

crystal



# SOCIAL IMPACT REPORT – 2022



## ABOUT US

JSC MFO Crystal is a prominent financial inclusion organisation and the largest non-banking financial institution in Georgia in terms of assets. With a loan portfolio of 450 million GEL, workforce of over 1,000 dedicated employees, operations spanning 50 branches, and a wide-reaching customer base of up to 120 thousand individuals across the country, Crystal plays a pivotal role in promoting economic development. Crystal moreover serves as a catalyst for economic progress, delivering innovative financial solutions, including leasing and a range of non-financial services like consulting and technology, all finely tailored to the specific needs of farmers and micro and small entrepreneurs. Crystal is further distinguished as the first Fitch-rated non-banking financial institution in the region, holding a B- Stable Outlook. Furthermore, in 2021, the company earned an A- social rating from MicroFinanza, the Global Rating Agency, reinforcing its commitment to social responsibility. In addition to its financial and social accolades, Crystal has also been honored as the recipient of the Best Annual Report and Transparency Award (BARTA) for four consecutive years in Georgia. This recognition solidifies Crystal's position alongside all systemic financial institutions in Georgia and underscores its commendable progress towards the status of a full-fledged micro bank.

For more information and the digital version of this report, please visit: <https://ir.crystal.ge/>

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## Chair's Statement



**Archil Bakuradze**  
Chair of Supervisory Board

As we celebrate Crystal's 25th anniversary, we are delighted to present the Social Impact Report for the year 2022 to our stakeholders.

At Crystal, we firmly believe that financial services, centered on people, have the power to transform the lives of households and communities. Our mission is to facilitate financial inclusion as a fundamental building block for creating more equal, equitable, and inclusive economies. To achieve this, we have established clear social objectives and implemented a robust system of social performance management. This ensures that we harness our market influence and technology to the fullest extent for the benefit of our customers.

This report is the result of a collaborative effort involving our dedicated colleagues at Crystal, the E&S Committee under the Supervisory Board, and our invaluable partners, who have assisted us in evaluating our social outcomes.

For the first time, we engaged 60\_Decibells to conduct an independent quantitative research project, allowing us to benchmark Crystal against its peers among 120+ MFIs. We extend our gratitude to our long-standing partner, Proparco, for providing the funding required for the inaugural implementation of the 60\_Decibel methodology in Georgia.

Furthermore, building upon the insights from 60\_Decibels, we organized in-depth focus groups with a representative selection of our customers in key regions. This year, we placed a special emphasis on addressing the challenges faced by internally displaced persons (IDPs). Our stakeholders are well aware of Crystal's historical involvement in supporting the displaced, allowing us to promptly respond to the exodus of Ukrainians, including by offering facilities to start or relocate their micro and small businesses in Georgia.

In addition to our other accomplishments, Crystal has achieved the distinction of issuing the first gender bond in the region under the guidelines of the International Capital Market Association (ICMA). We owe this achievement to the leadership and support of the Asian Development Bank. A remarkable and timely support from the European Bank for Reconstruction and Development also facilitated our acquisition of a third-party opinion from the international rating agency, Scope, which gave our strategy, systems, and business processes the highest assessment, confirming our readiness to contribute to women's economic empowerment.

We take pride in our position at the forefront of innovation in serving small-scale and growing SMEs. Thanks to the support of USAID YES Georgia, Crystal has developed non-financial services, such as consulting, mentoring, and technology access, for aspiring women microentrepreneurs with the potential to elevate their businesses into successful SMEs. We present the outcomes of a Randomized Control Trial that offers deeper insights into the impact of these non-financial services on enterprise growth. This impact is of particular significance as we work toward securing a banking license and expanding into the lower-end SME segment, thereby playing a unique role in strengthening the SME sector in Georgia.

Looking ahead, we are optimistic that obtaining a banking license will better position us to function as a financial inclusion organization and address the gaps identified in this year's assessment. It is noteworthy that ESG taxonomy has become an integral part of the reporting requirements for banks, as mandated by the National Bank of Georgia.

Drawing upon our substantial experience in financing energy efficiency and renewable energy projects at the household and SME levels, we are eager to identify and expand the model for climate-conscious economic revival.

In conclusion, I extend my gratitude to my fellow shareholders, investors, members of the Supervisory Board, our dedicated management team, and the entire Crystal staff, as well as our exceptional partners. Please stay tuned for more updates from Crystal as we continue to scale our environmental and social impact, growing into a stable and high-performing sustainable bank.

This report should be ready in conjunction with the Annual Report 2022 and Crystal's [Sustainability Policy](#).

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Crystal's **MISSION** is to strengthen entrepreneurs with capital, knowledge and skills, so that they transform opportunities into wellbeing. By providing Georgian entrepreneurs and individuals with access to financial products and services, and to information, technology and skills, Crystal enables them to create jobs throughout the economy, build assets and improve the standard of living across the country.

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Crystal's **VISION** is to be the leading bank serving micro and small entrepreneurs, while also operating on the principles of commercial performance together with social and environmental sustainability.

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Crystal's **BRAND PROMISE** is to act as a trusted partner, providing business and individual customers with opportunities to start or develop their businesses, improve livelihoods, and build a better future for their families and for society.

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# PURPOSE OF THE SOCIAL IMPACT STUDY

The purpose of this study was to assess Crystal's social impact on its customers.

To this end, a quantitative study was conducted by 60\_Decibels, an independent external company, which evaluated six key areas of impact:

1. Access
2. Business Impact
3. Household Impact
4. Customer Protection
5. Resilience
6. Agency

In order to interpret their results in detail, Crystal's marketing department thereafter conducted a qualitative study, in which a special focus was placed on internally displaced customers, in order to determine their specific needs based on a comparative analysis and to assess the social impact of Crystal on this group.

As of 2022, the number of internally displaced Crystal customers (IDPs from Abkhazia, Tskhinvali and Ukraine) reached 10,514 (6.7% of customers), with a total portfolio of 23.4 million GEL (5.9% of the loan portfolio).

## Share of IDPs in the Total Loan Portfolio:

LOAN PURPOSE	GLP		Clients	
Trade	2,087,981	6.0%	499	7.8%
Production	388,428	5.7%	59	5.4%
Service	2,559,432	4.9%	473	6.1%
Agriculture	2,011,187	3.5%	606	4.3%
Housing	3,574,724	6.1%	667	6.8%
Education	192,129	13.9%	56	11.0%
Consumer	12,640,529	6.7%	8,154	6.9%
Other	-	0.0%	-	0.0%
<b>Total</b>	<b>23,454,411</b>	<b>5.9%</b>	<b>10,514</b>	<b>6.7%</b>



**RESEARCH  
METHOD**

Based on the ultimate purpose and objectives of the research, both qualitative research methods, in-depth interviews and focus groups, were selected alongside quantitative telephone survey techniques.

### Focus Group Design:

- **Target segment:**
  - I group – Crystal’s local customers
  - II group – Crystal’s IDP customers
- **Research area** – Tbilisi, Kutaisi, Gori, Zugdidi
- **Sampling method** – Targeted
- **Number of focus group discussions** – 4
- **Total number of respondents** – 22
- **Interview format** – In physical presence
- **Duration** – 90 minutes

### In-Depth Interview Design:

- **Target segment:**
  - Crystal’s local customers
  - Crystal’s IDP customers
- **Research area** – One interview conducted per region, within an in-depth interview framework
- **Sampling method** – Targeted
- **Number of interviews** – In total, 10 interviews were conducted
- **Interview format** – Individual interviews using Zoom and MS Teams
- **Duration** – 30-50 minutes

### Demographic Profile of Respondents:

<b>GENDER</b>	
Women	19
Men	13
<b>AGE</b>	
18-30	5
31-45	15
46+	12
<b>STATUS</b>	
Local	15
Displaced	17
<b>EMPLOYMENT TYPE</b>	
Employed	9
Self-employed	21
<b>Total</b>	<b>32</b>



**Customer Profile of Respondents:**

<b>LOAN AMOUNT</b>	
Under 2,000 GEL	12
2,001-20,000 GEL	16
20,001+ GEL	4
<b>LOAN TYPE</b>	
Agricultural loans	7
Fast installment loans	3
Micro business loans	9
Consumer loans	9
Housing loans	4
<b>Total</b>	<b>32</b>

**Quantitative Research Design:**

- **Target segment** – Active Crystal customers
- **Research technique** – Telephone survey
- **Number of interviews** – In total, 288 interviews were completed
- **Research area** – Throughout Georgia
- **Sampling method** – Random sampling
- **Interview duration** – 15 minutes
- **Research error** – 5%

	Sample	Population
<b>GENDER</b>		
Women	58%	59%
Men	42%	41%
<b>AGE</b>		
18-30	15%	9%
31-40	26%	21%
41-50	24%	30%
51+	36%	31%
Unspecified		9%



**CRYSTAL –  
PERFORMANCE  
SUMMARY BY  
60\_DECIBELS**

## Crystal – Performance Summary by 60\_Decibels:

Performance Summary

Crystal

### About This Report

This performance report includes a summary of your results across the six dimensions of financial inclusion: access, business impact, household impact, client protection, resilience, and agency.

For more detailed results, please visit [your private online dashboard](#). On the dashboard you can find additional insights on client satisfaction, loan usage, and challenges. You can also see your results by different segments including gender and loan type.

To contextualize your results and see how your performance compares to other MFIs across these indicators, we have benchmarked your results here and in the online dashboard. The 60 Decibels Microfinance benchmarks include data across 120+ MFIs. Please note, the data in this report is static and the benchmarks are as of May 2023 whereas the online dashboard benchmarks are consistently updated with new data.

Once we have collected data for all the Microfinance Institutions included in the 2023 60 Decibels MFI Index, we will provide Crystal with an Index ranking in your online dashboard.

### Impact Explained

60 Decibels measures your results across six dimensions of impact, the details of these dimensions are summarized below.

Access	Measures the degree to which Crystal is serving a previously underserved population, the competitive landscape Crystal operates in, and the degree to which you are serving less well-off clients.
Business Impact	Measures the impact Crystal has on clients' ability to earn income from their business and their ability to employ others.
Household Impact	Measures the impact Crystal is having on clients' quality of life and their ability to invest or cover household expenditures.
Client Protection	Measures the degree to which clients are informed of Crystal's loan conditions prior to borrowing and the impact the Crystal has on their ability to manage their finances.
Resilience	Measures the degree to which clients are financially prepared for an unforeseen economic shock, and the impact Crystal has on this preparedness. As well as the degree to which clients are making sacrifices to cover the cost of their Crystal loan repayments.
Agency	Measures the impact Crystal has on clients' confidence, ability to make decisions about their money, and their ability to achieve their financial goals.

# Crystal – Performance Summary by 60\_Decibels:

Performance Summary

Crystal

## Crystal Georgia

**58%**  
of clients are female

**\$2,957**  
average loan size

**4 years**  
average tenure of client

**35%**  
have an installment loan

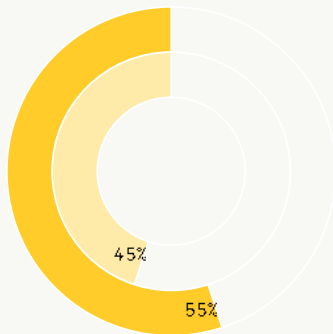
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"I renovated my house with the loan and bought a house for my daughter as well." - Male, 63



### Access

- Without access to a good alternative
- Accessing a loan for the first time



“

I am satisfied with the service and also able to pay back the interest.”  
- Male, 23



### Business Impact



Crystal – Performance Summary by 60\_Decibels:

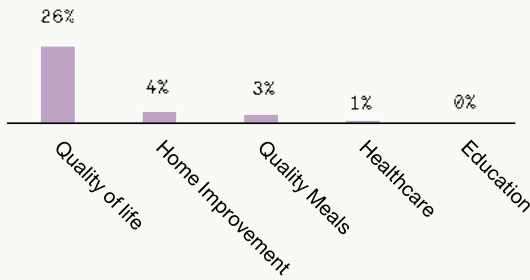
Performance Summary

Crystal



Household Impact

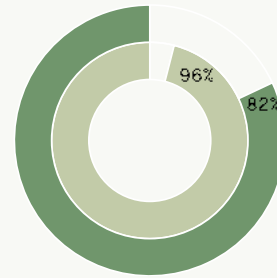
% 'very much improved / increased'



Client Protection

- Say repayments are 'not a burden'
- 'Never' cut food consumption to repay

91% 'strongly agree' the fees, interest rates, and penalties are easy to understand and clear



100% have 'never' experienced an unexpected fee

5% 'very much decreased' amount of time worrying about finances



Resilience

27% say resilience has 'very much improved' because of Crystal

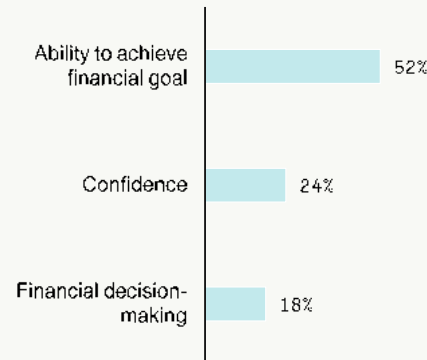
2% say savings have 'very much increased'

21% say their ability to manage finances has 'very much improved'



Agency

% 'very much improved / increased'



“

I like that the loan officer reminds me of the repayment date, so I never forget to pay.  
- Female, 38



For more results, check out your [online dashboard!](#)

Performance Summary

Crystal

## Detailed Crystal Benchmark Performance

Performance Relative to Benchmark compares the Crystal performance with the 60 Decibels Microfinance Benchmarks which includes 122 Microfinance Institutions and 36,236 clients.

- BOTTOM 20%
- BOTTOM 40%
- MIDDLE
- TOP 40%
- TOP 20%

Indicator	Description	Crystal	60dB MFI Benchmark	Performance Relative to 60dB MFI Benchmark
<b>🏠 Access</b>				
First Access	% accessing for the first time	45%	57%	●●○○○
Alternatives	% without access to good alternative	55%	57%	●●●○○
Equitable Access	Inclusivity Ratio	-	0.64	-
<b>💰 Business Impact</b>				
Income	% seeing 'very much increased' income	12%	23%	●●○○○
Employment	% increasing no. of paid employees	5%	9%	●●○○○
<b>🏠 Household Impact</b>				
Quality of Life	% 'very much improved' quality of life	26%	32%	●●○○○
Home Improvement	% 'very much increased' household spending on home improvement	4%	14%	●○○○○
Education	% 'very much increased' household spending on education	0%	12%	●○○○○
Healthcare	% 'very much increased' household spending on healthcare	1%	6%	●○○○○
Quality Meals	% 'very much increased' number and quality of meals	3%	13%	●○○○○
<b>📄 Client Protection</b>				
Repayment Burden	% saying repayments 'not a problem'	82%	65%	●●●●●
Consumption Sacrifice	% who 'never' cut food consumption to make repayments	96%	80%	●●●●●
Loan Understanding	% 'strongly agree' penalties, fees, and interest rates are clear	91%	71%	●●●●●
Unexpected Fee	% who say 'no, never' to experiencing an unexpected fee*	100%	94%	●●●●●
Financial Worry	% 'very much decreased' time spent worrying about finances	5%	18%	●○○○○
<b>⚡ Resilience</b>				
Crystal Role in Resilience	% 'very much improved' resilience thanks to MFI	27%	18%	●●●●○
Savings	% 'very much increased' savings	2%	14%	●○○○○
Financial Management	% 'very much improved' ability to manage finances	21%	24%	●●○○○
<b>🛡️ Agency</b>				
Decision making	% 'very much increased' ability to make financial decisions*	18%	28%	●●○○○
Confidence	% 'very much increased' confidence in self and abilities*	24%	35%	●●○○○
Financial Goals	% 'very much improved' ability to achieve financial goal	52%	26%	●●●●●

\*These are new metrics, so Benchmarks are based on only 60 companies.

Performance Summary

Crystal

## Methodology

### About the 60 Decibels Methodology

In April 2023, 60 Decibels' trained researchers conducted 288 phone interviews with Crystal loan clients. The clients were randomly selected from a random sample of Crystal's client database. Our results are representative of Crystal's clients who had available contact information and have completed at least one loan cycle. Here is the breakdown of how we collected this data:

Country	Georgia
Contacts Shared	2,426
Interviews Completed	288
Response Rate	52%
Languages	English, Georgian
Average Survey Length	15 mins
Confidence Level	95%
Margin of Error	5%

### Calculations and Definitions

For those who like to geek out, here's a summary of some of the calculations we used in this report.

#### Metric

#### Calculation

Inclusivity Ratio

The Inclusivity Ratio is a metric developed by 60 Decibels to estimate the degree to which an organization is reaching less well-off clients. It is calculated by taking the average of Company % / Country %, at the \$1.90, \$3.20, and \$5.50 lines for low income and low-middle income countries, or at the \$3.20, \$5.50 and \$8.00 lines for middle income countries. The formula is:

$$\sum_{x=1}^3 \frac{([\text{Company}] \text{ Poverty Line } \$x)}{(\text{Country Poverty Line } \$x)} / 3$$



**QUALITATIVE  
RESEARCH AND  
KEY FINDINGS**



## Impact of Loans on Quality of Life:

### The quality of life has improved significantly

Crystal loans have positively impacted the quality of life of its customers. According to the qualitative research, the realisation of a client’s goals and desires was the main indicator affecting the improvement of their quality of life, and significant importance was placed on Crystal’s role during this process. Consequently, under the quantitative study, 86% of respondents confirmed that their quality of life had improved after receiving a loan – where achieving their own goals was perceived as an improvement to the quality of life:



*In my life, the best thing that’s happened is thanks to Crystal. I was able to do something, I built a house in a very good place, I have a very nice restaurant, this is thanks to Crystal, this is a fact. (Kutaisi, woman)*



*It had a great impact, I did my job, I didn’t ‘waste’ the money – I used it and did 80% of what I wanted. (Dusheti, man)*

Moreover, customers who have used a Crystal loan to raise their income rated its impact on quality of life much more positively (45%) than those who used a loan solely for consumer purposes (20%).



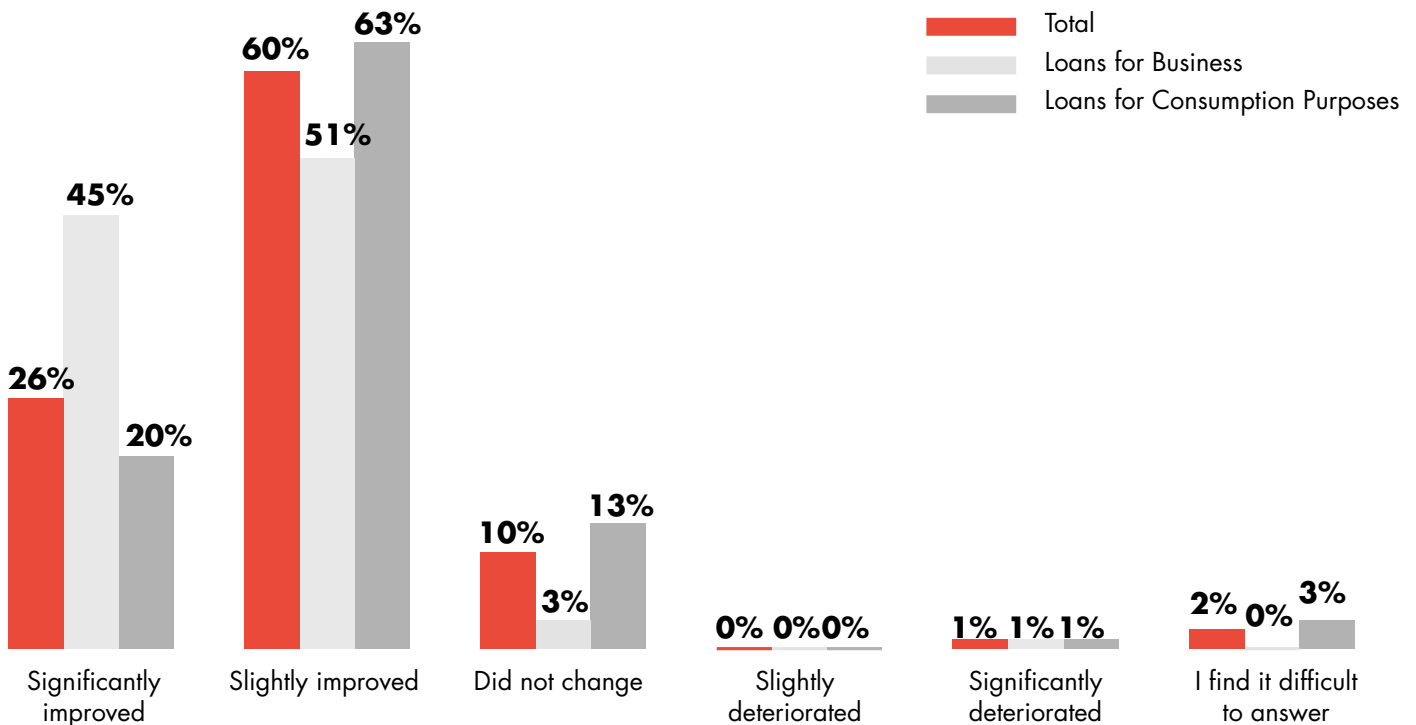
*I bought construction-repair tools. It had a positive impact; I didn’t hope to buy them, but they approved it. My income increased. I use the things and work. (Gori, man)*



*I used the loan for what I wanted... my income exceeded, of course, the amount I paid the bank. (Tbilisi, woman)*

Only a rather small proportion of 1% assessed the impact of their loans on quality of life negatively. This particular segment mentioned that it was necessary to make further savings in their daily life.

### Quality of Life





## Impact of Loans on Businesses:

### Crystal loans led to an increase in business income

In total, 70% of the respondents who used a business loan increased their income after cooperating with Crystal. It also is worth noting that when discussing their businesses, they attached great importance to the role of Crystal and considered it a contributing factor to their success:

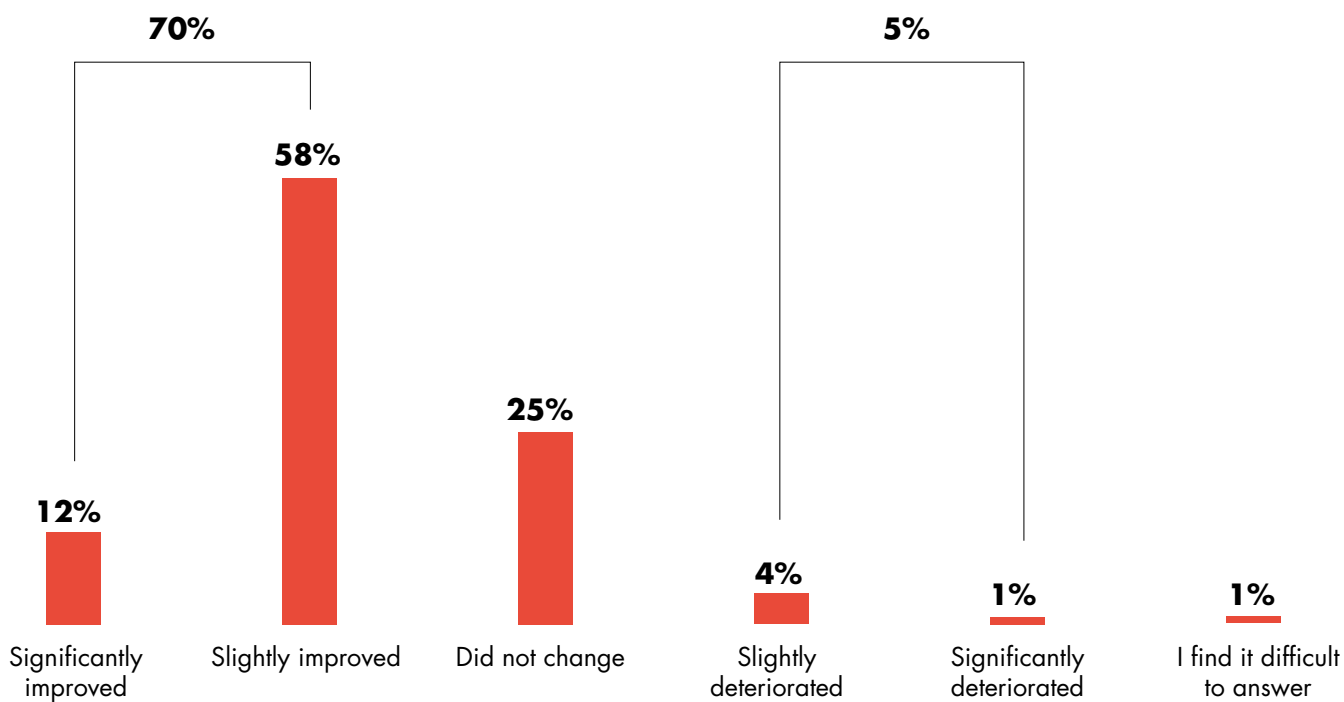


*[The business] increased my income... I applied and received the money quickly. Of course, there is a great part of Crystal in that. (Kobuleti, man)*



*Working conditions improved; I bought tools, repaired what needed to be repaired. This also increased my income. (Rustavi, man)*

### Business Income



3

## Impact of Loans on Self-Perception:

### It had a particularly positive impact on the female segment

According to both the quantitative and qualitative research, the loans affected the clients' personal characteristics:

- 57% of customers reported feeling more confident after borrowing from Crystal.
- 78% confirmed that their ability to achieve their goals improved after cooperation with Crystal.
- 40% of respondents make independent financial decisions more often.

Since loans are associated with responsibility, overcoming certain difficulties and fulfilling obligations, they can affect the perception of an individual's own capabilities; and this trend was more pronounced for women. Under the quantitative data, 44% of women (34% of men) currently make more independent financial decisions, 58% (55% of men) have higher self-esteem, and 40% (28% of men) reported that their ability to achieve goals was improved after cooperation with Crystal:

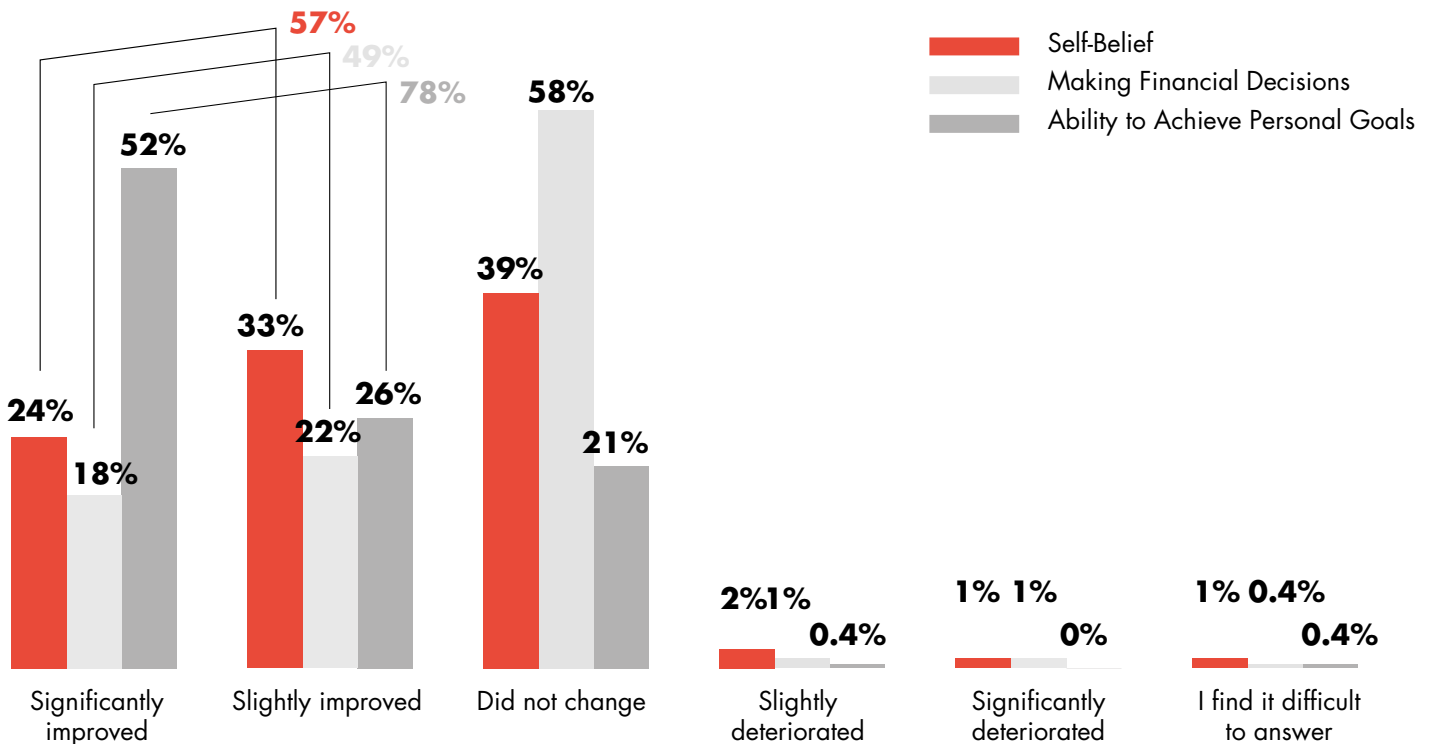


*My self-esteem has increased, because somehow I am proud of paying this loan... somehow I like the fact that I manage all this by myself, alone and without anyone's help. (Kutaisi, woman)*



*I already have hope for myself. I have changed, I have to pay because I have a responsibility. I became more active; I went towards strength. You have to pay for all of these; you have to work and earn more. I have become more confident in myself. (Gori, woman)*

### Personal Characteristics





## Impact of Loans on Stress Levels:

### 30% of users experienced a reduction in stress

Around 30% of the respondents confirmed that they have been less worried about finances since cooperating with Crystal. Notably, increased income and the opportunity to raise funds were mentioned as a consequence of this change:



*I don't feel any stress and I don't experience it. On the contrary, because of what I couldn't buy and do before, due to finances, now I can enjoy every year, even with instalments, even with a different type of loan. (Gori, woman)*

Of the respondents, 15% consider their Crystal loan to be a burden, that associated with stress and tension in itself. This is due to debt repayment stress, frugal spending, difficulty meeting healthcare costs, and interest payments:



*There are times when I don't have this amount and that moment of searching for it is very stressful for me. (Tbilisi, woman)*

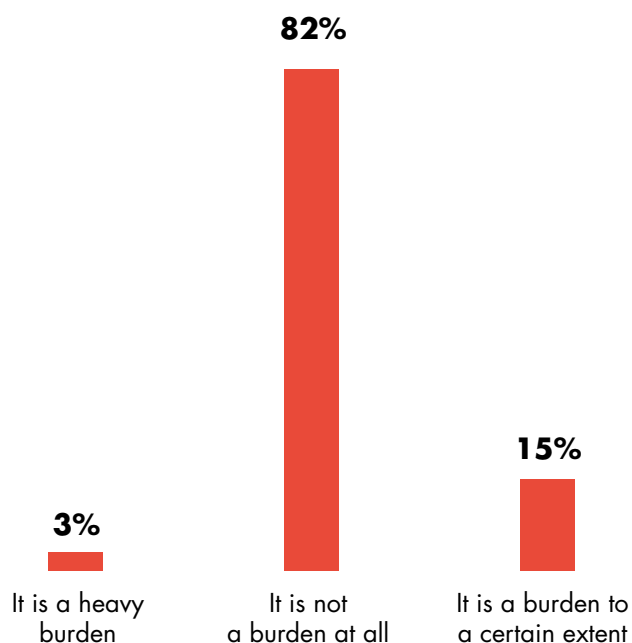


*Stress has increased, because we can hardly approach the medical field. Recently I was forced to undergo some medical treatment, and it is related to such amounts that it's just very difficult financially. (Tskaltubo, woman)*

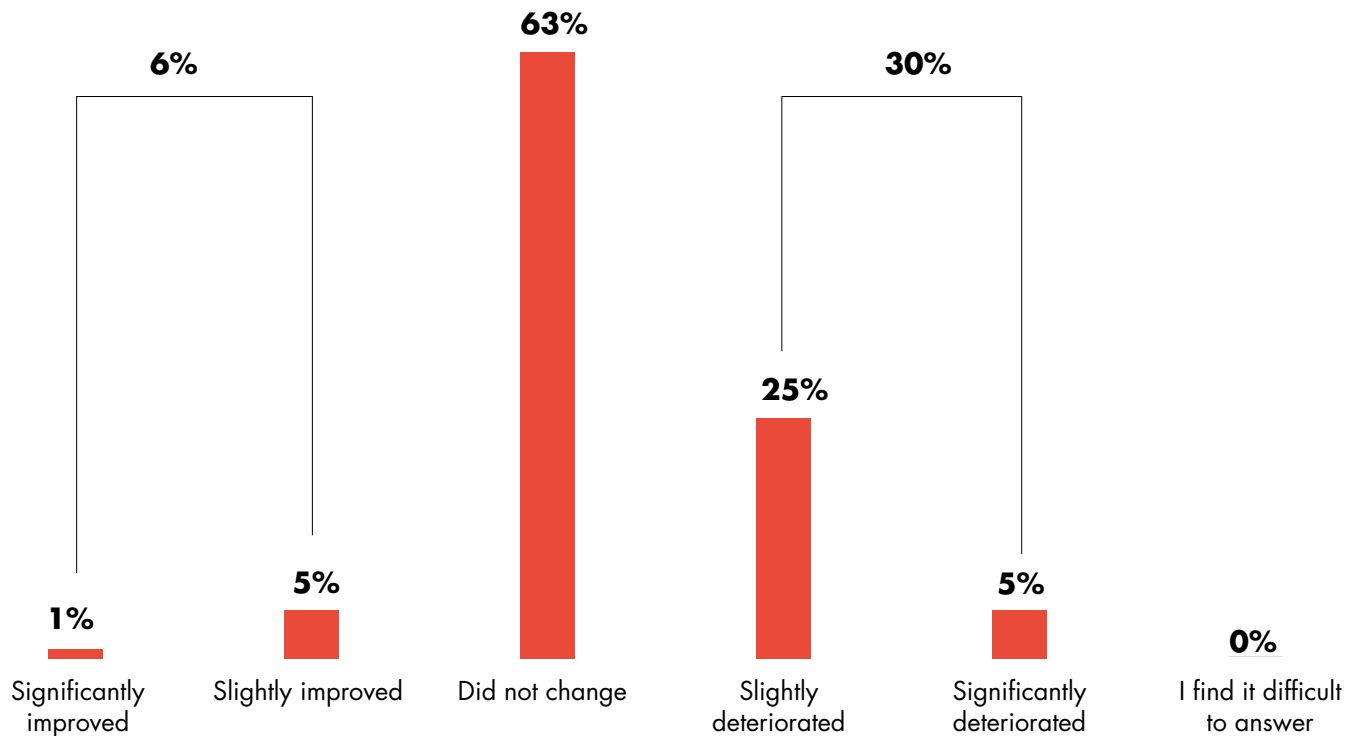


*The stress is that my heart breaks. I remember that so little of my sum goes to the principal amount and so much goes to interest. That is what I am worried and stressed about. (Tbilisi, woman)*

### Perception of Crystal's Loan



## Time Worrying about Finances



## Internally Displaced Persons:

### Experience stress less and invest in business more often

The qualitative research identified certain differences between the consumer behaviour of local and of internally displaced respondents, largely due to their past experiences related to the wars of 1992-1993 and 2008.

One tendency identified that, compared to local customers, IDPs do not consider loans to be as great a stress-provoking factor – they typically reported that their stress levels decreased or did not change at all. It appears that as they have faced and overcome much greater difficulties, loans are no longer a stress-determining trigger for them. Moreover, IDPs invested their loans into businesses in order to gain financial independence, therefore, due to improvements in the economic situation, they experienced stress less.

Another trend was identified in that internally displaced persons prefer to save at home, whereas locals prefer to save within a deposit. This appears to be based on war-related experiences, alongside the supposed risk of losing aid for displaced persons, which, according to the respondents, may be prompted by opening a deposit:

”

*In 2008, during the war, they could not withdraw money, the first, second, third day, and then it froze. It is true that after that it was restored as usual, but if something were to continue, this amount would already have been lost. If I make a saving, I will keep it at home. (Tbilisi, woman)*

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## Highlights of the Social Impact Study:

After cooperation with Crystal, the financial capabilities of customers improved, specifically:

- **86%** of respondents have an improved quality of life
- **30%** of consumers are less worried about their finances
- **31%** of customers would be able to access **15,000 GEL** easily
- **61%** of respondents have improved their ability to cope with large expenses

Crystal loans had a significant positive impact on customers' self-perception, namely:

- **57%** of respondents have become more self-confident
- **40%** of clients now make financial decisions more easily
- **78%** of customers have an enhanced ability to achieve their goals

Of the business customers, **70%** have seen an increase in business profit.

On a 10-point scale, **9.1** points was identified as the recommendation point, thereby indicating that users have very positive experiences with Crystal:

- **96%** of customers believe the amounts paid to Crystal are easy to understand
- **99%** of respondents are fully informed about payments, and they have never been charged unexpectedly
- **94%** of respondents have never had a problem with the service



16:57  
29 September 2023  
KAZBEGI

**THEMATIC  
BLOCK 1:  
MENTORING  
WOMEN  
ENTREPRENEURS  
– RCT RESEARCH**



The Randomised Controlled Trial study conducted by Crystal, and its wholly owned subsidiary LLC Crystal Consulting, aimed to assess the impact of the business mentorship services provided by Crystal Consulting on the performance and growth aspirations of businesses in Georgia. The study had several key objectives:

- 1. Evaluating the Effectiveness of Mentoring:** The study sought to measure the effectiveness of the mentorship provided by Crystal Consulting in improving various aspects of businesses, including business performance, financial funding and prospects for growth.
- 2. Understanding the Role of Consulting Services:** It aimed to explore the perceived value of the consulting services, particularly in the context of raising funds amongst businesses that received mentorship and those that did not.
- 3. Identifying Factors Influencing Business Improvement:** It sought to identify other contributing factors, besides mentorship, that affect improvements within business performance.
- 4. Assessing Growth Aspirations and Confidence:** The research investigated growth aspirations amongst businesses as well as their confidence towards achieving rapid growth over the next three years.
- 5. Quantifying the Impact of Confidence Mentorship on Growth:** It aimed to understand how mentorship affects the perception of businesses' ability to achieve rapid growth, and to measure if there is a statistically significant difference in the perceived ability to grow between mentored and non-mentored businesses.

## Methodology:

The study employed a Randomised Controlled Trial design, which is known for its rigorous impact assessment. Participants were randomly assigned to different treatment groups to assess the influence of consulting and mentorship on businesses. The study thereafter carefully selected businesses that had not been mentored, matching them with the characteristics of the mentored group to ensure representative results.

The research subsequently used quantitative methods to compare the businesses mentored by Crystal Consulting with those that had not received any mentorship. This approach allowed for a comparative analysis of the impact and value of consulting and mentorship for businesses with similar characteristics. The RCT methodology and sample matching were thereafter used to establish causal relationships between the treatment (consulting and mentorship) and the observed outcomes.

A telephone survey was conducted between April-May 2023, generating 202 responses, with 100 from the mentored group and 102 from the non-mentored group.

## Limitations:

The study interviewed 202 respondents, including 100 mentored businesses and the remainder without Crystal Consulting services or mentorship. The relatively small sample size may limit its ability to capture the full diversity of businesses in the target population, thus potentially affecting the extent the findings can be generalised.



## Key Findings:

An updated summary of the findings from the RCT research, incorporating additional information and comparing both mentored and non-mentored women entrepreneurs in Georgia, is as follows:

### Company Operation Duration and Mentorship

- A significant percentage of both mentored (35%) and non-mentored (59%) companies have been operating for more than five years.
- In the mid-term range (3-5 years), 34% of mentored companies have been operational within this timeframe, compared to only 17% of non-mentored companies.
- Mentorship seems to contribute to sustaining business operations, with more mentored businesses in the mid-term range, and a higher percentage of non-mentored businesses being unregistered physical entities.

### Loan Source Selection and Amounts in Mentored vs. Non-Mentored Establishments

- Mentored establishments primarily borrowed from commercial banks (45%) and microfinance organisations (52%).
- Non-mentored establishments relied less on commercial banks (37%) and to a greater extent on microfinance organisations (63%).
- Both groups preferred smaller loans, with the majority borrowing up to 5,000 GEL.

### Interest Rates and Collateral Requirements

- Mentored businesses predominantly reported interest rates between 10% and 20%, where the majority did not require collateral for their loans.
- Non-mentored establishments primarily reported rates between 15% and 20%, with the majority not requiring collateral, suggesting the potential influence mentorship has on accessing loans with more favourable terms.

## Investment Raising and Leasing Services

- A small percentage in both the mentored and non-mentored groups reported raising investments or using leasing services within the last three years, thus indicating that mentorship does not significantly impact these aspects.

## Access to Finance as an Obstacle

- A significant number of respondents from both groups perceive access to finance as a hindrance to their business development, with the larger proportion of mentored respondents considering it a significant obstacle.

## Revenue Changes

- A larger share of mentored businesses (19%) reported significant increases in their annual revenue than non-mentored businesses (11%), thus signifying a positive correlation between mentorship and revenue growth.

## Desire and Ability for Rapid Growth

- Both mentored and non-mentored businesses expressed a strong desire for rapid expansion over the next three years.
- A slightly larger percentage of the mentored group rated their ability for quick expansion to be high, suggesting that mentoring may boost the confidence for achieving rapid growth.

## Signs of Improvement

- Improvements in business performance are not solely dependent on mentorship, with positive changes reported by businesses in both groups.
- Mentorship enhances the perceived value of consulting services, particularly towards raising finances.
- Mentorship positively correlates with more formal business practices and financial planning, and it encourages innovation.

**In conclusion, this analysis reveals that mentorship plays a significant role in various aspects of business performance. Although the desire for growth is inherent to businesses, mentorship contributes to improved financial awareness, additional employment, access to finance, and the adoption of better business practices. It moreover underscores the multifaceted nature of business success, alongside the value of mentorship in fostering growth and enhancing business practices.**



In February 2023, Crystal issued two-year certified gender bonds in the amount of 25 million GEL. The transactions aimed to increase access to funding for women entrepreneurs by financing their micro-, small- and medium-sized businesses, promoting gender equality, and by offering economic empowerment to women in Georgia.

The bonds were issued through the capital market support program, initiated under the support of the European Union and the European Bank for Reconstruction and Development. As part of the program, Crystal was studied and evaluated by Scope, an independent credit rating company, which rated the company's social and environmental framework as Transformative – the highest level. This recognition provided the additional opportunity for Crystal to receive a significant grant from the European Bank for Reconstruction and Development to finance transaction costs.

Within the process, the issue broker was Galt & Taggart, while both the Asian Development Bank and the Bank of Georgia invested in the bonds.

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Assessment by the rating agency Scope:

29 September 2022

ESG Analysis

Second-Party Opinion  
JSC MFO Crystal

Georgian Microfinance Organisation



Scope ESG Analysis has assessed the alignment of the Social Bond Framework (Framework) of JSC Microfinance Organization Crystal (Crystal) with the 2021 Social Bond Principles (SBP) of the International Capital Markets Association. Scope ESG’s assessment reveals that Crystal’s Framework is fully aligned with the SBP.

This second-party opinion is based on the four SBP components: use of proceeds, process for project evaluation and selection, management of proceeds and reporting. In addition, Scope ESG’s methodology supplements the use of proceeds element with an impact of proceeds assessment and a review of impact risks. The Framework has received Scope’s highest assessment of three green humans, which signals a transformative impact contribution.

Figure 1: Crystal’s Social Framework Assessment

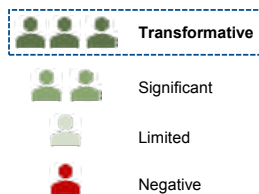


Figure 2: Alignment with United Nations Sustainable Development Goals



Framework assessment across Scope’s criteria

Scope’s criteria	Crystal Framework description	Scope ESG Assessment
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ESG Management risks	<ul style="list-style-type: none"> <li>Crystal has implemented an environmental and social management system to identify and mitigate risks</li> </ul>	 Transformative

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**CRYSTAL  
– PROUD  
SUPPORTER  
OF WOMEN  
ECONOMIC  
EMPOWERMENT**



## Significant CSR projects of 2022:

**The women's empowerment program USAID YES-Georgia** (Supporting youth and women entrepreneurship in Georgia) and its women's components - Buzz Georgia and Crystal Consulting, launched in 2020 by Crystal, with the financial support of the USAID Georgia and in partnership with the Buzz Women Global. The program has already strengthened around 2,000 women.

- By enhancing and motivating the personal and entrepreneurial skills of 2,000 women entrepreneurs, Crystal has strengthened 1,500 Georgian families, as well as 5,000 of their family members in up to 30 villages and towns, thereby contributing to the establishment and growth of local self-reliance throughout Georgia.
- Around 200 training sessions have been conducted across Georgia – in both online and offline, face-to-face modalities. These covered the following regions of Western Georgia: Imereti, Samegrelo, Guria, Racha and Lechkumi.
- Around 100 of the trained female entrepreneurs participated in the USAID annual New Year and Christmas sale exhibition in December. While presenting their goods to hundreds of guests and visitors, they were able to sell products worth tens of thousands of GEL in Tbilisi's Dedaena Park.
- During the project, over 5,626 young people (3,888 girls and 1,738 boys) participated in the USAID YES-Georgia Young Entrepreneurs' School. Approximately 1,500 young people successfully completed the entrepreneurship training – Crystal also financed 96 young entrepreneurs (55 girls and 41 boys), with 64 businesses now successfully and continuously operating.

## Improving Crystal's Environmental and Social Responsibility System, in Cooperation with GGF

- In 2022, with the technical assistance of Crystal's international partner, Finance in Motion managing EFSE/GGF, we carried out a gap analysis of Crystal's environmental and social (E&S) systems, policies, organisational capacity and its procedures; a revision of its sustainable finance rules; the development of an action plan; and the implementation of the strategy based on Crystal's weaknesses and strengths.
- Future implementation of the action plan and strategy will enable Crystal to introduce a comprehensive system for sustainable development and to meet the universal standards for environmental and social management systems.

## Successful Partnership with DWM and MSC MicroSave Consulting

Successful partnership with DWM and MSC MicroSave Consulting As part of the successful partnership, gaps were identified in climate impact assessment and climate risk management, and key recommendations were drawn.

## Successful Cooperation with the German Sparkasse Foundation

Crystal has actively begun cooperation with one of its foreign partners, Sparkassenstiftung. This collaboration aims to explore and implement opportunities for Crystal's Green and Sustainable Financing Compass and the Green Financing Speedometer, together with the best financing practices. The implementation of sustainable financing was consequently assessed and a future strategy was also defined.

## Educational Activities

As part of Global Money Week 2022, the company held training sessions on the importance of saving and money security features, as well as the use of techniques and devices for checking banknotes for students at its partner university, for the young people participating in the internship program and for members of the sales team. This instruction will greatly assist their ability to identify counterfeit money and to take appropriate preventive measures.

# ENVIRONMENTAL IMPACT

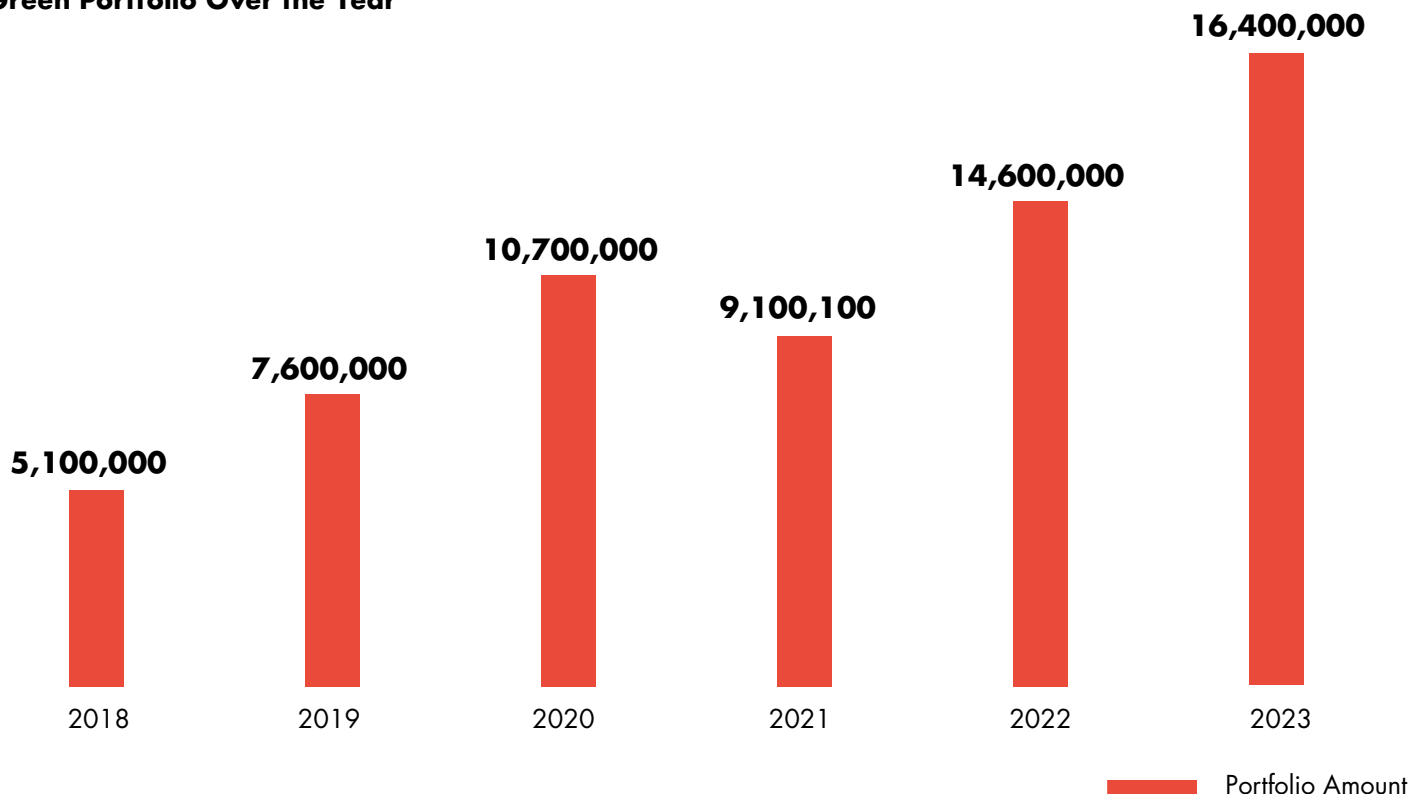
- From 2018 to date (September 2023), more than **50,000 green loans** or instalments have been issued within the green financing framework, amounting to more than **80 million GEL**.
- As a result of green lending, the positive impacts on the environment are assessed as follows: from 2018 to date, more than 18 million kWh of energy have been saved and more than 2.6 million tons of CO<sub>2</sub> have been prevented through Crystal's green issuance.

**From 2018 to date, the green financing portfolio has maintained an upward trend:**

Throughout 2022:

- 3,136,905 (kWh) of energy was saved
- Emission of 464,119 kg of CO<sub>2</sub> was prevented to the environment

## Green Portfolio Over the Year





# RELATION OF CRYSTAL'S IMPACT TO THE SUSTAINABLE DEVELOPMENT GOALS

As part of its strategic planning exercise, Crystal has decided to reduce the number of SDGs that it targets. We have therefore identified three SDGs, with their respective targets and indicators, against which we shall track our progress and report on within subsequent Sustainability Reports.

## **SDG 5: Achieve gender equality and empower all women and girls**

### **Target 5.5**

Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

### **Target 5.4**

Recognise and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate

### **Target 5.a**

Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws

### **Indicator 5.5.2**

Proportion of women in managerial positions

### **Indicator 5.4.1**

Proportion of time spent on unpaid domestic and care work, by sex, age and location

### **Indicator 5.a.1**

(a) Proportion of total agricultural population with ownership or secure rights over agricultural land, by sex; and (b) share of women among owners or rights-bearers of agricultural land, by type of tenure





**SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all**

**Target 7.1**

By 2030, ensure universal access to affordable, reliable and modern energy services

**Indicator 7.1.2**

Proportion of the population with primary reliance on clean fuels and technology

**Target 7.2**

By 2030, substantially increase the share of renewable energy in the global energy mix

**Indicator 7.2.1**

The share of renewable energy in total final energy consumption

**Target 7.3**

By 2030, double the global rate of improvement in energy efficiency

**Indicator 7.3.1**

Energy intensity measured in terms of primary energy and GDP

**SDG 10: Reduce inequality within and among countries**

**Target 10.1**

By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

**Indicator 10.1.1**

Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population

**Target 10.c**

By 2030, reduce to less than three per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than five per cent

**Indicator 10.c.1**

Remittance costs as a proportion of the amount remitted



**FUTURE PLANS**

## Further Improve the Strategic Framework and Better Incorporate the SDGs

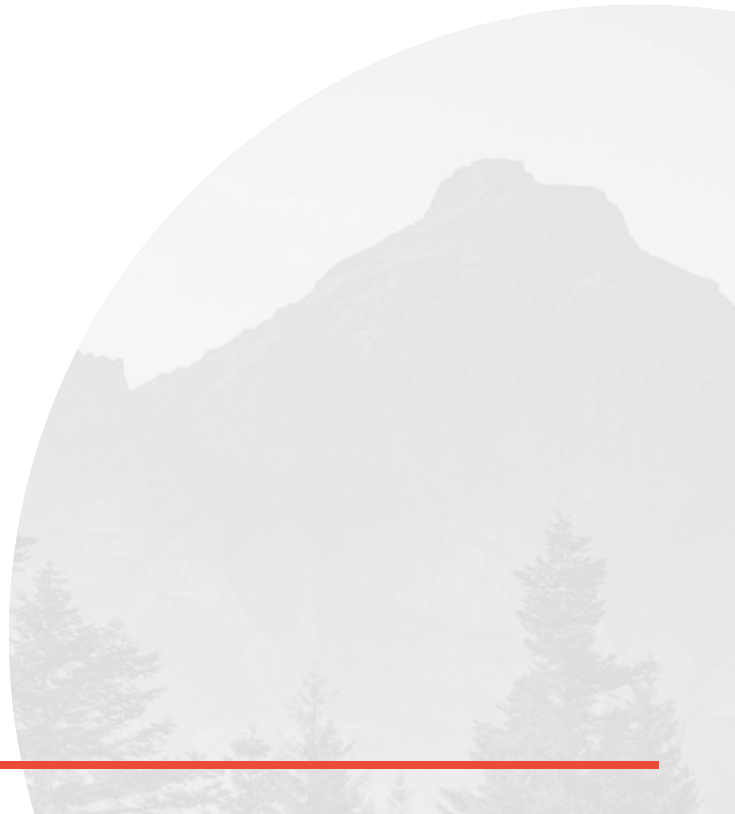
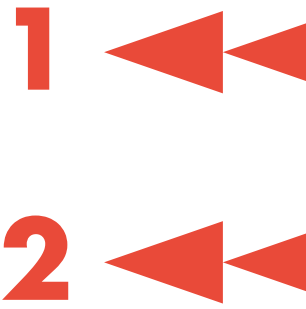
In 2023, Crystal aims to revise its Environmental and Social strategy goals and to establish clear connections between the goals and the selected SDGs. Furthermore, the E&S impact will be incorporated into the management's KPIs.

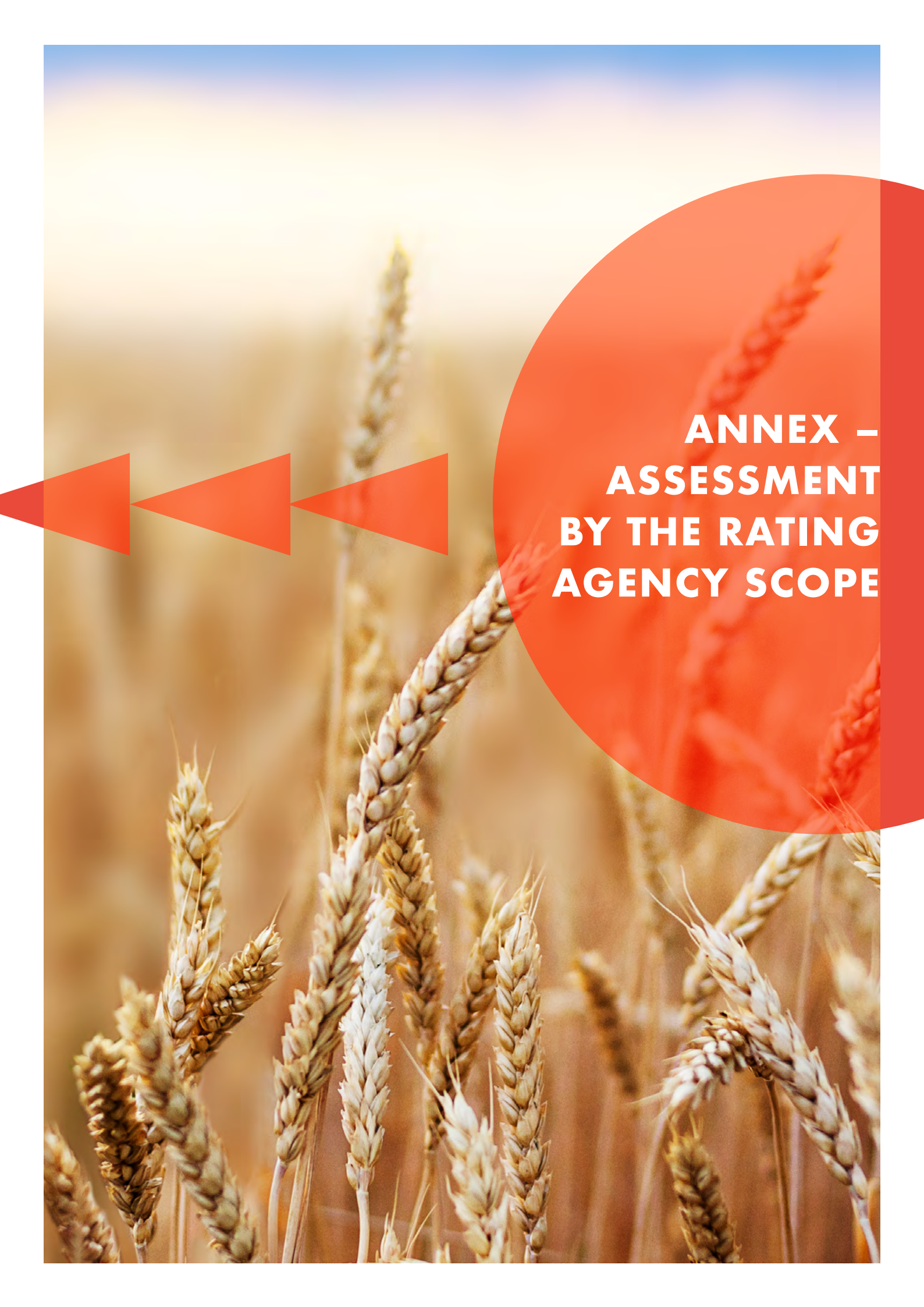
## Social Performance Management

Whilst we take pride in our strong track record of customer protection and of increased confidence, we have noticed a decrease in our impact on both businesses and households in 2022. This signals a clear requirement for Crystal to increase its investments into a more impactful SME portfolio. In pursuit of this goal, obtaining a banking license and implementing a new SME strategy, one which focuses on enhanced SME access to knowledge, technology and markets, should be our focus. These initiatives should moreover be designed to address the unique needs of those small enterprises that are currently underserved by mainstream commercial banks.

In addition, the banking license will also support us in improving our Savings and Financial Management metrics.

As a company with a heritage deeply rooted in migration, and a history of addressing the various challenges arising from conflict and displacement, we are committed to maintaining our focus on providing support for IDPs, on fostering confidence-building initiatives, and on expanding our services to cater for migrants from Ukraine and other countries.





**ANNEX –  
ASSESSMENT  
BY THE RATING  
AGENCY SCOPE**

29 September 2022

ESG Analysis

# Second-Party Opinion JSC MFO Crystal

Georgian Microfinance Organisation



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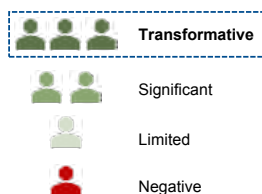


Figure 2: Alignment with United Nations Sustainable Development Goals



## Framework assessment across Scope’s criteria

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## Assessment by the rating agency Scope:



### Second-Party Opinion Crystal Social Bond Framework

#### Methodology





We were commissioned by the issuer to provide a second-party opinion on its Framework. We based our opinion on:

- Crystal's internal documents
- Interviews with Crystal's relevant stakeholders
- Documents on external market/regulatory research
- Data from our internal database

The human score summarises our evaluation and verification of the social impact of Crystal's Framework. The described targets within each of the social project categories lead to individual human scores. In the case of multiple projects defined by an issuer, the aggregate of the scores yields the overall score of our second-party opinion report.

The overall Framework score is an average of the performance across all dimensions and ranges from non-alignment with the SBP (one red human) to complete alignment with the SBPs and transformative social contributions (three green humans). The assessed ambition level within the defined social project categories qualifies for the respective human scores.

Our minimum requirement for SBP alignment is that each social project category of the Framework has a positive social impact, as represented by at least one green human.

Scope ESG scoring	Description	Crystal's projects	Project criteria
 Transformative	Transformative social contribution, full alignment with ICMA's SBP and exemplary project alignment with the industry's key impact objectives	Access to essential services	All projects (e.g. financial services) are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	All projects target geographical and/or social environments with proven limited access to the labour market and detailed description of consumer protection measures to overborrowing/over-indebtedness
		Socioeconomic advancement and empowerment	Transformative socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups. Projects are linked to a long-term oriented empowerment strategy
 Significant	Significant social contribution, full alignment with ICMA's SBP, and project alignment to industry impact objectives in line with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with proven limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups
 Limited	Alignment with ICMA's SBP but insufficient quantifiable impact metrics and limited alignment to industry impact objectives compared with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including at least a qualitative definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating most of the proceeds to advance disadvantaged target groups
 Negative	No significant or negative social impact; no or only partial alignment with ICMA's SBP and insufficient alignment to industry impact objectives	Access to essential services	A non-quantified or limited share of projects is directly tied to facilitating access for disadvantaged groups, insufficient definition of relevant target groups or reference to specific access conditions
		Employment generation through SME finance and microfinance	A non-quantified share of projects targets geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Limited socioeconomic impact due to insufficient allocation of proceeds to advance disadvantaged target groups



## Second-Party Opinion

### Crystal Social Bond Framework

Crystal's clients are low-income borrowers in rural areas of Georgia

100% of proceeds from gender bond dedicated to WMSMEs

Crystal's sustainability strategy is fully aligned with the purpose of the gender bond

### Introduction

Joint Stock Company Microfinance Organization Crystal (Crystal) is the largest and oldest microfinance institution (MFI) in Georgia, operating since 1997. It acts as a platform for economic development for micro and small entrepreneurs, as well as farmers, providing them with financial products and value-added services. The company offers a wide range of financial products such as credit, climate-related financing, leasing, money transfers, e-wallet, foreign exchange, and insurance. In addition, Crystal offers non-financial products, contributing to financial inclusion beyond access to credit.

Crystal manages a loan portfolio of GEL 388m, employing more than 1,000 people and serving more than 150,000 customers across 13 regions in Georgia through 50 physical branches and digital channels. The company's focus is on low-income borrowers with informal income located in rural areas of Georgia outside the capital Tbilisi. As of December 2021, 62% of Crystal's borrowers were women. Crystal's portfolio of clients operate and have income from different sectors and sources, specifically 29% in services, 26% in agriculture, 17% in small trade and production, 15% earn formal salaries and 10% send remittances.

Crystal's institutional shareholders are Incofin IM and Developing World Markets. The company also cooperates with up to 25 lenders (Microfinance Investment Vehicles (MIVs), International Financial Institutions (IFIs), Development Financial Institutions (DFIs) and Georgian commercial banks).

The company has three wholly owned subsidiaries: JSC Crystal Leasing, a provider of fixed-assets financing to MSMEs and farmers, LLC Crystal Consulting, in charge of delivering training, mentoring services and digital applications to high growth MSMEs, and LLC Akido, an online marketplace that covers online shopping, delivery service, dealership, and export of know-how in the field of financial technologies to foreign markets.

Crystal plans to issue a two-year GEL 25,000,000 gender bond in the Georgian Stock Exchange. The company will use 100% of the bond proceeds to finance loans to micro, small, and medium enterprises (MSMEs) applied by, disbursed to, and signed by a woman for a business which is the main source of repayment (WMSMEs). The look-back period is 12 months.

### Crystal's overall sustainability strategy

Crystal's mission is to provide an economic development platform for farmers and micro and small entrepreneurs with the purpose of fighting poverty in Georgia by promoting entrepreneurship in a financially, socially, and environmentally sustainable approach. The company's focus is on traditionally underserved groups including women, youth and the rural population. Crystal's commitment to ending poverty and protecting the natural environment is integrated into their business model and corporate strategy through the pursuit of a triple bottom line (TBL): People, Planet, and Profit. This strategy is operationalised by five overarching strategic goals:

1. Growth: Extend financial inclusion services by effective customer acquisition, retention, and growth from current 100,000 active relationships to 220,000 by 2026.
2. Customer focus: Increase productivity of customers, primarily MSMEs, by acting as a platform for their development.
3. Special groups: Diversify and grow the revenue streams through innovative propositions tailored to the needs of women, youth, and other special groups.
4. Green: Become an environmentally sustainable company by increasing green portfolio to GEL 50m by 2026.

Assessment by the rating agency Scope:



**Second-Party Opinion**  
Crystal Social Bond Framework

Crystal uses external social ratings to ensure credibility and transparency of its operations

Crystal's sustainability strategy scores three green humans

Crystal ties 100% of projects to Georgia's women with focus on rural regions and green projects

5. Stronger institution: Become a regional customer-centric, people-oriented, and data-driven financial inclusion organisation, through investment in people and systems.

Crystal has adopted external principles and standards such as the UN Global Compact, UN Sustainable Development Goals, IFC Performance standards and the UK Corporate Governance Code. In addition, the company has signed the Smart Campaign Principles on Social Protection and is one of the first five Georgian signatories of the UN Women's Empowerment Principles (WEP). In this context, Crystal developed its Women's Empowerment Action Plan 2018-2019, and integrated it into HR-related policies to ensure gender equality including gender wage-gap analyses and implementing a sexual harassment reporting mechanism.

Crystal also uses a social rating to assure stakeholders of their social purpose-related business model. The company's A rating (2<sup>nd</sup> best on a six-letter scale) followed several upgrades since 2012 and reflects Crystal's well-formalised social strategy and annual approved social targets.

**Our assessment:** Crystal's sustainability strategy has scored three green humans, reflecting the company's ambitious quantitative and qualitative social and environmental targets. The strategy further addresses a key impact responsibility for the financial industry in Georgia, namely eradicating poverty through access to finance. Scope's strong impact assessment for Crystal is also driven by the company's transparency in social impact reporting.

**Issuance**

**Social Bond Principles: assessment of issuance**

**I. Use of proceeds**

Social project category	Crystal's Framework	Human score
<b>Access to essential services</b>	Financing and/or refinancing of loans to WMSMEs to enhance social well-being	
<b>Employment generation through SME finance and microfinance</b>	Financing and/or refinancing of loans to WMSMEs including climate-change loans to purchase small energy efficient and renewable energy equipment, as well as expanding business operations and improving capacity via acquiring fixed assets or investing in working capital.	
<b>Socioeconomic advancement and empowerment</b>	Financing and/or refinancing WMSMEs, which are defined as Crystal's clients with loans applied by, disbursed to, and signed by a woman for a business which is the main source of repayment of the loan.	

The access to essential services category scored three green humans because the projects in this category contribute to the industry's key impact objectives. Currently, 58.5% of Crystal's gross loan portfolio is allocated to rural areas, where people have limited access to essential services, especially banking financial services. Financial instruments with a social perspective play an important role in increasing household incomes across the region. Crystal's capacity to deliver its mission by enhancing financial inclusion, economic development, and social well-being is of high relevance for rural Georgia. By providing micro-credit exclusively to WMSMEs (average GEL 3,000), Crystal contributes to increase access to essential services such as health, education and vocational training, healthcare, financing, and financial services, and improve living conditions. In addition, the social programmes Crystal provides to support locals, especially in rural areas which



## Assessment by the rating agency Scope:



### Second-Party Opinion Crystal Social Bond Framework

Crystal's activities are key to strengthening the Georgian labour market, characterised by high unemployment and unequal access to formal work

Crystal's WMSME initiative ensures broad-based access to finance and focus on target group

Crystal's Framework scores three green humans overall

Selection of projects focuses on WMSMEs and established credit loan processes

account for 40% of Georgia's total population,<sup>1</sup> have an economic and social impact. The three initiatives: Yes Georgia, Buzz Georgia, and Crystal Consulting, contribute to enhance the access to education and vocational training, healthcare, and knowledge about financing products, as well as to improve business skills by providing community training and mentorship services to borrowers.

The employment generation category scores three green humans. The project of finance or refinance loans to WMSMEs have an economic and social impact given that the proceeds of the loans are used to expand business operations as well as to acquire fixed assets and/or invest in working capital, thus improving economic growth and job creation. Crystal's client profile consists of farmers, MSMEs and WMSMEs which play a key role in the Georgian economy but have slow growth given the lack of access to finance. Projects under the Framework shall further contribute to Crystal's green portfolio by focusing on climate-related loans for energy efficiency. The combination of social projects with environmental objectives fills an important financing gap since only 16% of global MFIs have dedicated-energy loan products. It is Scope's view that lending to support WMSMEs in a frontier market like Georgia is among the key impact responsibilities for the financial services industry. Also, the strong link between Crystal's social framework and general corporate strategy to reach an additional 100,000 borrowers by 2026 leads to the highest human score assessment of three humans.

The socioeconomic advancement and empowerment category also scores three green humans led by Crystal's intention to finance loans dedicated specifically to women-owned MSMEs. Crystal aims to fight poverty in Georgia by promoting entrepreneurship. Hence, the target population of the bond is selected to deliver social and economic objectives. Globally, 70% of WMSMEs have inadequate or no access to financial services and while women face many challenges to open and grow a business, access to finance is the second most-cited obstacle. This project aims for Crystal to finance approximately 8,333 loans (average loan size) to WMSMEs where business is the main source of repayment. We note that Crystal's loan access conditions do not exclude borrowings to women where the company is owned or controlled by males. At the same time, Scope recognises the need: i) to provide broad-based access to finance including women without owned business; and ii) to encourage female borrowers to take more responsibility in male-dominated business.

We note that the projects detailed in the Framework are completely aligned with Crystal's mission and business model ensuring credibility and appropriate choice of impact relevant indicators.

**Our assessment:** Crystal's aggregate score of three green humans indicates full alignment with the selected sector criteria. The Framework's use of proceeds provision fully complies with the SBP. In addition, the projects are strongly aligned with Crystal's sustainability strategy and business model, which serves an important social purpose in our view.

#### II. Process for project evaluation and selection

Selection of the projects will be guided by the eligibility criteria, focused on WMSMEs, complemented by different principles and practices.

The loan underwriting process is guided by an internal regulatory rule on credit activities which considers commercial, as well as environmental and social factors in the assessment. Crystal will review revenue streams and in case these are generated from commercial activities, on-site visits will be conducted. Additionally, Crystal will do an

<sup>1</sup> <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=GE>

## Assessment by the rating agency Scope:



### Second-Party Opinion Crystal Social Bond Framework

environmental and social risk assessment and will use cash flow analysis to estimate the repayment capacity of the borrowers.

Given that the company finances projects aimed at economic development and/or improvement of living conditions, the following purposes are considered in Crystal's Framework:

- Working capital
- Fixed assets
- Real estate
- Improving living conditions
- Consumer purposes
- Refinancing
- Investments
- Other activities that are not against local law/regulations and Crystal's credit policies.

Crystal provides a list of excluded activities

Crystal has detailed the exclusion criteria for its eligible loans under the social bond proceeds. These are activities that would contradict alignment with the social and environmental goals of the company. Hence, the following sectors and activities are excluded from the bond proceeds:

- Forced or child labour
- Production or trade of illegal products under host country laws or international conventions, such as pharmaceuticals, pesticides and herbicides, ozone-depleting substances, hazardous chemicals, etc.
- Weapons
- Alcohol
- Tobacco
- Gambling
- Radioactive materials, including nuclear reactors and components
- Production or trade of unbonded asbestos fibres
- Logging operations and equipment for use in endangered forests
- Marine and coastal fishing practices at large scale

In addition, there are three types of securities applicable for loans: mortgage, pledge and guarantee. They shall be approved by the appropriate credit committee at one of the five committee levels, which varies according to the loan size. The first level is a credit officer with a GEL 3,000 limit and the fifth level is a loan size of GEL 100,000 limit.

Crystal's process for project evaluation and selection scores three green humans

**Our assessment:** Crystal's process for project evaluation is fully aligned with the SBP. In addition, this section has scored three green humans as Crystal has a precise project selection process and identifies material ESG objectives associated with the project. The company commits to monitor the borrowers in case of any controversy and to perform necessary adjustments throughout the life of the social bond.

#### III. Management of proceeds

Crystal follows a specific process to ensure the bond proceeds are being tracked and monitored. The detailed features of the target customers are shared with a dedicated

Proceeds are managed by business team and ALTA software

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Appendix II lists the relevant indicators for measuring Crystal's contribution to each SDG. The contribution to the SDGs can be quantified in post-issuance impact reporting.

#### Impact of proceeds

##### SMEs and microfinance in Georgia

Small and medium-sized enterprises play an important role in the development of the economy, contributing significantly to sustainable growth through their potential in employment generation and job creation. In 2017, 98.9% of enterprises in the European Union were small and 0.9% were medium, contributing to 57% of total value added and 67% of total employment<sup>2</sup>. Also, according to the Asian Development Bank (ADB), SMEs accounted for 96% of all Asian business, 62% of the national labour forces, and 42% of value added or GDP in ASM countries.<sup>3 4</sup>

Georgia's SMEs account for 99.6% of all active enterprises

The Georgian economy also relies on small and medium-sized enterprises. In 2020, the number of SMEs in Georgia accounted for 99.6% of all active enterprises in the country (small enterprises account for 98.13% and medium for 1.47%). Additionally, SMEs were responsible for 59.3% of total private employment and contributed to 40.8% of total domestic turnover and 58.0% of output in the business sector.<sup>5</sup>

The National Statistics Office of Georgia defines the small, medium, and large enterprises according to number of employees and annual turnover. Table 1 shows the limits for each indicator where enterprises are classified accordingly.<sup>6</sup>

**Table 1: Definition of MSMEs in Georgia**

Enterprise category	Average annual turnover	Average annual number of employees
Micro enterprise <sup>7</sup>	<GEL 1m	<10
Small enterprise	<GEL 12m	<50
Medium enterprise	GEL 12m – 60m	51-249
Large enterprise	>GEL 60m	>250

Source: National Statistics Office of Georgia

SMEs as the backbone of Georgia's economy

The main sectors and contributors to Georgia's GDP in 2020 were manufacturing (23%), construction (20%) and trade (18%) where Georgian SMEs employed more than 60% of the people engaged in these sectors, with construction accounting for more than 70%.<sup>8</sup>

In 2020, the World Bank 'Doing Business' survey, which ranks economies from 1-190 on their ease of doing business through measuring several indicators, placed Georgia number seven globally with a score of 83.5, meaning that Georgia is 16 percentage points away from the best regulatory performance across all economies and across time.<sup>9</sup> In recent years, Georgia has improved the business environment for all enterprises, including SMEs. It has simplified administrative regulations, reduced the tax burden, and facilitated free trade. In addition, the country has implemented regulations and institutions that support

<sup>2</sup> <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200514-1>

<sup>3</sup> <https://www.adb.org/sites/default/files/publication/474576/adbi-wp911.pdf>

<sup>4</sup> These countries cover Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific

<sup>5</sup> <https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#endnotea17z2>

<sup>6</sup> ILO. (2021). *EESE Assessment of MSME trends and policies in Georgia*. Geneva: ILO.

<sup>7</sup> [https://unece.org/sites/default/files/2021-03/Georgia\\_MSME\\_EE\\_RE\\_Report.pdf](https://unece.org/sites/default/files/2021-03/Georgia_MSME_EE_RE_Report.pdf)

<sup>8</sup> National Statistics Office of Georgia. (2021). *Business Sector in Georgia 2021*.

<sup>9</sup> <https://archive.doingbusiness.org/en/data/exploreconomies/georgia>

## Assessment by the rating agency Scope:



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Limited access to finance remains an important constraint for SMEs in the region

lending and borrowing, and while these are aimed at improving access to credit, access to finance remains an important constraint, particularly for SMEs.<sup>10</sup>

According to the ADB, limited access to bank credit is a main concern in the region which endangers economic growth and employment.<sup>11</sup> Literature shows a negative relationship between the firms reporting access to finance as a constraint and per capita income growth rates.<sup>12</sup> In Georgia, credit to SMEs grew 408% in 2020 from 2010 levels and total business loans grew by more than 299%. Georgian SMEs depend mainly on the banking sector for their financing needs, and though the non-financial options play a smaller role,<sup>13</sup> the 163% increase in the volume of loans issued by the microfinance organisations since 2017, means it is growing at a very fast pace.<sup>14</sup>

Microfinance organisations in Georgia growing at a very fast pace

The structure of the financial sector in Georgia, as of 2019, is mainly represented by commercial banks with 95% of the total financial sector assets, while microfinance organisations account for 3% of the share. Loans to corporates account for around 61% of the banking sector credit portfolio of which 20% are loans to SMEs.<sup>15</sup> Additionally, the assets of the non-banking financial sector reached GEL 2bn, of which 70% were assets held by microfinance organisations<sup>6</sup> as they play a key role in rural areas and agriculture. In Georgia, 90% of the corporate microfinance loans are concentrated in four MFOs where Crystal is the leader in microfinance lending, accounting for 27.4% of the total MFO's loan portfolio.<sup>6</sup>

MSME's finance gap in developing countries of USD 5.2 trillion

Financial instruments for private sector banks as well as for non-bank providers targeting MSMEs are crucial due to the large finance gap. It is estimated that 131 million or 42% of formal MSMEs in developing countries have unmet financing needs and **figure 3** shows the finance gap of approximately USD 5.2 trillion.<sup>16</sup> This suggests that 58% of potential demand is unmet. In addition, the total volume of current MSMEs funding is disproportionately distributed as SMEs are attributed with 96% and only 4% goes to microenterprise finance.<sup>17</sup>

<sup>10</sup> <https://www.oecd-ilibrary.org/sites/4a217b07-en/index.html?itemId=/content/component/4a217b07-en#tablegrp-d1e1420>

<sup>11</sup> <https://www.theasianbanker.com/updates-and-articles/bank-lending-to-small-businesses-in-asia-pacific-grew-154-in-2021>

<sup>12</sup> International Monetary Fund. (2019). *Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia*. Washington: IMF Library.

<sup>13</sup> <https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e137688>

<sup>14</sup> <https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e139058>

<sup>15</sup> [https://www.bstadb.org/Overview%20of%20the%20fin\\_sector\\_GEORGIA.pdf](https://www.bstadb.org/Overview%20of%20the%20fin_sector_GEORGIA.pdf)

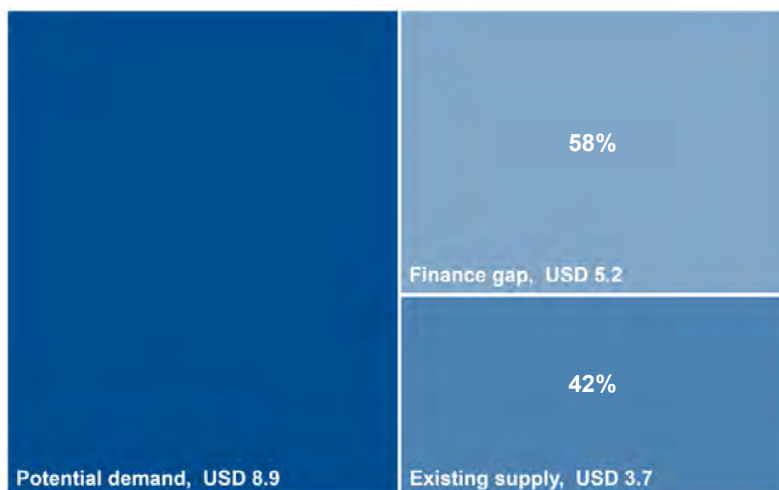
<sup>16</sup> <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

<sup>17</sup> International Finance Corporation. (2017). *MSME Finance Gap*. Washington.



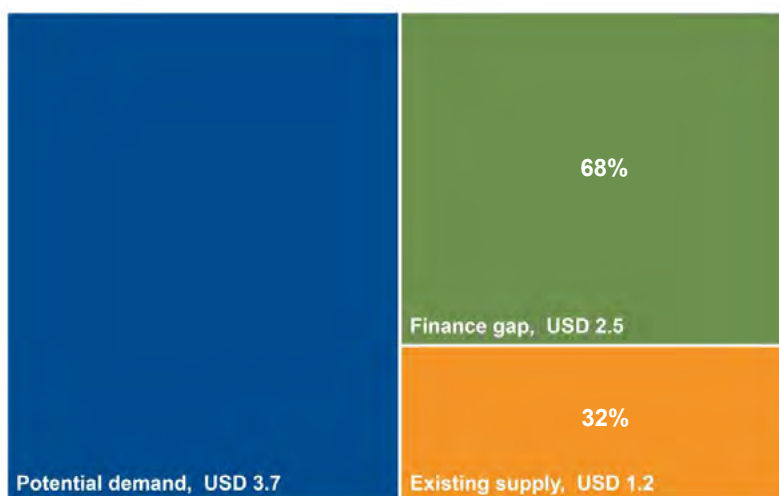
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**Figure 3: MSME finance gap in developing countries, USD trillions**



Source: IFC, 2017

**Figure 4: Georgia MSME finance gap, USD billions**



Source: IFC, 2017

**SME financing supports economic and employment growth in CCA economies**

Crystal, as a leader in the microfinance industry in Georgia, contributes to the supply of financing for MSMEs and reduces the finance gap in the country. According to the IMF, closing the SME financial inclusion gap can support annual economic growth in Caucasus and Central Asian (CCA) countries<sup>18</sup> by up to 1% and support employment by potentially creating around 2.3 million jobs by 2025. Research suggests that a 1% rise in SME credit reduces unemployment by about 0.2% in CCA countries.<sup>12</sup>

In 2016, Georgia implemented the National SME Development Strategy 2016-2020 with the objective of increasing SME economic output by 10%, employment by 15% and

<sup>18</sup> CCA countries include Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan

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**Women are universally considered low-risk microfinance clients compared to men**

productivity by 7%, compared to 2013 levels.<sup>19</sup> Crystal plans to continue supporting SME growth by increasing the number of MSMEs with access to finance and supporting the new upcoming and updated strategy 2021-2025. Moreover, Crystal is aligned with other initiatives such as the Enterprise Georgia goal of improving access to finance while improving private sector competitiveness and GITA (Georgia's Innovations and Technology Agency) which is the main driver of Georgia's innovation system that supports start-ups and SMEs offering co-financing schemes for innovative projects.<sup>6</sup>

#### Gender impact

In terms of social objectives, financial inclusion remains the main goal of European MFI operations, and women and the rural population are the two main target groups.<sup>20</sup> Multiple studies demonstrate that targeting women borrowers increases repayment rates of microfinance organisations. Women show usually superior credit risk than men. In addition, findings reveal that focusing on women borrowers is also associated with better MFI sustainability and profitability. As a result, female borrowers make up around 70% of all microfinance clients globally<sup>21</sup> and 60.1% of Crystal's customers.<sup>22</sup> As such, Crystal's strategy to focus on women contributes to both its social and economic objectives.

Women-owned business in developing countries represent 28% of MSMEs and account for 32% of the MSME finance gap of USD 1.7trn. In Georgia, women-owned enterprises are also a minority, where only 22% of Georgia's active enterprises have a female participation in ownership<sup>23</sup> and where they account for 40% of the MSME finance gap of USD 1bn.<sup>15</sup>

According to the World Economic Forum Gender Gap Report 2020, Georgia was ranked 74 out of 153 countries<sup>24</sup> (improved by 21 places since 2017). Women's participation in Georgia's labour force is significantly lower compared to men even though women represent 55% of the working-age population with higher education. Although women and men are engaged in Georgian entrepreneurship, women are more likely to own microenterprises than large businesses. However, research shows that women-led and owned business are more often excluded from venture capital and business opportunities compared to male-owned firms despite similar or better financial performance.<sup>25</sup>

**Women face multiple barriers to financial market access**

Commercial banks in Georgia often impose collateral requirements that can exceed 2.5-3 times the value of the loan, with strong preference for real estate.<sup>6</sup> Hence, owning land is crucial for financial access. Yet, one of the barriers that women face to access financial products is the low level of land and asset ownership where women own approximately 1/3 less hectares than men. This implies higher rates of poverty among women, less household expenses on education and health, and weaker women empowerment.<sup>26</sup> In addition, the wage gap remains high with average monthly salaries of women at approximately 67.6% of men's average monthly salary.<sup>27</sup>

**Crystal's projects contribute to women's empowerment and increase repayment rates for microlenders**

The social impact of Crystal is twofold: The company grants access to finance for women-owned business which contributes to employment generation, gender equality and reduction of poverty by targeting women. Second, Crystal's business model of providing consultancy and training services to WMSMEs raises management and business skills for borrowers and contributes to women empowerment. We also note that while Crystal asks

<sup>19</sup> [http://www.economy.ge/uploads/files/2017/ek\\_politika/eng\\_sme\\_development\\_strategy.pdf](http://www.economy.ge/uploads/files/2017/ek_politika/eng_sme_development_strategy.pdf)

<sup>20</sup> [https://mfc.org.pl/wp-content/uploads/2021/02/executive-sum\\_overview-survey-2020\\_en.pdf](https://mfc.org.pl/wp-content/uploads/2021/02/executive-sum_overview-survey-2020_en.pdf)

<sup>21</sup> Zainuddin, M., & Yasin, I. M. (2020). Are Women Better Borrowers in Microfinance? A Global Analysis. *The Empirical Economics Letters*.

<sup>22</sup> [https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal\\_report\\_ENG\\_2022\\_BIG.pdf](https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf)

<sup>23</sup> <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Georgia-2019.pdf>

<sup>24</sup> [https://www3.weforum.org/docs/WEF\\_GGGR\\_2020.pdf](https://www3.weforum.org/docs/WEF_GGGR_2020.pdf)

<sup>25</sup> [https://epfound.ge/static/file/202111193705-sme-gendered-assessment\\_eng.pdf](https://epfound.ge/static/file/202111193705-sme-gendered-assessment_eng.pdf)

<sup>26</sup> <https://www.geostat.ge/media/21027/EDGE-Report-ENG-Final.pdf>

<sup>27</sup> National Statistics Office of Georgia. (2021). *Women and Men in Georgia*. Tbilisi.

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#### Crystal's proceeds to finance energy efficient and renewable energy equipment

for collateral when providing a loan, it provides additional options than real estate by adding a movable property or a physical person guarantee.

Furthermore, one of the MFI trends in Europe is microfinance organisations engaged in green technologies, with 16% of MFIs having dedicated energy-efficiency loan products and other institutions planning to introduce such products in their portfolio. Crystal's proceeds will be used to finance loans to WMSMEs, including climate-change loans to purchase small energy efficient and renewable energy equipment. This strategy has supported Crystal's green financing initiative since 2017 and shall contribute to the company's goal of reaching a green portfolio of GEL 30m by 2025, compared to GEL 12m in 2021.

#### Crystal's impact of proceeds scores three green humans

**Our assessment:** We note that the projects are highly relevant to a social objective within the microfinance industry. The scope of the impact is significant and goes beyond market practices. Best practices are adopted by Crystal in executing this activity.

#### Dedicated risk-monitoring process

#### Risks

While Crystal's business model and bond proceeds will finance green projects and projects led by women, the microfinance industry entails environmental and social risks. Some of the most material risks are the type of projects that Crystal could fund from controversial industries. In addition, the funding nature of microfinance organisations could also impose liquidity risks.

However, Crystal is aware of these risks, and it has developed a risk management system, based on international standards, to identify and assess risks and threats in a timely manner. The company has also developed recommendations for risk management, monitoring, reporting and evaluation of risk process effectiveness. In addition, Crystal recently applied for a commercial banking license which could help in diversifying funding sources and providing better opportunities to deliver on its objectives.

We note that Crystal discloses associated risks related to the projects in the Framework and we recognise the company's transparency on environmental and social impacts of its business model. Crystal's Best Annual Report and Transparency Competition award by World Bank lends credibility to the company's reporting quality.

#### Crystal's ESG risks management scores three green humans

**Our assessment:** Crystal has a risk management strategy in place that addresses direct and indirect risks associated with every project category of this issuance. Crystal conducts a full risk assessment before engaging in a project and ensures that risks are minimised to the best of knowledge.

Associated project risks	Crystal's risk mitigation measures
<b>Credit risk</b>	<p>The most frequent risk associated with MFIs is the risk to earnings or capital due to borrowers' late or non-payment of loan obligations. The inability to collect interest earnings or loss of principal resulting from loan defaults could impose a credit as well as liquidity risk.<sup>28</sup></p> <p>In order to avoid over-indebtedness of its clients, every loan is processed using the credit regulatory rule of Crystal, assessing clients' creditworthiness. Crystal uses cash flow analysis to estimate the repayment capacity of its clients and does it repeatedly through each loan cycle. In addition, clients are checked in an online credit bureau to understand the level of borrowing and avoid financing a person with a poor credit history.</p>
<b>Borrowers' limited expertise on financial services</b>	<p>As the client profile of MFIs are the underemployed or low-income individuals, farmers, MSMEs or WMSMEs without access to financial services, they could lack the basic understanding of financial services which could pose a credit risk if they do not manage the proceeds correctly.</p> <p>Crystal runs multiple social programmes to support locals, especially in rural areas, to deliver knowledge for higher economic and social impact. The three key initiatives are Yes Georgia, Buzz Georgia and Crystal Consulting. With these initiatives, Crystal offers a package of free trainings online aimed at developing personal competencies,</p>

<sup>28</sup> [https://www.findevgateway.org/sites/default/files/publications/files/a\\_risk\\_management\\_framework\\_for\\_microfinance\\_institutions.pdf](https://www.findevgateway.org/sites/default/files/publications/files/a_risk_management_framework_for_microfinance_institutions.pdf)

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	<p>leadership, and entrepreneurial-financial skills. In addition, Crystal Consulting supports MSMEs entrepreneurs to achieve their short and long-term goals. This service offers consulting, mentoring, and coaching and is mainly to improve crisis management and adaptation to new circumstances as well as to identify existing business challenges.</p>
<p><b>Funding</b></p>	<p>Microfinance organisations in Georgia are prohibited from taking deposits from either individuals or legal entities,<sup>29</sup> therefore funding relies on shareholders, often using foreign currency from international sources, which exposes MFOs to exchange rate risks. This difference between foreign funding and local currency lending could increase MFO lending costs by 3% to 4% to exchange foreign currencies to GEL in commercial banks.<sup>6</sup></p> <p>The NBS (with the support of the IMF) has considered allowing qualified MFOs to apply to be licensed as micro-banks, in which case they could also be deposit-taking entities. The reason is to reduce funding costs for micro-banks, promote more lending to MSMEs and improve the financial system.<sup>6</sup></p> <p>Although the regulatory framework for MFIs limits its competitive capabilities, Crystal has received funding of over USD 50 million from international and local partners in 2021 (68% foreign partner and 32% from local banks) where 30% of these resources were used towards increasing the portfolio and the remaining to funding existing clients.<sup>30</sup></p> <p>Crystal cooperates with international financial institutions such as the European Investment Bank, Incofin, DWM, FMO, Proparco, Finance in Motion (EFSE), BlueOrchard, Triodos, Symbiotics, responsAbility, Bank Im Bistum, TripleJump, and five large banks from the local partner’s side.</p> <p>In addition, Crystal will be one of the first MFOs to apply for a micro-bank license and would most likely obtain a commercial banking license by mid of 2023. This would provide better opportunities to fulfil its mission, giving the ability to diversify funding sources and increase its basket of products such as current and savings accounts to grow within the small business segment.<sup>30</sup></p>
<p><b>Environmental and social risks</b></p>	<p>The environmental and social risks associated with microfinance institutions are low due to the small size of the operations, but not inexistent. For instance, microfinance institutions can be involved in handling dangerous substances such as pesticides that can pose environmental risks and endanger health safety. If not managed appropriately, these could potentially be a risk of credit liability as individuals can be affected along with their ability to repay a loan. In addition, given the context of the development role MFIs play in the community, this could also lead to a reputational risk.<sup>31</sup></p> <p>Crystal’s ESG framework is aligned with the ADB Safeguards Policy Statement 2009 which consists of three operational policies on the environment, indigenous people, and involuntary resettlement.<sup>32</sup> In addition, Crystal’s environmental and social management system (ESM) covers the screening and monitoring for all financed loans from the bond proceeds. Crystal also has in place an exclusion criteria list where investment activities using the proceeds will be prohibited. Crystal will do annual compliance monitoring and reporting to review that environmental and social safeguards requirements are being met, especially for climate-related loans.</p> <p>Additionally, Crystal follows NBS regulations related to ethical collection methods, so they are committed to fair treatment and care towards vulnerable customers.</p>

<sup>29</sup> [https://www.eib.org/attachments/efs/economic\\_report\\_neighbourhood\\_sme\\_financing\\_georgia\\_en.pdf](https://www.eib.org/attachments/efs/economic_report_neighbourhood_sme_financing_georgia_en.pdf)

<sup>30</sup> Crystal Integrated Report 2021 [https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal\\_report\\_ENG\\_2022\\_BIG.pdf](https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf)

<sup>31</sup> <https://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/environmental-and-social-risk-for-financial-institutions/risk-in-microfinance/>

<sup>32</sup> <https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf>




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**Appendix I: Documents provided by Crystal**

Document category	Document description
<b>Market research on sector/regional standards</b>	Business sector in Georgia 2021 – National Statistics Office of Georgia
	Women and men in Georgia 2021 - National Statistics Office of Georgia
	Gendered Assessment of SME Development Strategy of Georgia 2016-2020 – Nordic Consulting Group
	Social-economic Development Strategy of Georgia – Government of Georgia
	Pilot Survey on Measuring Asset Ownership and Entrepreneurship from a Gender Perspective – GEOSTAT and Asian Development Bank
	Georgia Country Gender Assessment – Asian Development Bank
<b>General information provided by Crystal</b>	Crystal's Social Rating by MFR
	Crystal Integrated Report 2021
<b>Social bond-specific documentation provided by Crystal</b>	Green Bond Framework
	Information on use of proceeds

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**Appendix II: SDG alignment**

SBP category	SDG alignment	Indicators to be evaluated
Access to essential services	 	<ul style="list-style-type: none"> <li>Number of WMSME borrowers accessing financial support and business development services</li> <li>Number of WMSME borrowers in rural areas</li> </ul>
Employment generation	  	<ul style="list-style-type: none"> <li>Number of WMSME borrowers of climate-related loans</li> </ul>
Socioeconomic advancement and empowerment	  	<ul style="list-style-type: none"> <li>Number of WMSME borrowers</li> <li>Number of WMSME borrowers in rural areas</li> </ul>

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