



Financial Literacy Study of MSMEs

Report of Quantitative Research

August 2021



Research Design



Research Period – 26.06.2021 – 18.07.2021



Research Area - Georgia



Research Method – Quantitative Research



Research Technique – CATI; F2F



Sample Size– 1002 completed interviews



Target Segment – Business owners / Individual entrepreneurs



Survey instrument was developed by OECD/INFE to measure the financial literacy of MSMEs. The study is organized by the National Bank of Georgia and the Financial Education Portal - Finedu with the financial support of EFSE DF;





Main Findings



Main Findings (1)

Financial products



Within the scopes of the study, 1002 micro, small and medium-size business owners have been inquired who are involved in financial decisions.

As the study reveals, awareness of certain financial products is quite high, leading positions in terms of awareness are taken by financial products such as - Property insurance (94%), Micro-credit (90%), Loan from micro-finance organization (90%), Business loan from bank (90%).

Awareness of financial products in general is high among the businesses in Tbilisi compared rather than one which cooperates in regions, only awareness of Life Insurance and a loan from loan provider is higher in regions than in Tbilisi.

The following financial products have quite low awareness in Tbilisi as well as in regions: Angel investment (19%), Derivatives (16%) Venture capital (14%), Initial coin offering (13%), Factoring (12%), particularly low awareness was revealed in terms of - Crowdfunding/P2P (7%) Mezzanine finance (4%). Among them who have heard of the listed products, only a very small portion (1%-5%) reported on having used the said products for their business needs. It is also worth mentioning that none of the business representatives who have heard of the product Factoring have used the said product over the past 24 months.

Top most frequently used products are Trade credit (33%) and Business loan from bank (31%). There are slight differences in Tbilisi and regional perspective in terms of using financial products, for example, frequency of using Business loan from a bank is 11% higher in regions (36%), in addition, consumption rate of Property Insurance is 10% higher in Tbilisi compared to regions (10%).

When speaking about financial products, it is important to note that according to ¼ of inquired companies, their company does not have current bank account or saving account.

About half of them who has bank account for their business, strictly separates accounts for household and for their business, indicated financial behavior it more common in case of companies that are functioning in Tbilisi (53%) than in case of companies in regions (44%)

28% of them who has bank account uses same account for business and household finances and 23% of them separates accounts but they find quite hard to manage household and business finances separately.

We asked the respondents who use at least one listed financial product what was their selection behavior when they made their most recent choice about a financial product or service for the business, appeared that more than half of respondents considered several option form different financial providers before they made final choice. Only 12% mentioned that they took decision without considering any other options.

Managing and Planning Business Finances

The research revealed that in past 24 month more than half of respondents have asked their Family members/Friends some help in accordance of taking financial decisions for the business. Also, about 1/3 mentions that the requested help to a book-keeper or accountant external to the business.

As for the financial issues businesses asked for help most frequently over the past 24 months, the leading answer is Book-keeping and/or accounting (46%). Differences between Tbilisi and region were identified in regard with asking for help about accessibility to outsource finances. It turns out that 9% of businesses operating in Tbilisi and 23% of businesses operating in regions asked for help in regard of accessing finances.

Main Findings (2)



Research revealed that about half of the business owners track their financial records in electronic format such as MS excel or dedicated software. Differences were revealed between Tbilisi and regions in regard with management of financial records – if 27% of businesses operating in Tbilisi process information not in electronic format, but on papers, this index is 37% in regions. Respectively, rate of keeping records in electronic format is lower in regions compared to Tbilisi (Tbilisi 60%, regions – 41%).

Most of the business owner just agreed or strongly agreed the following ideas in accordance of financial behavior, for example 80% of business owners agreed that they keep secure data and information about the business, 75% of them compare the cost of different sources of finance for the business; 79% of respondents forecast the profitability of the business regularly. Also 87% of business owners mentioned they adjust their planning according to the changes in economic factors.

Appeared that while making investment for business 83% of business owners take into account its environmental impact also 84% take into account its social impact and 75% of them involve providers in implementing actions with low environmental impact.

As for the attitudes of business owners toward managing the business appeared that 71% of owners set long term financial goals for the business and strive to achieve them, 59% of them is confident to approach banks and external investors to obtain business finance. 67% of business owners mentioned that they prefer to follow their instinct rather than to make detailed financial plans for their business. Also 42% says that they prefer high-risk and high-yield projects over low-risk and low-yield projects.

According to assessment of specific parameters we have estimated financial knowledge, financial attitude and behavior scores.

In terms of **Financial knowledge**, we provided respondents with 5 statements that were related to education and awareness on finances, only one out of 5 statements were incorrect - “Dividends are part of what a business pays to a bank to repay a loan”, 41% of respondents believed this statement to be true, 1/4 noted they did not know whether it was correct or incorrect or refused to answer this question. As for the rest of 4 statements that were read to the respondents, in the majority of cases the statements were deemed correct. Financial knowledge index varies from 0 to 5 points. Overall index of financial knowledge was estimated with 3.1 points. This index is different in Tbilisi and regions, in case of Tbilisi – financial knowledge index is 3.4 points and 2.8 points in regions.

As for **Financial behavior index**, score was estimated through combination of answers given to different questions - Basic payment and deposit services, Keeping records and accounting Risk and insurance, Financial protection, Financing the business, Planning beyond the short term, External influences.

In total, 9 questions were processed, respectively, financial behavior index varies from 0 to 9 points. In the end, overall index of financial behavior was 5.6 points. This index is different for Tbilisi and regions – in case of Tbilisi, the said index reached 5.9 points and amounted to 5.3 points in regions.

The Financial attitude index varies from 0 to 3 points. The overall index of financial attitude is 1.6 points. These data are slightly different in Tbilisi and the region - The rate of financial attitude in Tbilisi is equal to 1.8, while in regions the index amounted to 1.5 points

The Overall financial literacy score was calculated based on financial attitude, financial knowledge and financial behavior scores. The sum of the three components listed above, was expected to range from 0 to 17 point. Considering the final results, the Financial Literacy Index in Georgia is above average and equals 10 score out of 17.

Main Findings (3)



Covid-19 Impact on Business

The study shows that $\frac{1}{4}$ of the surveyed companies had a website at the end of 2019 from which they could sell their products / services, share of owning similar website increased of 5% over the current period. In general there are no big changes in accordance of digital activities compared to the before pandemic and the current periods.

Within the scopes of the study, we asked respondents to what extend did the Covid-19 pandemic affected different financial assets of their business. It turns out that the most affected area was profitability of businesses as it was named in 81% of cases that profitability of the company decreased/decreased a lot. In addition, businesses report on decreased of general turnover, as declared by 79% of business owners, company's turnover decreased/decreased a lot.

As for the issues that were the least affected by the Coronavirus pandemic, respondents named quantity of employees and debts – 72% of them reported on unchanged number of employees, 52% reported of unchanged financial debts, in case of the latter, 22% of respondents declared that as a result of the pandemic, their financial debts increased/increased significantly.

Almost half of the inquired companies note that as a result of the Coronavirus pandemic, their company appeared in the situation when cash flows were not sufficient to cover financial liabilities or to reimburse expected business costs. The said index was higher in regions than in Tbilisi – 42% of companies that operate in the capital city faced the lack of cash flow, while the share of such companies was 53% in regions.

Main strategies the companies applied to cope with the said situation included cutting business operation costs (46%), utilization of owner's personal/family money or credit (44%), temporary suspend of business operation (38%).

As for differences in strategies by regions and Tbilisi, it turned out that in case of Tbilisi, companies cut salaries/reimbursement of owners in 10% more cases, compared to Tbilisi, 12% more companies in regions had to take a new debt to cover liabilities or cope with foreseen costs. In addition, in Tbilisi, 12% more companies had to pay payables and salaries belated.

After the start of the pandemic, $\frac{1}{5}$ of the inquired companies applied for a loan for business needs, 66% of them were rewarded with a loan. Among them, who did not apply for a loan, 64% declared that their business did not require additional funding.

As the study demonstrates, in the majority of cases, companies did not use the measurements provided by the state during the pandemic - Cash benefits (59%), Tax benefits(64%), Loan deferment (64%), Loan Interest Subsidy (84%). Reasons behind refusing the state measurements are different, for example, as declared by 38% of companies, they did not use Loan deferment as they did not need it, 45% could not use cash benefits as their companies were not entitled for this exemption, also 54% of companies could not use the Loan interest subsidy because of the same reason.

Main Findings (4)



Description of companies and education of company owners

99% of companies inquired within the study are an autonomous profit-oriented business.

Quantity of employees working for the company was distributed as follows: in total, in 38% of cases business owners run the business and do not have additionally hired staff. Number of such companies is 5% higher in case of companies that operate in regions (40%).

As for business owners who participated in the study, more than half of them have University-level education,

39% of business owners whose education level is university-level education or post graduate education or equivalent, have attended classes related to business, economy or finances. Overall, $\frac{1}{4}$ of business owners have attended any type of trainings in finance management.

It is also worth mentioning that 43% of inquired respondents have more than 10 years of experience in business management (as an owner). As for experience of their parents in business management, only 14% of business owners noted that any of their parents had business in the past.



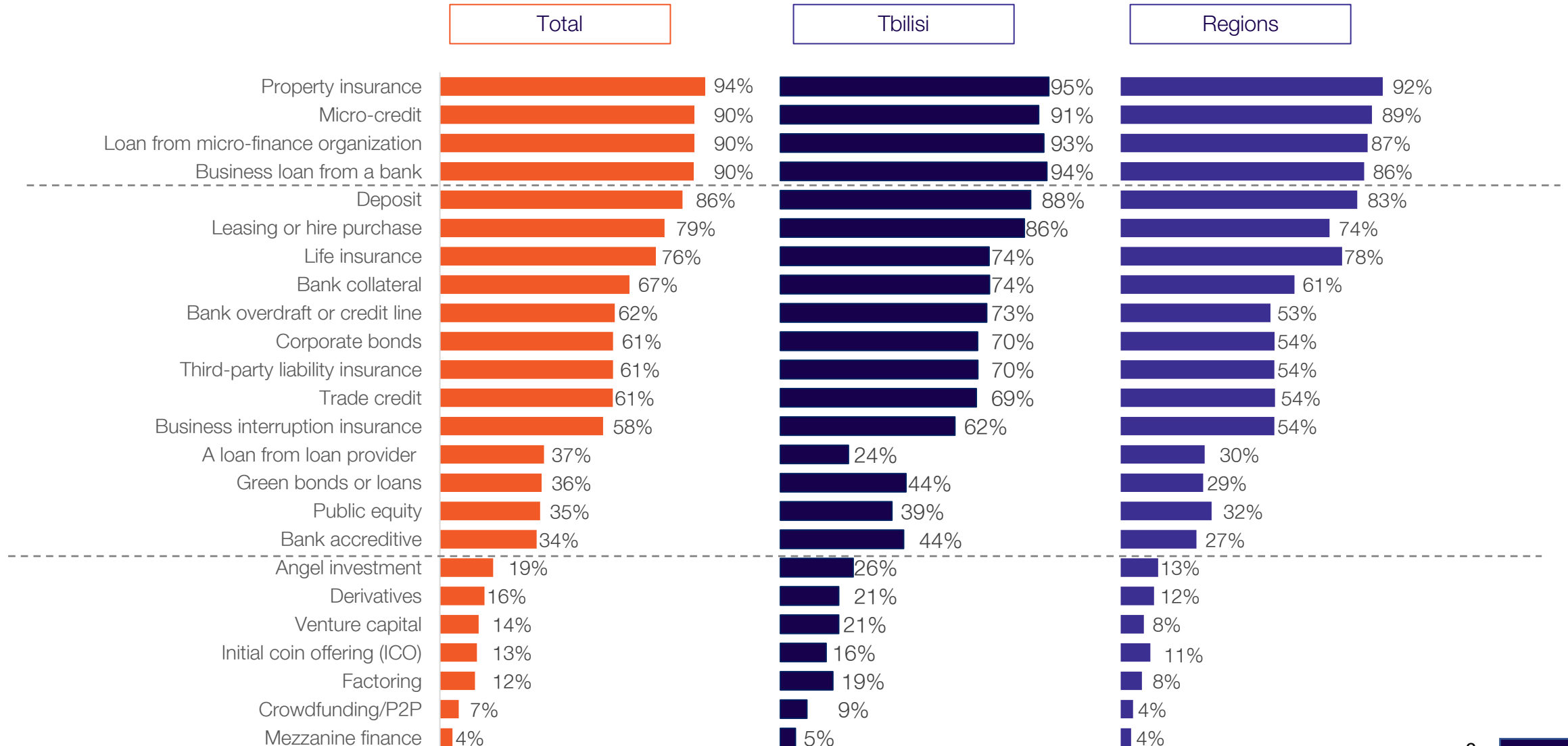
Financial Products

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Financial Product Awareness| By Tbilisi and Regions



Please can you tell me whether you have heard of this type of financial product or service in the context of your business ?



Base: N=1002

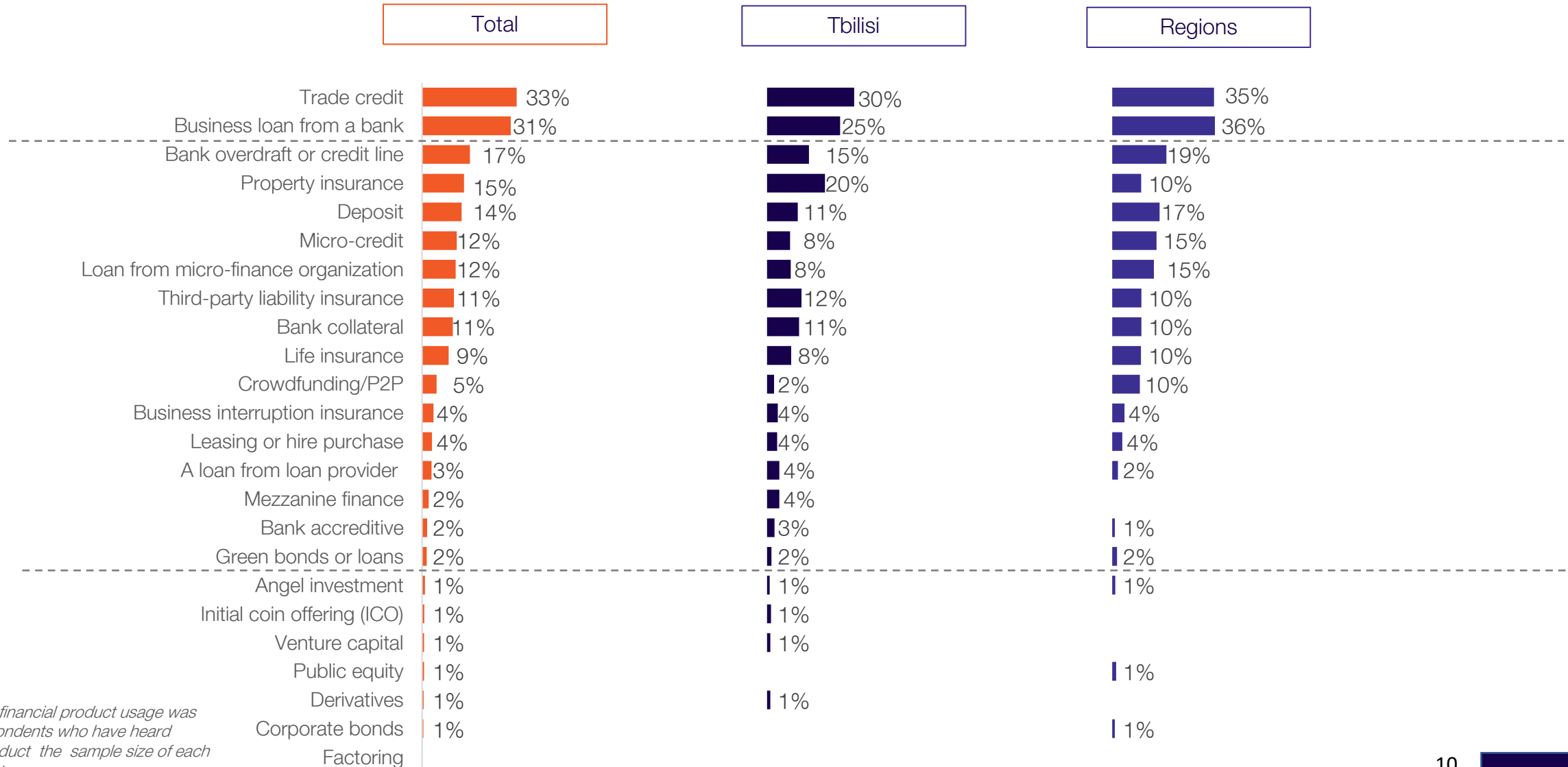
Base: N=418

Base: N=584

Financial Product Usage| By Tbilisi and Regions



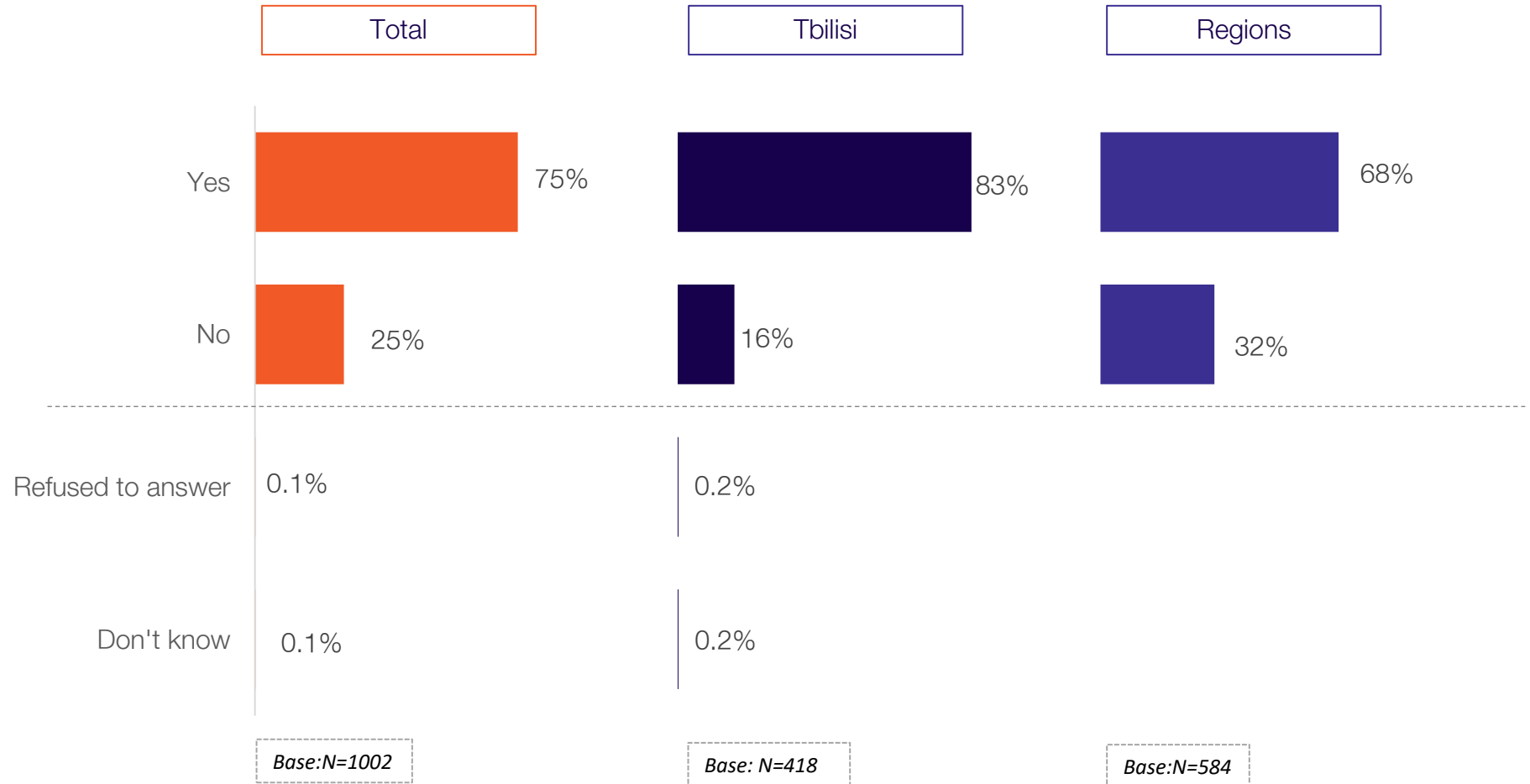
Please can you tell me whether you have used of this type of financial product or service in the context of your business ?



Database: Due to financial product usage was asked to the respondents who have heard about specific product the sample size of each product is different

Bank account usage | By Tbilisi and Regions

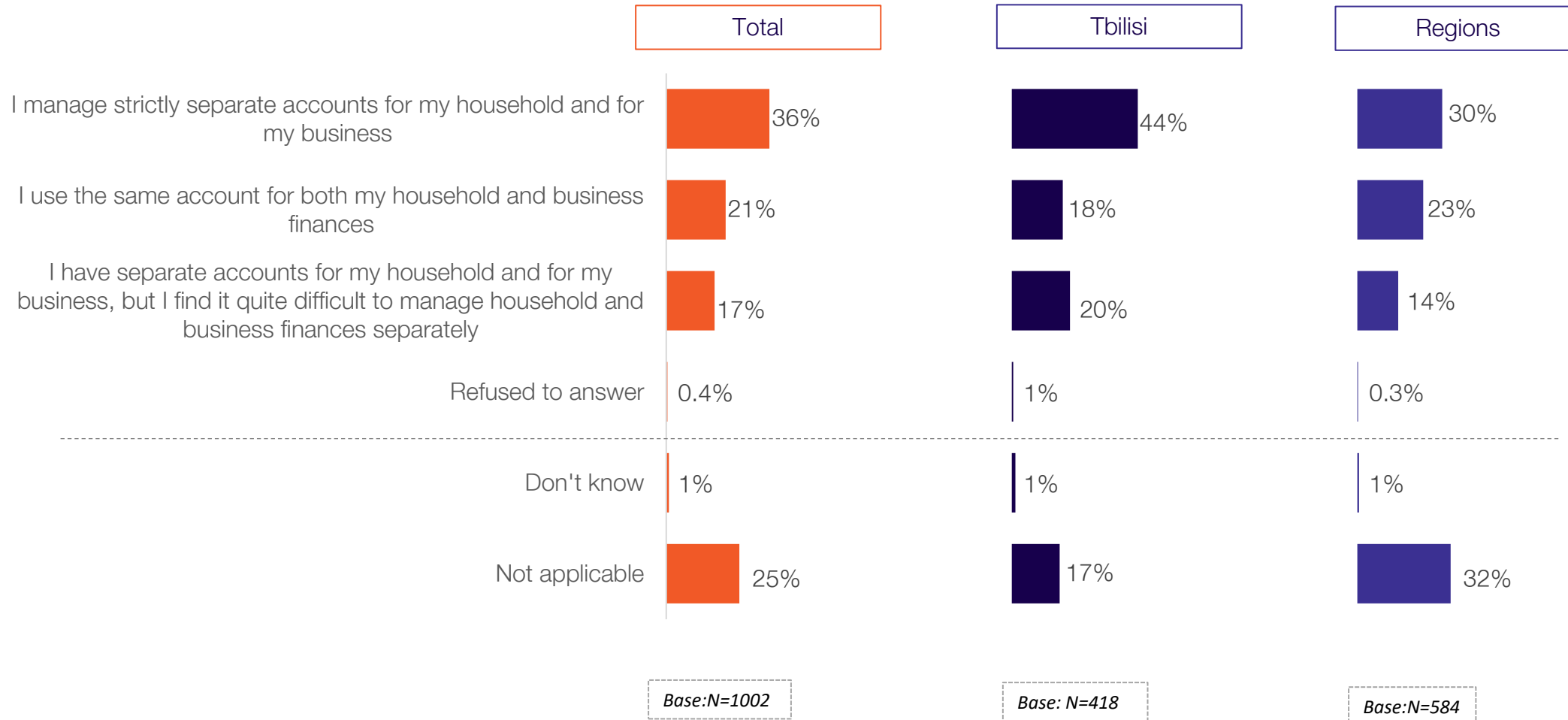
Do you have Current or savings account at a bank for your business?



Managing of Bank account for business| By Tbilisi and Regions



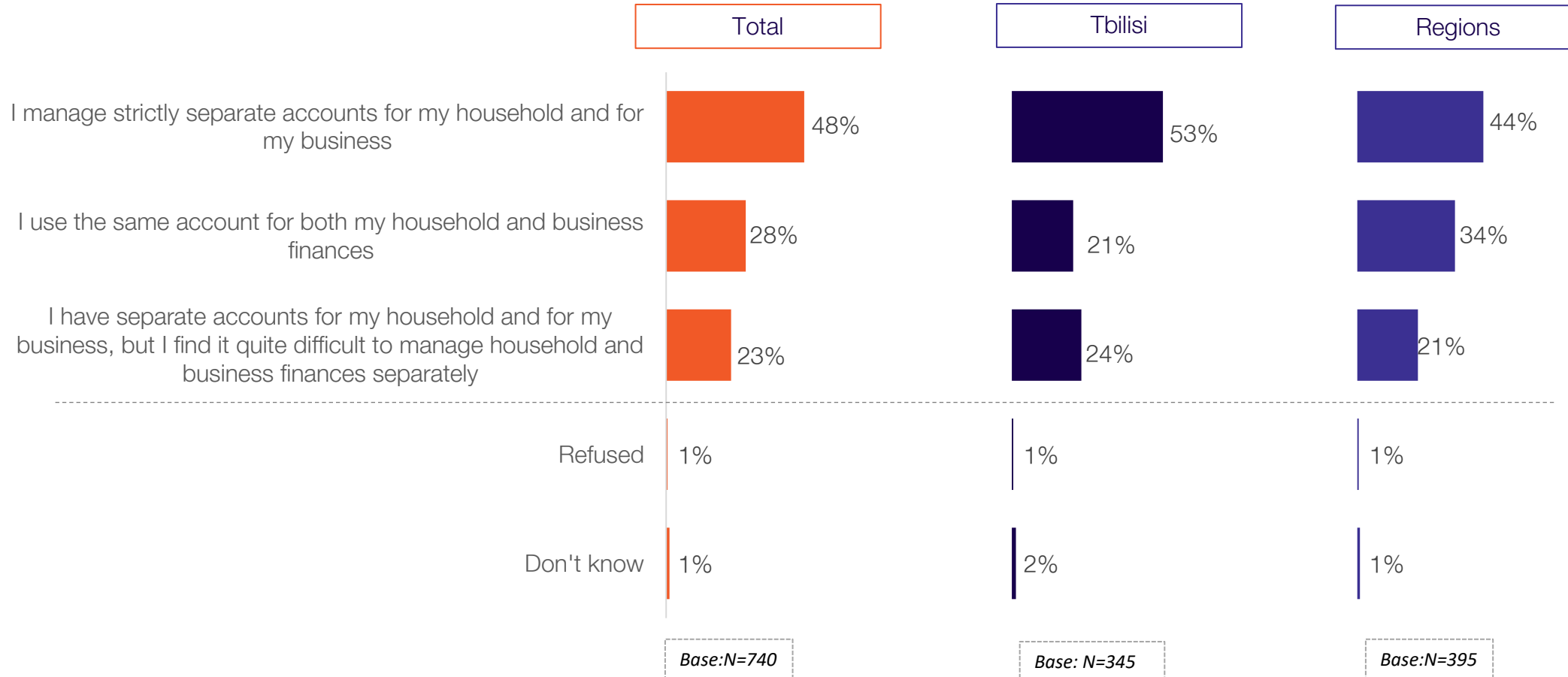
Can you tell me which of these statements best represents your situation?



Managing of Bank account for business| Among the business which own bank account or saving



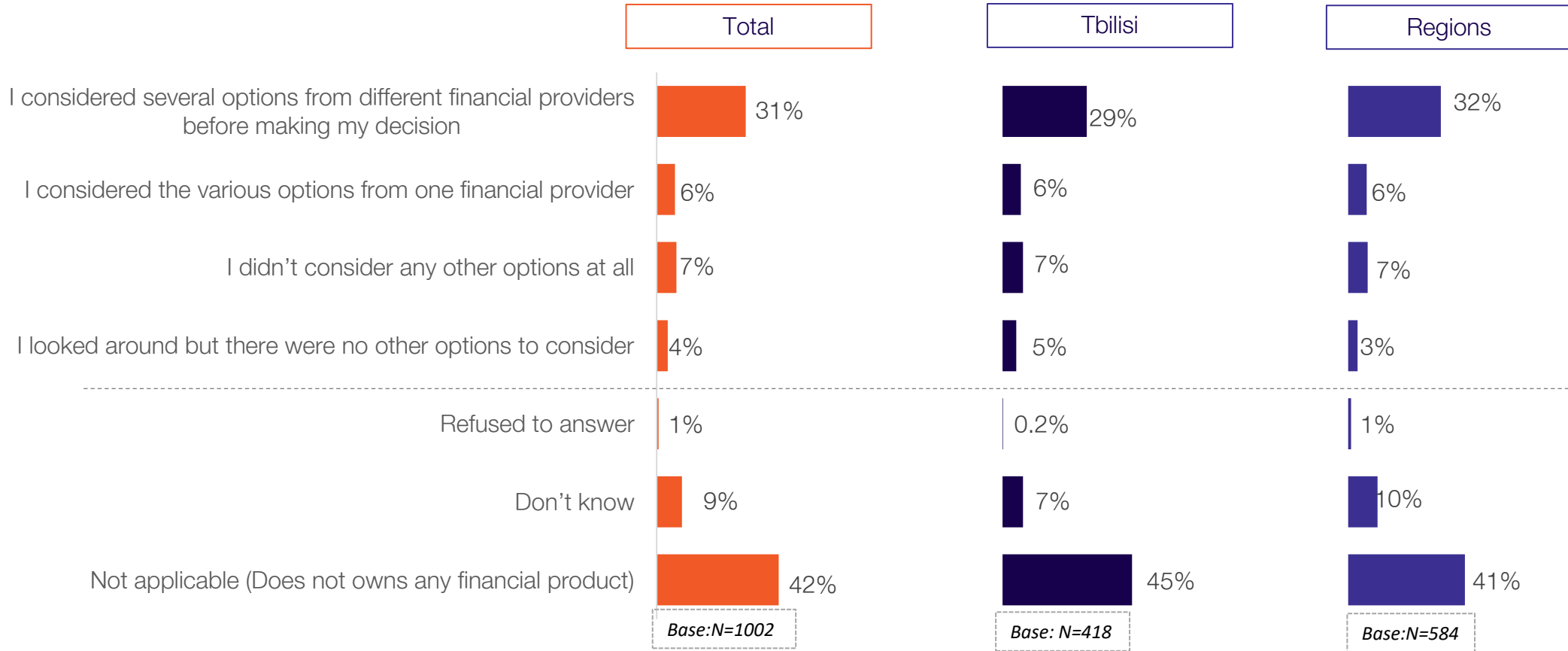
Can you tell me which of these statements best represents your situation?



Financial Product Selection | By Tbilisi and Regions



Which of the following statements best describes how you made your most recent choice about a financial product or service for the business ?



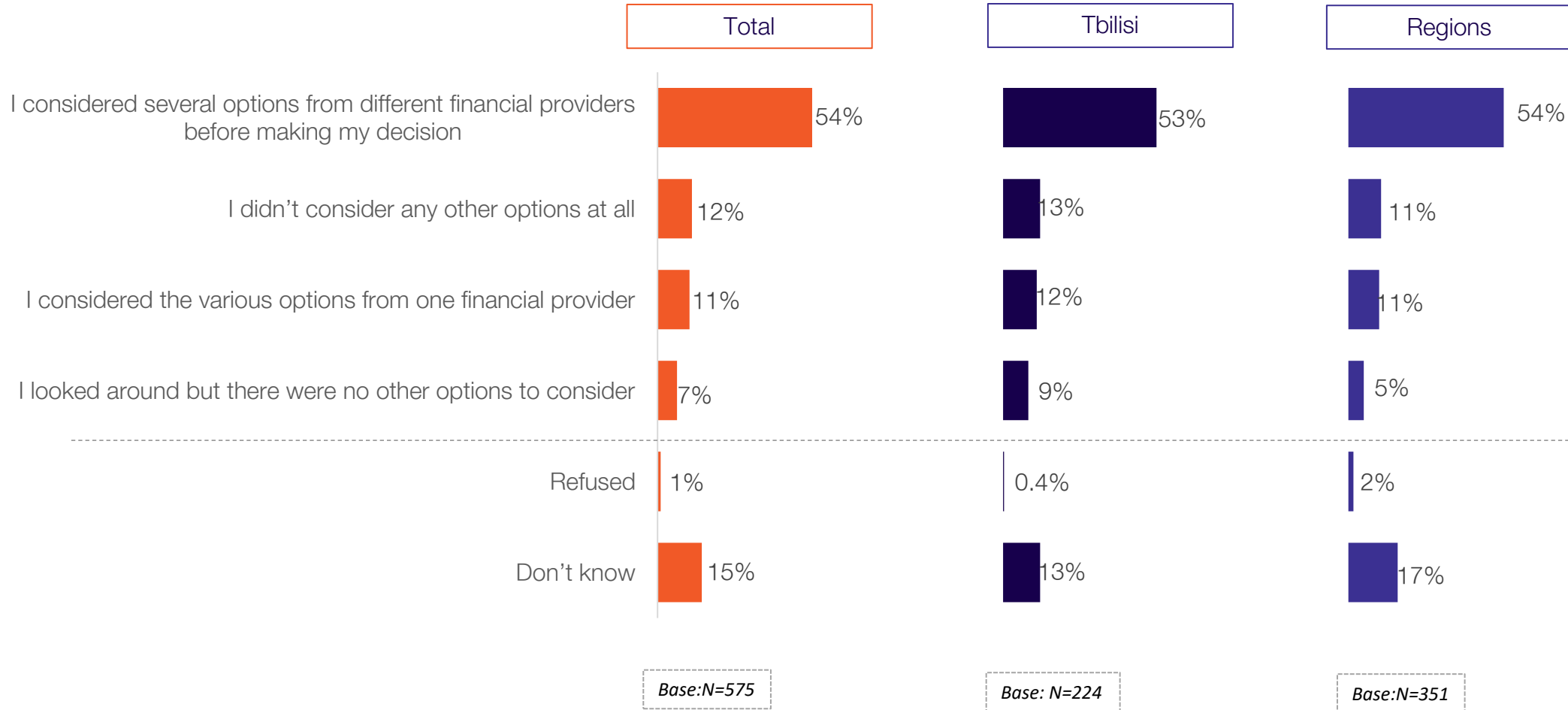
Note: 42% of respondents does not name any financial product in financial usage question

Note: No significant difference between Tbilisi & Regions

Financial product selection| Owns at least one financial product



Which of the following statements best describes how you made your most recent choice about a financial product or service for the business ?



Note: No significant difference between Tbilisi & Regions



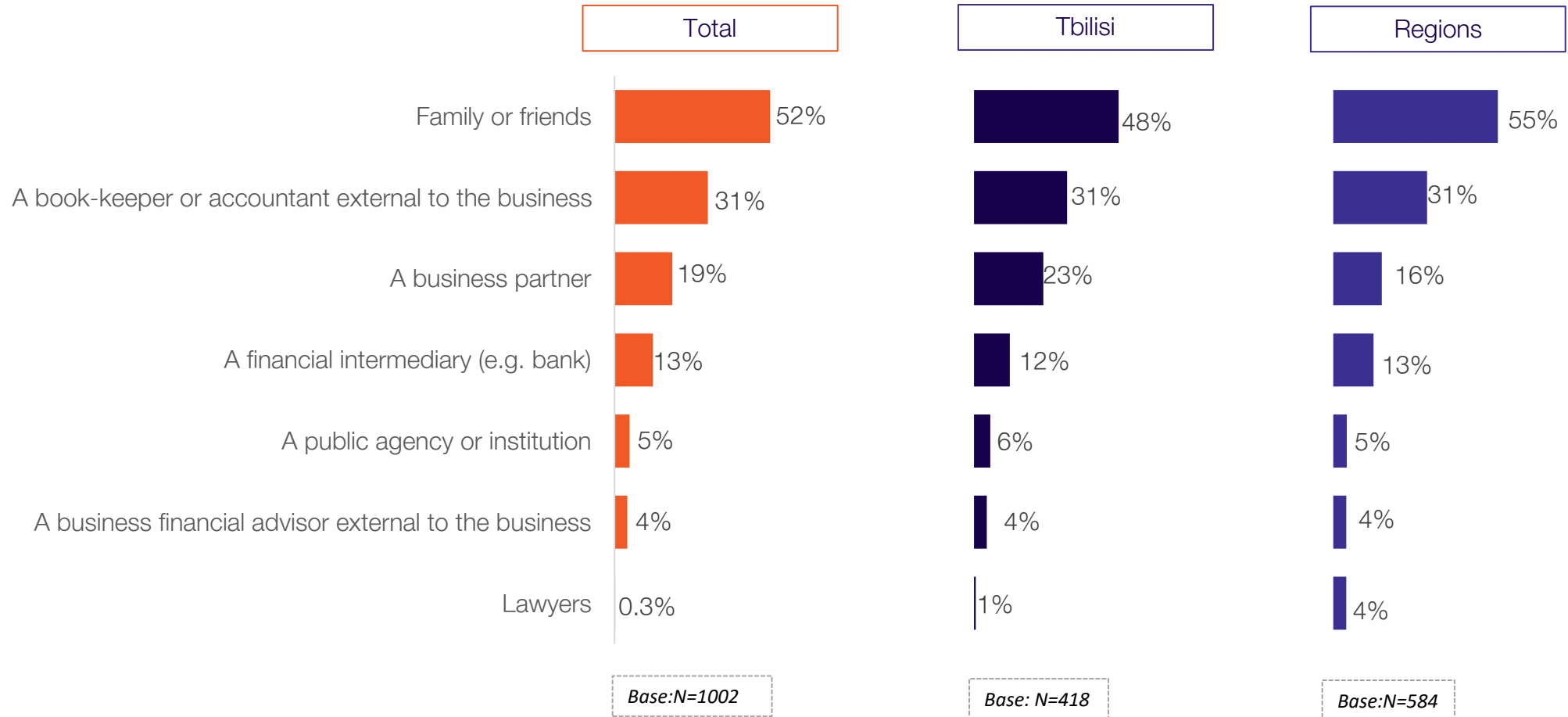
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Assistance request in taking financial decisions| By Tbilisi and Regions



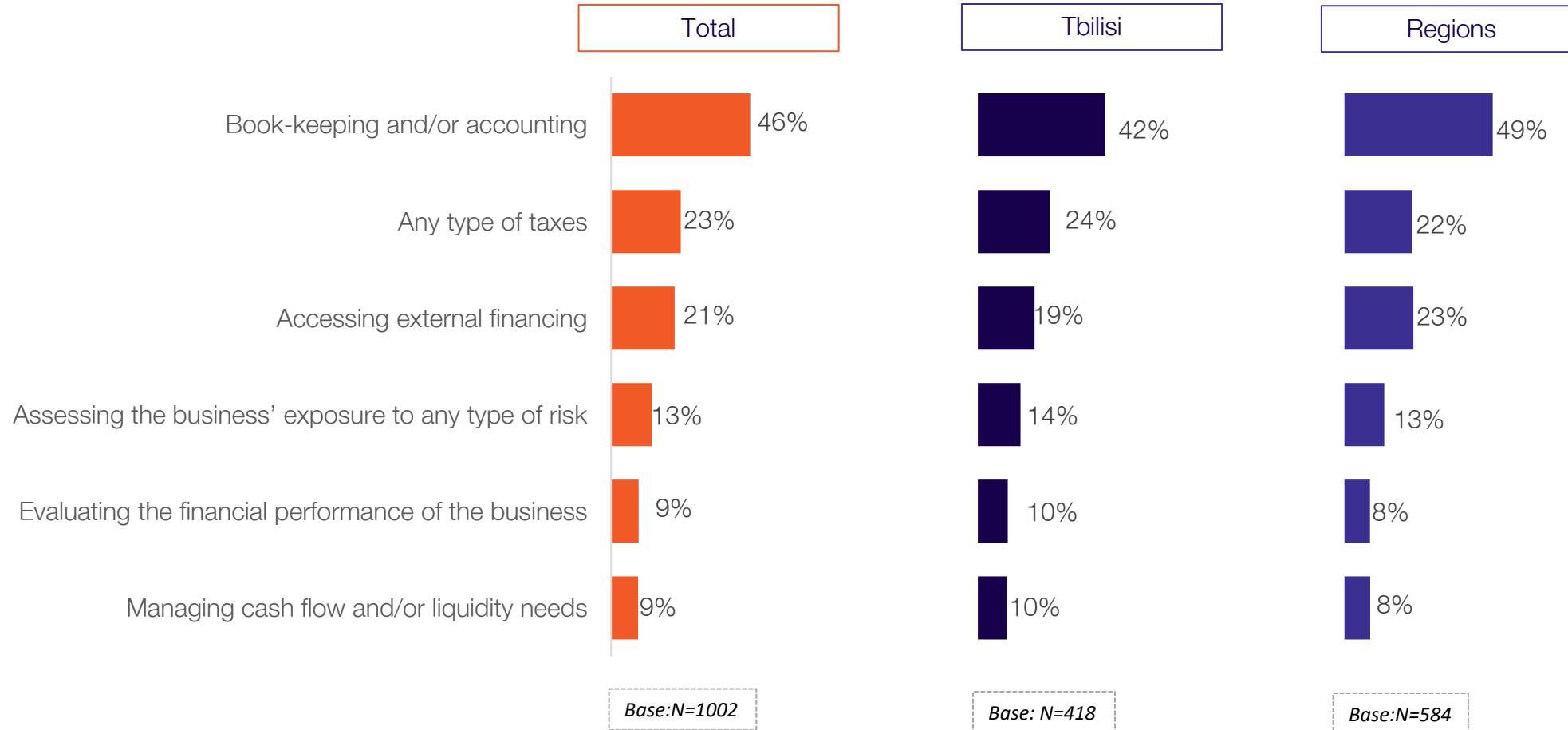
In the past 24 months [or since business creation if the business existed for less than 24 months], has any of these people helped you in taking financial decisions for the business?



Assistance request in taking financial decisions| By Tbilisi and Regions

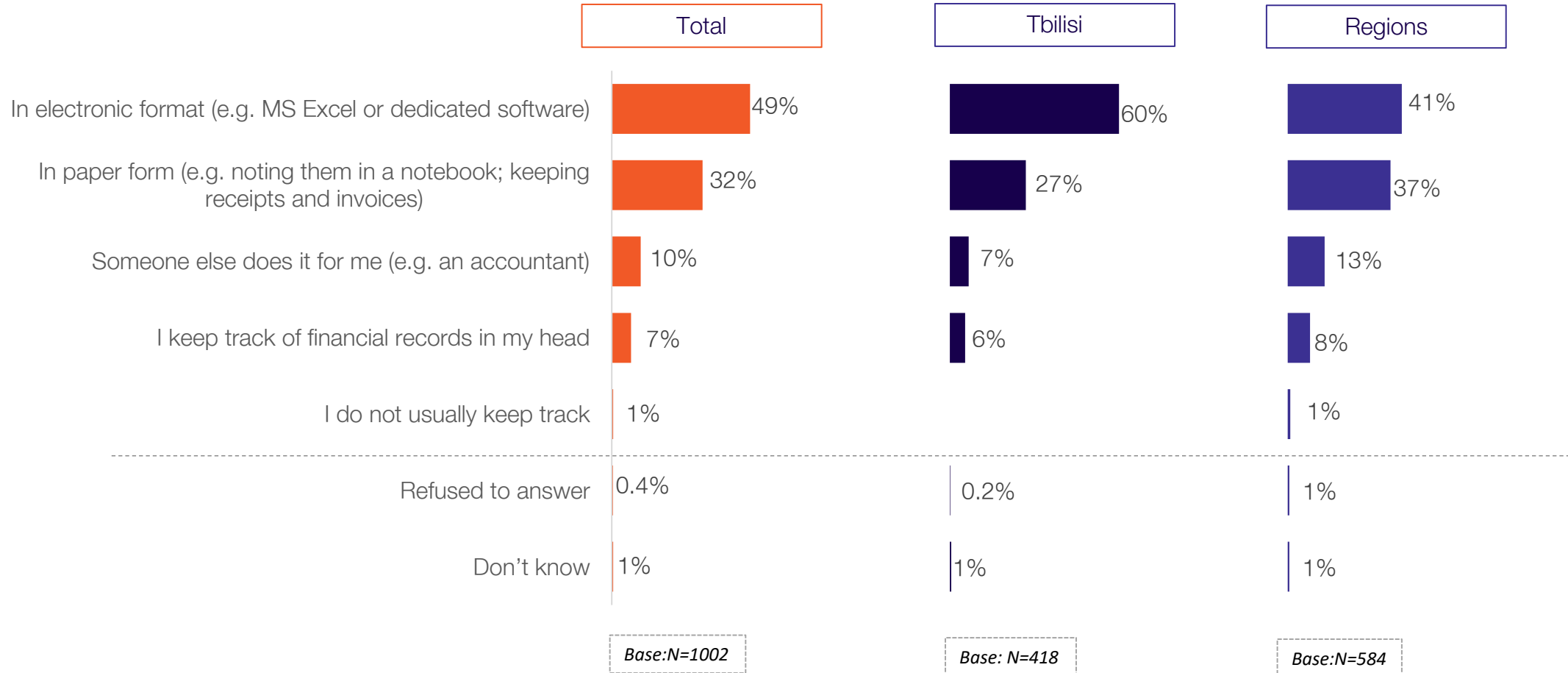


In the past 24 months [or since business creation if the business existed for less than 24 months], have you asked for help about any the following matters?



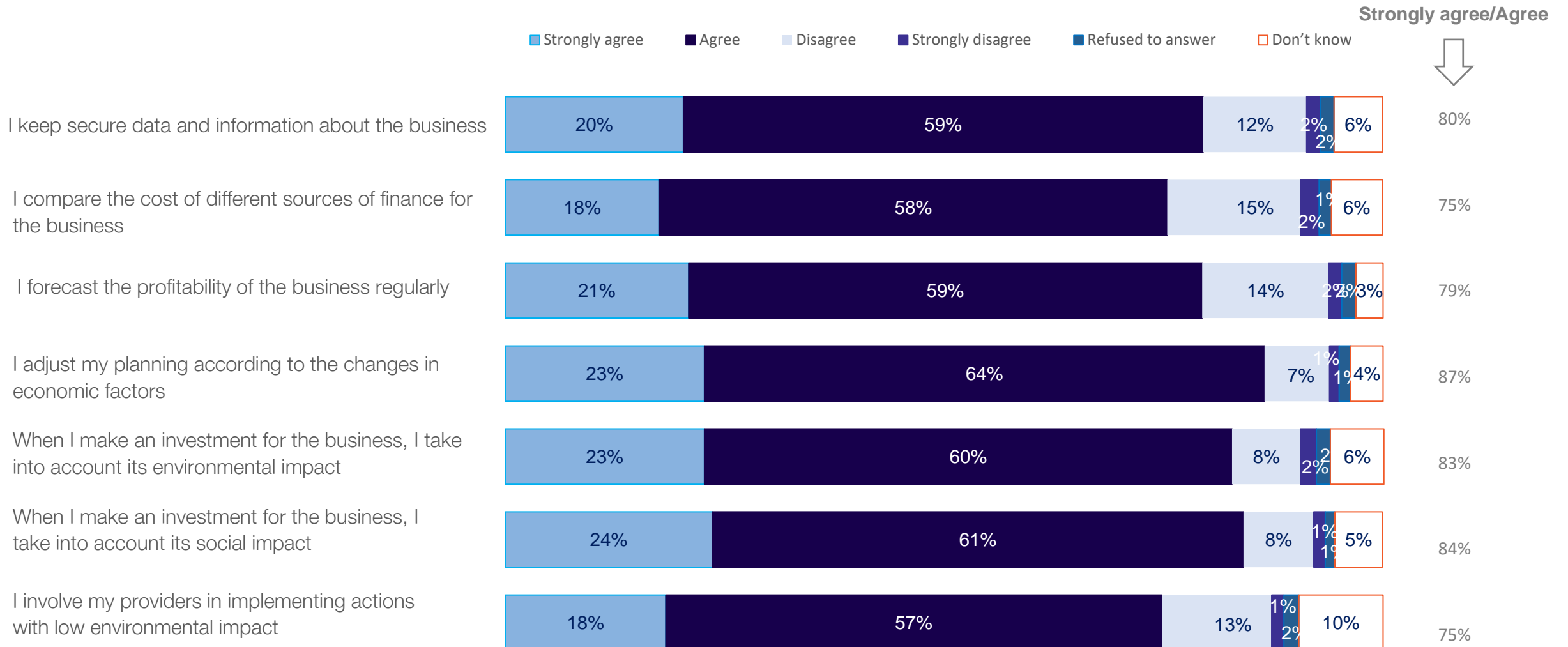
Financial Record Tracking| By Tbilisi and Regions

How do you keep track of the financial records of the business?



Financial Behavior| Total Picture

Thinking about your business, would you agree or disagree with the following statements?



Database: Overall Picture N=1002

Attitudes toward managing business| Total Picture



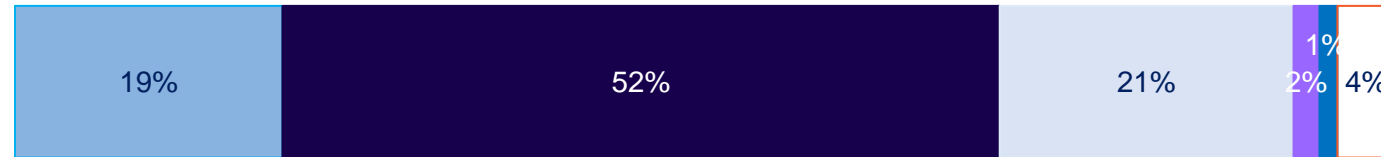
Thinking about your business, would you agree or disagree with the following statements?

Strongly agree/Agree

■ Strongly agree
 ■ Agree
 ■ Disagree
 ■ Strongly disagree
 ■ Refused to answer
 ■ Don't know



I set long term financial goals for the business and strive to achieve them



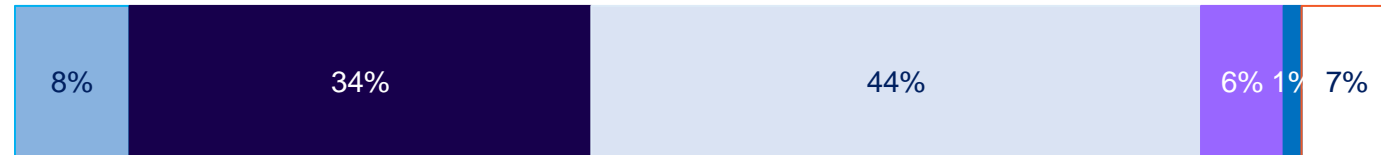
71%

I am confident to approach banks and external investors to obtain business finance



59%

I prefer high-risk and high-yield projects rather than low-risk and low-yield projects



42%

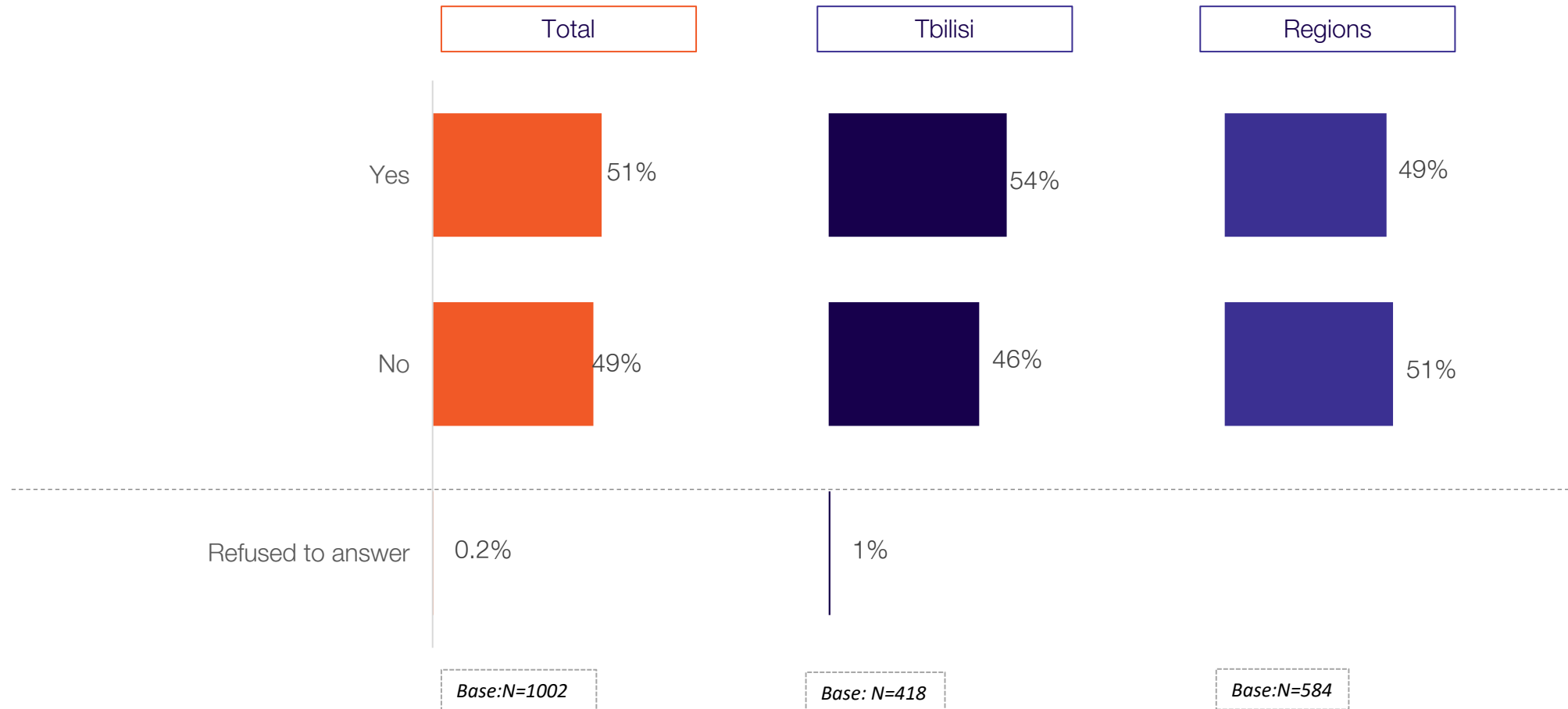
I prefer to follow my instinct rather than to make detailed financial plans for my business



67%

Retirement Funding| By Tbilisi and Regions

Have you thought about how you will fund your own retirement or maintain yourself when you will no longer work due to old age

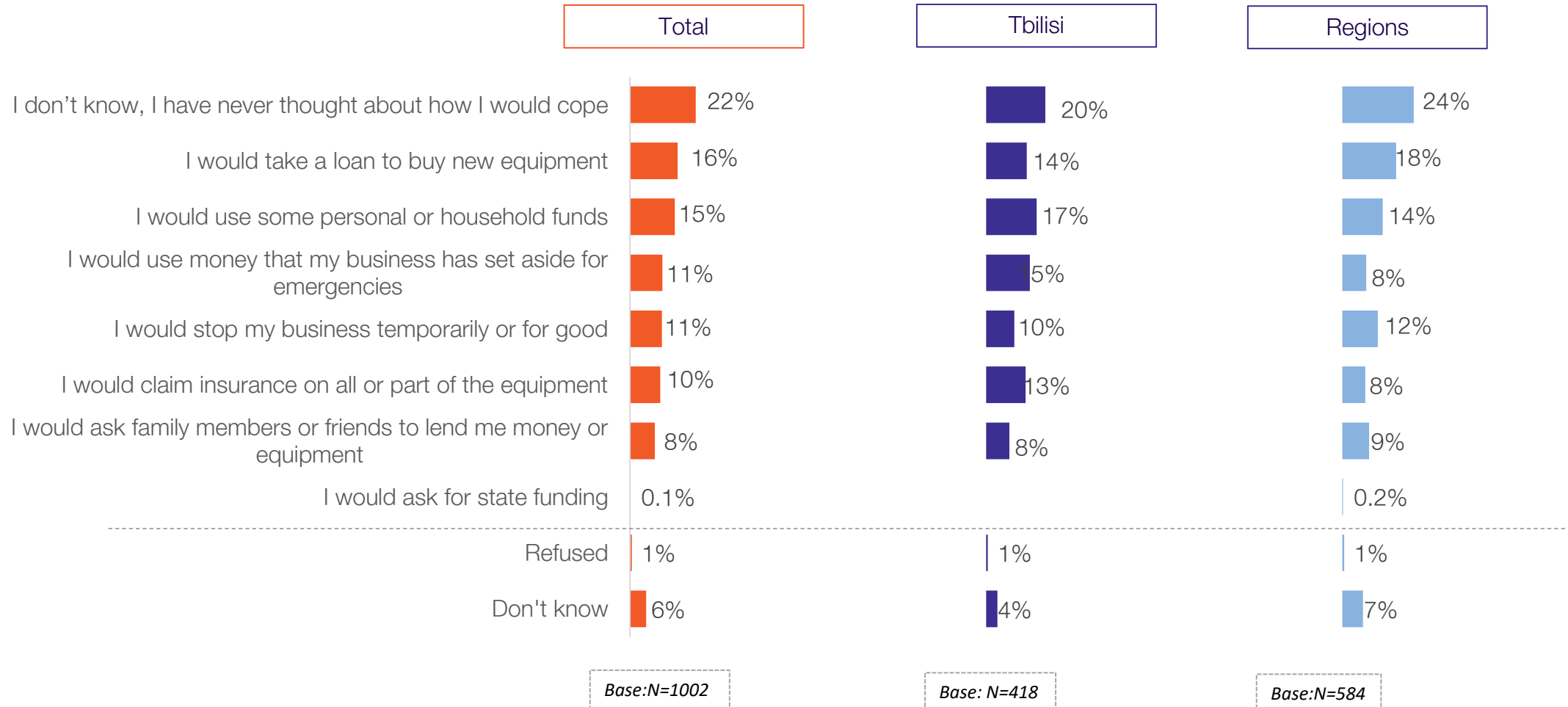


Note: No significant difference between Tbilisi & Regions

Functioning strategy in case of robbery| By Tbilisi and Regions



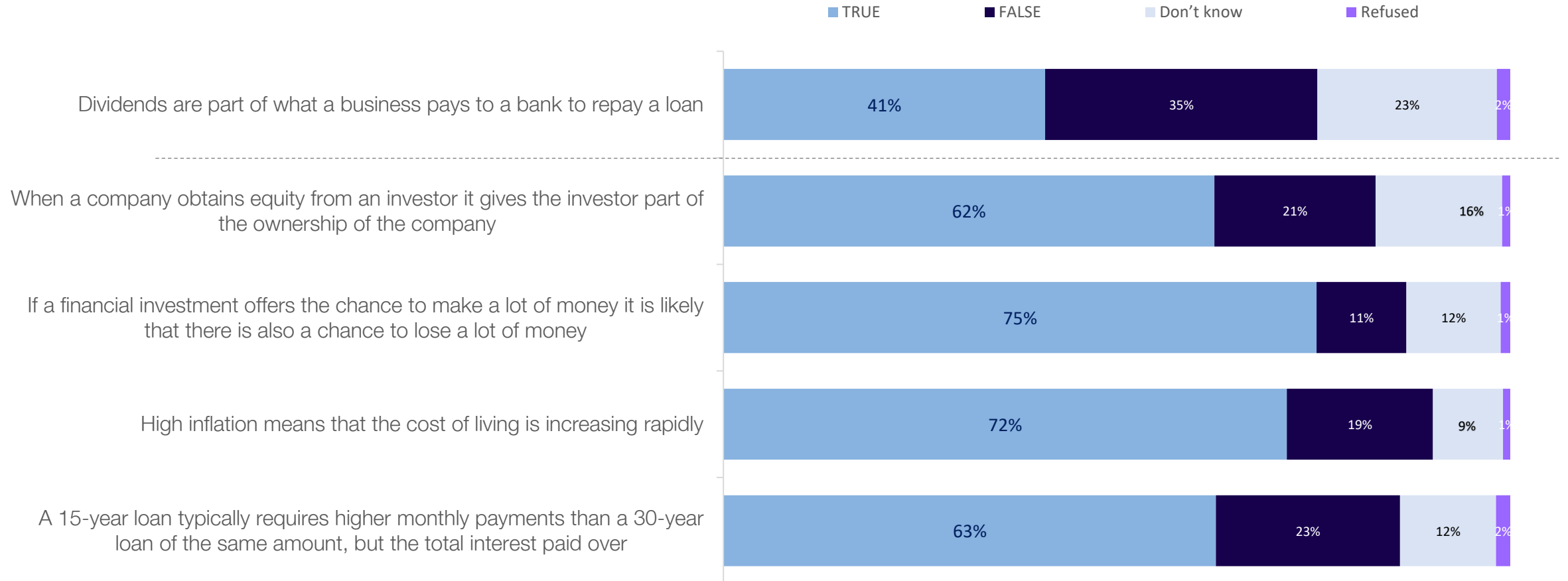
Imagine that tomorrow you discover that most of the equipment that you need to operate the business has been stolen (it could be computers, vehicles or other equipment). Which one of these statements best represents what you would do?



Attitudes toward managing business| Total Picture



I would like to know whether you think the following statements are true or false:

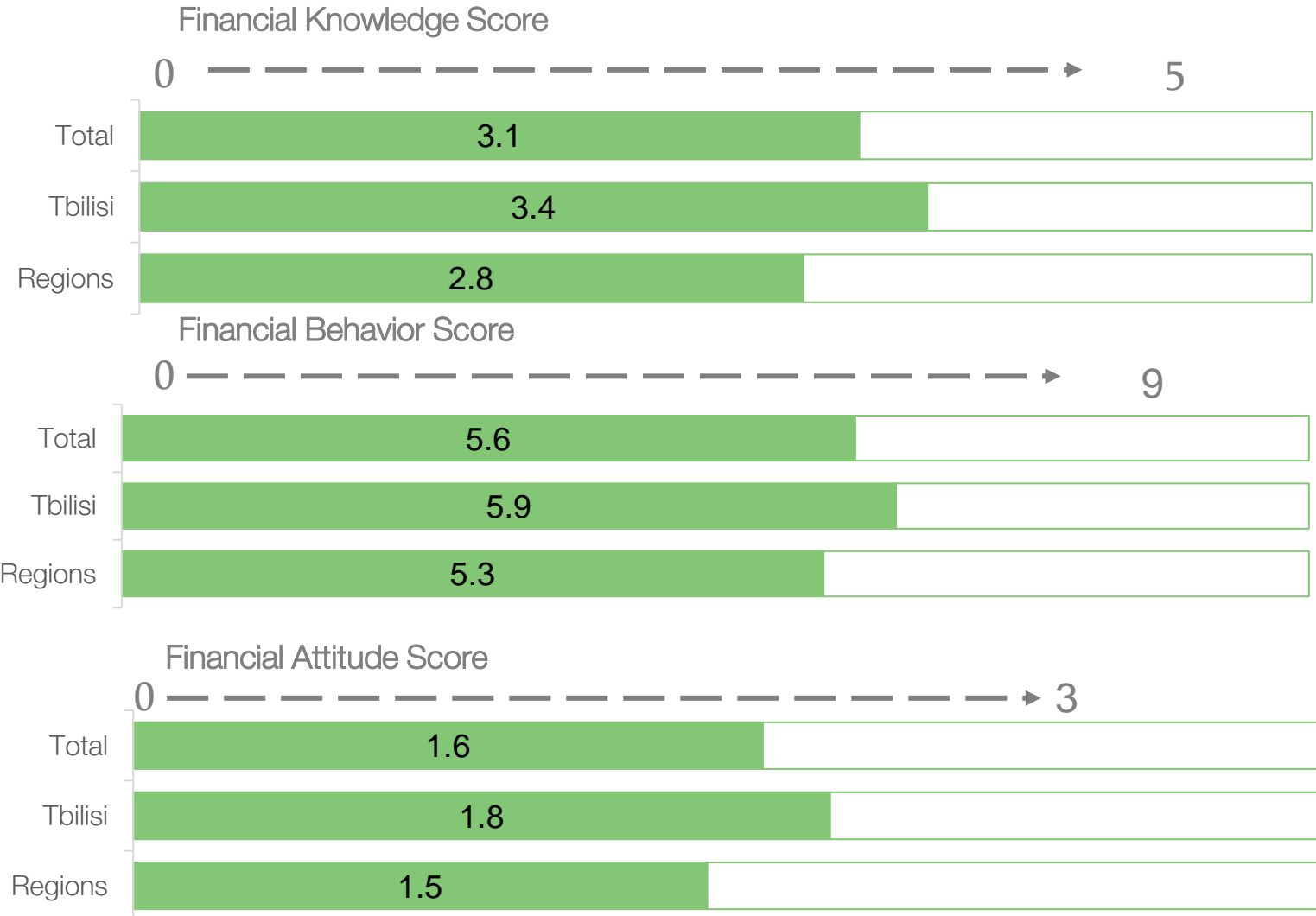


Financial Literacy Scores| Tbilisi & Regions



Overall Score Out of 17

10



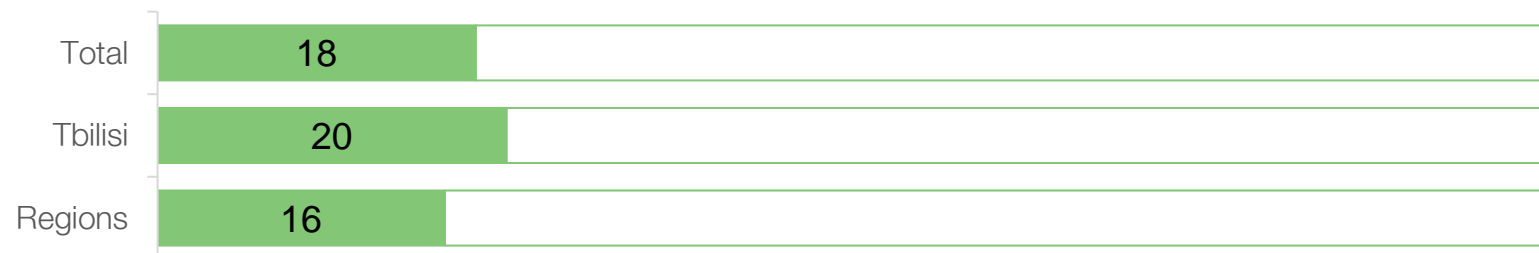
Financial Literacy Scores| Tbilisi & Regions

Overall Score Out of 100

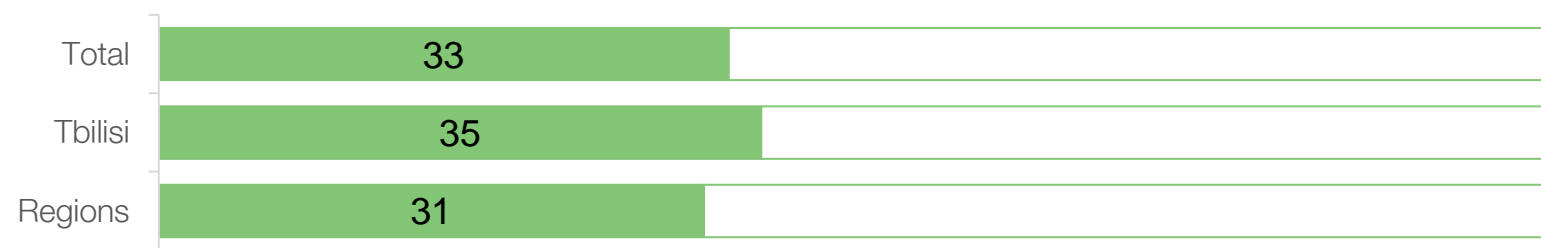
60



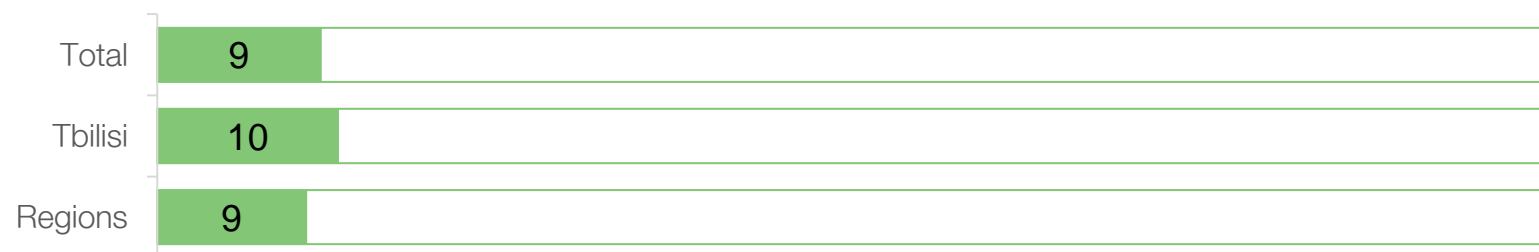
Financial Knowledge Score / Out of 100



Financial Behavior Score / Out of 100



Financial Attitude Score / Out of 100





Covid-19 Impact on Business

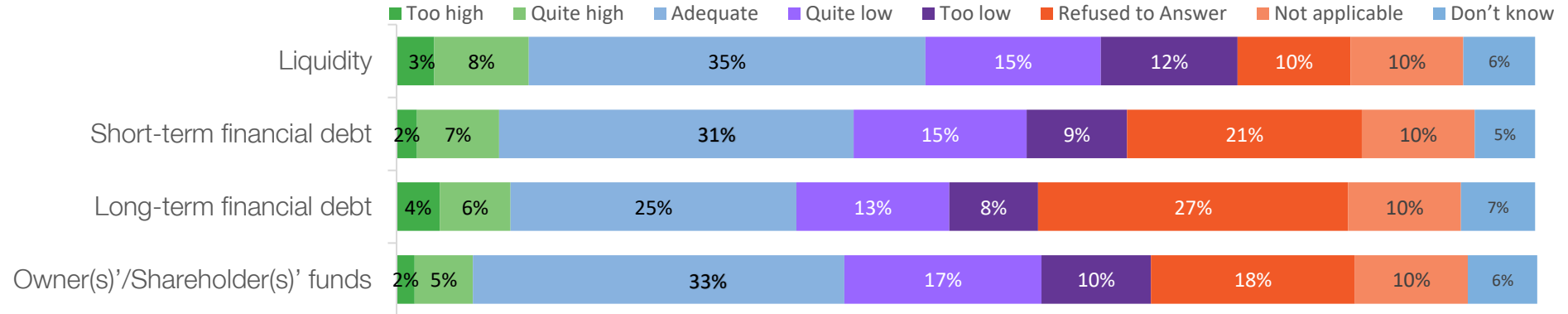
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Business situation by the end of 2019| Total Picture

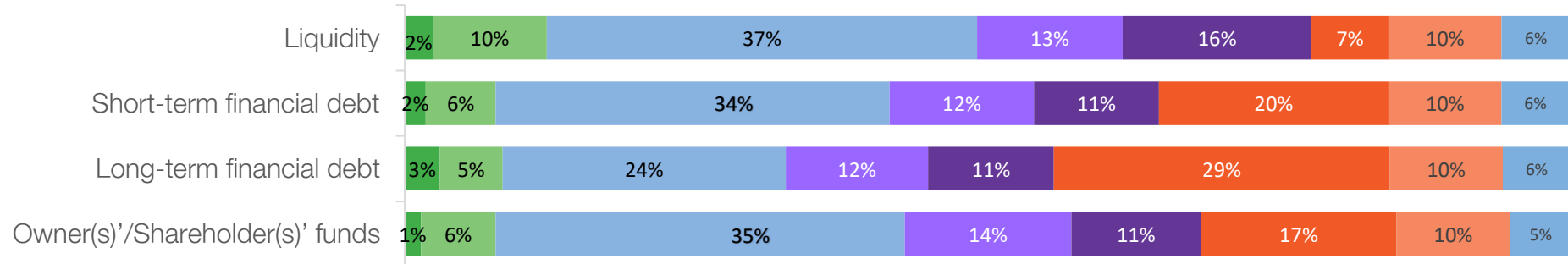


Thinking about your business, how would you evaluate the level of the following items at the end of 2019

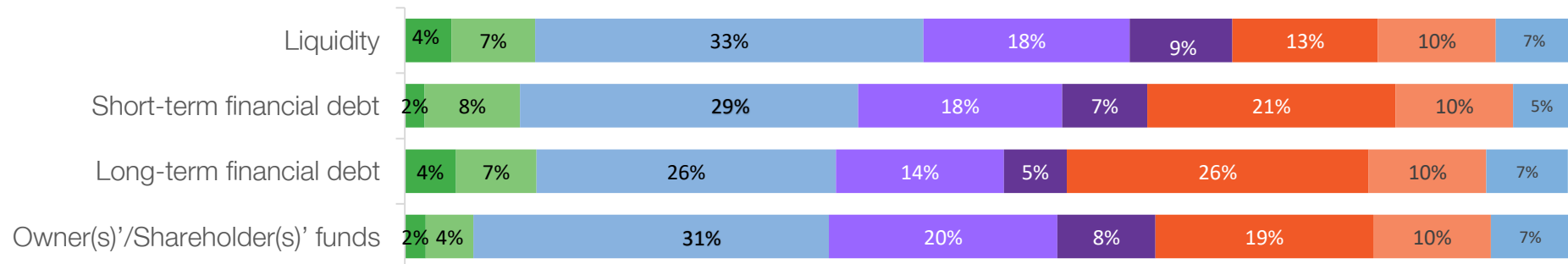
Total Base: N=



Tbilisi Base: N=418



Regions Base: N= 584

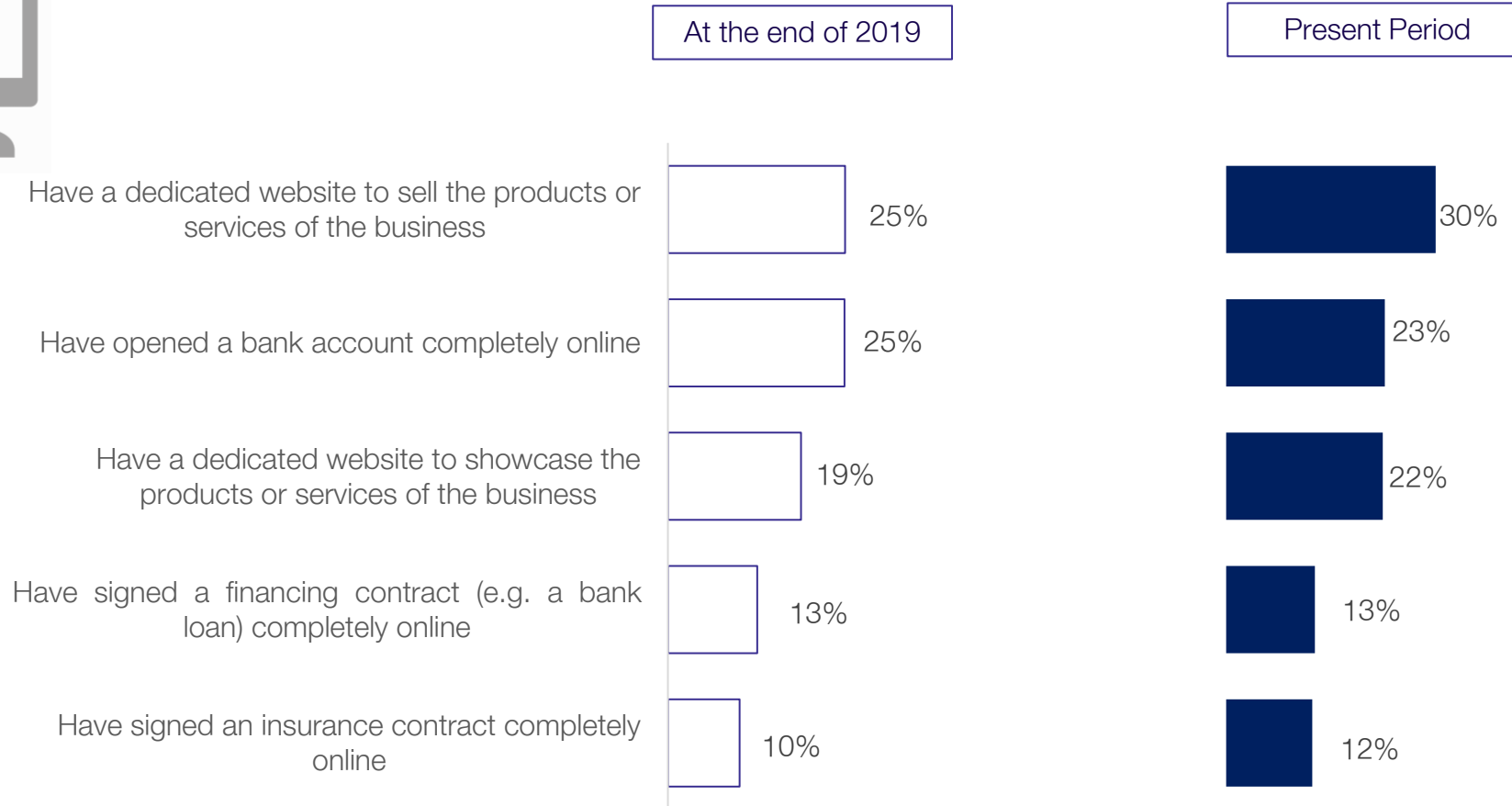
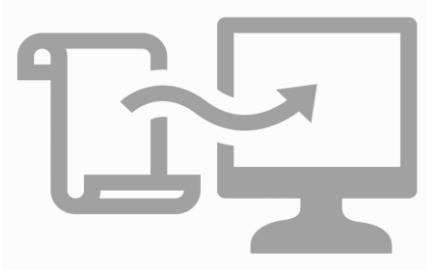


Digitalization Before Pandemic and Present Period | Total Picture



Thinking about the period before the COVID-19 pandemic, at the end of 2019, did you have or did you do any of the following things:

and thinking about now, do you have, or have recently done, any of the following things:

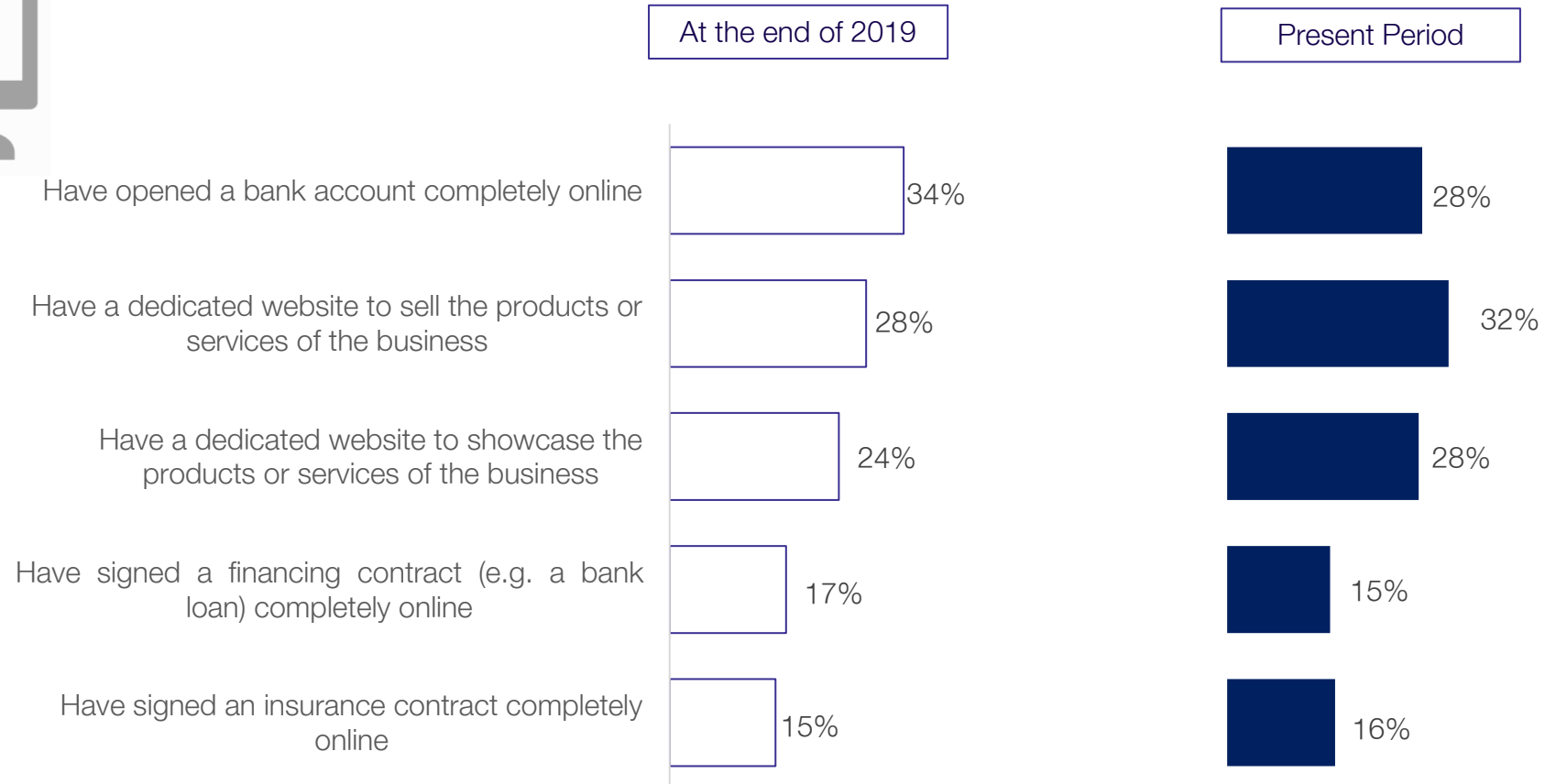
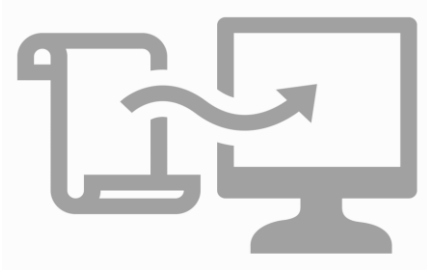


Digitalization Before Pandemic and Present Period | Tbilisi



Thinking about the period before the COVID-19 pandemic, at the end of 2019, did you have or did you do any of the following things

and thinking about now, do you have, or have recently done, any of the following things

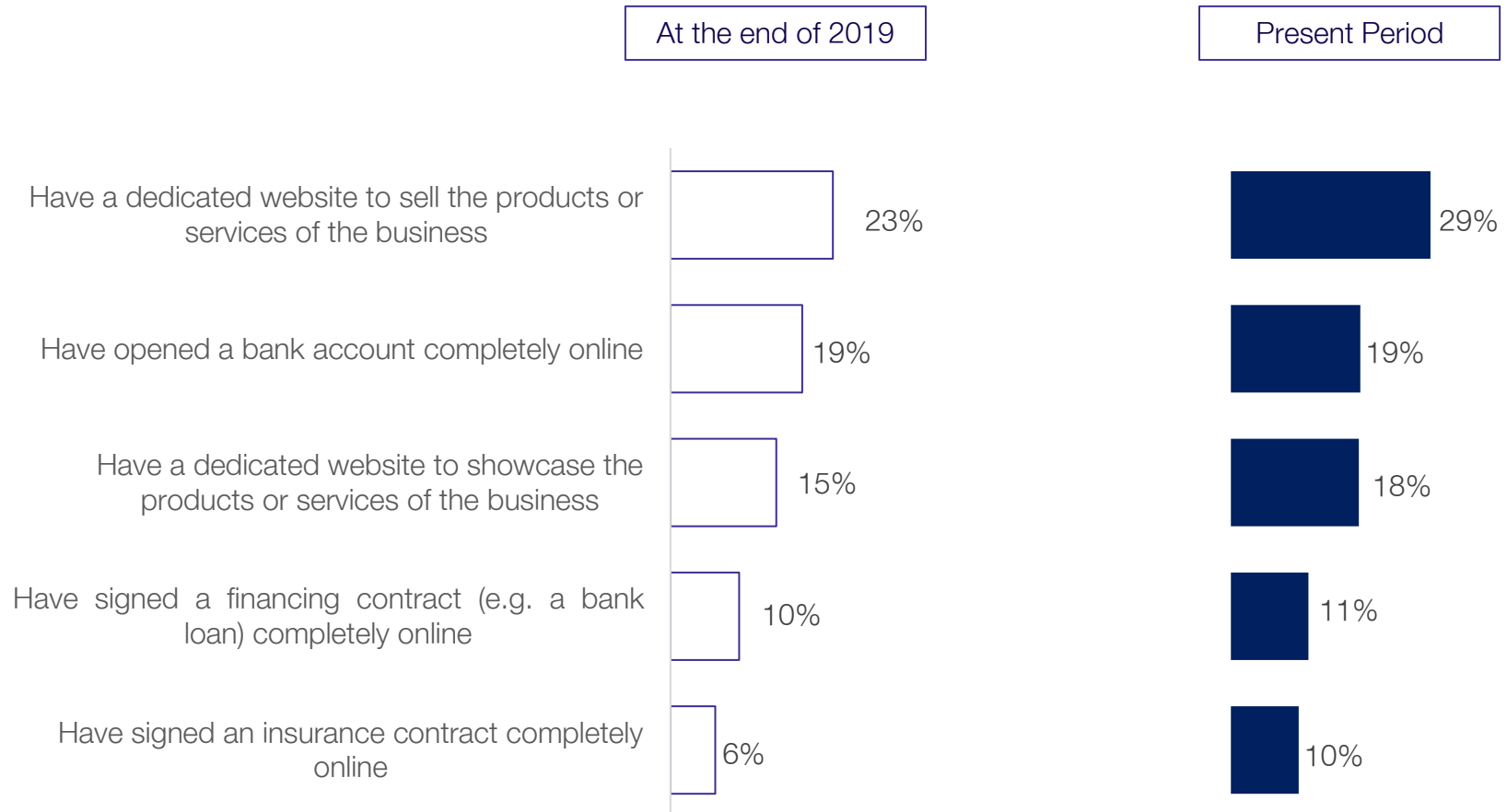
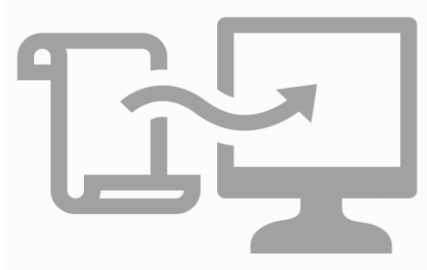


Digitalization Before Pandemic and Present Period | Regions



Thinking about the period before the COVID-19 pandemic, at the end of 2019, did you have or did you do any of the following things

and thinking about now, do you have, or have recently done, any of the following things

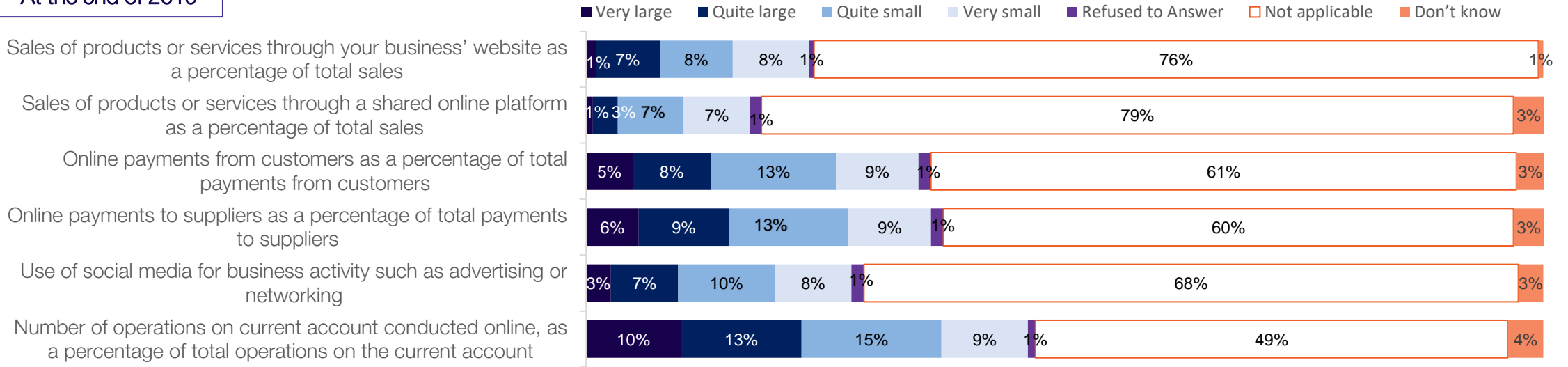


Digital activities before covid-19 and Present period

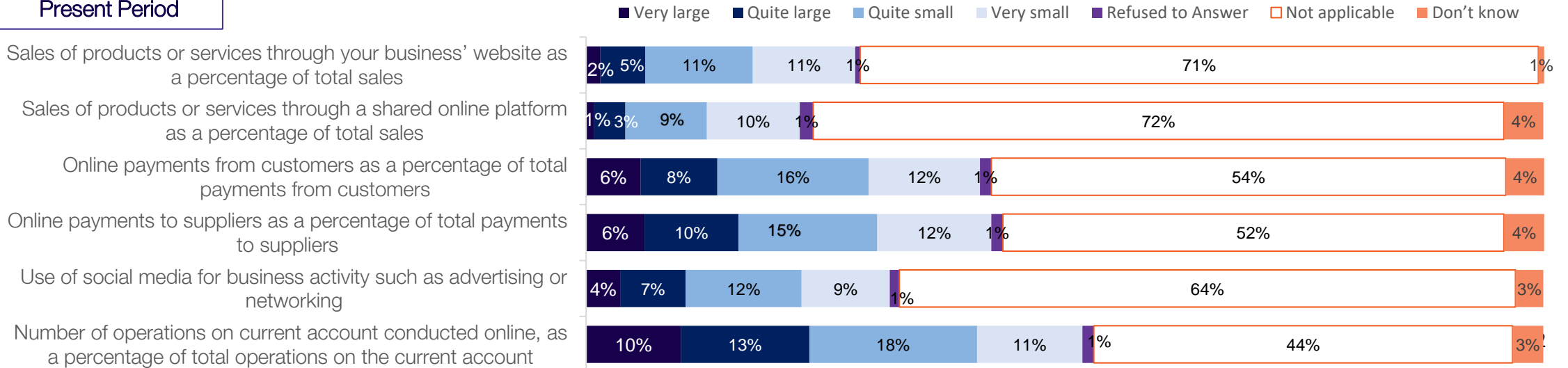
Thinking about the period before the COVID-19 pandemic, at the end of 2019, please indicate how large the following digital activities were for your business. And what about now?



At the end of 2019



Present Period

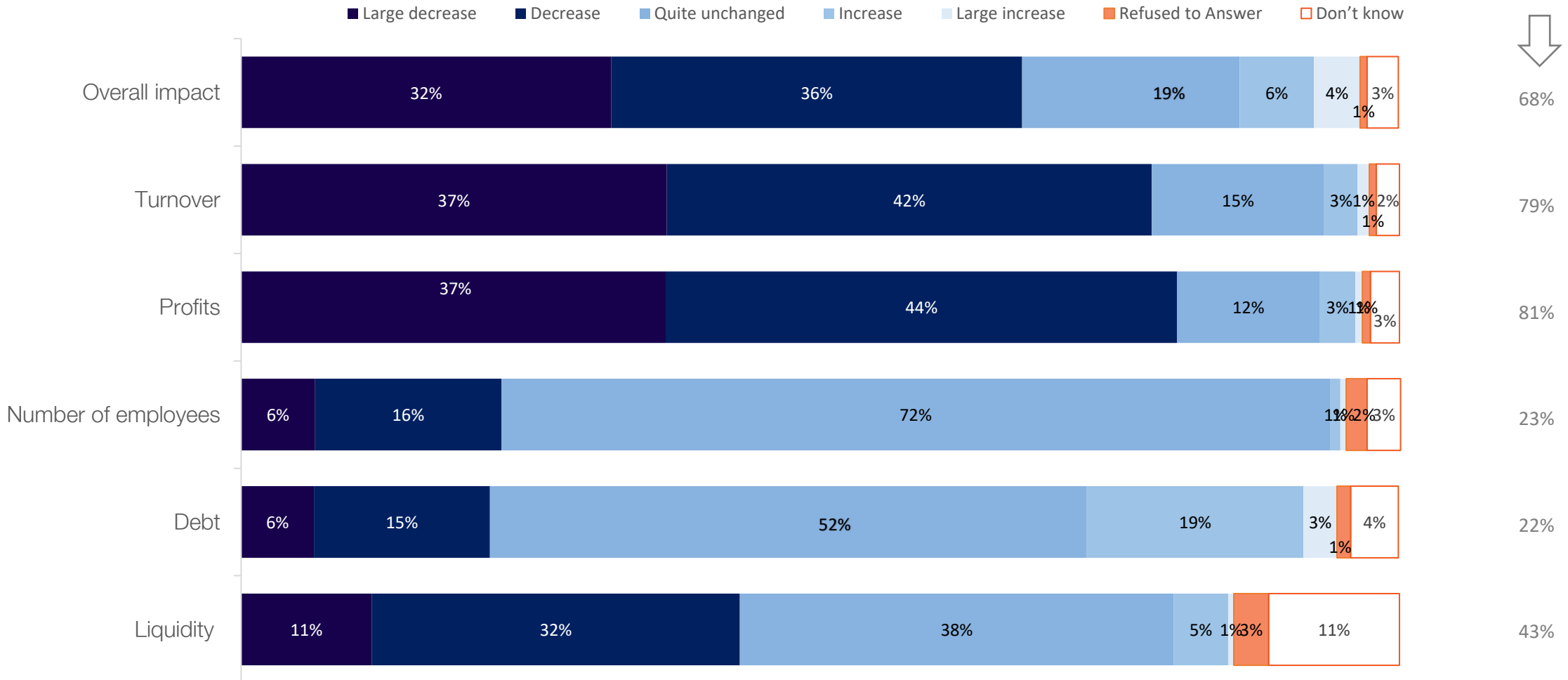


Covid-19 Impact| Total Picture

How would you describe the impact of the COVID-19 crisis on the following items related to your business ?

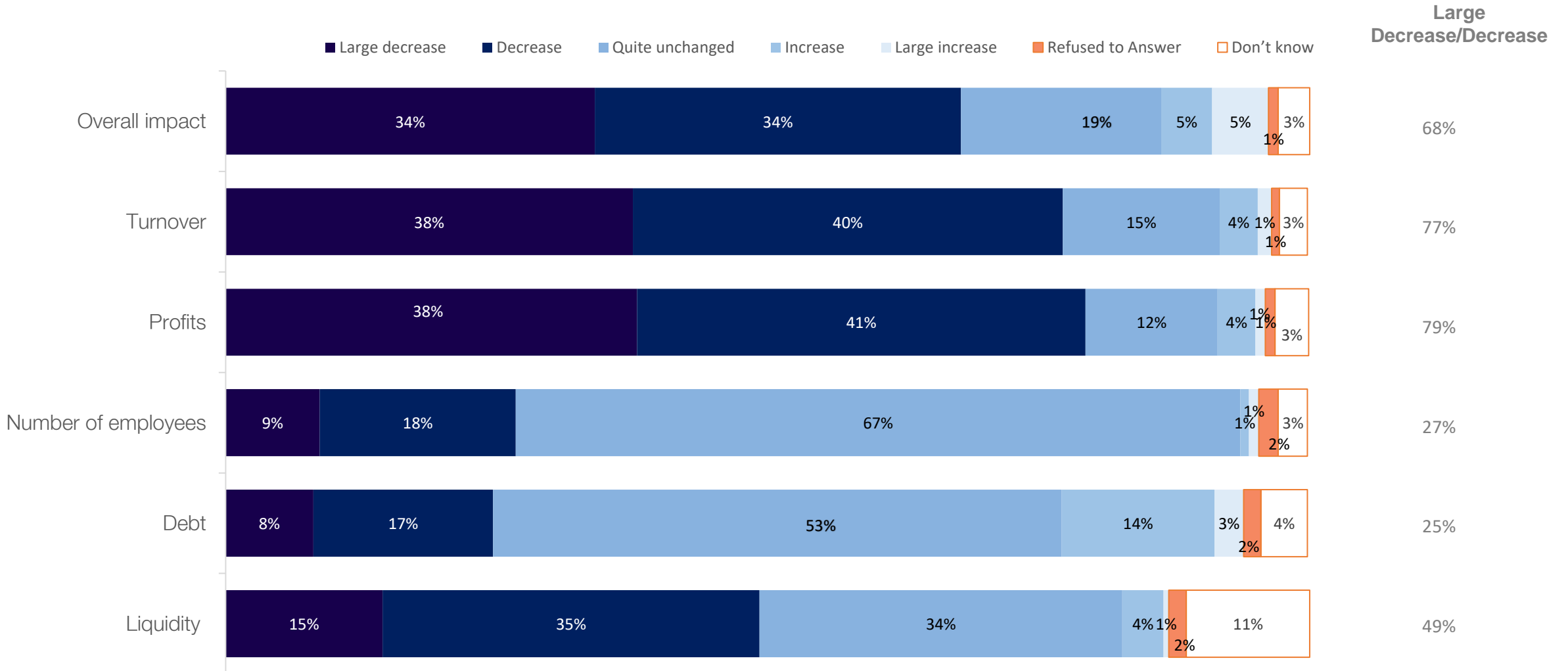


Large Decrease/Decrease



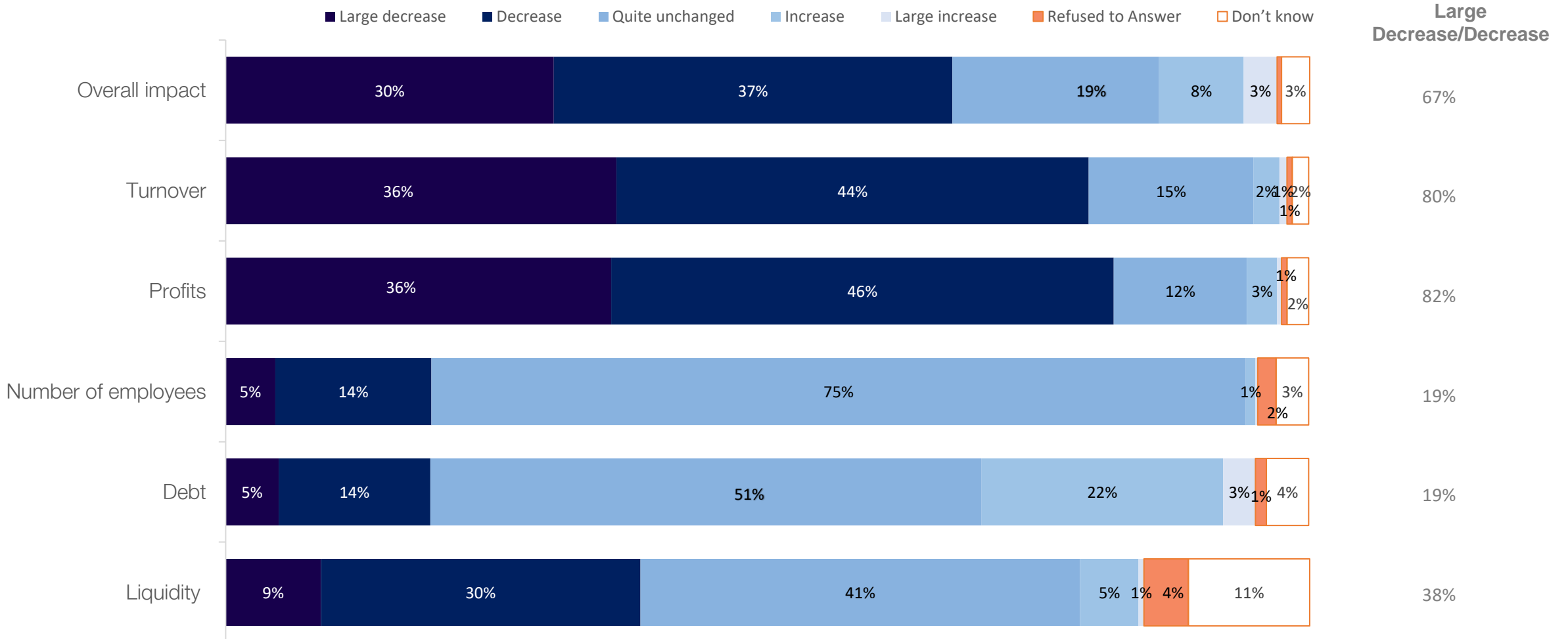
Covid-19 Impact| Tbilisi

How would you describe the impact of the COVID-19 crisis on the following items related to your business ?



Covid-19 Impact| Regions

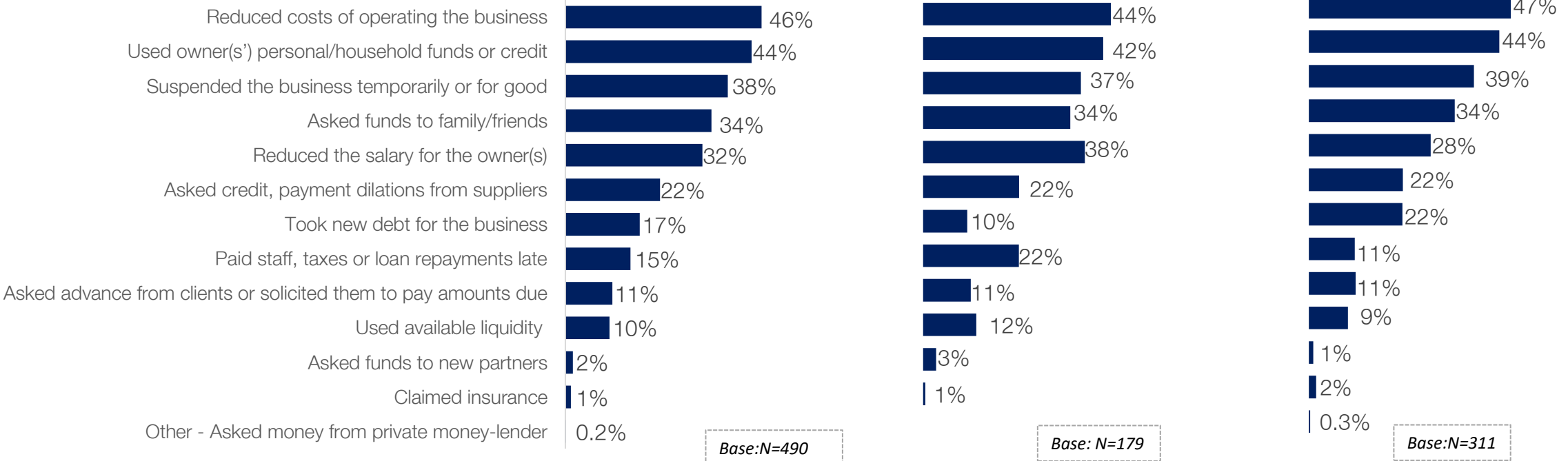
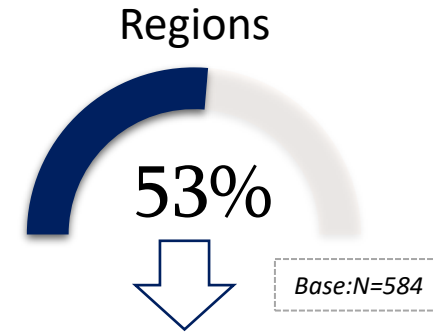
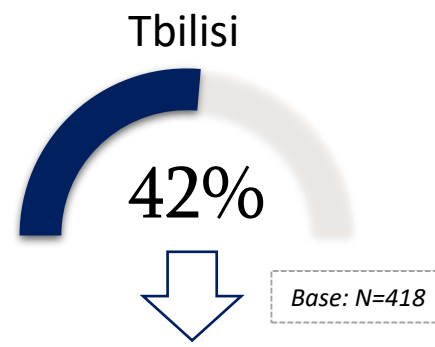
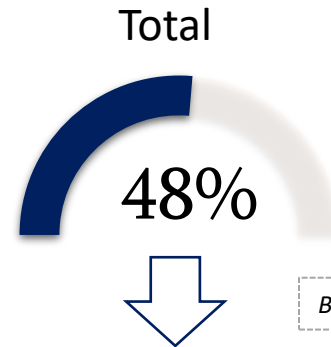
How would you describe the impact of the COVID-19 crisis on the following items related to your business ?



Covid-19 affection on cash needs | Tbilisi & Regions



Since the start of the COVID-19, has the business been confronted with situations where cash inflows were insufficient to cover cash outflows or to pay for expected expenses of the business? When this happened, what were the main strategies that you put in place to cover immediate cash needs?

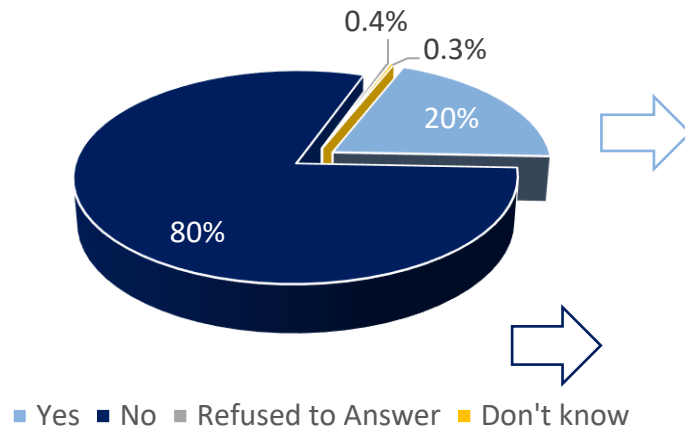


Loan application for Business| Total Picture



Since the start of the COVID-19 pandemic, have you applied for a new loan for the business?

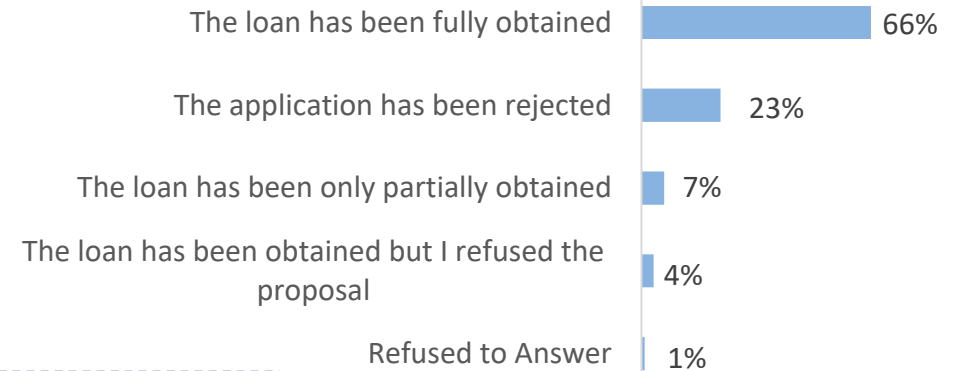
Total Picture



Base:N=1002

What was the outcome of the application?

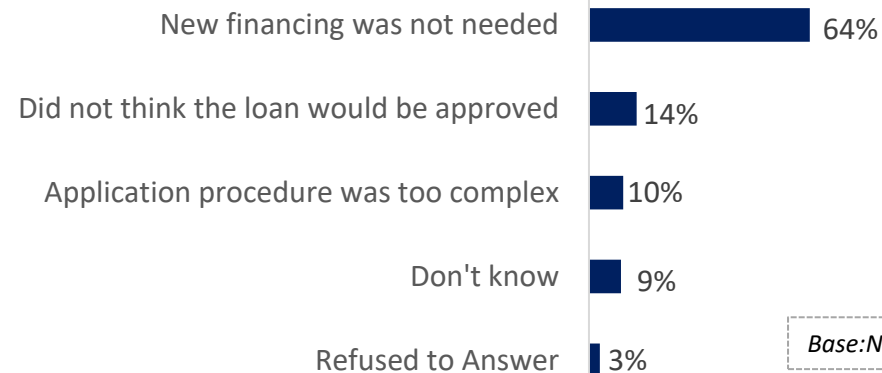
Applied



Base:N=197

Why didn't you apply for a loan?

Didn't apply



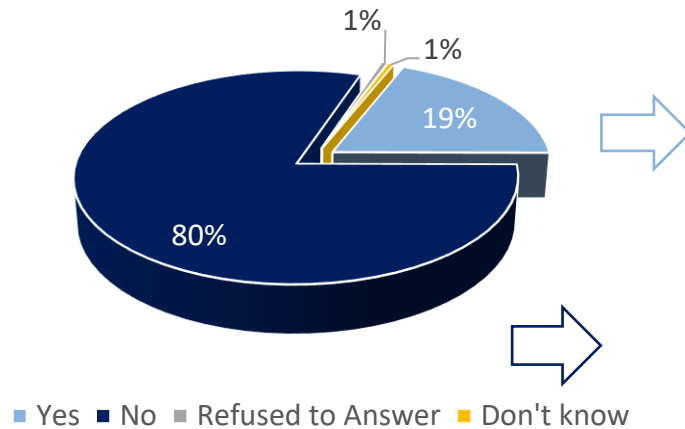
Base:N=798

Loan application for Business| Tbilisi



Since the start of the COVID-19 pandemic, have you applied for a new loan for the business?

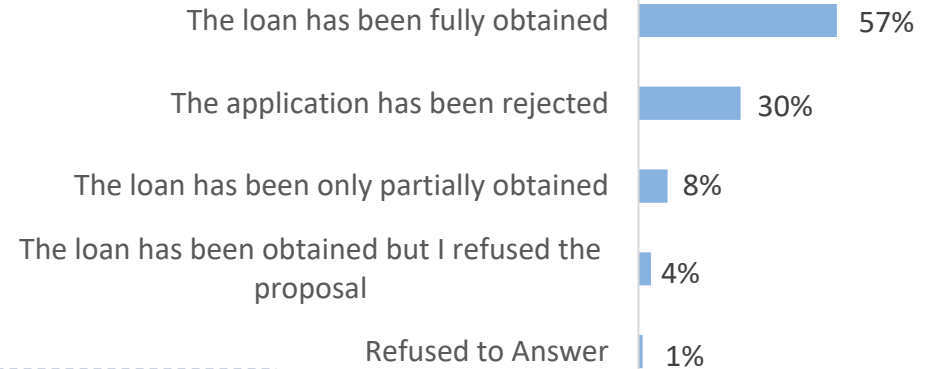
Tbilisi



Base:N=1002

What was the outcome of the application?

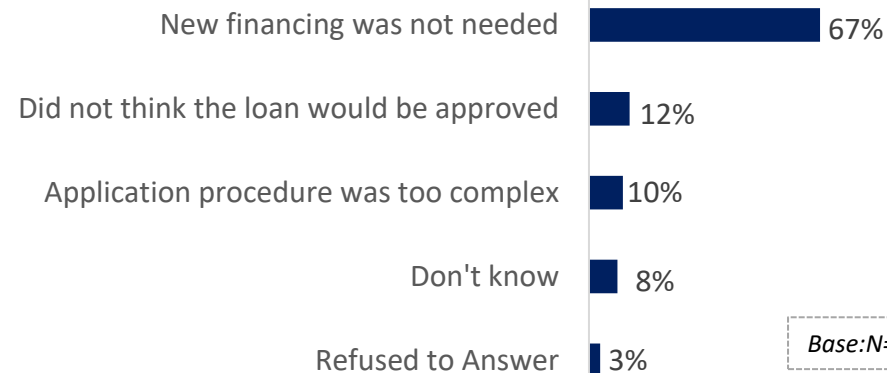
Applied



Base:N=197

Why didn't you apply for a loan?

Didn't apply



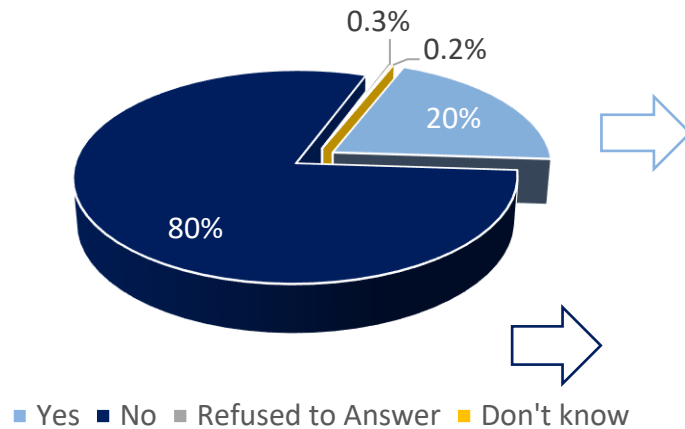
Base:N=336

Loan application for Business| Regions



Since the start of the COVID-19 pandemic, have you applied for a new loan for the business?

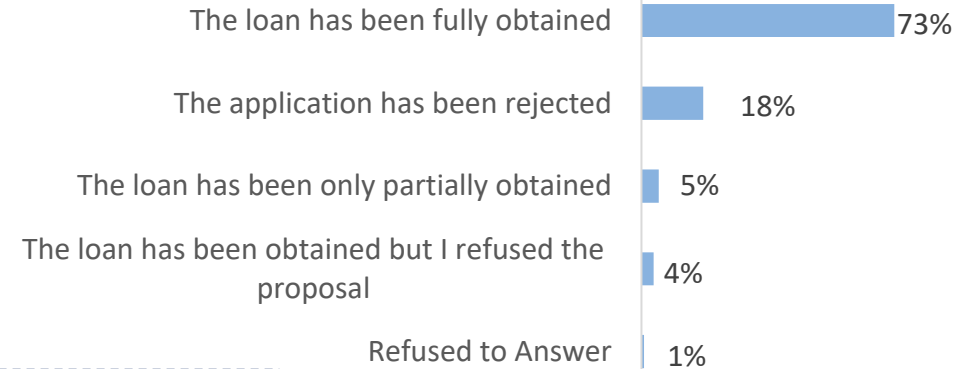
Regions



Base:N=1002

What was the outcome of the application?

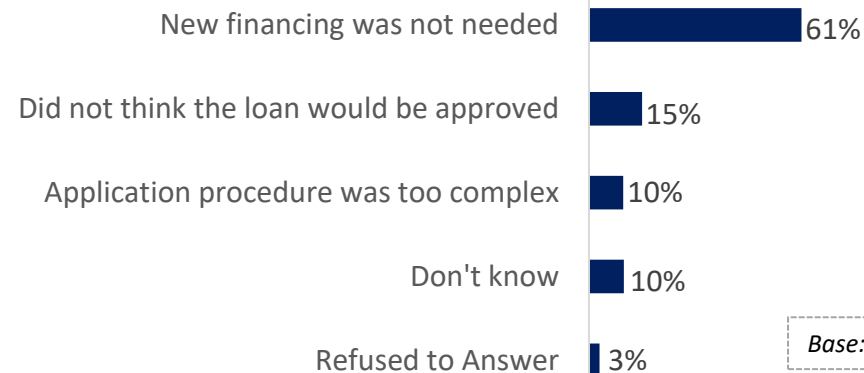
Applied



Base:N=197

Why didn't you apply for a loan?

Didn't apply

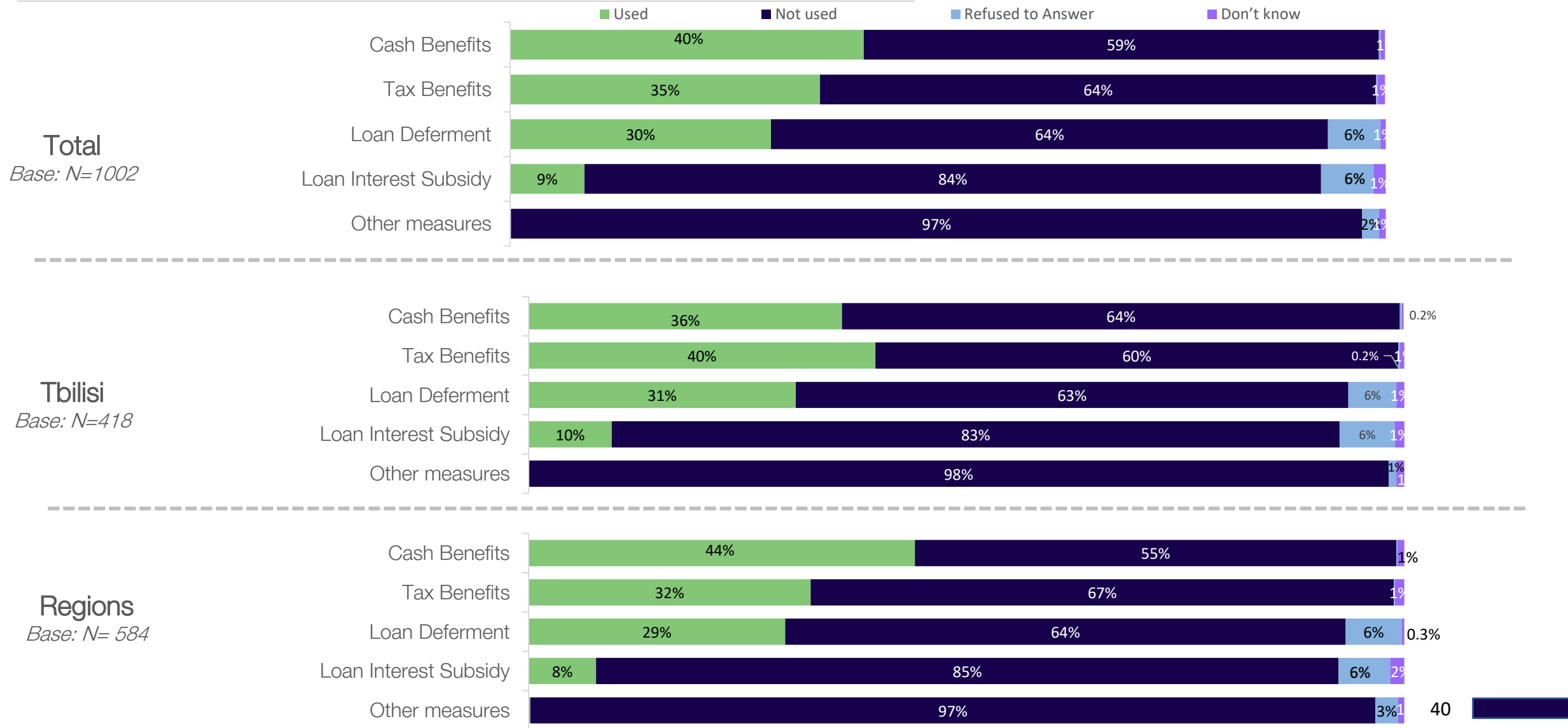


Base:N=462

Government Measure Usage | Tbilisi & Regions



- Please can you tell me whether you have used the following government measures introduced during the COVID-19 crisis to support your firms' financial conditions?
- Could you tell me the main reason for not using this government measure?

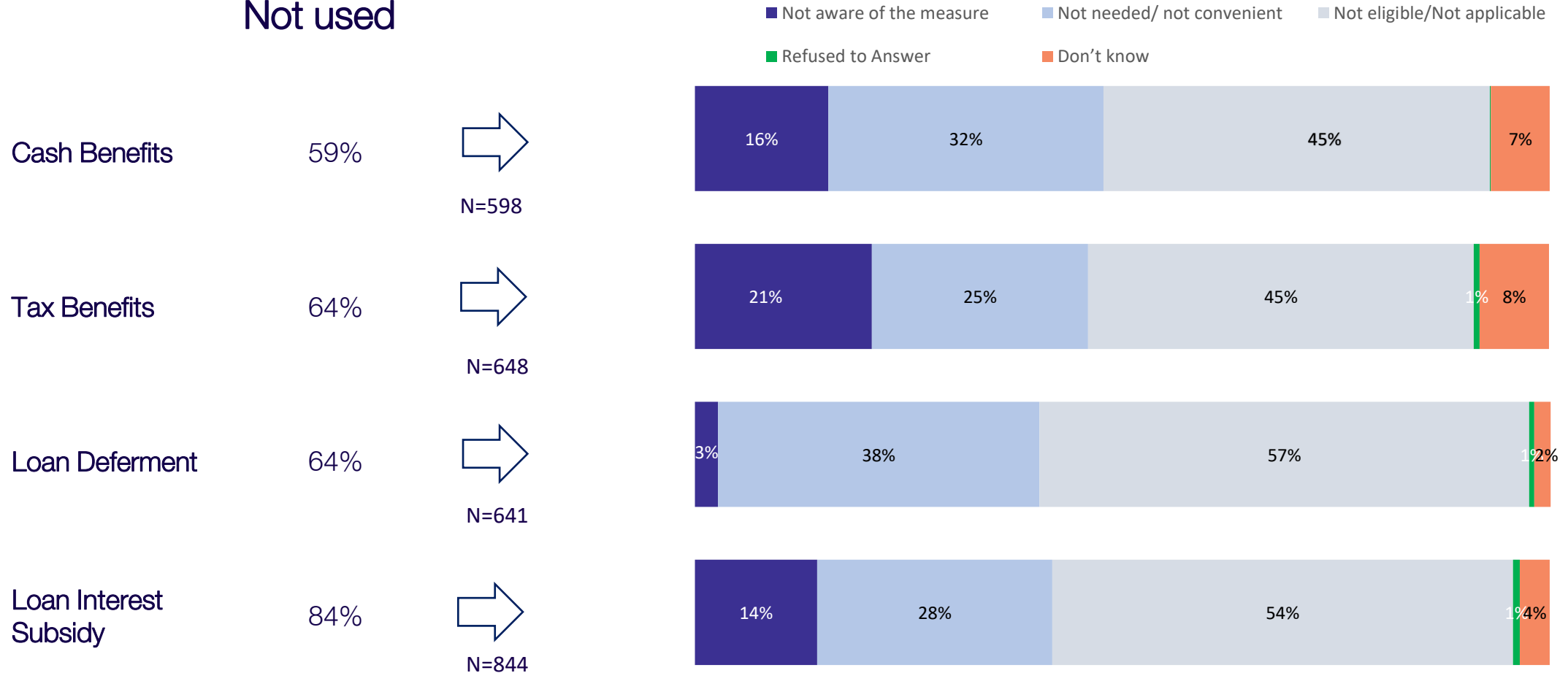


Reason of not using government measures| Total Picture



Could you tell me the main reason for not using this government measure ?

Not used

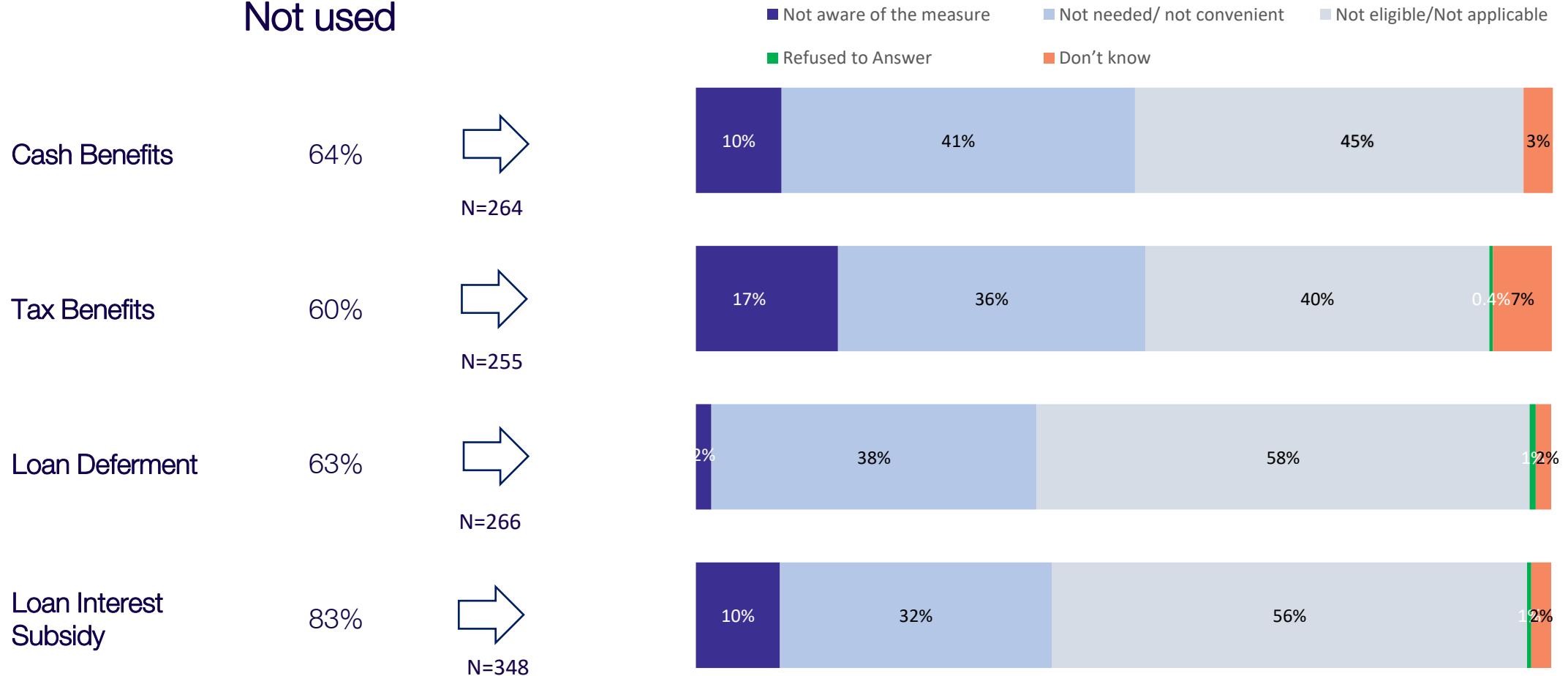


Reason of not using government measures | Tbilisi

Could you tell me the main reason for not using this government measure ?



Not used



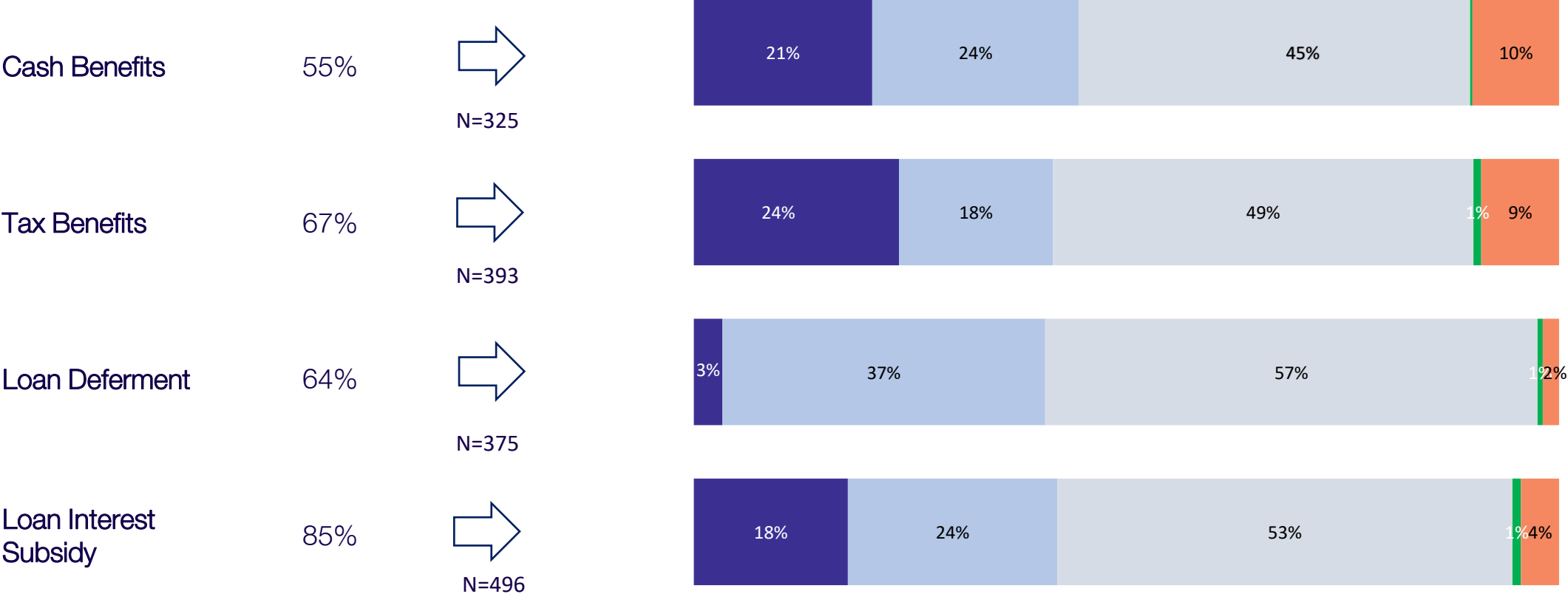
Reason of not using government measures | Regions



Could you tell me the main reason for not using this government measure ?

Not used

■ Not aware of the measure
 ■ Not needed/ not convenient
 ■ Not eligible/Not applicable
■ Refused to Answer
 ■ Don't know





Business Type Description

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Business Forms| By Tbilisi and Regions

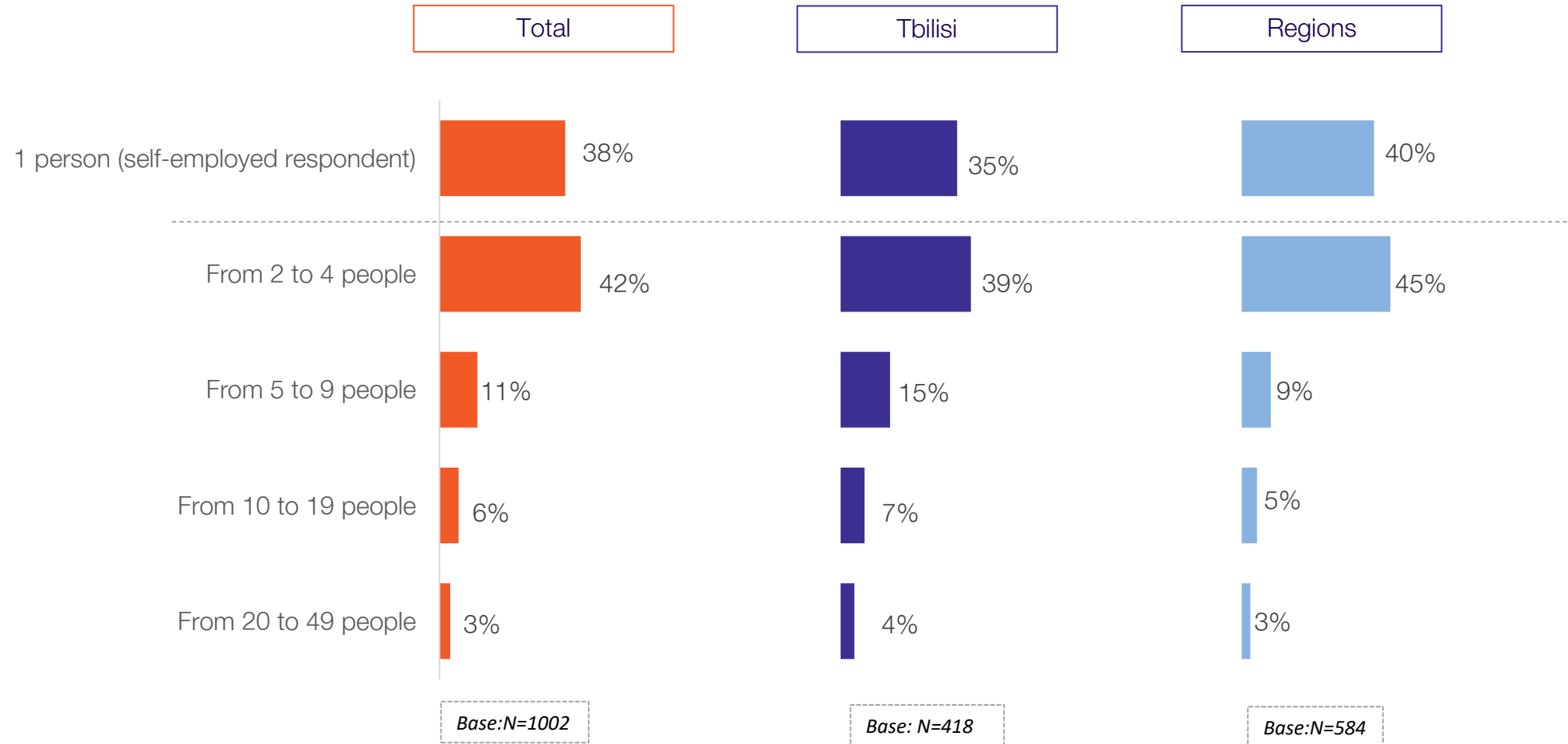
How would you characterize your business, is it ...?



Note: No significant difference between Tbilisi & Regions

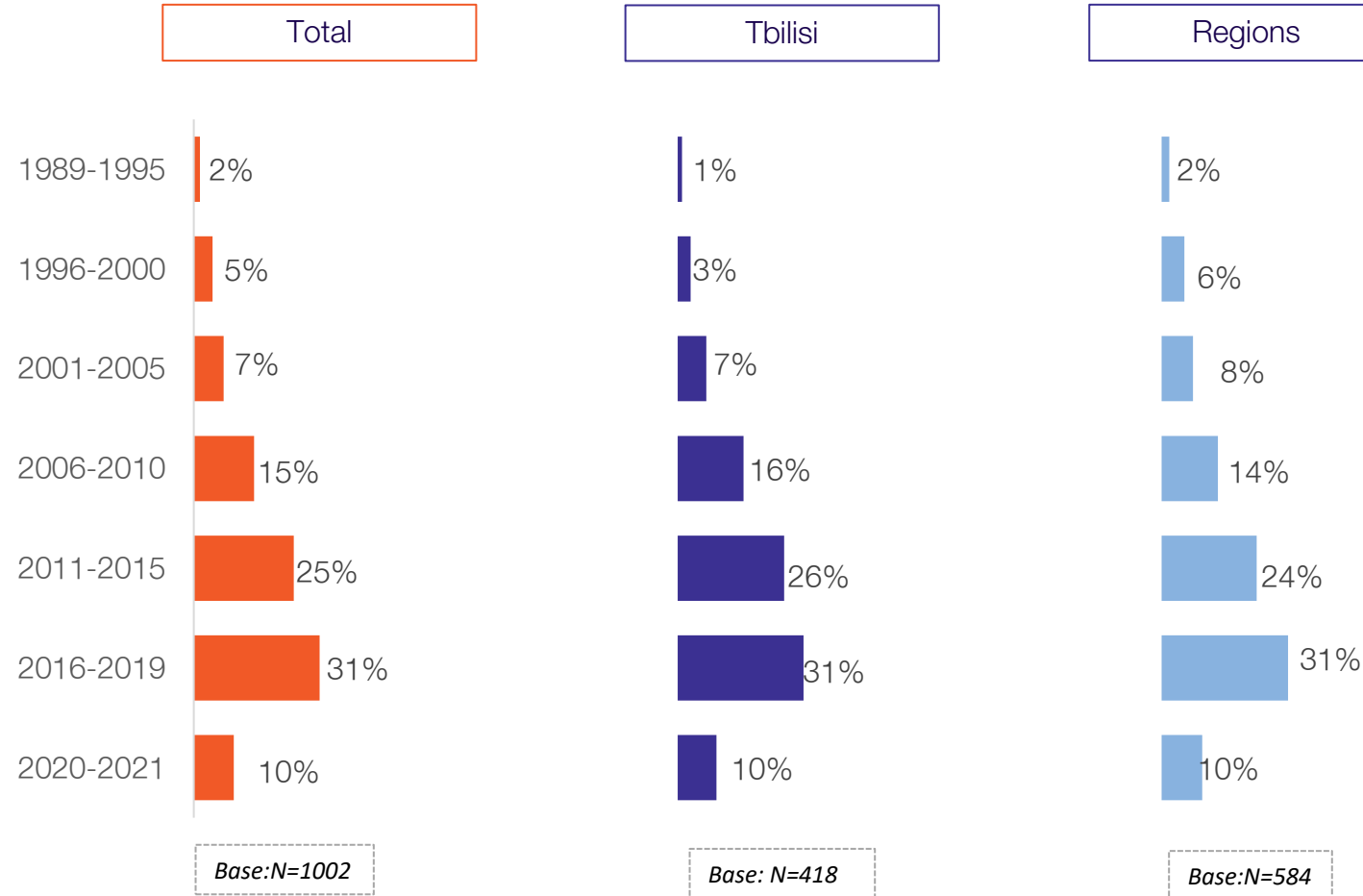
Number of Employees | By Tbilisi and Regions

In which of these categories does the number of full-time equivalent people working in this business (including yourself) fit?



Business foundation year | By Tbilisi and Regions

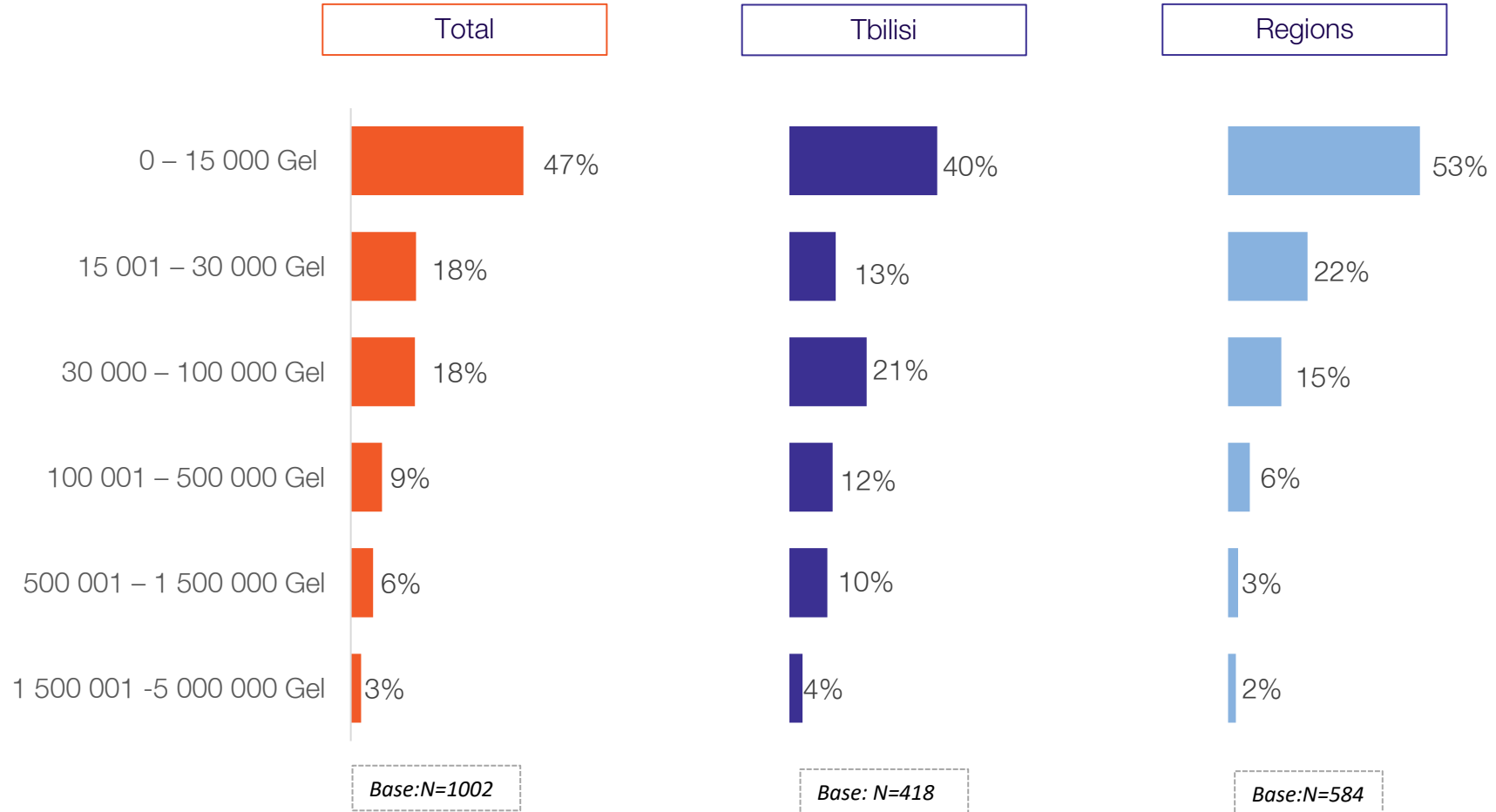
In which year did your business begin operations?



Turnover of Businesses | By Tbilisi and Regions



What was the approximate annual turnover of this business in the previous fiscal year?/What do you expect to be the annual turnover of this business this fiscal year



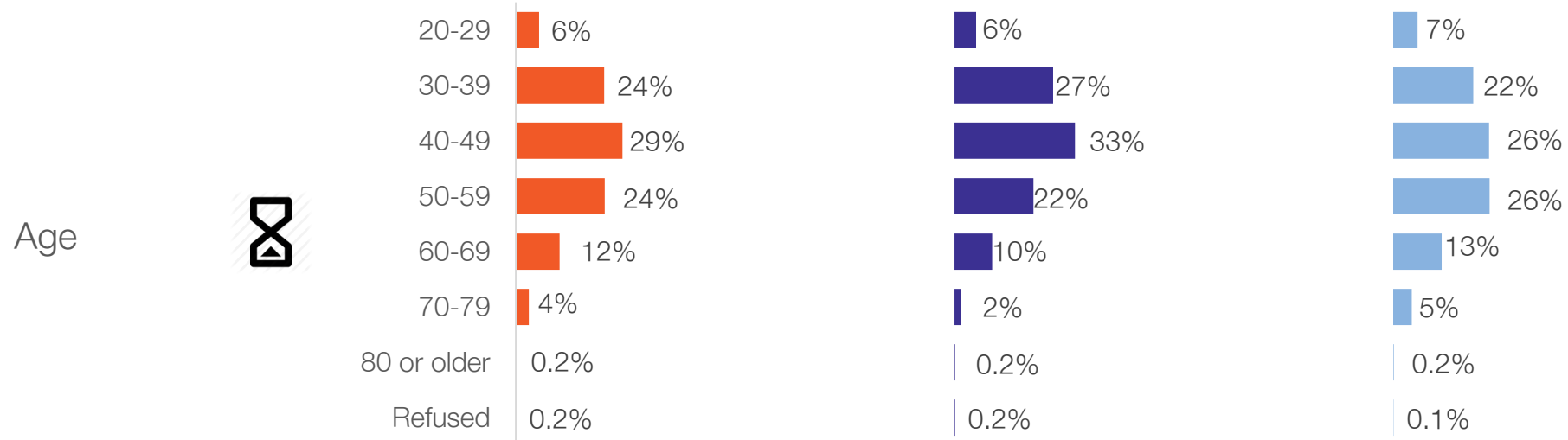
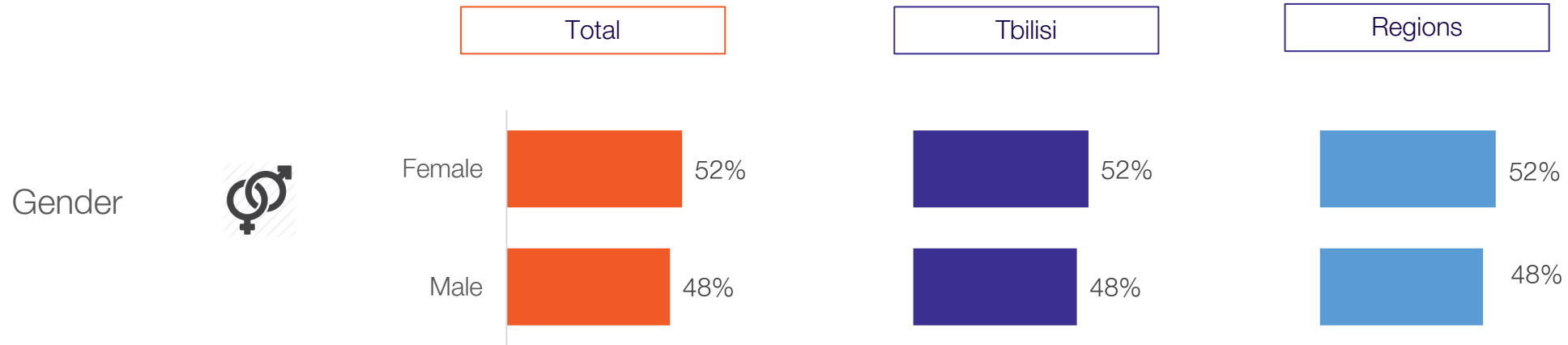


Demography

Empowering
the Change

Demography| By Tbilisi and Regions

Respondents Age and Gender



Note: No significant difference between Tbilisi & Regions

Base: N=1002

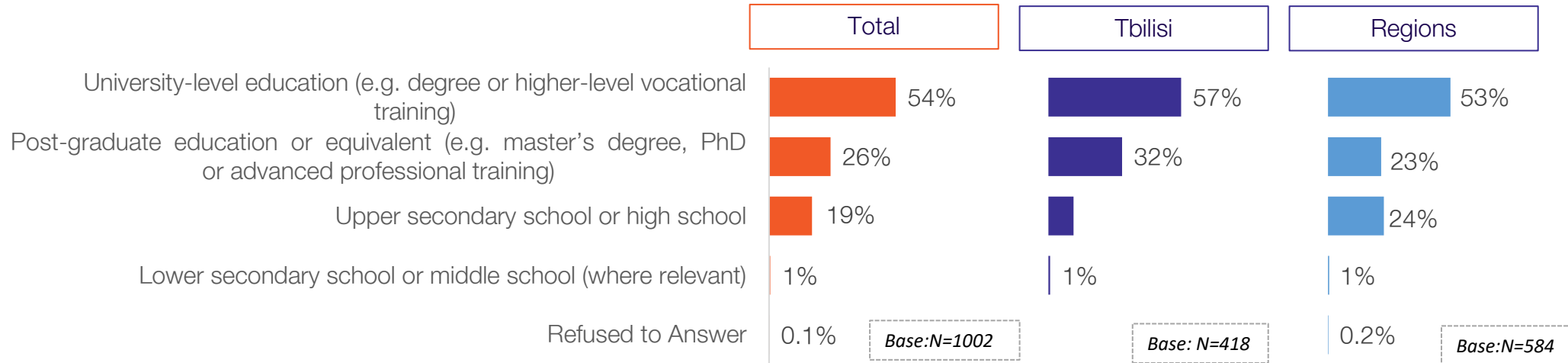
Base: N=418

Base: N=584

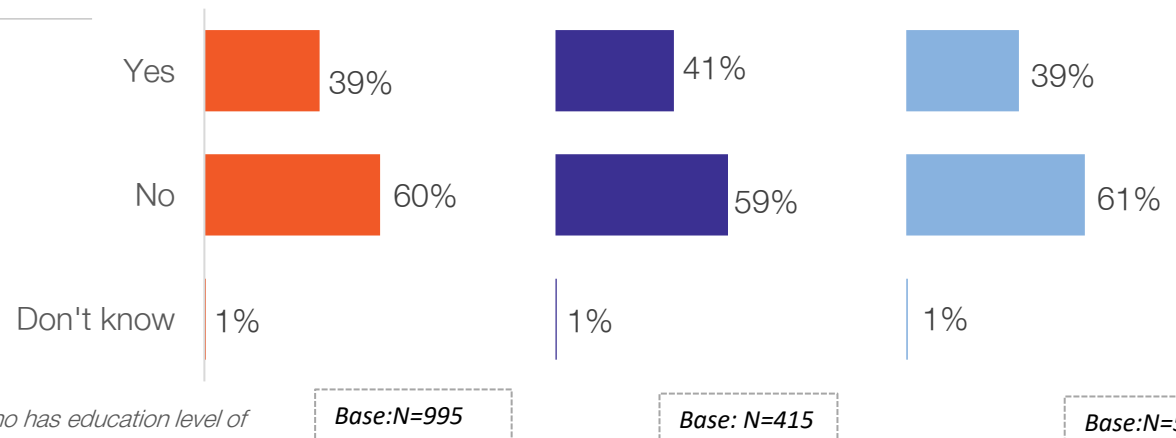
Business Owner's Education| By Tbilisi and Regions



What is the highest educational level that you have completed?



Have you received education in subjects related to business, economics or finance as part of your school or university education?

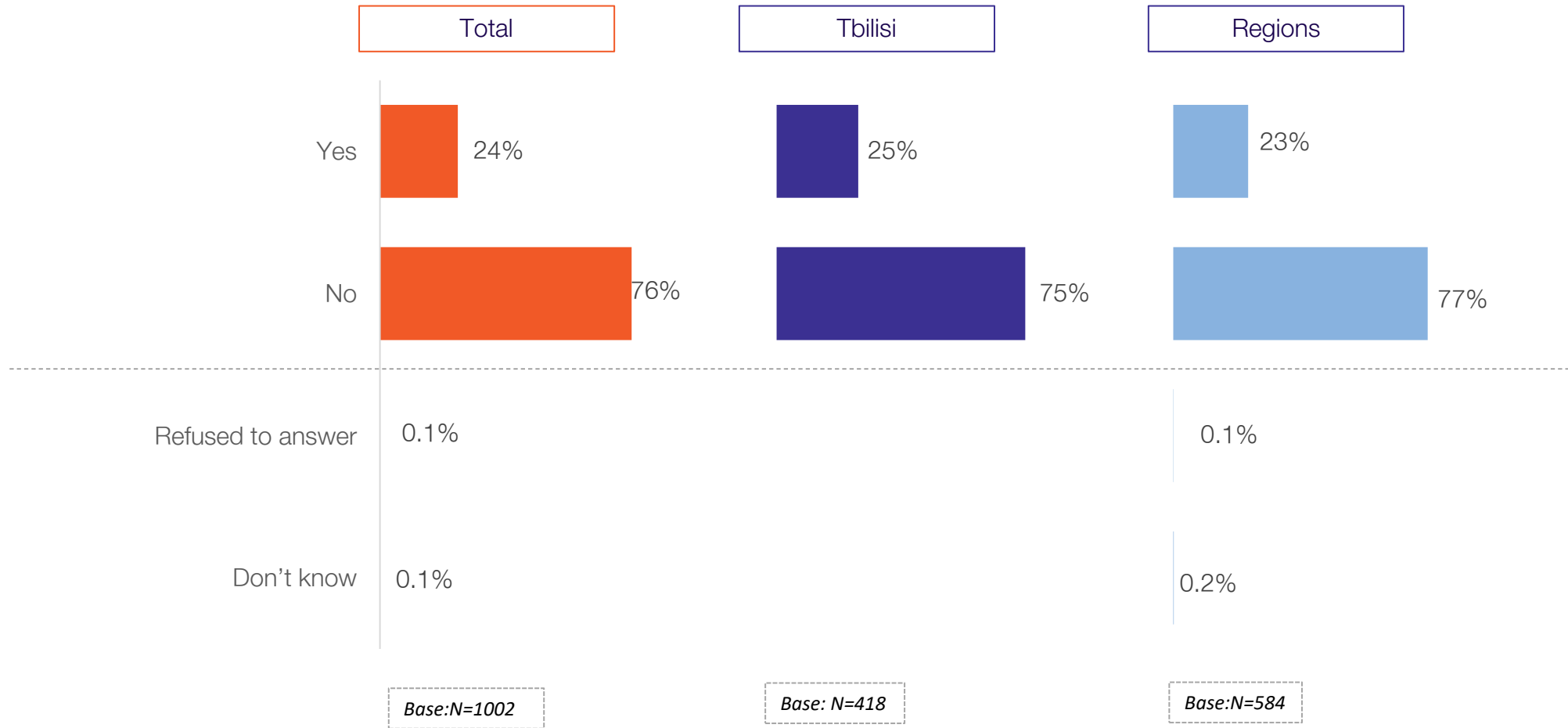


Note: No significant difference between Tbilisi & Regions

Base: Business owners who has education level of Post-graduate education, University-level education, Upper secondary school or high school

Financial Knowledge Evaluation| By Tbilisi and Regions

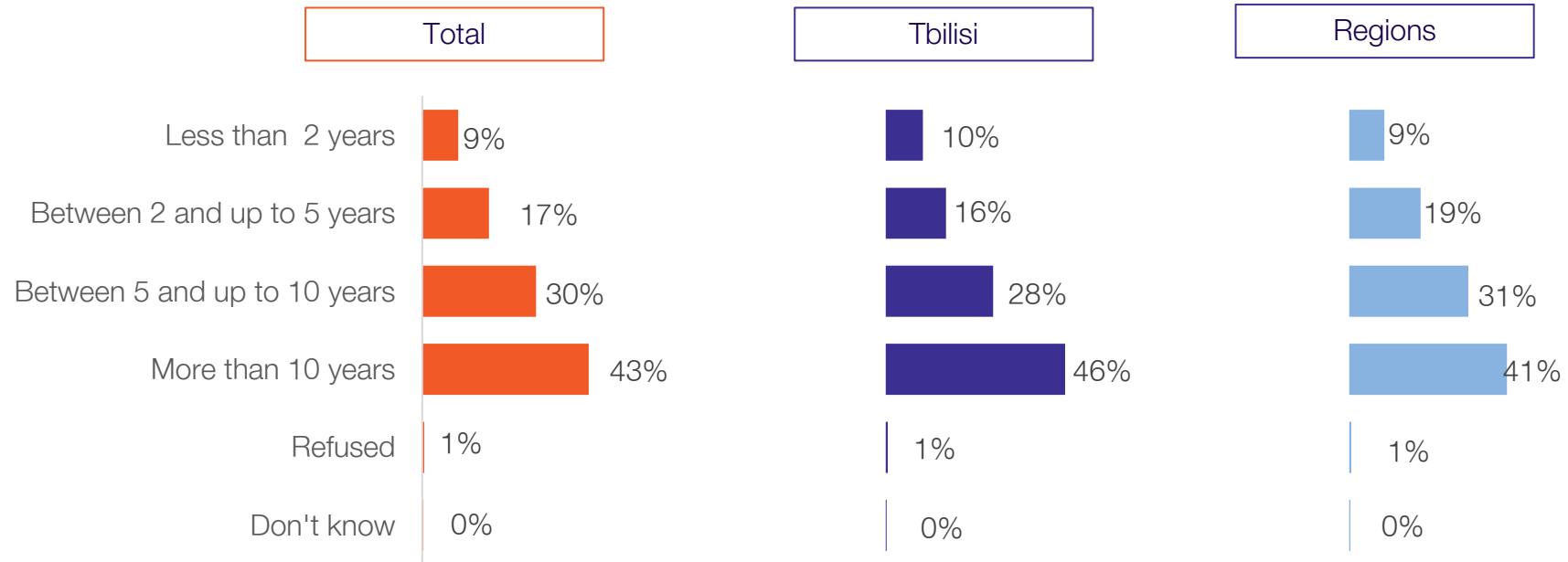
Have you ever received training on how to manage business finances?



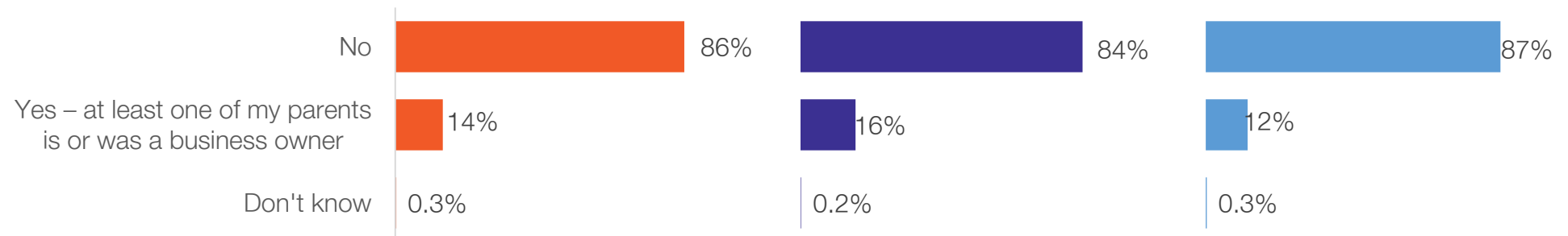
Note: No significant difference between Tbilisi & Regions

Business Owning Experience| By Tbilisi and Regions

For how long have you been a business owner, also including any previous businesses?



Could you tell me whether any of your parents currently own a business, or owned a business in the past?



Note: No significant difference between Tbilisi & Regions

Base: N=1002

Base: N=418

Base: N=584



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