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I. Success Story (3 entries)

Rural MFI Improves Loan Monitoring with New MIS



Mary Chachanidze's job as Finance Manager at the Georgian Rural Development Fund (GRDF) just became easier following the installation of a new Management Information System (MIS), which was purchased using proceeds from a small grant from the USAID-funded Georgia Microfinance Stabilization and Enhancement (GMSE) activity. Daily updates about loans disbursed are sent from GRDF's four regional offices to the HQ office in Tbilisi, allowing Ms.

Chachanidze to better monitor operations. Previously, GRDF used an outdated loan tracking module, and information from its branch offices was only updated on a monthly basis.

In October 2004, GRDF was awarded a small grant from GMSE to upgrade the MIS to help them better track the integrating repayment schedules, calculate delinquency for missed periodic payments and design more informative reports on the portfolio, collateral and borrowers. Under the old system, loan portfolio information from the field offices was hand-delivered to the HQ office in Tbilisi the first week of each month, to create monthly loan portfolio updates. Top management was limited by this old MIS system, because they were not able to catch the early signs of problem loans and take appropriate measures in a timely manner, which resulted in overall problems with the quality of the organization's loan portfolio.

Following the purchase and installation of the new hardware and software, GRDF provided training to staff throughout the network. More than 50% of the GRDF staff have been trained and are now able to use the new MIS. GRDF also secured new equipment necessary for the operation of the system. To that end, GRDF's Finance Manager remarked, "We purchased 4 digital cameras for our upgraded MIS to integrate pictures of borrowers and collateral, as part of the new and enhanced loan security requirements of GRDF."

The new MIS system is installed in all regional branches and will enable GRDF's senior management to monitor performance throughout and across the organization on a daily basis. Furthermore, it will allow them to create a loan officer incentive system based on performance, and help them determine which loans perform best and should be continued and which ones have high delinquency rates and should be terminated.

GRDF was founded in 2003 and inherited the portfolio of a credit cooperative system operated by an American organization, ACDI/VOCA. The organization focuses on rural/agriculture finance and currently serves 917 active loans in 17 rural regions throughout Georgia. Currently the largest agricultural lender in Georgia, GRDF wants to develop its reputation as a long-term trusted partner for farmers and rural entrepreneurs to access financing, and as a viable player in an ever-increasingly competitive local microfinance market.

GEORGIAN MFIs RECEIVE GEORGIAN CORPORATE GOVERNANCE MANUAL



The first Georgian-language Corporate Governance manual for microfinance organizations was unveiled at a press event organized by the USAID-funded Georgian Microfinance Stabilization and Enhancement (GMSE) activity on 31 January at the Sheraton Metechi Palace Hotel in Tbilisi. Representatives from MFIs, the National Bank of Georgia, commercial banks, the Georgian Government, the NGO sector, and business unions attended.

GMSE's activities are designed to support the development of the microfinance sector in Georgia, in order to foster development of micro- and small businesses, create jobs, and reduce poverty. Corporate governance plays an important role in the development of GMSE's partner microfinance organizations and this new manual is designed to serve as a guide for partners and others to help strengthen their corporate governance structures.

The Corporate Governance Manual was written by a prominent international expert, Jeremy Condor, who first visited Georgia as a GMSE consultant in July 2004. Mr. Condor was invited to work with GMSE partner microfinance organizations on the development of their corporate governance structures. He conducted a series of workshops and provided individualized assistance for GMSE's partners. Following his visit, Mr. Condor prepared a corporate governance manual tailored to Georgia and its cultural realities, paying special attention to relations between Boards and corporate management. The manual uses numerous examples to help the reader differentiate between good and bad governance.

GMSE's Chief of Party remarked that the manual "Is written in a simple and straightforward manner, making it a good resource for management. We believe that it is appropriate not only for MFIs but other organizations, including commercial banks, since best practices of good governance are universal." Nick Melitauri, director of CERMA, the leading Georgian training-consultancy firm, described the manual as "very interesting and useful," while a representative of the International Finance Corporation remarked

that it [the manual] is ‘...well written, tailored to its audience and sympathetic to the requirements of the local culture’. The directors of two of GMSE partner MFIs thanked GMSE for publishing the manual and said that the manual will be used as a guide for their organizations’ management given the importance of corporate governance.

More than 35,000 clients are being served by MFIs, and this number could be even greater if barriers in the current legislation impeding development of MFIs were removed. In particular, policy changes are needed to clarify the legal status of MFIs, and to amend the grants law. GMSE is actively working to encourage such legal and policy changes, and is helping to develop a spirit of cooperation between banks and MFIs.

In addition to the Good Governance manual, those who attended the event received a CD with a documentary film about microfinance as well as other materials describing GMSE activities and profiles of Georgian MFIs. Three televisions (“Mze”, ‘Kavkasia’ and TV-1st channel), four news agencies and five newspapers covered the event.



Georgian Microfinance Sector Gets Clear Legal Status

In the year declared by the United Nations as the ‘Year of Microcredit,’ the Georgian Parliament passed an historic package of amendments to the Georgian Civil Code (GCC), clearing the way for the long-term development of a sustainable microfinance industry in Georgia. With a vote of 110-1, Parliament approved amendments to the GCC that clarify the legal status for the local micro-lending industry by introducing the

term ‘microfinance organization,’ and giving such organizations the legal right to engage in lending activities. The vote occurred on 25 February 2005 and the amendments were signed by President Mikhail Saakashvili on 15 March 2005.

Passage of these amendments to the GCC means that non-commercial, non-depository organizations like foundations and associations, which are established or funded by donors and implement micro-lending in order to reduce poverty, can register as microfinance institutions with the Ministry of Justice. Legally-registered microfinance institutions can thereby engage in lending activities to help alleviate poverty in Georgia, create jobs and raise incomes for borrowers. Thus, with the stroke of his pen, the President has paved the way for Georgia to join the ranks of countries that have legal microfinance institutions.

Prior to the passage of the GCC amendments, Georgia’s micro-lenders operated as non-commercial associations and foundations and were in violation of the law by engaging in lending activities, and faced the threat of having their registrations revoked. This

impeded the development of individual micro-lenders and the industry as a whole, as investors were reluctant to invest in the sector.

The establishment of an unambiguous legal environment for Georgian micro-lenders was a key task of the USAID-funded Georgia Microfinance Stabilization and Enhancement (GMSE) project. In September 2003, GMSE, together with microfinance practitioners and international experts, established a Legal Action Committee to achieve consensus on a reasonable policy decision to address the legal and tax ambiguities faced by micro-lenders. Parallel to this, GMSE worked directly with respective parliamentary committees and ministries to launch a wide-scale public information campaign to increase awareness among stakeholders and decision-makers. Their message was two-fold, to stress the importance of microfinance and how it leads to the development of the micro-and small business sector, and to promote the legislative changes needed to allow the microfinance sector to develop. Giorgi Otavidze, GMSE legal expert, added: "We presented fundamental facts on how MFIs are important for the development of the Georgian economy."

The numerous one-on-one meetings with officials in both Government and Parliament and the public information campaign paid dividends when GMSE met MP, Nino Kalandadze, Deputy Chair of the Parliamentary Committee for Legal Issues (**see picture**). Passionate about poverty reduction and sympathetic to legal uncertainties facing the Georgia's micro-lenders, she decided to champion the process by pushing the legal initiative through Parliament. "[The Georgian] Parliament and Government are committed to this effort and will continue to support the development of the microfinance sector whose mission is to serve the poor," she remarked at the GMSE-sponsored press event on 2 March 2005 to announce the amendments to the GCC.

Representatives of Georgia's microfinance institutions are optimistic about the development of the sector now that their legal status has been clarified. According to the results of GMSE's credit demand survey, the gap between demand and supply of micro-loans exceeds USD 238 million. The new legal environment will help microfinance institutions diversify their loan products and penetrate these underserved and unserved regions.

II. Executive Summary

During the quarter in review, January-March 2005, the Georgia Microfinance Stabilization and Enhancement Activity (GMSE) accomplished several key objectives in each of the task areas.

The largest accomplishment in Task 1 was the passage of amendments to the Georgian Civil Code on 25 February 2005, which clarifies the legal status and operation of Georgia's micro-lenders. More details about this historic achievement can be found in

the above Success Story. Beyond this, GMSE's legal specialist met with Ministry of Finance officials to secure a letter exempting MFIs from paying profit tax on donor grant funds, and conducted legal due diligence of those organizations that submitted applications for the large grants program. Finally the Legal Specialist provided legal assistance to World Vision during and after the registration of Credo Foundation, and he led a training organized for loan officer and senior managers of partner MFIs.

In Task 2, the GMSE MFI Specialist provided targeted technical assistance to GMSE's partner MFIs, Constanta Foundation, Credo Foundation, Georgia Rural Development Fund, and the Small Business Development Fund. Technical assistance agreements signed with each of the aforementioned were revised to reflect the new needs of each organization. GMSE also added one new partner organization, Crystal Fund, and signed a technical assistance agreement with them. Also during the quarter, the GMSE MFI Specialist conducted a three-day training course for loan officers of MFIs operating in West Georgia.

In Task 3, GMSE met with senior bank officials to discuss options for partnerships with non-bank microfinance organizations and specific ways to increase investment in the rural sector via such partnerships.

In Task 4, GMSE sent training demand information and resumes for potential microfinance trainers from the Banking Finance Academy to the Microfinance Center for Central and Eastern Europe and Newly Independent States (MFC).

In Task 5, GMSE collected and reviewed financial data from seven Georgian microfinance organizations for profiles about each organization posted on the Mix Market website (www.mixmarket.org). Now there are profiles for nine (9) Georgian microfinance organizations which will make the Georgian microfinance industry more attractive for private investors.

In Task 6, GMSE was ambitious in promoting microfinance awareness and educating policy makers and the public at large about the important role that MFIs play in the development of the national economy. To that end, numerous articles were published, information was broadcast on live radio shows, and a documentary film about microfinance was created and aired on local and national television. Beyond that, GMSE's Public Information Specialist convened a meeting of the Public Information Advisory council and presented the GMSE public relations strategy at a USAID Economic Growth Office meeting. Other notable accomplishments included organizing two successful press events, one to unveil the Georgian language Corporate Governance manual and another to announce the amendments to the Georgian Civil Code, and a seminar on marketing for MFIs.

In Task 7, the GMSE Grants Specialist managed the collection and review of project proposals submitted for the second round of small grants, which resulted in 3 applications valued at USD71K being approved by USAID. Beyond that grants from round one were monitored and invoices paid, and due diligence completed on large grant applications. The latter process was halted following receipt of USAID's letter of termination of the GMSE project, and notification was provided to grant applicants that no large grant awards would be made.

On 23 February, GMSE received notification from USAID that the project will be closed on 10 August 2005. Consequently GMSE will focus on three major activities in the coming quarter: (1) legal/policy reform, including working with the National Bank of Georgia and other stakeholders on MFI legislation which the NBG must present to Parliament by 1 November, and beginning the initial work on the establishment of a MFI association, (2) rural finance, to help partner MFIs expand to or deepen their penetration in rural areas through new product development and improved marketing, and (3) commercialization of the non-bank microfinance sector, facilitating meetings between commercial banks and partner MFIs. An additional priority will be monitoring grant awards from rounds 1 and 2 to ensure compliance and project completion by July 2005. For more detailed information about plans for next quarter, please see Section V. - Plans for New Quarter below.

III. Progress to Date

A. Administration

In January, the GMSE team reviewed all activities in the Year Two Work Plan to measure progress toward achievement of results and to help with future planning [of activities]. The exercise showed that the team was on track toward full completion of all activities, and in some cases additional activities would be completed.

In February, the GMSE COP gave a power point presentation to the Deputy Mission Director about the GMSE project and the impact to date, plus immediate short-term priorities. The COP also wrote an article entitled "Georgian Parliament Legislates Clear Legal Status for Non-Commercial Micro-Lenders" for the Microfinance Center's Policy Monitor. The article will appear in the spring 2005 edition, expected to be released in April/May 2005.

Also in February, the COP drafted a Case Study about the policy reform process that ended with the passage of amendments to the Georgia Civil Code. The Case Study includes a discussion of the steps in the process, the end result and impact on the development of the microfinance sector in Georgia, and lessons learned from the process. The Case Study will be shared with USAID and the Chemonics Knowledge Base Network to provide others with information about the process in Georgia.

Finally in February, the COP was invited to facilitate a session called, "Achieving Social and Financial Institutional Goals Through Establishment of Partnerships in Microfinance" at the Microfinance Center for Central and Eastern Europe and Newly Independent States' (MFC) 8th annual microfinance conference in Bucharest, Romania. The COP will make a short presentation about the benefit of bank/non-bank MFI partnerships that will be followed by presentations from FINCA and Citibank. The COP will attend the conference together with a small delegation of policy makers from the Georgian Parliament and Government and the National Bank of Georgia, who are interested to broaden their understanding of microfinance and how other countries regulate/supervise the industry.

In early March, the GMSE COP met with his colleagues from Armenia (Microenterprise Development Initiative, MEDI) and Azerbaijan (Azerbaijan Business Assistance and Development, ABAD) to share information on project approaches, discuss options for regional cooperation, and expand Chemonics' knowledge base. Many interesting ideas were discussed including the organization of a regional investor's meeting for MFIs in Armenia and Georgia (and possibly Azerbaijan) to help them attract commercial funding.

Also in March, the GMSE team prepared a modified action plan to focus project activities on legal/policy including the development of a MFI association, rural finance, commercialization of the MFI sector and close out on small grants, following receipt of the early project termination notification in late February.

B. Technical

Task #1: Promote the unambiguous legal status and tax treatment for non-bank MFIs

<i>Performance Indicator</i>	<i>Results to Date</i>
1. Working Group on MFI Law/amendments	Legal Action Committee under the Policy Coordinating Body was formed in December 2003
2. Draft MFI Law/amendments	Amendments to Georgia Civil Code received the unanimous support of the Government and passed the Committee Hearing in the Parliament's Legal Committee in February 2005
3. Presentation of MFI Law/amendments to Parliament	GMSE proposed amendments were passed by Parliament in the third reading, 110-1, on 25 February 2005, signed by President Saakashvili on 15 March 2005 and

	published in the Parliamentary newspaper on 17 March
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In January, the GMSE-sponsored amendments to the Georgian Civil Code were sent to two Parliamentary Committees, the Banking and Finance Committee and the Monetary Policy Committee, and two Government Ministries – the Ministries of Justice and Finance – for review and comment. GMSE’s legal specialist met with key stakeholders in each of the aforementioned committees and Ministries to provide information about the microfinance sector in Georgia and to answer questions about the amendments.

Also in January, the GMSE Legal Specialist assisted World Vision with the registration of Credo Foundation, reviewing their charter and registration documents to be submitted to the Ministry of Justice. Beyond this, he conducted legal due diligence of those organizations that submitted proposals for the large institutions grants tender.

In February, Georgia’s parliamentarians took up discussion of the LAC’s legislative amendments. A committee hearing was held as well as a meeting of the Cabinet of Ministers. Members of the LAC were asked to provide statistical information about the industry, including current and projected outreach statistics (numbers of clients, regions served, etc). The two-week process concluded with the unanimous support of the Cabinet of Ministers and presentation to the full Parliament.¹

The final version of the passed amendments legislates two major changes to the GCC. First, Article 35, which provides that ‘foundations and associations that engage mainly in entrepreneurial activities ...risk having their registrations revoked,’ has been amended so that such provision does not apply to microfinance organizations.

Second, there is a new article (Article 1511) which (i) defines “microfinance organization” and “micro-loan” and (ii) obliges non-commercial legal entities (i.e., foundations and associations) that are engaged in micro-lending to re-register as microfinance organizations by 1 April 2005. Newly formed non-commercial micro-lending organizations are also required to register as “microfinance organizations.” Furthermore, Article 1511 obliges the National Bank of Georgia to introduce a specialized microfinance law to Parliament by 1 November 2005.

In March, the GMSE Legal Specialist met with the Deputy Chair of the Parliament’s Legal Committee and officials from the Ministry of Finance to secure a letter of instruction from the latter exempting MFIs from payment of profit tax on grants. During the Committee hearing in February, it was decided that the aforementioned exemption, also sponsored by GMSE, would be regulated by a letter of instruction from the Ministry of Finance

¹ Between 23-25 February 2005 the Georgian parliament voted three times on the proposed amendments. It is mandatory that there are three readings/votes before any legislation can be presented to the President for signature. The final vote was 110-1 on 25 February.

rather than by amending the language in the grants law. Also, in March, the GMSE Legal Specialist met with officials in the National bank of Georgia to discuss the formation of a special working group of key stakeholders from the Bank, the Ministry of Justice and the Legal Committee of Parliament to work on the MFI legislation that the bank is obliged to present to Parliament by 1 November. He also extended invitations to the stakeholders in the aforementioned bodies to attend a GMSE-funded study tour to Bucharest, Romania in late May (26-28 May) to attend the 8th Annual MFC-organized microfinance seminar, called 'Success in Microfinance: How Do We Use This Success to Maximize Benefits for Clients.' Finally, GMSE's Legal Specialist provided consultations to IOCC about how to register a microfinance activity as a microfinance organization, per the new procedures following the 25 February amendment to the GCC.

Task 2: Increase operational and financial sustainability of MFIs

<i>Performance Indicator</i>	<i>Results to Date²</i>
1. # of NB MFIs (over \$1M) that are operationally sustainable	3
2. Total value of loans outstanding by NB MFIs	USD 15,354,009

Technical Assistance to MFIs

During the reporting period, GMSE revised technical assistance agreements with MFI partners Georgia Rural Development Fund, Credo Foundation, Constanta Foundation and Small Business Development Fund (SBDF) and signed a new agreement with Crystal Fund.

Georgian Rural Development Fund (GRDF)

GMSE helped GRDF to complete new lending analysis forms, which were successfully piloted in the new Marneuli branch, approved by the board and introduced in other branches of GRDF. GMSE and GRDF reviewed their loan portfolio and various indicators related to portfolio performance, such as quality, concentrations and efficiency. GRDF is going to incorporate these indicators into the new MIS system, which is close to completion.

² All figures are as of 31 March 2005.

Credo Foundation (formerly World Vision/GEF)

Credo's transition to an independently registered foundation required that they estimate the tax implications and accounting specifics for operating in Georgian National currency, so GMSE assisted Credo to measure and analyze currency exchange risks and formulate corresponding policy. GMSE also helped Credo to redesign its loan pricing system and directly connect it to the risk classification, which had previously been introduced by the project last quarter. Together, GMSE and Credo checked the compliance of the loan provisioning system which Credo currently implements according to banking standards. Credo also adjusted their lending procedures and took into consideration recommendations from the GMSE-organized seminars on improved agricultural lending products.

Constanta Foundation

GMSE assisted Constanta to revise their asset classification, provisions and loan restructuring policies so that they are compliant with National Bank of Georgia standards. Constanta is currently working to incorporate these adjustments into their MIS. GMSE helped Constanta to rationalize the cash management process in their main and branch offices, as well as to review both individual and group lending products. Following the review of group loan products, Constanta introduced new operational and analytical lending procedures and is piloting the new group procedures in their branch offices. The redesign of individual lending products is on-going.

Small Business Development Fund (SBDF)

GMSE conducted a seminar in rural/agricultural lending for the senior loan officers and management of SBDF, and recommended improvements to their existing procedures. SBDF's management welcomed many of the recommendations and recognized the importance of improving their individual lending products. GMSE provided the assistance following SBDF's registration as a microfinance organization, which was required by newly-passed amendments to the GCC.

Crystal Fund

GMSE trained Crystal's loan officers in loan analysis and underwriting, with an emphasis on financial analysis, which Crystal's management had identified as a weakness. GMSE also conducted a seminar in rural/agricultural lending for the senior loan officers and management of Crystal and recommended improvements to their existing procedures.

Recommendations included optimizing their branch system and the internal controls in the branches, for which GMSE provided corresponding model documents and procedures.

Other MFI-Related Assistance

GMSE’s MFI Specialist conducted a 2-day training for loan officers from Credo and Small Business Development Fund in Kutaisi. The training covered agricultural lending, risk and portfolio management. The GMSE MFI Specialist also coordinated training on corporate governance with the International Finance Corporation for partner MFIs.

Task 3: Develop partnerships between commercial banks and non-bank MFIs

<i>Performance Indicator</i>	<i>Results to Date</i>
1. Number of meaningful partnerships between commercial banks & NB MFIs.	One meaningful partnership created (World Vision and People’s Bank) and several identified

During the reporting period, GMSE met with senior officials from the Bank of Georgia to share information about GMSE and our work facilitating partnerships between commercial banks and non-bank MFIs. We also discussed partnership options including having banks extend credit lines to non-bank MFIs to improve access to clients in markets/regions where banks are not present or where market share is less than desired.

In addition, GMSE attended meetings with officials from the Bank of Georgia, Credo Foundation and GRDF to understand what each of the organizations is doing in the area of agricultural lending and to explore possible partnerships between the bank and the two microfinance organizations to increase investment in the rural sector.

Task 4: Increase the institutional stability of MFIs

<i>Performance Indicator</i>	<i>Results to Date</i>
1. Number of certified practitioners	Work on this activity stopped following receipt of the project termination notification on 23 February.
2. Accreditation program in place	Work on this activity stopped following receipt of the project termination notification on 23 February.

During the reporting period, GMSE sent training demand information gathered from the Banking Finance Academy (BFA) and resumes of three potential local microfinance

trainers (also provided by BFA) to the Microfinance Center for Central and Eastern Europe and Newly Independent States (MFC). Upon receipt and review, the MFC sent a cost proposal for the potential partnership arrangement with BFA to GMSE. The cost proposal included both cost information for the transfer of course curricula to BFA to meet training demand and for training of local trainers, and a time schedule of events to complete the partnership.

Upon review, GMSE submitted comments to MFC. The process stopped at this point, following the receipt of the project termination announcement. Throughout the remaining months of the project, GMSE will focus on building in-house training capacity in its partner MFIs.

Task 5: Develop financial and market data

<i>Performance Indicator</i>	<i>Results to Date</i>
1. Number of studies conducted.	1 (Credit Demand Survey, 6/30/2004)
2. Number of MFIs participating in the MIX Reporting System	9

During the reporting period, the GMSE Data Specialist analyzed financial data from seven (7) Georgian microfinance organizations for inclusion in profiles of each organization for the MIX Market website (www.mixmarket.org). The data was checked against audit financial statements for each organization. Once the process was completed, the data was submitted to the MIX Market and profiles were created for each of the MFIs. To date, a total of nine (9) Georgian MFIs have profiles on the Mix Market site, which will increase visibility of the microfinance sector in Georgia amongst potential investors.

The GMSE Data Specialist also created a database for microfinance outreach statistics. Such statistics as number of active clients, value of loans outstanding portfolio, operational sustainability and portfolio at risk are tracked to monitor performance and used for monthly reporting to USAID.

Task #6: Develop a public information campaign to promote sustainable microfinance

<i>Performance Indicator</i>	<i>Results to Date</i>
1. # of website visitors.	2,770
2. Level of public awareness (# of news articles published).	Numerous meetings with key stakeholders and partners; 17 newspaper articles published, 3 major public events (press event for Corporate

	Governance Manual on 31.01.05, seminar about Marketing for MFIs on 16.02.05, and press event for amendments to GCC on 02.03.05), and first ever roundtable about microfinance in Georgia, 23.03.05, covered by 24-Hours newspaper
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Much of GMSE’s public information activities in the reporting period were focused on promotion of the project’s legal component. In addition to numerous articles about microfinance, two press events and roundtables on marketing and rural finance, the Public Information Specialist also arranged several meetings with key stakeholders in Government and Parliament and provided important information about the microfinance sector to participants of the committee hearing before the Legal Committee of Parliament.

GMSE also used the mass media to promote microfinance. Seventeen (17) articles about microfinance appeared in the leading Georgian newspapers and informational publications, including 24-Hours, Resonance, Akhali Taoba"(New Generation), "Khvalindeli Dge"(Tomorrow), "Banks and Finances," and the Russian-language daily "Svobodnaya Gruzia."

Further, GMSE held two Public Information Advisory Council meetings. The first meeting, held in late February, was dedicated to a discussion of the scenario for the second microfinance film, MFI Success Stories, an idea for a roundtable discussion to be covered by the mass media and attended by microfinance experts and policy makers, and GMSE’s role in complimenting the public relations and marketing efforts of partner MFIs. The second meeting was to view the final version of the second microfinance film, to discuss future coordination between the members and GMSE in light of GMSE’s pending closure in August, and to thank the members for their support and active participation in promoting the values and practice of sustainable microfinance.

The GMSE Public Information Specialist also organized three public events, including two press events. The first event announced the completion of a Georgian language-version of a Good Governance Manual for MFIs developed by GMSE consultant Jeremy Condor, and educated the general public about microfinance in Georgia and the GMSE activity. The second event announced the passage of GMSE sponsored amendments to the Georgia Civil Code (GCC), and a seminar about marketing for MFIs. USAID’s Program Information Specialist called the latter press event that announced the amendments to the GCC, ‘...[paraphrase] one of the most successful press events that she has seen in terms of the breath of coverage that it received in the Georgian mass media.’

Finally, on 23.03.05 GMSE organized the first Georgian roundtable discussion among MFI practitioners about achievements and challenges of the Georgian microfinance industry.

The event was held in the offices of 24-Hours newspaper, a leading daily newspaper in Georgia, and the transcript from the meeting was then printed in a large article in the newspaper.

Task #7: Design, launch, manage and monitor the credit innovation grants program

<i>Performance Indicator</i>	<i>Results to Date</i>
1. Number of grants awarded	12, totaling approximately USD 281K
2. For large grants: % of grantees' actual results to targeted objectives	No large grant awards were made. USAID instructed GMSE to notify grant applicants for the large institutional grants that no awards would be made due to the early termination of the GMSE project.

During the quarter, the GMSE Grants Manager managed the collection and review of four proposals submitted for the rural market demand survey small grants RFA. A Grants Evaluation Committee meeting was held to approve the grant applications. Three of the four applications submitted were approved, totaling approximately USD 80K. After this, grant documentation was forwarded to USAID for final approval and grant agreements were prepared and signed with selected recipients.

In addition to this, the Grants Manager continued to monitor grant awards from round one, to report on grant implementation, and to process invoices submitted for payment by the grant recipients.

The GMSE Grants Manager also organized the final internal review of the business plans and grant application documents for the large institutional grants program. The evaluation process had reached a point that award recommendations were about to be forwarded to USAID for review and consideration, when notification was received about early termination for the GMSE project. We were encouraged by USAID to notify the grant applications of this and inform them that no large grant awards would be made.

C. Coordination

During the quarter GMSE met with a number of consultants visiting Georgia. As a case in point, GMSE met with two AgVantage consultants who were in Georgia to collect information on the banking sector and gauge interest in/willing to invest in the agricultural sector.

An additional meeting was held with an official dispatched to Georgia to conduct an evaluation of the Canadian International Development Agency (CIDA)-funded projects being implemented by the International Finance Corporation.

Beyond that, GMSE met with the GEGI project to provide information for a report about the development of the micro-, small- and medium enterprise sector in Georgia; what's being done and what needs to be done.

Finally GMSE participated in an EG meeting to discuss the impact of the new Georgian Tax Code on the micro-, small and medium enterprise sector.

D. Contract Deliverables

<i>Task #</i>	<i>Deliverable</i>	<i>Target Deadline</i>	<i>Firm Deadline</i>
1	Promote the Establishment of Unambiguous Legal Status and Tax Treatment for Non-Bank MFIs		
	Formed: Working Group on the MFI Law/amendments	10/10/2004	
	Achieved: Stakeholder consensus on how to resolve legal, regulatory and taxation issues		2/10/2005
	Drafted: Draft of Special Law/amendments on MFIs	2/10/2005	
2	Increase Operational and Financial Sustainability of MFIs		
	Delivered: Marketing training for partner MFIs	12/10/2004	
	Prepared: Marketing assessments for partner MFIs	12/10/2004	
	Achieved: 3 MFIs have a combined portfolio of 40,000 clients		8/10/2007
	Achieved: 3 MFIs have 100% operational sustainability		8/10/2007
	Achieved: 50% of sustainable MFIs' borrowers are women		8/10/2007
	Achieved: 30% of sustainable MFIs' borrowers are outside Tbilisi		8/10/2007
3	Commercial Bank and MFI Partnerships		
	Launched: One new partnership	2/10/2005	
	Achieved: Each of the MFIs supported in Task 2 are linked with commercial banks		8/10/2007
4	Increase MFI Institutional Stability		

	Submitted to USAID: Business plan for selected training program	8/10/2005	
	Achieved: An existing institution receives on-going and in-depth training in MF best practices in English and Georgian		8/10/2005
	Achieved: 40 MF practitioners trained		8/10/2005
	Achieved: Accreditation system in place		8/10/2006
	Achieved: Approved sustainability option put into operation		8/10/2006
	Achieved: 120 MF practitioners trained		8/10/2007
	Achieved: 20 Georgians receive accreditation in MF best practices as expert trainers and advisers		8/10/2007
5	Develop Baseline Indicators and Small and Microenterprise Financial/Market Information and Statistics		
	Completed: MIX reporting system is installed and implemented	8/10/2005	
	Submitted: Data for periodic USAID reports on microfinance		Semi-annual
	Completed: Targeted studies for partner MFIs		8/10/2005
6	Public Information Program		
	Held: 5 seminars/workshops		8/10/2005
	Held: 15 seminars/workshops		8/10/2007
7	Grants Program		
	Awarded: First grant	11/10/2004	2/10/2005
	Awarded: Second and third grants	11/10/2004	8/10/2005

IV. Project Challenges

In light of the early closure of the GMSE project, the main challenges are:

- Maintaining momentum on legal/policy initiative. A clause in the recently passed amendments to the GCC obliges the National Bank of Georgia (NBG) to present microfinance legislation to the Parliament by 1 November. Given this national requirement, it will be imperative to complete as much work as possible on the draft microfinance legislation before GMSE's closure in August so as not to lose the momentum that was achieved during the last several months. GMSE is committed to doing whatever it can to move this process along and more details about the proposed activities for the next quarter can be found in Section V below, Plans for the New Quarter.
 - Changes in Council of Directors of the National Bank of Georgia (NBG). Every 6 years the Council of Directors of the Bank comprised of the top management of the NBG, changes. The next change is scheduled for late March/early April 2005. This is a constraint, as the current management is leaving and the new management is not fully in place. Also, it is unclear if the incoming management team will share the opinion of the current Council regarding NBG-microfinance relations and regulation of the sector by the NBG [the current Council believes that there is no need for NBG regulation in the present environment as non-bank MFIs do not take deposits; only when they begin to take deposits should the NBG regulate them.] Recently it has become known that the current Chair of the powerful Budget and Finance Committee is vying for the position of president of the bank, which could have ramifications for the project as he [Chair] is on record that 'MFIs should be regulated by the NBG- even now'.
 - Limited awareness about microfinance. GMSE has made considerable gains in expanding public and government awareness of the role and opportunities with microfinance. Yet there remains much to do to inform a broader audience of public and private decision makers, as well as potential borrowers, about what microfinance organizations are and what role they play in poverty alleviation, access to capital for those left behind by the formal financial sector, and improvement in the standard of living of people in the rural sector, which continues to impact on the development of the sector. GMSE will continue to advance public awareness about microfinance, but more will remain to be done after the project has ended.
 - Creation of a long-term sustainable MFI Association. GMSE will work to establish a MFI Association that will, among other things, advocate for the industry to inform policy-makers and the general public and garner support for their continued development, lobby for legal reforms to ensure a legislative
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environment conducive to the sustainable development of the microfinance industry in Georgia, and attract financing from donor and private investors. GMSE will do all that it can to ensure that the association will have a long-term future, but given the limited timeframe in which GMSE has to operate, much of the work on the development of the association will take place after project closeout.

Again, the GMSE team does not see the above mentioned issues as “constraints,” but rather challenges that can be overcome through careful planning and targeted action and follow-up.

V. Plans for New Quarter

As a result of the early termination of the GMSE project, activities for the next quarter will be focused on Tasks 1 (Legal/Policy), 2 (Sustainable Development of MFIs) and 7 (Credit Innovation Grant Program) and will include those listed below. Please note that the below list of activities should not be considered exhaustive, as priorities may change over the course of the quarter.

Task #1- Legal/Policy

A. MFI Legislation

- Create a special working group of representatives from the Ministries of Justice and Finance, the National Bank of Georgia (NBG) and the Legal Committee of Parliament to work on the draft MFI legislation that the NBG is obliged to present to Parliament by 1 November
- Discuss the minimalist MFI law drafted by GMSE with the special working group
- Participate in the 8th annual MFC microfinance conference in Bucharest; attend sessions on ‘Government’s Role in Microfinance’
- Secure a letter from the Ministry of Finance exempting MFIs from paying profit tax on donor grant funds

B. MFI Association

- Meet with MFI practitioners to gauge their interest in an association
- If the general consensus is supportive of an association, GMSE will register the association
- Assist association members with the development of a business plan to secure start-up funding from USAID, Eurasia Foundation or others

Task #2- Sustainable Development of MFIs

- Continue to provide technical assistance to GMSE partner non-bank MFIs according to agreements signed between GMSE and each partner
- Invite a consultant to work with partner MFIs new product development
- Review business plans
- Organize a training about DCA for partner MFIs
- Facilitate meetings between commercial banks and MFIs

Task #7 – Credit Innovation Grant Program

- Sign grant agreements for round #2 with approved candidates
- Monitor grant implementation to ensure compliance with grant rules and regulations
- Ensure the project reports from grant recipients have been received and grant invoices paid by 31 July

QUARTERLY REPORT

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1 JANUARY 2005 – 31 MARCH 2005 (1ST Q 2005)