



# Client Voices Georgia Country Report

Client Protection and Microfinance in Georgia:  
A Responsible Market with Opportunities for Improvement

January 2016

#### LEAD AUTHORS

Sushmita Meka,  
Laura Cojocar

#### CONTRIBUTORS

Caitlin Sanford, Wajiha  
Ahmed, Justin Grider



Keeping clients first  
in microfinance

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Most importantly, we would like to thank the Georgians who donated their time to speak candidly with us about their experience with microfinance.

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# Foreword

At the Smart Campaign, a global campaign to embed a set of client protection principles into the financial inclusion industry, we realized several years ago that there was an important voice missing from the discussions—the clients! In creating the seven Client Protection Principles (CPPs) we had made a series of assumptions of the risks, worries and problems clients experience with financial institutions. It was therefore crucial to address this issue.

We designed a Client Voices project to hear directly from clients in four markets—Benin, Georgia, Pakistan, and Peru. The research was designed to have an initial open-ended qualitative component so as not to prime clients with the CPPs but rather hear what issues and concerns they would bring up spontaneously. Then, with potential issues and problems sufficiently identified, the research team would return with a more targeted quantitative survey to measure the incidence in a larger sample. Going into the study we wondered:

- If asked in an open-ended way, would clients identify issues that aligned with the CPPs?
- Would the main issues identified across the four markets be similar?
- How candid would clients be about their good and bad experiences with financial institutions?
- What percentage of clients would it take to highlight an issue as problematic? 2%? 5% 10%?

The Smart Campaign selected Georgia as the Eurasian market for the Client Voice project for several reasons. First, Georgia exhibits many of the market features commonly found across Eurasia. Like many other countries in the post-Soviet space, clients in Georgia include rural and urban borrowers engaged in sectors as

diverse as agriculture, trade and microenterprise. Like elsewhere in the region, a large minority of clients is served by a limited group of large players. Alternative sources of credit, including pawn shops and start-up Microfinance Institutions (MFIs) are increasingly common players. Additionally, government officials and industry leaders in Georgia have repeatedly expressed interest in learning more about the market and making positive changes to the microfinance ecosystem.

This report presents key client protection issues as relayed to us by current and former microfinance clients. Compared to Benin, Pakistan and Peru, the issues uncovered in Georgia struck us as the least extreme—clients repeatedly ranked microfinance organizations as among the institutions (both financial and non-financial) that treated them best. Examples of extreme and overt client abuse frequently present in other markets were notably rare in the Georgian context.

Despite these achievements, client protection in Georgia has room to improve as subtler problems threaten the financial well-being of Georgia's most economically underprivileged. Many clients have a limited understanding key loan terms and conditions. Furthermore, even as foreign-currency denominated loans have become more prevalent, clients are not fully aware of the high risks associated with taking loans in U.S. dollars. Among other challenges, overindebtedness is a growing problem in Georgia's microfinance sector.

This report lays out the findings from Georgia and makes suggestions on what the industry can do to create the incentives for a more functional financial consumer protection ecosystem. The Smart Campaign believes that all actors have a crucial role to play in fostering a culture of client protection—and provides standards and tools for improvement.

**The Smart Campaign**

# Introduction

# 1

## About the Client Voices Project

This report presents key findings from qualitative and quantitative research for the Smart Campaign's Client Voices project. This research project aims to understand what MFO clients consider to be problematic and good treatment by MFOs, as well as to uncover the frequency of problems across four markets: Pakistan, Benin, Peru, and Georgia. The Smart Campaign<sup>1</sup> promotes the seven Client Protection Principles<sup>2</sup> in its standards, tools, and training programs for financial institutions around the world. With the Client Voices project, the Smart Campaign sought input from end-users of microfinance services in order to take a more consultative and client-centric approach to the Client Protection Principles. The Campaign hopes that the project will both affirm and challenge the underlying assumptions that were made in drafting the Client Protection Principles about the risks, issues, and harms that microfinance clients experience. In addition, the project is designed to act as a catalyst for actors in each of the four markets, including regulators, microfinance associations, consumer advocacy groups, and Microfinance Organizations (MFOs) themselves to improve the local client protection ecosystem. Box 1 presents the research questions we defined at the beginning of the project.

In Georgia, Bankable Frontier Associates (BFA)<sup>3</sup> and IPM Research<sup>4</sup> carried out qualitative and quantitative research on consumer protection in Georgia's microfinance sector from March through July 2015. In the qualitative research phase, we used focus group discussions and individual interviews to understand what constitutes good and bad treatment by MFOs from the clients'

perspective. We conducted qualitative research in Tbilisi, Telavi, Gurjaani, and Kutaisi, locations selected with input from the National Advisory Council (NAC), a group of leading experts in Georgia's microfinance sector that guided the research, to represent the Center, East, and West of Georgia. Urban respondents were interviewed in Tbilisi and Kutaisi, while rural respondents were interviewed in Gurjaani and Telavi. Please see Annex 2 for a map of these locations.

The focus group discussions included a ranking exercise in which clients classified the institutions they interact with on a regular basis (both financial and non-financial) by the quality of consumer treatment they provide. Individual interview respondents took photographs they felt represented positive and negative experiences in microfinance, a few of which we share in this report.

The qualitative research was followed by a quantitative phase. We implemented the quantitative phase of the project through a national survey with 1,000 current and former microfinance clients. Due to a lack of current information on the number and distribution of microfinance clients in Georgia, the research firm first conducted a mini-census of the population to determine the proportion of microfinance users in each region. Based on these findings, interviews were distributed at the regional level to reflect the proportion of microfinance users present in each. Then, a random walk technique was used to randomly select households, followed by a Kish grid<sup>5</sup> to select eligible respondents. Please see Annex 2 for a detailed description of the qualitative and quantitative research methods used in the Client Voices project.

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## Client Protection and Microfinance in Georgia: A Responsible Market with Opportunities for Improvement High-Level Findings

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1

**Client understanding of loan terms and conditions is still lacking.** Although 97 percent of microfinance organization (MFO) clients received a loan repayment schedule, 28 percent of clients did not know the interest rate on their loan, and another 22 percent could not recall the total amount to be paid on their loan.

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2

**Clients are not fully aware of the high risks associated with taking loans in U.S. dollars.** Many MFOs issue USD-denominated loans to hedge against currency risk. However, this risk is passed entirely to borrowers. This is worrying, as 30 percent of clients have a USD loan outstanding, and 13 percent of these did not realize this prior to taking the loan. Between January and October 2015, the Lari depreciated 27 percent compared with the U.S. dollar.

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3

**Some microfinance clients experience high levels of debt.** Households with current MFO credit report a median monthly debt-to-income ratio of 37 percent of monthly income allocated to debt repayment. Thirty-seven percent of clients have also had to take a loan from another source to pay a debt to an MFO, and 21 percent have also reported reducing food consumption to repay a debt.

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4

**Clients are not aware of how CreditInfo Georgia, the only Georgian credit bureau, works.** Many MFO clients fear the negative repercussions of paying late and do not have a clear idea of how credit histories are recorded and used. Indeed, fewer than 10 percent of clients have made late loan payments. As a result of this fear, clients may be making sacrifices to comply with tight repayment schedules. MFO clients need a better understanding of credit histories and how these can both impede or improve borrowing prospects.

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5

**Clients' willingness to take out loans for others may present risks to clients and providers.** Ten percent of loans were taken out in someone else's name, usually by another household member or family member. While clients may view this type of behavior as a favor, a relatively higher proportion of these respondents have had a negative record with CreditInfo Georgia. Clients may not be aware of the risk of borrowing for others.

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6

**Clients do not report having reasons to complain, but they may not have sufficient channels to do so if needed.** Only 4 percent of respondents said that they have ever had a reason to complain to an MFO. This suggests that treatment by MFOs is generally positive. However, only 38 percent were told where to complain, and the vast majority of these were directed to a loan officer or group leader, which may deter clients from voicing concerns.

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## Client Voices Research Questions

- What do microfinance clients view as their most important worries and most negative experiences in dealing with microfinance providers?
- How frequently do clients experience a deficit of consumer protection at the national level?
- What attributes are most important to clients in determining a positive customer experience?
- How do these priorities compare to assumptions the industry has made about what clients want (especially as reflected in the Smart Campaign Client Protection Principles)?

## Consumer Protection in the Georgian Microfinance Sector

### The Microfinance Industry in Georgia

The National Bank of Georgia (NBG) enacted a microfinance regulatory framework in 2006, which has facilitated growth of the microfinance industry.<sup>6</sup>

The legal definition of a microfinance provider encompasses the following entities:

1) commercial banks, 2) credit unions, and 3) microfinance organization (MFOs). While all three are supervised by the NBG, only commercial banks and credit unions can be licensed to accept deposits.<sup>7</sup> In order to accept deposits, some MFOs have registered as commercial banks. For example, FINCA Bank was formerly a microfinance institution before converting to a bank. Other MFOs have also diversified their product offerings by adding insurance and leasing products to their credit offerings.<sup>8</sup>

### Regulatory Framework for MFOs and Consumer Protection

In 2006, NBG put in place Georgia's original regulatory structure for MFOs. MFOs can extend micro-credit loans, provide remittances services, invest in government and public securities, act as insurance agents, and accept loans from resident or non-resident entities or individuals, however, they cannot accept deposits. Legal and regulatory reforms are still ongoing.<sup>9</sup>

A Consumer Protection Division of the NBG was created in May 2011 and shortly thereafter issued a consumer protection framework entitled "Provision of Providing Bank Customers with Essential Information."<sup>10</sup>

As the title implies, this regulatory provision applies only to banks and focuses on disclosure of terms related to consumer credit and deposit products, including effective interest rate, penalties, other related expenses, and currency risk. Under this regulation, banks are also required to provide a copy of the contract to clients and to implement mechanisms and procedures to address consumer claims. While MFOs are required to provide contracts to their clients, they currently have no disclosure requirements related to terms and conditions. Only entities registered with the NBG are allowed to call themselves MFOs. However, many unregistered lenders operate outside of the NBG's purview, leaving consumers at risk of irresponsible lending.<sup>11</sup> Additionally, Georgia does not yet have deposit insurance regulation in place. As of writing, the Consumer Protection Division is in the process of being spun out from the NBG into an independent entity.

From our research, Prevention of Over-Indebtedness, Appropriate Product Design and Delivery, and Transparency (relating to exchange rates) emerge as the most important Consumer Protection Principles related to MFO operations in Georgia.

# 2

## Key Findings

### Clients are Generally Happy With the MFO Experience and Treatment

Throughout the qualitative phase of our research, we received positive feedback about client interaction with MFOs. Focus group discussion participants ranked MFOs among the top institutions in terms of client treatment, at times positioning them above or at the same level as commercial banks.

**“[As compared to banks] MFO staff is friendlier and kinder towards clients.”**

**FEMALE, RURAL TELAVI**

A similarly positive image of MFOs was reflected in the quantitative survey: the large majority of respondents rated their experience with MFOs as “good” or “very good,” with only 5 percent of all respondents expressing a “bad” or “very bad” experience about MFOs.

The positive impression still holds when clients provide more detail about their interactions with MFOs. When asked to assess MFO behavior, clients expressed most dissatisfaction around repayments. According to the survey, 11 percent of clients feel that MFOs are not understanding about late payments, while 15 percent are neutral. Additionally, 9 percent of respondents disagreed with a statement that MFOs are clear and honest about interest rates and fees. However, nearly all respondents (88 percent) feel that MFOs treat clients with respect, and most also feel that MFOs keep client personal data safe (77 percent).

### Many clients see their relationship with MFOs as long-term and bilateral

In Georgia, clients appear to value maintaining a long-term relationship with MFOs. This is in contrast with findings in Pakistan showing that clients maintain short-term relationships with MFOs. There is also indication that clients see this relationship as reciprocal:

**“The successful experience has two sides: if both [you and the MFO] act well, the experience is successful.”**

**FEMALE, RURAL TELAVI**

This perspective is further validated by the statistical data. In the quantitative survey, approximately 60 percent of respondents had taken multiple loans with the same MFO over time. Competition among MFOs means that some clients feel they have a choice among institutions and that they are valued as customers:

**“It’s in their (MFO’s) interest to treat you well when you are a client of that organization. If that changes, they will lose me as a client. The loan officer told me that if I need anything, I should call him. He told me that if I ever go somewhere else for a loan, they [the MFO] are ready to offer me a better loan [so I stay].”**

**MALE, RURAL TELAVI**

Some clients also perceive MFOs as more approachable and a better fit than banks despite MFOs’ relatively higher interest rates:

FIGURE 1

**Photo of a Strawberry Plantation Taken by a Client Showing a Successful Project With an MFO Loan**



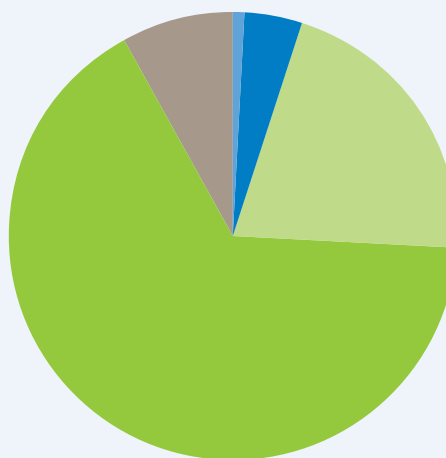
“[The MFOs] issue loans with conditions and terms that are fitted to your needs. So, this is good—they know better what I and people like me need, they value your business more than banks do, they understand this field better... When someone understands you better, it is easier to work with them.”

**FEMALE RURAL BORROWER**

FIGURE 2

**Client Assessment of Experience With Microfinance Organizations (N = 1,000)**

1% Very bad  
4% Bad  
21% Neutral  
66% Good  
8% Very good



“It is easier to borrow at an MFO, [as there is] less bureaucracy, although the interest rate is higher...for people with income and needs like mine, banks practically do not exist. Maybe it [the MFO] is not the best option, but it is the most appropriate option, despite the higher interest rate.”

**FEMALE, RURAL GURJAANI**

**Client understanding of loan terms and conditions is still lacking**

In Georgia, many MFOs provide clients with summaries of their repayment schedules; nearly all respondents (97 percent) recall receiving a summary of their repayment schedule. In fact, only 4 percent of respondents claim that MFOs did not provide them information on loan features such as the total amount to be repaid, penalties, or other

consequences of late repayments. In addition to the full contract, approximately 80 percent remember also receiving a short summary of the contract.

One large MFO also shows a short 30-minute animated film to its clients, explaining the terms and conditions of the loan:

**MODERATOR (M):** “Did they explain well to you all the terms and the rates and other issues?”

**RESPONDENT (R):** “Yes, they even showed me a movie, where everything was explained in detail, how you pay and all the issues.”

**M:** “How long was the movie?”

**R:** “It was about 30 minutes.”

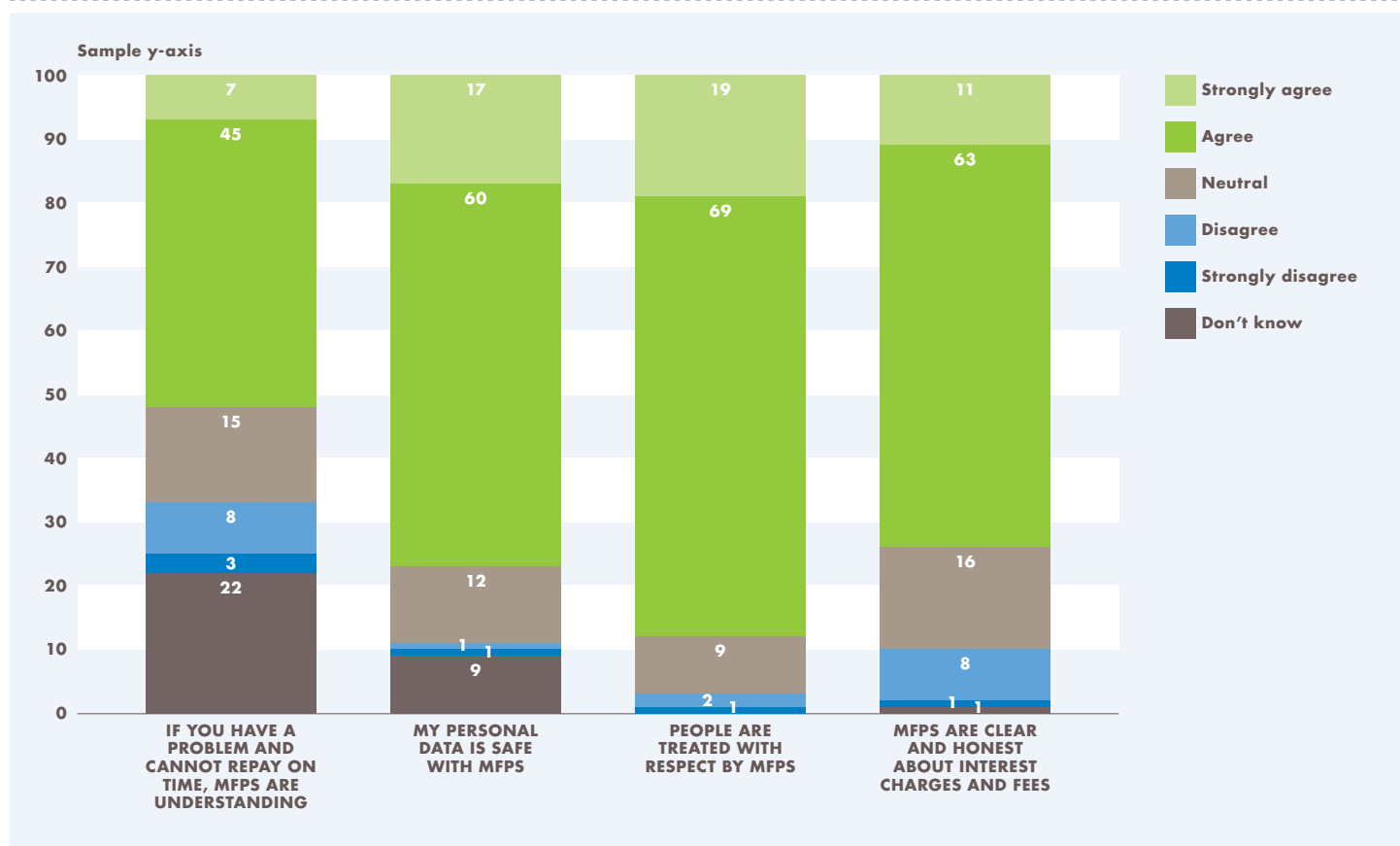
**M:** “Did the movie help you?”

**R:** “Yes, it explained well; it was an animation.”

**FEMALE, URBAN TBILISI**

FIGURE 3

### Perception of MFO Behavior (N = 1,000)



Not all clients of this large MFO recall watching the short film, according to the qualitative and quantitative findings, but the large majority (83 percent) of those who watched the film think it was at least somewhat helpful. Clients appreciated the film because it is easier to follow than reading a contract. However, there is no evidence that those who watched it have a better understanding of terms and conditions than those who did not.

Nonetheless, despite receiving information related to terms and repayment schedules, a number of clients lack good understanding of terms, fees, and conditions. For example, 21 percent of the respondents who say they were informed about the total payment value understood only “somewhat well” or “not well” what that amount would be.

What is more worrisome is that some clients are not confident enough to ask clarifying

questions about their loans, or they worry that questions may be misinterpreted as an intention not to complete payments:

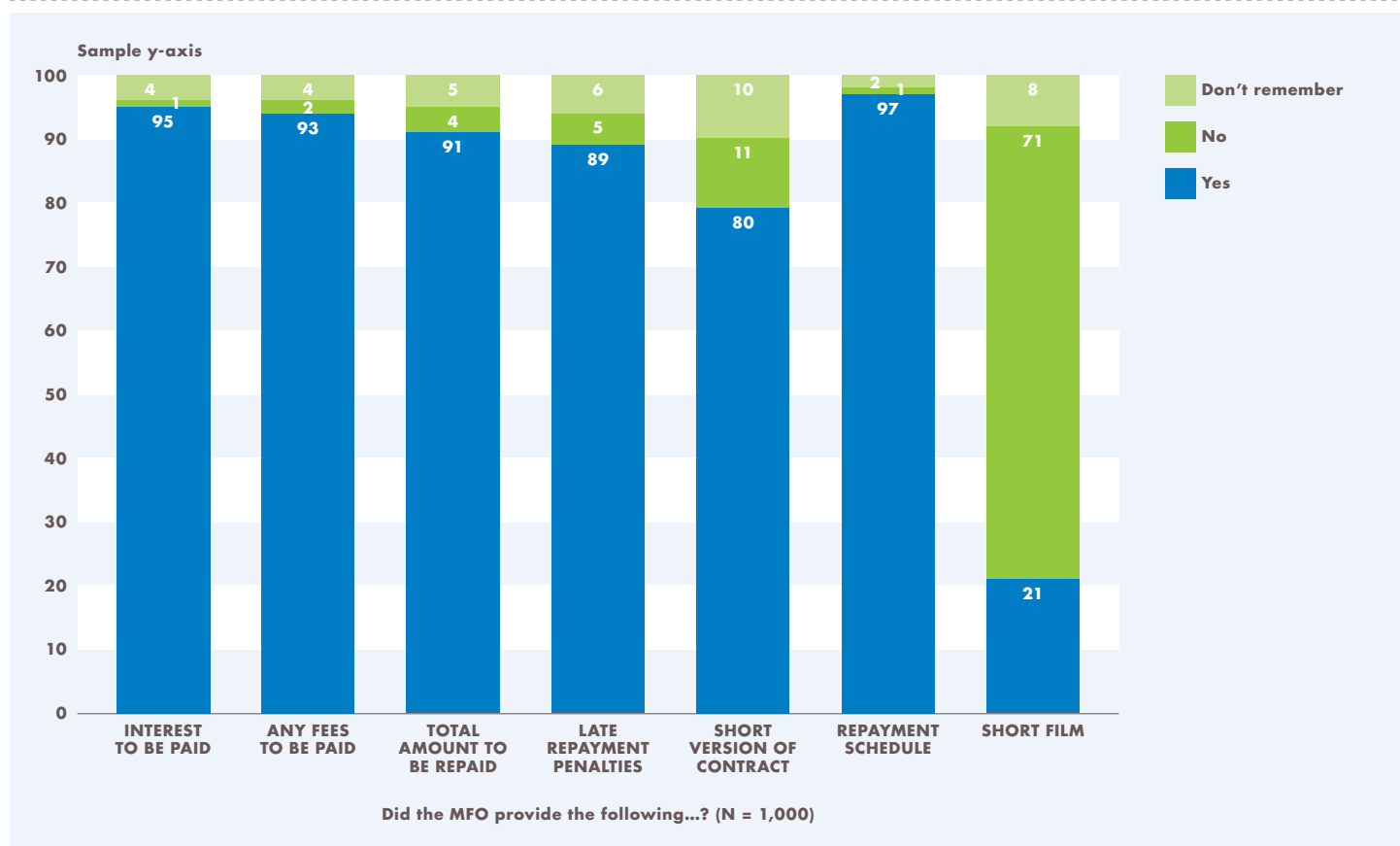
**“They never tell you when explaining the conditions what will happen if you don’t pay. And you don’t ask straightforwardly, because if you ask, they will think you are not going to pay and won’t issue the loan.”**

**FEMALE, URBAN TBILISI**

Less than a third (28 percent) of respondents were aware of the interest rate on their loan. The survey did not attempt to verify whether clients could correctly identify their interest rate, which would have required interest rate information from loan contracts or directly from MFOs, but the fact that 28 percent had no idea of their loan’s interest rate calls for concern given the high levels of education in Georgia.

FIGURE 4

## Disclosure of Fees and Terms



In some cases, even when the MFOs explain terms, clients do not focus on the details:

**M:** “What was the interest rate of your credit? Did they [the loan officers] say it?”

**R1:** “Yes, they did. I do not remember well, but they explain well how much you have to pay.”

**R2:** “As the amount was not large, I was not really much interested.”

It may not be essential for clients to know the exact interest rate as long as they are aware of the total costs of their loan and are able to make informed comparisons among different providers. However, respondents’ answers to a basic question related to interest rate calculations suggest that, despite high levels of literacy and education, the majority of Georgian clients lack even a basic understanding of interest rates.

Other clients appear confused by terms such as interest rate, fees and commissions, or insurance:

“They provide different explanations in the beginning, but none of the creditors investigate the depth, because the interest rate is never what they tell you in the beginning. It is always more in the end... some is commissions, some life insurance, etc.”

**MALE, RURAL TELAVI**

This lack of understanding may facilitate broader client dissatisfaction as some customers came away feeling cheated or frustrated in their interactions with MFOs.

Contracts aim to clarify such confusion. Generally, clients review their contracts: approximately two-thirds of respondents claimed to have read the contract fully.

FIGURE 5

### Client Understanding of Loan Terms and Conditions

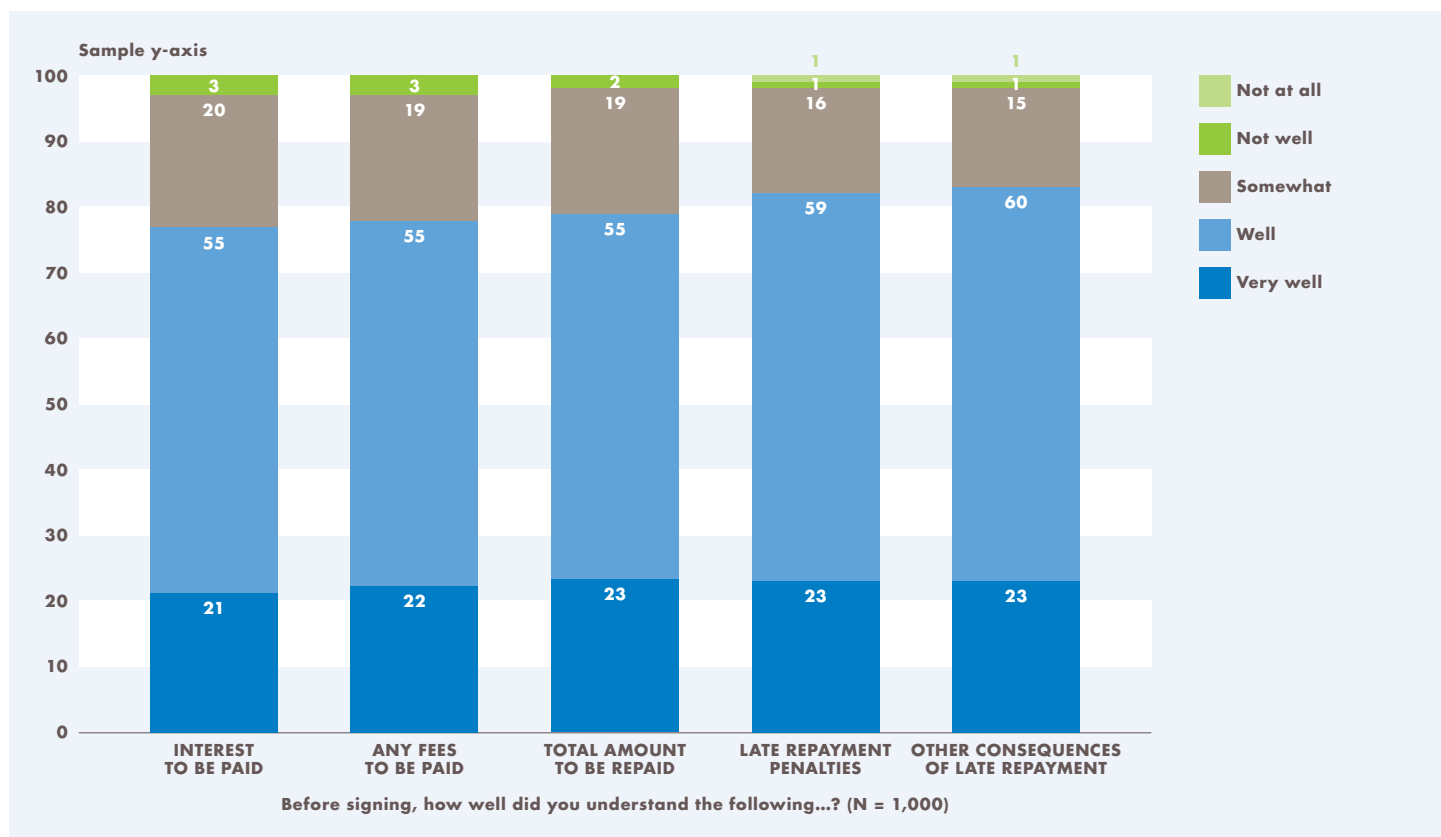


FIGURE 6

### Client Understanding of Interest Rate on Most Recent Loan

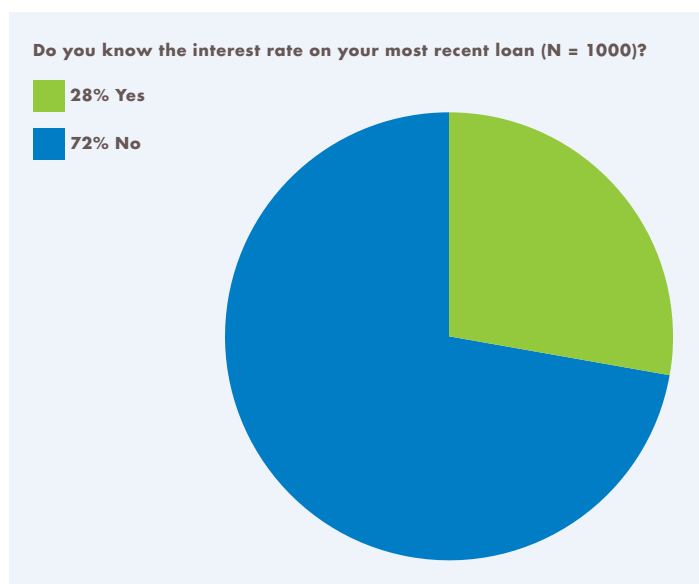
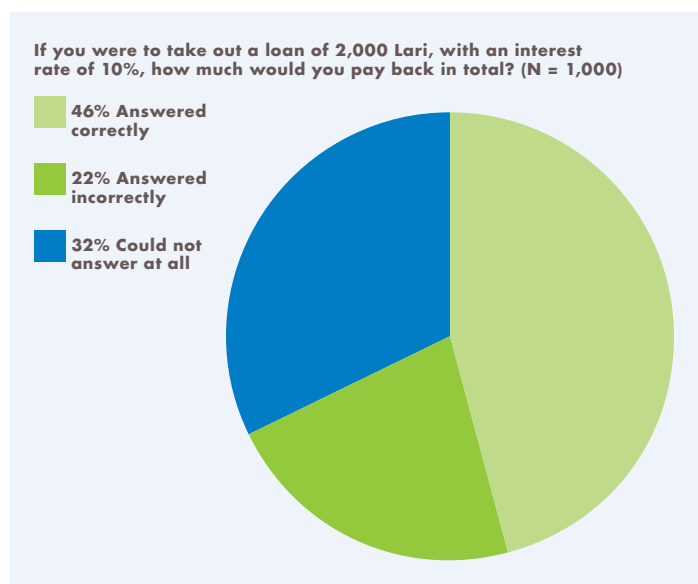


FIGURE 7

### Results of a Financial Literacy Question Asked in the Survey



These figures improve among clients that received a shorter version of the contract, as the percentage of respondents who read an abridged contract in full rose from 68 percent to 73 percent.

The length of the contract indeed surfaces as a prominent reason why some clients did not read it in full:

**“When you sign the agreement, they try to explain everything and ask you to read everything. I was telling them that I don’t want to read this much, and it is better to watch the movie.”**

**FEMALE, URBAN TBILISI**

Although the majority of clients read the contracts, qualitative research suggests that they do not always fully understand them. Some mention difficulties in understanding the language:

**“The contract is written in such a way that it’s hard to understand what it means. You should have special education to understand this terminology.”**

**MALE, URBAN KUTAISI**

Other clients may not read the contract, because they trust the institution to offer a fair product:

**“To be honest, I didn’t [read the contract], but I trusted it was not a problem.”**

**MALE, URBAN TBILISI**

Ensuring that borrowers have a better understanding of interest rates and fees would benefit clients by allowing them to make more accurate comparisons among different loans and institutions. Enhanced understanding could also improve the relationship between MFOs and their clients. Survey data shows that better-informed clients are happier clients (Figure 10). We find a positive relationship between the level of understanding of various terms and conditions and how well clients rate their MFO experience.

Taking further steps to simplify contracts and their presentation, paired with better explanations of interest rates and fees (as well as exchange rates and their associated risks, as can be seen in the next section) would improve client satisfaction and loyalty, as well as client retention over time.

**FIGURE 8**

### Percentage of Clients That Read Their Contract Before Signing for Loan (N = 1,000)

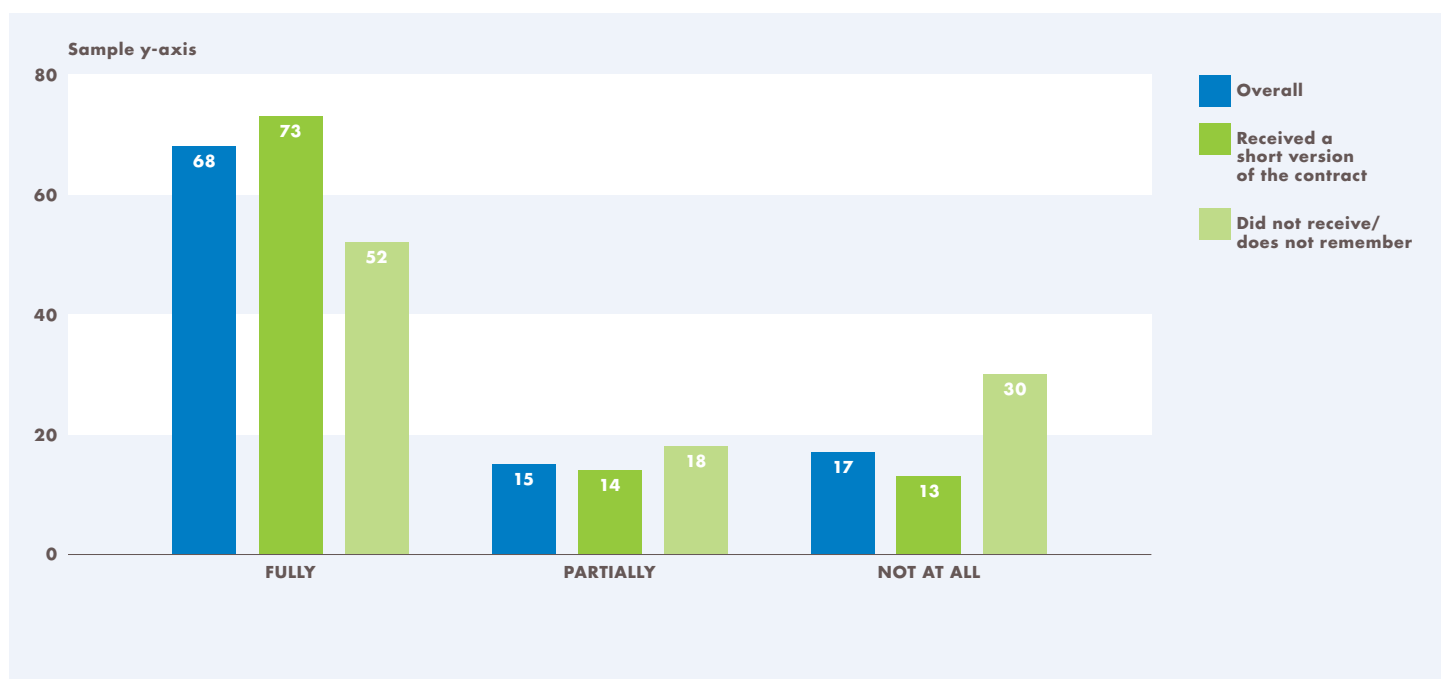


FIGURE 9

Reason for Not Reading Contract Fully (N = 1,000)

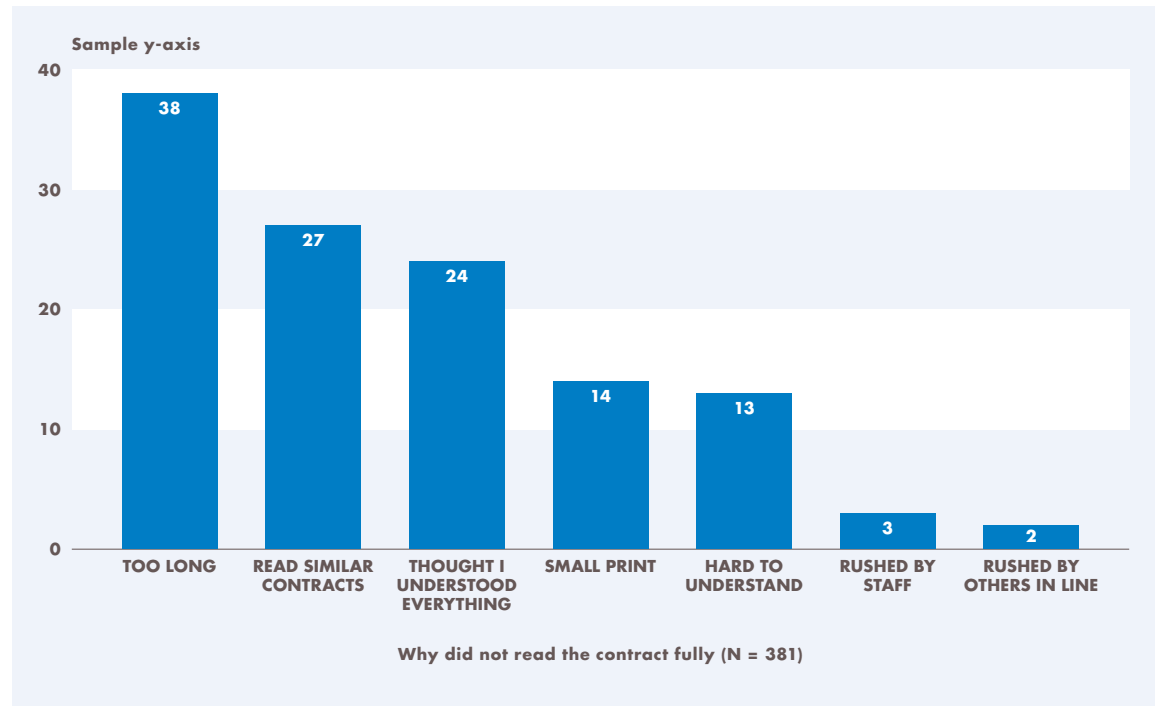
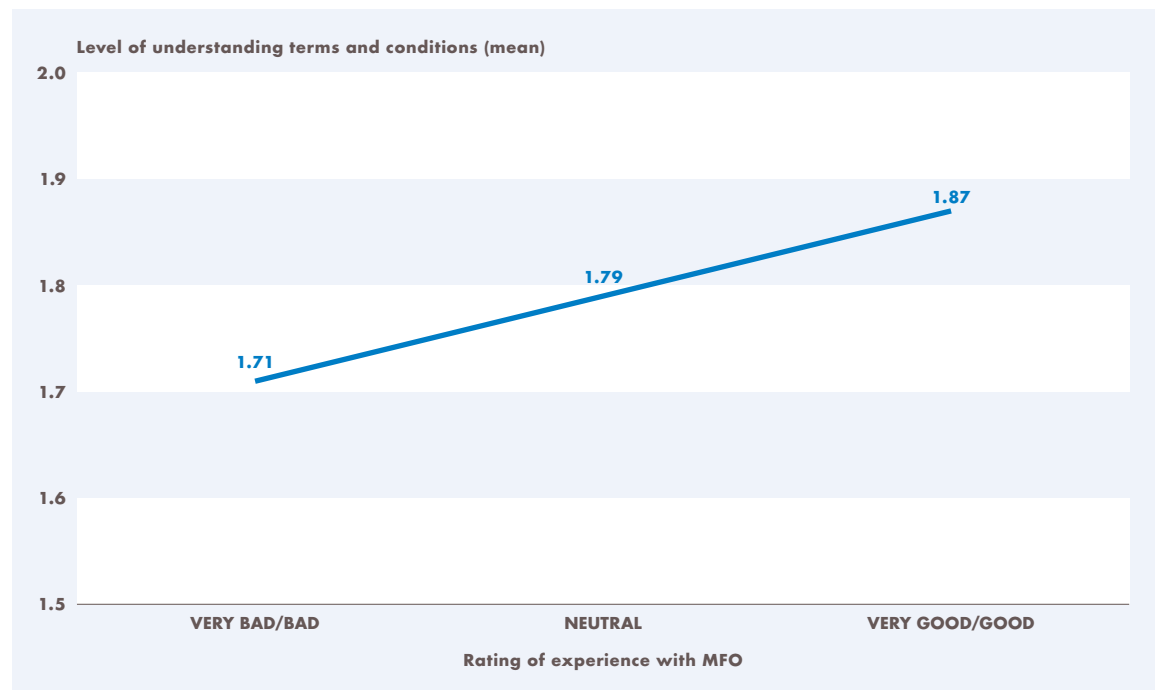


FIGURE 10

Relationship Between Understanding of Terms and Client Satisfaction





## Clients with USD Loans are Greatly Affected by Exchange Rate Fluctuations, and May Not Always be Aware of Exchange Rate Risks

At the end of 2014, the Georgian Lari (GEL) began a dramatic devaluation against the U.S. dollar (USD) that continues at the time of writing (October 2015). Currently, the Lari has fallen to its lowest rate since 2004, worse than crisis periods such as 2008, when the country was hit by the global financial crisis as well as by the August War with Russia. This devaluation, largely driven by a decrease in exports to Ukraine, placed the Lari amongst the worst performing currencies in 2015.

### Nearly one-third of clients have USD-denominated loans, which have appreciated steeply in value over the past year

To protect themselves against currency risk, many MFOs, which also receive investment and hold liabilities in U.S. dollars, started issuing loans in USD rather than in Lari. This practice is common; nearly one-third of current

MFO clients surveyed have dollar-denominated loans. The proportion of USD-issued loans was slightly lower amongst former MFO clients (Figure 12).

Those with larger loans appear to be more likely to have a dollar-denominated loan. In our sample, the median size of a USD loan is nearly twice as large as that of a loan issued in GEL (Table 1).

### Many of these clients did not realize that their loans would be in USD before accepting the loans, while others did not fully understand the associated risks

Debt obligations in USD pose tremendous challenges for clients, yet many did not realize that their loans would be issued in dollars or did not fully comprehend the associated risks. Thirteen percent of clients with USD loans were not aware that their loan was in dollars when they accepted the loan (Figure 13).

Further, 11 percent reported that information on exchange rates was not very clear, and 9 percent reported this information was not clear at all (Figure 14).

FIGURE 11

### Performance of Lari Compared with USD, 2014 to 2015

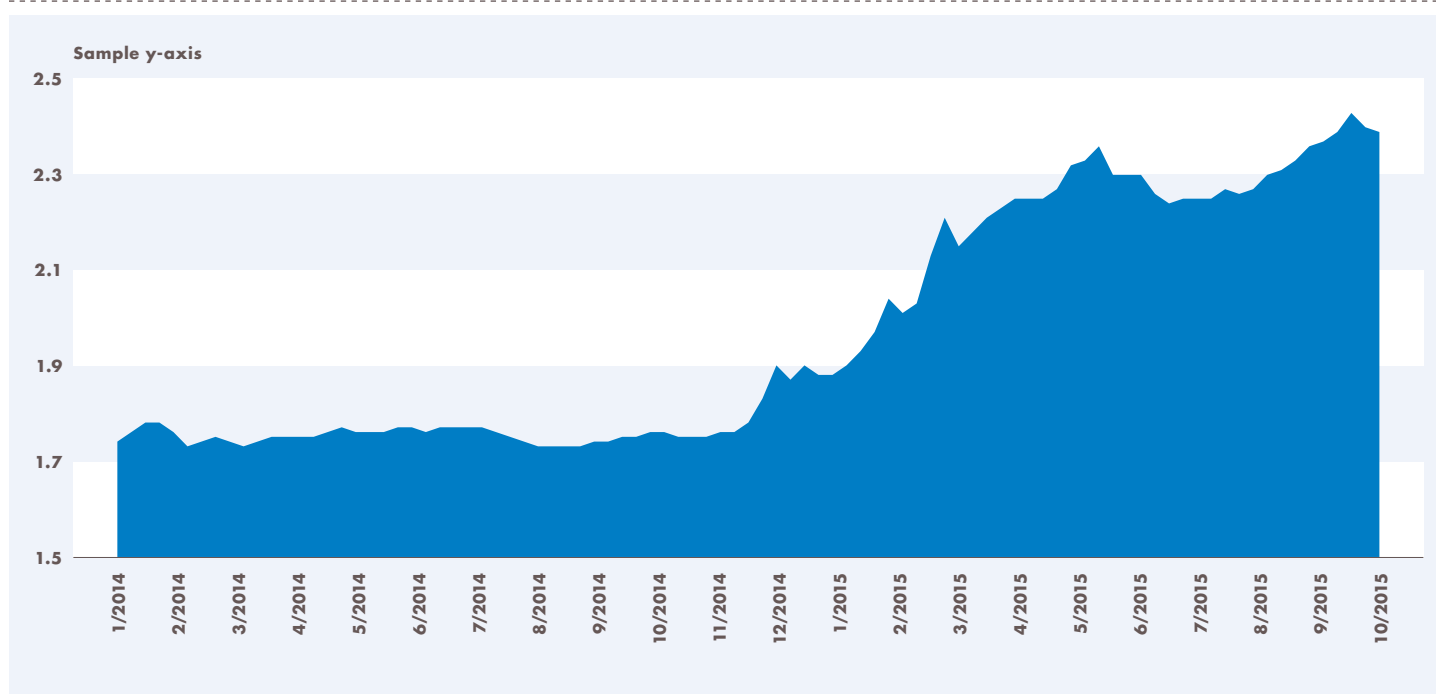
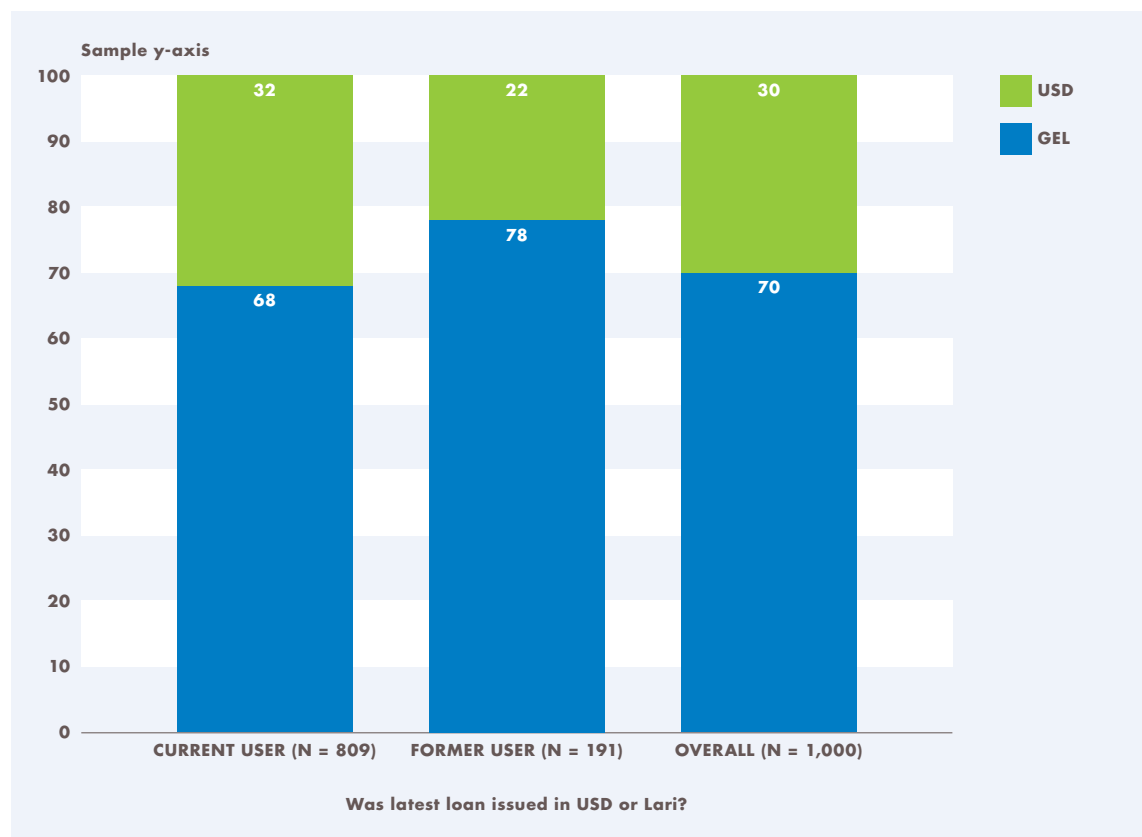


FIGURE 12

### Issuance of Loans in USD vs. Lari



As Figure 15 shows, many respondents clearly did not understand what they were getting themselves into when they borrowed in USD. A relatively large percentage of those with USD loans (18 percent) did not think they would pay more, and a few (3 percent) even thought that their repayments would be lower if paid in dollars.

This lack of understanding is alarming, given the risk and uncertainty associated with currency swings generally. Due to the steep depreciation of the Lari over the past year, the monthly repayment of a client who took a dollar-denominated loan in January 2015 would be more than 25 percent larger by October 2015. Understandably, the majority of respondents with USD loans feel that the financial effect of borrowing in dollars has been large and negative (Figure 16).

One client took a photo to illustrate this strain (Figure 17).

For many Georgian clients, USD denominated loans are especially challenging as salaries are distributed in Lari. It is not surprising, then, that 98 percent of respondents say they would prefer loans to be issued in Lari:

**“Those who have borrowed in Lari will have fewer problems. Lari [loans] are also expensive but [borrowing in] dollars cause more losses.”**

**FEMALE, URBAN TBILISI**

**“[I chose Lari], because the dollar is unpredictable. It may increase or decrease, [and] it may harm you seriously. I try to borrow in the same currency in which I get my salary.”**

**MALE, URBAN TBILISI**

TABLE 1

### Mean and Median Size of USD vs. GEL-Issued Loans

LOAN TYPE	MEAN LOAN SIZE	MEDIAN LOAN SIZE
GEL	GEL 847 (USD 372)	GEL 517 (USD 227)
USD	GEL 2618 (USD 1151)	GEL 1000 (USD 440)

FIGURE 13

### MFO Disclosure of Currency Denomination of Loan

Did MFO inform you that the loan would be in USD (N = 301)?

87% Yes  
13% No

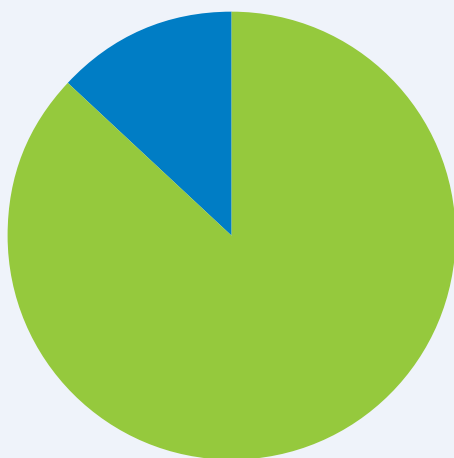


FIGURE 14

### Clarity of Exchange Rate Terms

How clear was the information on exchange rates (N = 301)?

15% Very clear  
33% Clear  
32% Somewhat  
11% Not very clear  
9% Not at all clear

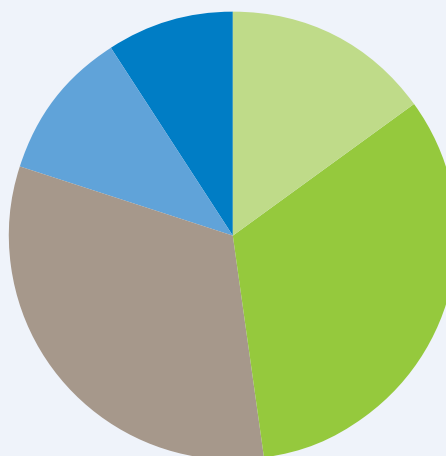


FIGURE 15

### Reason for Taking a Loan in USD

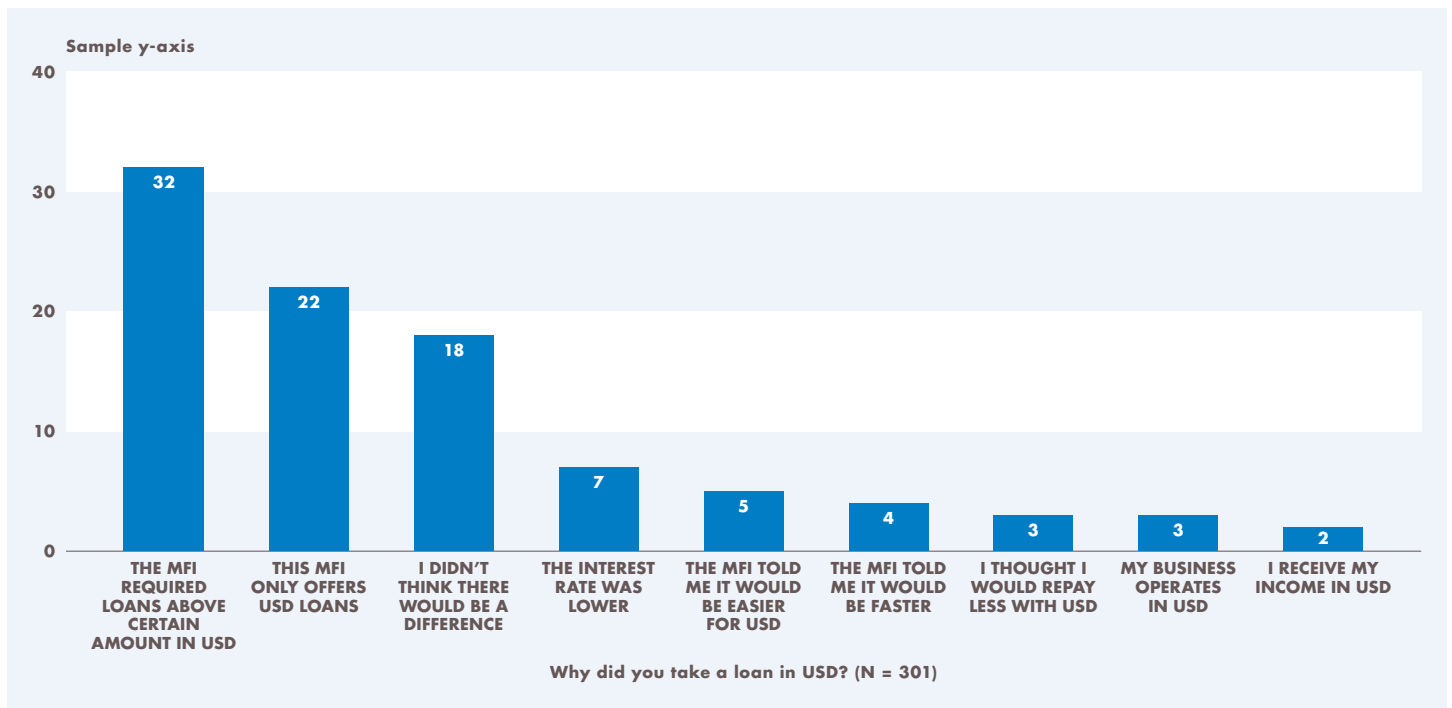


FIGURE 16

### Impact of Exchange Rate Fluctuations on Loan Repayment

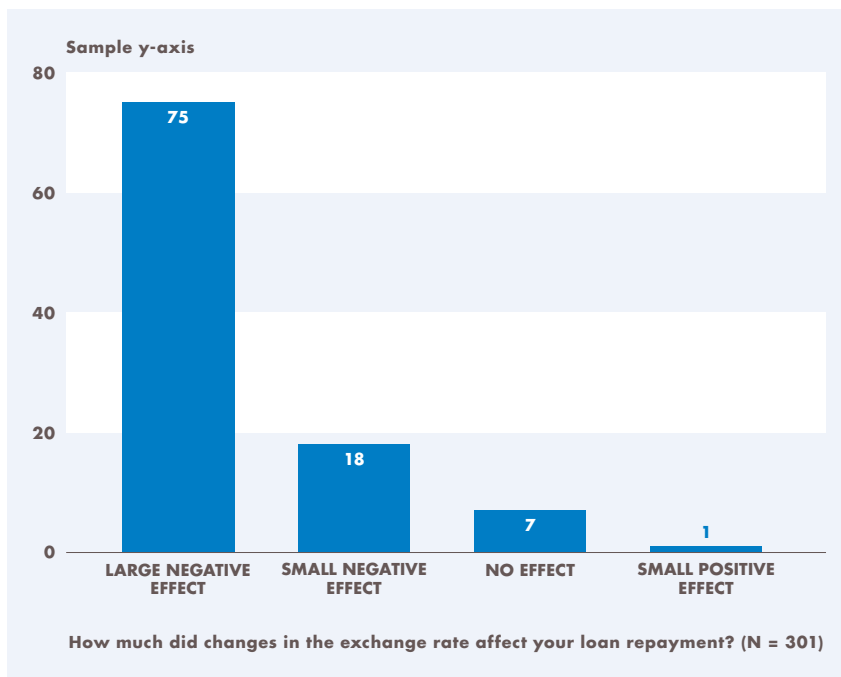


FIGURE 17

### Photo Taken by a Client to Show Strain of Repayment in U.S. Dollar Loans



Misunderstandings related to dollar-denominated loans are not only financially burdensome for the client, but also erode the institution’s image.

“My neighbor had credit in [MFO] in GEL, and wanted to add a certain amount, so they mixed up and made the additional loan in USD. He knew that he had a loan in GEL, but finally had to pay back in USD. One takes the loan in Lari and has to pay back in USD. Of course you lose trust.”

MALE, RURAL TELAVI

As with clearer disclosure of other loan terms and conditions, MFOs must take steps to ensure that clients fully understand the implications and potential risks of borrowing in USD. Doing so will help protect clients from borrowing unsustainably, and will help ensure that clients trust MFOs.

More fundamentally, client knowledge of the currency of their loan and what that could mean for their repayments should be a basic requirement if MFOs are going to issue loans in USD. Georgian MFO clients report that they feel they are treated unfairly when their repayments increase sizably USD loans. USD loans may not be appropriate products for clients with a low Lari salary relative to their USD repayments, or for those who lack the skills to understand and assess the currency risks, such as new borrowers.

Some Microfinance Clients Experience High Levels of Debt

Clients receive frequent credit offers and pre-approved cards from MFOs

Some MFO clients in the study’s sample appear vulnerable to acquiring an unsustainable amount of debt. Georgian respondents use an array of credit instruments. In addition to servicing MFO credit, nearly half of all respondents owe money for installment purchases, 22 percent of clients owe money to pawn shops, and 21 percent are borrowing from commercial banks. In the quantitative sample, the average number of credit sources per household is two, and 15 percent of households have four or more different types of credit instruments.

TABLE 2

Additional Credit Sources Outstanding at Time of Survey

Installment purchases	49%
Pawn shop	22%
Consumer loan from large bank	21%
Store credit	13%
Credit cards	11%
Friends and family	9%
Internet credit	4%
Mortgage, car payment, etc.	3%

MFO marketing practices may tempt clients to borrow beyond what they may require. Further, it is not clear if MFOs re-confirm client debt levels prior to making these offers. MFOs contact clients frequently to make credit offers, as evidenced by the proportion of clients that receive text message offers in our sample: 78 percent of clients have received text messages offering MFO credit in the past, and of these, three-quarters were still receiving offers at the date of the interview.

Clients report that MFOs send frequent messages advertising their products (Figure 19). Most clients (60 percent) say they receive messages a few times a month, but nearly one-quarter of the respondents receive text messages once or even several times a week.

Although only 11 percent of respondents say they are actually bothered by these messages, persistent credit offers may tempt clients to accept loans or additional debt they do not really need.

“Now we are finishing repayment of a [MFO] loan, so they are calling and offering us to take a new loan, but currently we do not have need.”

FEMALE, RURAL TELAVI

FIGURE 18

Percentage of Clients Reporting That They Receive MFO Text Messages With Credit Offers

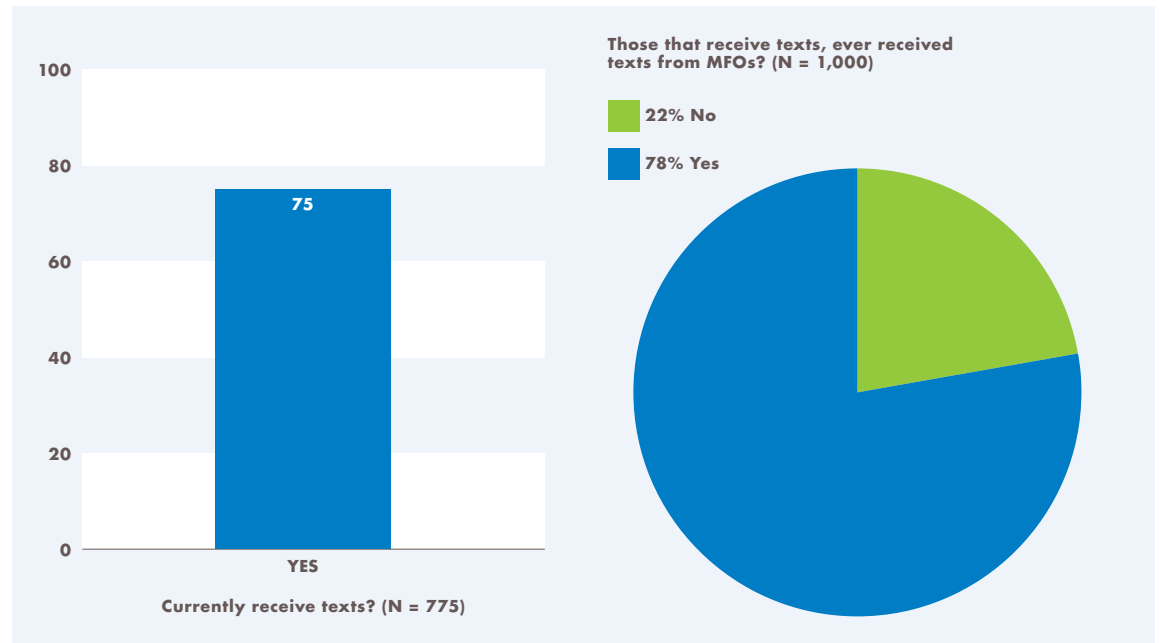
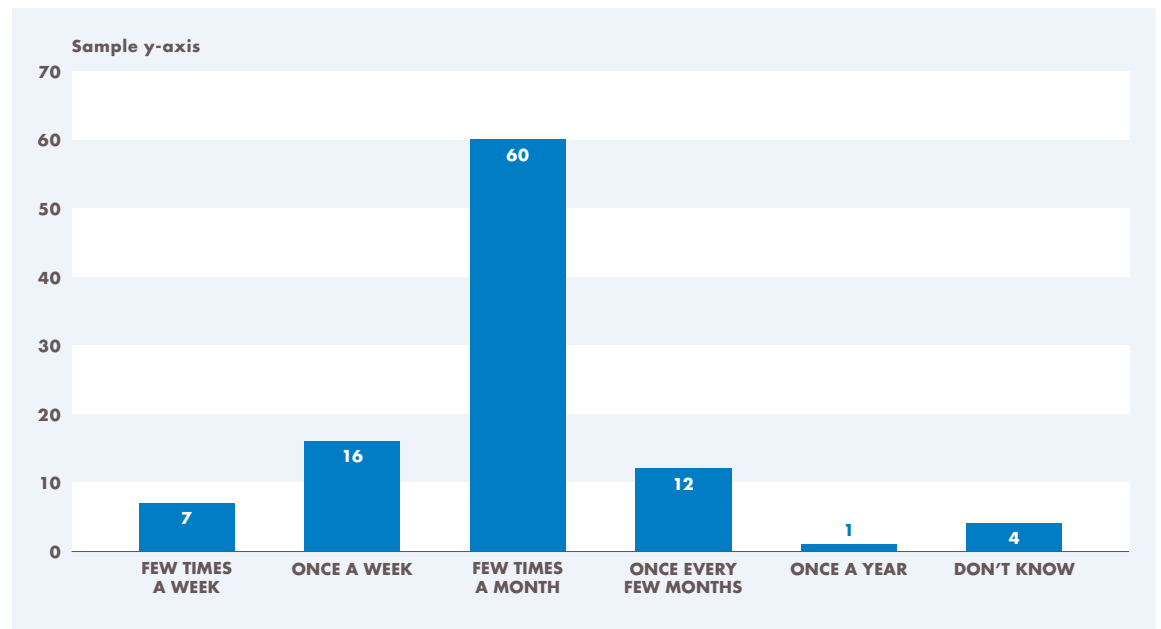


FIGURE 19

Frequency of Text Message Offers From MFOs (N = 578)



MFO agents also approach potential clients in places such as stores or in their homes to offer credit.

“They are well advertised; they come by themselves and offer loans. For example, when you go to the technic store to buy a fridge, they offer by themselves that you should [obtain a loan].”

MALE, RURAL TELAVI

In addition to text message offers, one large MFO also offers pre-approved cards in addition to loans. With these cards, clients just need to start spending to activate a new loan. For some, these temptations may be difficult to resist, causing negative consequences for some as we discuss in subsection 3.

On the other hand, evidence indicates that at least some MFOs do scale down loan requests to sums they consider appropriate and do not issue additional loans unless part of the old loan has been repaid. Thirteen percent of respondents have ever applied for a loan and were denied; of these, 29 percent were told they had too much debt, and 16 percent were told that their income was too low. This is an encouraging sign that MFOs are assessing repayment capacity and denying loans to some indebted clients.

While some MFOs are granting credit prudently, aggressive credit offers and pre-approved cards may be risky to both MFOs and clients, particularly if they do not involve an update to assess the creditworthiness or current debt burdens of clients. Pre-approved cards are considered an aggressive sales tactic and may not be appropriate for clients with existing debt, especially those with lower incomes or those that are new to formal borrowing.

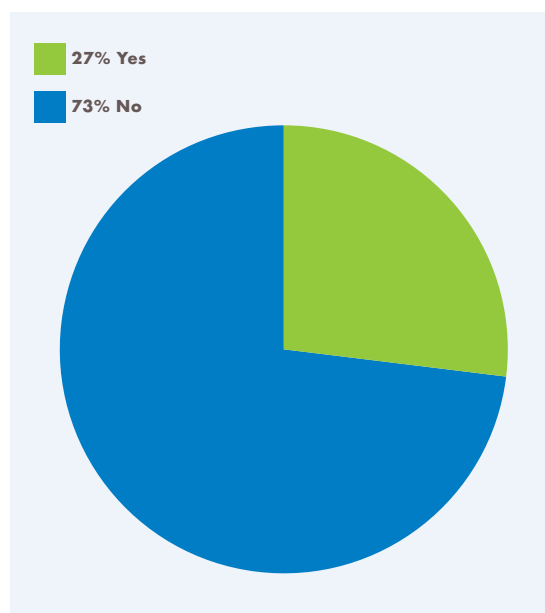
### **Clients perceive that MFOs offer loans easily compared with commercial banks**

According to clients, MFOs are an important source of loans for many people who would otherwise lack formal financing options. Clients generally perceive that MFOs have fewer requirements than banks and are the place to go when banks refuse to issue credit:

“I addressed them [the MFO] because I had low income, and they lent me when other banks didn’t. At that period I needed 2,500,

FIGURE 20

### **Received Pre-Approved Card With Loan (N = 1,000)**



and they treated me with understanding, while the banks didn’t issue this loan based on my salary.”

FEMALE 1, URBAN TBILISI

“It [choosing to use an MFO instead of a bank] was because MFOs are not interested in your salary, and the bank would not issue me such an amount with my salary. They [MFO name] issue loans by only apartment guarantee, they are not interested in your income.”

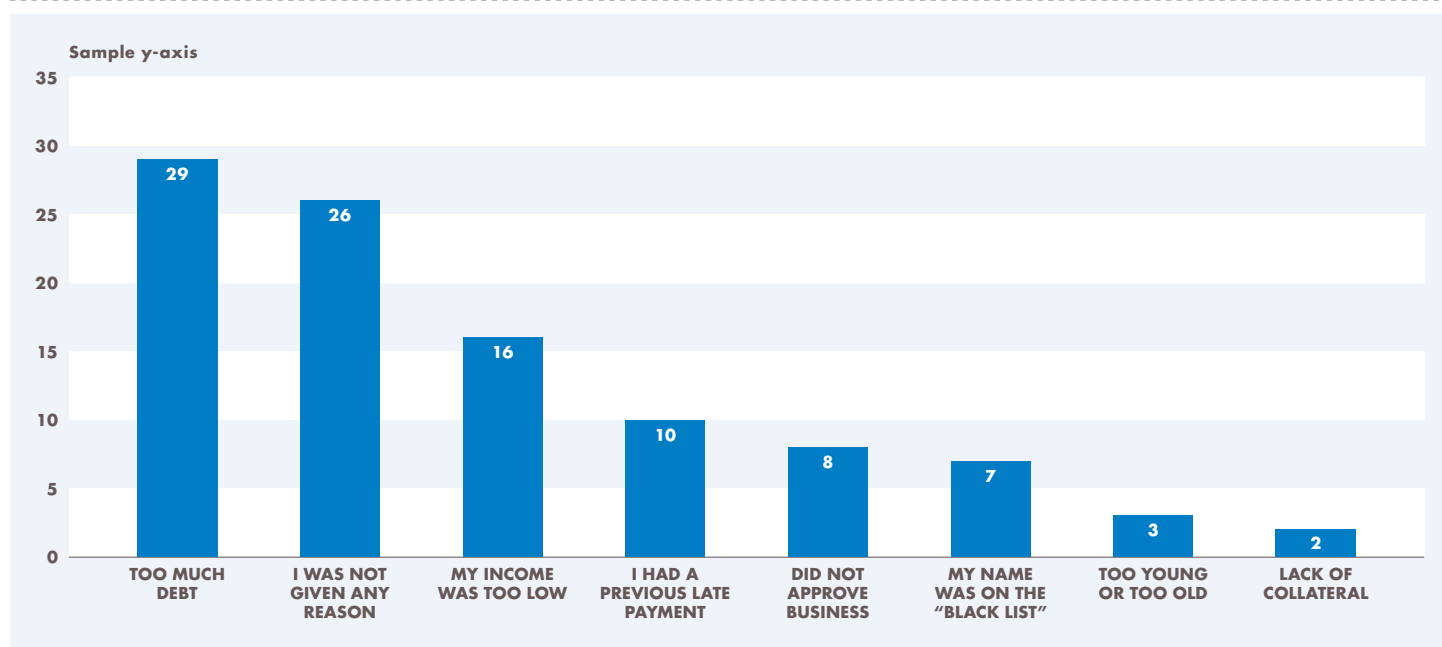
FEMALE 2, URBAN TBILISI

In addition, MFOs appear to be an important source of credit when financing is needed urgently. Sixty-one percent of our respondents said that their latest loan was “urgent” or “very urgent” (Figure 22).

While increased access to credit is positive, this can be a double-edged sword: on the one hand, clients get access to credit without much hassle, but on the other hand some clients may take on more debt than is ideal for their own financial health. MFOs need to carefully walk the line between being an accessible credit provider for those lacking other formal

FIGURE 21

## Reasons for Being Denied a MFO Loan (N = 128)



financial sources while not issuing credit at levels that may become burdensome to clients as discussed in the next section.

### Repayment can be difficult and cause hardship

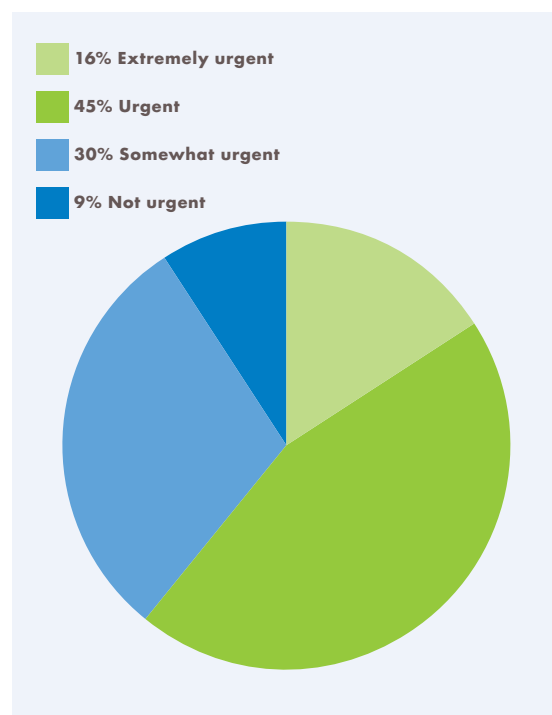
For current MFO borrowers, MFO debt represents a significant portion of their household's total debt (64 percent on average). While current levels of debt may not look exceedingly high, when compared to incomes, monthly repayments are indeed significant. At the mean, current borrowers spend more than one-third of household income on servicing various debts.

A combined 39 percent of respondents found it "difficult" or even "very difficult" to make debt repayments. Among those with USD-issued loans, the proportion who found it difficult to come up with the installment money was even higher (49 percent).

Respondents often reported resorting to somewhat drastic measures in order to meet their MFO repayment, including taking out additional loans to cover installments: 37 percent of respondents had borrowed to pay another MFO loan at least once (Figure 24).

FIGURE 22

## Urgency of Most Recent Loan (N = 1,000)





“If I will have a problem and have debt with the MFO, I will have to cover it through another loan. That’s what I have done. I have re-paid [MFO loan #1] through [MFO #2].”

FEMALE, URBAN KUTAISI

“I was covering one card through another, and this was never ending. The process never finished, and I thought I would never be able to go out of this circle.”

FEMALE, RURAL TELAVI

“I have heard that people have been deprived of their homes and fined, and those are the risks of borrowing; this can happen in all cases, except when having a loan from a relative or family member.”

MALE, URBAN KUTAISI

Another 21 percent of respondents had to reduce their household’s food consumption at least once in order to make the MFO loan repayment.

Other respondents worked more, withdrew savings, or sold or pawned assets in order to make a loan payment, as shown in Figure 25.

While MFOs provide much-needed credit to clients that might not otherwise receive access from other institutions or credit sources, certain lending practices may contribute to high levels of debt among clients. These include frequent text message credit offers, pre-approved cards offered along with loans, and the opportunity for current borrowers to “top up” their current loans once a portion has been repaid. For these reasons, MFOs are considered a relatively easy source of credit.

High debt-to-income ratios suggest that some clients are spending significant portions of their incomes towards loan repayments. Some make significant sacrifices to keep up with credit payments, such as reducing food consumption or borrowing from another source to make a payment. While the design and objectives of the Client Voices study do not allow us to attribute high levels of debt to microfinance credit alone, regulators and financial service providers should prioritize the issue of aggressive sales and marketing practices as microfinance continues to develop in Georgia. MFOs should be careful to properly assess risk before extending credit, as high debt levels are likely to increase risk, both for clients as well as for the financial system.

TABLE 3

### Mean and Median Debt Payments of Respondents and Debt-to-Income Ratios<sup>12</sup>

	TOTAL OUTSTANDING DEBT TO ANY SOURCE (USD, MEAN/MEDIAN)	MONTHLY DEBT <sup>13</sup> REPAYMENT TO INCOME RATIO (% MEAN/MEDIAN)
Current MFO borrowers	\$1,825/\$776	50%/37%
Former MFO borrowers	\$1,658/\$711	46%/31%

FIGURE 23

### Difficulty of Coming Up With Loan Installment Amount (N = 1,000)

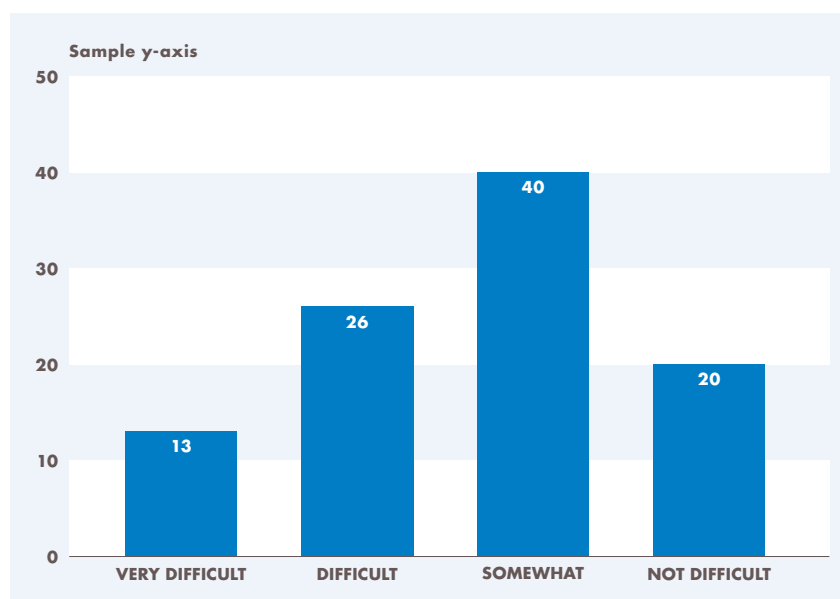
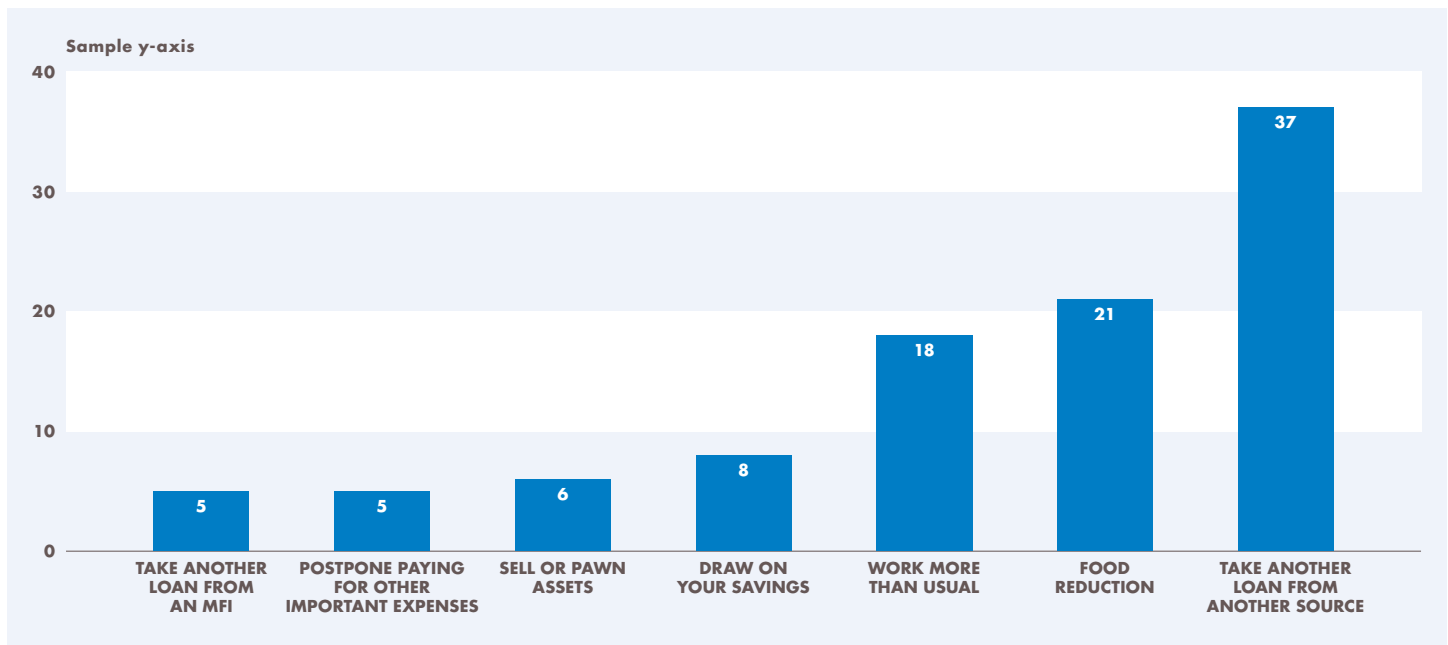


FIGURE 24

### Actions Taken by Clients to Make an MFO Loan Payment



### Clients lack information about the role and function of credit reporting agencies, such as CreditInfo Georgia

Among Georgian respondents, misinformation about the function of the country's only credit bureau, CreditInfo Georgia, is rampant. While CreditInfo Georgia collects positive and negative repayment information, clients are preoccupied with the negative consequences of what they refer to as the "blacklist."<sup>14</sup>

**M:** "What did [the loan officer] tell you about getting a negative record?"

**R:** "In a week's period, a warning paper is sent, and they call you for the next two weeks. In case you delay to pay for three weeks, you are on the 'blacklist'..."

**M:** "And what happens if you are on the 'blacklist'?"

**R:** "No bank lends you in such case."

**M:** "Will pawn lend to you?"

**R:** "They will."

**M:** "Can a credit card be issued for you?"

**R:** "As far as I know blacklisting doesn't affect getting credit cards, it was easy to get a credit card."

**MALE, KUTAI SI**

FIGURE 25

### Photo Taken by a Client of a Car That Was Sold to Cover Debt Payments



"I was not able to finish building the green house [that I had borrowed for], so we sold our car to cover the loan"

**FEMALE, TBILISI**

This fear appears to be strong, as evidenced by the high repayment rates in Georgia compared with other countries studied in the Client Voices research. Only 9 percent of clients report that they have ever paid late, and only 2 percent failed to repay a loan. Further, 7 percent of respondents have ever had a negative record with CreditInfo Georgia.

While fear of getting a negative record is strong and encourages timely repayment, clients are unaware of which actions will result in a negative mark (Figure 26), nor do they clearly understand the consequences thereof (Figure 27).

Further, respondents in qualitative interviews cite the stress of having a negative record with CreditInfo Georgia as an important reason to do whatever it takes to repay loans:

**“I had to borrow money from friends to pay on time and to escape the blacklist.”**

**FEMALE, URBAN KUTAISI**

One of the positive consequences of having a credit reporting system in place is that the MFOs do not need to resort to harsher methods to convince clients to repay on time. Indeed, the Client Voices research did not uncover aggressive collection practices. But for some clients, the perceived consequences of getting a negative record are intimidating, and likely contribute to the high percentage of clients borrowing from other sources to cover MFO loan payments as discussed above:

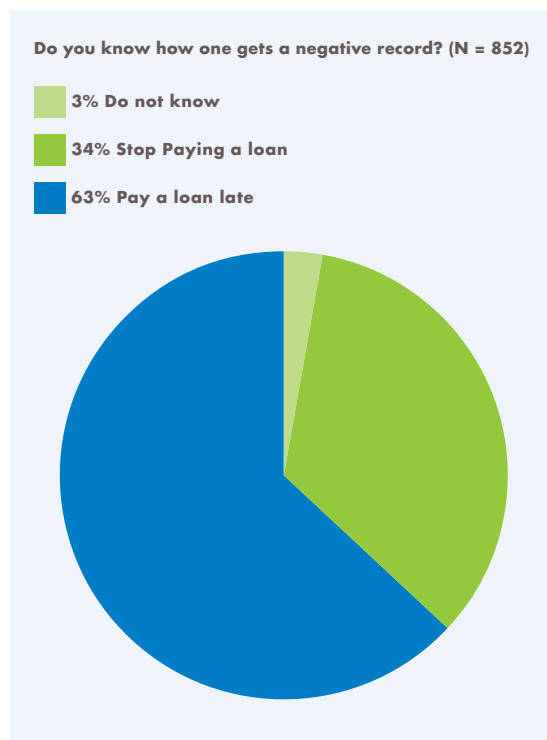
**“No matter whether you don’t pay once or 10 times, if you violate [the repayment terms] once they will make you finalize that loan and will never issue a loan again.”**

**MALE, RURAL GURJAANI**

Clients require information about how CreditInfo Georgia and credit reporting works so that they can be in control of their formal financial histories—and destinies. While credit reporting has eliminated the need for aggressive loan collections practices, clients may be unnecessarily taking extreme actions to repay their loans, such as reducing food

**FIGURE 26**

### Whether Respondent Understands How One Receives a Negative Record With CreditInfo Georgia



consumption or borrowing other debt to make payments. On the other hand, unfounded concerns related to credit reporting may prevent risk-averse clients from borrowing formally. While the Client Voices research did not explore the issue of positive reporting, clients did not mention this during qualitative research, suggesting that many are unaware of this feature. More information about CreditInfo Georgia would help clients assess risks more accurately and borrow accordingly.

### Some clients take loans in others' names, which may pose risks to borrowers and to the financial system

Ten percent of respondents had taken their most recent loan in another person's name as shown in Figure 28. This does not refer to

FIGURE 27

Perceived Consequences of Negative Record With CreditInfo Georgia (N = 852)

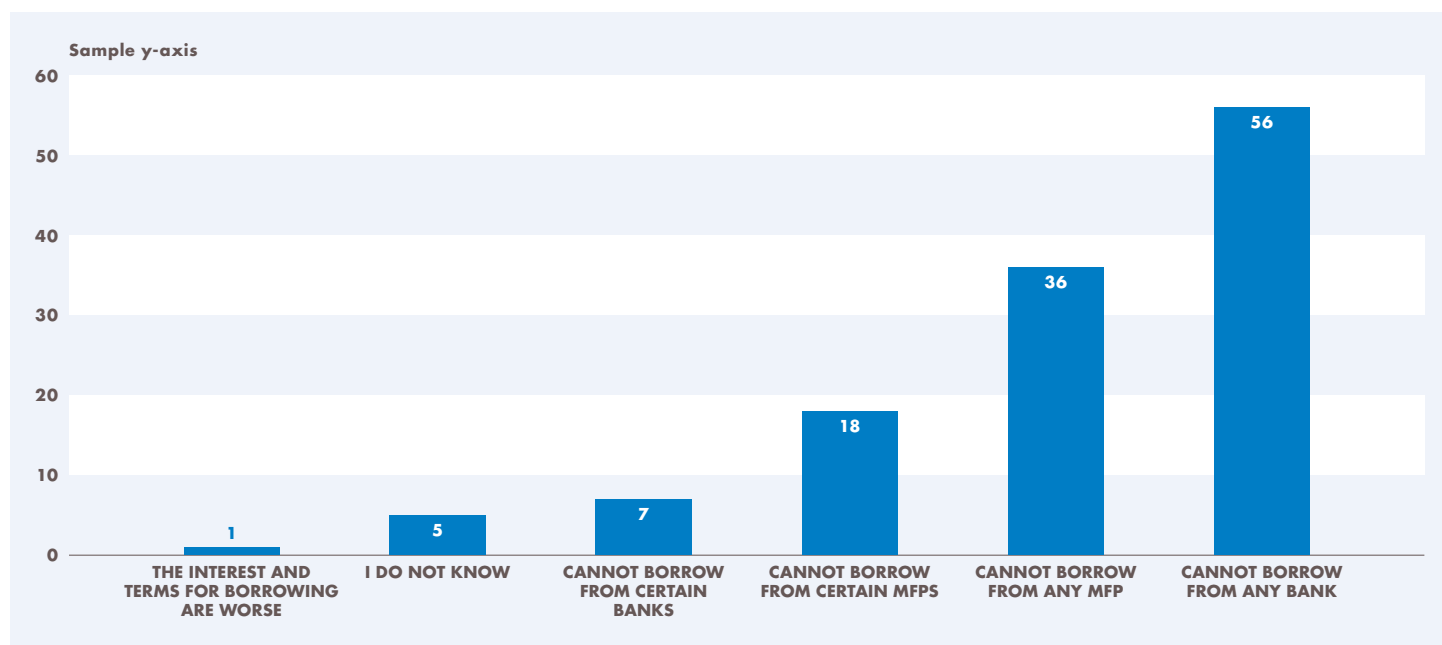


FIGURE 28

Was the Loan in Your Name? (N = 1,000)

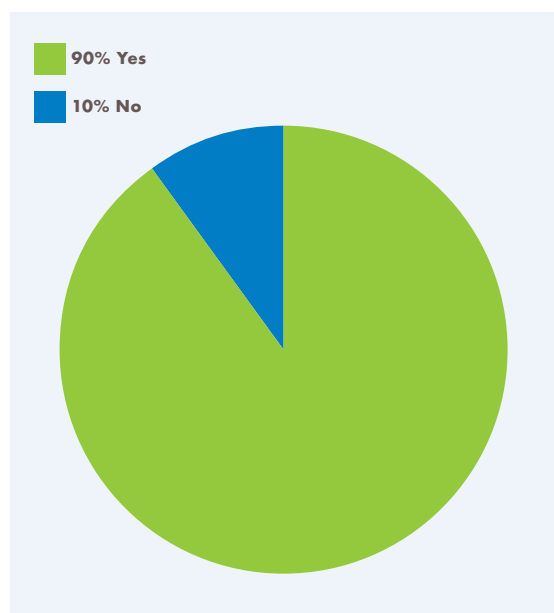
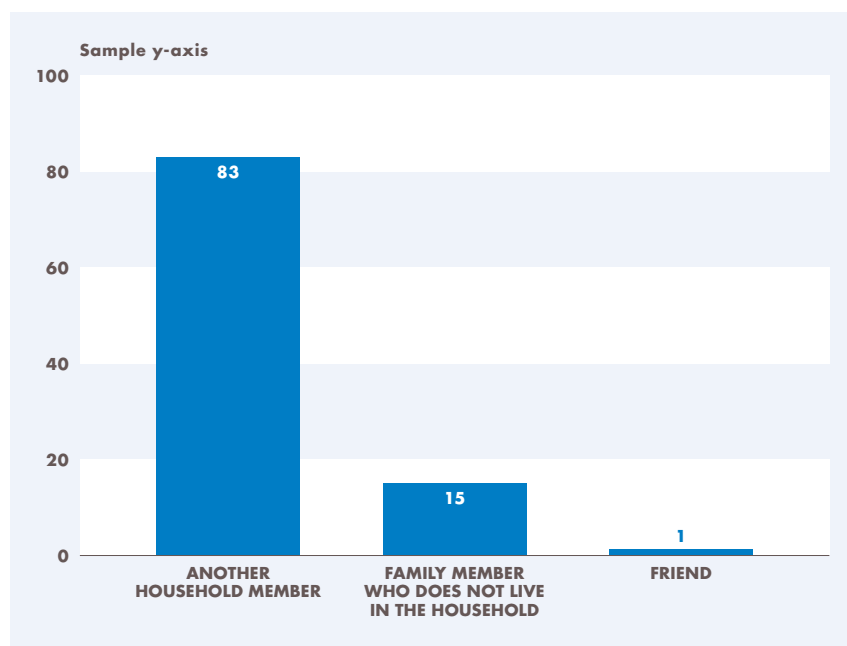


FIGURE 29

In Whose Name Was the Loan Taken? (N = 104)



fraudulent loans but rather loans that are taken by acquaintances or household members for others. While most of these loans were taken by close household or family members (Figure 29), this type of borrowing may increase risk for the actual borrower and undermine the credit reporting system.

Clients may borrow from someone else because they are unable to do so themselves. We find that MFO clients who borrowed in another individual's name are slightly more likely to have had a negative record with CreditInfo Georgia than those that borrowed in their own names, and this finding is statistically significant (Figure 30).<sup>15</sup> This suggests that they may be borrowing via another formal borrower, because they are unable to borrow themselves.

Or they may borrow in other's names, because they have already tapped out their existing credit options. There is slight indication that individuals that have borrowed in another's name are likely to have a higher debt-to-income ratio, as shown below.

Although MFOs will not be able to control the practice, providing more information to clients about the risks of sharing loans would help to reduce the practice of borrowing in others' names. This should include information about the risks to one's record in CreditInfo Georgia, for example.

**While clients do not report having reasons to complain, they may not have sufficient channels to do so if needed.**

Finally, few clients had reason to complain compared with respondents in other Client Voices markets (Figure 31).

While this finding is positive, other dynamics may be at play. For example, only 38 percent of respondents remember their most recent MFO telling them about where they could file a complaint should something go wrong (Figure 32). And of these, clients were almost exclusively told to talk with an MFP loan officer, group leader, or another MFO staff member (93%, Figure 33).

Indeed, some qualitative respondents say that the agent is the one they would contact in case of a problem. In the qualitative research, some clients reported that they had a phone number in addition to being able to speak with the loan officer:

FIGURE 30

**Have You Ever Had a Negative Record With CreditInfo Georgia? (N = 1,000)**

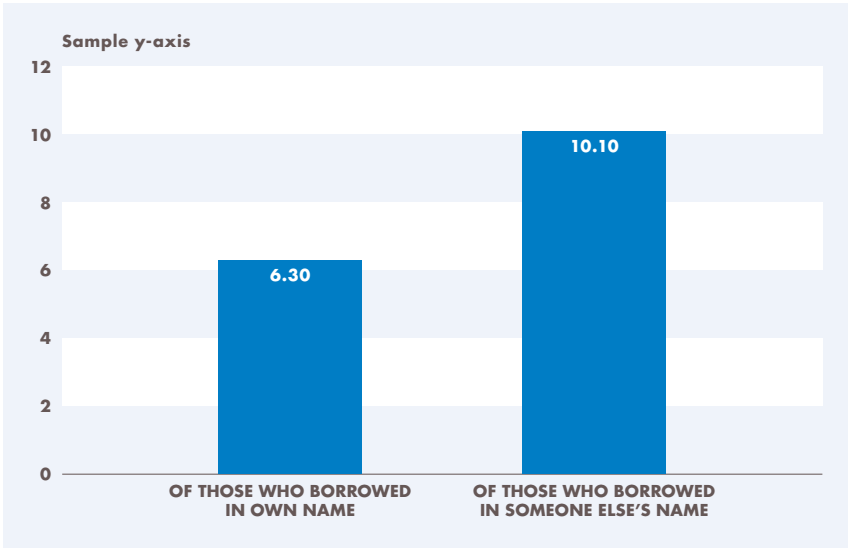


TABLE 4

**Monthly Debt Repayment to Income (%)<sup>16</sup>**

	MEAN	MEDIAN
Loan in your name	49%	35%
Loan in another name	56%	39%

R: "Were you explained how should you behave if you would have any dissatisfaction or need to complain? Whom you could approach?"

R1: "About complaints no, but they gave me a contact number I could use in case of any questions."

M: "Was it a contact information of a credit officer?"

R1: "Yes."

M: "How about in other cases, do you all agree?"

R2: "I had a contact information as well."

R3: "I could contact a credit officer via phone."

MALE, FGD, TELAVI

FIGURE 31

Have You Ever Had a Reason to be Dissatisfied With the Treatment By Your MFO But Did Not File a Complaint? (N = 1,000)

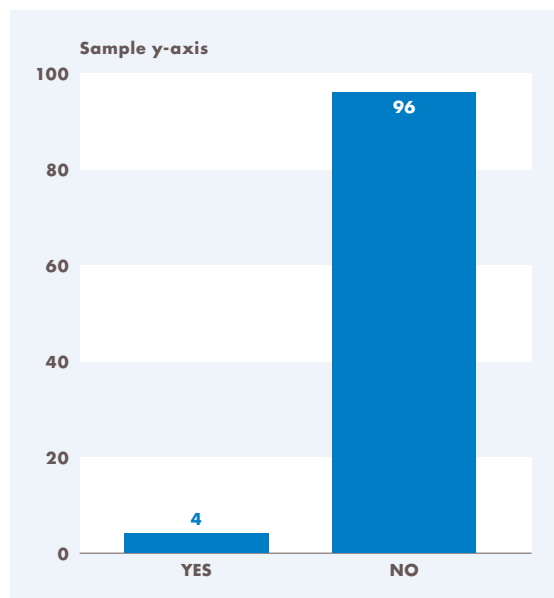


FIGURE 32

Did the MFO Tell You Where to File Complaints? (N = 1,000)

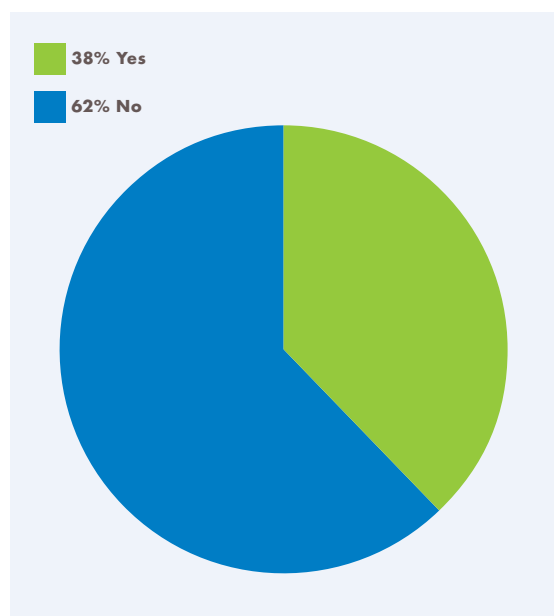


FIGURE 33

If You Had an Issue With the MFO, Whom Would You Contact? (N = 1,000)

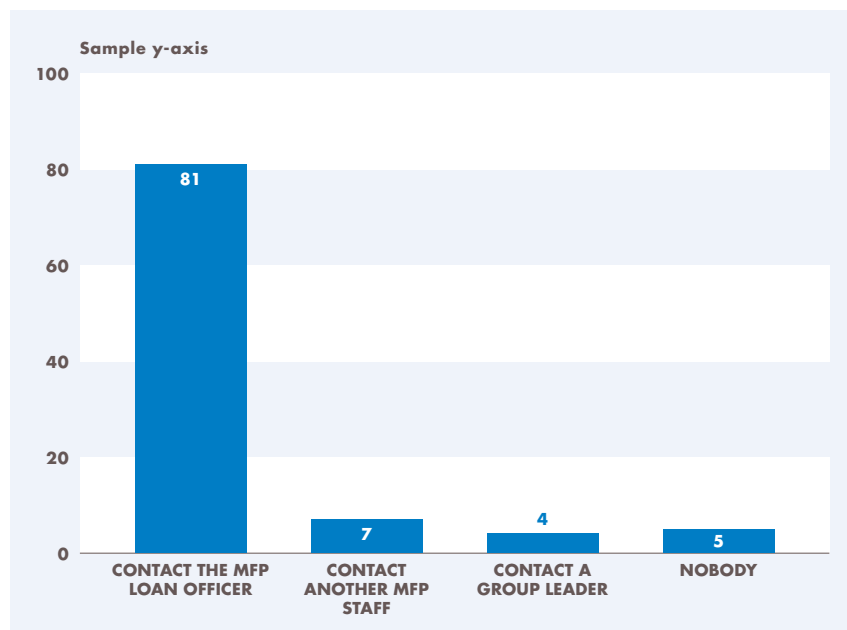
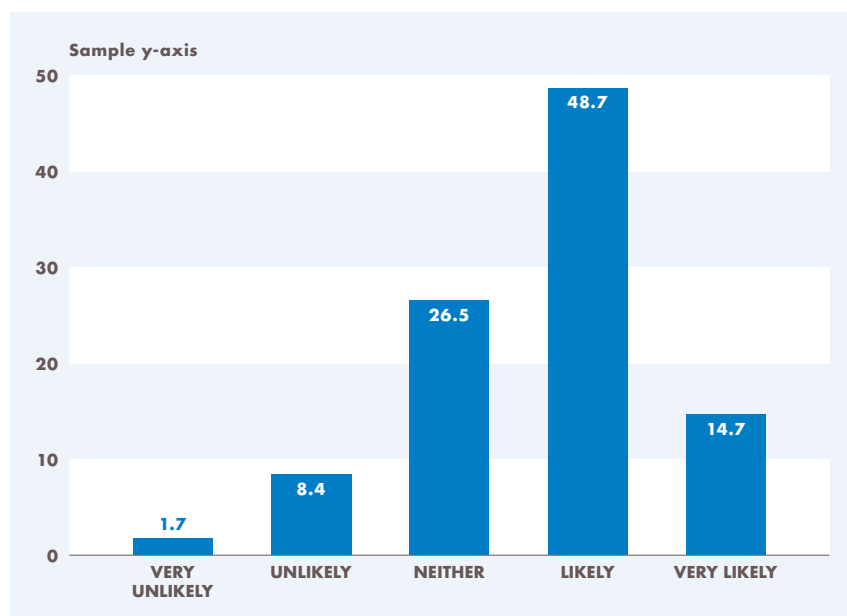


FIGURE 34

Percentage of Clients That Had a Reason to be Dissatisfied



We asked respondents how likely it would be for them to contact another individual at the MFO if they were to have an issue directly with their loan officer (Figure 34). While more than half of clients seem comfortable with contacting loan officers, other complaints channels would be necessary for those with serious concerns or those that would be hesitant or uncertain about raising concerns with their direct officers.

While it is difficult to assess what clients may consider an issue worthy of a complaint, we find that 4 percent of respondents expressed dissatisfaction with MFO services, yet did not file a complaint. However, some clients feel that their voice would not be heard if they were to file a complaint, or they do not know whether MFOs address complaints (Figure 36). Perhaps for this reason, one-fifth of respondents say they would not be likely to file a complaint even if they had a problem (Figure 35).

**RESPONDENT:** “As for complaining... I can’t complain, and sue such a big company.”

**MODERATOR:** “Why? Won’t your claim be satisfied?”

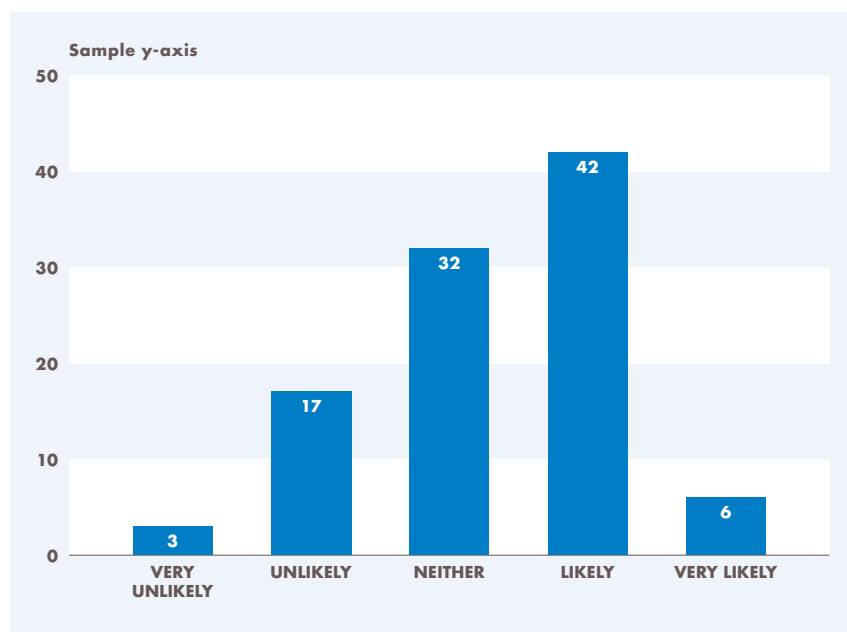
**RESPONDENT:** “I think I can’t win against them... they are able to hire an expensive lawyer and we are not.”

**MALE, TELAVI**

In Georgia, MFOs typically have a good relationship with their clients, and there are few instances of mistreatment. Nonetheless, clients need to be aware and have access to open and clear channels of communications when their rights are not respected or when they have queries related to their loan terms and conditions. While loan officers are the first point of contact and source of information related to loans, one which is convenient and which many clients seem comfortable with, additional channels must be available to clients, which are independent of their direct points of contact.

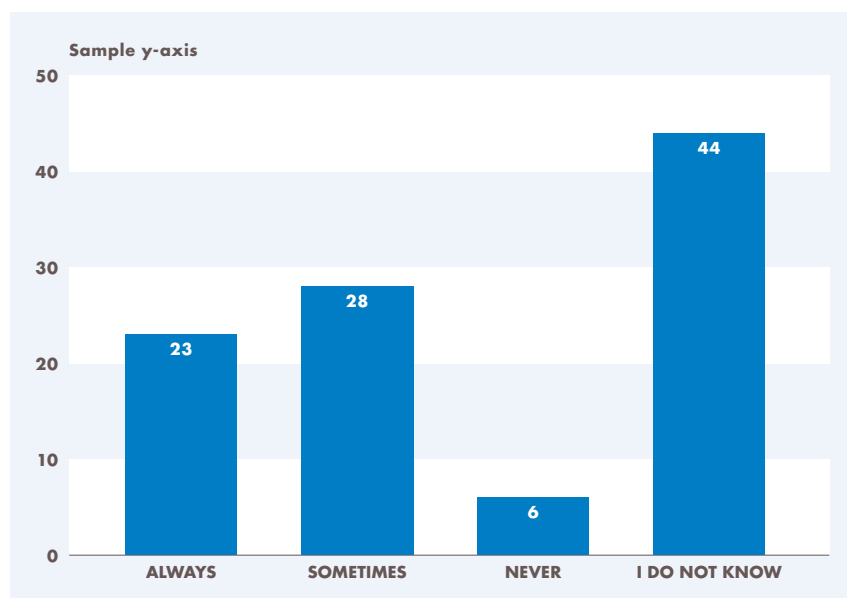
**FIGURE 35**

### Likelihood of Filing Complaints if Dissatisfied With Treatment (N = 1,000)



**FIGURE 36**

### Do MFOs Listen to Complaints Filed by Customers? (N = 1,000)



# 3

## Fostering a More Protective Environment for MFO Clients in Georgia

In general, the microfinance consumer protection environment in Georgia is strong. Clients are satisfied and report low incidence of being unhappy with the treatment they receive from MFOs. However, continuing to improve client understanding, especially around interest and charges, U.S. Dollar loans, and how CreditInfo Georgia functions can improve the client experience. We discuss these recommendations in Table 5.

Addressing these concerns requires a market-level approach that takes into consideration the unique role that regulators, industry, and clients each must play. The Smart Campaign and its partners have identified three pillars that are necessary for building protective client protection ecosystems in individual markets: regulation for client protection and supervision, financial education and capability, and standards and codes of conduct for the industry.

FIGURE 37

### The Smart Campaign's and Partners' Pillars for Client Protection





TABLE 5

## Problems and Recommendations

CONSUMER PROTECTION PROBLEM	RECOMMENDATION
<p><b>Clients lack understanding about key contract terms and features of microfinance products.</b></p>	<p>Georgia is a model for innovative disclosure practices such as informational videos and provision of loan repayment schedules. These experiences should be shared internationally. However, product features like interest rates, payments amounts, currency, and other basic terms of the loan still need to be communicated more effectively. This is especially true when it comes to USD-denominated loans, which pose considerable risk to clients.</p> <p>The results from Georgia suggest that disclosure is not sufficient; client understanding must be confirmed. Rather than mandating disclosure of as much information as possible, regulations should focus on ensuring that clients understand the information provided. Consumer advocacy groups should also include this emphasis on understanding rather than disclosure compliance in their standards and certification programs.</p> <p>As increased understanding is positively correlated with client satisfaction in Georgia, it is in providers' interest to improve communication about terms and conditions. Innovative disclosure methods, building on the videos that MFOs already use, may have success in this area. MFOs may wish to verify that clients have understood key product features with "mini-tests," especially making sure clients know the currency of their loan.</p>
<p><b>Some clients do not fully understand the risks associated with U.S. Dollar loans.</b></p>	<p>Clients report that U.S. Dollar loans constitute unfair treatment. Products that pool the risk between clients and the institution stand to capture market share and win good will.</p> <p>Moreover, regulators should investigate whether U.S. Dollar loans are appropriate for those earning in Lari, particularly when the debt burden is high compared with salary. These products require a fairly advanced risk assessment and may not be appropriate for all clients.</p> <p>Ensuring that clients understand the risk they are taking on with exchange rate fluctuations is a priority. MFOs should explain how repayment values might vary dramatically depending on exchange rate changes. Public information campaigns about exchange rates from the microfinance network or government officials might help clarify this risk to clients. The Bank of Georgia could also consider sanctions against institutions whose clients do not know the currency of the loans.</p> <p>Investors may also wish to monitor this practice. While ensuring financial stability for the institution, some clients struggle to manage increasing repayment amounts and make real sacrifices as a result, such as reducing food consumption.</p>

TABLE 5

## Problems and Recommendations (continued)

CONSUMER PROTECTION PROBLEM	RECOMMENDATION
Some respondents take on high levels of debt.	<p>The fact that 37 percent of clients have borrowed to make payments on another loan is worrisome. Aggressive sales practices may be contributing to high levels of debt for some MFO clients.</p> <p>Regulators should monitor the practice of offering loan top-ups and pre-approved cards that may be issued without a re-assessment of creditworthiness. Additionally, phone calls and visits may constitute aggressive sales in some cases. Regulators should be aware that some clients complain about the number and frequency of credit offers they receive. There is also indication that MFO credit is easily available.</p> <p>Regulators should also take steps to ensure that MFOs assess debt burdens and conduct proper risk assessments before extending credit offers.</p> <p>MFOs need to act responsibly in carrying out sufficient due diligence in the case of loan top-ups and pre-approved cards. In line with best practices for indebted clients, MFOs should offer flexible refinancing to those clients who are struggling with repayments.</p>
Clients are uninformed about how CreditInfo Georgia and credit reporting works.	<p>The government or CreditInfo Georgia themselves should share more information about the credit registry's functions and purpose. Currently, clients are preoccupied with the fear of having a negative record with CreditInfo Georgia, and may not be aware of the benefits of building a positive record. Accurate knowledge about CreditInfo Georgia and credit reporting can help clients them to make better-informed decisions related to borrowing and building their financial histories.</p> <p>While the incidence of late repayments is low in Georgia, this fear may be pushing clients to reduce food consumption or borrow other debt in order to repay loans. MFOs should consider offering flexible products, such building in one or two late payment grace periods to product design to help alleviate this burden. Respondents would likely appreciate institutions that helped them to avoid such painful sacrifices.</p>

TABLE 5

## Problems and Recommendations (continued)

CONSUMER PROTECTION PROBLEM	RECOMMENDATION
<p>10% of loans were taken out in someone else's name. Sharing loans could pose risks to clients and institutions alike.</p>	<p>This behavior is likely to be risky for those that borrow for another individual, but it may also pose risks to the financial system more broadly.</p> <p>Although MFOs cannot control what clients do with funds, they should inform clients of the risk of this behavior as there is some evidence that those that borrow using another person's name are more likely to have received a negative record with CreditInfo Georgia previously.</p>
<p>Clients do not report reasons to complain, but some may not feel empowered to do so.</p>	<p>While the level of complaints by Georgian MFO clients is low, recourse mechanisms can be improved. Many clients were not informed as to where they can channel complaints. Of those that were, the majority were directed to contact their direct MFO loan officer or group leader.</p> <p>MFOs should prioritize centralized complaints and query channels, which provide clients an independent source to lodge concerns or ask queries related to borrowing. Such channels may help to increase client trust in the MFO, by ensuring that clients feel listened to in the case of a complaint. In addition to implementing centralized recourse channels, MFOs should take steps to ensure that clients clearly understand which options are available to them for questions or problems.</p> <p>When a dispute cannot be resolved between the client and institution, clients should be aware of third party options for complaints about the financial institutions.</p>

## Members of the IAC and NAC

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CGAP

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MasterCard Foundation

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Center for Financial Inclusion at Accion

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National Bank of Georgia

**Luri Lebanidze,**  
Georgian Microfinance Association

**Tamar Lebanidze,**  
Constanta Bank

**Levan Lebanidze,**  
Constanta Bank

**David Onoproshvili,**  
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IFAD

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CGAP

**Vusal Verdiyev,**  
FINCA Bank Georgia

## Description of the Research Methodology

### Qualitative Research

As shown in Table 6, BFA designed and implemented a variety of research methods in the qualitative phase, relying heavily on our local partner IPM Research for execution. The target population for this research was current and former microfinance clients who borrowed at MFOs. Figure 38 shows the location of the qualitative research sites.

### National Quantitative Research

The quantitative part of the research was conducted through a national survey with current and former microfinance clients. The goals of the survey were to estimate the incidence of various client protection gaps in the relationship between Microfinance organizations and microfinance users. The survey aimed to explore the universe of all

TABLE 6

### Research Tools in Qualitative Research

RESEARCH TOOL	OBJECTIVES
Focus group discussions	To understand clients' perspectives on what they view as good or bad treatment and to rank the attributes various institutions (financial and non-financial) using a variety of exercises.
Individual in-depth interviews	To gain a deep understanding of individuals' interactions with MFOs, and how experiences are shaped by circumstances. A secondary objective was to obtain personal details and information about the financial situation not appropriate for discussion in a group context.
Photography exercise	To incite discussion and better understand clients' views of good and bad treatment through images and metaphors, contextualized by information from interviews with the individuals.

FIGURE 38

### Location of Qualitative Research Sites



current microfinance users as well as former clients who had a relationship with MFOs no longer than four years ago. Non-users were not targeted. In Georgia the main service offered by MFOs is loans, which sometimes come with mandatory loan life insurance. Thus, the respondents are exclusively MFO borrowers. To ensure that respondents were clients of a registered MFO (and were not confusing a commercial bank for an MFO, which is common), BFA provided enumerators with a list of registered MFOs to confirm the borrower's lending institution. This list is provided in Annex C.

### Respondent type definitions:

**CURRENT USER:** Currently has a loan and has been repaying for at least three months

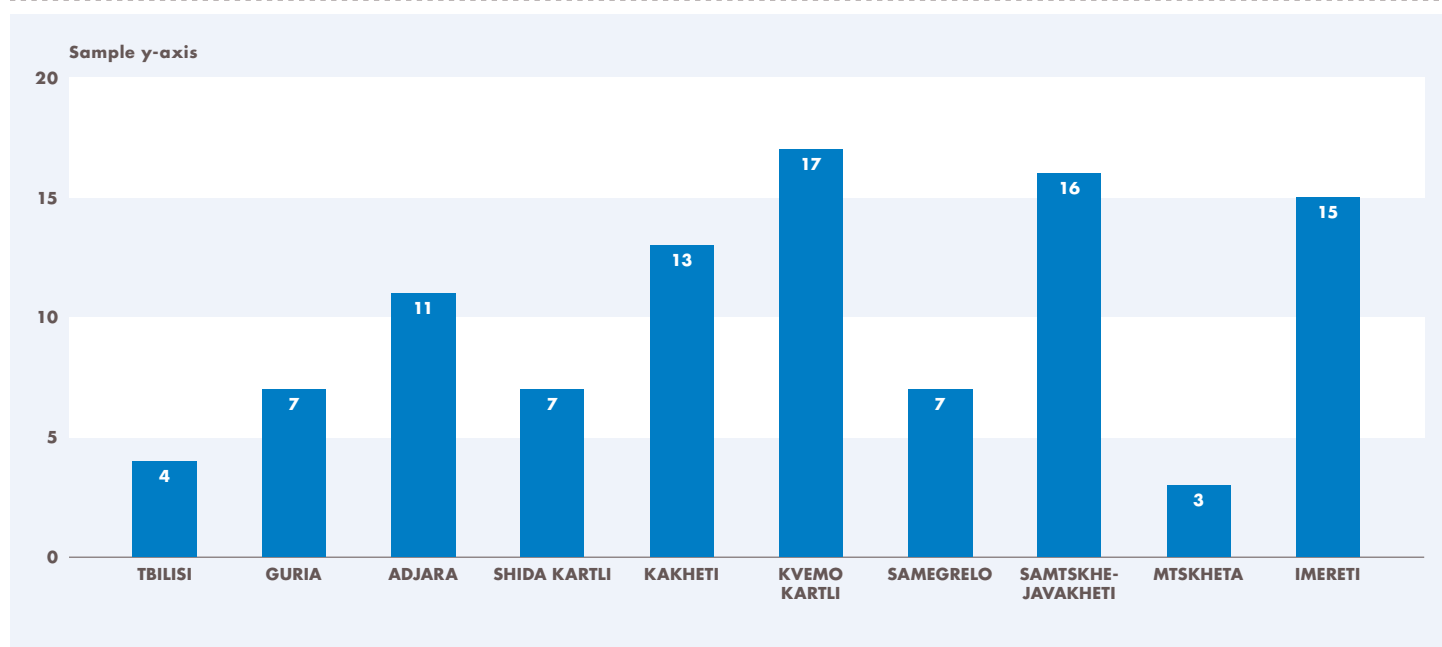
**FORMER USER:** Does not currently have a loan but had an MFO loan less than six years ago

**FORMER USER, WITH A CURRENT LOAN LESS THAN THREE MONTHS OLD:** Currently has a loan that is less than three months old but had another MFO loan less than four years ago

The last category was introduced to account for respondents whose latest loan was too

FIGURE 39

### Distribution of Respondents by Region (N = 1,000)



new for the purpose of our research, but who could discuss their previous experience as MFO borrowers. For the analysis, we treat these borrowers as former users since their responses concerned a past loan.

### Sampling

No current data on the number and distribution of microfinance clients existed in Georgia at the time of the survey. In order to ensure that the results are representative of the experience of all MFO clients in Georgia, the research firm initially created a mini-census of the population. During this census, the research firm contacted 10,000 randomly selected households from all 10 regions of Georgia in person, including the capital city Tbilisi, stratified by settlement type (urban or rural).

The mini-census allowed us to understand the prevalence and distribution of microfinance usage at the regional and settlement level, and to distribute the Client Voices interviews accordingly. We found that the distribution of microfinance usage is much higher in rural areas (~25 percent of the households contacted had at least one MFO user) than in urban areas

(~ 7.5 percent of the households contacted had at least one MFO user). In Tbilisi the proportion was much lower, at less than 2 percent.

Based on these findings, 1,000 households were selected for the Client Voices research, distributed in proportion to the number of MFO users in each region according to the mini-census.

A quota for the number of former users was employed at the electoral unit level. No specific gender quotas were employed.

The contacts were made using a random walk, and when in a household more than one eligible person was found, the interview respondent was selected using a Kish grid. A Kish grid is a method of randomly selecting eligible household members to interview to ensure that a representative sample is achieved and to reduce the chance of selection bias. In this case, if more than one member of the household was an MFO current or former client, the Kish grid was used to randomly select one MFO client to interview.

A total of 1,000 face-to-face interviews were completed for the Client Voices research, distributed as follows:

### The respondents

Nearly one-fifth of respondents were former MFO borrowers (including those who had a very new current loan but were asked speak exclusively about their latest completed loan). Approximately one-third of the entire sample were urban respondents and the rest were rural. The sample consisted of 59 percent women. Approximately half of the respondents earn the majority of their income regularly, approximately 29 percent earn most of their income seasonally, and 20 percent earn most of their income occasionally.

The average age of respondents is 44 years, and the average household has four members. Georgian respondents are highly educated with 12.4 years of completed schooling on average. Only 3 percent of all respondents had eight or fewer years of schooling. Among all respondents, only 3 percent had some problems reading a Georgian newspaper, and these were all non-native Georgian speakers. More than half of the respondents said they had access to Internet, with the proportion being about 40 percent in rural areas.

FIGURE 40

**Distribution of Clients by Type of Borrower  
(N = 1,000)**

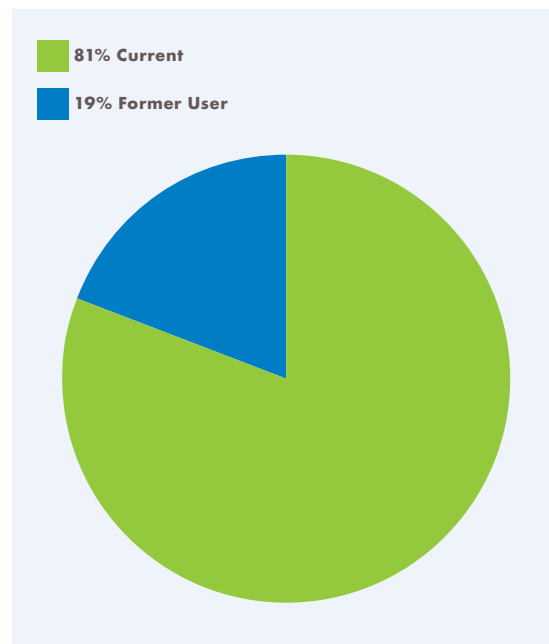


FIGURE 41

**Distribution of Respondents by Location  
(N = 1,000)**

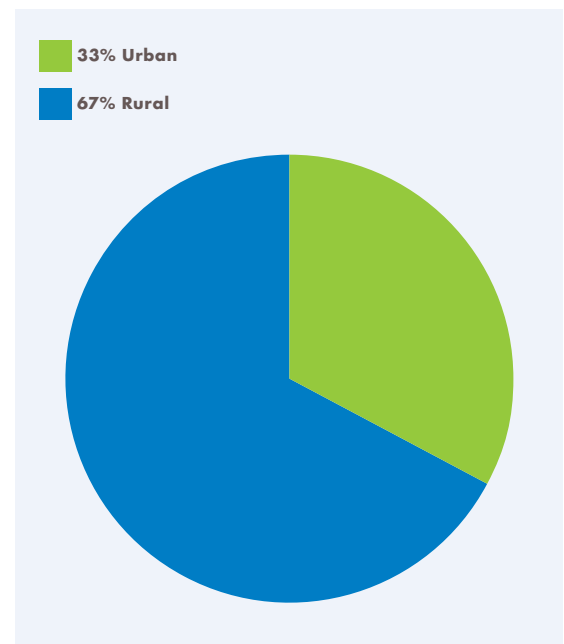




FIGURE 42

**Gender Distribution of Respondents  
(N = 1,000)**

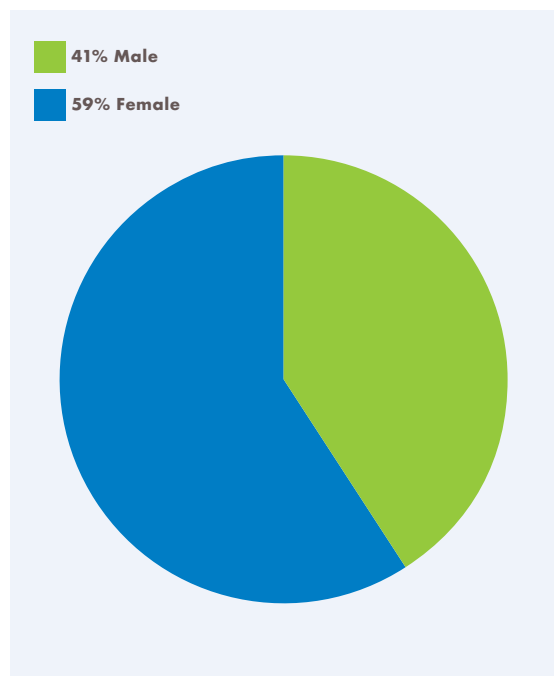


FIGURE 43

**Primary Income Source of Respondents  
(N = 808)**

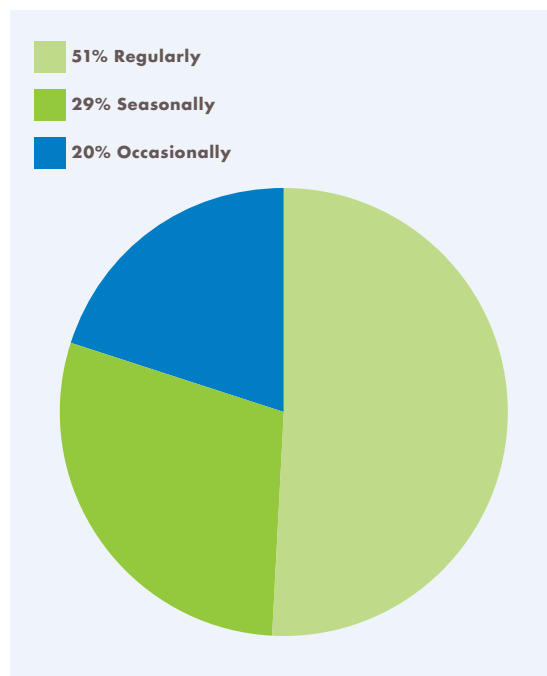
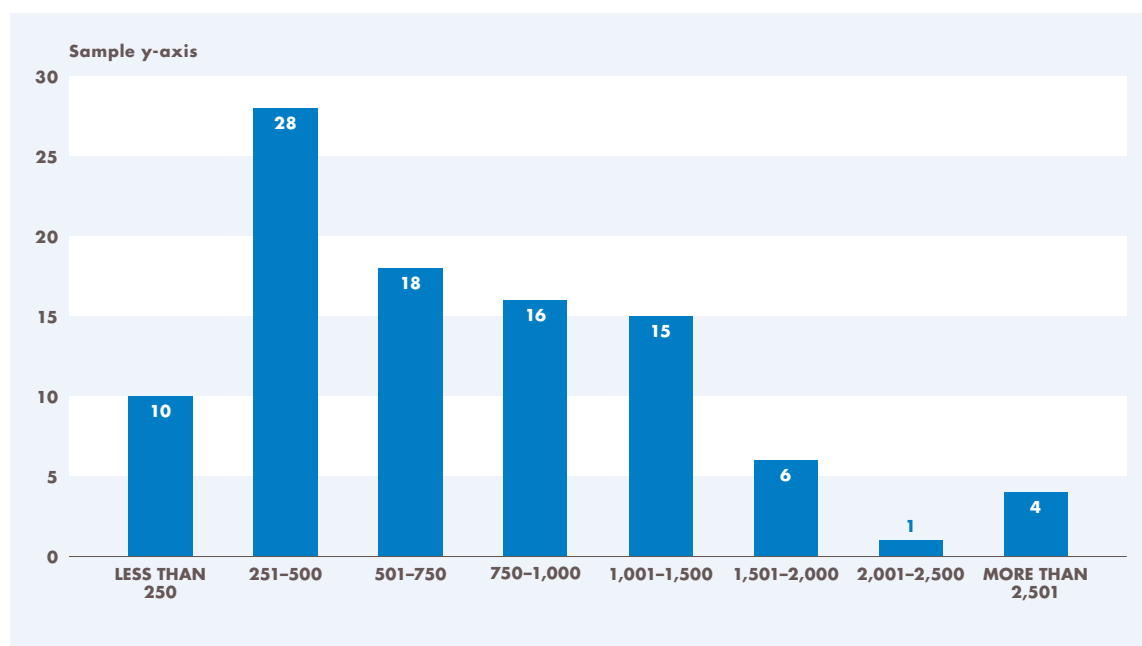


FIGURE 44

**Average Reported Household Income in Month Prior to Survey (Lari)<sup>17</sup> (N = 1,000)**



## List of Registered MFO Providers

The following list of registered MFOs was agreed upon by members of the NAC.

- |                                    |                                  |
|------------------------------------|----------------------------------|
| 1 Georgian Credit                  | 37 IMG                           |
| 2 Allians Group                    | 38 Bonaco                        |
| 3 Tbilbusiness                     | 39 Nova Credit                   |
| 4 Alfa Express                     | 40 GeoCapital                    |
| 5 Alfa Credit                      | 41 Bani Credit                   |
| 6 Tam Credit                       | 42 Geo Capital Management        |
| 7 Intel Express Georgia            | 43 Swiss Credit                  |
| 8 Rico Express                     | 44 GN Capital                    |
| 9 Cristal                          | 45 Loyal Credit                  |
| 10 Finagro                         | 46 Leader Credit                 |
| 11 Credo                           | 47 Mo Money Credit               |
| 12 Caucasuscrcdit                  | 48 Rival Credit                  |
| 13 Imercredit                      | 49 GIC                           |
| 14 Credit Service                  | 50 Creditor                      |
| 15 Lazika Capital                  | 51 Credit Plus Georgia           |
| 16 Creditservice+                  | 52 Giro Credit                   |
| 17 Cristal Credit                  | 53 Universe Credit               |
| 18 Moneta Express Georgia          | 54 Continental City Credit       |
| 19 Intelnet                        | 55 Credex                        |
| 20 Tbilmicrocredit                 | 56 Fenix Microfinance            |
| 21 Amigo+                          | 57 Finlex Group                  |
| 22 Nike Credit                     | 58 Capital Express               |
| 23 X Credit                        | 59 Micro Business Capital        |
| 24 Easy Credit Georgia             | 60 AIA GROUP                     |
| 25 MikroCredit                     | 61 Caucasus Microcredit          |
| 26 Georgian Capital                | 62 PIAZZA CAPITAL                |
| 27 New Credit Office               | 63 Georgian International Mico   |
| 28 B Credit                        | 64 MJC                           |
| 29 Micro Invest                    | 65 Georgian Financial Credit—GFC |
| 30 City Credit                     | 66 Euro Credit                   |
| 31 B.I.G                           | 67 Business Startup Credit       |
| 32 JSC Invest Georgia              | 68 Easymoney                     |
| 33 Smart Finance                   | 69 Fincredit                     |
| 34 Financial Alliance for Business | 70 Mic Capital                   |
| 35 Swis Capital                    | 71 Micro Fin                     |
| 36 Capital Credit                  |                                  |

# Endnotes

**1** See [www.smartcampaign.org/about/campaign-mission-a-goals](http://www.smartcampaign.org/about/campaign-mission-a-goals) for more details.

**2** The Smart Campaign Client Protection Principles (CPPs) are: 1. Appropriate product design and delivery; 2. Prevention of over-indebtedness; 3. Transparency; 4. Responsible pricing; 5. Fair and respectful treatment of clients; 6. Privacy of client data; 7. Mechanisms for complaint resolution.

**3** [www.bankablefrontier.com](http://www.bankablefrontier.com)

**4** <http://ipm.ge/>

**5** A Kish grid is a statistical procedure used to select members within a household when two or more household members are eligible for an interview. The Kish grid is important to ensure random selection of individuals and to reduce selection bias. For a detailed explanation, please see Annex 2.

**6** National Bank of Georgia. "Law of Georgia on Microfinance Organizations." July 2006.

**7** While credit unions can accept deposits from and extend loans to members, banks can provide these services to outside parties.

**8** Ibid.

**9** Economist Intelligence Unit. *Global Microscope on the Microfinance Business Environment* (New York: EIU, 2012).

**10** See: [www.nbg.gov.ge/index.php?m=525&lng=eng](http://www.nbg.gov.ge/index.php?m=525&lng=eng)

**11** Economist Intelligence Unit, *The Enabling Environment for Financial Inclusion. Global Microscope 2014* (New York: EIU, 2014).

**12** Only includes observations with debt-to-income ratios of 100% or below.

**13** Only includes observations with debt-to-income ratios greater than zero with all outliers removed.

**14** CreditInfo Georgia does not have a blacklist, and also offers positive records to gain good credit scores. However, clients speak about the credit registries using the term "blacklist."

**15** T-test results for equality of means, name having been on blacklist by whether individual borrowed in own or another's name show significance at the 10% confidence level:  $p = 0.0690$ ,  $t = -18207$

**16** Only includes observations with debt-to-income ratios greater than zero with all outliers removed

**17** USD amounts have been rounded.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients' lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion. Learn more at [www.smartcampaign.org](http://www.smartcampaign.org).



CENTER for  
FINANCIAL  
INCLUSION

ACCION



Keeping clients first  
in microfinance