemo Kartli | 666 | 33 | 404 | 250 | 12 |
| Kakheti | 334 | 2 | 265 | 69 | 0 |
| Racha | 434 | 0 | 168 | 266 | 0 |
| Samtskhe-Javakheti | 152 | 3 | 128 | 24 | 0 |
| **Total** | **4943** | **155** | **2652** | **2210** | **81** |

The number of census interviews was based on secondary information indicating that 80% of microenterprises in Georgia are registered. The microenterprise census, however, showed that percentage of registered microenterprises was only slightly more than one-half.

Non-Responses. The response rate for the survey was high. Of contacted enterprise owners, 97% agreed to answer the questions. Overall, 39% of non-responses were in Tbilisi, 21% in Kvemo Kartli, and 10% were in Shida Kartli. There were no non-responses in Racha and a low rate of non-response in Kakheti (1.3%), Mtskheta-Mtianeti (1.3%), and Samtskhe-Javakheti (1.9%). Overall, there were 155 non-responses. Of these 104 were in trade, 43 in production, 5 in service, and 3 in agriculture.

Census Survey Instrument. The census survey instrument was 10-minute questionnaire asking basic information about the business:

1. Field of activity
2. Number of employees
3. Address (Name of the settlement, street, number, phone if any)
4. Name and contact information of the owner
5. Sex of the owner
6. Registration as a legal entity

The primary obstacle during the fieldwork was finding the microenterprise owner. Interviewers had to make several visits to some of the enterprises to find the owner.

## A.3. FIELDWORK STAGE 2: SURVEY OF MICROENTERPRISES

Pre-Test of Survey Instrument. The survey instrument was designed in cooperation with GMSE and GMSE consultants. After the survey design was completed, researchers conducted pilot interviews in the following cities:

1. Tbilisi
2. Kutaisi
3. Zugdidi
4. Gouria
5. Rustavi
6. Marneuli
7. Telavi
8. Akhaltsikhe

A GMSE consultant attended the pilot interviews in Akhaltsikhe, Rustavi, Marneuli, Telavi and Gouria. In Marneuli, the Russian version of the survey was tested. Pilot interviews took place on 3-7 February 2004.

The pilot results were analyzed in cooperation with GMSE consultants and all the necessary changes were made. Back translations of the survey were done separately from Russian to English and from Georgian to English to make sure that all the questions were worded properly.

Fieldwork. Administration of the survey began on March 19 and was completed on April 3, 2004. A total of 37 interviewers participated in the survey. Interviewers conducted an average of 25 interviews. The survey instrument proved quite simple and straightforward. Regional supervisors and interviewers reported that respondents did not experience any difficulties in understanding the questions. The only difficulty in administering the survey was finding the microenterprise owner.

The response rate for the survey was 98%. During the census stage, interviewers informed the microenterprise owners that their enterprises might be sampled randomly from the list for the second wave of the study. Thus respondents were prepared for the follow-up visit and in the majority of cases agreed to participate in the survey.

There were several cases in which it proved impossible to find the enterprise identified during the first wave, but this problem was limited for the most part to street traders. During Phase 1, street trading was still permitted, but it had been prohibited by the time Phase 2 started. Moreover, because enterprises had been sampled randomly from the list, street traders were not included in that sample. In some cases, interviewers found street traders and conducted interviews, but in most cases, street traders could not be found. When this happened, interviewers were given additional addresses drawn randomly from the census of microenterprises.

In five cases, the enterprises registered during the census closed down and in one case each the business was sold, changed its field of activity, or changed owners. In 11 cases it proved

impossible to find the owner after three callbacks (eight were out of the city, two were sick, and one died). Each of these enterprises was replaced with another enterprise drawn randomly from the census.

Control. A total of 40% of all Stage 1 interviews went through a control process, meaning that someone followed up with the interviewee to verify the survey information. Control was conducted simultaneously with the fieldwork in all 11 regions. Surveys selected for follow-up were chose randomly. Approximately 25% of interviews were followed-up by phone and another 15% by return visits. The control process uncovered five cases in which enterprises with more than 10 employees were selected. These questionnaires were deleted form the file. A total of 30% of Stage 2 interviews went through a similar control process; 15% by phone and 15% with return visits.

A special control sheet was developed in order to control and detect any violations that could have occurred in the field. The following variables were monitored for accuracy:

1. Number of employees.
2. Respondent selection (whether the selected respondent was the owner).
3. Interview duration.
4. Asking specific questions.

This process revealed one case when the respondent was not the owner. She was the wife of the owner, who was bedridden, and she ran the business. On several occasions the duration of the interview indicated by a respondent did not correspond with the duration indicated by the interviewer. However, all the questions documented in the original questionnaire matched the results of the control follow-up. Thus it can be assumed that the respondent gave an inaccurate estimate of the interview duration.

Data Entry and File Cleaning. To avoid any data entry mistakes, different people entered survey responses into two separate data files. The two data files were then compared and all discrepancies checked in the surveys and corrected in the final clean data set. In the process of data cleaning, all inconsistencies were removed from the survey responses.

**ANNEX 2**
**GMSE MICROFINANCE DEMAND SURVEY**

**Survey Number**:_____ **Date:** ___/___/2004

**Name of Enumerator:** _____

**Name of Supervisor:** _____

**Region:** _____

**City/Village/Regional Center:** _____

**Type of Location** (1=Urban; 2=Rural)

**Gender** (1=Female=1; 1=Male)

---

INTRODUCTION: Hello, my name is _____ and I work for _____. Thank you for agreeing to participate in this survey. The purpose of this survey is to better understand the market in which microentrepreneurs work and the demand for credit and financial products in your community.

*We want to assure you that the information you give us will be completely confidential and will be used only for our statistical research to help financial institutions develop appropriate products for micro-business activities.*

*The survey asks several questions about your business. We are trying to understand the changes that have occurred in your business over the past year and your expectations for the next year. The survey will take about 40 minutes to complete.*

---

## General Questions

**1. What is your main business activity?**
**a. Sector**
1=Trade
2=Service
3=Production
4=Agriculture

**b. Business**
Trade
1=Market stall for food
2=Market/department store stall for non-food
3=Market stall for food/non-food
4=Store front for food
5=Store front for non-food
6=Store front for food/non-food

7=Scrap metal
8=Spare parts
9=Pet Store
10=Construction materials
11=Pharmacy
12=Other trade_____

Service
13=Hotels
14=Tailoring (alterations)
15=Internet café
16=Barber/beauty shop
17=Transportation (taxi, marshutkoe)
18=Printing/copying
19=Mechanic
20=Miscellaneous repairs (excluding vehicles, computers, clock/watch)
21=Gas station
22=Dry cleaning/laundry
23=Car wash
24=Entertainment (video stores, cinema, etc.)
25=Medical services
27=Veterinary services
28=Legal services
29=Travel agency
30=Computer services/repair
31=Bar
32=Restaurants/cafes
33=Advertising
34=Photography services
35=Clock/watch repair
36=Street food vendor
37=Other service_____

Production
38=Food production (including dairy)
39=Furniture production
40=Window frames production
41=Beverage production
42=Carpentry
43=Construction
44=Iron/metal production
45=Bakery (bread only)
46=Bakery
47=Shoe production
48=Wood production
49=Garment manufacturing

50=Wine production
51= Stone production
52=Building materials production
53=Fish production
54=Butcher
55=Mill
56=Leather/fur production
57=Cooking Oil production
58=Pottery
59=Jewelry making
60=Other production_____

Agriculture
61=Chicken farm
62=Other livestock raising
63=Livestock buy and sell
64=Dairy farm
65=Greenhouse
66=Crop production
67=Other agriculture_____

**2. Is your business registered as a legal entity?** (1=Registered; 0=Unregistered)

**3. How many employees does your business have, including yourself?**
a. Total
b. Women

**IF ANSWER TO 3a MORE THAN 10, END OF SURVEY**

**4. How old are you?**

**5. How many people live in your household, including yourself?**

**6. Of those who live in your household, how many are under the age of 18, disabled, or elderly?**

**7. What is the highest level of education that you have completed?** (Read answers)
1=Primary; 2=Secondary; 3=Secondary special; 4=University; 5=Post university
6=Other_____

**8. What is your ethnic background?**
1=Georgian
2=Russia
3=Armenian
4=Azeri
5=Ossetian

6=Kurd
7=Greek
8=Other_____

## Business Information

**9. How many years have you been operating your business**? (If less than 1 year, write 0)

**IF "LESS THAN 1 YEAR" FOR QUESTION 9, SKIP TO QUESTION 11.**

**10. How many months do you normally operate your business during the calendar year?**

**11. What is the level of competition for your business?** (Read answers)
1=Very high competition; 2=High competition; 3=Average competition; 4=Low competition; 5=Very low competition

**12. How many employees did you have at start-up, including yourself?**
a. Total
b. Women

**13. Do you expect to add, cut, or leave as is the number of employees in your business over the next 12 months?** (1=Add; 2=Cut; 3=Leave as is)

**14. (If answered "Add" or "Cut," in Question 13) How many employees do you expect to add/cut over the next 12 months?**
a. Total
b. Paid

**15. Do you receive income from any of the following sources?** (Read answers. Check all that apply.)
Pension
Salary/wage
Other business
Remittances
Rental income
Equipment Rental
Garden
Other_____

**16. On average, what % does your primary business contribute to total household income?**

## Demand for Loans

**17. Can you self-fund (in total) your business operations?** (1=Yes; 0=No)

**18. Within the last 12 months, have you received a loan for your business from any of the following sources?** (1=Yes; 0=No. Read answers.)
a. Lottery
b. Lombard
c. Money lender
d. Family, friends, neighbors, and acquaintances
e. Suppliers

**IF ANSWERED "NO" FOR 18a-e, SKIP TO QUESTION 20.**

**19. In each case where you received a loan, what was the amount of the last loan received (GEL)?** (Read answers.)
a. Lottery
b. Lombard
c. Money lender
d. Family, friends, neighbors or acquaintances
e. Suppliers

**20. Within the last 12 months, have you applied for a loan for your business from the following sources?** (1=Yes; 0=No. Read answers.)
a. Bank
b. Non-Bank NBMFI
c. Credit Union

**IF ANSWERED "NO" FOR 20a-c, SKIP TO QUESTION 30.**

**21. (If answered "Yes" in Question 20a, or 20b, or 20c) Did you receive the loan?** (1=Yes, 0=No. Read answers.)
a. Bank
b. Non-Bank NBMFI
c. Credit Union

**22a. (If answered "Yes" in Question 20a and "No" in Question 21a) What was the principal reason your loan request to the bank was denied?**

| | |
|---|---|
| 1=Lack of collateral | 2=Lack of financial documents |
| 3=Lack of credit experience | 4=Business not registered |
| 5=Bad credit history of guarantor | 6=Business was too new |
| 7=Poor business performance | 8=Unwilling or unable to pay bribe |
| 9=Other_____ | |

**22b. (If answered "Yes" in Question 20b and "No" in Question 21b) What was the principal reason your loan request to the Non-Bank NBMFI was denied?**

| | |
|---|---|
| 1=Lack of collateral | 2=Lack of financial documents |
| 3=Lack of credit experience | 4=Business not registered |
| 5=Bad credit history of guarantor | 6=Business was too new |
| 7=Poor business performance | 8=Unwilling or unable to pay bribe |

9=Other_____

**22c. If answered "Yes" in Question 20c and "No" in Question 21c) What was the principal reason your loan request to the credit union was denied?**

1=Lack of collateral
2=Lack of financial documents
3=Lack of credit experience
4=Business not registered
5=Bad credit history of guarantor
6=Business was too new
7=Poor business performance
8=Unwilling or unable to pay bribe
9=Other_____

**23. (If answered "Yes" for 21a, or 21b, or 21c) For the <u>last</u> loan received, please indicate the lender type** (Read answers.)
1=Bank; 2=Non-Bank NBMFI; 3=Credit Union

**24. What was the loan amount you received (GEL)?**

**25. What was the length of the loan?** (Write answer in months. For weeks, convert into month equivalents: 1 week=.25 months; 2 weeks=.50 months; 3 weeks=.75 months.)

**26. What was the payment installment?** (Do not read answers.)
1=Weekly; 2=Every 2 weeks; 3=Monthly; 4=Every 2 months; 5=Every 3 months; 6=Every 4 months; 7=Semi-annual; 8=Annual; 9=Other_____

**27. What was the amount of the payment installment (GEL)?**

**28. What did you primarily use the loan for?** (Do not read answers.)
1=Inventory/working capital; 2=Equipment/machinery; 3=Start-up new business; 4=Expansion of existing primary business; 5= Expansion of existing secondary business 6=Agriculture inputs (seed, fertilizer, pesticides, herbicides, etc.); 7=Personal/Consumption;
8=Other _____

**29. What collateral did you provide?** (Do not read answers. Check all that apply.)
Did not provide collateral
Equipment, machinery
Guarantor/co-signer
Bank/pension account
Residential or commercial real estate
Gold/jewelry
Vehicle
Home appliance/electronics/furniture
Cash
Salary
Other _____

**30. In the future, would you borrow from Banks, Non-Bank NBMFIs, or Credit Unions if loans were available to you at terms and conditions appropriate for your business? (**1=Yes; 0=No)

**IF ANSWERED "YES" IN QUESTION 30, SKIP TO QUESTION 32.**

**31. (If answered "No" in Question 30) Why not? Give up to three reasons in order of importance.** (Do not read answers.)
a. Most important
b. Second most important
c. Third most important
1=Business not registered
2=High interest rates & fees
3=Lack of collateral or guarantee
4=Lack of financial documents
5=Difficulty & lengthy procedures
6=Satisfaction with current sources of finance
7=Lack of previous borrowing experience
8=Corruption & bribes
9=Low business profits/Inability to repay loan
10=Do not trust lending institutions
11=Do not like to be in debt
12=Lack of information about institutions/products and services
13=No need for loans
14=Poor customer service/Do not treat clients well
15=Don't think bank will lend to me
16=Afraid due to high crime/theft
17=Other_____

**SKIP TO QUESTION 39.**

**32. What would you primarily use the loan for?** (Do not read answers.)
1=Inventory/working capital; 2=Equipment/machinery; 3=Start-up new business; 4=Expansion of existing primary business; 5=Expansion of existing secondary business 6=Agriculture inputs (seed, fertilizer, pesticides, herbicides, etc.); 7=Personal/Consumption; 8=Other
_____

**33. What is the estimated loan amount (GEL) you would need if you were to take out a loan for your business?**

**34. For how long would you need the loan?** (Write answer in months. For weeks, convert into month equivalents: 1 week=.25 months; 2 weeks=.50 months; 3 weeks=.75 months.)

**35. How often would you be able to make loan payments?**
1=Weekly; 2=Every 2 weeks; 3=Monthly; 4=Every 2 months; 5=Every 3 months; 6=Every 4 months; 7=Semi-annually; 8=Annually; 9=Other_____

**36. What is the monthly installment (GEL) that you could afford to repay the loan?**

**37. Could you provide collateral for the loan?** (1=Yes; 0=No)

**38. If yes, which of the following could you provide as collateral for the loan**? (Read answers. Check all that apply.)
Equipment, machinery
Guarantor/Co-signer
Bank/pension account
Residential or commercial real estate
Gold/jewelry
Vehicle
Home appliance/electronics/furniture
Cash
Salary
Other _____

## Business Growth Potential

____**39. Do you plan to expand your primary business over the next 12 months?** (1=Yes; 0=No)

**IF ANSWER "NO" IN QUESTION 39, SKIP TO QUESTION 41.**

**40. (If answered "Yes" in question 39) How would you finance your business expansion? Give up to three sources of financing in order of importance**. (Do not read answers)
____Self fund (cash/savings/business profit/sale of assets, etc.)
____Bank loan
____Non-Bank NBMFI loan
____Credit union loan
____Assistance/loan from family, friends, neighbors or acquaintances
____Lombard
____Lottery
____Money lender
____Supplier
____Business Partner
____Other _____

**41. Which months of the year have good sales, average sales, and bad sales for your business?** 1=Good sales, 2=Average sales, 3=Bad sales)

| a. Jan | b. Feb | c. March | d. April | e. May | f. June | g. July | h. Aug | i. Sept | j. Oct | k. Nov | l. Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |

**42. How much do you sell per month (GEL)?**
a. Good month
b. Average month
c. Bad month

**IF BUSINESS HAS OPERATED FOR LESS THAN 1 YEAR, SKIP TO QUESTION 45.**

**43. Have your business sales grown compared to the same period last year?** (1=Yes; 0=No)

**IF ANSWER "NO" IN QUESTION 43, SKIP TO QUESTION 45.**

**44. (If answered "Yes" in Question 43) By how much have sales grown (%)?**

**45. Do you expect your business sales to grow over the next 12 months compared to the previous 12 months?** (1=Yes; 0=No)

**IF ANSWER "NO" TO QUESTION 45, SKIP TO QUESTION 47.**

**46. If yes, by how much do you expect sales to grow (%)?**

**47. What are the most important constraints your business is currently facing? Give up to three constraints in order of importance.** (Do not read answers.)
a. Most important
b. Second most important
c. Third most important
1=High taxes
2=Lack of training
3=Corruption/bribes
4=Lack of appropriate financial products/lack of access to financing
5=Lack of skilled workers
6=Lack of market
7=Lack of inputs
8=Business not registered
9=Lack of infrastructure (electricity, water, roads, etc.)
10=Political instability
11= Economic instability
12=Competition
13 Unclear regulations (customs, etc.)
14=Inspections
15=Other _____

## Demand for Other Financial Products

**48. Do you currently have savings in any of the following?** (Read answers. Check all that apply.)
Bank
Non-bank NBMFI
Credit union
Home
Lottery
Loans to family, friends, others
Assets (livestock, home appliances, gold/ jewelry, real estate or commercial real estate, other liquid assets)

**IF ANSWERED "BANK" IN QUESTION 48, SKIP TO QUESTION 50**

**49. If you do not have savings in a bank, why not? Give up to three reasons in order of importance.** (Do not read.)
a. Most important
b. Second most important
c. Third most important
1=Lack of trust
2=Corruption/Bribes
3=Pay low interest rate
4=Requires minimum deposit/balance
5=Restricted withdrawals/access to savings
6=Savings institution is far from my home or businesses
7=Lack of information about savings institutions/savings products
8=Fear of loss
9=Do not have money
10=Poor customer service/do not treat clients well
11=Other _____

**50. Would you be interested in any of the following financial products?** (Read answers. Check all that apply.)
Leasing
Life insurance
Health insurance
Car insurance
Property loan (land purchase)
Housing loan (purchase, repair, improvement)
Personal/emergency loan
Education loan
Consumer loan
Supplier credit
Savings account
Other _____

# ANNEX 3
# EXISTING SUPPLY OF MICROENTERPRISE LOANS IN GEORGIA

Table A3.1 presents detailed information on the supply of microenterprise loans in Georgia. The supply information was provided GMSE consultants by the respective institutions. With the exception of Society Development Association (SDA), the information is as of March 2004. Supply information for SDA is taken from the November 2003 "Microfinance Mapping Survey" completed by GMSE consultant Kirsten Weiss.

## Table A3.1. Supply of Microenterprise Loans as of March 2004

| Institution | Volume Loans Out-standing (GEL 000's) | Volume Loans Out-standing ($ 000's) | Clients | Average Loan Size (GEL) | Average Loan Size ($) | % Female Clients | Volume Loans Disbursed ($ 000's) | Loans Disbursed | Repayment Rate (%) | Employees | Branch/Outlet Locations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NBMFIs** | | | | | | | | | | | |
| Business Assistance Initiative | 749 | 390 | 424 | 2,275 | 1,185 | 56.0 | 930 | 784 | 99.7 | 14 | Kutaisi<br>Khoni<br>Samtredia<br>Zestaponi<br>Tskhaltubo<br>Baghdati<br>Vani<br>Martvili |
| Charity Humanitarian Center | 810 | 422 | 1,061 | 1,384 | 721 | 71.0 | 2,197 | 4,155 | 97.0 | 64 | Kutaisi<br>Zugdidi<br>Ozurgeti<br>Tbilisi<br>Samtredia<br>Tskhaltubo<br>Khoni<br>Martvili<br>Khobi |
| Georgian Rural Development Fund | 4,683 | 2,439 | 2,115 | 3,936 | 2,050 | 9.0 | 6,120 | 3,926 | 88.0 | 27 | Gori<br>Tsnori<br>Telavi<br>Zestaponi |
| Small Business Development Fund | 703 | 366 | 1,409 | 499 | 260 | 53.0 | 1,110 | 813 | 96.0 | 11 | Zugdidi<br>Khobi<br>Senaki<br>Abasha<br>Martvili |
| Support for Development | 541 | 282 | 549 | 1,651 | 860 | 58.0 | 864 | 1,005 | NA | 22 | Tbilisi<br>Zugdidi<br>Poti |
| Constanta | 5,737 | 2,988 | 17,792 | 326 | 170 | 71.0 | 31,969 | 161,811 | 97.2 | 207 | Tbilisi<br>Batumi<br>Gori<br>Kutaisi<br>Rustavi<br>Akhaltsikhe<br>Gurjaani<br>Tsnori<br>Khashuri<br>Zestaponi<br>Poti<br>Marneuli<br>Kobuleti<br>Dedoplistskaro<br>Lagodekhi |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Gardabani<br>Sagarejo<br>Borjomi<br>Bakuriani<br>Chiatura |
| Association of Union Trust | 1,350 | 703 | 1,892 | 851 | 443 | 66.0 | 1,700 | 1,575 | 96.2 | 14 | Zugdidi<br>Khobi<br>Senaki |
| World Vision | 1,628 | 848 | 1,652 | 1,812 | 944 | 68.0 | 5,160 | 3,739 | 96.0 | 44 | Tbilisi<br>Kutaisi<br>Batumi<br>Akhaltsikhe<br>Borjomi |
| FINCA | 3,435 | 1,789 | 6,834 | 864 | 450 | 65.0 | 17,195 | 74,094 | 98.2 | 86 | Tbilisi (4)<br>Lilo<br>Rustavi<br>Telavi<br>Tsnori<br>Lagodekhi<br>Gurjaani<br>Akhmeta<br>Marneuli<br>Dedoplistskaro<br>Kvareli |
| BBK Financial | 1,160 | 604 | 1,302 | 2,500 [a] | 1,302 | 69.0 | NA | NA | NA | 12 | Batumi<br>Tbilisi |
| Society Development Association | 500 | 260 | 483 | 1,035 | 539 | 58.0 | NA | NA | NA | NA | Tbilisi<br>Rustavi<br>Kuaisi<br>Senaki |
| **Total NBMFIs** | **21,297** | **11,091** | **34,622** | **1,558 [b]** | **811 [b]** | **59 [b]** | **67,245** | **251,902** | **96.0 [b]** | **501** | **77** |
| **Commercial Banks** | | | | | | | | | | | |
| ProCredit Bank [c] | 21,561 | 11,230 | 8,536 | 2,504 | 1,304 | 36.4 | NA | NA | NA | NA | Tbilisi (8)<br>Kutaisi (2)<br>Zugdidi<br>Batumi (3)<br>Marneuli<br>Poti<br>Kobuleti<br>Gori |
| TBC Bank [c] | 2,110 | 1,099 | 270 | 10,524 | 5,481 | NA | 4,200 | 864 | 98.7 | 10 | Vake<br>Mtatsminda<br>Nadzaladevi<br>Vera<br>Rustavi<br>Kutasai<br>Borjomi<br>Poti<br>Telavi |
| Tbil Universal [c] | 2,880 | 1,500 | 541 | 8,316 | 4,331 | 45.0 | 4,800 | 1,158 | 97.0 | 13 | Saburtalo<br>Didube |
| **Total Commercial Banks** | **26,551** | **13,829** | **9,347** | **7,114 [b]** | **3,705 [b]** | **41.0 [b]** | **9,000** | **2,022** | **98.4 [b]** | **23** | **29** |
| **Total** | **47,848** | **24,920** | **43,969** | **2,748 [b]** | **1,431 [b]** | **55.8 [b]** | **76,245** | **263,924** | **96.4 [b]** | **524** | **106** |

[a] Unweighted average of group and individual loans.
[b] Unweighted cell average.
[c] Microfinance department only.