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# SUCCESS STORY

## A Big Victory for Small Loans

### Helping to legalize the small loans industry in Georgia



Photo: USAID/Mika Japaridze

A recipient of a small loan sells fruits and vegetables in her own stand at a neighborhood market in Tbilisi.

***With their legal status clarified, small loan institutions can operate with confidence that they will not be shut down and begin to plan for the long term. They can develop strategic business plans to diversify their products, expand their geographic reach, and attract investment.***

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It was just a small addition to Georgia's massive Civil Code, buried in Article 1511. Yet passage of an amendment on small loans paved the way for long-term development of a sustainable small loans industry in Georgia that will help small entrepreneurs grow their businesses.

The amendment allowed foundations, associations, and other noncommercial organizations to register as small loan institutions and operate legally for the first time. This opened the door to affordable credit to poor borrowers trying to build businesses.

Before the amendment, institutions that provided small loans in Georgia were in violation of the law. Because they were not registered as commercial lenders, they were not allowed to disburse loans.

Investors were reluctant to enter the sector because of its vague legal status. The amendment put the small loans industry on the road to closing the gap between small loan supply and demand, estimated to exceed \$238 million. It also enabled the organizations that provided these loans to shift from short-term survival strategies to long-term business planning. Now, small loan institutions can diversify their products and expand to new regions. They can also attract investors.

The amendment defines a small loan to be no more than \$5,400 for a single borrower. One small loan creates one and a half jobs in cities and four jobs in rural areas — a much-needed boost in a country where only four in 10 working-age people are employed and more than 2 million people live below the poverty line.

The USAID-funded project team worked with a Legal Action Committee of small loans groups and other donors. They made the case to legislators, government officials, and the public. "We presented the fundamental facts on how [small loan institutions] are important for the development of the economy," said Giorgi Otavidze, the team's legal expert. Georgia is now closer to its goals of alleviating poverty, creating jobs, and raising incomes.