

Microcredit: Path to Prosperity in Georgia

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As winter grows closer each day, we in Tbilisi remain relatively far removed from the villagers' and farmers' experiences of frequent power cuts, limited running water and more hardships than one should be forced to endure. Preferable to international aid and grants, microcredit and loans to farmers called "agrilending" are seen as sustainable solutions to curbing poverty both in Georgia and worldwide.

The Origin of Microcredit

A concept traceable to the U.S. Marshall Plan which bailed out a devastated Europe at the end of World War II, microcredit has been utilized as a poverty reduction tool since the 1970s in underdeveloped regions. Organizations such as Opportunity International, Accion International and Grameen Bank pioneered microcredit, the extension of small loans to groups not traditionally seen to be bankable, such as the unemployed, poor entrepreneurs and others living in poverty. Having proven that it is not as risky as it was once thought to be, microcredit is increasing in popularity with the UN who declared 2005 the International Year of Microcredit. In 2006 Grameen Bank and its founder Muhammad Yunus were awarded the Nobel Prize for peace for bringing tangible relief to the poor of Bangladesh in the form of microcredit loans.

Microcredit in the Caucasus

It is clear upon stepping foot in Georgia there is a ripe market for microcredit here and countless arenas that could benefit from individual initiatives to improve their own communities. The Georgian government agrees in this regard and has made great strides in opening a business center with the help of organizations such as Chemonics and USAID's Business Climate Reform.

Microcredit in Georgia takes many forms with actors ranging from commercial micro-credit banks, ProCredit Bank, traditional banks who now engage in small loans after training by the Small Enterprise Lending Programme (SELP) such as Bank of Georgia, United Georgian Bank and Bank Republic and non-governmental organizations (NGOs) like FINCA International, Constanta Foundation and World Vision, who also is working on this issue in Abkhazia.

Working in Georgia since 1999, ProCredit markets itself as being a bank for both regular Georgians and those who live close to the poverty line. With USD 100 million distributed in small loans, ProCredit provides opportunities to a little over half of Georgia's microcredit customers. Deputy General Manager, Asmus Rotne, an animated Dane who has lived in Tbilisi for many years, chuckles in remembering how it was in the early days when the bank first opened in Georgia. Clients were so distrustful of "express" loans, which are able to be paid out the same day and do not require property deeds for collateral, that they gossiped among themselves that the bank would soon close down. Seven years later, ProCredit is the fastest growing bank in Georgia and has the highest rating for financial stability in the region. Rotne explains microcredit's success: "People pay back loans because they need a stable source of finance for their business. They will have problems getting loans in the future if they default."

Another entity working in the region, SELP, an independent project funded by the European Bank for Reconstruction and Development (EBRD) has trained over 300 middle managers, loan officers and other bank staff at the United Bank of Georgia, the Bank of Georgia and with their new partner, Bank Republic for the last three, two and one year respectively. The NGO, FINCA in contrast, focuses on reaching the poorest of entrepreneurs with loans from USD 50-500 and uses the Grameen Bank's notion of giving loans to groups, what Finca calls "village banking".

Microcredit has helped entrepreneurs in Georgia build businesses as demand increases. Sergo Intskirveli, a mechanic from Guria, working in the outskirts of Tbilisi in Sanzona recently applied for a second loan from ProCredit bank to purchase improved tools to work on newer German engines. In a period spanning about five hours of filling out the application, having a loan officer visit his garage and then verify figures, the loan was approved and Sergo was able to withdraw the money.

Agrilending – extending

microcredit to farmers

Two years ago a more specified form of microfinance has taken hold in the Caucasus called "agrilending" at the initiative of SELP. In late November, the conference, "Strengthening Agrilending in Georgia" was held at the Sheraton Metekhi in Tbilisi to discuss best practices and managing risk. Ten micro-finance institutions and banks including Constanta, Credo, ProCredit, Standard Bank, Crystal Fun (Kutaisi), GRDF, United

Georgian Bank, Bank of Georgia, FINCA and the People's Bank participated.

Until present, 1,500 farmers in Imereti, Samtskhe-Javakheti, Shida-Kartli, Kvemo-Kartli, and Kakheti have received a combined sum of USD 2.5 million from the Bank of Georgia and United Georgian Bank, with 80 percent being paid out in less than one day with no hidden costs. Agriloans are distributed at the beginning of the two growing seasons, autumn and later in early spring. They generally support a variety of endeavors such as the greenhouse production of tomatoes, cucumbers (Marneuli), greens (Kutaisi), potatoes (Akhaltzikhe), cattle breeding (Marneuli, Akhaltzikhe, Kakheti), as well as dairy and meat production (Kakheti).

Around Gori, there are many applications for apple farms such as from Iakob Termakozashvili who has been tending his orchards as long as he can remember in Kheltubani. In 2005, he took out a USD 2,300 loan from the United Georgian Bank to buy a minibus for transporting his apples to the nearest market town. Whenever he does not need the vehicle during harvest time, he rents it out to other farmers. Last year, this was so profitable that Iakob was able to send his youngest daughter to university. This October, he received another loan of USD 1,200 to increase his stock of cattle.

To provide further accessibility to clients located great distances from regional bank centers, a unique mobile bank named the "Creditomobile" run by the United Georgian Bank travels between villages alerting clients to its presence in a way reminiscent of an ice cream truck, by microphone, only this truck has better sweets. Farmers are notified in advance as to be able to assemble applications and prepare for bank interviews. No cash transactions are undertaken to ensure transparency.

Economic solutions for ethnic tension?

For regions that have experienced political and economic injustices as well as a souring in relations with Tbilisi – such as Samtskhe-Javakheti and Kvemo-Kartli, which have substantial ethnic Armenian and Azeri populations respectively – agrilending has been seen as a welcome addition. In Marneuli, the United Georgian Bank has mainly Azeri clients, although there are some ethnic minorities such as Aikaz Mkhitarian, an Armenian farmer, with whom they communicate and process paperwork in Russian. Aikaz applied for a GEL 1,200 loan to mechanize his annual sunflower production. Oleg Ivaniychuk, a bank advisor to United Georgian Bank says, "Relations between the regions and Tbilisi have improved as a result [of agrilending]." In Akhaltzikhe, the regional capital of Samtskhe-Javakheti, there are many Armenian clients, especially in cheese and/or meat production. Oleg stresses, "The Akhaltzikhe branch would not last without its Armenian clients."

Industry trends – increase

in rural lending

The gregarious Program Coordinator of SELP, Michael Kortenbusch, who himself grew up on a farm in Germany is intimately connected with microcredit and agrilending through the EBRD Partners Banks in Kazakhstan and Moldova. Michael mentions that the peoples' and banks' interests in agrilending over the last two to three years have noticeably increased. A great shift from urban to rural lending has increased the number of branches outside the capital threefold to 50 and over 8,000 farmers are taking out loans through their partners. As demands for loans are actively increasing and will double over the next couple of years, Oleg speculates that perhaps even migration to Tbilisi from the regions will decrease.

Microcredit helps poverty but

is not a "panacea"

Critics of microcredit in some instances have viewed it as the privatization of public welfare programs. Asmus Rotne of ProCredit bank discusses this dynamic in detail: "If you depend on donor finance to provide micro credit in a way that is unprofitable, then it is of course a privatization of public safety net programs, just like many other charity projects in Georgia and other countries." He believes that loans provide opportunities for individuals and their families to improve their lives and make their businesses more profitable but they pay ProCredit for the service giving them ownership over this improvement. Oleg agrees, "The main point with microcredit is that the 'non-bankable population' is getting the possibility to become 'bankable' and to get access to financial services, in other words to be integrated into financial system like other population strata. In this way microcredit is opening new opportunities for the population. It should not be regarded as panacea for poverty reduction."

The World Bank estimates that there are now more than 7,000 microfinance institutions, serving some 16 million poor people in developing countries. According to the French newspaper *Le Monde*, World Bank experts estimated that 500 million out of a total of three billion poor people have already benefited from loans under USD 140 (or about EUR 80).

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