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**Mi-fi Module**

Visit to Crystal in Georgia

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## Introduction

Mi-fi Module is a service for Microfinance companies in developing and emerging countries. We want to support the local entities through basic consulting facilities. Students or recent graduates offer to visit during a project-based trip for around two weeks. Topics currently in development include value-chain finance, extension services, marketing modules, impact measurement, certification procedure, portfolio analysis and business process analysis.

Our goal is to create learning modules that benefit MFIs. The modules can best be described as units of “knowledge, processes, tools or technology”. We want to use a flexible approach so that the structures are transferable to other regions, countries and continents. The trip to Kutaisi and Georgia represented our first attempt at formalizing the Mi-fi Module.

## Overview

### Background

With the visit of our two Mi-fi members we generally wanted to find out, if we could identify instances in which extension services could be used to support value chains. Crystal already has experience with extension services / connections. As an example: Agronomists working / consulting in supplier shops, determining the need of the farmer and recommending corresponding material such as specific fertilizers. These activities tend to be un-customized, with only limited effectiveness. Any large-scale concept like the implementation of a hotline for farmers, agronomists and crystal employees would be too resource intensive.

### General Goals

On Mi-fi side, the goal was to learn about Microfinance in Georgia. In return, we wanted to bring in our ideas, knowledge, experiences and impressions.

For the students, the trip consisted of three elements:

1. Students visiting want to see and learn how a MFI/Credit Bank works
2. Students contribute in the form of presentations/knowledge in particular on value chains and extension services
3. Students work on possible value chain ideas/ extension service connection

### Responsible & People Involved

Julian Osborne initiated the project with support of BFC. The two members Noah Sutter and Stepanka Kralikova visited Crystal in Georgia. Main support was delivered from Andrey Taranushchenko from BFC.

## Findings from the first Mi-fi Module

This report focuses on only two findings from the visit to Crystal. The first is on opportunities for value chain building that Crystal has; the second is the issue related to the perception of Microfinance among the general population. There is a particular emphasis at the beginning on what we understand under value chain, as to make the reader aware on the process-orientated approach.

### Value Chain Building

One of the main goals of the Mi-fi Module 2016 was to explore possibilities for value chain building and value chain finance. A value chain includes the full range of value-adding activities from the sourcing of raw materials to the final consumer. An agricultural value chain refers to the systems of people, organizations and activities, which create, process and deliver agricultural products from farmers to consumers. Microfinance is especially relevant for financing seasonal activities in agricultural value chains, in that it for example provides smallholder farmers with credits to purchase input material that later generate yields.

Value chain finance “[...] is any or all of the financial services, products and support services flowing to and/or through a value chain to address the needs and constraints of those involved in that chain, be it a need to access finance, secure sales, procure products, reduce risk and/or improve efficiency within the chain.”<sup>1</sup> Value chain finance is therefore a systemic approach rather than one that places a single individual at its core. The goal is to design financial products and services, which increase the actors’ returns, while simultaneously growing and increasing competitiveness of the value chain as a whole. The actors along the value chain can all be clients of an MFI. By specifically looking for opportunities to connect different clients along the value chain, an MFI can play an important role by emphasizing value chain focus.

In agricultural value chain, finance the approach aims for an integration of the various players in the input, supply, processing, production and distribution with in, as well as between the chains of actors. Agricultural value chain finance in rural regions is useful to support individual farmers, especially in poorer countries where smallholder farming is the dominant form of subsistence. In general, an MFI has the possibility of identifying different actors along the value chain and bringing these together.

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<sup>1</sup> [www.fao.org/](http://www.fao.org/) - “Agricultural Value chain Finance “ by Calvin Miller and Linda Jones

There are numerous tools which can be applied for which the book “*Agricultural Value chain Finance*” by Calvin Miller and Linda Jones offers a great overview and can freely be downloaded. These tools and approaches help in the screening of borrowers, disbursing and repaying loans, reducing risks creating guarantees, insurances and collaterals to and among value chain actors, as well formatting strategic alliances. Mi-fi suggests having a look at this book in particular to get a broad overview on possibilities.

### **Focusing on the weakest link**

Value chains are only as strong as their weakest links and consequently it lies in the interest of financial institutions involved, to focus on these in particular to make the entire line of connections more durable. Value chain finance can imply (1) improving the interaction and connection between the different links by offering need specific tailored products, but can also refer to (2) actively building value chains from scratch by connecting previously unrelated actors. By strengthening, the value chain a financial institution like Crystal can increase the returns of their clients and by doing so reduce the risk of default, which leads to lower interest rates. Therefore, value chain building benefits both the lender and the borrower.

### **Taking it to the extreme – an example:**

An example in the book “*Agricultural Value chain Finance* “ by Calvin Miller and Linda Jones sums up an extensive case of integration of a financial intermediary in a value chain.

*“In the case of flower producers in Mexico, Rabobank finances their needs for working capital, equipment and technology. Closely aligned with this, Rabobank also finances the equipment distributor who provides needed technology to the farmers. The bank finances the farmers because the bank knows them and understands their marketing system. In fact, the farmers send their products to an auction market in Holland, and Rabobank finances the auction market and many of the buyers in the market. In this way, the bank has locked up the financing of the whole chain and has intimate knowledge of the chain – production factors, equipment suppliers, and buyers. The bank also knows that the farmers receive their money as it is deposited in a Rabobank account, so that the bank can directly debit their accounts for loan payments.”*

### **Crystal's own example of value chain building**

Our Mi-fi members present in Georgia were able to identify a simple example of value chain building, even if it was not designed and happened unintentionally.

During the last decade, Mestia has experienced a great transformation into a regional touristic centre. During this transition, Crystal has funded a lot of hotels, hostels and guesthouses. This rising number of hotels has created an increased demand for traditional wooden furniture. Subsequently, in this specific example a traditional woodcarver in Mestia was able to expand his business while he was financed by Crystal, in order to satisfy the hotel sector's demand for wooden furniture. Both the hotel industry in Mestia, as well as the furniture supplier were able to benefit from the credits offered by Crystal.

### **Focusing on Entrepreneurs – an opportunity for Crystal**

However, there are still a lot of possibilities where Crystal can actively engage in value chain building. During the visit to Georgia in the course of the Mi-fi Module, we recognized certain opportunities for suitable value chain connections within the client base, which Crystal is servicing. One example especially caught Mi-fi's attention. Within the framework of Crystal's Young Entrepreneurs Club, one of the participants was eager to start a business producing grass using horticulture technology with the goal of thereafter selling it to livestock farmers. As Georgian corn production does not suffice to meet the demand by the farmers, some have to rely on imports from distant areas such as Spain. The horticulture grass may be an affordable alternative. By taking a value chain approach, Crystal could support the entrepreneur not only with a credit, but also help with setting up business connections in this distribution channels to the farmers.

This example is only part of a larger problem, represented by the lack of functioning value chains in economically less developed countries. It is difficult to create a business in an empty space that lacks suppliers and distributors, as well as channels to customers. For young entrepreneur it is a huge challenge to find existing value chain structures and to create any from scratch is even more difficult. It is exactly here that Crystal can act as an intermediary, focusing on bridging gaps between different players. Crystal does not only collaborate with the potential grass producer, but also with several livestock farmers.

## **Microfinance Perception**

During the trip, our Mi-fi members were often confronted with issues related to the perception people have towards Microfinance. Part of the awareness raising activities we are doing aims at improving the way in which Microfinance is delivered. The market for MFIs in Georgia is highly competitive and a company like Crystal constantly needs to come up with new ideas in order not to lose market share.

### **Competition and a general perception issue**

Microfinance in Georgia has not as good a reputation as one might expect. Many people show distrust in MFIs and prefer not to lend money from this type of institution. The reason is that in Georgia, a country with around 3.5 Million inhabitants, about 70 MFIs compete for the customer base with only Crystal and about a handful of others, focusing on a high degree of social responsibility. In many cases, the drive for profits leads to confiscated land and property due to customers' defaults. The high interest rates will always attract greedy behaviour aiming to gain profit on the need of the poor. A proper risk assessment of clients applying for a loan is one the most crucial steps in keeping Microfinance sustainable. Currently, this is still mainly accomplished through elaborate excel-files that completed based on information from the customer. Here we suggest keeping in mind that technology might be more able in the future to support credit agents in their work by processing faster and more accurately.

### **What can Crystal do? Certification, standards, code of conduct and self-regulation**

On the other sides, it is in part the responsibility of Crystal and other like-minded institutions to make sure they work on a positive perception of Microfinance. We believe that Crystal has been doing good work in that area. Examples include that for people to receive a credit, they need to have 1/3 of their income left after repaying their interest rates.

We believe this can be taken to another level. Crystal could coordinate on a national or even international level to make sure that the type of Microfinance delivered in Georgia, is adequate and serves the people in need of financing. One possibility is to include certification from international institutions - examples include CGAP. Another possibility could be a self-regulated community amongst the leading MFIs in Georgia, which tries to follow a coordinated approach on increasing the positive image. Despite high competition, it makes sense to coordinate a group effort amongst the most important players in the field, ultimately benefitting the group as a whole. In any case, such an effort can only be undertaken and be worthwhile if the focus of it lies exactly on a sustainable approach and not on how to increase the number of loans. A common code of conduct could be a start.

## Outlook

The expectation for our first visit were not extremely high, but we believe that all sides involved were able to benefit considering the relative low resource expenditure involved. We hope that Crystal and BFC will find this report valuable. We will work to improve on the Mi-fi Module in the future, given the limited resources we have as a student organisation. We need to find a balance between what we can deliver and time commitment.

We have a number of long-term goals, which we believe are achievable. These are not limited to Georgia and our work with Crystal but refer to any kind of possible collaborations with MFIs on a global scale.

### **Our long-term goals we want to build with our Mi-fi Module:**

- 🕒 Building of lasting partnerships
- 🕒 Knowledge/Technology transfer
- 🕒 Exchange of ideas
- 🕒 Development of value-chains
- 🕒 Improvement of businesses
- 🕒 Creating an exchange program
- 🕒 Additional funding (from companies and governments)



## Closing Remarks

We want to thank BFC and Crystal for the extreme support they have shown us.

In particular:

- 🕒 Andrey Taranushchenko, BFC
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We hope that this report will support Crystal in the tremendous work they have been doing.

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Thank You

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