



Rural Small & Medium
ENTERPRISES DEVELOPMENT
GEORGIA



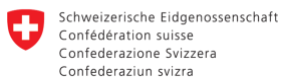
LEAVE NO ONE BEHIND: ACCESS TO FINANCE FOR LINGUISTICALLY AND ECONOMICALLY EXCLUDED SMEs

Lessons from the Rural Small and Medium Enterprises Development Project (RSMEDP) in Georgia

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Introduction

Projects that use system change approaches to improve people's economic opportunities are sometimes criticized for failing to put the most marginalized community members at the heart of their programming. This learning brief describes how the *Rural Small and Medium Enterprises Development* (RSMED) project in Georgia used a systems approach to improve linguistic and ethnic minorities and socially vulnerable groups' access to business support services.

Identifying An Opportunity

The vision of the RSMED project is to enhance employment and incomes for rural women and men through Small and Medium Enterprise (SME) growth. To ensure the project benefited the most marginalized, the RSMED project looked not only at the numerous challenges constraining SME growth and resilience for all SMEs, but also, specifically, at the needs of linguistic and ethnic minorities, and socially vulnerable groups, had in running their businesses.

Linguistic and Ethnic Minorities: In Georgia, Azerbaijani and Armenian ethnic minorities, most of whom live in rural areas in the south of the country, face numerous constraints to running businesses and accessing financial services. These include lower educational levels, linguistic challenges and poor access to assets and collateral. Unpaid labour is prevalent among these populations who, at the time of the last census in 2014, made up 6.3% (ethnic Azerbaijanians) and 4.5% (ethnic Armenians) of the total Georgian population.

Socially Vulnerable Groups (SVGs): these are private persons receiving assistance from government to support elementary living conditions. It is estimated that around a third of socially vulnerable citizens can work and there is increasing government recognition that support is required to enable them to transition from social support to enterprise or employment.

An inclusivity-focused analysis led the RSMED project to approach *Enterprise Georgia* (EG), a government agency with a mandate to improve the business environment and support development of the private sector throughout the country, about the opportunity to make their micro and small business support program, known colloquially as the 'micro-grants program,' more accessible to linguistic and ethnic minorities and socially vulnerable groups.

EG is a prominent agency among rural SMEs in Georgia, with a co-financed micro-grant competition program that has benefitted 21,000 individuals since 2015. EG provides 80% subsidy to SMEs for grants up to 30,000 GEL (~9,700 CHF), and up to 90% subsidy for SMEs in high mountain areas. The program opens for applications each year for a period of around four weeks with a two-step process which includes the submission of a business idea followed by a training and submission of a full business plan. It receives many applications from micro-enterprises but few from the ethnic- and linguistic-minority dominated municipalities in the southern regions of Samtskhe-Javakheti and Kvemo Kartli.

Key Challenges

While the RSMED project identified an opportunity to work with Enterprise Georgia and make their micro-grants program more accessible to ethnically- and linguistically- excluded minorities and socially vulnerable groups, it initially needed to understand the underlying barriers, the incentives and the capacities for these SMEs to benefit from this program and other opportunities.

On The Micro Enterprise's Side:

- **Language barriers:** Azerbaijani and Armenian linguistic and ethnic minorities had low awareness of the availability of the micro-grant program and struggled to apply for it, as all the marketing and application process material was in the Georgian language.
- **SVG status:** Many SVGs were concerned that if they were awarded a micro-grant, they would have their benefits rescinded, potentially leaving them worse off if their enterprises didn't become successful.
- **Low financial literacy:** While many rural micro-enterprises in Georgia had low financial literacy, ethnic and linguistic minorities were especially affected, which made it hard to develop a business case for the application and resulted in fewer applications from minority populations.
- **Perceptions of fairness:** There was a general perception amongst micro enterprises that grants were not fairly or meritocratically awarded; observers noted that some micro enterprises in their locality were receiving grants several times while others were rejected, further discouraging especially marginalised groups to apply.

On The EG Micro-Grant Program Side:

- **EG did not have specific mechanisms in place to reach all underserved groups:** Although actions had been taken to improve access for women and for those in mountainous areas, EG had no explicit strategy to reach linguistic and ethnic minorities and people from SVGs. While EG had mechanisms in place to evaluate the quality of applications and had even introduced a higher co-financing requirement for previous awardees, it had no criteria to prioritize first-time awardees, further decreasing the chances of ethnic minorities and SVGs to access the micro-grants program.
- **High rejection rates with little follow-up:** Budgetary limitations and low quality of applications led to high rejection rates – for example, in 2022, out of 13,000 applicants only 10% were ultimately awarded a grant – further reinforcing perceptions of unfairness among applicants. The project found this to be the case amongst marginalized communities, where, due to existing disadvantages and lack of targeted support during the application process, most rejected previous applicants were not aware of the reason why.

RSMED Project Intervention Approach

The RSMED project worked with EG to target its micro-grants program more effectively to linguistic and ethnic minorities and socially vulnerable groups. Since 2022 the project has been supporting EG to sustainably deploy improved support services, and more sophisticated monitoring systems and communications approaches, to effectively reach underserved groups. The RSMED project worked with EG to adapt its behaviour according to the specific needs of the various marginalized populations.

INNOVATION

BEHAVIOUR CHANGE

<p>Marketing and communications services targeted towards ethnic minority populations</p>	<p>To increase awareness of the grant opportunity, the RSMED project supported EG to deliver a targeted marketing campaign to encourage ethnic minorities and SVGs to apply. This comprised the deployment of a media campaign, supplemented by videos, articles, brochures, and social media posts, in appropriate languages, as well as targeted awareness raising activities with partner agencies and organizations.</p> <p>For example:</p> <ul style="list-style-type: none"> • Civil society organisations that represent ethnic and linguistic minorities led in-person outreach activities in seven municipalities • Five media (TV and radio) platforms delivered information on the micro-grant program in Armenian and Azerbaijani languages • A success story narrative of previous ethnic minority grant winners was showcased throughout the campaign.
<p>Provide application support services to ethnic minority populations</p>	<p>To increase the quality of applications, RSMED supported EG to enhance existing grant application support services. This comprised development of a tutorial video on submitting business ideas in Georgian, Azerbaijani and Armenian languages – the first time this content had been developed in minority languages. With the support of RSMED project, EG also offered an online business plan support service in Armenian and Azerbaijani languages.</p> <p>The RSMED project also supported civil society organisations, who were close to ethnic minority communities, to support preparation for the interview process, run appropriate business plan training sessions and provide additional information and assistance through phone calls.</p> <p>To ensure sustainability, the project supported EG to embed new support practices into their internal processes. To institutionalise the behaviour change, EG strengthened the requirements for serving ethnic and linguistic minorities in the <i>Terms of Reference</i> (TOR) for their contracting organisations (COs) which oversee implementation, training and monitoring of the micro-grant program. The TOR now mandates COs to provide business planning training to potential applicants in a language appropriate to them.</p>
<p>Promote micro-grants to SVGs directly and support development of qualitative applications</p>	<p>In the case of SVGs, analysis showed that an issue of quality over quantity needed to be addressed instead. RSMEDP saw an opportunity for EG to engage in new partnership modalities which would enhance the penetration of its micro-grants program to SVGs.</p> <p>The project facilitated a tripartite Memorandum of Understanding between <i>Enterprise Georgia (EG)</i>, <i>Social Services Agency (SSA)</i> and the <i>State</i></p>

	<p><i>Employment Support Agency (SESA)</i>. SSA and SESA are the agencies that are directly involved with supporting SVGs, including their transition into productive employment. SSA amplifies communication of the micro-grants programme through its networks and channels, while SESA has been capacitated to offer counselling sessions to prepare SVG micro-grant applicants, for their interview process. The Memorandum of Understanding also provides a framework for inter-agency data-sharing on SVG applicants, enabling them to provide application support services to potential applicants.</p> <p>The project supported EG to change the micro-grants description to include explicit language around social inclusion to increase applications from marginalized groups, especially ethnic and linguistic minorities, and SVGs. Furthermore, EG introduced preferential scoring for SVG applicants, and communicated it effectively, to encourage applications from these groups.</p>
<p>Update policy to address SVG concerns</p>	<p>One main challenge articulated by SVGs was uncertainty about losing their SVG status after receiving a micro-grant from Enterprise Georgia. In 2023, out of 137 SVG awardees, 6 refused the grant out of fear of losing this status.</p> <p>The project is therefore co-creating solutions with the agency to ensure SVGs maintain their health insurance benefits even if awarded a micro-grant, and for their allowance to only be suspended while their enterprise is operational (and to be reinstated if the enterprise fails). This will enable SVGs to join the labour market and access financial support without risking their livelihoods if their business is not successful.</p>

Sustainability In A Donor-Dependent Environment

In Georgia, as in many contexts where market systems development programmes operate, the presence of a range of international donors and the impact of their various projects on players in the local economy is tangible. This can make identifying an opportunity for sustainable change, independent of donor-funds, challenging.

Projects often find that either the private sector, government or civil society actor they are hoping to work with are funded by other donors, and often lack a sustainable model for operating independently of these funds, or that they partner with a forward-thinking organisation to develop a sustainable model and that others then flock to co-opt the model for their projects, thereby undermining its sustainability.

This is a challenge that the RSMED project has faced repeatedly, including in this intervention. While the RSMEDP has worked hard to develop the sustainability of the changes, focused on inclusion, that they worked with EG to introduce, there are two other key threats to sustainability in the wider context.

Firstly, the micro-grants programme itself is funded by the World Bank, and EG’s dependency on external funds limits the sustainability of the scheme itself. In 2024, EG have not administered the micro-grants programme. This concurs with the uncertainty of future rounds of World Bank funds but also with a view to reinvent the support mechanism by focusing on developing entrepreneurial skills and increasing resilience of micro and small enterprises.

Secondly, the project identified that many micro-enterprises in Georgia consider grants their go-to financial mechanism, over riskier commercial options, contributing to a culture of 'grant-dependency' which can damage enterprises' long-term resilience. This is due to the high availability of grant opportunities through both government and international donor funded programmes. This issue was identified by the World Bank, which placed a *performance-based condition* on their funding which encouraged the government to facilitate a pathway for previous grant awardees to access commercial financing.

Ensuring rural-SMEs' access to relevant financial products: To address these challenges, EG is co-designing a 'micro-loan' programme to enable more inclusive loan mechanisms for start-ups, women and SMEs from the high mountainous regions. EG aims to provide flexible, year-round micro-loans to enhance long-term SME financial resilience, with financial and business support via the 'graduation service' (see box to the right) available in the Growth Hubs for successful applicants. While linguistic minorities and SVGs are not a direct target for the micro-loan programme, the project is working with EG to apply the lessons learned in other programs to ensure proper inclusion of linguistic and ethnic minorities and socially vulnerable groups.

Impact

Following a rigorous measurement and attribution methodology, RSMED project measures not only direct results due to project activities, but most importantly sustainability beyond life of the project. This chapter captures increased awareness of individuals belonging to linguistic and ethnic minority groups and the improved quality of their applications for EG grants, which has been translated in better and new jobs.



'GRADUATE' RURAL SMES TO DIVERSIFY FINANCIAL OPTIONS

The RSMED project supported Enterprise Georgia to co-create an additional service to 'graduate' SMEs beyond grants by supporting their access to commercial financial products and services. In 2023, EG, supported by the project, piloted a 6-months service which connected former micro-grant winners to regional Accounting Service Providers offering affordable and targeted financial extension services to diversify their finances and [support access to commercial loans](#).

As a result, 23 micro-enterprises (5 female-owned, -led) received a loan, and 8 micro-enterprises (2 female-owned, -led) received a grant. The pilot was highly effective in improving financial literacy and management practices among micro-enterprises. It also highlighted the need for a flexible model shaping the service into three months support during active business season plus one month loan application support on needs-basis (within a nine-month limit).

RSMEDP is supporting the roll-out of this graduation model across the micro-grants programme, and through EG's new Growth Hubs.

Photo Credit: RSMED project, Georgia 2024

Increased awareness: 8,956 individuals belonging to linguistic and ethnic minority groups became aware of the grant opportunity

Increased / improved quality of applications: 385 additional applications from linguistic minority groups were registered leading to 76 grant-awardees out of which 36 are attributed to the support of the project

Better jobs: 124 rural women and men belonging to ethnic minorities, SVGs and other marginalized groups, have increased their incomes by CHF 47,628.

New jobs: 213 individuals belonging to ethnic minorities and SVGs have new employment (equivalent to 86 FTE), and increased their income by CHF 163,013 (an average of CHF 762 per person).

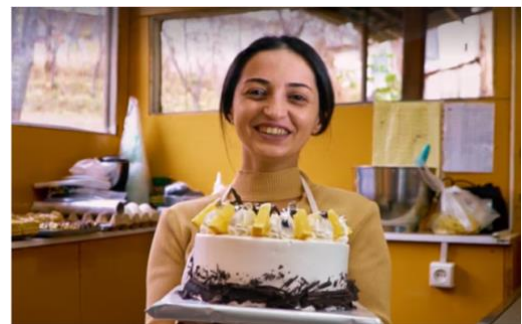
Support services have been eliciting positive feedback among SVGs as 98% of grants' winners and 73% of unsuccessful applicants have found consultation services to be 'completely useful' in helping them to overcome the anxiety of the interview process. An assessment carried out in December 2023 about how minorities evaluate public services, ranked Enterprise Georgia's services the highest. While there is no prior study to benchmark against, this ranking is also an indication of how effective the targeted outreach and services offered by Enterprise Georgia have been.

Qualitative assessments indicate that micro entrepreneurs who have benefited from micro-grants exhibit more confidence and a better understanding of the need for commercial finance and business support services, though the perceived risk of graduating to commercial loans remains high. Additionally, more than 97% of micro-enterprises (former micro-grant awardees) participating in the first round of the graduation programme pilot, said that they have a better understanding of their business and were more willing to consider taking a loan.

Impact On Employment

Increased Employment: the results so far support the hypothesis that micro-grants lead to job creation, including self-employment. Since the start of project's support in 2022, 213 individuals belonging to ethnic minorities and SVGs got new jobs, corresponding to an equivalent of 86 new FTE positions filled by people from marginalised communities. Most of these are working in the service sector, including in beauty services, care maintenance and food services, bakeries, wine making and tasting, sunflower seed producers, and clothes repairing.

Better employment: enterprises that have received micro-grants have enabled 124 existing jobs held by people from marginalised communities, to be improved and have increased incomes by CHF 47,628 (an average of CHF 384 per person), since 2022. This has further led to improvement such as better payments for staff, and better working conditions, such as improved infrastructure and better equipment, which, according to interviewed SMEs, has further trickled down to



“It is not common for women to set up businesses. In our community, Armenian women my age are expected to get married and care for their homes and families.”

Photo Credit: RSMED project, Georgia 2024

improved livelihoods for their families, more free time and more pleasant working environments.

Growth And Resilience Of Rural SMEs In Practice

At 26 years old, Veronika, a young Armenian girl living in Vale, near Akhaltsikhe in the Samtskhe-Javakheti region, was awarded a micro-grant of 7,800 GEL (~2,435 CHF) by Enterprise Georgia to grow her cake bakery micro-enterprise. This small amount of money would turn out to be life-changing for her and her family.

Passionate about baking, Veronika had initially secured a job at a local bakery but soon saw more benefit in self-employment, as she was getting constant side orders for her cakes. Starting in her kitchen, she quickly realized she needed more space and better equipment to meet growing demand, and that is when she considered the Enterprise Georgia micro-grant program. This award she won enabled her to invest in equipment and space, take on more orders, increase production and be more efficient. Less than 2 years after the grant, Veronika has almost tripled her income, both through growth in her core business, and also through adding higher value-added services – for instance, Veronika invested in a digital printer to print edible photos to top the cakes that she bakes. The increase in income has enabled her to better pay her on-call employee and to provide better working conditions – a more spacious kitchen and more efficient equipment.

Veronika's journey is characterized by growth. Even though she comes from a tough upbringing with economic difficulties is now able to provide for her family. Nevertheless, access to commercial finance continues to be challenging. Even though Veronika's dream is to open her own café in Vale, she doesn't feel ready to undergo the risk of taking a loan.

Evidence Of Sustainable Market System Change

A valuable way of understanding future sustainability is identifying if partners and other market actors are beginning to adapt and expand innovations on their own, beyond program activities. RSMED project has observed the following:

Enterprise Georgia has shown signs of **institutionalising changes** that goes beyond activities directly supported by the RSMED project. For example, EG now proactively includes linguistic and ethnic minorities and socially vulnerable groups in their micro-grant programme's marketing, support materials and training, and assessment. It has strengthened the requirements for serving ethnic and linguistic minorities in the Terms of Reference for their contracting organisations that implement the micro-grants programme (a result of the action research the RSMED project collaborated with EG on in 2022), and it is supporting SESA, the employment agency, to provide application support services to SVG, in line with the tripartite Memorandum of Understanding between EG, SSA and SESA. The cooperation with SESA and SSA agencies has provided very good initial results, but this cooperation needs to be institutionalised beyond the memorandum of understanding, and become a continuous, integral process of the agencies, for sustained results. Currently EG is establishing a fourth Growth Hub in the Marneuli region, a region which comprises mainly Azerbaijani populations. EG plans to prioritize Azerbaijani-speaking staff in recruitment for this new Hub and will offer language appropriate communication materials.

Enterprise Georgia has **effectively incorporated the ‘graduation’ service**, tailored to the needs of micro-enterprises (based on a pilot experience serving former micro-grants winners), into their ‘growth hub’ regional consulting centres. This followed the lifting of the *performance-based condition* (PBC) by the World Bank thanks to the successful pilot of the graduation service in 2023. The service is adapted to the needs of micro enterprises and also being integrated into the contracting modality of the growth hubs with roster companies (including Accounting Service Providers) now able to deploy their services to enterprises through co-financing from Enterprise Georgia. This should lead to expansion as more growth hubs roll-out the service.

More targeted services by Enterprise Georgia, which have led to increased quantity and quality of applications for both minorities and SVGs: Only in 2023, as a result of the targeted services supported by RSMED Programme, 385 additional applications from minority groups were registered (+82%) leading to 76 grant-awardees out of which 36 are attributed to the support of the project; and 141 additional applications from SVGs, compared to the previous year. SVG winners increased significantly in 2023 with some 233 winners, out of which 178 can be attributed to the activities of the RSMED programme. More importantly support services have been eliciting positive feedback among SVGs as 98% of winners and 73% of unsuccessful applicants have found the consultation services to be ‘completely useful’ in helping them to overcome the anxiety of the interview process. An assessment carried out in December 2023 about how minorities evaluate public services, ranked Enterprise Georgia’s services the highest. While there is no prior study to benchmark against, this ranking is also an indication of a targeted outreach and qualitative services offered by Enterprise Georgia to linguistic and ethnic minorities.

Adoption of a new model by Enterprise Georgia for sharing data and facilitating collaboration with the State Employment Services Agency (SESA) to support socially vulnerable groups (SVGs) access the micro-grants programme: This was formalised under an MoU signed between the two agencies and the Social Security Agency (SSA) in the reporting period. EG subsequently shared data on SVG applicants with the agencies and supported the SESA to provide application support services to over 400 SVG potential applicants.

Adaptation of a model piloted on how to better serve minority groups by Enterprise Georgia: EG strengthened the requirements towards serving ethnic and linguistic minorities in the Terms of Reference (TOR) for their contracting organisations under the micro-grants program. The TOR requires contracting organisations to offer and provide language appropriate business planning training to potential applicants of the program, this is an adaptation of the recommendations of the action research the project collaborated with EG on in 2022.

Adaptation of a support service for enabling micro-enterprises to access finance: Enterprise Georgia has adapted the ‘graduation’ service, tailored to the needs of micro-enterprises (based on a pilot experience serving former micro-grants winners), by offering a flexible model to accommodate seasonal businesses. This followed the lifting of the *performance-based condition* by the World Bank on the government of Georgia under the MSME Recovery Fund due to the experience of piloting successfully the service in 2023.

Lessons Learned

When utilized successfully, micro-grants can be life-changing for marginalised groups: Independently of the current challenges that Enterprise Georgia is facing with the micro-grants program, qualitative assessment shows the tremendous impact that the program has on the livelihoods of the entrepreneur and their family, particularly those not yet integrated in the economy. It can play a critical role in enabling socially vulnerable individuals to transition from social support to self-employment.

Explicit targeting, purposefully designed from the onset, supports the inclusion of those who might otherwise experience exclusion from profitable market participation: This learning brief shows how the targeted approach towards linguistic and ethnic minorities, and socially vulnerable groups resulted in an increased number of quality applications, and ultimately, of grant awards. The experience of Enterprise Georgia with micro-grants deployment to these groups shows that they have similar performance and efficiency in use of funds as other applicants - they simply need to be reached where they are!

Identifying the entry points is crucial to strengthening systems that support marginalised-owned and -led micro-enterprises and drive their resilience and growth: Ethnic minorities and SVGs like other underserved categories have additional disadvantages when it comes to applying for commercial loans combined with higher perceived risks for repayment. Therefore, subsidised financial products offer them the start-capital that boosts business development, self-employment, and encourages innovation and risk-taking. Nevertheless, long-term dependency on subsidised schemes can undermine their long-term resilience and sustainable growth. The RSMED project took a *holistic approach* and in cooperation with EG worked on the offer of the market (micro-grants and micro-loans program where micro-enterprises have a stake), on outreach (awareness campaign) and on financial literacy and understanding (graduation service) to disrupt the grants' dependency chain and ensure micro-enterprises can become more self-sufficient and resilient to future shocks.

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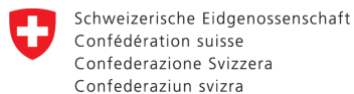
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