Guidebook for Micro and Small Enterprises:

Interacting with Financial Organizations and Financial Decision-Making

This Guidebook was developed with the initiative of the National Bank of Georgia (NBG), with the support from the Development Facility of the European Fund for Southeast Europe (EFSE DF) and with the involvement of the Export Development Association (EDA).

საქართველოს ეროვნული ბანკი
National Bank of Georgia

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Introduction

A Guidebook for Micro and Small enterprises: Interacting with Financial Organizations and Financial Decision-Making was developed to promote financial education of entrepreneurs engaged in micro and small businesses or planning to start-up.

In Georgia, like many other countries across the globe, micro, small and medium-sized enterprises (MSMEs) constitute the largest part of the total business sector. MSMEs can contribute significantly to improving employment, promoting innovation and export, creating wealth and encouraging economic growth, which ultimately influence the country's overall wellbeing. Therefore, fostering entrepreneurship was established as one of the priorities for Georgia.

In Georgia, like in other developing countries, entrepreneurs face a number of significant challenges, including lack of appropriate knowledge and skills required for making financial decisions. In the modern world, financial products and services are getting more diverse and complex, while economic integration and digital developments are creating new challenges for businesses. In this context, financial education and easy access to educational resources have a crucial role to play.

Financial education will facilitate micro and small business owners and financial managers in gaining and enhancing knowledge, skills and attitudes to make smart and effective financial decisions, including, when interacting/cooperating with financial institutions.

With the help of this Guidebook, entrepreneurs will learn about:

- Different sources of finance and risks and opportunities associated with them;
- Financial institutions available on the market and financial products and services offered by them;
- Business assessment tools and key indicators used for this purpose.

After consulting this Guidebook, entrepreneurs will be able to:

- Cooperate more confidently with different financial institutions;
- Understand their own rights and responsibilities;
- Ask key questions for making sound financial decisions;
- Independently determine short- and long-term needs, as well as the solvency/creditworthiness of their businesses and choose the most appropriate financial products;
- Prepare financial statements and plan future steps;
- Take effective and calculated steps when mobilizing funding in order to increase business profits and minimize potential risks.

This Guidebook is a supporting manual, which, with the help of the examples and case studies presented therein, will make it easier for entrepreneurs to establish the need and the capacity for obtaining funding, and to assess the benefits and risks associated with different sources of funding. However, the final decision on financing rests with entrepreneurs themselves, which means that they should understand possible outcomes of their actions and make decisions responsibly.

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Sources of Business Finance

Mobilizing – owning, saving up or attracting – funds is required for launching a business, as well as ongoing business activities (financing of working capital) and business development (investing in purchase or re-equipment of fixed assets). A business can use different sources of finance to mobilize capital, such as:

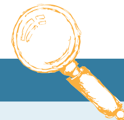
- own equity,
- loans (credit) from banks, microfinance organizations and other financial institutions,
- commodity loans,
- grants,
- leasing, etc.

Let's discuss these major sources of funding, including advantages and risks associated with each of them:

EQUITY (OWNER'S / SHAREHOLDERS' EQUITY)

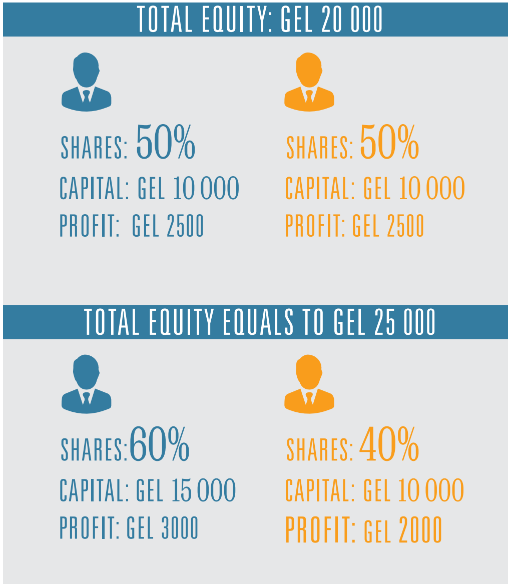
Starting or developing a business with own equity is the most convenient and the safest way of reaching business goals. In order to develop a business, its owners can invest business profits back into the business (reinvestment) or mobilize additional funds (expansion of equity). One of the advantages of financing the business from own profits, according to the existing Tax Code of Georgia, is that business owners are exempt from paying profit tax on the funds that they reinvest in the business; however, this exemption does not currently apply to Individual Entrepreneurs as the latter pay income tax instead of profit tax. Another advantage of financing a business with own funds (including through reinvestment), as opposed to using other sources of finance, is that investing own funds is not related to various lengthy, drawn-out procedures. Further, when investing own funds, businesses do not have to face additional costs, such as loan interest, or pledge any assets (for example, real estate) as collateral for the loan. Pledging assets as collateral, in turn, is related to certain risks: if a business proves to be unsuccessful, there is a risk of losing pledged assets (see Loan Collateral). However, when getting a loan from a bank or a microfinance organization, entrepreneurs can also receive consultations and advice, which will help them make informed financial decisions, and which is an additional benefit of getting a loan from these financial institutions.

The following should be considered when financing your business with your own resources:



EXAMPLE

A business needs a certain amount of money for development and its owner allocates this amount from personal savings. This means that the business owner invests additional funds into the business, increasing its equity. As the result, the owner's share in the business, as well as the amount of money to be received by him/her in the future from business profits also increases. Suppose that the business has two shareholders, each holding 50% of shares, and total equity equals to GEL 20 000. This means that each of the shareholders initially invested GEL 10 000 in the business. Suppose further that the business requires additional GEL 5 000, and the first shareholder invests this amount into the company's equity from his/her personal savings. In this case, the total equity will increase: GEL 20 000 + GEL 5 000 = GEL 25 000. Due to the additional investment, the share of the first shareholder will grow, and will be GEL 10 000 + GEL 5 000 = GEL 15 000 / GEL 25 000 = 60%, and the share of the second shareholder will be 100% – 60% = 40% (expressed otherwise: GEL 10 000 / GEL 25 000 = 40%). When distributing business profits, new shares (60% – 40%) will apply, and if the profit amounts to GEL 5 000, the first shareholder will receive GEL 3 000 in form of dividends and the second shareholder will receive GEL 2 000 (while in case of the initial distribution of shares, the profit would be distributed between shareholders evenly, as follows: GEL 2 500-2 500). Another way for a business to mobilize additional GEL 5 000 for its development would be by getting a loan. In this case, the shares of shareholders would remain unchanged (50% -50%); however, the business would have to pay loan interest, which is an additional cost for the business.



When a company requires funding, its shareholders should decide which source of business finance to choose. The shareholders make such decisions by mutual agreement and, in some cases, they may prefer to get a loan instead of making changes in the shareholding structure.

LOAN (CREDIT)

A business can obtain a loan from different financial organizations, such as commercial banks (hereinafter referred to as banks) and microfinance organizations (hereinafter referred to as MFOs). A business can get a loan for expansion and development, implementation of new ideas, funding ongoing projects and even resolving temporary shortage of cash.

In order for a business to get a loan, it has to prove that it has the capacity repay it within the specified timeframes. Thus, financial institutions will study and financially assess the business, analyze its solvency and needs, and based on these figures, determine the loan amount, the maturity and the interest rate.

When getting a loan, entrepreneurs should take a number of issues into account: in some cases, financial institutions may request to secure the loan with collateral (see Loan Collateral), and if the borrower fails to make timely payments, financial institutions may impose penalties. Moreover, defaulting on a loan, or making late payments over a prolonged period of time will eventually lead to the deterioration of the borrower's credit history.

REMARK

*Currently, one **credit information bureau** operates in Georgia. Its database contains the records on loans and their payments from different financial organizations. A borrower's credit history is formed on the basis of his/her loans and payment behavior. Lending institutions consult this database before issuing loans in order to establish how responsibly and timely potential borrowers used to pay their loans in the past, and if they have current liabilities. Financial institutions use this information when making decisions on loan approval, as well as in the loan monitoring process. Both individuals and legal entities can obtain the records of their financial liabilities from the credit information bureau.*

It should be taken into consideration that if a business is new and does not have sufficient experience yet, financial institutions may refrain from issuing loans. However, there are special loan products for start-up businesses offered by banks and microfinance organizations. Loan products differ across lending institutions and detailed information on these loans can be obtained by consulting financial institutions directly.

COMMODITY LOAN

Commodity Loan is a commodity that is bought/received by a business from a supplier or a producer on credit. Commodity loans are repaid after a certain period of time, and the date of repayment is determined based on the agreement between the parties; however, in order to get a commodity loan, certain preconditions must exist, such as long-term partner-

ship, company's good reputation, guarantees, etc.

The advantage of getting a commodity loan for a business is that in this case the business does not have to suspend its activities or abstain from performing its tasks only because it does not have enough cash at the moment to pay for the working capital, for example, to buy raw materials.

EXAMPLE

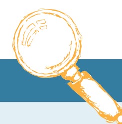
A woodworking shop received a large order of furniture, but the shop has neither the sufficient amount of timber to make the furniture, nor enough cash to buy new materials. In this case, the shop can obtain a commodity loan and receive the needed amount of timber for a period of time that is required to manufacture furniture, sell it, receive revenues and pay back the commodity loan.

One of the benefits of getting a commodity loan is that it is normally approved faster and through an easier procedure than a regular loan, and it usually does not require any collateral.

However, when getting a commodity loan, several factors that can negatively affect the business **must be taken into account;** if a business fails to make timely payments for internal or external reasons (e.g. it fails to sell goods, or its clients fail to pay on time), this will negatively affect its reputation and may discourage potential partners and suppliers from cooperating with it.

In addition, if a commodity loan is secured with a bank guarantee, the business may lose this security (see Bank Guarantee).

It should also be taken into consideration that in case of a commodity loan, the supplier may offer the commodity at a higher price than the commodity would cost if the entrepreneur was directly paying the full amount for it. In such cases, getting a bank credit may be a better option than getting a commodity loan. A business owner is responsible for analyzing which of these two alternatives is less risky and associated with less costs and make a decision accordingly.



EXAMPLE

You want to buy wooden materials to make furniture. The total value of the wood is GEL 12 000, but if you get a commodity loan, then the price of the wood is GEL 13 500 and the commodity loan must be repaid in 2 months. Therefore, buying materials with a commodity loan is more expensive by GEL 1 500 (GEL 13 500 – GEL 12 000 = GEL 1500). In this case, the total cost of a commodity loan, GEL 13 500, should be compared to the alternative of buying the materials with a regular loan. To get a regular loan, you need to address relevant financial organizations (bank, microfinance organization, etc.) and find out how much borrowing GEL 12 000 for 2 months will cost you. For example, let's compare a commodity loan discussed above to a loan offered by a financial organization with an annual interest rate of 17%:

Loan principal	12 000 GEL
Annual interest rate	17%
Loan approval fee (%)	1%
Interest accrued in 2 months	255.60 GEL
Loan approval fee	120 GEL
Total cost	**375.60 GEL**

As you can see, a loan from a financial organization will cost you GEL 375.60, while a commodity loan will cost you GEL 1 500. However, in addition to extra costs associated with a commodity loan, you should also consider the speed at which you can get GEL 12,000 required for the business: in case of a commodity loan, you will be able to get the needed wooden materials instantly, while the approval of a loan for buying wooden materials will take some time.

GRANT

Grant – money, or any other type of support given to a business free of charge. Grants may be conditional and impose certain obligations on a recipient party (e.g. grantees may have to make contributions/invest their own funds, employ a certain number of persons, conduct business demonstration, etc.).

Grants, as a rule, are aimed at supporting the development of a specific sphere, field or geographic area. The grant procedure may include a competition, an identification of the recipient's needs, a requirement for a grantee to fulfill certain obligations, etc. Getting a grant is quite advantageous for a business, but grants are not always available or tailored to specific business needs. Further, in most cases, in order to get a grant, businesses (and their needs) have to meet specific criteria. For example, a grant programme may not entail full financing of the working capital (raw materials, wages, rent, etc.).

Entrepreneurs should keep in mind that grant programs tailored to the needs of a business may not be available at the time when the business requires financing, and therefore, businesses are not always able to use this financial resource.

LEASING

At a certain stage, a business may need a new or additional machinery and equipment for its development. To meet this need, leasing companies offer leasing services. As part of a leasing agreement, a leasing company purchases an asset that the business needs – this can be a vehicle, medical and other equipment, construction and other types of machinery and inventory – which the leasing company then transfers to the business for a particular period of time. During this time, the business (lessee) uses the asset and pays corresponding fees to the leasing company in accordance with the pre-agreed terms of agreement.

Leasing agreement, as a rule, grants the lessee the opportunity to acquire the ownership of the asset; in other words, after the business repays the full value of the asset, as well as the interest accrued, the asset will be transferred into the ownership of the business.

Advantages of leasing, as compared to borrowing, include relatively simpler and quicker procedures. Further, leasing does not cover require additional collateral in the form of a real estate. Moreover, leasing amount may cover all expenses related to purchasing an asset, including its cost, transportation, customs clearance, insurance, installation, and other expenses. When choosing between leasing and borrowing, entrepreneurs should consider the total costs of both options because leasing is normally associated with higher interest rates than borrowing; however, as a rule, a lease can be obtained quicker than a loan.

SECURITIES

Entrepreneurs can also raise capital for their businesses by issuing securities – stocks or bonds on the securities market. A stock signifies the ownership of shares issued by a company, and persons holding shares are called shareholders. Shares can be issued by joint-stock companies only. A bond, on the other hand, is a type of debt security that confirms the company's obligation to pay back the nominal value and accrued interest to a bondholder in accordance with the terms and conditions of issue. A bond is considered as an alternative to a bank credit. An advantage of issuing bonds, as opposed to issuing stocks, is that the issuer does not give up its shares in the company.

If a company wants to raise capital through the issuance of shares or bonds, it should make a public or private offer. Public offering or placement means issuance of securities for more than 100 or an unlimited number of investors, while private offering or placement means issuance for less than 100 investors.

Raising capital through public offering entails certain costs derived from the requirements of existing regulations (e.g., requirements of International Standards on Auditing (ISA)) and international standards of corporate governance. Therefore, public offering is suitable for companies that are at the higher level of development, whereas private placement does not require compliance with such high standards and its implementation is related to less costs. However, it is noteworthy that in case of private offering, potential investors may demand a higher return on investment than in case of public offering.

The abovementioned sources are the main methods for mobilizing business finance; however, businesses can also obtain funding from private investors in form of a loan or capital. In addition, there are different types of non-bank, non-MFO organizations on the market, such as pawnshops, payday, so-called "Online lenders", private moneylenders, and other types of creditors that offer different types of loan products to their consumers. However, **it should be noted** that these types of loans are typically less tailored to business needs and less oriented on business development; further, as a rule, these loans are short-term and have high interest rates, and if a business chooses this form of financing, in most cases, it will not be able to get financial consultation or advice.

It should be noted that when borrowing money, it is strongly recommended to prepare a formal loan agreement (preferably in a written form) that will indicate the loan amount, loan terms and the repayment schedule, regardless of the source of funding: the business owner, a family member, a friend or any other person. This will help entrepreneurs avoid future problems, including, legal complications, that may arise at different stages of business operations. A signed contract will ensure that all parties know their rights and commitments from the very beginning, as well as possible consequences of performance or non-performance of contractual obligations. In case of oral agreements, however, parties often fail to discuss the abovementioned issues, and after a certain amount of time passes, it becomes increasingly difficult to establish/prove what the initial agreement entailed.

REMARK

Getting a loan is one of the most important financial decisions that entrepreneurs may have to make and therefore, such decisions must be approached responsibly. Prior to borrowing, business owners should evaluate their financial capabilities not only today, but during the entire term of the loan agreement. They should also obtain as much information as possible about the organization from which they intend to borrow money, and carefully read the terms of a loan agreement before signing it.

Further, it is important for entrepreneurs to prepare financial statements at all stages of business operations, which will allow them to determine the most optimal source of finance for their business: reinvestment, bank loan, leasing, or other sources. This will help entrepreneurs analyze the solvency/creditworthiness of their business – amount available for reinvestment and amount of money that the business can borrow.

Services Offered by Financial Institutions

Businesses can cooperate with different financial organizations, but firstly, they need to determine what type of service they need at a given moment.

Financial organizations available on the market offer different types of products and services to businesses. Entrepreneurs need to understand the terms and the conditions offered by these organizations in order to choose the most suitable products and services for their businesses.

FINANCIAL PRODUCTS AND SERVICES FOR BUSINESSES

Commercial banks and microfinance organizations are the most common financial institutions supporting businesses in Georgia currently. First, let's discuss the products and services offered by commercial banks.

Commercial Bank (hereinafter the "bank") is a financial institution, whose services people commonly use in everyday life for personal and business purposes. In the modern world, operating a business without using banking services is almost unimaginable, as most transactions, such as transfers to the treasury require having a bank account. The banking sector is one of the most developed sectors of the country's economy.

What products do banks offer to businesses?

Business loan – is a loan received from a bank by entrepreneurs who want to mobilize funding for their businesses. Entrepreneurs may need a business loan for financing working capital (e.g. raw materials, inventory), wages, utilities and other operating expenses, as well as purchasing fixed assets (machinery & equipment, real estate, etc.) and/or re-equipment. The objective for which a loan is intended is called the loan purpose. A business loan is usually repaid in equal installments, however, in some cases, installments may be unequal depending on the idiosyncrasies of a business (e.g. installments may be seasonal). Business loans are repaid according to an agreement signed between a business and a bank.

The loan obtained from a bank normally entails additional costs as well: interest accrued on the loan, service fees, and other costs. Ultimately, by getting a loan, businesses have to return more money to their lenders than they used.

Credit Line – also known as a Line of Credit, is a type of a loan wherein a bank approves a maximum credit limit, and clients can periodically borrow (draw down) any amount up to that limit based on their business needs. In case of credit lines, the interest is normally charged only on the outstanding amount. However, in some cases, banks may also charge interest on the unused credit amount; however, the interest accrued on the unused credit amount will be less than the interest accrued on the outstanding amount. The credit line does not have a monthly repayment schedule and can be repaid in one installment by the end of the term. Furthermore, credit lines are granted for a short period of time – up to 1 year.

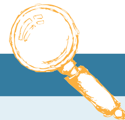
Credit lines are not normally used for purchasing fixed assets, but rather for financing working capital.

Overdraft – This product is similar to a credit line, as it is also a short-term loan used to cover short-term liabilities. There are business overdrafts and payroll overdrafts.

Business overdraft is a facility that can be part of the current account of a business and is easy to use for meeting short-term liabilities, such as salaries, rent, etc. In case of a business overdraft, the interest is paid only on the outstanding amount, and if the outstanding amount is fully repaid with the funds deposited on the business' account, then the business will not have to pay interest. The maximum limit for a business overdraft is usually calculated based on its average (monthly) turnover.

Payroll Overdraft is similar to business overdraft with its features, but it is generally secured by customer's salary and its purpose is to finance consumer needs. As a rule, the payroll overdraft limit offered to each customer will be equal to his/her monthly salary.

Bank Guarantee – This product is required and, therefore, most frequently used when participating in tenders. Guarantees can also be required by business partners (suppliers or clients) in the process of business transactions in order to ensure that the business will fulfil the terms and conditions of the agreement. When issuing a guarantee, the bank undertakes that it is ready to fully or partially cover the guarantee amount in case one of the parties of the transaction fails to meet his/her obligations. The guarantee amount usually depends on the value of the transaction. Clients have to pay interest on bank guarantees, as they would in case of regular loans. Bank guarantees can be secured (e.g. with funds on a bank account, fixed or immovable property), or unsecured. It is noteworthy that the bank guarantee secured with the funds on a bank account has a lower interest rate than a bank loan, and its approval process is faster. However, when issuing non-secured guarantees, as in case of issuing loans, banks assess business solvency / creditworthiness.



EXAMPLE

Suppose that you participate in a tender. The project value is GEL 100 000. The tender proposal (bid) requires a bank guarantee (also called letter of guarantee from a bank) for 5% of the total project value. The easiest way to get the bank guarantee is to deposit this amount of money on your bank account, after which you will be able to get a letter of guarantee. However, if you do not have sufficient cash at the moment, the bank can still issue a letter of guarantee after the financial assessment of your business and may require that you secure the guarantee with immovable or movable property (depending on the guarantee amount and other factors). In both cases, you will have to pay an interest, but the interest on bank guarantees is lower than on bank loans.

Deposit (Deposit Account) – opening a deposit account means placing business funds at a bank for a certain period of time, during which the business earns interest. The interest rate depends on the terms, conditions and the amount of the deposit. There are **term deposits,** which allow depositors to store money for a fixed, pre-determined period of time at a bank. In case of early withdrawal of funds, the business will not be able to receive full interest accrued on its deposit account. There also are **demand (savings) deposits,** which do not have a fixed term and are more flexible, as the depositors can add or withdraw money from their deposit at any time.

Normally, interest rates are higher on term deposits than on demand deposits, but the deposit type should ultimately be chosen based on business needs. For example: If a business already has savings, which it will not need to use during a certain amount of time, then the business owner can put this money on a term deposit. However, if the business owner finds that it needs this money before the date specified in the deposit agreement, and has to terminate the agreement prematurely, he/she will receive less interest on the deposit (in some cases, no interest at all).

Bank Transfer – is an operation that involves transferring money from one bank account to another. Bank transfers can be made at bank branches, as well as remotely, via internet banking. The sender needs to know the beneficiary's account requisites (account details), which can be obtained at the bank.

The transfer fees may vary depending on where the money is transferred. In Georgia, money transfers between different accounts of the same bank are usually free of charge. When transferring money in Georgian Lari (GEL) from one bank to another bank, the sender has to pay service fees, which are normally low, while the transfer is fast; however, in case of foreign currency transfers between banks, both in Georgia and abroad, the fees are usually higher. Transfer fees may be

fixed or variable, depending on the amount of money that is being transferred. Even though banks charge fees for money transfers, money transfers are still a more secure, reliable and convenient way of transmitting money than cash settlements. To illustrate, in contrast to cash settlements, when completing money transfers, banks issue documents confirming the transactions. If needed, customers can obtain documents certifying money transfers, as well as bank statements which show all transactions made on their accounts, including payments for products and services, payments for fees and salaries, cash deposits and withdrawals, and other money transactions.

REMARK

Advantages of bank transfers: remote, fast, reliable, documented/formal, minimizes risks of losing money.

Internet Banking – is a banking service that allows customers to easily and independently conduct banking operations remotely, without visiting a bank, via internet – with computer or smartphone. Through internet banking, customers can track the balance on their accounts, make money transfers, obtain information about available funds and activities on their bank accounts, etc. Internet bank allows customers to conduct banking operations from anywhere they wish, thereby saving time. In some cases, bank transactions (operations) are less costly when completed through internet bank, rather than at a bank branch.

Remittances – Banks also offer money remittance services. Remittances are similar to bank transfers, but there is an important difference between the two services: when sending remittances, neither the sender, nor the receiver (beneficiary) is required to have a bank account. A person's identification document (passport, identity card, etc.) is sufficient to send and receive money. Remittances also differ from bank transfers in terms of applicable fees and time needed for the beneficiaries to receive funds. As a rule, remittances are faster than bank transfers; however, remittance fees are higher than bank transfer fees.

Payment Card – is an electronic payment method that allows customers to store funds electronically. Customers can pay for goods or services with payment cards and receive corresponding receipts. Payment cards can be used to make online payments within the country and internationally, as well as to withdraw funds from cardholder's accounts at bank branches and ATMs.

Businesses can use **business cards** to meet different business needs. Business cards are commonly used when participating in tenders, as cardholders pay service fees remotely on behalf of the company. Business cards are also practical for covering different costs of the business.

Two major types of payment cards are **debit cards** and **credit cards.** Debit cards allow customers to use their own money that is deposited on their accounts, while credit cards allow customers to borrow money from the bank within certain pre-established limits. Customers pay interest on credit cards, as they would do in case of other types of loans.

Banks are not the only organizations that issue payment cards; payment cards can also be issued by MFOs and payment service providers registered at the National Bank of Georgia.

Point of Sale (POS) Terminal – is a device that allows customers to pay for goods or services with payment cards. If your company's customers make payments with a POS Terminal, this amount will be deposited on your company's bank account.

Merchants that use POS terminals issued by commercial banks at their retail locations have to pay a certain fee for its use (expressed as a percentage of each transaction). Considering that most people use payment cards, the availability of POS Terminals at retail locations is very important.

As we already mentioned above, in addition to banks, microfinance organizations also commonly serve businesses in Georgia. Microfinance organizations (MFOs) are financial institutions registered at the National Bank of Georgia that offer different services to their customers. Microfinance organizations issue microloans, which can be used for consumer as well as business purposes (however, the maximum amount of loan that MFOs can issue is 100 000 GEL), provide currency conversion and money remittance services, and offer financial consultations to entrepreneurs regarding their business needs. Microfinance organizations can also issue credit cards. Some MFOs are focused on financing specific regions or business segments (e.g. agribusiness, microbusiness, etc.).

Before choosing the source of finance for their businesses, entrepreneurs are responsible for analyzing proposed terms and conditions, discussing and comparing different offers and making decisions accordingly. In the next chapter we will discuss the basic parameters based on which a business can choose the source of a loan.

REMARK

The National Bank of Georgia supervises the activities of commercial banks and microfinance organizations. It must be noted that starting from 2018, the National Bank of Georgia received the authority to introduce a more intensive supervisory regime over the activities microfinance organizations, similar to that of commercial banks.

COMPARING FINANCIAL INSTITUTIONS BASED ON THEIR SERVICES AND CONDITIONS

As was already pointed out, in addition to banks and microfinance organizations, businesses can also receive financial services from other sources: non-bank and non-MFO institutions (pawnshops, and payday, so-called "online lenders"), private moneylenders, and other sources. However, entrepreneurs must keep in mind that loans offered by these entities are usually short-term, have high interest rates and are less tailored to business needs.

Let's compare the most common financial institutions on the market by looking at the products (including loans) and services that they offer to businesses:

Entrepreneurs should consider that lending standards (including the number of documents required, procedures for assessing the repayment capacity of the borrower, loan terms and conditions, etc.) may differ across lending organizations. Further, the table above contains general information only; ultimately, it is a borrower's responsibility to obtain sufficient information, analyze proposed terms and conditions, read the contract in detail and make decisions accordingly.

When discussing credit, we should also mention pawnshop loans. A pawnshop loan is a financial product that allows consumers to borrow a certain amount of money on the basis of a collateral. As a rule, the loan amount is significantly less than the market value of the collateral. A pawnshop loan is not considered a business-friendly financial product and entrepreneurs should approach this product carefully, as pawnshop loans normally have high interest rates and when issuing such loans, borrowers' income and repayment capacity may not be thoroughly analyzed. Pawnshop loans can be offered by pawnshops, banks and MFOs.

To summarize, it is up to entrepreneurs to determine what financial services they need and analyze what risks and opportunities are associated with different financial institutions and products. Entrepreneurs should also decide what is more important for them: getting a loan quickly at an institution that offers relatively high interest rates and more accessible credit or getting a loan at an institution that offers relatively low interest rates, but requires more documents and time to review the loan application.

REMARK

It is important that financial institutions conduct a thorough assessment of business creditworthiness / repayment capacity before issuing a loan. This helps financial institutions minimize or avoid risks associated with the business' failure to repay debt. This also helps entrepreneurs clearly see the current financial condition, as well as future prospects of their business. Above all, the success or failure of the business is primarily determined by how thoroughly accurately the business owner analyses business revenues, expenses and liabilities.

Product/Service		Commercial bank	Microfinance organization	Non-bank / non-microfinance organizations	
				Pawnshop	Payday, so-called "online lender"
Loan Products					
Business Loan		*Yes*	*Yes*	-	-
Credit line		*Yes*	-	-	-
Business Overdraft		*Yes*	-	-	-
Guarantee		*Yes*	-	-	-
Loan Terms and Approval Procedures					
Loan Approval Procedure		*Relatively strict procedures*	*Relatively simple procedures*	*Minimum procedures*	*Minimum procedures*
Loan Terms	*Interest rates*	*Relatively low*	*Relatively high*	*High*	*Very high*
	Collateral	*May be required*	*May be required*	*Required*	*N/A*
Other Products and Services					
Current/checking account		*Yes*	-	-	-
Deposit[1]		*Yes*	-	-	-
Remittance		*Yes*	*Yes*	-[2]	-
Bank transfer		*Yes*	-	-	-
Payment cards	*Debit card*	*Yes*	-	-	-
	Credit card	*Yes*	*Yes*	-	-
Currency exchange (conversion) services		*Yes*	*Yes*	*Yes*[3]	-

1 In addition to deposits, funds can also be attracted by issuing promissory notes. A **promissory note** is a type of a security: the issuer of a promissory note promises to pay a sum stated in the promissory note to the buyer of the promissory note. Promissory notes often offer high interest rates, but consumers should take into consideration that promissory notes are not bank deposits. Before purchasing a promissory note, the consumer should consider the financial condition of the issuing organization, because in case of its bankruptcy, the consumer may not be able to get his/her money back.

2 It may be possible if it is registered as a payment system provider at the National Bank of Georgia.

3 It may be possible if it is registered as currency exchange unit at the National Bank of Georgia.

Business Loan

Business loan, as stated above, is the money borrowed for business development.

The purposes of business loans may vary, and may include financing of working capital, or the purchase / renewal of fixed assets.

As a rule, it is advisable to get a **short-term loan** for financing working capital.

The shorter the term of a loan, the higher its monthly installment; however, ultimately, borrowers will have to pay more interest on a long-term loan than a short-term loan.

Working capital loans can be repaid in a relatively short amount of time. This is because working capital loan amounts are generally small and can be mobilized somewhat quickly. By contrast, the loan amounts issued for financing fixed assets are more substantial, and it is more convenient and advisable to repay this amount over a longer period of time. Therefore, it is recommended to take **long-term loans** for financing fixed assets.

Working capital is usually associated with a single operating cycle of the business: from the purchase of particular raw materials to the sale of the final product. This cycle usually lasts for several months – one year, at most. Therefore, business owners have an opportunity to cover production costs with revenues derived from the sales of this product in a year on average. By contrast, capital expenditures on the machinery, equipment and other long-term assets that are intended to be in use for more than one year, should be covered with profits generated by the business.

EXAMPLE

You are running a fruit juice business. Due to the increased demand on the product, you cannot provide the required amount of juice to the market with currently available resources. Hence, you decide to buy an automatic bottling line, which costs GEL 70,000 and will serve the business for several years. For this purpose, you decide to apply for a loan at a bank or a microfinance institution. Since production equipment is a fixed asset for your business and will serve you for several years, it is not necessary to recover the money spent on this equipment from business revenues during the very first year. Therefore, in this case it is recommended to get a long-term loan for purchasing the automatic bottling line. However, if instead of an automatic bottling line, your business needs funds for replenishing fruit stock to produce more juice during the active season, it is recommended to apply for a short-term loan (with a maturity of less than 1 year) at a bank or a microfinance organization. In this case, the fruit stock represents working capital. If your active season lasts 3 summer months, you should purchase the amount of fruit needed for producing fruit juice during this period. After these 3 months, you should be able to use up this stock, produce and sell juice, and receive enough revenues to pay back the loan obtained for replenishing the fruit stock. Therefore, in this case, it is advisable to get a short-term loan.

WORKING CAPITAL LOANS

Business owners should address banks or other financial institutions for a working capital loan if they need to replenish the stock/inventory, purchase raw materials, repay existing liabilities against suppliers, finance new products for the purpose of diversifying the assortment, or solve short-term liquidity problems, which can be caused by the increase in accounts receivable. The latter means that a business has a client who is willing to purchase additional goods from the business and pay for them later. In such cases, before receiving the payment from the client, the business may need cash, for which it will address a financial institution.

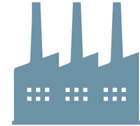
Working capital loans, as a rule, are relatively short-term (between 1-36 months), depending on the duration of the operating cycle of a business.

Before issuing a working capital loan, financial institutions study the following information about the business:

- **Accounts receivable – the amount of money which the company will receive from its customers in exchange for goods or services;**
- **Accounts receivable turnover – the number of days it takes for customers to pay the price of purchased goods or services;**
- **Inventory volume;**
- **Inventory turnover – the number of days during which the products are stocked in the warehouse;**
- **Accounts payable – the company's liabilities against its suppliers;**
- **Accounts payable turnover – the number of days during which a company pays its suppliers;**
- **Sales Seasonality.**

By studying this information, financial institutions examine to what extent the business needs the requested amount for financing working capital, i.e. how appropriately the business uses existing resources for production and sale of goods/services. In some cases, a business may have the capacity to finance their own working capital needs without borrowing, but because of long-term accounts receivable, a large volume of inventory, or other challenges, the business may not have sufficient cash to do so. If the business solves these problems, it may not need to seek additional working capital financing.

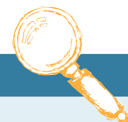
It should be noted that before issuing a working capital loan, financial institutions evaluate current financial position of the business, as well as its forecasted financial condition after getting a loan. In this process, financial institutions will pay particular attention to the Current Liquidity Ratio of the business (see Current Liquidity Ratio).



INVESTMENT (LONG-TERM) LOANS

Upgrading and/or purchasing fixed assets normally requires large amounts of money from a business. A business may have free cash flow, but investing this amount in fixed assets may not be sufficient and/or advisable, and it may be smarter to allocate these funds to financing other needs of the business. In this case, a business may a bank or another financial institution to obtain long-term loan for financing fixed assets. Financial institutions, in turn, will review and evaluate the amount requested, as well as the suitability of the investment, namely, how efficiently and in what timeframe will the business be able to repay the loan.

If a business want to finance its investment needs, it is advisable to apply for a long-term loan. Before issuing a loan, financial institutions not only evaluate business revenues and expenses, but also assess how soon will the business start receiving additional revenues from the investments made with the borrowed funds.



EXAMPLE

Your company wants to construct a building and you apply for a short-term loan at a financial institution. When reviewing your loan application, the lending institution will assess different risks, including the risk of your company not finishing the construction of the building in a short period of time, and therefore, not receiving revenues during the term of the loan. In such a case, your business may need to modify/prolong

the term of the loan (loan restructuring) or get a new loan to pay back the old one. Accordingly, the lending institution will offer you a long-term loan instead of a short-term loan to finance your business's long-term investment needs. In this way, the lender will be assured that your company will be able to construct and start using the building, and thus, earn revenues during the term of the loan, which will make it easier for the company to pay back the loan. For this reason, when requesting a long-term loan from a bank, businesses also have to present a business implementation plan, to demonstrate for what purposes and in what timeframe will the requested loan amount be spent.

The longer the term/maturity of a loan, the higher the implied risks for lending organizations, as it is difficult to predict if the borrowers will face difficulties with loan repayment in a long run. For this reason, long-term loans issued by financial institutions are usually secured with a collateral (see Loan Collateral).

Lastly, it should be noted that some loans can have a mixed purpose and can be issued for financing both short-term working capital and long-term investment needs.

LOAN RESTRUCTURING

If a business faces financial difficulties, it may not be able to meet existing liabilities without assistance. In such cases, a business owner should address the partner financial institution that issued the loan, and negotiate new terms of the loan repayment, which will be better suited to the current financial situation of the business. This process is called loan restructuring, which implies modifying the terms of loan repayment. The purpose of restructuring is to simplify the process of loan repayment for borrowers. If a borrower has several loans, during restructuring, these loans are normally merged into one loan for the purpose of reducing the amount of monthly installments and distributing payments over a longer period of time. In most cases, loan restructuring leads to increased interest rates, while prolonging loan maturity ultimately results in the increase of the total amount payable by the borrower, and business owners should consider this information before restructuring.

LOAN AMOUNT AND MATURITY

Working capital loans are usually short-term (1-3 years), while investment loan terms vary from 4 to 15 years. Loan amount depends on the financial condition, available collateral and future plans of the company.

REMARK

As a rule, the maximum amount of an investment loan is established at about 70-80% of the value of the total fixed assets (land, building, equipment, etc.).

EXAMPLE

If your property's current market value is GEL 100 000, you will be able to get an investment loan in the amount of GEL 80 000, by using this property as a collateral (see Loan Collateral).

As a rule, financial institutions choose loan amount and term/maturity based on the principle that monthly installments of the loan should not exceed 80% of the net profit of the business. When determining the maturity of the loan, it is important to calculate how much money a business can afford to pay each month so that loan repayments do affect the business negatively.

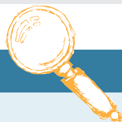
An entrepreneur must demonstrate to potential lending institutions the **purpose** of the loan, i.e. provide information on how and where the borrowed amount will be spent. This information includes:

Requested amount – the amount of money requested from the financial organization as a loan.

List of items – information on how the borrower is going to spend the money, i.e. detailed information about the assets to be purchased by the company (including, costs of purchasing goods services, and related costs: transportation fees, customs clearance fees, installation fees, etc.).

Total value of the investment and an Expense Report – total amount/value of investment required for starting up or developing a business. In some cases, the loan amount may not be sufficient to cover the total value of the investment, and a company may have to mobilize additional financial resources either from retained earnings or from external sources (private investor, another bank loan, donor organization, etc.). In all cases, the loan application must be accompanied by a document describing in detail what items need to be purchased.

Timetable of the activities – all necessary tasks and activities that incur costs should be included in a detailed timetable. The deadlines should be reasonable, which means that it should be possible for a business to perform specific activities/tasks in the established timeframe. For example, when preparing a construction project timeline, external factors (such as the time needed for purchasing and mobilizing materials, seasonal factors, weather, unforeseen events, etc.) should be considered.



EXAMPLE

You want to buy an equipment that costs GEL 50 000. You already have a portion of the total value of the investment, GEL 15 000 (through business reinvestment or investment of own funds) and you apply for a bank loan to cover the remaining GEL 35 000. In order to get a loan, you will have to inform the bank not only about the requested GEL 35 000, but about the total value of the investment, i.e. GEL 50 000. This includes the information about the equipment to be purchased with the total value of investment (GEL 50 000), as well as the source of the additional GEL 15 000.

REMARK

When presenting the purpose of a loan to a bank, an entrepreneur should clearly demonstrate the ultimate business objectives, namely, what are his/her expectations after investing? This can be an increase in revenues, reduction of costs and expenditures, improvement of quality and, thus, increase in profits. All this determines how effective the investment will be for the business.

Entrepreneurs **should also note** that if a business obtains a loan, the lender will likely request all financial documents that demonstrate how the loan amount is being spent,

including, in case of asset acquisition – all documents (invoices, checks, etc.) certifying the acquisition, and in the case of service performance – photographs documenting the results of the service.

INTEREST RATE

Loan interest rates are determined individually, based on the financial position – risk and return – of the company, while loan repayment schedules are usually tailored to the operating cycle of the business. Loan terms depend on financial ratios of the company, as well as the company's and its owners' credit history, and the quality and value of the collateral.

Business loan interest rate can be floating (the interest rate may increase or decrease during the term of the loan) or fixed (the interest rate remains unchanged during the entire term of the loan). The floating interest rates on loans in local currency are linked to the monetary policy (refinancing) rate of the National bank of Georgia[4], while the floating interest rates on loans in USD are linked to LIBOR[5], which also changes over time. As a rule, long-term loans in Georgian Lari have floating interest rates.

It should be noted that fixed interest rate loans (both in Georgian Lari and in foreign currency) have higher interest rates than the variable interest rate loans.

When discussing proposed loan terms, entrepreneurs should pay close attention to the interest rates and consider not only nominal, but effective interest rates as well.

Nominal interest rate – interest rate that is indicated in the loan agreement and reflects the interest accrued on the loan principal. The nominal interest rate does not reflect other costs related to the loan.

Effective interest rate – interest rate, which is also indicated in the loan agreement, but which, unlike nominal interest rate, includes all financial costs related to taking a loan, including, loan approval and withdrawal fees, insurance commission, mortgage fee, etc. Effective interest rates help borrowers easily compare different loan offers.

The Civil Code of Georgia establishes upper limits for the interest rates and other financial costs, including penalties.

REMARK

It is recommended to decide regarding getting a loan only after analyzing its effective interest rate, as it reflects all costs related to taking a loan.

When applying for a loan, entrepreneurs should also consider the costs associated with the collection of all necessary documents for getting a loan, as some of these documents are not free of charge. These costs are included in the effective interest rate and include expenses related to property registration, updating of the information in the Public Registry's database, mortgage registration, getting a statement of indebtedness, etc.

REMARK

When financial organizations prepare a loan offer for potential borrowers, they take into account a number of variables: stability of the business, positive credit history, quality/value of the collateral, close cooperation with financial institutions in the past, etc. The more variables a business satisfies, the higher the probability of getting a favorable loan offer.

4 Monetary policy (refinancing) rate is the main monetary policy instrument of the National Bank of Georgia, which is considered a reference point for market rates. The decisions on changes to the monetary policy rate are made on the Monetary Polocy Committee meetings and rely on the current and expected developments in the economy and financial markets. See more at: www.nbg.gov.ge/index.php?m=555.

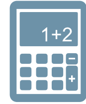
5 LIBOR – London Interbank Offered Rate – is the average of the interest rates at which the leading banks on the London interbank market borrow from each other. Based on LIBOR, banks determine interest rates on the loans for consumers.

CURRENCY/FOREIGN EXCHANGE RISK

When getting a loan, it is very important to choose the loan currency wisely, and evaluate the risks and opportunities associated with it. Borrowers can take a loan in local currency (GEL) or foreign currency (USD, EUR, etc.). Interest rates on GEL loans are usually higher than those on foreign currency loans. However, entrepreneurs should keep in mind that foreign currency loans are associated with foreign exchange risks[6]. If the company generates most of its income in GEL and takes a foreign currency loan, the amount of money, expressed in GEL, required to pay back the loan will vary in line with the fluctuations of the exchange rate[7]. If Georgian Lari depreciates against foreign currency, then the borrowers will have to convert more GEL into foreign currency to make loan payments, and, vice versa, if Lari appreciates against foreign currency, then the loan payments, expressed in GEL, will decrease. It should be taken into consideration that since it is impossible to forecast exchange rate fluctuations, it is also impossible to make concrete calculations of future payments when taking a foreign currency loan. Therefore, before choosing loan currency, entrepreneurs should carefully consider foreign exchange risks.

If an entrepreneur has a foreign currency loan and decides to convert it into a GEL loan, he/she should address his/her partner financial institution or another financial institution with this request. In this case, the borrower will take a new loan to repay the old one; therefore, a new loan agreement will be signed.

LOAN CALCULATOR



Before getting a loan, entrepreneurs should discuss with their lenders the total amount of money that they have to pay back. Independently assessing the total cost of a loan and comparing various loan offers can be difficult. To simplify this task, entrepreneurs can use the loan calculator available on the website of the National Bank of Georgia **(see Useful Links).** Entrepreneurs can use this calculator to create a loan repayment schedule, where approximate monthly payments and the remaining balance after each payment can be seen clearly. This calculator will help entrepreneurs analyze the actual cost of getting a loan.

LOAN COLLATERAL

Financial institutions may require that the borrowers secure the loan with immovable or movable property (including equipment) or a deposit, which means pledging these assets as collateral for the loan. If the borrower defaults on his/her contractual obligations, the financial institution has the right to assume the ownership of the property and / or sell it to recover the loan amount.

If a business owner wants to secure a loan with immovable property, he/she will need to present to a financial institution an extract from the Public Registry, which certifies the ownership of the said property. The financial institution will inspect this property onsite and take photographs in order to estimate its value (property valuation). The reason for requesting to secure the loan with real estate is to reduce the risks related to the default and, if needed, recover the loan amount by selling the collateralized property. Immovable and movable assets owned by individuals and legal entities can be used to secure loans. As we already men-

6 You can read more information about foreign currency borrowing in the brochure developed by EFSE DF and NBG: www.nbg.gov.ge/cp/uploads/efse/EFSE_broschure_georgia_english_web.pdf

7 You can read more information about floating exchange rate in Georgia by visiting the website of the National Bank of Georgia: https://www.nbg.gov.ge/index.php?m=521

tioned, the maximum loan amount issued by a financial institution amounts to approximately 70-80% of the value of total fixed assets (land, buildings, equipment, etc.) used as a collateral. **Loan amount divided by the market value of the underlying collateral is called Loan to Value (LTV) Ratio.**

Collateral is an important factor for financial institutions in deciding whether or not to finance a business. However, if the borrower's financial solvency/creditworthiness is not satisfactory, then the collateral alone will likely not be sufficient for financing your business.

REMARK

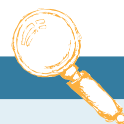
In case a borrower fails to pay back the loan, in accordance with the Georgian legislation and the terms of the loan agreement, his/her assets may be seized, which will negatively affect the business, and, in some cases, may become one of the reasons for the suspension of business operations.

PERSONAL GUARANTEE

Personal guarantee constitute one of the types of loan security. A guarantor can be a legal entity or a natural person (e.g. an owner or a director of the company, or a family member of an owner or a director) who agrees to pay back the loan if the borrower defaults on the pre-arranged repayments.

Both borrowers and guarantors should understand that if the borrower fails to repay the loan, the lending institution is entitled to request that the guarantor fulfill this obligation. In some cases, the lending institution may assess the guarantor's financial solvency/creditworthiness as well before issuing the loan.

EXAMPLE



You want to take a loan of GEL 50 000 from a bank. The bank requires that you present a guarantor. You ask a family member or a friend, whose income is considered sufficient by the bank, to become a guarantor on your loan. In this case, if you default on your debt obligations, the bank will request that the guarantor pay back the loan.

CO-BORROWING

Sometimes, a single company's revenues may not be sufficient to obtain the desired loan amount. In this case, another individual or legal entity can become a co-borrower, and his or her income will be used to qualify for the loan. In this case, both the principal borrower and the co-borrower are obliged to repay the loan. Financial institutions study the financial condition of both the borrower and the co-borrower and sign a loan agreement with both of them.

REMARK

As we already mentioned above, a company's credit history is established based on the past relations between the company and lending institutions. Credit history covers information on the company's past and current liabilities and their repayments. Credit history helps lending institutions determine if a potential customer is a responsible borrower. If the borrower's credit history is positive, then he/she will likely obtain a loan easily and with favorable terms. However, if the borrower's credit history is negative, this may adversely affect the loan terms offered by lending institutions (e.g. interest rates may be higher, or additional collateral may be required), and, in some cases, may serve as the reason for lending organizations' refusal to issue the loan.

INSURANCE

Throughout the course of our lives, we often face unexpected events, such as natural disasters, thefts and robberies, property damages and other events that can cause significant financial harm to us and our businesses. Naturally, it is impossible to foresee all potential risks; however, insurance can help us reduce or eliminate financial losses resulting from the realization of potential risks.

Individuals and legal entities use different types of insurance products. Entrepreneurs can insure their companies' immovable and movable assets, such as **buildings, machinery, equipment, vehicles,** etc. Entrepreneurs engaged in export or import can also use cargo insurance to protect their goods during transportation, and entrepreneurs who have paid employees can get employer's liability insurance, which will protect them from financial losses arising from employees' job-related injuries, etc.

When reviewing a business loan application, lending institutions may require the company to be insured in order to reduce potential risks. Moreover, based on the type of business, lending institutions may also offer collateral or life insurance. Insurance may be mandatory, in which case, the cost of insurance will most commonly be included in the loan interest rate, monthly payment and the loan agreement.

TRANSFER OF INFORMATION TO THIRD PARTIES

In case of commercial banks, account statements of individuals and legal entities, as well as the information on the operations completed and existing balance on the account, and in case of other financial organizations – information regarding any transactions, completed operations, existing debt or loan balance, can only be given to the respective account holders and their representatives. It should also be noted that in certain cases defined by the law, this information may be transferred to the Financial Monitoring Service of Georgia and Executors; however, this information can be transferred to third persons only under the relevant court decision.

REMARK

***It should be noted** that financial institutions do not have the right to disclose or disseminate information on individuals or legal entities that is available to them.*

LOAN REPAYMENT

It is critical that the financial institution and the borrower agree on a loan repayment schedule, which is tailored to the borrower's business operations, as well as the business development phase, seasonality and other specificities.

In some cases, a business may need to pay off its loan before the scheduled term. The advantage of early loan repayment is that the business will no longer pay interest on the reduced principal. However, entrepreneurs should understand that in case of early loan repayment, the borrower might have to pay early repayment fees.

The Civil Code of Georgia establishes the overall upper limit for early repayment fees and the "Rule on Consumer Protection for Financial Institutions", approved by the Decree of the President of the National Bank of Georgia, defines specific caps on early repayment fees based on the time remaining before the termination of the loan agreement and the reasons for early repayment. Upper limits of early repayment fees vary depending on the time remaining before the termination of the loan agreement:

Time remaining before the termination of a loan agreement	up to 6 months	6-12 months	12-24 months	over 24 months
%	*0%*	*0.5%*	*1%*	*2%*

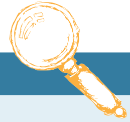
REMARK

The Rule on Consumer Protection for Financial Institutions, *introduced by the National Bank of Georgia, protects the rights of financial sector consumers in Georgia. This Regulation establishes mandatory rules that financial organizations, which fall under the supervision of NBG, including commercial banks and microfinance organizations, should follow. These rules cover important consumer issues, including: provision of information to the consumers in an easily understandable language and timely fashion; clear disclosure of costs related to financial products and services when advertising and offering them; compliance with certain standards when signing contracts; receipt and resolution of claims within a reasonable period of time, etc. This regulation protects a wide range of consumers, including both individuals and legal entities. From January 1, 2019, this regulation will apply to not only commercial banks and microfinance institutions, but other lending institutions as well. However, this regulation does not cover leasing and insurance issues. You can read the full "Rule on Consumer Protection for Financial Institutions" on the link provided in Useful Links below*

LOAN REPAYMENT SCHEDULE

An Entrepreneur and a lending institution should agree on a loan repayment schedule that matches the entrepreneur's business activities. If the business has seasonal revenues, lending institutions may offer it a grace period; during the grace period, loan payments are reduced or cancelled altogether, and the loan amount is distributed over the non-grace period. In some cases, it is possible for entrepreneurs to pay only interest during the grace period, and start repaying loan principal after the expiry of the grace period.

EXAMPLE



You have a family hotel in Bakuriani and you want to take a loan in the autumn (off-season period), when you do not have visitors. In this case, a financial institution may offer you two loans: a loan that you can start repaying in January (at the beginning of the tourism season), or a loan on which you will pay only interest including December, and start repaying the principal in January.

Individual repayment schedules are important for all businesses that have seasonal revenues, such as agribusiness, tourism business, construction business, etc.

Business loans are usually repaid according to the annuity schedule.

ANNUITY PAYMENTS

Annuity schedule is a type of payment schedule that entails a series of fixed loan payments each month. The advantage of annuity payments is that business owners know exactly how much money they will need to allocate from business revenues each month to pay back the loan.

In case of annuity schedule, each loan payment/installment includes loan **principal** (the amount of money that the lending institution has allocated as a loan), as well as the **interest accrued on the principal.** The interest rate is specified in the loan agreement. During each subsequent month, the interest is accrued on the remaining, already reduced loan balance. Consequently, accrued interest decreases over time. Entrepreneurs should keep in mind that if monthly loan payments/installments are not made within the pre-agreed timeframe, the lending institution will impose a penalty, the rate of which is also specified in the contract.

As you can see from the Table below, the loan principal decreases over time, and consequently, interest accrued on loan principal decreases as well.

Loan amount	15,000 GEL
Loan term	12 months
Interest rate	14%

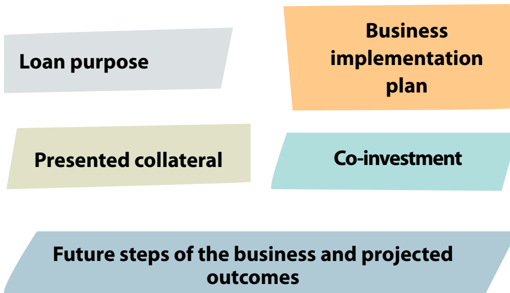
Date	Initial balance of a loan	Payment (PMT)	Loan principal	Interest	Ending balance of a loan
Month 1	*15,000*	*1,347*	*1,172*	*175.00*	*13,828*
Month 2	*13,828*	*1,347*	*1,185*	*161.33*	*12,643*
Month 3	*12,643*	*1,347*	*1,199*	*147.50*	*11,443*
Month 4	*11,443*	*1,347*	*1,213*	*133.51*	*10,230*
Month 5	*10,230*	*1,347*	*1,227*	*119.35*	*9,003*
Month 6	*9,003*	*1,347*	*1,242*	*105.03*	*7,761*
Month 7	*7,761*	*1,347*	*1,256*	*90.54*	*6,505*
Month 8	*6,505*	*1,347*	*1,271*	*75.89*	*5,234*
Month 9	*5,234*	*1,347*	*1,286*	*61.06*	*3,948*
Month 10	*3,948*	*1,347*	*1,301*	*46.06*	*2,647*
Month 11	*2,647*	*1,347*	*1,316*	*30.88*	*1,331*
Month 12	*1,331*	*1,347*	*1,331*	*15.53*	*0*
Total		**16,162**	**15,000**	**1,162**	

Business Assessment Criteria and Ratios used by Financial Institutions

Before taking out a loan, entrepreneurs must evaluate their companies' business performance. For this purpose, they need to prepare financial statements and calculate key financial ratios. When making a decision about financing a business and examining financial statements, financial institutions calculate and evaluate financial ratios, along with other factors. Financial institutions calculate these ratios based on the financial information provided by potential borrowers; however, entrepreneurs themselves can also calculate and use these ratios to evaluate their own business performance.

BUSINESS ASSESSMENT CRITERIA

When financing a business, the representative / appraiser from the lending organization will focus on the following criteria:



KEY FINANCIAL RATIOS

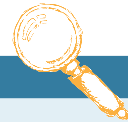
Debt Service Coverage Ratio (DSCR) – also known as Debt Coverage Ratio – is calculated by dividing the borrower's monthly earnings before interest and profit tax (EBIT)[8] to monthly loan payment (PMT), i.e. EBIT/PMT.

$$\text{Debt Coverage Ratio} = \frac{\text{Monthly Earnings (EBIT)}}{\text{Monthly Loan Payment (PMT)}}$$

Financial organizations use this ratio to assess business solvency/creditworthiness, namely, whether the business has sufficient net income to cover/service its debt obligations.

The Debt Service Coverage Ratio less than 1.3 means that it will be difficult for the business to cover its monthly loan payments. To put it simply, the lower the ratio, the less money remains in the business all expenses have been paid. Monthly payment amount can be reduced by increasing the term of the loan or by reducing the loan amount; however, it should be taken into account that these amendments should be commensurate with the loan purpose, business idiosyncrasies, and financial organizations' offers.

EXAMPLE



	Month 1	Month 2	Month 3	Average ratio (3 months)
A – Earnings before interest and profit tax	1500	600	1050	3150
B – Loan payment (PMT)	750	750	750	2250
Debt Service Coverage Ratio (A / B)	**2**	**0.8**	**1.4**	**1.4**

Debt Service Coverage Ratio is usually calculated based on monthly business data. Entrepreneurs can easily calculate this ratio themselves, and it will help them evaluate in advance the capacity of their business to meet its loan obligations.

Current Liquidity Ratio – This ratio measures whether the company's liquid, current assets are sufficient to cover its short-term liabilities,

8 EBIT = Earnings Before Interest and Taxes.

if necessary. The less liquid an asset, the more difficult it is to convert it into cash.

The Current Liquidity Ratio is calculated using the following formula:

$$\text{Current Liquidity Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

It is generally agreed that the Current Liquidity Ratio should not be less than 1, as the company must have sufficient short-term assets to pay off at least its short-term liabilities without taking additional loans.

EXAMPLE

The business owns the following assets:

- *Cash – GEL 25 000;*
- *Accounts receivable – GEL 54 000;*
- *Inventory – GEL 30 000;*
- *Total current assets = GEL 109 000.*

On the liabilities' side, the company has:

- *Accounts payable – GEL 28 000;*
- *Bank overdraft – GEL 40 000;*
- *Total short-term liabilities = GEL 68 000.*

Current Liquidity Ratio = 109 000/68 000 = 1.6, which falls within a recommended range and means that the business has the ability to pay short-term obligations and to take additional loans, if necessary.

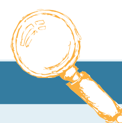
However, if the accounts payable amounted to GEL 200 000, then the Current Liquidity Ratio would drop to 109 000 / 240 000 = 0.44. This means that if the suppliers requested to cover accounts payable immediately, the business would not be able to meet its total short-term liabilities even if it sold its total inventory and collected total accounts receivable.

Leverage Ratio – indicates the amount of debt that a business can take so that in case of necessity, it can handle financial difficulties with its own funds or equity.

This ratio is expressed as follows:

$$\text{Leverage Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

It should be noted that there is no standard, universally accepted Leverage Ratio value, and it depends on the business sector. However, it is recommended that the Leverage Ratio should not be below 30%. Higher Leverage Ratios indicate that the business is well supported with own equity.



EXAMPLE

Your assets equal GEL 24 000, your liabilities equal GEL 14 000 and your equity is GEL 10 000. In this case, the Leverage Ratio would be 10 000/24 000 = 0.42, i.e. 42%.

If you take an additional loan of GEL 10 000, then your assets will increase and amount to GEL 34 000 in total. Your liabilities will increase as well and will become GEL 24 000. The equity will remain unchanged and the Leverage Ratio will be: 10 000 / 34 000 = 0.29, i.e. 29%. This value may not be acceptable for a financial institution and the latter may ask you either to reduce the loan amount or to increase the equity.

Calculating the Leverage Ratio is important for financial institutions as it indicates to what extent the business can handle financial difficulties with its own equity, without jeopardizing its ability to meet its debt obligations.

Information Requested by Financial Institutions

After the entrepreneur decides that his/her business needs a loan, he/she applies to a financial institution for this purpose. The financial institution will request detailed information about the business in order to evaluate it and make a decision about loan approval.

If the entrepreneur has a start-up business, he/she must be registered as a business entity. Forms of liability and applicable tax regimes vary depending on the status of the business entity. When choosing a status, entrepreneurs should consider their business' type and size. The entrepreneur can choose an individual form of business (an individual entrepreneur, with special tax regimes for microenterprises, small enterprises, fixed taxpayers) or one of the group business forms (limited liability company (LLC), joint stock company (JSC), cooperative, etc.). These forms imply different obligations and responsibilities. The information about business statuses and legal forms can be found in the Law of Georgia on Entrepreneurs (www.matsne.gov.ge) and the website of the Revenue Service of the Ministry of Finance of Georgia (www.rs.ge).

Business registration is a simple procedure in Georgia, and can be completed in one day if the form of a business entity is already chosen. Business entities register at the National Agency of Public Registry, a Legal Entity of Public Law (LEPL) of the Ministry of Justice of Georgia – (www.napr.gov.ge).

After registration, business entities will be able to submit a relevant extract from the Entrepreneurial (Business) Registry to the lending institutions.

EXTRACT FROM THE ENTREPRENEURIAL (BUSINESS) REGISTRY

An extract from the Entrepreneurial (Business) Registry is a document that indicates the legal form, name, identification number and registration date of the enterprise, as well as information on business liquidation / reorganization / insolvency processes and managers, legal representatives and owners of the business. The extract also includes the information about the shares held by each of the owners of the company, and the obligations of the company (collateral, mortgage, seizure). The extract can be obtained electronically, from the website, as well as physically, by applying to the Public Service Hall. Entrepreneurs can get this extract free of charge; however, updating the information in the Registry and receiving an updated extract is a paid service.

In case a borrower has a start-up business, financial institutions may require that he/she present a business plan that includes detailed information about the business activity and its management, as well as financial statements (profit & loss statement, cash flow statement, balance sheet). Financial institutions will also calculate relevant financial ratios (see Business Assessment Criteria and Financial Ratios used by Financial Institutions) and based on this information, make a decision on issuing a loan.

BUSINESS PLAN

A business plan is a document that entrepreneurs develop when starting or expanding a business. Its main function is to evaluate the strengths and weaknesses of the business and present the scope of the business activities to potential lenders/financers. The business plan is a document that describes all major aspects of future activities, clearly defined objectives and steps for achieving them.

Entrepreneurs should keep in mind that this document must be prepared so that potential lenders/financers can accurately evaluate business capabilities and needed resources.

A BUSINESS PLAN SHOULD INCLUDE THE FOLLOWING ESSENTIAL SECTIONS

Executive Summary – Main Idea

An executive summary is a brief overview of a business plan. The executive summary is written after the business plan is prepared, however, it is presented on the first page of the business plan. The executive summary provides information about the type of the business and its competitive advantages. The executive summary also includes key financial information: how much money is required to start a business, what are the shares of owners and funders, and for what purposes the money will be spent.

Management and Organization

This section provides information about the legal form of the business; owners and managers of the business, and their experience and qualifications; organizational structure of the business; number of persons employed by the business and the form of remuneration. This section also contains information about business objectives – what the business intends to achieve in the near future or in the long-term period.

Product and Service

This section describes in detail the product or service provided by the business, its features and competitive advantages. As necessary, this section may also include information about the patent, trademarks or license required for the product / service.

Production (Operating) Plan

The production (operating) plan is important because it describes business operations, starting from the purchase of raw materials to producing the final product. The production plan shows the size of the company, its seasonality, and any special technology/method of production used. When describing the production process, entrepreneurs should also include costs associated with this process, as these costs form part of the financial plan and will help business owners calculate the cost of goods or services sold (COGS/COS). The production (operating) plan should also cover the property and equipment owned by the business, or needed for future operations, as well as the items that the business intends to purchase with its own funds, as well as with funds received from potential lenders/financers.

Marketing Plan

The marketing plan includes competitor analysis, namely, information about the competitors, and products and prices offered by them. The business should also determine the seasonality of its activities and the busiest/most active periods for the business. The marketing plan contains information about pricing, sales area, consumers and their characteristics, and marketing activities (flyers, brochures, posters/stickers, billboards, banners, television and social media advertising, etc.).

Financial Plan

The financial plan covers information about the company's planned revenues and expenses (see Profit and Loss Statement (P&L)), as well as the budget. This information includes total amount of money required for starting / developing the business; the volume of the company's own investment and the amount requested in form of a loan; items to be purchased with the available budget and the time in which the loan amount will be drawn down. The financial constitutes the most important information required by lending institutions from potential borrowers.

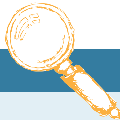
REMARK

Preparing a business plan is very important for business owners themselves. This document helps entrepreneurs estimate expected profits and monitor the business plan implementation process to see how timely the business achieves set targets.

PROFIT AND LOSS STATEMENT (P&L)

Profit and loss statement (P&L), also known as *income statement,* is the financial statement that summarizes the income/revenues, costs and expenses incurred by a business. The first item in the profit and loss statement **is total revenues,** received from the sales of goods or services. In some cases, businesses may have returned products, the value of which will be deducted from total revenues. Returned products are products purchased by consumers, but returned to the business due to a defect or other objective circumstances.

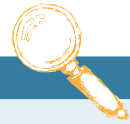
EXAMPLE



If you purchase 5 tons of tomatoes, out of which 500 kg turn out to be damaged, you, as a buyer, can return these 500 kg of tomatoes to the seller in line with the prior agreement. Your business will count 5 tons of tomatoes as a revenue, but will deduct the value of the returned product (500kg of tomatoes) from the total revenues.

After this, the **cost of goods sold (COGS)** will be subtracted from total revenues, indicated in the profit and loss statement. COGS (also known as cost of sales (COS)) constitutes a significant expense for the business and therefore, its accurate calculation is one of the key preconditions for business success. COGS/COS is calculated as a sum of all costs that are directly tied in the production of goods or services. In other words, COGS/COS covers all expenses that are required to create a final product. These expenses may include costs related to the purchase, transportation and storage of materials, as well as salaries of the staff directly involved in creating the final good / service, etc.

EXAMPLE



If have a publishing house, the cost of the goods sold may include paper and printing costs or the amount paid to the writer, as well as the salaries of the staff involved in the printing process and utility costs (e.g. costs of operating a printing machine). COGS/COS does not include administrative and marketing expenses, such as salaries of the administration or the maintenance staff, as well as the costs related to product transportation and marketing. Even though these costs are not included in COGS/COS, they are factored in the profit and loss statement.

Production costs, which are calculated when estimating COGS/COS, consist of the following key components:

- **Costs of raw and direct materials used** – the cost of all raw materials, tools and other items used for producing/manufacturing the final product.
- **Direct labor costs** – the sum of wages of all employees involved in the production process
- **Production/manufacturing overhead costs – **costs of machinery and equipment, as well as industrial buildings (e.g. costs related to depreciation, insurance, repairs, spare parts, lubricants, etc.)

In addition to the cost of returned products and COGS/COS, non-production / non-manufacturing costs are also deducted from the total revenues. Non-production costs include the company's operating costs, i.e. general administrative expenses related to sales, marketing and administrative activities, including salaries of the staff not directly involved in the production of goods or provision of services.

By subtracting total **expenses** from total **revenues,** we get **earnings before tax.** If the business pays taxes, then the tax amount will be deducted from the earnings before tax, and we will get **net profit (or net loss).**

Start-up businesses prepare profit and loss statements with projected (future) indicators.

Profit & Loss Statement
Revenues:
Total sales
Returned products
Total sales / Total Revenues
Expenses:
Cost of goods or services sold
Administrative expenses
Transportation costs
Lease/rent
Marketing costs
Utility charges (administrative charges)
Office expenses
Bank service fees
Insurance
Property tax
Maintenance and repairs
Deprecation (See the Dictionary)
Other costs
Earnings before interest and tax (EBIT):
Loan payment – Interest expense
Earnings before tax
Profit tax
Net Profit (Net Loss)

REMARK

It should be noted that loan principal is not shown in the profit and loss statement at all, while interest payments are included as expenses. The principal amount of the loan (or any other liability) is shown in the balance sheet statement (see Balance Sheet Statement).

BALANCE SHEET STATEMENT (BS)

The balance sheet statement provides information on the company's assets (what the company owns), liabilities (what the company owes) and the shareholders' equity at a specific date. The balance sheet reflects the financial position of the company at a specific point in time.

REMARK

In the balance sheet, assets are equal to the sum of liabilities and equity.

Asset is any item owned or controlled by a company, regarded as having value, including cash, money on a bank account, immovable and movable property, supplies, final products, accounts receivable etc. There are two types of assets:

- **Current assets** – assets that are intended to be consumed within a year. Current assets include cash and cash equivalents, raw materials, as well as the amount to be received from customers (accounts receivable), prepaid expenses (e.g. for rent, insurance, advertising) etc.
- **Long-term (noncurrent) assets** – assets that are not intended to be consumed within one year. Fixed assets – machinery and equipment, buildings or plants, land, etc. – are considered to be long-term assets.

Liabilities are obligations, amounts owed by a company to other legal entities or natural persons. Liabilities are also divided into two types:

- **Current liabilities** – are obligations to be paid within one year. Current liabilities include amounts owed to the suppliers (accounts payable), short-term loans, customer prepayments, etc.
- **Long-term liabilities** – are obligations that are not to be paid within one year. An investment loan is an example of a long-term liability.

Equity *(owners' equity, or shareholders' equity)* is the amount of capital contributed/invested by the owners/shareholders of the company. Equity is the net worth of the company and can be calculated by subtracting the total liabilities from the total assets. Equity can be increased in two ways: through additional investments by owners or through retained earnings, which are the net earnings of a company after dividends.

Asssets	
Current Assets:	
Cash	*3,000.00*
Money on a bank account	*7,200.00*
Accounts receivable (amount of money to be received from clients)	*900.00*
Inventory/Raw materials	*13,000.00*
Prepaid expenses (prepaid rent, advertisement, insurance, etc.)	*2,000.00*
Other amounts to be received	*0.00*
Total Current Assets	**26,100.00**
Long-term assets	
Furniture and office equipment	*5,000.00*
Machinery and equipment	*15,000.00*
Vehicles	*30,000.00*
Real estate	*80,000.00*
Land	*65,000.00*
Total long-term assets	**195,000.00**
Intangible Assets:	
License and patents	*0.00*
Total Intangible Assets	**0.00**
Total Assets	**221,100.00**
Liabilities	
Current Liabilities:	
Accounts payable (amount of money to be paid to suppliers)	*2,500.00*
Accrued costs (wages, rent, utility charges, etc.)	*500.00*
Customer prepayments	*11,100.00*
Short-term loans	*0.00*
Total Current Liabilities	**14,100.00**
Long-Term Liabilities:	
Long-term loans	*135,000.00*
Other long-term liabilities	*0.00*
Total Long-Term Liabilities	**135,000.00**
Total Liabilities	**149,100.00**
Equity	
Equity	
Owners' / Shareholders' equity	*25,000.00*
Retained earnings (profits after dividend payments)	*47,000.00*
Total Equity	**72,000.00**
Total Liabilities and Equity	**221,100.00**

REMARK

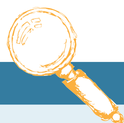
Retained earnings are the net earnings that are available for reinvestment in the company after dividends[9] are distributed to business owners/shareholders.

Retained earnings = Net profit – Dividends

CASH FLOW STATEMENT (CF)

The statement of cash flows (cash flow statement (CF)) is a financial statement that summarizes all cash inflows and all cash outflows of a company during a given period.

Potential lenders and investors are interested in the cash flow statement because they want to see how well a company manages its cash position. As a rule, company's profits do not equal its cash flow.



EXAMPLE

Your company's profit and loss statement may show that the company has generated a certain amount of profit; however, you may find that the company has not actually received this particular amount from its business activities. The reason is that the money that your company is expecting to receive (e.g. accounts receivable, i.e. money to be received from clients) is listed under revenues in the profit and loss statement. The contrary situation is also possible: your company may actually have more money than your profit and loss statement shows due to those expenses that reduce profits, but have not been paid by you yet (for example, costs of insurance, lease, etc.).

DOCUMENTS CERTIFYING INCOME AND EXPENSES

When making a decision about financing a business, financial institutions check its creditworthiness/solvency. In this process, financial institutions consider various factors and conduct a comprehensive analysis of the business's monthly revenues and expenses. For this purpose, financial institutions require that the business submit relevant financial documents.

It is possible to gather information about business revenues and expenses from official and unofficial financial statements and documents.

One of the main sources of the relevant information is the website of the Georgia Revenue Service (RS) **(www.rs.ge),** where entrepreneurs can register as business entities. When registering, entrepreneurs are given unique usernames and passwords to access the RS system. Therefore, each entrepreneur has his/her individual electronic page **(www.eservices.rs.ge).**

Sources of information:

Profit Tax Return – provides information about the revenues received and expenses borne by an entrepreneur as the result of his/her business activities during the reporting year. This document is available on the entrepreneur's personal page on the website of the Georgia Revenue Service **(www.rs.ge).** Businesses registered as individual enterprises (including, micro and small enterprises) submit

9 Dividend – money distributed to the owners/shareholders from the company's net profits.

profit tax return once a year, and include comprehensive information about the revenues received and expenses incurred from January 1 through December 31. Group businesses submit profit tax return every month.

Value Added Tax (VAT) Return – provides information on the value added tax (VAT) paid during the reporting period. This document is available on the website of the Georgia Revenue Service **(www.rs.ge).**

Bank Account Statement – before making a decision about financing a business, financial institutions will require that the business present its bank account statement(s) – most commonly, for the period of the last six months. This document provides detailed information about the operations completed on this specific account, in particular: when, from whom and how much money did the business receive and how much money the business paid. As a rule, the purpose of each transaction is indicated in the bank account statement.

Information from accounting software – companies and their accountants normally prepare financial statements using various accounting programs. These programs include financial information about companies' business activities and allow users to easily and efficiently obtain and process information about the companies' revenues and expenses. Therefore, information from these programs is important for financial institutions.

Waybill – a document that is prepared in the name of the company during the purchase and / or transportation of goods. Waybill is an accounting document that verifies the delivery of goods within the country. It is prohibited to transport, store and sell goods without a waybill. This document is prepared in the electronic system of the Georgia Revenue Service and can be obtained on its website, on the entrepreneur's personal page (after the seller sends this document to the entrepreneur). Entrepreneurs should keep in mind that when they are completing a purchase for their company, they should ask the seller to provide a waybill earlier on. In return, entrepreneurs should provide their business requisites to the seller.

Tax Invoice – a financial document prepared by a provider (seller) of goods or services for the recipient (buyer) of goods or services if both parties pay VAT.

Act of Purchase – a document that certifies the delivery of an item and the receipt of the corresponding payment with the signatures of the seller and the buyer.

Monthly Income Tax Return – a legally defined reporting form that provides information on the wages paid to company employees during a month.

Report on payouts – this document includes information about the payouts that are subject to income tax, such as wages and dividends. Unlike income tax return, this form includes detailed information about the entities that received income in form of salary, dividends or provided services. For example, the report on payouts may show that person X (his/her personal data will be indicated) received GEL 1000 in form of salary in December, and income tax of GEL 250 that was imposed on this amount. Unlike the report on payouts, income tax return does not include any personal data; however, it shows specific dates of each payment (e.g. December 7).

Please note that each month, the total amount indicated in the report on payouts should be equal to the total amount indicated in income tax return.

REMARK

Owners of micro and small businesses may not be using the documents and programs mentioned above. In such cases, significant attention will be paid to entrepreneur's records. Based on entrepreneur's records, financial institutions will prepare financial statements, calculate relevant ratios and review a loan request using standard business assessment methods.

Entrepreneur's records – Entrepreneurs often keep business records in so-called "journals" or "logs", which contain financial information that cannot be verified by the formal documents listed above. Micro-entrepreneurs that are not required to use a cash register, may keep information about the goods sold or services provided by their enterprise in a special log/journal only; therefore, these entrepreneurs will not be able to present formal documents certifying business revenues (receipts, waybills, invoices, etc.). For example, a land operator may include in his/her records/journal the detailed information on land cultivation services that he/she provided (including the name, surname, and contact information of the person who received the services, as well as the area of the land and the cost of service). The financial organization, in turn, will verify this information and use it in the decision-making process.

For lending institutions, it is also important to know what assets and liabilities the business has at the given moment.

Information about business assets – to confirm that his/her business owns certain assets, an entrepreneur can submit a balance sheet statement, receipts certifying the purchase of assets (payment orders, invoices, acts of acceptance and delivery), an extract from the Public Registry (in case the company owns real estate) and other relevant documents certifying procurement. Business assets also include the amount of money to be paid by its clients (accounts receivable). To verify the accounts receivable, the entrepreneur should submit an act of comparison, which shows the amount of money owed to the business by its debtors.

Information about business liabilities – business liabilities include all financial obligations of a business, including loans from financial institutions, money owed to the suppliers and other types of debt. If the business has liabilities, then the business owner will be required to submit copies of loan agreements with financial institutions (where applicable), and/or a statement of indebtedness, so it is possible to determine the exact volume of the business's current debt. If the business owes money to the suppliers, then the business owner needs to submit a corresponding act of comparison as well.

Financial organizations require the information listed above to form a comprehensive understanding about the feasibility of the business's proposed plans, and the capacity of the business to cover its existing liabilities within established timeframes. Based on these and other relevant factors, financial organizations will make decisions regarding the amount and term of a loan.

REMARK

It is important that entrepreneurs provide accurate and complete information about their businesses, as well as their future projects to financial institutions. Complete information allows financial institutions to make sound financing decisions, and helps maintain financial health of the business itself. If an entrepreneur tries to provide false information to a financial institution in order to get his/her loan approved, this may harm the business over time and jeopardize business solvency / creditworthiness.

The information provided by an entrepreneur to a financial institution is confidential, which means that the financial institution will not disclose the ideas, plans, and financial information of the entrepreneur to other persons, and will not use this information for personal interests.

Questions to Ask Financial Institutions

After making a decision about issuing a loan, a financial organization will sign a loan agreement with the business. The agreement will include detailed information about the loan amount, interest rate, rights and obligations of the parties, and other terms and conditions.

REMARK

Before signing an agreement, ask a representative of the financial organization to provide you with a sample agreement, which you should read carefully. You can take the sample agreement home, study it in a calm environment, and consult with a lawyer, if necessary.

When reading the agreement, you should pay particular attention to the following information:

- Loan **amount**;
- Loan **term/maturity**;
- Loan **currency**;
- **Type of interest** rate (fixed or floating);
- **Nominal** interest rate;
- **Effective** interest rate;
- **Fees** and **commissions** (e.g. loan approval fee);
- **Fines** and **penalties**;
- **Other costs** related to the loan;
- How to file **claims/complaints**;
- Loan repayment **schedule**.

After reading the agreement carefully, do not hesitate to ask your partner financial organization any questions that you have, even with regard to issues that may seem insignificant. Ask the financial organization's representative to provide you with detailed information about:

- *What information does the header of the agreement (also known as a key facts statement) include?*
- *What fees and commissions will I have to pay on a loan?*
- *In what currency is it more favorable to get a loan for my business and why?*
- *What risks are related to borrowing in a foreign currency?*
- *Can I convert my foreign currency loan into a Georgian Lari loan?*
- *What will happen if I violate the terms of the loan agreement, e.g. if I use the loan money for purposes other than those indicated in the agreement?*
- *Is it possible to repay the loan early? What charges/penalties will be imposed in this case?*
- *Do early repayment fees vary depending on whether I refinance the loan with the same financial organization, or with a different one?*
- *Why my loan application was not approved?*[10]

10 Borrowers should keep in mind that financial organizations are not legally obliged to disclose the reasons for declining loan applications.

- *Before signing the loan agreement, can I request to amend the terms of the loan (e.g. loan currency or amount) that have already been approved by the financial organization?*

- *If needed, can I file a claim against the financial institution? How soon will my claim be reviewed?*
- *If the loan is approved, how much time will the financial institution give me to draw down the loan amount?*
- *Does the financial institution offer loans and other types of products that my business needs?*
- *Does the loan product, offered by the financial institution, match my business needs (including, seasonality of revenues)? Are there any other products that are more appropriate for my business?*
- *How much money can I borrow considering my company's current financial condition and the value of the collateral?*
- *After getting a loan, can I continue consulting my partner financial institution?*
- *What should I do if I notice that due to financial difficulties of my business, I may not be able to pay back the loan in line with the pre-agreed repayment schedule?*
- *What costs are related to loan restructuring?*
- *What penalties will I have to pay in case of late payments?*
- *What information will be transferred to the credit information bureau?*
- *In what cases will a loan be repaid from the loan guarantor's account?*
- *In what cases does the financial institution have the right to sell the property pledged as a collateral for my loan?*
- *Does the financial institution have a right to amend the terms of the agreement unilaterally? In such cases, how will the financial institution notify me regarding the changes?*

- *To whom and in what cases may the financial institution transfer my personal and confidential data?*
- *Can I get a business loan insurance? What choices do I have in terms of insurance offers?*
- *Will the confidentiality of my business ideas be guaranteed by the financial institution?*

Making sound financial decisions is essential for your business success and health. We believe that the information presented in this guidebook, in addition to the advice offered by your partner financial organization, will help you make smart and well-founded financial decisions.

Useful Links

RELEVANT LEGAL ACTS:

- Civil Code of Georgia – **www.matsne.gov.ge/ka/document/view/31702**
- Law of Georgia On Entrepreneurs – **www.matsne.gov.ge/ka/document/view/28408#!**
- Law of Georgia on Personal Data Protection – **www.matsne.gov.ge/ka/document/view/1561437**
- The Rule on Consumer Protection for Financial Organizations – **www.nbg.gov.ge/cp/index.php?m=612**
- Legislative Herald of Georgia – **www.matsne.gov.ge**

RESOURCES OF THE NATIONAL BANK OF GEORGIA:

- The website of the National Bank of Georgia – **www.nbg.gov.ge**
- Consumer's Page of the National Bank of Georgia – **www.nbg.gov.ge/cp**
- *A Guidebook for Micro and Small Enterprises: Interacting with Financial Organizations and Financial Decision-Making* – **www.nbg.gov.ge/index.php?m=706&lng=geo**
    - Loan Calculator
    - Financial Statements Templates: Profit and Loss Statement (P & L), Balance Sheet Statement (BS) and Cash Flow Statement (CF)
- Brochure of EFSE DF and the National Bank of Georgia – *Improve Your Financing Decisions* – and accompanying practical tools – **www.nbg.gov.ge/cp/uploads/efse/EFSE_broschure_georgia_english_web.pdf**
- List of commercial banks licensed by the National Bank of Georgia – **www.nbg.gov.ge/index.php?m=403**
- List of Non-Banking Institutions Registered in Georgia – **www.nbg.gov.ge/index.php?m=529**

OTHER USEFUL LINKS:

- Government agency "Enterprise Georgia" – **www.enterprise.gov.ge**
- Insurance State Supervision Service of Georgia – **www.insurance.gov.ge**
- Georgia's Innovation and Technology Agency – **www.gita.gov.ge**
- State Audit Office – **www.sao.ge**
- State Procurement Agency – **www.procurement.gov.ge**
- National Agency of Public Registry – **www.napr.gov.ge**
- Project "Start-up Georgia" – **www.startup.gov.ge**
- Revenue Service – **www.rs.ge**

Explanatory Dictionary

A

Acceptance-Delivery Act – a document certifying the fact of transferring the product or service from one party to another one and the settlement process. The document includes the price, details on both parties, the date of transaction, and other information that should be confirmed by signature of the authorized person(s) of the parties.

Accounts payable – a debt currently owned by a natural person or a legal entity originating against the provider as the result of the receipt of services and/or goods therefrom.

Accounts receivable – debt originating from relations of a natural person/legal entity with any other natural person/legal entity, e.g., supply of goods, performance of work, provision of services, advances paid for suppliers, etc. This debt represents the company's assets.

Account Service (maintenance) Fee – service (maintenance) fee for the account opened in a Bank.

Advance – a part of a contractually established total sum that is paid in advance for goods/services.

Agreement Header (Key Facts Statement) – a part of the contract (Page 1), which provides information about the most important terms of contract: nominal and effective interest rates, financial costs, etc. The title page also provides information on where a complaint can be submitted in case of discontent.

Annuity payment – a form of loan repayment that consists of the series of equal payments, which are made at equal intervals over a period of time and which consist of both principal and accrued interest.

Arbitration Tribunal – a dispute resolution panel appointed by the parties. According to the legislation of Georgia, civil disputes between individuals (both legal entities and natural persons) may be subject to a standing or private arbitration. Arbitration proceedings are closed and may be confidential based on the agreement of the parties. Arbitration is a flexible process that can be faster and more low-cost than the proceedings in the court, in accordance with the procedures agreed by the parties.

Assets – material resources with economic value (e.g. money, building/premise, machinery/equipment, inventory) and/or intangible resources (e.g. patent, license, software), held by an entity, from which future economic benefits are expected.

ATM – a self-service electronic machine that dispenses cash and allows cardholders to perform other banking operations during any part of the day, including, check available balance, make payments, in case of some ATMs – deposit money on an account, etc.

Automatic Payment Service (Direct Debit) – a preliminary assignment given by a consumer to a Bank, which implies automatic fulfillment of the assignment by the Bank at specific dates or periods.

B

Balance Sheet (Statement of Financial Position) – a financial document that reflects the financial situation of an entity (business or other organization) at a particular point in time. A balance sheet contains information about the entity's assets, liabilities and capital.

Bank statement – a written / electronic document issued by a Bank, which provides information about financial transactions that have occurred on a bank account over a specific period.

Bank Account Requisites – bank account details which consumers need to perform banking operations: Bank name and code, account number, etc.

Bank / Insurance Guarantee – an obligation assumed by a bank / insurance company to pay the guarantee amount (i.e. cover the loss) in case a buyer breaches the terms of the agreement with a seller.

Benefit – an offer that brings benefit or advantage to customers. A discount, status, gift, etc. can be regarded as a benefit.

Business Advisor – a specialized organization / private person that provides consultations to businesses regarding business processes management and maximum utilization of existing resources, as well as setting plans and implementing them. With the help of a business advisor, entrepreneurs have the ability to reduce risks and increase profitability. Financial organizations that serve business clients typically have their own business advisors.

Business Plan – a document that provides an overview of the current state of business and the situation on the market, as well as the business' future goals and plans for reaching them.

C

Capital – a combination of attracted and accumulated funds needed for the functioning of the business.

Cash Flow Statement – a financial document showing the total amount of cash and cash equivalents being transferred into and out of a business during a particular period.

Cash withdrawal – withdrawal of money available on a customer's account through ATM or Service Center of a financial organization. Cash withdrawals may be subject to withdrawal limits, i.e. maximum amount of money that can be withdrawn within 24 hours.

Capital expenses – costs originating from conducting business, which are related to acquiring or improving long-term assets. Examples of capital expenses are the costs borne for the purchase of real estate, land or a car, for making repairs, etc.

Commercial Bank – a financial organization that accepts deposits, issues loans and carries out other activities defined by the law, such as management of consumers' personal/business finances, money transfers, currency conversion, non-cash settlements, and more. Commercial banks serve both natural persons and legal entities.

Commission (fee) – a payment charged to a consumer for the use of products / services, the amount and the method of payment of which are defined through the contract.

Compound Interest – interest that is applied several times during the term of a loan or a deposit, and each time, it is calculated on the sum of the initial principal and the accumulated interest of previous periods.

Confidentiality – ethical principle or the provision defined by law, or a contract signed between the Parties, which implies that the specific situation or information will not become public domain and will be available only to the person (s) for whom (which) it is intended, excluding the cases established by law requiring disclosure of such information.

Contract – an agreement made between two or more parties in writing, which establishes the terms of the agreement, and the rights and obligations of the parties.

Consumer Loan – a credit product (type of loan) issued by a financial institution for not-for-profit purposes. Consumer loans can be both secured and unsecured. Consumer loans can be obtained remotely as well as at a service center/branch of a financial institution.

Cost of Goods Sold (COGS) / Cost of Sales (COS) – the costs directly involved in the production of a final product or delivering a service.

Credit History – a record of borrowers' (both natural persons and legal entities) current and past liabilities, stored in a database of a Cred-

it Information Bureau. A business-owner can check his/her own company's credit history with Credit Information Bureau.

Credit card – a payment card, which enables a cardholder to spend/borrow the money allocated/lent to him/her by a credit institution within pre-established limits.

Credit limit – the maximum or the minimum amount of credit that can be used by a borrower.

Credit line – a credit product that allows a borrower to spend the amount of credit extended to him/her by a financial institution in line with the terms, limits and conditions set forth in an agreement between the two parties.

Current account – a bank account, which is opened for an indefinite period of time and used for various operations, including: depositing, withdrawing and transferring money, as well as making currency conversions. Current account can be a **single currency,** which means that transactions can be performed only in one currency and a **multi-currency,** where the funds are held in different currencies, allowing a consumer to make payments in a desired currency without conversion.

Currency Conversion – the process of converting one currency to another.

Currency exchange rate – the rate at which the currency of one country can be exchanged for the currency of another country. Georgia has the floating exchange rate regime, which means that the exchange rate is determined based on the supply and demand on the foreign exchange market. The **official** exchange rate of GEL against foreign currencies is calculated as the average weighted exchange rate of the registered spot trades on the interbank market during the calculation period within the trade platform. Afterwards, the exchange rate is announced by the NBG and is effective on the next day. The official exchange rate may differ from the **commercial** exchange rates that are offered by commercial banks, other financial institutions and currency exchange bureaus, and which are determined based on the supply and demand for the currency on the given day. You can find the official exchange rates of GEL against foreign currencies on the National Bank's website: **www.nbg.gov.ge.**

Current (Liquidity) Ratio – a financial indicator measuring the ability of a business to cover its short-term (current) liabilities with its current, highly liquid assets.

D

Debit card – payment card that can be used for managing the money available on the card/current account.

Debt Collection/Recovery Company – a specialized company, to which financial institutions transfer for management delinquent loans, which consumers pay with significant delays, incompletely or not at all. The functions of such companies include recovering money owed by delinquent borrowers by contacting the borrowers and negotiating loan repayment terms with them.

Debt Service Coverage Ratio (DSCR) – financial indicator measuring business efficiency, in particular, whether a business has sufficient net income to cover its debt liability. DSCR is calculated by dividing monthly profit before tax and interest by monthly loan payment.

Depreciation (amortization) – gradual tear and wear of an asset over time, which leads to a drop in the value of the asset. For accounting purposes, depreciation is represented by distributing/allocating the value of the asset in a balance sheet over a period of time, in order for it to be recognized as a cost.

Deposit (Deposit Account) – the sum of money deposited at a Bank for a certain amount of time to earn interest. The deposit allows consumers to build savings and receive interest. The Bank must return the deposit amount, along with accrued interest by the date spec-

ified in the contract, or based on the request of a consumer (or another authorized person). There are several types of deposits, including:

Demand Deposit – a non-term deposit that allows unlimited withdrawals and additions of funds. Demand Deposits normally offer lower interest rates than other types of deposits.

Term Deposit – a deposit that is opened for a fixed amount of time (term) and with a specific amount. Term deposits offer higher rates than other types of deposits; however, during the term of the Term Deposit agreement, it is not possible to add any money to the deposit. The longer the deposit term, the higher the interest rate offered. In case of early termination of the agreement, the consumer will receive lower interest than defined by the agreement, or no interest at all.

Increasing (Recurring) Deposit – a type of Term Deposit, which is opened for a specific term and earns interest. However, in contrast to the standard term deposit, a consumer can periodically add money to the principal amount on the increasing deposit. Banks individually determine the minimum amount as well as the frequency of contributions to be paid by the consumer during the term of the deposit agreement.

DigiPass – a device or application used to generate a one-time code to perform operations electronically via Internet Bank or other remote banking channels. This device / application is used by both natural persons and legal entities. In case of legal entity, DigiPass is given to the authorized person(s) of the company. DigiPass is a two-factor authentication device; each time it is used it generates a unique code, and electronic operations can be performed only after entering the code.

Drawdown – the use/take up of credit funds by a borrower.

E

Enforcement Proceedings – a process established by the legislation during which the authorized body enforces the decision to meet the creditor's claims. Part of the enforcement proceedings may be, for example, seizure of the assets of the debtor, the guarantor or the owner of the underlying security, sale by auction, etc.

Early Repayment Commission / Early Repayment Fee – a contractually agreed fee charged to a consumer in the event of full or partial early repayment of the loan principal before the date defined in the contract.

F

Facsimile – a signature made with a stamp (cliché) using the exact copy of the original signature. Facsimile is also a sample of signature.

Financial Analysis – objective assessment of the financial position, risks and outputs of the company. Financial analysis can help make forecasts about the future stability and the expected risks for the company. In most cases, financial organizations make decisions about extending a loan to a business based on financial analysis.

Fixed assets – material assets (e.g. buildings, land, equipment, etc.) that are owned by a company and used for operations, production, lease and administrative purposes. Fixed assets are purchased for long-term (longer than one year) use.

Fixed costs – company expenses that do not change over a certain period of time, regardless of the number of products / services rendered, such as rent, insurance, administrative salaries, etc.

Floating Assets – cash and non-cash resources at the disposal of a company, which the

company can use for less than one year (e.g. money, supplies, accounts receivable, etc.).

G

Grace Period – a period of time during which the borrower does not have to repay the principal of the loan. In some cases, during the grace period the borrower may not have to pay interest either. In case of credit cards, grace period is the period during which annual interest will not be charged as long as the borrower pays his/her balance in full by the due date.

Grant – a subsidy; funds transferred/given out free of charge, in cash or in kind, for particular purposes.

Guarantor – a person who/which is obliged to repay the loan if the principal borrower fails to do so. If the principal Borrower does not fulfill his/her obligations, in particular, fails to make timely payments, the financial institution shall be entitled to request that the Guarantor cover the matured obligation (i.e. a portion of the loan, which should have been repaid by that specific date).

I

International Bank Account Number (IBAN) – an international standard for representing/identifying bank accounts. IBAN accounts are used for transferring funds within and outside of the country. Using IBAN accounts will help reduce the probability of indicating incorrect account number and, in many instances, save the time needed for the delivery of funds on the beneficiary's account. The format of IBAN account for Georgia consists of 22 characters.

Identification – the process of obtaining the type of information about a person that allows for his/her verification and distinguishes him/her from other persons.

Immovable property – a land plot and any property attached to it (incl. mineral resources, plants), as well as constructions that cannot be moved, e.g. residential houses and industrial buildings.

Installment loan – a type of a loan which is repaid over time, and which allows for the purchase of the desired product or service instantly, at the moment of making loan application, often, at the merchant or service outlet.

Insurance – a financial instrument that allows to mitigate or avoid financial losses resulting from potential risks / eventualities. Both natural persons and legal entities can use insurance.

Internet Banking (Online Banking) – a remote banking service; a method of banking in which transactions are conducted electronically via internet without visiting the Bank branch / service center. With Internet Banking, the user can view account balance with accessible and blocked amounts, get a bank statement, transfer money to own or other persons' accounts, as well as to the state budget, top up mobile balance, make utility payments, open/take and manage deposits and loans, view currency exchange rates and make currency conversions, etc.

Interest – **In case of Deposit:** the amount of money paid out by a Bank on a deposit; **In case of Loan:** the amount of money paid by the borrower to the credit organization in exchange for the use of a loan. **The Interest Rate** is the amount charged to a borrower or paid to the depositor expressed as a percentage of the principal.

Interest rate:

Variable interest rate – an interest rate that is based on a certain public index (for GEL loans – Monetary policy (refinancing) rate of the National Bank of Georgia; for USD loans – London Interbank Offered Rate (Libor), etc.), and fluctuates in parallel with the changes in the underlying index. Resulting changes to the interest rate will increase or decrease the size of installments.

Fixed Interest Rate – an interest rate that remains unchanged during the whole term of the loan agreement.

Nominal Interest Rate – a loan or a deposit interest rate that is indicated in the agreement and constitutes the interest accrued on the loan / deposit amount. Nominal interest rate does not include other costs related to the financial product / service (e.g. fees for loan approval, withdrawal, insurance, etc.).

Effective Interest Rate – In case of a loan: annual interest rate, which includes all financial costs related to the loan and takes into account the time value of money. Such costs may include loan approval fees, insurance commission, etc. **In case of a deposit:** annual interest rate, which includes all financial costs related to the deposit, the interest paid on the deposit, and the time value of money.

Investment – an act of investing money or capital or any other resource with the expectation of gaining profitable returns.

Investor – a person who/which makes an investment – expends his/her own capital, funds or other resources with the expectation of achieving a profit.

Invoice – a financial document that the seller presents to the buyer, and based on which, the payment is made. It contains a list of items purchased, quantities, the seller's bank requisites, etc.

L

Leasing – granting/transferring of a property by a lessor/owner to the user on rent for an agreed period of time. A leasing agreement may or may not include the right of the user to purchase the property.

Letter of Credit – a letter issued by a credit institution by which it assumes an obligation, based on its client's request, to pay a fixed amount of money to a third party upon the provision of a specific document, agreed in advance in the letter of credit, by the latter.

Leverage Ratio – a financial indicator measuring how much debt (liabilities) can a company afford, without jeopardizing its ability to meet financial difficulties with own capital, if needed. There is no universal standard for this ratio, and it varies depending on the business sector, although in most cases, it is recommended that the **leverage ratio should not be below 30%.**

Liabilities – debts/obligations of a company against external entities (creditors, contractors and others) the settlement of which implies expenditure of the company's resources (mostly financial resources).

Limitation Period – the period defined by the legislation after the expiry of which the person no longer has the right for the compulsory enforcement of the claim. The limitation period starts from the moment of the claim's origin. The time when the person has learned or should have learnt about the violation of his/her right(s) is deemed as the moment of the claim's origin. If the debtor has fulfilled its obligations despite the limitation period, then it cannot revoke/reclaim the performance on the ground of the expiration of the limitation period.

Liquidation – the process of destruction, closure, termination, sell-out.

Liquidity – the capacity to convert an asset into cash without price discount i.e. lowering of the price. The faster and easier the asset is sold, the more is its liquidity. There are **liquid** and **non-liquid** assets.

Loan Agreement – an agreement regulating credit relations between the parties and providing a detailed description of the rights and obligations of the parties.

Loan – the amount of money that the borrower receives from the lender under pre-agreed conditions, including the terms for repayment, interest rates and other parameters.

Loan approval – a positive decision of the financial institution regarding issuing a loan.

Loan issuance (approval) fee – costs related to issuance of a loan approved by a financial organization.

Loan monitoring – a systematic process of periodic oversight and inspection by the credit organization for the purposes of checking the targeted use of the loan and the financial condition of the borrower.

M

Microfinance Institution (MFI) – a financial organization providing various financial services to natural persons and legal entities: issuing loans, offering money remittances, converting currencies, etc. It should be noted that Microfinance Institutions are not allowed to accept deposits, and cannot issue loans in the amount of more than GEL 100,000.

Mortgage – the use of a real estate of the debtor or a third party to secure monetary and / or non- monetary claims. In case the borrower fails to fulfill his/her obligations, the lender is entitled to dispose the real estate pledged as a collateral. If the property is pledged under the Loan Agreement, then the Agreement must be certified by a notary in order to secure a claim (this rule does not apply to commercial banks, microfinance institutions and non-bank institutions).

Movable (personal) property – a type of property that can be moved, e.g. car, machinery, etc.

N

National Bank of Georgia (NBG) – the central bank of Georgia, the main objective of which is to ensure price stability in the country. The National Bank also supervises the financial sector for the purposes of maintaining financial stability and transparency of the financial system, as well as protecting the rights of the consumers and investors. In addition, the functions of the National Bank include managing official international reserves of the country, issuing Georgian banknotes and coins into circulation, and taking measures against illicit income legalization and terrorism financing, etc.

O

Overdraft – a type of short-term loan – a credit limit granted by a financial institution on a client's account, where the latter receives his/her salary. **Business overdraft** – a type of short-term loan granted by financial institutions to businesses for covering short-term liabilities – e.g. salaries, lease, etc. Business overdraft is disbursed / activated on the current account of the business / business owner.

P

Patent – a document issued by the state in the name of the inventor, conferring the exclusive rights of the inventor to the invention. The patent may be issued for the product, as well as the method (technological process). The patent holder may prohibit the unauthorized use of his/her invention.

Pawnshop – a financial institution that issues loans in exchange for immovable and/or movable (personal) property as a collateral. As a rule, interest rates proposed by the pawnshop are quite high.

Payment card – a payment instrument used to pay for goods / services, receive cash, send money remittances, and perform other operations defined by the Georgian legislation. There are debit, credit and prepaid payment cards. As a rule, consumers have to pay monthly account service fees and annual card fees as an exchange for using payment cards.

Payroll Program – a program offered by a Bank to private and public organizations, which enables the employees of these organizations to receive favorable terms on the Bank's products and services (e.g. cash withdrawals, loans, deposits, etc.). The participating organizations

also receive the possibility to transfer salaries to their employees (including those on business trips) easily, safely and quickly.

Penalty – a sanction / fine agreed in advance between the creditor and the borrower, mostly expressed in form of additional payments or increased interest rate that the borrower has to pay in case he/she fully or partially fails to meet his/her obligations (e.g. for making late payments).

PIN code – an identification code consisting of several digits required to perform operations with a payment card via ATM and POS terminals. When a cardholder receives a payment card, the PIN code is sent to him/her via short text message (SMS) or in a sealed envelope.

Pledge – a guarantee for the fulfillment of an obligation, where a movable and / or intangible property of the borrower/Pledgee serves as an underlying security. In case of the Pledger's failure to fulfill his/her obligations, the Pledgee has the right to enforce his/her pledge by selling the pledged property and / or transferring it into his/her ownership.

Power of Attorney – a written document, which stipulates that one party grants the other party the right to conclude agreements and perform various actions in the name of the principal (grantor of the power) within the frames of the authority established by the agreement.

Principal (amount of loan) – the initial principal amount of the loan received by the Borrower from a financial institution as indicated in the Loan Agreement and on which the interest is calculated/accrued.

Profitability – measurement of efficiency of production that shows the degree to which a business or a project yields profit.

Profit/Loss Statement – a financial document detailing revenues and expenses incurred by a company during a specified period, based on which the profit or loss is calculated.

Profit Tax (Corporate Income Tax) Return – legally defined reporting form, the purpose of which is to calculate profit tax and report it to tax authorities, and which includes information about the company's taxable objects and profit tax amount.

R

Refinancing – full or partial repayment of the existing loan by the Borrower with a new loan received from the same or another lender.

Reinvestment – putting the revenues / profit received from the previous investment back into the same project (business).

Remote banking services – banking services that can be used without visiting the bank. E.g. using payment cards, making online payments, using internet banking, mobile banking, SMS banking, etc.

Reorganization – introducing structural changes to the business: transformation (changing its legal form), merger (unification, joining), splitting (division, demerger).

Restructuring (of a loan) – introducing changes to the existing loan terms, which aims at making it easier for the consumers to repay the loan. One of the most common forms of loan restructuring is merging all debt obligations of the Borrower into a single loan and extending the repayment period.

S

Secured loan – a loan in which the borrower pledges a movable or an immovable asset, deposit or guarantee as a collateral for the loan.

Seizure – prohibition or restriction of the use and the disposal of the property for the property owner. Any immovable-movable property, bank accounts, securities, etc. can be seized. The seizure can be imposed by a court / arbitral

tribunal or another administrative body having relevant authority (e.g. LEPL National Bureau of Enforcement, LEPL Revenue Service, etc.).

Simple Interest – interest that is applied only once, at the end of the term of a loan or a deposit, or several times, yet each time, it is calculated on the initial principal amount.

Solvency – a borrower's ability to repay a loan in timely manner and in accordance with the terms and conditions specified in the agreement, taking into consideration his/her income, expenses and liabilities.

Subsidy –financial aid; financial support extended by the government free of charge in the form of cash payment or in kind.

T

Tax Invoice – a strictly controlled document (mandatory accounting document) defined by the Ministry of Finance of Georgia, which is provided to a recipient of goods/services by a provider of the goods/services, and which contains a detailed information about the agreement, contracting parties, description of goods delivered / services provided, price and time of delivery.

Tranche – a portion of the total loan to be extended by the financial institution or to be paid by the Borrower.

Transaction – performance of different financial operations, such as depositing, transferring, or withdrawing money.

U

Unsecured loan – a loan that is issued without collateral (pledge, mortgage, surety, bank guarantee, etc.).

V

Variable costs – company expenses that change over a certain period of time based on the quantity of outputs (products/ service provided), e.g. raw materials, transportation / distribution costs, etc.

VAT (Value Added Tax) payer – a natural person/legal entity that is engaged in an economic activity and whose earnings during any consecutive 12 calendar months exceed GEL 100,000. It should be noted that a natural person/legal entity that produces excisable goods in Georgia is obliged to register as a VAT payer before starting the realization (sale) of excise goods. For detailed information about VAT, please visit the website of LEPL – Revenue Service – **www.rs.ge.**

Verification – the process of determining the authenticity of the personal data of payment cardholders, and different types of materials (e.g. certificates, documents), as well as comparing the original and its copy for establishing the authenticity between the two.

W

Withdrawal fee – a commission that is deducted from the account when withdrawing money through ATM or a service center. In some cases, withdrawal fee may be 0%.

Waybill – an accounting document that must accompany the supply and the receipt of goods. The waybills must be attached to the shipment of goods and should contain complete information about shipment, route, and charges.

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