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FINAL EVALUATION OF THE SME SUPPORT PROJECT

AUGUST 2010

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GEORGIA

FINAL EVALUATION OF THE SME SUPPORT PROJECT

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Acronyms

ABG	Association of Banks of Georgia
AGMO	Association of Microfinance Organizations
AOTR	Agreement Officer's Technical Representative
AYEG	Association of Young Economists of Georgia
AWD	Association of Women in Development
BAS	Business Advisory Service
BCNG	Business Consulting Network of Georgia
BSO	Business Consulting Organization
CCID	Community Colleges for International Development
DCA	Development Credit Authority
DoTR	Department of Tourism and Resorts
GBDC	Georgian Business Development Center
GEL	Georgian Lari
GRDF	Georgian Rural Development Fund
ICT	Information Communication Technology
IESC	International Executive Service Corps
JSO	Joint Stock Companies
LOP	Life-of-project
M&E	Monitoring and Evaluation
MFI	Microfinance Institutions
MFO	Microfinance Organizations
MSME	Micro, Small, and Medium Scale Enterprise
NBG	National Bank of Georgia
ODC/DCA	Office of Development Credit/Development Credit Authority
PMP	Performance Management Plan
PPR	Project Performance Results
RIF	Reductions in force
SME	Small and Medium Sized Enterprises
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VE	Volunteer Executive

Executive Summary

The SME Support Project was designed as a four year \$10,330,133 project to address the needs and constraints of small and medium sized enterprises (SMEs) in Georgia and increase their overall production and sales. Overall 85 competitive and non-competitive grants valued at \$2,545,190 were awarded to and/or supported tourism focused businesses and information centers, education and training institutions, business associations, business support organizations (BSOs), and Internally Displaced People (IDPs) in conflict areas.¹

Grants were made for a large number of interventions with a broad array of separate purposes designed to foster the development of a supportive environment and business climate for SME development. Through background document analysis and research and interviews with key stakeholders and beneficiaries this evaluation assesses the SME Support Project's strategy, approaches, accomplishments, and impact of project assistance on the SME sector, including the number of new SMEs created, sustainability of SMEs supported by the project, the impact of project support on their sales/revenues, and private sector jobs created.

Project Implementation

The management of the Project by International Executive Service Corps (IESC) by all accounts was competent and allowed the project to achieve its goals and objectives. Direct technical assistance was provided according to specific topics identified by the Project and partnering organizations. Grants were made according to the norms, processes and procedures set forth in the Grant Manual developed for the project, and according to grantees, was an open process. Public announcements of the six grant Rounds were made in the print press and on-line. The IESC staff created very good relationships with its partners and was well respected for competence and responsiveness by those organizations and individuals visited. From the perspective of procedure, management, and administration, this was a well-run Project. It was staffed mostly by Georgian professionals who, from my interviews with a few, cared about doing a good job to carry out the goals and objectives of the project, including being responsive to adjustments periodically required by USAID.

Performance Monitoring

IESC monitored its grantees and collected large amounts of project data throughout the four years of project implementation. An IESC Monitoring and Evaluation (M&E) manual with procedures was created and used as a guide to monitoring project results. There was an IESC M&E staff member dedicated to collecting and tabulating the information for the Project Performance Results (PPR) indicators. Information was provided on a monthly basis by the grantees. These data were aggregated each year into

¹ SME Support Project, Final Report, Executive Summary, November 20, 2009 p.3

yearly reports covering all the PPR indicators to be reported on by the project. These data were further aggregated into a Cumulative Projects Results table located at end of the SME Support Project Final Report, p. 33 – 35. However, despite the extensive amounts of summative information gathered, data needed for discerning and assessing the individual and sector impacts of the interventions was not collected systematically in the monitoring system.

Important project results

Over the life-of-project (LOP), the SME Support Project created 1,196 jobs; supported the creation of 162 enterprises; trained 4,562 people in entrepreneurship and skills to improve their businesses; fostered direct assistance to 4,544 Micro, Small, and Medium Scale Enterprises (MSMEs) by project supported BSOs; facilitated the disbursement of US\$3,324,650 Development Credit Authority supported loans to MSMEs; trained 1,237 potential borrowers in accessing finance; and trained 602 loan officers on providing commercial financing to MSMEs².

Summary of major SME Support Project interventions

Institutional impact of the SME Support Project grants

The SME Support Project strategy was to work through Georgian institutions to help them acquire the institutional capacity to address the constraints to SME sector development at the enterprise level and also to continue building on prior projects, such as the USAID Georgia Business Climate Reform (GBCR) Project, to develop a more amenable policy and regulatory environment for small enterprises. The approach taken by the project was to build institutional capacity by providing most assistance through grants to Georgian organizations to conduct the interventions rather than having the implementer provide the assistance directly. In this way, there would be a higher probability of achieving on-going SME sector development capacity after the SME Support Project ended.

SME Support Project grant- supported training and employment organizations, such as the BSO consulting operations of the Business Consulting Network of Georgia (BCNG), the incubator projects of the Association of Women in Development (AWD), and the youth training and employment services of the Georgian Business Development Center (GBDC) and Gori College are viable organizations that will continue to provide crucial training to develop the SME sector in the future.

The Business Consulting Network of Georgia (BCNG)

The development of the BCNG was the largest single grant-making, effort of the SME Support Project with total grant funding over four years of \$744,483 for six consulting services in Tbilisi, Telavi, Kutaisi, Zugdidi, Batumi, and, eventually Gori. These grants

² SME Support Project, Final Report, Executive Summary, November 20, 2009 p.4

represented about 30% of the total, both competitive and non-competitive, awarded throughout the life of the project.

The “network” is an informal group of consulting services that have their own independence, but they have developed an identity, or brand, as the BCNG for marketing, public awareness, and mutual support. Their goal is to become financially sustainable. The strategy has been to reduce reliance on broad institutional grants to finance operations and shift to donor service agreements for specific, targeted business and technical services and to identify a number of revenue streams generated from the sale of their services to private sector businesses that would be common to all the consulting services. While they have not achieved their lofty goal of financial sustainability yet, they are economically viable organizations that will continue to provide consulting services to their regional clients for the foreseeable future as they continue to develop their credibility and clientele.

SME access to credit

Another part of the SME Support Project strategy was to assist SMEs have increased access to commercial credit. There were two principal components to this part of the strategy:

- The Development Credit Authority (DCA) Credit Guarantee Facility initiative was intended to provide retail financial institutions with a way to induce wholesale domestic and international financial institutions to lend them funds for on-lending specifically targeting SMEs. It has not been an easy task to generate interest in and use of the DCA Guarantee because the costs involved and the time it takes to get approvals for the facility. None-the-less, three financial institutions currently have DCA Credit Guarantees. They are Bank Republik, Constanta Bank, and Crystal MFI. While Bank Republik is not using the guarantee much anymore since it was bought by the Société Generale of France, the other two are able, with their guarantees, to finance about 1,100 additional loans because they have been able to secure additional funds to on-lend; and,
- Several SME Support Project interventions were carried out to create a more amenable environment for SME lending by training loan officers in the characteristics of smaller businesses, how to assess risk (rather than simply applying collateral), and, in general, how to analyze a small business loan application. These initiatives had the objective of increasing SME access to credit by increasing the capacity and understanding of lenders regarding making loans to SMEs. An important initiative of the SME Support Project was to provide assistance to the Association of Banks of Georgia to create a Banking Training Center. With the interest and underpinning of the Association of Banks of Georgia and, later, the Caucasus University, the Banking Training Center was established with a US\$87,000 grant from the SME Support Project, distributed in three tranches. The Association contributed another US\$87,000 to the start-up and

the Caucasus University won a bid to buy in to the project as an implementing partner bringing the total for project start-up to US\$240,200.

Tourism Development

The SME Support Project grant assistance for tourism development in Georgia was effective and dollar for dollar is producing good results. Ten grants were made in Svaneti, nine to businesses and one to the Svaneti Tour Center for a total of US\$153,614. A total of eight grants were made in Abastumani, six to businesses, one to the Abastumani Tourism Association, and one to the Abastumani Observatory for a total of US\$160,956.

The grants have reinvigorated tourism businesses in both Svaneti and Abastumani and are attracting interested private investors and Government of Georgia investment in infrastructure and roads to build on the momentum started with the project grants. The direct business grants are poised to have good forward and backward linkages into other businesses as the industry continues to rebuild.

IDP Assistance Projects

After the 2008 war with Russia, USAID joined other international donors to begin projects to alleviate the plight of the large numbers of Internally Displace People (IDPs) that resulted for that conflict. The SME Support Project was tasked to provide significant assistance to the IDP efforts.

- In February 2009, Tbilisi Consulting (BSO) and Gori Consulting (BSO) implemented a job placement and training program funded by the SME Support Project in which free business related skills training and free business consulting services to potential employers and individual interested in starting their own microenterprises was given.
- Another project supported by the SME Support Project was an incubator project implemented by the Association of Women in Business. From its beginnings in 1998, the Tbilisi incubator initially focused on IDPs from prior conflicts. Starting a new incubator in Gori, after the 2008 conflict was well within the Association's experience dealing with this very vulnerable target population. The Gori Incubator has trained 550 unemployed IDPs in total, of whom 340 were covered by the 2008 grant and did not pay for their training. The 210 new trainee/entrepreneurs, not subsidized under the SME grant, have been paying Georgian Lari (GEL) 300 (about USD 163) for their training.³ It has six full time employees trained to provide training in the different incubator business areas. They are all IDPs and are paid 130GEL/month.

³ 300L for training is quite expensive, but, none-the-less, the Gori Incubator manager said that demand is high. One problem, however, is that there is another competing, grant financed project that is undercutting the incubator's ability to attract clients, now that the incubator is required to be self-sufficient.

- In another type of IDP focused intervention, at the end of 2008 four direct business development grants were provided by the SME Support Project to four enterprises in the Tserovani Settlement. They were a bread bakery, a cement tile factory, a broiler chicken project, and a community service center providing electrical and plumbing repairs, a beauty salon/barber shop, and an internet café.

There were a very large number of grants and project activities carried out under the SME Support Project. This report tried to cover all of the principal types of interventions that formed components of the broader SME Support Project strategy for assisting the development of the SME sector in Georgia and give a comprehensive synthesis report on the important findings, conclusions, and recommendations to assist the USAID/Georgia take well informed decisions of future SME sector support activities.

I. Introduction

A. Background

In compliance with Cooperative Agreement 114-A-00-05-00104-00, awarded to the International Executive Service Corps (IESC) by USAID on September 20, 2005, the SME Support Project provided numerous and far-reaching set of SME sector interventions. The project design postulated that the SME Support project would have the “principal project result of increased production and sales by SMEs” and... “The ultimate objective of the project was to further the achievement of the EG strategic objective of creating jobs. Improved quality standards and self-regulation, increased entrepreneurial skills, effective advocacy by business associations, and increased credit to SMEs would combine to invigorate this sector of the Georgian economy and was expected to stimulate production, sales, and the demand for labor.”⁴

These objectives were to be achieved through a combination of grants— both competitive and non-competitive—and direct technical assistance and support⁵ by providing the following assistance: “1) increase access to medium and long-term financing through Development Credit Authority (DCA) mechanisms; 2) encourage increased participation of Georgian businesses in international markets, through the adoption of internationally recognized self-certification standards; 3) develop advocacy skills in selected Georgian business associations in order to effectively engage government at all levels on a variety of business issues; and 4) improve business skills, including training for youth and minorities.”⁶

⁴ USAID, “Private Sector Support to Small and Medium Sized Enterprises (SMEs), Activity Design”, Georgia, p. 3

⁵ Refer to the *SME Support Project, Final Report*, November 20, 2009 for detailed information on activities, results, numbers and amount of grants, and generally all progress indicators p. 23 - 35

⁶ Private Sector Support to Small and Medium Sized Enterprises ((SMEs), Activity Design, Executive Summary), USAID Georgia p.1

The SME Support Project was designed as a four year, \$10,330,133 project to address the above mentioned needs and constraints of small and medium sized enterprises. Overall 85 grants valued at \$2,545,190 were awarded to and/or supported tourism focused businesses and information centers, education and training institutions, business associations, business support organizations (BSOs), and Internally Displaced People (IDPs) in conflict areas.⁷

Due to the August 2008 conflict with Russia, there was an urgent need for USAID and other bilateral and multilateral donors to provide rapid assistance to the many people who had been displaced from their homes. In September 2008, a modification of the IESC Cooperative Agreement was approved by the Mission Director to reflect several administrative and programmatic changes that resulted in a reduction of the ceiling amount of the SME Support Project to \$9,320,133, but actually increased the budget to allow for additional IDP assistance in the Shida Kartli region and Zugdidi. The reason for the reduction was principally due to the part of the modification that removed \$1,700,000 in DCA Credit Guarantee subsidy funding that was included in the cooperative agreement budget, but that was not intended to be disbursed to IESC. Other parts of the modification clarified the role of the Agriculture/SME Grants Advisor who would be assigned to manage the IDP work and increased the total estimated cost of the Advisor's position by \$390,000 to enable IESC to maintain the position up to the end of the life of the project, and provided an additional \$300,000 to the grant budget to support individuals and businesses in the conflict-affected areas⁸. Later, in 2009 two one-month, no-cost contract extensions were made, extending the project from September 20 to November 20, 2009.

B. Principal project interventions during the SME Support Project LOP

Many essential project activities were devoted to grant-making. IESC staff was responsible for managing the grant system from initial announcements in the press and on-line to final grant decisions. Grants were made for a large number of interventions with a broad array of separate purposes designed to foster the development of a supportive environment and business climate for SME development ranging from:

- developing a network of business consulting services throughout Georgia;
- creating and implementing business education and training for students and businesses;
- creating employment services linking job seekers and employers;

to:

- promoting self-regulation, ISO, and other quality certification programs; and,
- developing a re-invigorated tourism industry.

⁷ *SME Support Project, Final Report, "Executive Summary"*, November 20, 2009 p.3

⁸ USAID Georgia Action Memorandum; Amendment of the SME Project Support Activity, Sept. 24, 2008

With the aforementioned modification of IESC's Cooperative Agreement, additional tasks were assigned to:

- assist IDPs through business and vocational training and orientation; and
- make grants to private businesses and programs to create employment for IDPs.

In addition to the large grants-making program, direct technical assistance and support services were also provided by IESC Volunteer Executive (VE) personnel, including:

- quality management systems;
- tourism development; and,
- assistance to the Association of Microfinance Organizations (AGMO) with drafting the final Microfinance Institution Law that made it legal for Microfinance Institutions (MFIs) to continue making loans under Georgian financial system regulations.

IESC in-country staff provided professional advice and assistance to potential and existing project grantees in grant procedures, project development, and project monitoring. They coordinated with other USAID projects, such as USAID's GBCR and the AgVANTAGE projects. In collaboration with the Business Climate Reform Project, the SME Support Projects helped promote and conduct public-private dialogues to improve the business climate for SMEs in Georgia. The SME Support Project also collaborated with USAID's GEII projects to develop the tourism industry and infrastructure in the rural communities of Abastumani and Svaneti. The project also coordinated its efforts with other donors, such as the Organization for Security and Cooperation in Europe (OSCE), the United Nations Development Program (UNDP), and the European Bank for Reconstruction and Development (EBRD) Business Advisory Services (BAS). The Zugdidi and Kutaisi Consulting services has service contracts to implement part of the BAS program targeting women-owned enterprise and IDP projects in 2009-2010. The effort put into coordination was intended to help the projects complement each other without duplicating efforts and interventions.

Finally, in order to comply with the objective of increasing access to credit for SMEs, IESC personnel:

- provided initial information and orientation to financial institutions, including Commercial Banks and MFIs, regarding the USAID DCA Credit Guarantee system;
- referred interested financial institutions to USAID/Georgia for further orientation, application, and approvals (under this program, the Mission and USAID Washington are in charge of the process); and
- made grants to various organizations to train banking sector trainers, loan officers, and potential borrowers.

C. Purpose of the evaluation

The purpose of the evaluation is to assess the SME Support Project's strategy, approaches, accomplishments, and impact of project assistance on the SME sector, including the number of new SMEs created; sustainability of SMEs supported by the

project; the impact of project support on their sales/revenues; and private sector jobs created. The evaluation analyzes the outputs of project activities and grants supporting the major areas of endeavor mentioned above, and, to the extent feasible, assess their impacts on the SME sector, business creation and growth, business associations and institutions, established and potential entrepreneurs, and employment.

By identifying which types of support were most effective in achieving the project results and addressing the constraints to private sector development, as outlined in the Activity Design document provided by the Mission, our findings, conclusions, and recommendations will be important to USAID in reaching well-informed decisions about future SME and/or private sector project activities it may wish to support.

D. Evaluation methodology

Many different activities, grants, and beneficiaries were involved in a wide range of business and private sector fields. The challenge was to determine how to most efficiently reach the range of project support to clients at all levels, to assess the specific project interventions, and do it in as broadly encompassing a way as possible given the time, budget, and personnel constraints.

The methodology included an initial review of secondary sources, including scholarly documents in the fields of SME finance and quality improvements addressed by the project, as well as project-specific documents to identify project approaches, intervention strategies and expected outputs.

1. Secondary Source Information included:

- Finance for All?, Policies and Pitfalls in Expanding Access; A World Bank Policy Research Report, The World Bank, Washington, D.C. 2008
- Industry Self-Regulation: What's Working (and What's Not)?; Martha Lagace, Harvard Business School, Working Knowledge, Published April 9, 2007
- International Business Self-Regulation: A Contribution to Public Policy; Chantal de Jonge Oudraat, P.J. Simmons, Ms. Virginia Haufler, Carnegie Endowment for International Peace, February 25, 1999
- "Activity Design Paper; Private Sector Support to Small- and Medium-sized Enterprises (SMEs)" (no date provided)
- SME Support Project Final Report, Nov. 20, 2010 and Results Indicators
- Project Grant Manual
- DCA Credit Guarantee Operations Manual
- RFA- Round IV and Round V to review grant process
- Final Semi-annual Project Progress Report
- USAID/Georgia Action Memorandum; Amendment of the SME Project Support Activity, Sept. 24, 2008
- Various internal grantee reports and budget documents.

2. Primary Source Information:

IESC and USAID Mission Agreement Officer's Technical Representative (AOTR) inputs through various discussions in Tbilisi and Washington, determined where the principal interventions were located, who the appropriate contacts were, and the necessary localities to visit. An interview schedule covering Tbilisi and the other cities and towns where we could conduct interviews at the grantee and final beneficiary levels was established as a result of these initial discussions.⁹

Qualitative (semi-structured) interviews with key informants and stakeholders with direct knowledge about the implementation and results of the different project interventions were the key methods of primary data collection.

Interviews with key personnel and final beneficiaries in Tbilisi, Telavi, Gori, Kutaisi, Zugdidi, Abastumani, and Tserovani, were conducted with¹⁰:

- Sixteen SME Support Project institutional grantees;
- Three financial institutions that received DCA Credit Guarantees; Crystal MFI, Constanta Bank, and Bank Republik;
- Four business owners that received direct grants in the Tserovani IDP settlement;
- Five business owners that received direct grants in the tourism sector in Abastumani; and
- Thirty two final beneficiaries as follows:
 - four “graduates” of the Gori Incubator project;
 - twelve (five students and seven teachers) at the Gori College CCID program;
 - four Crystal Kutaisi customers/loan recipients; and,
 - twelve final beneficiaries of Project-supported technical assistance and training in business plan development, accounting, market analysis, and other business topics. These final beneficiaries included a bank trainer and a loan officer trained by the Banking Training Center and clients of the BCNG Business Support Organizations (BSOs).

Final beneficiaries of the grant and credit interventions were contacted locally and brought to the project grantees for interviews. Also due to time constraints, the sample was small and not random. This was not ideal, but to be able to gauge how the assistance was used and possible impacts, in view of lack of any formally generated baseline and post-intervention monitoring data, an unscientific sample of final beneficiaries had to suffice.

3. Performance Monitoring

IESC monitored its grantees and collected large amounts of project data throughout the four years of project implementation. An IESC M&E manual with procedures was created and used as a guide to monitoring project results and a dedicated IESC M&E staff

⁹ See Annex II: “Contacts and Interview Schedule”

¹⁰ See Annex I: “Interview Study Guides”

member collected and tabulated the information for the Project Performance Results (PPR) indicators. Information was provided on a monthly basis by the grantees; these data were aggregated each year into yearly reports covering all the indicators for the project.

Over the life-of-project (LOP), the SME Support Project created 1,196 jobs; supported the creation of 162 enterprises; trained 4,562 people in entrepreneurship and skills to improve their businesses; fostered direct assistance to 4,544 MSMEs by project supported BSOs; facilitated the disbursement of US\$3,324,650 Development Credit Authority supported loans to MSMEs; trained 1,237 potential borrowers in accessing finance; and trained 602 loan officers on providing commercial financing to MSMEs¹¹.

4. Measuring education, training technical assistance impact

The SME Support Project was primarily a capacity development project that provided its assistance mainly through grants and, to a lesser degree, through contracted or direct technical assistance to business associations, business support organizations, educational and vocational training institutions. The Project Performance Results (PPRs) related to training were presented in terms of numbers of people trained, numbers of businesses assisted to increase their business skills, numbers of institutions with increased capacity to provide business related services, and so forth.

There is a wealth of summative data, that is, numbers of people receiving different kinds of assistance, but this is a static picture of the results of the project: training and technical assistance was given in certain areas/fields, how many individuals and institutions, people were employed, businesses were established. The data didn't track beneficiaries or assess whether the training led to a person's employment or whether there was any "causality" associated with training or technical assistance and the person's employment, the creation of a small sole proprietorship, or the receipt of a small business loan, for example. In the absence of data indicating causality, the impacts of the interventions, by necessity, are suppositions and can really only be expressed anecdotally.

5. Measuring business and employment impact

Among the principal expected outcomes of the project were the creation of sustainable new enterprises and job, and increased revenues and sales of assisted small and medium sized enterprises, which would indicate enterprise growth. These outcomes are consistent with USAID Caucasus's "Strategic Objective: Accelerated Development and Growth of Private Enterprises to Create Jobs" and would give a sense of how the SME Support Project did in terms of contributing to achieving these outcomes. To ascertain employment or enterprise sustainability, information needs to be collected on the same beneficiaries periodically over a selected period of time. Since the data collected formally through the M&E system was static, or a snapshot of the results at a given time, formally collected information on sustainability of employment created or enterprises established is not available.

¹¹ SME Support Project, Final Report, Executive Summary, November 20, 2009 p.4

As for business growth as measured by increased sales and revenues, IESC staff reported that during the first year of the project, collection of information on the Value of Domestic Sales was attempted. However, due to the difficulty of obtaining reliable information— businesses felt this was confidential information and weren't willing to provide it— USAID and the IESC decided to abandon trying to monitor and report on this indicator.

6. Measuring impact on increased SME access to credit.

The indicators under “increased capacity of MSMEs to Obtain Commercial Financing” were in terms of the number of borrowers receiving training and the number and value of loans disbursed. The implications are that somehow the training of borrowers had some relation to the number and value of loans disbursed. But, again, this is supposition.

7. Anecdotal evidence

Interesting anecdotal evidence from grantee and beneficiary interviews, however, can be useful and provide insights into impact. For example, the Director of a hazelnut processing company assisted by Zugdidi Consulting,¹² told me he believes that the multiyear contract he now has with European buyers came about because he was able to provide them with good business management accounting information, in addition to his high quality product. While the Director didn't have specific numbers with him during our interview, he calculated that, because of Zugdidi Consulting's installation and regular maintenance of the ORIS professional business accounting system, he will increase his revenues by about 10% - 15% per year over the next five years, the term of the export contract.

In another case, an unemployed math and physics teacher in Telavi, who had never worked in accounting before, received a two month training course in business accounting two years ago. She paid 250GEL, about US\$136. She got short-term jobs initially, but then was hired full time by a large firm and, having passed her three month probationary period, has been working full time in the company for over two years.

Finally, two interviewees revealed that Gori Consulting, through the development of business plans, technical assistance, and applications for project financing, had facilitated grants and loans for their start-up agri-processing businesses. Two other Gori Consulting beneficiaries said they had received essential technical assistance in machinery specifications that led in one case to an important contract to import machinery for a road construction project and, in the second case, identification of the supplier in Turkey of a special kind of cold forming equipment for a small metal mechanics business. There are numerous accounts of these kinds of positive results from project interventions throughout the country but they aren't tracked in a formal way.

¹² Zugdidi Consulting installed and maintained the ORIS accounting system that the BCNG affiliates distribute

8. Observations on Performance Monitoring and Impact

While there was clearly an extensive M&E Plan for the SME Support Project, it neglected some of the crucial data needed to assess impacts.

To better discern and assess project impact it is important that future projects:

- Develop monitoring plans as part of their Performance Management Plan (PMP) to collect baseline and ex-post impact data¹³¹⁴ on enterprise sustainability, net new job creation, or changes in sales/revenues of assisted businesses.
- Develop monitoring plans to collect information on how training and/or technical assistance benefitted the recipients whether it is employment, a promotion in the job, or financing for a business and other changes that occurred because of project interventions.

II. Synthesis of Principal Findings, Conclusions, and Recommendations of the SME Project Evaluation

The following section takes each of the major questions the Mission wanted to have answered and attempts to do that while putting the responses into a proper context.

A. Impact of SME Support Project grant programs on the development of the SME Sector

1. Grants for Education, Training, and Technical Support

a) Background

The SME Support Project began to provide assistance in 2005 and ended in 2009, a continuation of USAID efforts in an on-going process started in the 1990s, following the Soviet era, of helping Georgia make the transition from a command economic system to a

¹³ Most projects, like the SME Support Project in its PMP, track numbers of people receiving certain kinds of assistance. To ascertain impacts, it is necessary to follow all, or a sampling of beneficiaries, describing their situation at the beginning of the assistance, such as, employment status or monthly sales and revenue of a business. This would be the baseline. Upon completion of the assistance, periodically, over reasonable time frames, these same people or businesses would be monitored to see what their status was after (ex-post) the training or other assistance received. This would include whether they were employed, by whom, how much they were earning, and if the job was newly created or whether they were replacing someone else. For enterprises, the information could include or whether the business assisted continues to exist, whether it is generating increased income and employment, and how much. These kinds of information would provide needed information to discern and assess impacts.

¹⁴ USAID and IESC experience, as already noted above, revealed that it 's difficult to obtain reliable sales and revenues information from SMEs. None-the-less, if impact on SME growth is an outcome sought, it is necessary to have a way to measure it. Developing second tier indicators is a possible solution in which specific business financial information isn't reported, rather it is used to generate percentages of change in the businesses monitored. Either way, the SME owners/directors need to be confident that the information provided to project monitors would be used judiciously.

market-driven economy. The process of adjustment and change has taken time and significant effort, because it requires individuals, associations, and government dealing with SME development to adapt to the new realities and ways of thinking about and approaching business strategy and planning, entrepreneurship, business finance, and employment.

As more private enterprises came into the economy to replace the large, Soviet-era industries, there was a need to upgrade the owners' market and business planning skills and work to create a more conducive business regulatory and policy environment. Even after the collapse of the Soviet Union, Russia had continued to be a major market for Georgian products. With the closing of the Russian border in July 2006 and subsequent embargo, Georgian businesses were forced into a more competitive market reality and needed to become more knowledgeable about how to improve their competitiveness, in not only non-Russian export markets, but also in the Georgian domestic marketplace. They would have to learn good business management and planning skills. They would have to learn how to access capital and market their products. Governmental institutions, small businesses, and individuals, whether potential entrepreneurs or future employees, needed to learn how relatively un-protected markets work and how to prosper, indeed survive, in a competitive, market environment.

a) Findings

Training and entrepreneurship-development oriented organizations—some with employment services for job seekers, either through self-employment in their own economic activities or as employees for other businesses—were the principal grantees of the SME Support Project. The grantees selected had nascent programs with potentially solid impacts, but needed assistance in consolidating and expanding their programs. Grants were designed to help grantees strengthen the services they provided to SMEs.

The BSO consulting operations of the BCNG, the incubator projects of the Association of Women in Development, and the training and employment services of the Georgian Business Development Center and Gori College also sought to financially sustainable organizations that would eventually be self-sufficient. The short- to medium-term objective was to become economically viable organizations funded increasingly from non-grant fees for services. Cost-sharing was an important part of many of the SME Support Project grants to assure the organizations' commitment to the purposes of the grants and foster an attitude of achieving self-sufficiency.

b) Impact and Cost Effectiveness

While the disaggregation of the numbers may not be exact, they give a sense of the project's relative impact on the SME sector overall and its cost effectiveness. According to the Cumulative Project Results,¹⁵ 4,568 individuals received business and entrepreneurial skills training and 4,544 MSMEs were assisted by BSOs, giving a total of 9,112 individuals and businesses assisted through the grants programs.

¹⁵ Annex 1 of the Final Report, p. 34,

The same source cites that 1,196 jobs were created by assisted MSMEs, Business Support Organizations, and Business Associations. Grants for the interventions that created these jobs totaled approximately US\$1.5 million, or about US\$1,254 per job,¹⁶ excluding project management and administrative costs. One hundred sixty-two businesses were established, on average about 40 per year. There is no disaggregation of the size of the businesses assisted; interviews at the BSOs and with beneficiaries indicate they were mostly small sole proprietorships, established businesses with up to 10 employees, and start-ups. It is not clear whether these include the very tiniest of the IDP economic activities created under various grants and low-interest loans, such as those in the final months of the project. Nor is there any specific information on the sustainability of the jobs created and new businesses established. How many of these beneficiaries are still employed or how many of the businesses established are still in business is not known.

If the question is about impact on the SME sector overall and broader employment and business growth, the impact of the project is small in an economy of over 300,000 registered businesses, 288,000 of which are registered as individual private businesses, and with over 335,000 unemployed workers according to official 2009 statistics.¹⁷

Growth of individual businesses established or otherwise assisted by the SME Support Project, as measured by growth in sales and revenues, it is impossible to determine. This is due to failed attempt to monitor information that would allow this kind of analysis.

Determining the causality of training on business growth and employment impacts is difficult, especially in training programs. In *bonafide* impact assessments, the issues of causality need to be considered when drawing conclusions about the impact of any particular intervention.

c) *Another view of impact*

Perhaps a better is to consider what the SME project has done to provide a basis for SME sector growth. In this regard the SME Support Project surpassed many of its targets by significant margins, a laudable finding

Looking at the impact of specific interventions on the development of institutional capacity to support SME development, as well as individual cases and final beneficiaries interviewed Project activities have been important. Potential entrepreneurs receiving assistance in developing business plans were able to get financing for their projects. SME Support Project grant- supported training and employment organizations, such as the BSO consulting operations of the BCNG, the incubator projects of the Association of Women in Development, and the youth training and employment services of the GBDC and Gori College have become viable, sustainable organizations that will continue to provide crucial training. Gori College, according to its latest budget, will be able to cover

¹⁶ This number is meant to provide a benchmark upon which to compare future similar activities and not as a measure of actual cost-effectiveness.

¹⁷ Source: www.geostat.ge the website of the Georgian statistical service.

its expenses through student tuition fees and therefore may be marginally financially sustainable. The others are economically viable, even though they have not achieved financial sustainability and will continue to provide services through a combination of non-grant fees for services and grants.

Each type of grantee now has regular clients/customers/students that pay for services. The BSO consulting operations of the BCNG and the youth training and employment services of the GBDC, however, still believe that they should provide free, small-scale services to smaller clients, partly from a feeling of social responsibility and because it has turned out to be an effective, word-of-mouth promotional tool. Gori College, on the other hand, decided to temporarily suspend students when they could not pay, allowing them to return and pick up where they left off once they could afford it.

d) Current economic reality and improved future outcomes

One of the central constraints now is exogenous to the Project. Under the current economic and employment reality¹⁸ and the horrendous situation in the aftermath of the August 2008 conflict, relatively few businesses have been created in the past two years, new jobs are very limited, and established businesses are not hiring. This has had a negative impact on SME Support Project grantees' outcomes. To counter this, Gori College and the Georgian Business Development Center (GBDC) are providing practical experience through internships and student consultant opportunities in conjunction with their employment services to assure that their students have the best possible opportunities.

In interviews, two beneficiaries specifically mentioned that practical exposure to business and employment realities, in a real-life business environment through internships or other kind of practicums, should accompany theoretical training. These beneficiaries had not had the benefit of this kind of practicum and felt that it would have been very useful.

The Executive Director of the GBDC says that about 500 people have been employed under its Job Placement Fora and student consulting programs. In his estimation, they have spent about US\$200,000 in grants from Canadian, U.S. and other sources since their beginnings in 2004, giving an estimated cost per employee hired of about US\$400, based on grants received for program consolidation and expansion. He estimates that 50% of the employment is in new jobs created.

Gori College has developed a very well-designed employment and internship program for its students and they are hopeful that the contacts they are making will turn into jobs. Gori College is a three-year higher education program initiated in 2004 through grants from the Community Colleges for International Development (CCID) program. Additional grants from the SME Support Project in 2008 and 2009 of US\$200,403 were used for curriculum development, textbooks, and teacher training. The College graduate its first class of about 65 in February 2011. It expects about 35% to be employed upon graduation. As the former Director of the CCID project in Georgia said, even with a

¹⁸ Source: www.geostat.ge GDP fell from 12.3% in 2007 to 2.3% in 2008 and is projected to be 3.9% in 2009

highly organized and selective data base and career center, getting a job under the current conditions is very difficult. The important point is that these youth entrepreneurship programs are proactive, seeing to it that their students have good contacts and that they maximize their opportunities for employment at the end of their programs.

Although it isn't possible to assign causality of Project interventions on overall SME sector development or business growth, this does not mean the interventions carried out by the Project are somehow misguided or irrelevant. On the contrary, they are very important to the development of the SME sector. Over 40 discussions with beneficiaries, trainers, and consultants offer solid, anecdotal evidence that job seekers and entrepreneurs have benefitted from their new skills, by providing financing for their businesses, increasing business opportunities, or employment. If the combined objectives of the separate SME Support Project are realized over the next year or two as the economy improves, the impact on the broader SME sector should begin to show signs of significance.

e) Conclusions

- The impact of 1,196 jobs, measured against overall economic growth and employment creation, is relatively small when balanced against the needs of an economy with almost 336,000 unemployed in 2009¹⁹.

In absolute terms the impacts on SME sector growth, income, and jobs have yet to be felt in any appreciable way.

- The Project clearly strengthened institutional grantees under Education, Training, and Technical Support grants, such as the partners in the Business Consulting Network of Georgia (BCNG), Gori College, the GBDC, and the Bank Training Center.
- There is a strong capacity in these organizations to continue to train aspiring entrepreneurs, established small business owners, loan officers, and a well-trained, business-oriented workforce.
- The kinds of training, technical assistance and other employment services provided by the SME Support Project are, and will continue to be, highly relevant and needed. It is particularly important to conduct these activities with youth, students, and entrepreneurs who will take these business concepts and apply them in their careers and businesses in the up-coming years.
- Institutional capacity development results have been very good. All of the grantees are economically viable, even though financial sustainability has been elusive.

¹⁹ Geostat.ge, Employment and Unemployment Statistics, 2009

- The grants and technical assistance that has been provided for business education, training, and internships should have a significant, lasting effect over time on how the Georgian SME sector develops in the country's transition to an increasingly market driven economy. The SME Support Project has contributed laudably to creating an updated, qualified skills base for employers to draw upon when they start hiring again.
- Training in business, entrepreneurship, and financial sector orientation and training continues to build the base for SME sector development. Creating self-sufficient educational, training, and technical support entities serving the consolidation and growth of the SME sector has been well received.
- Proactive employment programs and services at Gori College and the GBDC are excellent ways to assure that their beneficiaries and clients have the best possible opportunities for employment.

f) Recommendations

- USAID should support robust, expanded efforts to improve the employment for the beneficiaries of the SME Support Project. This could be accomplished by supporting employment services that link employers with vetted job seekers. Support could build on, copy, and/or expand the employment center efforts at Gori College or the GBDC.
- USAID should continue to provide specific, targeted support through technical assistance and/or funding to the above-mentioned organizations to upgrade and increase their institutional, training, and technical assistance capacities to consolidate and expand their services to increase their coverage. Part of this assistance should help these organizations identify and implement ways to increase non-grant revenues in order to move toward financial sustainability.

2 Direct grants for business development

g) Background

Understandably, particularly since August 2008, grant support for struggling people, specifically IDP populations, has been provided. This kind of humanitarian assistance is designed to help people who have lost everything to break out of abject poverty. The objective of these grants is to provide some assets to generate sustained economic activity and a small income. Most people in this situation are “non-bankable”, even for those MFIs that lend to the very poor through group lending and other forms of non-collateral based credit. Under these circumstances, many small private sector, for-profit entrepreneurial projects have been financed in Georgia through a number of grant programs implemented by European, U.S. and other donors. Grants are useful, humanitarian tools that can help a society deal with social and economic crises.

Beyond this level of “non-bankable” microenterprises are the next level of micro and small enterprises that are somewhat more established businesses.

h) Findings and analysis

Many very small business owners have participated in a variety of SME Support Project interventions to improve access to credit for small businesses. Clients have learned how to write business plans and approach lenders. The grantees/intermediaries in this process have assisted their clients in identifying business funding sources, including grants and loans, and obtaining financing. Many of the SME Support Project beneficiaries interviewed during the course of this evaluation received grants or low interest loans, particularly since 2008, and a mixed message seems to have emerged.

One of the central objectives of the SME Support Project was to provide entrepreneurs and potential entrepreneurs with the basic know-how and skills to present reasonably good loan applications to banks and MFIs and increase lending in the SME Sector.

Currently, there is an expectation or hope among beneficiaries of the SME Support Project that grant-financed private business and small economic activities will be the norm going forward. In almost every instance where the project helped get or made grants directly to a beneficiary, when what needed to be done in the future in order to improve the business’s prospects to grow, the response was that a new grant was needed. This is a perfectly logical response—the probability is high.

Business decisions on how to register a company could be, and sometimes were, made primarily to comply with eligibility considerations for grants and low interest loans. This type of case came up in a discussion with an IDP businessman originally from Tskhinvali who decided with his wife and relatives to revive a previous business they had. When they reviewed financing options they started a cooperative rather than a Limited Liability company, because of the low interest loan program eligibility requirements in a sensitive area near the South Ossetia conflict zone.²⁰

i) Public/private sector collaboration

In the case of the revival of both domestic and international tourism in Georgia, the link between the public sector Department of Tourism and Resorts (DoTR), private associations and for-profit businesses seems to have been quite productive. The tourism grants induced many times their value in additional investments from the Georgian government, and other possible investors. The potential was recognized by the SME Support Project staff and tourism revival was unleashed by these well-targeted and conceived grants in Abastumani and Svaneti. Most of the USAID-supported tourism projects have been cost effective, generating new Georgian Government investment in

²⁰ For an in-depth comparison of grant projects and their outcomes, see Annex IV, “Examples of the varying impact of grants on businesses”

basic infrastructure and private sector trade and commerce that significantly exceed the total of the Abastumani and Svaneti tourism grants of US\$329,180.²¹

j) Conclusions and Lessons Learned

- Grants for very small enterprises and economic activities can, clearly, alleviate certain immediate economic and social problems. The use of grants to fund very small economic activities, such as IDP microenterprises, was justified in the aftermath of the 2008 conflict. There was an urgent need to provide humanitarian assistance and to create new job opportunities for IDPs who had lost everything, and options for employment and income generation came to a standstill. In cases where neither the commercial banks nor MFIs are lending because of the lack of “bankable” borrowers, then grants and highly subsidized lending through public sector, bilateral, and multilateral institutions may be the only available immediate and short-term response.
- When grants for small enterprises and economic activities are made for humanitarian reasons, the expected outcomes of those kinds of grants should be in terms of both their humanitarian impact as well as possible income and employment impacts.
- When grants directly compete with loans, they distort regular capital markets and are a contradiction to the broader effort to create a market and private enterprise mentality²². A few of the larger grantees that had received direct grants for their businesses probably could have gotten loans from one of the MFIs or the commercial banks.²³ But for some larger entrepreneurs with established businesses, following the grant money was a very logical and potentially lucrative business decision, since these businesses would eventually own any assets financed by the grants, whether they ultimately complied with the intentions of the grant or not.
- The amount of capital available through grant funds and their entrepreneurial reach is generally limited. Grant programs are targeted to certain areas and

²¹ There was a project that supported the establishment of six Tourism Information Centers (TICs) in various municipalities that were identified as important tourism destinations that had a number of problems with their institutionalization. While they are still operating, there is some question about whether they will continue under the municipalities or whether they will be operated by private concessionaires.

²² This point is primarily directed toward larger small and medium scale enterprises. Again, this points out the importance of having a good definition, or typology of “MSME” as a tool for understanding target businesses and populations and developing well-thought through project interventions.

²³ It is true that the interest would have been about 28% from a commercial bank and 28% to 36% from a MFI for short-term capital, which is not inexpensive, but small business loan beneficiaries of Crystal MFI consulted in Kutaisi were willing to pay this because the loans were accessible, expeditious, and had loan terms consistent with the economic activity they were financing. Another more intangible finding was that loan recipients liked the follow-up business and monitoring support from loan officers. They considered the MFI “their” financial institution. These beneficiaries had received several loans from the MFI and the business relationship is a good one. This is the kind of relationship that the SME Support Project may have hoped to promote through its borrower/lender training and consulting assistance.

populations, limiting their coverage, and are also time-restricted, and so they are unsustainable over time. Under these circumstances, one would expect the impact of these kinds of grant programs on overall SME sector development, economic growth, employment and income, and poverty reduction to be minimal.

- Since grant funds are generally limited in the amounts of funding they have to offer relative to the demand and are quite narrowly targeted, they can be politicized if they are not managed well, with transparent procedures and selection processes.
- The purpose of grants to larger enterprises, either established or startup-ups, should be to stimulate new technologies, the revival of an industry (such as the tourism examples, above) or the development of a business activity with good multipliers in the local economy. An example of a well-conceived grant of this kind would be one made to a company that produces a product that has high comparative advantages and significant forward and backward linkages into other businesses in the town or region and that would in turn cause increased economic activity through the supply/value chains connected to the business.
- If business start-up and development grants are made, especially to more well established businesses or entrepreneurs, the purpose of the grants must be clearly defined and post-grant monitoring assure the proper use of the assets. Even if there is cost sharing, the cost share is typically much less than the assets acquired if the grant is for capital investment, so the benefits to the grantee are significantly more than the risk taken. Applying for a grant, for these applicants, may be principally a business decision, which, if not conducted well by the grantor, could primarily benefit the grantees and not the broader community the grant, is meant to serve.
- As a general rule, grants should only be for the purpose of ‘priming the pump’ and should insist that the grantee “graduate” to loans from the financial sector, that is, MFIs or Commercial Banks.

k) Recommendations

- In the case of IDP assistance through grants to very low level, non-bankable economic activities, USAID assistance with small amounts of bridge financing to help people subsist and, possibly, create, consolidate, or even expand an existing economic activity should be continued as a valid, needed humanitarian assistance response to a human crisis. However, USAID should consider these types of grants as primarily humanitarian assistance rather than business development or economic growth tools.
- USAID should be mindful of market-distorting effects when grants directly compete with loans for business finance.

- USAID should work with commercial banks and other partners in the non-bank financial institutions to develop alternative, reliable ways to finance SME development through formal lending to spur economic growth. USAID should assist financial institutions develop a broader and deeper national financial system to provide for the capital needs of existing small, medium, and microenterprises and start-ups.²⁴ This might be accomplished through agreements with successful MFIs, like Crystal or Finagro, or Constanta Bank.²⁵

B. BCNG countrywide business consulting services, USAID partners - Association of Young Economists, and the Georgian Regional Chambers of Commerce.²⁶

1. Efficiency and sustainability

a) Background

The development of the BCNG was the largest single grant-making, institutional development effort of the SME Support Project, with total grant funding over four years of \$744,483 for six consulting services in Tbilisi, Telavi, Kutaisi, Zugdidi, Batumi, and, eventually Gori. These grants represented about 30% of the total, both competitive and non-competitive, awarded throughout the life of the project.

Large businesses are served by big consulting firms in Tbilisi, but small businesses were largely unserved. Small enterprises weren't a priority to Georgian planners. But with the growing emphasis in developing the Georgian SME sector as a vehicle to creating jobs, employment and economic growth, a sustainable source of affordable information, training, and technical assistance was going to be important to providing improvements in business management and knowhow as a basis for the growth of the SME sector.

Because the Mission didn't want the SME Support Project Implementer to provide direct technical assistance, training, and grant support to enterprises or entrepreneurs, but rather wanted the assistance to go through Georgian intermediaries, a grant program to create institutional consulting capacity for SMEs was developed. The mechanism was to

²⁴ *Finance for All*, World Bank Publication, 2008 p. 123 pdf See Chapter 2 of this document (on-line) for an in-depth discussion of the strong causal link between broadening and deepening of the financial sector, pro-poor economic growth, and poverty reduction.

²⁵ From discussions with the Bank Republik, commercial banks will steer clear of the types of businesses in the MSME sector typically supported by USAID projects, even if they have a guarantee. When Bank Republik was bought by Soci t  Generale, of France, interest in SME lending evaporated. For them, microloans are up to 100,000GEL, about US\$54,350, and they represent an insignificant percentage of their portfolio. However, other commercial banks like ProCredit Bank, Liberty, or Tao Private Bank might be more amenable and the Mission might approach them in addition to the financial institutions mentioned above.

²⁶ This assessment does not include Batumi Consulting. For logistical reasons primarily, this office was not visited. Information from the BCNG coordinator and former IESC Deputy Chief of Mission indicated that over an extended period there had been a very frequent turnover of staff leading disappointing effectiveness in implementing this BSO. Furthermore, the BCNG group had lost contact with this BSO and couldn't give much information about it.

provide bridge funding for the consulting services to help cover the costs of creating and developing this new service for SMEs over a four year period starting in March 2006 through 2009.

Initially the project selected two long-established organizations with many years of experience working on business and economic issues to host the first five consulting services: The sponsoring organizations initially selected were:

- Federation of Professional Accountants and Auditors of Georgia –Tbilisi and Kutaisi; and,
- Regional Chambers of Commerce and Industry –Zugdidi, Batumi, and Telavi.

In September 2006, the Gori agribusiness-oriented BSO under the Georgian Rural Development Fund (GRDF) was awarded a grant to integrate into the system, creating a sixth consulting service.

The first eight month period (for the first five groups – the Gori grant wasn't awarded yet) focused on BSO consulting capacity building, public awareness, and promotional activities. Initial training for the staffs of the new consulting services was provided in customer relations, service quality and promotion, SME advocacy, tracking clients, and network building. The Association of Young Economists of Georgia (AYEG) also provided a four-day training for consulting personnel in business plan development for the new BSO consulting services themselves. This initial training for each of the consulting services was very important, according to the Director of the Tbilisi BSO, to begin developing their institutional capacity and a sense of common purpose. Other trainings for BSO staff were also provided in specialized areas of tax and business law.

During the first year, the BSO consulting services weren't required to charge for their services. Their first consulting assignments were considered part of the promotional cost of the start-up phase to show businesses (potential clients) what the services could do for them and to develop their credibility. After the first year, cost sharing was required under the terms of the grants and was implemented on a diminishing scale with each successive grant year. Each organization was expected to contribute more of its own funds to the budget. The concept of business consulting, and paying for information and technical services, was new to SMEs.

As the first year progressed and the consulting services began to focus on their budgets and their applications for the second round of grants, they began to identify what they needed to do to begin generating private revenues from fees for services to cover expenses. Even such mundane expenses as electricity, water, heating, and office cleaning and maintenance needed to be covered, primarily through non-grant financing. The BSO consulting services were also new to the concept of charging for their time and trouble, but during the first year they quickly began to appreciate more fully how their mentality had to change, if they were to have even a remote chance of achieving financial sustainability.

The shift in the mentality of the BSO consulting services evolved from a business model that viewed their assistance as essentially social services financed by charitable grants to a business consulting model in which clients would pay for information and expertise. The revised thinking took the view that their services had value and that they needed to sell their services and information to people who recognized their value and who were willing to pay for them.

As the realization of the implications of this shift in thinking took hold, effort was needed to promote services to larger businesses and generating new revenue sources. This, in turn, meant that the BSOs needed to diversify their target clients and sources of income.

As a parenthesis, it should be noted that in every office of the consulting services, I was told that there were always going to be clients, mostly very small enterprises and quite poor, who they would not ask to pay for small consultancies, for example, doing simple business registrations or giving uncomplicated tax law advice. The consulting services have taken the position that not only is providing some of these free services to clients consistent with their social service roots, but is, from a business standpoint, inexpensive, good public relations, and an effective advertising and promotional tool. The recipients of these free services appreciate them and tend to tell others about the services by word of mouth. One of the most important things that needed to be done was (and still is) public relations and credibility building. Taking this position, however, implied that paying clients, at some point, would have to subsidize those that got the free services.

By the end of 2006, as the business model evolved and mentalities changed regarding consulting services as businesses, it was decided that the Federation of Professional Accounts and Auditors, while strong in accounting training, had too limited a focus and would not be able to support the Tbilisi and Kutaisi BSO consulting services in developing this new business model. So, the Tbilisi and Kutaisi consulting services were transferred to the AYEG that had greater experience than the Federation working with a wide range of clients in business and economic development areas. It was decided that organizational sustainability would more feasible with Tbilisi and Kutaisi Consulting affiliated with the AYEG.

The BCNG Network

The creation of an informal network of the different BSO consulting services throughout Georgia would give them additional advantages. The “network” was conceived as a tool for marketing the consulting services groups’ capabilities to potential clients and achieving operational efficiencies by having a system whereby all the services would more closely related in their common promotional, marketing, revenue generation, and sustainability efforts. Bi-monthly meetings were held to get the staffs together and try to build a closer bond. The network eventually became known as the BCNG. A logo was designed and business cards were issued to give the loose grouping a sense of having a “brand.”

The “network” seems to have been able to establish a number of common areas of organizational similarities that were adopted by the consulting services making up the BCNG. As the BCNG group moved through grant years two and three, they developed several generic sources of income as part of what appears to be a common strategy for revenue generation.

Revenue generation²⁷

The BCNG also has influenced several important aspects of the financial strategy of the different consulting services to achieve economic viability first and, ultimately, financial sustainability.

Part of the strategy was to reduce reliance on broad institutional grants to finance operations and shift to donor service agreements for specific, targeted technical services. (Tbilisi is ahead of the others in this area, as can be seen below.) Another part of the strategy was to identify a number of revenue streams generated from the sale of their services to businesses that would be common to all the consulting services.

Following is a simple breakdown of how the BCNG is approaching this task, which will be helpful to consolidating the economic viability of the different consulting services, that is, their ability to continue to function on the basis of a combination of grants, donor service contracts, and privately financed fees for products and services. Once economic viability is assured the approach will also help later on to achieve financial sustainability, that is, the ability to pay all expenses from fees for products and services that are privately financed.

Sources of revenue for service agreements from donor organizations based on recent interviews and accounting information

These are agreements with donor organizations that pay for specific services rendered. They are more specific than other kinds of grants.

- EBRD – Business Assistance Service (BAS)-IDP; Business plan development, job seeker’s training. Zugdidi Consulting– (40% - estimated - of income)
- IOM – Tbilisi Consulting (1% of income)
- UNIFEM – Tbilisi Consulting (2% of income)
- Co-reform, USAID – Tbilisi Consulting (9% of income)
- Georgia Health and Social Projects Implementation Center –Tbilisi Consulting (8% of income)
- UNDP – Tbilisi Consulting (3% of income)

²⁷ The registration of the BCNG consulting services varies. But generally, they are still parts of their parent organizations. From my brief time with these organizations it seems difficult to isolate exact revenues and expenses for the BCNG consulting services. For example, AYES’s financial statements do not distinguish revenues and expenses separately for Tbilisi Consulting. Other services seemed clearer, but there is a lot of intermingling of accounts.

Non-grant privately financed revenue generation²⁸

There are several areas where the network has encouraged common, non-grant revenue sources. Each consulting service has its own forte and market; however they have developed four principal generic revenue sources that are being used in varying degrees by BCNG consulting services. Following are some individual examples from different revenue sources drawn from my interviews that give a sense of BCNG progress in a “network” wide revenue strategy. The information is incomplete, but nonetheless revealing.

- Business Plan Development: often for loan/grant applications:
 - Gori - 40% of income
 - Zugdidi – (did this work under EBRD/BAS grant)
 - Kutaisi 5% of income
- Distribution of the ORIS accounting system: (US\$300/installation); installation and post-installation training;
 - Zugdidi – 12% of income (extrapolated)
 - Kutaisi 6% of income
 - Gori – 20% of income
- Consulting packages that charge monthly fees as in a “retainer” contract:
 - Telavi – during the good times had 8, six month contracts at US\$80/month (150L/month) approx.
 - Zugdidi – 10 permanent contracts at 200L/month, (48% of income);
 - Kutaisi – 8 at 100L/month (46% of income)
- Individual consultations; market research, business law, tax returns, etc.:
 - Gori – during the good times (2007-08) had 20 consistent, good paying clients, now 5;
 - Kutaisi – 43% of income from private market research contracts

b) Conclusions

- The BCNG group, even though it is an informal network, is showing signs of consolidating into a bona fide group of interconnected consulting services that have certain common approaches and a strategy to achieve sustainability.

The underpinning organizations AYEG, Regional Chambers of Commerce, and GRDF are all viable entities and will be reliable backup to assure the continued existence of the consulting services that form the BCNG. Therefore, the consulting services in this report are economically viable and thus, sustainable, in the near term.

²⁸ It should be noted that the discussion here is focused on income generated from fees for services and other agreements related directly to the consulting operation. Other kinds of income generating ventures are possible, such as the print shop of the Regional Chamber of Commerce in Zugdidi, but were not the focus of the SME Support Project grants for the development of the BCNG.

- BCNG services were dealt significant setbacks during 2008 and 2009 that took their toll on keeping up the momentum toward financial sustainability. However, their reputation as serious, competent services has been growing and, as the economy improves and businesses become more confident, it is expected that they will begin getting more long and short-term, non-grant private contracts.
- Potential clients are beginning to realize that good information, technical assistance, and other business services are worth paying for and this should bode well for financial improvement of the BCNG consulting services.

In terms of the BCNG consulting group's service to its clients, they have a good reputation for being competent, responsive, and relevant. They provide more holistic services to clients than other organizations in that they work with them through a process. For example, when they develop a business plan with a client, they also give guidance in other areas, such as loan or grant applications. They develop relationships with their clients that seem to lead to better client impacts than had they simply provided the training in business plan development or how to deal with banks. This being the case, it would be expected that this could lead to repeat business from clients, expanded use of their services, and increased income for the consulting service. The BCNG consulting services are actively seeking ways to promote their services and are looking for new revenue streams. Upgraded consulting expertise most relevant to the specialized needs of the different regions of Georgia is needed by the BCNG consulting services in order to generate new sources of income based on market demand.

c) Recommendations

To insure the goal of creating a financially sustainable network of BCNG consulting services, USAID should build on its previous, relatively large investment to consolidate the gains made through 2009, and assist these consulting services to upgrade their capacities and develop new revenue streams from service agreements and privately contracted fees services. Presented below are recommendations regarding potential new revenue sources that should be considered for USAID follow-up support.

- Gori Consulting and Zugdidi Consulting should be assisted to increase both the depth (technical capacity) and coverage (number of trained consultants) of their business and management consulting services for agribusinesses, because their regions are so predominantly agricultural.
- USAID should support the creation of a separate agribusiness extension service facility, possibly in the GRDF to provide technical backstopping for all BCNG affiliates, as needed.
- The consulting services of the BCNG should study the possibility of adding capacity in municipal administration to assist with developing institutional capacity and competence, particularly in rural communities. While not directly related to SME sector development issues, as consulting firms with capacities in business and organizational planning and development, this field

might offer them another area of technical expertise, consistent with their missions, as a source of revenue through service contracts to help them achieve greater economic viability and sustainability. If it were decided to go forward with this, a pilot project with Tbilisi Consulting might be an initial step.

This seems to be a potentially important cross-cutting theme for USAID. By strengthening the managerial and planning skills of municipalities, this might also address an important constraint to decentralization in the democracy and governance area.

C. Strategy for increasing SME access to credit

1. DCA Development Credit Guarantees

a) Discussion of credit issues

One of the principal problems confronting SMEs as they try to strengthen their businesses and grow is the difficulty they almost always have in obtaining credit. But in order to better understand this issue, it is useful to step back and look at the SME sector somewhat more analytically.

The so called SME sector is made up of businesses with a number of very different profiles (See Chapter IV.A. MSME typology below), so discussing credit to the “sector” can become a convoluted discussion. Clearly, a very tiny microenterprise with perhaps one to three employees and a very informal organizational structure will have a very different set of problems obtaining credit than a small business that has a manufacturing operation using a few machines, a simple, but formalized accounting system, and having, six or eight employees, for example. And, in turn, this small enterprise has a very different profile than a medium scale enterprise that has a fairly large number of assets in plant and equipment, a formal, possibly even computerized accounting system, such as ORIS that is a Georgian system distributed by the consulting services of the BCNG.

Each level of enterprise in the typology has different needs and constraints to its development and growth. Georgian Commercial banks typically haven’t given these concepts very much thought and SMEs in this set of definitions is not very important. Simply put, below a certain level of capitalization and collateral, commercial banks simply aren’t interested. Some commercial banks have broadened and deepened their lending to smaller enterprises, but they are few. ProCredit Bank, for example, that is active in Germany and Eastern Europe as well as Georgia has a reputation for lending to lower levels of the enterprise strata.

In order to give incentives to financial institutions to lend under conditions where the risk is typically too high for them to take on, or when there are other constraints to lending to underserved markets, USAID, under the authority granted to it by the U.S. Congress in the 1998 Appropriations Act, created the Office of Development Credit/Development

Credit Authority (ODC/DCA) to implement a number of different kinds of credit guarantees.

The SME Support Project, in coordination with the USAID Caucasus, promoted the development of portfolio guarantees with several banks and MFIs in Georgia that would make lending to the “SME” sector more attractive by assuming 50% of the maximum portfolio risk.

Following is a discussion of the DCA Development Credit Guarantee program as it related to the SME Support Project

b) Findings

The SME Support Project was peripherally involved with this initiative because the Mission and USAID/Washington control the whole process from application, risk analysis, to approval. The SME Support Project facilitated dissemination of the information on the DCA Credit Guarantees and called the initial meeting of interested financial institutions (Commercial Banks and MFIs) with the Mission’s Senior Financial and Commercial Sector Advisor in the Office of Economic Growth. IESC’s Credit Access Manager did the initial assessments of 20 banks and 10 MFIs, of which three ultimately went on to receive three DCA credit guarantees.

The DCA Credit Guarantee Facility initiative was intended to provide retail financial institutions a way to induce wholesale domestic and international financial institutions to lend them funds for on-lending specifically targeting SMEs. It has not been an easy task to generate interest in and use of the DCA Guarantee facility for several reasons:

- With a guarantee, one of the conditions is that the interest rates that can be charged by the second tier lender to the bank holding the guarantee are lower than what it could obtain without utilizing the guarantee. So, if a second tier lender, like Oiko in the Netherlands, already has a pretty good knowledge of SME lending in Georgia and its potential financial partner, such as an MFI, like Crystal, for example, it would prefer to work without a guarantee and get the higher interest rate.
- The retail bank with the approved guarantee must pay a onetime origination fee of about 1% on the guaranteed portfolio and a semi-annual user fee of about 1.5% of the average balance of the guarantee used. So, the costs of originating and utilizing the guarantee can be significant.
- Depending on the particular circumstances of liquidity in the banking system and other factors regarding the interest of all the parties in lending to the SME sector, their experience in the sector, and whether the parties have worked with each other in the past, are all considerations that have an impact on interest in and need to use the DCA guarantee facility.
- Finally, the DCA Credit Guarantee process is a lengthy one and can easily take nine months to a year. This puts a damper on the ability of financial institutions to

obtain and use the facility expeditiously. This is another factor that has caused banks in Georgia to lose interest in using the DCA Credit Guarantee facility.

The last point is primarily a USAID budgeting issue. In order to use the facility, the Missions must also pay a subsidy fee of 11% of the guaranteed amount to the U.S. Department of the Treasury. The number and amount of guarantees the Mission can support is limited by the amount of funding a Mission provides for the DCA facility.

Three DCA Credit Guarantees were established with Constanta Bank, Bank Republik, and Crystal MFI during the life of the SME Support Project and, for Constanta and Crystal, having the facility gave them the capacity to increase their lending to SMEs and expand their portfolios more rapidly than they otherwise would have done. In the case of Crystal, at an average business loan size of about US\$2,000 they could make about 500 more loans under their US\$500,000 guarantee limit, which allows them to borrow and on-lend up to US\$1.0 million. Constanta Bank got a US\$750,000 guarantee, allowing them to on-lend up to US\$1.5 million. Their average loan size is US\$2,500, allowing them to potentially make about 600 additional loans.

Both Constanta and Crystal spoke of how long the process of getting the guarantee was, but both seemed sanguine about having it. They both said that it was not determinant to their lending, but that it helped grow their portfolios and loan funds available to on-lend. Crystal specifically said that one of the attractions to having the guarantee is the public relations aspect. It will give them additional credibility with local banks, such as TBC Bank, when they need to access additional capital. This is because of the quite intense risk assessment process done by the ODC/DCA in Washington. Once you pass this, you have a pretty good reference. With high liquidity in the Georgian financial system currently, having the guarantee might help free up some of that liquidity, without actually using the guarantee.

Bank Republik's Guarantee was signed in 2005 and was connected to USAID's AgVANTAGE Project because of its agribusiness focus. Its connection to the SME Support Project seems to be that it may have received some loan officer training in 2006 – 2007 before it was sold to the Societe Generale, the big French bank. The person interviewed said so much has changed at the bank, he doesn't know whether the training was SME Support Project or not. The guarantee was targeted on the agribusiness sector, but after Societe Generale took the bank over, there was very little interest in pursuing agribusiness lending. They keep the guarantee on the books, pretty much just to have it, but it is such an insignificant part of their operation it really doesn't attract much attention and it doesn't cost them very much, because of the low balance used.

c) Conclusions

- DCA Credit Guarantees can be useful incentives to lend to new sectors or target populations, in cases where the financial institutions are not very familiar with a particular part of the credit business. It can also induce financial institutions to make credit available at times when the economic situation may be difficult and presents too much risk for them to take on by themselves. Under these

circumstances, the premiums paid for having the DCA Credit Guarantee facility are a cost-effective way to mitigate and share risk.

- In the Georgian financial system, banks such as ProCredit Bank, Constanta (that recently converted to a commercial bank from an MFI) and other MFIs such as Crystal, Credo, Finca, and others, have experience since the 1990s lending in the microenterprise and small business sectors. International lenders, such as Oiko of the Netherlands, have already lent funds to Crystal and Constanta and understand the risks of the Georgian market. Therefore, in these two cases, there is little need for the DCA Credit Guarantee.

d) Recommendations

- The Mission should continue work with MFIs and amenable commercial banks that don't currently have the DCA Credit Guarantee facility to extend credit coverage to increasingly rural areas.
- USAID should keep the option open for utilizing the DCA Credit Guarantee facility as it continues its efforts to broaden and deepen the reach of the Georgian financial sector into the SME sector and increasingly rural areas of the country. It should consider budgeting for one or two more portfolio guarantees with banks it is not currently guaranteeing so as to leave open the possibility of increased lending to the smaller businesses outside the major cities and towns.

D. Banking Training Center - Training for lenders and borrowers

1. Background

Several SME Support Project interventions were carried out to create a more amenable environment for SME lending by training loan officers in the characteristics of smaller businesses, how to assess risk (rather than simply applying collateral), and, in general, how to analyze a small business loan application. These initiatives had the objective of increasing SME access to credit by increasing the capacity and understanding of lenders regarding making loans to SMEs.

One of the important initiatives was to provide assistance to the Association of Banks of Georgia to create a Banking Training Center. With the interest and underpinning of the Association of Banks of Georgia and, later, the Caucasus University, the Banking Training Center was established with a US\$87,000 grant from the SME Support Project, distributed in three tranches. The Association contributed another US\$87,000 to the start-up and the Caucasus University won a bid to buy in to the project as an implementing partner bringing the total for project start-up to US\$240,200.

The objective was initially to train trainers for the Center who would ultimately train Georgian loan officers in affiliated banks. The larger banks all have their own in-house training centers, so the Banking Training Center would focus on the banks that needed to

join together for high quality, professional staff training and gain certain economies of scale. The Banking Training Center contracted the Hellenic Banking Association to train carefully selected Bank Training Center personnel. They brought in specialized trainers of trainers and purchased Hellenic training modules for future use.

2. The Bank Training Center – loan officer training

a) Findings – loan officer training

According to Center statistics, five trainings for loan officers were held in Tbilisi (3), Kutaisi (1), and Batumi (1) for about 100 participants. The purpose of the training was to orient lenders regarding how to think about and analyze small and medium sized enterprises and entrepreneurs, in an effort to create an environment more amenable to approval and disbursement of small business credit.

The Banking Training Center has been established and is operational. It has developed its curriculum and was moving along quite well in its quest for financial self-sufficiency before the 2008 conflict with Russia. They had implemented the Foundation Banking Status course for \$800 that met European Banking Standards and gave high credibility to graduates of this course. The least expensive training was for cashiers that cost 150 GEL, or about US \$80. The Center was beginning to cover some of its costs and generate revenue as it gained credibility.

However, the 2008 war and the economic downturn in 2008 and 2009 had a drastic effect on the Banking Training Center's ability to continue to provide its higher level course and, during 2009 over 3,000 bank personnel were shed across the system due to economic conditions and reductions in force (RIFs). Banks discontinued buying the expensive course and the lower level training was most in demand, but did not produce nearly the revenues needed. There is great concern about the future of the Center as an independent entity, if the Association of Banks of Georgia doesn't come to the rescue. Clearly the situation has created difficulties for the sustainability of the Center, but there could be an opportunity as the economy improves. According to several bankers I interviewed and Banking Training Center staff, it is the intention of the larger banks to begin hiring again to replace many of the 3,000 employees laid off in 2009.

As banks begin to hire again, they will be looking for people with new, more technical, and upgraded capabilities. The Bank Training Center is very well positioned, with its trained trainers and its Hellenic Banking Association credentials, to capitalize on any resurgence of the economy and tap into the market for trained banking personnel by providing training packages to upgrade ex-banking sector employees and to train other new entries to the banking profession.

The Banking Training Center sees this upcoming hiring by the banks as a potential revenue stream that would help it gain momentum once again toward greater self-sufficiency. Center personnel say that there is a large demand for their services, since the banking sector pays relatively well and many unemployed people want the training to

break into the sector and current bank employees want training to be considered for promotions.

According to a loan officer currently with VTB Bank who received a short training from a Banking Training Center trainer, it was really very good. He specifically mentioned how good a trainer he had was in providing training to loan officers. Feedback to the Center from the Association of Banks of Georgia, that has constant contacts with its bank clients, has also been favorable. The trained loan officers have additional skills that may give them a competitive advantage when banks begin hiring staff again.

b) Conclusions and impact on loan officers trained

- *Improved employment opportunities*

The trainers trained by the Center and the Hellenic Banking Foundation, with financial assistance from the SME Support Project, were carefully selected and have established a professional group of highly competent and trained trainers. Students are provided with high-level training that may give them more capabilities and comparative advantages in their jobs preparing them for promotions or, if they are unemployed, an advantage in getting a new job. But there does not seem to be any conclusive evidence to support the suppositions that graduates of these programs get jobs and promotions in higher numbers or more frequently than anyone else, since this kind of follow-up monitoring was never done. Information gives numbers of people trained, but not what happened to them after the training.

This increased and upgraded capacity represents an appreciable impact as far as the individual is concerned and this, in the end, may be the most important discernable output of the training. Until there is more known about what happened to the trainee later, not much more can really be said about the employment impact of the training on trainees.

Training as a strategy to increase SME access to credit

Training loan officers is an important intervention. The larger banks have their own training centers for this purpose. The Banking Training Center serves this purpose for other banks that don't have the resources or for some other reason use the Banking Training Center Services and provides this service.

Training loan officers strengthens the capacity of banks to analyze loan applications and conduct loan operations business and, as such, is a valid intervention under the purview of the SME Support Project.

One interesting observation from a Banking Training Center trainer who received the initial course said that one of the important impacts of the training for him was that it provided bank employees, particularly loan officers, with a stronger basis in good loan analysis and this should lead, in turn, to decreasing risk for the banks and increased accessibility of SMEs to credit.

Part of the approach used in the SME Support Project design seems to have been that by promoting more project-based lending and risk analysis, this would have the effect of reducing collateral-based lending decisions. If this shift were successful through the trainings, then loan officers with this approach might be more inclined to make SME loans.

The problem is that to have linked the training so directly with the “strategy for increasing SME access to credit” was, perhaps, misguided, because to actually determine whether the training of the loan officers—even with the best baseline and ex-post monitoring information available—had an impact on increased lending would be very difficult and time consuming to do.

Given a hypothetical situation, for example, a loan officer trained by the Banking Training Center makes a loan to a deserving entrepreneur who has an excellent application. Let’s also assume that economic conditions in the market for the business’s goods have improved over the past six months before the loan application was submitted and economic conditions look stable for the next year, giving it very good sales and income projections. Assigning causality would be very difficult as to what caused that loan to be approved. Was the loan given because the application was solid and the market was good? How much, if anything, did the training of the loan officer have to do with the loan being approved? If the application was strong and the economy was good, maybe a loan officer having no remedial training regarding lending to SMEs and risk assessment in this sector, would have made the loan, too. This is just one simple example of why causality is so difficult to assign and why the impact of training is so difficult to assess.

In the end, there is no post-training information to assess the impact of the training as a “strategy for increasing SME access to credit” because the information wasn’t collected. This was reconfirmed by both my contact at the Association of Banks of Georgia and the IESC M&E staff person in charge of tabulating the monitoring information, in follow-up conversations. Even if we were able to obtain more information on increases in lending after these trainings were carried out, attributing causality in these types of analyses of the impact of training would be difficult and probably would be prohibitive to reconstruct.

c) Recommendation – loan officer training

Training for loan officers should be continued by the Banking Training Center to continue to strengthen the capacity of Georgian financial institutions to do better loan analysis based on the economic and business opportunities and risks of the project and its profitability more than has typically been done in traditional collateral based lending.

3. Bank Training Center and BCNG - Training for borrowers

a) Findings – borrower training

Training was provided to over 1,200 borrowers during the LOP by the Bank Training Center and the BCNG consulting services. Ten trainings for about 600 of these potential borrowers were conducted by the Bank Training Center in 8 Regions; Tbilisi (3), Gori, Batumi, Telavi, Zugdidi Marneuli, Kutaisi, and Akhaltsikhe. The objective of these trainings was to orient borrowers to dealing with banks, understand what information is needed, and assist SME owners to understand the development and presentation of loan applications.

The training by itself, without any other interventions, undoubtedly increased the borrower's understanding of credit, banks, and the loan process. But information is not available as to whether training for borrowers, without other assistance in the loan application process, made any difference in the quality of their loan applications and in ultimately getting a loan. Again, the supposition is that training increases capacity of borrowers to access credit, but there is no conclusive evidence that the training alone improved loan applications or increased SME access to credit. These kinds of monitoring data for training impacts weren't collected.

In the case of the BCNG consultancy services, the assistance was to borrowers who were the owners of microenterprises with one or two employees and small businesses with up to 10 employees. They provide assistance at all stages of the loan or grant process, developing good information and knowledge of their client, the details of their businesses, and their general circumstances. In contrast to the Banking Training Center, BCNG assistance was more holistic, providing not only the training, but assistance with the paperwork and guidance to the client through the process. For this reason, the BCNG consulting services know more about how the assistance is benefitting many of their clients.

The consulting services of the BCNG maintain on-going contact with clients. Thus, following up with their clients to monitor project impact is facilitated. For example, I was able to learn from staff of the BCNG consulting services about beneficiaries who got loans and grants and some of the details about their experiences. Because of this more on-going relationship with clients, even without formal documentation, the consulting services staffs could provide anecdotal information about the results of their work with clients in gaining access to financing. I was then able to interview some of these beneficiaries at short notice, because they were easy to locate.

There are many cases that can be documented by the different BCNG consulting services as to credit/grant applications that had been approved with their help, but the information is not formally collected.

b) Conclusions - borrower training

The BCNG approach that provides guidance and more follow-up assistance after training to its borrower clients seems to generate positive results, borrowers actually receiving financing for their enterprises. The results of this more holistic approach to the consultant/client relationship provides some insight into what methodologies may produce better results in terms of the design of technical assistance and training, its

use by trainees, the what might be an effective way to do ex-post monitoring and to assess impact.

c) Recommendations –borrower training

- Training for borrowers should continue to be provided. Training in loan application preparation should include market demand analysis techniques, product cost analysis, and pricing.
- Productivity issues are also important in loan applications. Specific technical inputs and assistance for individuals or groups of businesses with similar technical constraints should be made available to strengthen loan applications. I interviewed one beneficiary assisted by Gori Consulting in which this latter type of input was the principal assistance and was a main reason that a loan was made.
- The holistic methodology used by BCNG consulting services should be continued and ex-post monitoring of how their assistance benefitted clients, including whether they got loans, should be done.

d) General Conclusions about the Banking Training Center

The Banking Training Center has high capacity to do excellent training, but its sustainability is in serious question without the continued direct support of the Association of Banks of Georgia (ABG). Although the Center’s training, and training capacity, is excellent, its services are not being contracted at a rate that will sustain it. Furthermore, problems with the Caucasus University agreement and continued participation may be another threat to sustainability.

Despite excellent academic training credentials, without a good ex-post monitoring plan of former trainees and lending patterns, the effect of training on employment or on increased SME lending are suppositions, logical as they may appear.

General Recommendation

Now that the Banking Training Center is established, it needs to become economically viable on its own, based initially on a combination of grant and non-grant revenues, covering its expenses without any additional USAID assistance. The Association of Banks of Georgia (ABG) and other Georgian partners should continue the effort from now on to

bring it to economic viability and, then, to financial sustainability as the economy improves and there is increasing demand for Bank Training Center services throughout the banking sector. (Note: This is the third attempt by the ABG to establish this kind of training for the smaller banks. Two others failed.)

E. SME Support Project assistance

1. Microlending Field

a) Findings

The SME Support Project provided direct technical assistance through IESC Volunteer Executives (VEs) and contracted consultants in four areas to support MFIs. The direct assistance was in drafting an amended microfinance law, management training for MFIs, providing training to loan officers on MSME lending, and working with the MFIs and the National Bank of Georgia (NBG) in developing NBG reporting requirements for the MFIs.

One non-competitive grant was also made to Association of Georgian Microfinance Organizations (AGMO) to prepare MFIs to join CreditInfo, the National Credit Bureau. The AGMO was a crucial advocacy organization and catalyst for the continued existence and growth of MFI lending to small and microenterprises in Georgia and played a major role in the consolidation of this corner of the financial system serving enterprises that traditionally lacked any access to formal credit.

Currently, there is concern that AGMO has become very passive and needs revival as new issues come before the sector. According to the Chairman of the Supervisory Board of Crystal MFI, one of these specific issues that the MFIs need to address, an initiative that AGMO should be spearheading, has to do with the accounting for loan loss reserves that are not considered an expense and, therefore, don't reduce profits and tax liability.

At its prime, AGMO did two very important things for small enterprise lending in Georgia with SME Support Project technical assistance and funding.

Adoption of the 2006 Microfinance Organization law

The SME Support Project hired a local lawyer to support AGMO in developing an amendment of a draft law on MFIs that defined a new legal framework under which they could function in the financial system as efficient financial intermediaries. After being amended, the MFI law was submitted to the Parliament for the adoption. The law was adopted on July 14, 2006, and came into force on July 18, 2006.

AGMO, played an important role in the adoption of the new law by providing advocacy and fostering needed cooperation between the Parliamentary Finance-Budgetary Committee, the National Bank of Georgia, and the Office of the State Minister on Reforms Coordination. This critical piece of legislation assured the continued existence of the MFIs, which, under the new law, are officially called MFOs (Microfinance Organizations) and are registered as such.

The new law required all MFIs to incorporate as commercial financial institutions and register with the National Bank of Georgia. Under the new legislation, as Joint Stock

Companies (JSOs) they can bring in other private investors, although they are not commercial banks and cannot take deposits.

MFI access to CreditInfo (the Georgian national credit bureau)

By 2006, when the CreditInfo assistance was provided, MFIs had grown having tens of thousands of loan customers. The official figure in 2009 was 37,700 loan customers. Extrapolating from that figure, the number might even have been higher in 2006, given the economic downturn in 2008 and 2009.

The increasing complexity of keeping track of that many clients across the universe of MFIs was apparent. They had gotten to the point where they needed to share information among themselves. They realized that they were starting to duplicate customers and, because there was no way of knowing what experience other MFIs had had with any given potential or current customer, there were times when bad loans were made unnecessarily, and duplicate loans were made by several MFIs to one customer based on information that supported only one loan. This was causing portfolio quality problems and the MFIs decided it was time to begin sharing information with each other.

The logical solution would have been for the MFIs to join CreditInfo. However, there were specific data base systems requirements that none of the MFIs possessed and to set them up was going to be expensive. Also, the monthly fees are high for the service, about US\$500 per client. This was too much for the MFIs, so they started a small information exchange system in the interim to begin to address the problem.

CreditInfo Intervention

CreditInfo is the large national credit bureau whose clients are all the large banks, financial institutions, telephone companies, and utilities. It collects and shares information on credit history and financial information about people who have accounts with these different institutions.

In May 2006, the SME Support Project discussed the possibility of MFIs formally joining CreditInfo with the AGMO and a five month non-competitive grant in the amount of US\$16,640 was provided to assist MFIs prepare for joining CreditInfo. One of the conditions was that MFIs would join CreditInfo on their own after the grant ended.

The grant was used to buy servers and computers, hire Georgian IT technicians to program the software needed to be compatible with CreditInfo systems, and provide training to MFI staff to familiarize them to the changed format for the submission of information to CreditInfo.

AGMO negotiated and signed an agreement with CreditInfo that gave it one membership as the client, paying US\$500 per month, but that allowed all its members to access the system through the AGMO subscription. The grant helped defray the monthly CreditInfo membership fees during the agreement period, with the added objective of giving MFIs

the opportunity to get accustomed being part of a credit bureau. By July 2006, five MFIs, Constanta (then an MFI), Credo, FINCA, Crystal, and Small Business Development Foundation (SBDF) were participating in CreditInfo.

Currently, according to the Chairwoman of the Supervisory Board of AGMO, all MFIs are in the CreditInfo system.

b) Conclusions

- SME project support grants were critical to the ability of MFIs to operate effectively as financial intermediaries in Georgia. Without the amended law, MFIs could have been legislated out of existence and access to credit by the smaller end of the SME sector would have been drastically curtailed.
- Because of the grant provided by the project to facilitate joining CreditInfo, credit information sharing between MFIs and other credit institutions was facilitated. This provides the ability to reduce lending risk because lenders have current information on all borrowers in the national system, loans outstanding of credit applicants and their payment histories and helps avoid duplicate or bad loans
- The grant to AGMO has enabled all MFIs to join CreditInfo, therefore it has achieved its primary objective and has been a cost effective intervention.
- Having a proactive advocacy organization for MFIs, such as AGMO was in 2006, was very important at that juncture. AGMO, or a successor to advocate for MFI interests, continues to be important.

c) Recommendation

USAID should continue to support the improvement of the MFIs and microfinance credit systems to expand coverage and access to credit for Georgian small and microenterprises. Particular attention should be given to assisting MFIs to expand credit coverage to the poorer, more remote, underserved rural areas of Georgia through mobile banking and other technologies; to increase information flow and credit system efficiencies that would have the effect of expanding credit access; and reducing the transactions costs of lending and interest rates.

2. Quality control and assurance

a) Background

The issue of product quality has been under discussion in both the private and public sectors for many years, but not much progress has been made in either passing legislation or increasing product quality, food safety in particular. Low quality imports, including raw materials and finished products, permitted to enter Georgia from neighboring countries and the low quality demanded for its exports, particularly to Russia, set the business conditions in which Georgian companies didn't have much incentive to improve their quality. The cost of obtaining formal certifications, such as ISO and self-regulation would have made it difficult for Georgian companies to compete, even if they wished to improve product quality.

The strong ties with the Russian market and the ability to continue to trade very freely with Russia even after the collapse of the Soviet Union was, according to the head of the Georgian Exporters Association, an important reason why it was so difficult to tackle quality issues. The Russian market didn't demand very high quality and, being a very large market for Georgian products, it was easier for Georgian businesses to export lower quality products to Russia without incurring the expense of the kinds of certifications required by the European Union and the United States. Nor were Georgian businesses under pressure to improve product quality for the domestic market as long as low priced, low quality imports were available and there were no standards imposed by the Georgian government for domestic production or imports. Because product testing is expensive, to expect self-regulation by companies was unrealistic, without government regulation.

b) Findings

According to the Director of the Georgian Exporters Association, his testing lab was ready to move forward in the domestic market with a "UL" type certification for food processing businesses using a testing standard (multi-test) that was not internationally compliant in Europe or the United States, but would have been a positive first step in Georgia. Companies he approached about this said that they were concerned about getting a certification and then losing it a few months later because of possibility that the inputs and raw materials that they were using might be substandard. Companies preferred not to self-regulate and have to deal with the uncertainty of future certifications until all producers were required to comply with the same standards. They felt that to have the certification and then lose it for whatever reason would be bad for their product reputation and sales.

Except to the few Georgian businesses that had succeeded in developing export markets in the United States or the European Union, quality issues as an element of competitiveness were not very important.

This market dynamic changed dramatically with the closing of the Russian border and the prohibition of Georgian products to enter the Russian market in July 2006. With the loss of the Russian export market, export oriented enterprises and the government needed to begin developing new export markets. They needed to begin the compliance processes for exporting to the European Union and the United States. But the situation for products for domestic consumption remained unchanged until very recently, when new food quality legislation was enacted.

SME Support Project interventions

Several months before the closure of the Russian market to Georgian products, the SME Support Project, from early 2006, had "initiated an awareness campaign aimed at providing the Georgian business community with information on the benefits of the International Standards Organization's (ISO) standards and self-certification. In April 2006, the project partnered with the Georgian Chamber of Commerce and Industry and

the magazine Sakartvelos Ekonomika to organize a conference on standardization and food safety.”²⁹

The conference highlighted the importance of Georgia joining the ISO to promote exports and international trade and, during the conference, the Ministry of Economic Development, the National Accreditation Agency, the National Agency for Metrology, Standardization, and Technical Regulations, and the Ministry of Agriculture confirmed their commitments to become ISO members. During the year, a number of ISO general and specialized trainings were provided by and IESC consultant to 120 representatives of business associations, businesses, the Georgian government and NGOs.³⁰

There was a lot of interest and activity in 2006 regarding the subject of international quality standards. However, the interest did not convert into results. According to the Cumulative Results in the SME Support Project Final Report, p 34, no international standards programs were actually adopted.

According to the Director of the Georgian Exporters Association, one of the problems was that the procedures were unclear, initially, and apparently a local counterpart certifier for the international organization was never established. It is my understanding that, in the end, there wasn't enough interest or support to get this local counterpart set up and, thus, the process didn't move forward.³¹

c) Conclusions

Without government mandates for quality control and assurance, company self-regulation is impossible, because of the costs and the perceived and real competitive disadvantages of taking self-regulation steps. Higher standards, quality, and product safety are not yet seen by typical Georgian consumers as reasons to pay a higher price for products. There simply isn't much business incentive to assume the complications, bureaucratic hassles, and expense of improving product quality, internal company management, and other quality assurance measures as long as they are not required.

If the government doesn't have the interest or the political will to regulate and enforce standards in the domestic marketplace, then private sector testing labs that need to market this service to businesses are not going to be successful. The market for testing and

²⁹ SME Support Project, Final Report, USAID, November 20, 2009 p.17

³⁰ Ibid. p18

³¹ The Director of the Exporters Association is also the owner of a food safety testing lab and was directly involved in the SME Support Project assistance for ISO certification. In lieu of the ISO certification that never came through, his lab uses an antiquated system called “multi-test” that uses old former Soviet Union standards. But there is very little demand for these certifications under a self-regulatory framework. This may change with the food safety legislation that recently went into effect. He was very disappointed about the lack of response on the ISO certification, but still holds high hopes that his lab will eventually get the needed certifications to provide top quality services to his client companies. He believes this will only occur when there is the political will to mandate and implement high quality standards, thus creating a market for them. Businesses need to be pushed by legislation and convinced that having the certifications is necessary and good business.

certification depends on the government making testing and certification mandatory. In the absence of mandatory quality control and other types of certifications, facilities will have to be government run and subsidized and they will serve a narrow segment of the business community, almost exclusively exporters, such as in the case of wine industry.

d) Recommendation

Because the Georgian government is knowledgeable regarding the issues of ISO certification, quality control and assurance and has experience dealing with them, USAID projects should not spend much more additional effort on them until there are firm national mandates/laws requiring, supporting and backing them up. Otherwise the effort probably won't result in much progress.

When the new food safety legislation goes into effect, USAID should periodically monitor how well the new mandates and regulations are being implemented. If there are problems taking the gradual progressive steps needed to ramp up to full implementation in the next several years, and the constraint is technical assistance in their implementation, then USAID needs to make a judgment as to whether to provide material assistance. If there is the political will and support of the Georgian government to carry through with the implementation of the new law and regulations, then USAID should assist private labs to comply and get the certifications they need.

III. Further Analysis of Effective and Less Effective Interventions

This section of the report lists the SME Support Project interventions that worked best and those that didn't work as well. Following is a brief discussion of each category. The interventions that worked best in the SME Support Project also have considerable on-going impact potential in SME sector development going forward and were one of the criteria for putting them in this section.

A. Interventions that worked best and recommendations regarding USAID follow-on assistance

1. Business Consulting Network of Georgia (BCNG)

Over the past four years since its inception in 2006, the consulting services of Tbilisi, Telavi, Kutaisi, Zugdidi and Gori ³² have provided important business development services to small enterprises in their regions. They have institutionalized their services and have begun to generate non-grant fees for services, in addition to other grant revenues, to achieve economic viability. Although the differences between regions and revenue generation possibilities have led to different levels of growth and self-sufficiency, they are all sustainable. Each office has had to learn how to capitalize on the demand for services, which is somewhat different in different regions, and have developed strategies for this.

³² See Footnote 22 referencing Batumi Consulting

Part of the reason they are economically viable is that they have developed credibility within the business communities in their regions as being serious about their work and competent in the business advice given. This has helped them get on-going, paid, private business consulting work. This was confirmed in interviews with beneficiaries in each of the regions. Word of mouth promotion seems to be taking hold.

When the concept of the network began, the notion of small businesses paying for business consulting services was foreign to small enterprises. Now beneficiaries interviewed said that they recognized the value of good technical and business advice and are willing to pay for it; maybe not the full value yet, but there is a growing understanding of the value of this paid service.

The SME Support Project grants pushed for, and have achieved, the development of an economically viable, on-going network of places where SMEs can get reliable and competent technical assistance and training through private consulting services. These consulting services are moving toward financial sustainability where all expenses would be covered through non-grant sources.

a) *Recommended future action*

USAID should continue to help consolidate its gains in this area by supporting offices to broaden capacity and revenue generation opportunities.

2. Georgian Business Development Center (GBDC)

The Center was created in 2002 by the Tbilisi State University with assistance from the Canadian International Development Agency (CIDA) to provide students with business and entrepreneurial skills training under a project called SME Management Training in the South Caucasus. With assistance from St. Mary's University of Nova Scotia, and based on a program design inherited from St. Mary's, the GBDC Student Consulting Program was implemented. The approach was to provide students with the opportunity to work directly in companies to provide business consulting services like an intern might, with backstopping from an Oversight Council made up of professors from the Caucasus University School of Business and other governmental organizations and university faculties. In 2004, these projects ended, but the Center continued to work to develop increased employment placement opportunities for students. In 2005 the Center started a Business Development and Employment Pilot Program that created the basis for a follow-on grant from the SME Support Project in 2006. The aim of the 2006 project was to assist youth, mostly students of different universities, and small businesses with the development of core entrepreneurial and business management skills to gain employment and to start small businesses. The grant helped conduct a Job Placement Forum and created a data base linking students with employers in a job placement service. The SME Support Project then provided further assistance to the Center to extend its Student Consulting Program to the Adjara and Samtskhe-Javakheti Regions. All of these different projects have led to a hybrid methodology that provides student consultants to companies throughout Georgia. Through the forums and other services, the Executive Director thinks about 500 people in their programs have been employed.

There are about 300 businesses that have received training or consulting services and about 20 – 30 per year who are now charged fees. Based on these contacts and clients, the Center is creating a recruitment service paid for by employers looking for well qualified, and vetted employees..

Given the successes achieved in the training and employment models that have been developed so far, the potential for national impact on employment in the SME sector, and the broad linkages to business associations, universities, business service organizations (BSOs), and employers in Tbilisi and the regions and the increasing emphasis at the Center to charge fees for services, this project should be candidate for future follow-on assistance to help consolidate progress.

a) Recommended future action

USAID should consider providing assistance for development of a national personnel recruitment clearinghouse for employers to identify qualified employment candidates. This service would be paid for by the employers and potentially could provide a significant revenue stream for the GBDC to help with its sustainability over time, reminiscent of the initial stages of the development of economic viability in the BCNG consulting services. This kind of a paid, employer-financed clearinghouse might be viable, even when other employment services are free, because of the experience of job seekers in the program through the student consulting program and their having been carefully vetted by the GBDC.

3. Tourism Industry interventions : Examples of successful grants for the capitalization of private, for profit businesses with good impacts

I concluded that the SME Support Project grant assistance for tourism development in Georgia was effective and dollar for dollar is producing good results. These grants, it should be noted, follow the recommended tenets for direct business development grants as discussed in the Recommendations in Chapter III.A.2, Direct Grants for Business Development. Ten grants were made in Svaneti, nine to businesses and one to the Svaneti Tour Center for a total of US\$153,614. A total of eight grants were made in Abastumani, six to businesses, one to the Abastumani Tourism Association, and one to the Abastumani Observatory for a total of US\$160,956.

The grants have reinvigorated tourism businesses in both Svaneti and Abastumani and are attracting interested private investors and Government of Georgia investment in infrastructure and roads to build on the momentum started with the project grants. The direct business grants primed the pump and are poised to have good forward and backward linkages into others businesses as the industry continues to rebuild.

a) Recommended future action

USAID should continue working with the Tourism Industry to help it expand into one or two new regions that have been identified by the Department of Tourism and Resorts

(DoTR). Interventions such as the direct grants to tourism businesses and for the development of tourism infrastructure in the new areas should be similar to those made in Abastumani and Svaneti, because these grants worked well to achieve their objectives. Since the collaboration with the DoTR seems to have been effective, and there is a mutual respect that doesn't always occur in the efforts to foster public/private sector dialogue, it is recommended that collaboration between the DoTR, private businesses, associations, tour operators, and municipalities be continued.

4. SME Support Project funded IDP Incubator in Gori

Association of Women in Business Incubators

Another type of employment project that imparts business orientation, general training, and employment opportunities to the very smallest entrepreneurs and IDPs are the Business Incubator projects initiated by the Georgian Association of Women in Business. Incubators are places where businesses are established and operated and trainees are given the opportunity to work and learn the trade simultaneously. The first incubator created by the Association began in 1998 with financing from the UNDP/United Methodist Committee on Relief (UMCOR) to help vulnerable women in micro-businesses with one or two employees. From its beginnings in 1998, the Tbilisi incubator project initially focused on IDPs from prior conflicts. Starting a new incubator in Gori after the 2008 conflict was a logical extension of the Association's experience dealing with this very vulnerable target population.

The SME Support Project provided grants for their operations in Tbilisi (US\$54,385 – 2006 and 2008), Svaneti (US\$24,874 – 2007), and Gori (US\$101,707 - 2009) totaling US\$180,963.

The Gori Incubator

The Gori Incubator project began in the aftermath of the 2008 war with Russia that created large numbers of IDPs. It has six full-time employees trained to provide training in the different incubator business areas. They are all IDPs and are paid 130GEL/month (about USD \$70), which is below the official family subsistence income of 218 GEL/month (about USD \$118), but the project manager stated clearly that the income to a single individual is not expected to cover the full subsistence income needed for a family, but rather is a supplement. It assumes that other household members are also contributing to the family budget.

Training and outcomes

A 36-hour training course is provided to beneficiaries in basic business education, including how to start a new business. Another 76 hours of training is also provided that includes classroom instruction in business management and accounting and professional skills training and practical experience in the incubator businesses. Practical business training is given in baking and food preparation, hair styling and cosmetology, dress making and design, and laundry services.

Gori Incubator has trained 550 unemployed IDPs in total, of whom 340 were covered by the 2008 grant and did not pay for their training. The 210 new trainee/entrepreneurs, not subsidized under the SME grant, have been paying GEL 300 (about USD 163) for their training.³³ The training and practical experience in the incubator has led to employment of about 55% of the Incubator's clients, according to the Gori manager and demand for the training is high. She calculates that 15% start their own businesses. Calculated on the basis of the initial 340 grant subsidized beneficiaries who went through the program, about 185 people have been employed outside the incubator and about 50 have started small economic activities to help their families make ends meet.

Another important aspect of the program is that it gives people a safe and accepting place to come to learn, work, and be productive. The Gori manager described this as a social and humanitarian assistance program to help people get employed and "keep families together." It provides a place where people have hope and know they can come for support.

Finally, it offers a bridge from humanitarian assistance to longer-term livelihood development. This is one of the most important things that can be done to help IDPs emerge from abject poverty and such a desperate situation.

Beneficiaries

I spoke with a hair stylist at her salon who, with some money from family, got a two room section of a house and started her own business. She had no experience in this field, but always loved the idea of having a beauty shop. Now she does, and says she is happy and making enough to survive and keep the business going.

Three elderly women interviewed at the bakery where they are currently employed were trained in the profession at the Gori Incubator. They are professional bakers now and all were thankful to have this employment when most IDPs from the 2008 conflict have no sources of income and largely depend on humanitarian aid. They stated that they have many friends who could use the training services provided by the Gori Incubator.

A cautionary note

From my conversations with Incubator management and beneficiaries, there didn't seem to be a shortage of demand for the training and people are getting employment or starting businesses. The continued demand for the training is not surprising, because the businesses selected by the incubator were identified on the basis of a survey of IDP women who indicated their interest in these areas. But this was not a demand study based on the market for the services and products. Notwithstanding, there still seems to be employment for people with these skills. But like vocational and skills training

³³ 300L for training is quite expensive, but, nonetheless, the Gori Incubator manager said that demand is high. One problem, however, is that there is another competing, grant financed project that is undercutting the incubator's ability to attract clients, now that the incubator is required to be self-sufficient.

programs all over the world, eventually the labor markets these programs supply become saturated and jobs dry up. This is particularly true in businesses with high levels of ease of entry.

Eventually, the Gori Incubator may have to adjust its specific skills training and vocational offerings. It may have to find other ways to use its installations. One of the problems in the future will probably be to find productive uses for the equipment that now is used in the business incubators.

Competition and ramifications for sustainability

Competition from other grant funded programs is beginning to undercut the ability of the Association of Women in Business Gori Incubator to achieve self-sufficiency. The Gori Incubator is no longer fully subsidizing training and is charging a not inexpensive price for it. Donors are grant financing new projects that are providing training free, as the SME Support Project did initially. This undermines the Gori Incubator's ability to charge for its training and threatens its survival. Therefore, there has to be good coordination of these efforts so that new projects coming up are located in places where they will not undermine the older ones (like the Gori Incubator) that are attempting to achieve some level of economic viability and/or financial sustainability.

This was an important project and well worthwhile, particularly under the very difficult human circumstances created by the 2008 war with Russia.

a) Recommended future action

The President of the Georgian Association of Women in Business and the manager of the Gori Incubator need to coordinate with donors of other, potentially competing new projects that will be grant funded to assure that their grants don't undermine the sustainability of the Gori Incubator and its ability to become self-sufficient.

The President of the Georgian Association of Women in Business and the manager of the Gori Incubator need to begin a careful assessment of the level of saturation of the labor market they serve and determine new strategies and/or ways of using the assets of the Gori Incubator most effectively in support of continued, relevant services to IDPs in the region that will continue to provide employment opportunities.

B. Interventions that didn't work well and recommended future USAID action

1. Public/Private Sector Dialogue

The SME Support Project worked with business associations, the International Chamber of Commerce of Georgia and other business service organizations to promote dialogue between the public and private sectors. Working with the USAID's Business Climate Reform Project, the SME Support Project developed an information campaign on construction permits and other awareness campaigns, meetings, and conferences dealing

with such disparate issues as leasing, the fishing industry, customs issues, and future economic development strategies.

The last workshop was in 2009 and was yet another attempt to facilitate discussions between representatives of government and private enterprise on public policy issues, evaluate the current economic situation, and review the dynamics in particular sectors. The “Made in Georgia” workshop had the objective of changing the framework for presentation of survey findings about public attitudes regarding imports and locally produced products. According to the founder of Policy and Management Consulting Group (PMCG), the organization that designed and conducted the workshop, they didn’t want only to hear the findings of the survey, but wanted businesses to be able to engage the government in a dialogue in which private businesses could present their visions regarding import substitution and export promotion approaches. The conference produced a number of working papers, but, apparently, it has not been possible for PMCG to organize any more follow-up working meetings of this kind.

Two people interviewed said almost the same thing regarding the possibility of fruitful public/private sector dialogue. First, “talking and listening are entirely different things.” The public sector attitude was characterized as, “they tell you what economic development strategy is and businesses have to fend for themselves within the business climate of that framework.” The interviewee’s rhetorical retort was, but “business development (production, jobs, export development) is economic strategy.” He finished by saying, “USAID has limited influence over these broad policy issues.”

Another interviewee, in a separate interview several weeks later, said with regard to dialogue... “there’s not much policy discussion and dialogue on the issues” in reality. “Positions are fixed and the problem is to set up the framework to get the process going.”

Whatever the specific reasons for difficulties in getting dialogue between the public and private sectors, the fact is, this has been difficult, as is implied by SME Support Project final results indicators. Ninety eight business association staff members were trained in advocacy skills; twenty policy papers were produced; only two new pieces of legislation or regulations were adopted or modified with input of BSOs and business association members. One was the Microfinance Organization Law that went into effect in 2006. I was not able to find out what the other was.

a) Recommended future action

Even though it is recognized that USAID often needs to try to foster public/private sector dialogues on the salient issues before it, SME sector project interventions are probably best left to the specific tasks of providing assistance that will have more direct impacts on businesses so they can be strengthened and grow, creating employment, jobs and income across the economy.

2. ISO, self-regulation – international market development

(Please see Chapter II.E.2, pages 38-41, above for a full discussion of this issue including recommended future action.)

IV. Recommended possible new activities in support of MSMEs

Based on interviews and observations during my field work throughout Georgia, I identified the following new discrete activities that could be carried out in the course of new SME and private sector development projects.

A. MSME (Micro, Small, and Medium Scale Enterprise) typology

1. Findings

When discussing the SME sector, there are multiple notions as to what the “sector” is. MFIs have their own definitions of their clients that are similar, because the target populations they tend to work with have a certain, fairly consistent profile. On the other hand, Commercial Banks, view the words, “small”, and “medium” size enterprises (SMEs) in a totally different way and microenterprises are often included in the SME definition. Perceptions vary greatly.

There is no standard definition that sets the basis for the discussion about SME sector development issues. Public Sector Ministries, private and public development organizations, business associations, commercial banks, and even some MFIs do not have a very well developed appreciation of the usefulness of having a Micro Small and Medium-sized Enterprise (MSME) typology that describes these enterprises with very different needs, productivity, and growth constraints.

Of the contacts asked about the topic, the General Manager of the GRDF had the best breakdown of the different levels of businesses within the broader micro, MSME sector. As General Manager of the GRDF, Chairman of the Supervisory Board of FinAgro MFI, and the person who provides oversight to Gori Consulting, that forms part of the BCNG, he understands how having a typology providing consistent definitions and profiles of businesses of different types and sizes, facilitates project planning and coordination between organizations with different client profiles.

2. Conclusions

Without a consistent understanding of how MSMEs are defined the discussion could get confused because of the conceptual disconnects and lead to inappropriate MSME project designs, duplication of efforts, project implementation problems, and inefficient uses of resources and potentially complementary institutional capabilities.

Because there is no consistent way to be sure that everyone is talking about the same thing in, for example, a planning meeting on MSME development in which design and coordination of interventions are being debated, an MSME typology for these levels of enterprise is needed.

3. Recommendation

USAID has a long-standing institutional knowledge and understanding of how typologies have been used in project designs and, therefore, should facilitate the development of a typology of the Georgian MSME sector. This would assist international and domestic development agencies and Georgian public and private sector stakeholders to plan, target, and coordinate relevant assistance to businesses according to their needs, depending on their characteristics, that could include capitalization, employees, level of technology used in their businesses, sophistication of their bookkeeping and accounting, business planning culture, and so forth. Having such a tool would help development organizations and planners effectively target interventions to maximize impacts on employment, income generation, enterprise development, and poverty reduction.

B. Business and market data availability

1. Findings

According to one contact who is familiar with the development of national statistics of Georgia, reliable, domestic national and regional economic and business data specifically relevant to businesses is not being collected and updated regularly. Areas of particular importance initially would be consumer surveys, consumer confidence, product price information data on raw materials suppliers and prices, and other periodic snapshots of data businesses need in order to do better planning and marketing at the firm level.

2. Conclusions

Collection, analysis, and management of this kind of business specific information that is not currently being collected by Geostat, the Georgian public sector economic data service, should be started. This information is important to improving short and medium term business strategy and planning, particularly for medium scale and larger SMEs, as well as policy and program decisions within the operational ministries of the government

3. Recommendation

The Mission should support the development and implementation of an initial market study as to the interest of private businesses in having access to and using the information described above and whether businesses consider it to be worth paying for in the future.

C. Broaden the range of uses for internet infrastructure and capacity in rural areas in support of SME development

1. Findings

I had several meetings with SME Support Project grantees and MFIs in which potentially important linkages between SME sector development and IT sector innovations emerged that could potentially enable increased SME access to information and banking services through expanded internet connectivity, use, and platforms.

For example:

- Gori College Higher Professional Education Program initiative, supported by the SME Support Project and the CCID is creating a Distance Education program with NATO funding that could be used by SME technical assistance and training organizations, such as the BCNG consulting services and the GBDC, to get important information out to SMEs, particularly those in remote, rural areas.
- Crystal MFI is developing a mobile banking project that will make it possible for clients to carry out many banking functions without having to come to the bank office, thereby increasing efficiencies; and
- The ICT (Information Technology and Services Industry) Business Council has a “common service centers” concept that will extend Internet communications to very remote areas, with strong economic development, education, training, and information sharing implications. The common service centers would be set up in selected homes in villages. BSO consultants, educational institutions and teachers of business subjects could share information on best practices. Another example of a specific project would be one in which MFIs could share banking information through the system and, possibly set up mobile banking centers. Magticom, the largest communications company in Georgia, according to the head of the President of the ICT Business Council, has made a business decision to expand its market into more remote, rural areas and could provide the platform for this IT Innovation.

2. Conclusions

There are several projects in the conceptual stages, some more advanced than others that could be further developed to support broadening the coverage of SME support into rural Georgia. There is a base of interest by various SME-related organizations (see those mentioned in the Findings) to coordinate their activities with the objective of bringing education, training, business, market data, and banking information and services via the internet into underserved areas of the country.

The above mentioned organizations could be the basis for an important Public/Private Sector collaborative effort using the considerable ICT capabilities in Georgia to provide market information, technical assistance, and banking services to SMEs throughout even the most remote, rural areas of Georgia.

3. Recommendation

The considerable IT capabilities of Georgia should be tapped for productive business and economic development purposes.

The Mission should meet with the above mentioned organizations to explore ways and means to broaden the range of uses for internet and existing ICT infrastructure and capacity in rural areas throughout Georgia.

ANNEX I: SME SUPPORT PROJECT EVALUATION INTERVIEW STUDY GUIDES

Peter H. Fraser
Private Sector Analyst
Social Impact, Inc.
June 19, 2010

A. OPENING QUESTIONS: (to confirm which study guide or guides to use)

1. What was your relationship to the USAID SME Support Project and the project implementer, International Executive Service Corps (IESC)?
2. Please list all the different types of support you or your organization received from the project.
 - grant/s;
 - direct technical assistance and/or training from the International Executive Service Corps (IESC) Georgia personnel; and/or,
 - technical assistance and/or training contracted by the IESC and provided by consultants, IESC volunteer executives, etc.
3. Please describe Small and Medium Scale Businesses, and Microenterprises in Georgia. How are these kinds of enterprises and economic activities defined?

B. RECIPIENTS OF PROJECT GRANTS (report separately on each grant awarded)

1. What was the purpose/objective of the grant/s your organization received from the USAID SME Support Project through the IESC? Amount? Implementation date and year.
2. How did you find out about the grant program operated by the IESC?
3. What specific work, services, or investment/s was/were financed through the grant?
4. Why was this grant important to small, medium, or microenterprises specifically or, generally, for private sector development in Georgia?
5. Why was the grant needed by your organization? Did you contact the IESC, or did the IESC contact you?
6. Who benefitted most from the grant? Please explain?

7. Please describe or give a brief profile of your target beneficiaries. How many final beneficiaries (individuals, businesses, or other organizations) were served under the grant? Do you have on-going contact with them? Can you locate several for me to talk with? (Make list of appointments and see V. Final Beneficiary Study Guide.)

8. If your organization was the principal beneficiary of the grant, please describe its impact on:

- your capacity to do your work better;
- private sector development and/or credit access, generally;
- exporting and import substitution;
- quality improvement; and/or,
- the dialogue between the public and private sectors in Georgia.

9. Did you or the IESC monitor your progress or the progress of your final beneficiaries after termination of the grant? Were follow-on/subsequent grants made to consolidate previous progress, improvements, institutional capacity? If not, would additional assistance have been useful and effective? In your opinion, please describe the principal areas where additional assistance would have been most effective either directly for your organization, or in general for private sector development in Georgia.

10. What are the principal sources of your current financing? Are these continuing sources, or do they have a finite end, like grants? Please give a breakdown of your income/revenues by source, fees for services, and the percentage contribution to your budget. Finally, what is the amount of your annual budget?

C. INSTITUTIONS AND ASSOCIATIONS RECEIVING DIRECT OR CONTRACTED T&TA FROM IESC

1. What was the purpose of the technical assistance or training your organization received from the IESC, either directly from their personnel, or contracted and provided by consultants and/or IESC volunteers? Which kind of assistance was it?

2. How did you find out about the availability of these services from the IESC?

3. What specific work, services, or investment/s was/were provided by the project?

4. Why was this technical assistance and/or training important to small, medium or microenterprises specifically or, generally, for private sector development in Georgia?

5. Why was the technical assistance and/or training needed by your organization? Did you contact the IESC, or did the IESC contact you?

6. Who benefitted most from this assistance? Please explain?

7. Please describe the impact of the assistance on:

- your capacity to do your work better;
- private sector development and/or credit access, generally;
- exporting and import substitution;
- quality improvement; and/or,
- the dialogue between the public and private sectors in Georgia.

8. Did you or the IESC monitor your progress or the progress of your final beneficiaries after termination of the assistance? Were follow-on/subsequent services made available to consolidate previous progress, improvements, institutional capacity gained through the assistance? If not, would additional assistance have been useful and effective? Please describe the principal areas where additional assistance would have been most effective.

10. What are the principal sources of your current financing? Are these continuing sources, or do they have a finite end, like grants? Please give a breakdown of your income/revenues by source, fees for services, and the percentage contribution to your budget. Finally, what is the amount of your annual budget?

D. FINAL BENEFICIARIES: INDIVIDUALS, MICROENTERPRISES, OR SMALL AND MEDIUM SCALE BUSINESSES

1. Have you received any technical assistance, training, employment assistance, or credit for your business or organization? Who/what organization provided the assistance? What kind of assistance did you receive?

2. How did you learn about the availability of assistance? Did you contact the office or did they contact you?

3. Why was this assistance important to you? Did you ultimately benefit from the assistance provided?

4. How did you use the assistance you received? In order that we might improve our services, could you tell us very candidly if the assistance was relevant to your needs? What would you change so that it would be even more useful?

5. Have you had any further contact with the people who gave you the assistance?

6. If you are a business or an organization, please describe your business and/or financial situation prior to receiving the assistance. Now, please describe your current situation. If there has been a change, either positive or negative, could you please tell us what has caused that change?

7. If you are a business or an organization, for how long had you been in business before receiving assistance?

8. If you are an individual beneficiary of any assistance provided (business and entrepreneurship education, employment services, etc, are you better off now than you were before the assistance? So that we might improve our assistance programs, if you think there should be improvements, could you please try to explain why you feel this way?

E. DCA CREDIT GUARANTEE COMPONENT

• FINANCIAL INSTITUTIONS

1. Do you have a guarantee from any mechanism? If so, what is the amount guaranteed? Commissions charged? Fees charged?

2. Who does the loan administration; application, pre-loan visits, loan appraisal, approval, post-loan monitoring, and collections?

3. Have you received any training regarding small business and microenterprise lending? What kind of training was it?

4. Has there been any follow-up to the technical assistance and training with the recipients of these trainings and technical assistance interventions?

5. How has the technical assistance and training been used by the recipients of the assistance? Did it have any effect on the willingness of financial institutions to make loans to small and medium businesses and microenterprises? Why or why not.

6. How many loans are outstanding under your guarantee mechanism? Amount disbursed and average loan amounts? How many businesses have received loans under the program?

7. Have you detected on-going major bottlenecks and other disincentives or roadblocks to finalizing loan operations under the Credit Guarantee mechanism? Please describe the problem.

8. In addition to interventions that have already been tried, how would you suggest resolving the problem?

9. Has the technical assistance and training caused more lending to the sector to take place? If so, why? If not, why not?
10. In your opinion, if loans have been made to small and medium scale businesses, do you think they would have been made in any case, without the guarantee mechanism in place?
- IESC AND USAID
 1. What role did IESC play in facilitating the guarantee mechanism?
 2. What role did USAID play? USAID/ODC/DCA? USAID Georgia?
 3. How was the program promoted in the banking sector? What was the response?
 4. What kind of technical assistance and training was provided to loan officers, credit managers, and businesses in order to improve understanding of small and medium scale businesses and microenterprises, and their access to credit?
 5. Has there been any follow-up to/monitoring of the technical assistance and training with the recipients of these trainings and technical assistance interventions?
 6. How has the technical assistance and training been used by the recipients of the assistance? Why was it effective, or why not?
 7. Has the technical assistance and training caused more lending to the sector to take place? If so, why? If not, why not? In your opinion, would the loans have been made in any case, without the guarantee mechanism in place?

ANNEX II: ACTIVITIES SCHEDULE FOR EVALUATION

		1	2	3	4	5
6	7	8	9	10 Arlington	11 Travel to Georgia	12 Team arrives in Tbilisi
13 Document reviews	14 Tbilisi 11 am Meeting with D.Tsiklauri at USAID	15 Tbilisi Document reviews; full team mtg.; Meeting with Neli Pirtskhalauri	16 Tbilisi Document review; Meeting with Irina Salukvadze, IESC DCOP	17 Tbilisi Document review; Meetings with Ketii Sutiashvili and Manana Dvalishvili	18 Tbilisi Begin making appointments	19 Tbilisi Mtg. with Irina S.; Workplan, Schedule, Approach
20 Tbilisi Finalize Interview Study Guides; Arrangement with driver	21 Tbilisi Manana D. begins work; scheduling appointments for interviews.	22 Tbilisi Interviews: Crystal MFI; Constanta MFI, GAMO; Bank Republik; Bank Assoc; Bank Trng. Center	23 Tbilisi Interviews: Tbilisi BSO; Chamber of Commerce; Assoc. of Women in Business; CCID Gori University	24 Telavi Interviews: Telavi BSO; Kakheti Export; Telavi Reg. Chamber of Commerce	25 Gori Interviews: Finagro MFI; Gori BSO; Georgia Rural Dev. Fund; Meetings with beneficiaries;	26 Gori Meetings with Gori College students and teachers Assoc. Women in Business (incub.IDPs)
27 Kutaisi Travel from Gori to Kutaisi	28 Kutaisi Crystal MFI; Kutaisi BSO Meetings with beneficiaries	29 Zugdidi Zugdidi BSO; Reg. Chamber of Commerce; Meetings with beneficiaries To Borjomi (overnight)	30 Abastumani Interviews: Tourism Assoc. Astro.Obse Café Ojakhuri; Guest House; Café Roscha; Hotel KAPA			

Sunday

Monday

Tuesday

Wednesday

Thursday

Friday

Saturday

**ACTIVITIES SCHEDULE
SME SUPPORT PROJECT EVALUATION**

				1 Submit outline of the draft report to the Mission for review	2 Tbilisi Interviews: Ge.Exporter Association; Tourism Assoc.; AmCham.;	3 Tserovani Interviews: IDP businesses supported by SME
4 Tbilisi Interview: Aleksi Aleksishvili, PMC Group	5 Tbilisi Initial writing Interview: GBDC - Geo.Bus.Dev. Ctr.	6 Tbilisi Initial writing	7 Tbilisi Submit draft report to the Mission. Prep. For presentation	8 Tbilisi Briefings for Mission on Evaluation Report.	9 Tbilisi Beka Jakeli, Dep.Dir. Dept. Tourism	10
11 Team departs for U.S.	12 Alexandria	13 Alexandria	14 Alexandria Writing draft	15 Alexandria Writing draft	16 Alexandria Writing draft	17 Alexandria
18 Alexandria Writing draft	19 Alexandria Writing draft	20 Alexandria Writing draft	21 Alexandria Invoices	22 Alexandria Feedback due from the Mission. Writing draft	23 Alexandria Writing final draft	24 Alexandria Writing final Sent near final draft to N. Kumsishvili for review and comments.
25 Alexandria Time/expense accounting completed for SI.	26 Alexandria Writing final draft	27 Alexandria	28 Alexandria Responses and comments addressed – sent to N.Kumsishvili for her info.	29 Alexandria .	30 Alexandria Noon Submission SME Final Report to SI.	31

July 2010

Sunday

Monday

Tuesday

Wednesday

Thursday

Friday

Saturday

ANNEX III: CONTACTS AND INTERVIEWS

Below: Informational discussions with these contacts, not formal interviews

IESC/US Dan Berkshire, former Chief of Party, SME Support Project
David Hartingh, Senior Director, Program Development

IESC/GE Irina Salukvadze, Former Deputy Chief of Party, SME Support Project
Keti Satiashvili, Former Credit Monitoring Specialist

USAID/GE Nino Kumsishvili, Former CTO, SME Support Project, Project
Management Specialist, Office of Economic Growth
David Tsiklauri, Former CTO, SME Support Project and AgVantage,
Project Manager, Office of Economic Growth
Dr. Rezo Ornotsadze, Senior Financial and Commercial Advisor, Office of
Economic Growth

GEORGIAN GRANTEES AND BENEFICIARIES

Below: Formal interviews conducted with all these contacts

1. Crystal MFI, Chairman of Supervisory Board Archil Bakuradze - 8 77 42 44 72
2. Constanta MFI, Chairwomen of Supervisory Board, Georgian association of Microfinance Organizations (GAMO), (microfinance legislation; MFI accession to credit-info) Tamar Lebanidze – 8 99 55 63 37
3. Bank Republik, Giorgi (Giga) Kerkadze, 8 99 40 84 63 *Ateni str.*
4. Georgian Banking Association; Zurab Gvasalia, President
Giorgi Bagrationi, Deputy; 8 77 75 90 43
5. Banking Training Center, Levan Gogolidze, CEO, Caucasus University
Address: Sul Khan-Saba str. 1/5, next to the National Bank
6. Tbilisi Consulting, BSO; Ani Katamidze, 8 77 45 69 87; *Orbeliani str. 35*
7. Georgian Chamber of Commerce, Giorgi (Gia) Kakabadze, 8 99 56 81 23
Ortachala Berdzeni str. 29.
8. Georgia Georgian Association of women in Business, Nino Elizbarashvili, 8 77 41 95
57; *Kifshidze str. 7*
9. Gori University, CCID, Lali Gogeliani, 8 99 70 44 99, *Kostava str. 68, Galleria Universe*
10. Telavi Regional Chamber of Commerce; Sandro Milorava 8 99 72 74 72
11. Finagro MFI, General Gori Consulting, BSO, Georgia Rural development Fund (GRDF), (ACDI/VOCA), Giorgi Chonishvili 8 99 51 63 73

12. Credit Guarantees and Financial Sector Interventions Kutaisi; Crystal MFI, Malkhaz Dzadzua, CEO, 8 77 46 28 65

13. Kutaisi Consulting, Association of Young Economists, Imerety Regional Office; Paata Kldiashvili, Director, 8 99 56 16 42

14. Zugdidi Consulting, BSO, Grantee Zugdidi branch of the Georgian Chamber of Commerce, Iuri Tsotseria, 8 99 51 51 48; 8 77 10 51 64; (995 215) 5-19-50, Rustaveli 87

15. Georgian Tourism Association – Online booking system for Georgian small hotels/guesthouses – Nata Kvatantiradze 877734686

16. Georgian Exporters Association -Product Quality Certification as a Tool to Promote Local Production- Levan Kalandadze- 899578172

17. David Tsiklauri – 8 99 58 92 01; daguruli@yahoo.com

18. Georgian Chamber of Commerce, Gia Kakabadze – 8 99 56 81 23

19. VTB Bank, Corporate Banker Aslan Tsivadze, 8 95 906 006

20. Trainer of Georgia Banking Association, Qartu Bank, Beka Kvaratskhelia, 8 95 222 288

Tserovani IDP settlement

1. David Shukhoshvili, Bread baker, 8 90 23 22 82; 8 55 117 111

2. Kristo Kakhniashvili, Service Center, 8 99 20 59 69, 36 33 71

3. Kote Ramishvili, Tiles, 8 99 21 78 96

4. Inga Khizanishvili, Poultry Farm, 8 99 75 54 27

21. Giga Shubitidze, President ICT Business Council, (Information and Communications Technology – ICT)

22. Ia Tabagari, Chairperson, Incoming Tour Operators Association, 995 99 58 11 75

23. Aleksi Aleksishvili, PMCG-Georgia, (Policy and Management Consulting Group, 995 32 92 11 71

24.. Georgian Business Development Center – Business Development and Employment Program in Tbilisi, Batumi and Akhaltsikhe- Sergo Baramidze 899577750

25. Beka Jakeli, Deputy Chairman, Department of Tourism and Resorts, Ministry of Economic Development, 995 32 43 69 95

ANNEX IV: Examples of the varying impact of grants on businesses

Examples of successful grants for the capitalization of private, for profit businesses with good impacts

Tourism Sector

SME Support Project grants have been successful in reviving the industry in the rural communities of Abastumani and Svaneti. The tourism industry had deteriorated tremendously over the years since the dissolution of the Soviet Union. Hotels and other infrastructure to support tourists were substandard. Rooms were available in private homes, but to many tourists, that was unacceptable.

The grants to private businesses and the private sector tourism associations have provided upgraded tourism physical infrastructure and nicely presented tourism information that has generated a renewed interest in both these areas by both domestic and international tourists. A tourist information center was established in Abastumani by the Abastumani Tourism Association.

Although I didn't obtain specific numbers, according to the Georgia In-coming Tour Operators Association and the Georgia Tourism Association, hotel occupancy for the high tourist season of July 1 – September 30 in these two towns is high. Based on his interview with the owner/operator of one project-supported small hotel in Abastumani, theirs is almost completely booked for high season and rarely will they be able to accommodate drive-ins without reservations.

Some of this increase in occupancy can be attributed to the project-supported on-line booking systems that work through the Georgian Tourism Association in Tbilisi and the Abastumani Tourism Association. The websites of the Associations and in some cases the guest houses and hotels own internet web pages are doing an effective job of promoting the geographical and historical attractions of the two areas, entertainment, accommodations, and other public facilities, such as internet cafés.

In Abastumani, due to the increase in tourism and the improvements induced by USAID SME Support Project grants in the town with the cafés, hotel, guest house, and the remodeling of the refractory telescope building at the National Astrophysical Observatory, the Illia Chavchavadze State University (the owner of the Observatory) invested 1.8 million GEL (US\$978,000) in remodeling the two additional hotels owned by the observatory, a cable car, and fixed three more telescopes for scientific work at the Observatory, which is a source of great pride in Georgia, as well as an important draw for tourism.

In Svaneti, the towns of Mestia and Ushguli were assisted by the tourism development grants of the SME Support Project. According to the Deputy Director of the Department of Tourism and Resorts (DoTR) the investments by the SME Support Project, in hotels, a

mountain tour guide company, an internet café, and a bike rental service, have improved the physical infrastructure, look, and relative comfort of this tourist destination and, as a result, domestic tourism is increasing in this area that boasts magnificent mountain scenery with a rugged mountaineering allure. Public bathrooms and good signage done in coordination with the USAID GEII project in both Abastumani and Mestia have added to their accommodating atmosphere as places that welcome tourists to their towns.

According to the Georgian Incoming Tour Operators Association, the newly reinvigorated tourism industry in Svaneti induced an Austrian group to begin a feasibility study for a ski resort there. Also, the Georgian government took a decision to undertake major improvements on the main access road from Zugdidi to Ushguli through Mestia. This project will cut hours off the travel time from Zugdidi to Mestia.

The Deputy Director of the DoTR also made the point that one of the most important contributions of USAID and the SME Support Project was the focus on a market-based recovery in both regions. The direct business enterprise development grants in both Abastumani and Svaneti have revived a dormant industry in both towns and have created additional jobs. They are attracting tourists who spend money in the towns, thus stimulating activity in other businesses in the area. They are creating forward and backward linkages that have important multiplier effects in the broader community

Examples of grants for the capitalization of private, for profit businesses that had disappointing impact

Tserovani IDP Settlement

Because of the serious IDP situation after the August 2008 war with Russia, there was a very large and coordinated effort by the international community to provide assistance in the IDP settlements of Shida Kartli. The SME Support Project was extended by USAID to focus on several project interventions in the settlement located near the town of Tserovani. The objective was to provide employment and income to newly displaced people after the war. Three cost share grants were made for a bread bakery, a cement tile factory, and a poultry farm. A fourth full grant without the cost share requirement was made for a “service center” that provided needed home/plumbing/electrical repairs, a beauty salon/barber shop, and an internet café.

Two of the grants are presented here as mini-case studies that perhaps supply some “lessons learned” about potential problems and disappointing impacts of grants to private, for-profit businesses that were not well conceived. The grants in question were made directly to “sole proprietors” who responded to a request for applications.

Bread Bakery

The entrepreneur receiving the bread bakery grant is a medical doctor who also has an export business in Tbilisi. He has a partner, of sorts, who is an accountant with another

bread company in Tbilisi. The grant was for US\$101,807 to build a plant up to international standards that would supply bread to the Tserovani settlement. The cost share obligation was USD 30,000.

Originally the grant application projected sales of 4,000 to 5,000 loaves per day/35 tetri per loaf (about US 20 cents), about US\$800/day based on the lower projection. The market was to be in the Tserovani settlement with a population of 6,000. The business plan called for profitability in five months and would employ 14 IDPs from the community plus temporary workers during the construction phase.

At the time the grant was made, apparently, no one realized that different international organizations were distributing (or were planning to distribute) free flour in Tserovani, so people baked their bread at home. Less free flour is being distributed now. Nonetheless, this fact destroyed the market in Tserovani and the market in nearby villages is very small. The entrepreneur was trying to produce 800 loaves a day, at the time of my visit, but said he was having a very difficult time selling them not only in Tserovani, but also in other nearby communities.

In order to stay in business the grantee needs to expand his market and sales and to keep as many people as possible employed. There is really no market in Tserovani, so the owner is trying to develop other markets including a large deal to produce buns for the McDonalds chain in Georgia and bread for another local fast food operation, Two Minutes. He intends to bring equipment from the Ukraine should he get the McDonalds contract. He would produce the McDonalds bread in the Tserovani plant on one shift and bread for Tserovani and surrounding communities on a second shift, if everything goes the way he would like. This would result in employing even more Tserovani IDPs in the plant. But, right now, this is all very tenuous and depends on whether he gets the McDonalds contract, first, and, then, whether he can get a bank loan for the Ukraine equipment for which he will put his home in Tbilisi up as collateral. There doesn't seem to be much of a market for even the 800 loaves he said he is currently trying to produce. It is unclear how many people are actually on the payroll as of July 3, the date of my visit. The day we were there the plant was shut down because of a gas line problem, so it was not operating.

Although no accounting information was produced, when I asked the entrepreneur how much he had lost since the beginning of the project he said he thought they might be breaking even, maybe, with revenues (off the top of his head) of 7,472GEL (about US\$ 4,060) since the beginning production in October 2009.

The conclusion is that the bread project, while projected to create 14 full time jobs, seemingly tenuous at best, is operating at a highly reduced level, if at all. There were, perhaps, 24 short-term laborers during the plant construction phase, about two months, but I am not sure of the exact figure. It seems that this business could fail at any time, if it hasn't already, at least in terms of grant objectives. There don't seem to be any other links to the community of Tserovani, except for the direct employment, which, at best, seems to be a fraction of what was hoped. There don't seem to be any additional forward

or backward linkages, although there would have been modest economic multipliers caused by the expenditure of the incomes of the employees.

In the end, the grantee put up his US\$30,000 cost share that was used to buy land and install the utilities, gas and electricity and received a grant of US\$101, 807 to complete building the factory. The result is that he has a bread production facility that complies with international standards, because of the design required by the grant agreement, which is ready for use in this or another venture that would probably be more profitable. For now, at least, it seems that the principal beneficiary of this grant will be the grantee.

Cement tile factory

The grantee has a cement tile factory in Tbilisi that is, by his account, quite successful. The Tbilisi shop was started in 2004. He had done quite well through 2007, but in 2008 business turned very bad. In the first quarter of 2009, it seems that their sales were back up and they thought business was rebounding. A friend let him know about the grant announcement, he followed up and put in an application projecting market and sales based Q4 of 2007 and Q1 of 2009. He projected 8 IDP workers with salaries of between 20-50 GEL per day (piece work depending on production volumes), a very nice sum indeed under normal Georgian salaries—almost too good to be true. The principal market was construction contracts for paving jobs in other municipalities and secondarily in Tserovani. The grant was approved for US\$20,000 for construction of the main shop, purchase of all equipment and special molds (quite expensive), training of the workers, special work clothing, and raw materials. The cost share was for US\$4,000 to renovate a smaller building and bring electricity into the site. He rents the land.

The grantee said he was counting on his good relationship with the construction contractors to bring him contracts. This did not happen because construction of all kinds was in a real depression. He had one nice sale of 1,000 m² in Guria just after the plant came into production and has only sold a total of 18 m² at Tserovani since then. Currently the shop is shut down and the grantee has 3,000 m² of unsold inventory that needs to be sold before he starts up again. He employs two guards— salary unknown. Although the Tserovani shop is closed, apparently the Tbilisi shop is still doing well. The grantee said that, thanks to the grant, he has improved his tiles at the Tbilisi shop, probably because of the high quality molds purchased for the Tserovani shop.

The conclusion is that the grantee will devote his time to his successful Tbilisi cement tile factory. Since he doesn't own the land in Tserovani, there is not much incentive for him to stay there. He is the sole owner of the buildings, equipment, which amounts to a cement mixer, some drying tables, the molds, and the inventory. These later two assets have most value. The inventory is estimated to have a minimum value of 30,000GEL or US\$16,304 according to the grantee's financial manager. The project paid for the raw materials— about 3,000GEL or US\$1,630. The molds, other equipment, and building they calculated as worth about US\$15,000. The grantee has accumulated assets based on the grant of over US\$31,000, less his cost share of US\$4,000, or a net gain of about

US\$27,000 and about US\$7,000 more than the original grant. In the end, this grant has almost exclusively benefitted the grantee.

ANNEX V: EVALUATION SCOPE AND METHODOLOGY

Evaluation Scope of Work

SME Support project

Contract: 114-A-00-05-000104-00 Anticipated outputs of the project activities were: improved quality standards and self regulation; increased entrepreneurial skills; effective advocacy by business associations; increased capacity and willingness of financial institutions to provide credit to SMEs; and increased access to bank loans for SMEs to stimulate production, sales, and the demand for labor.

To achieve these goals, the project implemented several types of activities designed to:

- Develop capacity of local SMEs. During the later stages of the project, a particular focus was placed upon the tourism industry;
- Development of business association services, which were expected to become sustainable through for-fee training/certification and business consulting services for local business communities;
- Improve public-private dialogue to effectively engage with the local government on business-related issues and reforms to address key business needs;
- Improve access to credit for SMEs through use of DCA guarantees and the provision of technical assistance to firms to access credit.

Purpose of the Evaluation

SME Support project

The contractor shall assess the SME Project's strategy, approaches, accomplishments, and impact of project assistance on the SME-sector, including the number of new SMEs created; sustainability of SMEs supported by the project and the impact of project support on their sales/revenues; and private-sector jobs created. Project interventions to address the needs of small and medium sized enterprises, as specified in the CA, can be grouped in four major areas:

(1) increase access to medium- and long-term financing through use of the Development Credit Authority (DCA) mechanisms; (2) encourage increased participation of Georgian businesses in international markets through the adoption of internationally recognized self-certification standards; (3) develop advocacy skills in selected Georgian business associations in order to more effectively engage government at all levels on a variety of business issues; and (4) improve business skills of SME's to apply for credit and provide accurate and reliable information to lenders. It is equally important to assess the economic impact and sustainability of the individual projects and programs targeting specific sectors, associations, and groups of people, including the tourism sector and Internally Displaced People (IDPs) from Shida Kartli. The evaluation should identify "lessons learned" and provide recommendations to help inform future USAID project focus and scopes of work. The evaluation should analyze the project's impact on SME development and provide specific recommendations on the future strategies to address the SME sector needs.

General questions to be addressed

The contractor shall review and summarize the implementation and results achieved by the projects to answer the following as well as additional questions developed by an evaluation team:

For SME Support project

- What was the major impact of the SME Support Project's technical assistance and grant programs on the development of the SME-sector?
- Prioritize these activities with the greatest impact on SMEs;
- Explore sustainability, cost effectiveness, and relevance of the project's activities;
- Assess efficiency and sustainability of the concept of a country-wide network of business consulting services for SMEs, and sustainability of current counterparts/grantees, including the Georgian Economist's Association and the Georgian Chamber of Commerce and Industry;
- Assess the Project's strategy and activities to increase access to credit for SMEs;
- Distill 'lessons learned' for future programming;
- Which local government institutions and/or business associations should USG assistance target in future programs to have the greatest impact on the SME development and job creation?
- Recommend which strategies to promote and which to abandon to more effectively achieve objectives;
- Analyze and evaluate linkages and the relative effectiveness of alternative activities, approaches and strategies for future programming.

Performance Period

The contractor is required to conduct this evaluation over a period of approximately six weeks.

The team will spend at least four weeks in Georgia to complete the necessary analysis and draft reports. Up to five working days preparation (document reviews). Twenty working days working throughout the country including interviews, field visits, preparation of draft report and debriefing for the USAID/EG and USAID/EE offices. Initial draft assessment reports shall be presented no later than three days prior to departure from Georgia for Mission review and comment. Five working days follow-up for consideration of USAID comments (to be provided within ten working days after submission of the draft) A six-day workweek is authorized while in Georgia.

Methodology

In consultation with USAID, the Contractor shall perform the following tasks:

1. Draft Work Plans for the Assessment of the three projects and present for review to AOTR/COTRs of the activities on the second day following arrival in-country. USAID will provide an initial list of in-country contacts prior to team arrival as well as assist in logistics of appointing meetings;
2. Develop a questionnaire to be addressed during the evaluation that should be completed by the close of the second working day in country;
3. Review all relevant information and additional materials that may be necessary to support drafting of the evaluation report;

4. Conduct interviews with the appropriate staff of USAID/Georgia, sub-grantees/end-users, Georgian government, business associations, other private sector and certification entities;
5. Perform field trips as needed (to Ajara, Kakheti, Shida Kartli, Imereti, Samegrelo, Samtskhe-Javakheti regions) to interview project beneficiaries, business associations, and local government representatives;
6. Present a draft outline to USAID by the 12th calendar day in country and draft sections by the 18th calendar day. The final draft report will include an Executive Summary.
7. Conduct debriefing for USAID/EG Office on the AgVANTAGE and SME Support Projects before departing the country.
8. Prepare three written final reports, incorporating comments from the debriefing as well as written comments from USAID, and submit to USAID.
9. Final evaluation reports shall include an executive summary, table of contents, body, appendices, and shall not exceed 40 pages, excluding the appendices.

Supervision and Technical Guidance

The evaluation team should work in close consultation with: USAID/EG team including: Office Director Douglas Balko, AgVANTAGE Project Manager/COTR - David Tsiklauri, SME Support Project Manager/AOTR – Nino Kumsishvili, and other EG office local staff as necessary. In addition, as needed the consultant should work with ACDINOCA and IESC personnel formerly employed by these projects locally and in their headquarters. All evaluations should include a significant participation of grantees, end-users, and stakeholders.

Logistic Support

The Contractor will be provided with limited logistical support by USAID. The Mission will provide assistance to set up and manage the consultant's meetings schedule in Georgia. The Mission will assist in arranging for local transportation and for making travel arrangements within Georgia as required, though all payment /funds outlay for these services shall be made by the Contractor. USAID staff may accompany the assessment team on some meetings in Tbilisi and in the region. After reviewing the schedule of the meetings, the USAID/EE team will make a decision on which meetings to attend and inform the contractor in advance.

The Program Documents for Review

1. SOW for the Program
2. The Program final reports
3. The Program quarterly reports
4. The Program work plans
5. Public opinion surveys and pools
6. Studies/assessments produced under the Program
7. The other program documents which will be provided by the EG and EE offices in Tbilisi