Strategic Business Development Plan (BDP)

2010-2012

JSC Microfinance Organisation

FinAgro, Georgia

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1 Context and background of the institution

Georgia is situated in Eastern Europe and shares borders with Russia in the north, Azerbaijan in the south-east, Armenia in the south and Turkey in the south-west. Georgia is divided in to nine regions and has 69 districts. Georgians form a majority, about 83.8%, of Georgia's current population of roughly 5 million with 51% is urban. Other major ethnic groups include Azeris (6.5%), Armenians (5.7%), Russians (1.5%), Abkhazians and Ossetians. Georgia's independence from the Soviet Union in 1991 was much desired, it also brought a multitude of social and economic hardships. The newly independent state lacked a legislative and financial framework for a true market economy. Living conditions drastically worsened and many communities faced starvation. Most families reverted to subsistence farming. Georgia now has more than one million family farms producing more than 90 percent of the country's agricultural output — most of it being directly consumed by the farmers and their families.

Georgia has a history of wars, invasions and political instability. Presently Georgia maintains diplomatic relations with Azerbaijan, Armenia and Turkey; however an increasing alliance of Georgia with the US and EU in its effort to become a full member of NATO has strained Georgia's relations with Russia. The tension escalated well beyond the dispute over South Ossetia leading to invasion by Russia in August 2008 resulting in widespread loss of life and property in Georgia. A NATO meeting in September 2008 will be seen as a crucial test of the West's resolve to confront Russia's drive to extend its influence in the former Soviet Republics including Georgia.

JSC Microfinance Organization 'FinAgro' (henceforth called FinAgro) is promoted by Georgian Rural Development Fund (GRDF) in November 2007, it represents a joint stock company (JSC) who's 100% of shares is under ownership of GRDF.

The origin of GRDF lies in the Agricultural Cooperative Development International (ACDI) and Volunteers in Overseas Cooperative Assistance's (ACDI/VOCA) 'Farmer to Farmer' project, which operated in Georgia from 1996-2002, to provide credit services to farmers, mainly the wheat producers. Under the project, 6 credit cooperatives were formed from 1996 to 2002 period. However, the portfolio quality of these cooperatives was not very good, in fact two of the six cooperatives actually closed down by 2002. These four agriculture credit cooperatives were merged in November 2003 to establish the GRDF, and US$2.2 million portfolio from their portfolio was transferred to GRDF. Apart from the portfolio, the staff appointed and assets created during ACDI/VOCA project were also transferred to GRDF. As per new legislation of Georgian government adopted in July 2006 and amended in July 2007 on Microfinance Organisations and Entrepreneurs, the Societies/NGOs did not allow to do directly any entrepreneurial/lending activities. In order to comply with the requirement of the Law on Microfinance Organisations in Georgia, GRDF started its operations by registering as a Joint Stock Company (JSC) on 16 November 2007 and transferred the portfolio and assets to the newly established JSC Microfinance Organisation 'FinAgro'.

1.1. Vision and Mission

The vision of FinAgro is to become the leading rural (agriculture) finance institution in Georgia facilitating access to credit for farmers and rural SMEs engaged in the production, processing, sale, servicing of agricultural output as well as in other spheres related to agriculture in the country.

Its mission is to provide access to working capital and investment loans for Georgian farmers and agriculture-related rural businesses that have difficulty in obtaining credit from Georgian commercial banks, based on 100% repayment of the credit from earnings generated by the project financed.

1.2. Goals

The goal is to expand the economic opportunities in the rural agricultural sector of the country with the objective of increasing employment and family incomes by creating economic and transparent lending system throughout the rural areas of the company. In doing so, FinAgro will aid overall development in rural areas by providing access to funds and technical assistance to the eligible recipients.

JSC Microfinance Organization "FinAgro" operates under the acts of law "entrepreneurs and microfinance organizations" and other normative acts in Georgian Legislation. The organization also operates under its statute. "FinAgro" is eligible to:

- provide mortgage, consumption, secured/non-secured, agriculture, business and other types of loans to groups and individuals;
- provide consulting services related to the microfinance;
- receive loans from resident and non-resident individuals and legal entities; and
- provide other financial services and operations governed by Georgian legislation (*for example:* micro leasing, factoring, currency exchange, securities, issuing and realizing bonds and other related operations)

2 Market analysis and Clients

2.1. About the operational area

Since independence, the people of Georgia have endured periods of civil war and unrest as well as violence related to the independence aspirations of the breakaway regions of Abkhazia and South Ossetia. Both regions have close ties with Moscow, which in August 2008 announced that it was formally recognising their independence. Tensions between Moscow and Tbilisi are never far from the surface and in August 2008 flared up into an armed conflict triggered by clashes between Georgian troops and South Ossetian separatist forces. His long-term prospects are less certain, as in future Georgia is likely to be far worse off - both strategically and economically - as a result of the war.

The US now has a major strategic interest in the country, having invested heavily in an oil pipeline from Azerbaijan via Georgia to Turkey. The Georgian armed forces have been receiving US training and support. Increasing US economic and political influence in the country has long been a source of concern for the Kremlin, as have Georgia's aspirations to join NATO and the EU.

Georgia was hit badly by the Russian financial crisis of August 1998 and it took the country a long time to start recovering. Since 2003 the economy has grown rapidly. Agriculture is the largest sector of economy, accounting for 21% of total GDP, although several other industries have high growth rate, including construction (33%), financial services (20%), communication (19%), hotels and restaurants (17%). The construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline has also helped boost the economy.

In October 2008, the donors' conference held in Brussels under the aegis of the World Bank allocated US$4,5 billion in aid (2 billion in grants and 2.5 billion in loans). Georgia will receive these funds during 2008–2010, and much of it will be spent on undoing the economic damage caused by the Russian military aggression. To avoid a banking crisis, the central bank – the National Bank of Georgia (NBG) took the right decision when it renewed commercial-bank refinancing, thereby opening a channel of cheap credit resources for the country's commercial banks.

Many subsistence-level family farms are sorely lacking in even the most basic tools and knowledge needed for success. There is inadequate healthcare for livestock, and a lack of milk collection facilities and veterinary services available for small farmers. Access to agricultural markets and affordable financing is very difficult. And lingering iscrimination, isolation and inter-ethnic feuds have led to tensions between local governments and communities, and even within the communities themselves.

Operational area map

The "FinAgro" is located in Gori where recent war was happen. FinAgro has four branches (incl. Gori branch) located in rural district of the East Georgia namely Gori, Telavi, Tsnori, and Marneuli focusing on agriculture sector. The organisation had an outreach of 710 borrowers covering of 12 districts and 97 villages. FinAgro has individual and group clients, while the number of active loans was 667. The institution is planning to expand its neighbouring districts.
Till 2012 FinAgro plans to open a new branch in one of the region of Eastern Georgia.

2.2. Target clients

JSC Microfinance Organization "FinAgro" provides its borrowers with short and long-term loans in an attempt to provide favorable conditions for the development of agriculture in Georgia and entrepreneurship in rural areas. FinAgro provides credit services to private sector participants in the agricultural sector including individual farmers (own and leasing), groups of farmers, partnerships, cooperatives, SME's, agriculture businessmen and traders. The majority of FinAgro loans are provided for the purpose of financing the working capital requirements of farmers, agricultural processors and traders in agricultural inputs and outputs. Loans are also provided for other agricultural or rural development purposes.

As on December 2009, FinAgro has 710 total clients. Out of 710, 667 are active loans with total loan portfolio of GEL3.7 million (US$ 2.2 million) and a staff of 26, including 8 Loan Officers.

3 Environment Analysis

3.1 Competition

Georgia has a small financial sector where several strong institutions and numerous weaker intermediaries are governed by a capable supervisor. Universal banks are the main provider of financial services, with a range of deposit, credit and transmission services. Banks are increasingly involved in the provision of microfinance, which they view not only as sources of profit but also as mechanisms for strategic placement in the market, drawing customers in to use a variety of other services. A small number of banks have also recently started to diversify into insurance and leasing products.

There is also a nascent credit union movement and a variety of NGO-type MFI operators offering credit-only services. All MFIs interviewed as part of the study commented on increasing competition from banks in the microcredit market, coupled with an awareness that they may not be able to compete on price with the banks. The small scale of existing MFIs and their inability to offer a full range of complementary services (although some are starting in the area of leasing and micro-insurance) suggests that while a small number of NGOs may succeed in upgrading their structures and becoming more competitive, others may only survive if they find viable market niches.

Competition in the Georgian microfinance sector is expected to be fiercer in future. However, the latest events, the Russian invasion as well as the worsening situation in world financial markets could result in higher risks for the Georgian financial sector as well as limited resources for Georgian banks which would slow down current market growth despite huge demand. An argument has recently been made by outside researchers that the market has a vast pool of unmet demand; such estimates of unmet demand for financial services varies from US$30 million to US$263 million. The largest gap is in the agricultural Micro and Small Enterprise (MSE) sector: supply of USD over 5 million of credit makes about one third of effective rural demand of USD over 15 million. Lending Non-Governmental Organizations (NGO), the pioneers of Georgian microfinance, account for two third of clients and more than one third of outstanding microloan volume, concentrating predominantly on the low end of the microloan market.

At present, FinAgro does not face much competition. The organisation is perhaps the only MFI in the country, which provides 86% agriculture and related loans and hence has a completely different client base than the other MFIs. At present the organisation has a high demand for loans, much beyond its financing capacity. As a result the organisation does not need to make much effort to get new clients; most of the clients approach the organisation on their own. FinAgro values its old clients and has maintained good relations with them, which is one of its strengths; within the limited financial resources, FinAgro tries to prioritise the loan disbursement first to its old clients although this also results in idle cash some cases when the organisation has to wait for an old client. FinAgro's core competence lies in its understanding of agriculture lending. Additionally promptness of services, client friendly approach, flexible and convenient terms and conditions are its strengths. Strong marketing and good positioning also helps the organisation to deal with the competition.

3.2 Political situation

Following the collapse of communism in the USSR in 1991, Georgians voted overwhelmingly for the restoration of independence and elected nationalist leader Zviad Gamsakhurdia as president. However, Gamsakhurdia was soon overthrown by opposition militias which in 1992 installed former Soviet Foreign Minister Eduard Shevardnadze as the country's new leader. During his 11 years in office, the Georgian people felt increasingly at the mercy of poverty, corruption and crime. He was ousted in November 2003 following mass demonstrations over the conduct of parliamentary elections.

Mikhail Saakashvili was elected president in January 2004, and won a second term in an early election in January 2008, called in response to opposition protests. In 2004, Mr. Saakashvili led the "Rose Revolution" protests which forced his predecessor as president, Eduard Shevardnadze, to resign, riding a wave of popular anger at a parliamentary rigged election. He won an overwhelming majority in the subsequent presidential election, in what OSCE observers described as a "welcome contrast" to the parliamentary poll. Soon after that, Mr. Saakashvili consolidated his position when his National Movement-Democratic Front won a resounding victory in parliamentary elections. He faced a major challenge towards the end of 2007 when a one-time ally, former defense minister Irakli Okruashvili, accused him of corruption and of plotting a murder.
The accusations triggered a wave of protests. Mass demonstrations were held in Tbilisi demanding elections. The opposition accused him of being authoritarian and not doing enough to alleviate poverty.
Mr. Saakashvili sent in the riot police, imposed a state of emergency and alleged there was a hidden Russian hand in the unrest. He also brought forward presidential elections to 5 January 2008, proceeding to win an outright victory with more than 50% of the vote. Mr. Saakashvili further consolidated his position when his party won a landslide victory in parliamentary elections in May 2008.

And the outbreak of armed conflict with Russia in August 2008 led many Georgians who had previously accused Mr Saakashvili of exhibiting authoritarian tendencies to rally behind him. His long-term prospects are less certain, as in future Georgia is likely to be far worse off - both strategically and economically - as a result of the war.

3.3 Economic environment

Since the fall of the USSR, Georgia embarked on a major structural reform designed to transition to a free market economy. However, under the impact of civil wars and the loss of both preferential access to former Soviet Union markets and large budget transfers, output fell by 70% and exports by 90%. The World Bank and the International Monetary Fund were the first ones to offer financial help by granting a credit of US$206 million in 1995.

Since the early 2000s some visible positive developments have been observed in the Georgian economy. In 2006, real GDP growth rate reached 9.3%, making it one of the fastest growing economies in Eastern Europe. Georgia's ranking improved from 112th to 18th in 2008 in terms of ease of doing business. However, the country is still battling with a high unemployment rate and has fairly low median income compared to European countries.

The IMF and World Bank along with the EU and US are the main donors for Georgia. The IMF programme went off-track in 2003, as the Georgian authorities failed to comply with the requirements set out by the fund. The IMF approved a new three year arrangement under the poverty reduction and growth facilitation (PRGF) and Georgia will be able to withdraw up to $144 million from the IMF. The World Bank reduced its three-year assistance plan for Georgia in 2003, but is reassessing its country assistance strategy. It is likely to continue to come under the Economic Development and Poverty Reduction Programme (EDPRP) framework designed by Georgia together with international organisations and donors in 2003. This programme is the first such plan for Georgia, setting out the main objectives and identifying priorities for the country until 2015.

Due to the country's climate and topography, agriculture and tourism have been the principal sectors of the economy. However agriculture is now replaced by services which form 54.8% of GDP, while the share of agriculture is currently 17.7% of GDP. Its imports and exports accounted for 10% and 18% of GDP respectively in 2006. Georgia was hit badly by the Russian financial crisis of August 1998 and it took the country a long time to start recovering. Since 2003 the economy has grown rapidly. Agriculture is the largest sector of economy, accounting for 21% of total GDP, although several other industries have high growth rate, including construction, financial services, communication, hotels and restaurants. The construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline has also helped boost the economy.However tensions with Russia have led to an economic embargo and simultaneous discontinuation of financial links which acts as a major external impediment for Georgia's economy.

Economic Overview

- Largest producer of clay and kaolin.
- Worldwide acclaimed producer of fuller's earth.
- Leading producer of crushed stone and building stone.
- It is one of the highly recognized nation for producing egg and broiler.
- Leading producer of peaches.
- It is characterized as the highly leading producer of peanuts and pecans.
- Service sector is the major GDP contributor.

3.4 Legal environment

Before 2006, banks and credit unions are licensed by the National Bank of Georgia (NBG), where supervision is housed, respectively, in the Departments of Bank Supervision and Non-Bank Supervision. Foundations and associations operate under the Civil Code with legal ambiguity about their organizational and tax status but are not subject to any official financial supervisory practices. All institutions are affected by weak legal enforcement of court decisions and collateral contracts, and judicial corruption, which collectively create a disincentive for enforcing collateral and weaken the credit culture.

In July 2006, the Government of Georgia framed a special law on MFOs which provided the NGO MFOs a much needed legal framework. The law required all existing MFOs to be registered at the National Bank of Georgia to transform either into a joint stock or a limited liability company until the end of 2007. The present Regulation defines the rules and requirements for registration of a microfinance organization (further referred to as MFO) at the National Bank of Georgia. The capital requirements for an MFO is paid-in authorized capital shall be no less than GEL 250,000. The National Bank of Georgia is apex institution for finance sector regulation in Georgia.

4 Implementation Strategy

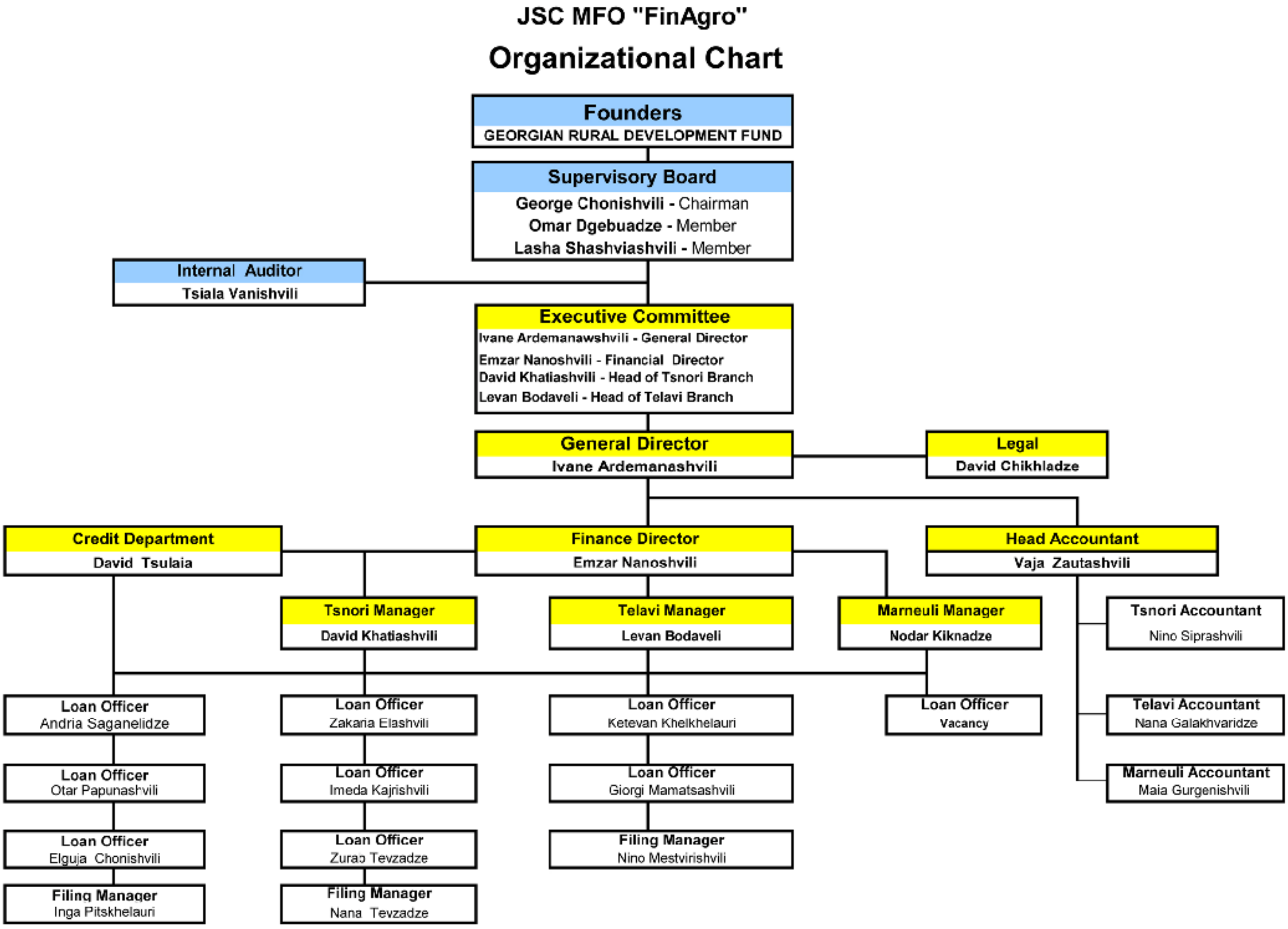
4.1 Governance and organisation

JSC Microfinance Organization 'FinAgro' is registered a joint stock company (JSC) in November 2007. Governance system of FinAgro is based on corporate principles achieved by appointing the Supervisory Board members by the founders. The Supervisory Board is small consisting of three members. Mr. George Chonishvili, the Chairmen cum General Manager of GRDF heads the Supervisory Board (SB). Other members of the Board are Mr Omar Dgebuadze, leading Lawyer in Georgia and Mr. Lasha Shashviashvili, one of the biggest farmers in the country. A criterion for selecting the SB members is their interest to contribute to the sustainable development of FinAgro.

Apart from the Supervisory Board, FinAgro has an Executive Board for operational decision-making. The Branch Managers (Tsnori, Telavi and Marneuli), the General Director and the Finance Director comprise the Executive Board, which meets once in a month. It has a Credit Committee at Head Office consists of the Financial Director, the Head of Credit department and the Lawyer to approval higher size and special loans. The addition of members on the committees will make strategic decision making more varied and democratic and ensure the strengthening of systems and processes of the organisation. The main responsibility of SB is to monitor the activities of FinAgro executive board. Also for branches monitoring SB uses Internal Auditing.

The organisation is led by a General Director (GD), who supervises the functioning of the key departments including Credit, Finance, Legal and Accounting and Management Support. The GD is supported by the Financial Director, Head of Credit, Head of Accountant and the Lawyer. The Finance Director is also monitoring branches with the Head of Accountant.

Each branch is staffed by Loan Officers (LO) and Branch Assistant and is headed by a Branch Director who reports to the Executive Board. The Loan Officers report to the Branch Director. However, Branch Managers also work as Loan Officers and directly handle clients, although the case-load on them is generally less than that of Loan Officer. Apart from the operations staff, branches also have an Accountant and a File Keeper.



4.2 Operational and growth strategy

FinAgro has a clear focus on continuing to provide mostly agriculture and agri-allied loans. The organisation has developed expertise in agriculture loans, as it was created with the aim of supporting the agriculture sector and all the staff is now well experienced in handling agriculture products. The organisation's strategy of continuing with agriculture and related loans and capitalising on its strength is a reasonable one. However, the portfolio composition is still far from desirable, 85.2% has given to agriculture loans out of which 48.5% (41.3% of total portfolio) is given to wheat production which is has very high proportion of portfolio. The organisation is aware of its high concentration of wheat loans, and has plans to diversify its portfolio and bring down the share of wheat loans to less than 25% in the next two-years period. FinAgro also wants to increase the share of loans related to trade and processing of agriculture produces. The organisation's plan to diversify its portfolio is a good strategy, which will reduce the risk to some extent. Also increasing the share of processing and agriculture trade will have a positive impact on the yield, as these loans are generally higher priced.

The organisation has specific loan products for different agriculture needs and it has backed all its loans with adequate collateral, which is good strategy, considering the fact that agriculture loans generally bear more risk. Majority of FinAgro agriculture loans term short, with most of the loans getting repaid within one year. However, the organisation has limited loans to agriculture processing, business, trade and service loans, which have two year term. The agriculture loans allows to pay monthly interest and principal at end of the term or during loan period but the agri-business and trades loans has to pay monthly interest and principal as per loan schedule.

For its operations, FinAgro (earlier GRDF) has so far not obtained any loan funds. The organisation has been operating through the initial grant of ACDI/VOCA received in the form of portfolio through the four founder cooperatives and the subsequent grants received from USDA and GMSE. Due to limited funds FinAgro has to wait for some of its good clients to disburse loans and meanwhile has to refuse loans to the new borrowers. The organisation has the policy of giving priority to the old clients to maintain good client relations and also as the cost of appraisal for old clients is lesser.

At present, an area of concern is the low staff productivity. This is because continuous declining of active borrowers and the organisation had to retain all the staff from the GRDF. However, FinAgro has been trying to streamline its staff structure and has capacity of handling double of existing level of operations. FinAgro does not plan to expand until it has considerably improved its productivity. However in the short term, it plans to expand geographically and, after some time, would go for vertical expansion by adding more branches in a region. In order to support its portfolio growth FinAgro plans to mobilise commercial and grant funds.

With the implementation of this strategy as shown in this business plan, FinAgro is expected to reach over 1,700 active borrowers by the end of September 2012. The gross outstanding loan portfolio is projected to exceed GEL 6.7 million (USD 4.0 mn) in nominal value.

So active expansion strategy is caused by large and unsupplied demand on agricultural loans. Besides FinAgro has good experience in this field and in case of sufficient funds, risks associated with starting new branches are eliminated.

FinAgro will address this active expansion in a variety of ways:

- Sustainability of micro financial services will be the guiding principle as we launch the organization. This sustainability will focus on quality – full cost recovery and strong repayment discipline – over the quantity and size of its loan portfolio.
- New loan products may be introduced in pilot phases to appeal to and address the needs of a broader base of potential clients.
- Innovative client outreach programs will be developed and piloted to serve larger numbers in sparsely populated rural areas.
- Over time, as successful MFI clients grow their businesses, they can graduate to different, larger loan products.

5 FinAgro's microfinance program

5.1 Credit delivery methodology

FinAgro follows individual and group (group of individual farmers 2-4) lending methodology. The organisation has a complete focus on agriculture sector and its entire portfolio is in agriculture related activities. The organisation has a clearly laid out credit policy, describing the various loan products, eligibility and loan approval procedures. Any Group Loans is treated as a single loan. All loans have collateral requirement, which is generally over 150% of the loan availed. The collateral can be movable and immovable assets such as house, land, machines, vehicles and house hold appliances. The impending produce and cattle can also be taken as collateral but they are given a zero value on asset valuation.

The appraisal process of any loan includes a site visit, assessment of client's business, experience, collateral valuation, cash flow analysis of business, estimate of income/expenditure, assets/liabilities, past credit history. The organisation also uses an internally developed MS Excel based tool called 'Technological Map' to estimate the capital requirement for different agriculture and animal breeding purposes. The tool based on basic data entry about a client's, land size, proposed crop and various other variables calculates the estimated cost of production in that area and thereby helps in loan appraisal. After the appraisal of loans, the loan is approved by the Branch Director. However, branches can approve loans only up to GEL 20,000. Loans beyond the mentioned limits and special loans are referred to the Head Office, where the decision is taken by the Credit Committee, comprising the Finance Director, the Head of Credit Department and the Lawyer.

FinAgro Microfinance operations as on 31 December 2009			
Name of regions	4	Current repayment rate	92.4%
Districts	12	Portfolio at $Risk_{30days}$	3.5%
Villages coverage	97	Loan Loss Provision Ratio	0.8%
Total clients	710	Portfolio Yield	25.2%
Active borrowers	667	Operating Expense Ratio	20.3%
Total staff	26	Financial Cost Ratio	0.0%
No. loan officers	8	Borrowers per field staff	83
Total Outstanding portfolio	GEL3.7 mn (US$ 2.2 mn)	Number of Borrowers / total Staff	28
Avg. Loan Disbursed(GEL)	5,350	Return on Assets	3.4%
Avg. Loan Outstanding(GEL)	5,530	Capital adequacy ratio	110.3%

5.2 Products and services

Loan products

FinAgro has only agriculture, animal husbandry and agriculture business loans and no other products. However, it has well developed products to meet specific agriculture loan requirement of the clients. The loan amount, term of repayment and interest rate depends on the purpose of loan and size of the client's land. However, under no case can the loan amount be more than 70% of the total project cost. The loan products may classify into two products – agriculture loans for production and agri-allied loans for agricultural business & trade. The interest rate on most of products ranges between 26-36% and the repayment term on all products is between 6-24 months. The FinAgro agriculture loans for production of wheat, fruits, cereal, vegetable, sunflower, and citrus plants, growing of new gardens and vine plantations, repairing of agriculture equipments, mechanized services, milch animals, poultry, pigs, sheep, fish and bee-keeping. The agro-business and trade loans gives for processing of cereals, fruits and sunflower sale of agriculture output, shipment service, trading with chemical weed killers and pesticides and fertilizers. The disbursements are made in cash at the branch. The process of loan application to disbursement takes one week.

Loan type ➔	Agriculture Credit	Agro business, Trade & Service
Target clients	Agriculture farmers: owned/leasing	Agri-businessmen /traders
Loan Size (GEL)	500-50,000 *(650 GEL per hectare)*	1,500-50,000
Term	6-18 months	3-24 months
Repayment frequency	Principle: Monthly/Quarterly/ Half yearly/ Bullet Interest: Monthly	Principle and interest : monthly
Interest rate	24%-36% pa declining	28%-36% pa declining
Upfront fee	2.5% on loan amount	2.5% on loan amount
Penalty on overdue loans	0.05% per day on installment amount	
Guarantee/ collateral	At least 150% collateral *(land, house, shop or any fixed assets)*	
Prepayment	Allowed without any charges	

There has been a sustained increase in the average outstanding loan size primarily due to a decrease in the number of clients. The average outstanding loan size significantly increased from GEL3,057 (US$1,699) in December 2004 to GEL 5,194 (US$3,055) in December 2009 with an average growth of 8,9% per annum. The average outstanding loan size is expected to stabilise now until external fund flow comes to the FinAgro. The diversification of portfolio is given below:

Amount as on 31 Dec 2009

S.No.	Activity	Loan outstanding		%
		GEL	US$	
1	Trade & service	409,098	242,673	11.2%
2	Agriculture *(85.2%)*			
	Wheat	*1,522,972*	*903,412*	*41.3%*
	Fruits	*556,871*	*330,330*	*15.1%*
	Livestock	*748,641*	*444,086*	*20.3%*
	Grape	*228,649*	*135,632*	*6.2%*
	Vegetable & Mushrooms	*84,821*	*50,315*	*2.3%*
3	Processing	668	396	0.0%
4	Consumer	68,102	40,397	1.8%
5	Others	68,071	40,379	1.8%
	Total	**3,687,893**	**2,187,622**	**100.0%**

5.3 SWOT analysis

Strengths	Areas for improvements
Governance/organizational	
✓ Clear strategy of working with farmers with low competition in agro-financing ✓ Board of Directors well-experienced on agricultural issues ✓ Well defined and focussed products ✓ Professional experience the Charman and General Director ✓ Strong second line leadership ✓ Back up support from GRDF ✓ Limited/Low competition	× Small Board and need to increase Board size and get mf experts into Board × Small Increasing trend of growth – outreach & portfolio × Reasonable high client dropout rate × Sketchy operational and expansion strategy × Limited coverage within existing villages and districts × Low diversified portfolio
Managerial	
✓ Professional, experienced, committed, motivated and trained staff ✓ Good recording and reporting formats for operations ✓ Good clients ✓ Efficient use of fixed assets ✓ Strong loan appraisal system and legal follow up of old overdue loans ✓ Decentralised system ✓ Standardise systems and procedures	× No formal internal auditing and control system × Moderate cash planning system × Low/decreased staff productivity × MIS system needs strengthening × Expensive cost of operations
Financial	
✓ 150% collateral security loans ✓ Very high capital adequacy ✓ Good yield on portfolio ✓ Productive deployment of assets in the loan portfolio	× Low current recovery rate and decreased portfolio quality × abundance of funds × Reducing negative margins × Depending on grant and credit for growth × Low performance on sustainability and profitability
Opportunities	**Threats/Challenges**
❖ Potential for business development and unmet demand for financial services. ❖ Good staff strength and not fully utilised staff capacities. ❖ Liberal economic polity – no restriction on foreign currency ❖ Good law for asset mortgage ❖ Opening new branch	? Country risk ? Political stability, security, economic situation in Georgia ? Potential competition from MFIs and banks ? Foreign exchange fluctuation ? High inflation rate ? Getting borrowers funds and make ? No Availability of insurance

6 Financial projections

- **The following assumptions and projections - derived from the limited information available from the institution on its future financial projections – are <u>tentative</u> in nature. These should not be viewed in isolation nor be regarded as a basis for investing in the future - only the main risk rating report provides an opinion on investments.**
- **All assumptions are based on the data gathered and had discussion with the chief functionary and coordinators during the rating exercise and the micro credit methodology used by the institution.**

Note: The projections are made in local currency (GEL) and also the amount is converted in to USD. Currency conversion rate (1 USD =1.7 GEL)

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	Dec-09	Dec -10	Dec -11	Dec-12
No of Borrowers	710	1,130	1,370	1,700
No of loans disbursed	667	1,050	1,250	1,500
Yield on average portfolio	25.2%	24.0%	23.4%	23.2%
Cost of external funds	0,0%	12.0%	11.5%	11,0%
Repayment rate from groups	92.4%	94.3%	95.3%	96.6%
Loan loss reserve ratio	2.7%	3.2%	3.2%	3.2%
Average loan size to borrowers (GEL)	5,529	4,957	4,766	4,442
Average loan size to borrowers (US$)	3,252	2,916	2,803	2,613

2 Projected Cash Flow Statements

Amount in '000

For the year ending:	Dec-09		Dec-10		Dec-11		Dec-12	
Inflows	GEL	US$	GEL	US$	GEL	US$	GEL	US$
Opening cash	202	119	341	201	359	211	357	210
External borrowings	0	0	1,360	800	850	500	850	500
Repayments from members	2,949	1,735	3,225	1,897	4,900	2,882	5,655	3,326
Grants	287	169	170	100	0	0	0	0
Interest income	886	521	1,065	626	1,305	768	1,465	862
Other income	137	81	170	100	200	118	230	135
Total Inflow	**4,461**	**2,624**	**6,331**	**3,724**	**7,614**	**4,479**	**8,557**	**5,034**
Outflows								
Disbursement	3,344	1,967	4,950	2,912	5,750	3,382	6,520	3,835
Repayments to lenders	0	0	0	0	272	160	388	228
Operating expenses *(excl. depr.)*	698	411	848	499	970	571	1,100	647
Interest paid on borrowings	0	0	108	64	194	114	235	138
Tax	32	19	16	9	21	12	28	16
Fixed assets purchase	46	27	50	29	50	29	50	29
Total Outflow	**4,120**	**2,424**	**5,972**	**3,513**	**7,257**	**4,269**	**8,321**	**4,895**
Net cash balance	**341**	**201**	**359**	**211**	**357**	**210**	**236**	**139**

3 Projected Balance Sheets

Amount in '000

As on:	Dec-09		Dec-10		Dec-11		Dec-12	
	GEL	US$	GEL	US$	GEL	US$	GEL	US$
ASSETS								
Cash in hand and Bank	341	201	359	211	357	210	261	154
Other current assets	318	187	373	219	355	209	335	197
Total loans portfolio	3,688	2,169	5,205	3,062	5,957	3,504	6,663	3,919
(Loan loss reserve)	98	58	163	96	188	111	213	125
Net loans outstanding	3,590	2,112	5,042	2,966	5,769	3,394	6,450	3,794
Other long term assets	-	-	-	-	-	-	-	-
Net fixed assets	254	149	277	163	297	175	316	186
Total Assets	**4,503**	**2,649**	**6,051**	**3,559**	**6,778**	**3,987**	**7,362**	**4,331**
Liabilities and Net Worth								
External borrowings	-	-	1,360	800	1,938	1,140	2,346	1,380
Other liabilities	53	31	-	-	-	-	-	-
Total Liabilitie	**53**	**31**	**1,360**	**800**	**1,938**	**1,140**	**2,346**	**1,380**
Share Capital	3,671	2,159	3,671	2,159	3,671	2,159	3,671	2,159
Donated Equity	-	-	-	-	-	-	-	-
Grants	287	169	457	269	457	269	457	269
Retained surplus/deficit	342	201	492	289	563	331	712	419
Current surplus/deficit	150	88	71	42	149	88	176	104
NET WORTH	**4,450**	**2,618**	**4,691**	**2,759**	**4,840**	**2,847**	**5,016**	**2,951**
Total Liabilities and Net Worth	**4,503**	**2,649**	**6,051**	**3,559**	**6,778**	**3,987**	**7,362**	**4,331**

4 Projected Income Statements

Amount in '000

For the year ending:	Dec-09		Dec-10		Dec-11		Dec-12	
	GEL	US$	GEL	US$	GEL	US$	GEL	US$
Income								
Interest income	886	521	1,065	626	1,305	768	1,485	874
Other income	137	81	170	100	200	118	235	138
Total Income	**1,023**	**602**	**1,235**	**726**	**1,505**	**885**	**1,720**	**1,012**
Cost								
Financial cost (incl. FX risk gain/loss)	0	0	108	64	194	114	235	138
Loan loss provision	29	17	65	38	25	15	25	15
Written - off	98	58	100	59	105	62	115	68
Depreciation	16	9	27	16	30	18	31	18
Operating expenses	698	411	848	499	970	571	1,100	647
Total Cost	**841**	**495**	**1,148**	**675**	**1,324**	**779**	**1,506**	**886**
Surplus/Deficit	**182**	**107**	**87**	**51**	**181**	**106**	**214**	**126**
Income tax	32	19	16	9	32	19	38	22
Net Surplus/Deficit	**26**	**18**	**71**	**96**	**149**	**88**	**176**	**104**

5 Key Projected Performance Ratios

For the year ending:	Dec-09	Dec-10	Dec-11	Dec-12
Operational self sufficiency	121.6%	107.6%	113.7%	114.2%
Return on average assets pre tax	4.1%	1.6%	2.8%	3.0%
Return on average assets post tax	3.4%	1.3%	2.3%	2.5%
Operating expense ratio	20.3%	19.7%	17.9%	17.9%
Avg. outstanding/borrower (GEL)	5,194	4,606	4,348	3,919
(US$)	3,055	2,709	2,558	2,305
Portfolio growth rate	6.3%	41.1%	14.4%	11.9%
Risk weighted capital adequacy ratio	110.3%	84.5%	77.0%	71.9%

Notes to the projections

- The following assumptions and projections – derived from the limited information available from the institution on its future financial projections – are tentative in nature. These should not be viewed in isolation nor be regarded as a basis for investing in the future – only the main risk assessment report provides an opinion on investments
- All assumptions are based on the data gathered and discussion with the Chairmen and the General Director Financial Director and Accountant.
- Number of active clients is assumed to increase up to 1,700 over three years as shown. This assumption is based on the perceived potential for expansion of the FinAgro.
- Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield movements are projected to stay the same as there is not likely to be any change in the overall interest structure. *(Yield on portfolio is taken based present increase effective rate of interest)*
- The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
- Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment.
- Average loan size to members decreases by 10-4% every year .
- Grant is taken in 2009-2010 only and subsequent years no assured grants for the projection periods. This grant was/will be taken from UNDP.
- Other income is the income that the organisation earns on commission, write off collection and bank interest.
- Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
- Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity. Increase in members is taken at 59% in the first year and between 21-24% in subsequent years.
- Repayments to lenders is 20% per annum on the projected liability structure.
- Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
- In the projections the net worth figure includes share capital, donated equity, grant retained surpluses and current surplus.
- Increased 50,000GEL in fixed assets in every year.

Abbreviations

ACDI	Agricultural Cooperative Development International
BD	Branch Director
CAR	Capital Adequacy Ratio
FCR	Financial Cost Ratio
FSS	Financial Self-Sufficiency
GD	General Director
GDP	Gross Domestic Production
GEL	Georgian Lari
GRDF	Georgian Rural Development Fund
HO	Head Office
JSC	Joint Stock Company
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
LO	Loan officer
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MFO	Micro Finance Organisations
MIS	Management Information System
MSME	Micro, Small and Medium Entreprises
NGO	Non Governmental Organisation
OER	Operating Expenses Ratio
OSS	Operational Self-Sufficiency
PAR_{30}	Portfolio at Risk (>=30 days)
ROA	Return on Assets
ROE	Return on Equity
US$	United States Dollar
USDA	United States Department for Agriculture
USAID	United States Agency for International Development
VOCA	Volunteers in Overseas Cooperative Assistance

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