

DROWNING IN DEBT:
AN OVERVIEW OF HOUSEHOLD
INDEBTEDNESS IN GEORGIA





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List of Acronyms

AA	Association Agreement
BoG	Bank of Georgia
COVID-19	Coronavirus disease 2019
CRRC	Caucasus Research Resource Centers
CSO	Civil Society Organization
EU	European Union
EUR	Euro (Currency)
FDI	Foreign Direct Investment
GD	Georgian Dream
GDP	Gross Domestic Product
GEL	Georgian Lari
GYLA	Georgian Young Lawyers' Association
ICA	Interbank Credit Auction
IDP	Internally Displaced Person
LAG	Local Action Group
LIE	Loan Issuing Entity
LTV	Loan to Value
MFI	Microfinance Institution
NBE	National Bureau of Enforcement
NBG	National Bank of Georgia
NBG CSP	National Bank of Georgia Customer Service Protection
NGO	Non-government Organization
OSSA	One-time Social Solidarity Act
PiN	People in Need
PTI	Payment to Income
UNDP	United Nations Development Programme
UNM	United National Movement
USD	United States Dollar
YAA	Young Advocates Association

Executive Summary

There is growing consensus between all sides of the Georgian political spectrum that the issue of household and individual indebtedness has to be addressed. The problem is overwhelming and often under-discussed – around 45% of people admit in surveys to carrying debt. This may even understate the problem as other macroeconomic indicators suggest the number could be closer to 70%.

Exponential growth of indebtedness can be traced to growing financialization from the beginning of the 2000s and the deregulation of the economy in the second part of the 2000s. In combination, this led to a 23-fold increase in consumer loans from 2002 until 2019. At the same time, the 2010s saw an increase in microfinance and online loans, with interest rates often over 100%. This led to an increase of insolvent debtors, personal indebtedness, home repossession and despair.

Starting from 2017, the National Bank of Georgia (NBG) began a series of measures aimed at creating a more responsible credit environment. The most important of these changes included the creation of an effective interest cap for all loans that were registered in entities under NBG control. The cap at first was 100% and later halved to 50% in 2018. Next, the bank capped maximum daily penalties for non-paying loans, also in two stages. NBG also introduced loan-to-value (LTV) and Payment to Income (PTI) indices for commercial financial institutions and limited foreign currency lending—first at 200,000 GEL and later 100,000 GEL.

In parallel to these regulations, NBG started to regulate non-bank entities as well—microfinance organizations and Loan Issuing Entities (LIEs), the so-called usurers. The LIEs now had to register with the NBG, pay a license fee and since 2018, individual LIEs (usurers) are not allowed to guarantee loans they issue with real estate.

All of this resulted in cutting some of the most egregious types of loan practices and stabilizing parts of the loan giving system. Problems however persist: on the one hand, a large number of people with outstanding loans remain outside the economy and hindered from performing economic activity. Loopholes in the system remain and questionable practices, such as “contracts with right of redemption”, are rampant. Through such contract, usurers are able to charge higher than 50% interest rate in a roundabout way.

In November 2018, in the context of Georgian presidential elections, the Cartu Foundation led by Bidzina Ivanishvili bought 1.5 billion GEL worth of smaller, mostly non-performing loans – each with contracts under GEL 2,000 and relieved them. This one-time “Social Solidarity

Act” allegedly annulled loans for over 600,000 people – over 20 percent of Georgia’s adult population. This action and its aftermath once again highlighted the importance for an institutional approach to individual bankruptcy and loan forgiveness, as it would set concrete legal provisions on legal debt forgiveness and limit political use of debt relief by various interested parties.

To better understand the issue of indebtedness and its salience in the years following the credit boom and recent regulations, we looked at the general picture of personal indebtedness in Georgia: both from a macroeconomic standpoint, focusing on smaller consumer loans in particular, as well as opportunities for recourse for indebted individuals. Desk research included looking at various types of macro-economic data, with 35 interviews with people from various walks of life in the People in Need’s Local Action Group Members in three communities: regular members, small business owners, local government, bank and microfinance organization employees and civil society group members. To overcome discreet and personal obstacles on talking about debt, we kept the names of some of the respondents anonymous.

Additionally, we have conducted over 30 interviews with experts representing diverse theoretical and practical knowledge of topics related to debt, including practice in court cases related to debt, banking, former practitioners of debt collection and community activists that organized social movements opposing the predatory nature of the debt systems and usury. The study was implemented under the project “Tackling Indebtedness in Georgia through Czech Innovations”. It was funded by the United Nations Development Programme (UNDP) via the Challenge Fund, with financial support from the Ministry of Foreign Affairs of Czechia. Respondents from the three interviewed communities overwhelmingly consider indebtedness to be a major issue in Georgia. When respondents were asked whether they knew someone with debt issues, one often heard an answer: “everyone around here has a problem with debt.” While this is not the case factually as there are people who have no debt, these responses allude to the omnipresence of the topic in public and private discussions and the far-reaching social tension it creates in families and local communities. Moreover, there is a general lack of knowledge on the existing types of debt—just general opinions on the high amount of indebtedness and the social malaise it creates.

Three types of debts—consumer, pension and business loans—were discussed the most. Exponential growth of consumer loans has also manifested itself in the three communities. Many respondents mentioned men taking loans to cover gambling debt but no one wished to elaborate on this sensitive topic, in addition to the cyclical and unsustainable practice of taking new loans to cover previous, unpaid loans.

While in general, women are more cautious and responsible when taking loans in Georgia and are averse to taking on unreasonable or unnecessary financial responsibilities, many of them have been deceived by husbands or significant others into taking out loans on their

behalf. It is not uncommon for the individual in need of the loan to then disappear to keep the legal debtor responsible for paying off the loan.

Another large but relatively under discussed issue is pension debt, a type of consumer loan which is secured against state pensions. It is used by half of all pensioners, annual interest on them in 2020 is thought to have been as high as 35 percent. Currently all pensioners receive their cards and pensions at Liberty Bank, which is also the only institution that markets these pension loans. The elderly in Georgia are vulnerable in many forms—they lack the financial literacy that many younger people possess, and as a group, they lack representation. They have very high costs for medicine, and finally, they are sold debt that has a higher interest rate than for younger people.

Research showed a dire lack of resources available for people who felt misled or badly treated by different financial institutions or loan issuing entities. While NBG offers mediation between financial institutions and clients and many law organizations offer bona fide assistance, there is no strong organized system for protecting borrowers that feel mistreated. This is especially alarming and is an area in which policy intervention would be extremely useful for Georgia's vulnerable and indebted.

Large scale indebtedness in Georgia is not disappearing soon. While experts point to NBG's 2017 and 2018 regulatory interventions as a good albeit belated start¹, a long entrenched financial system, coupled with lobbying from large private financial institutions and the state's amorphous, contradictory and changeable ideological stance adds up to a fragile regulatory status quo. Advocacy is therefore essential for defending and expanding the existing protections, ensuring effective implementation and adding protections to fill in the existing shortcomings in the current system (e.g. further regulations on the pension debt system). A detailed breakdown for legislative and executive recommendations is presented in the following section.

1. Eradze, Ia 2020. Credit Boom, Excess Debt and National Bank. EMC Policy Paper
https://emc.org.ge/uploads/products/pdf/%E1%83%A1%E1%83%90%E1%83%99%E1%83%A0%E1%83%94%E1%83%93%E1%83%98%E1%83%A2%E1%83%9D_%E1%83%91%E1%83%A3%E1%83%9B%E1%83%98_1589804631.pdf
Reviewed November 15 2020.

Recommendations

Overarching legislative

- The Parliament of Georgia, working with interest groups and experts, should continue its work on insolvency that it started in 2017, and draft a personal bankruptcy law for individuals to provide a path out of debt for those who face an unsalvageable situation
 - This law should be based on the best practices of the EU and specifically the directive of the European Parliament and of the council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending (Directive 2012/30/EU COM/2016/0723 final - 2016/0359 (COD))
- The Government of Georgia should create, within the public defender's office or otherwise, a financial ombudsperson institute which will defend the interests of debtors against financial institutions, with legal and financial advice and other means of assistance
 - In this they shall use the best practices of Czechia, the UK, Australia and other areas where they exist
- The Ministry of Labor, Health and Social Defense of Georgia and the Pension Agency should work on various methods of demonopolizing the provision of pensions
- The Parliament of Georgia should continue working on the draft on Consumer Protection Law, and ideally pass it on the fifth year anniversary of the Association Agreement on July 1, 2021, as indicated in articles 345 and 356 and Annex XXIX of the agreement
 - While many regulations in this draft law (initiated by previous parliaments) are already in the NBG regulatory system, an overarching legal framework would help cement the structure of protection mechanism and reduce information deficit for customers

NBG

- NBG should be commended for introducing various measures to counter excess indebtedness and the introduction of various financial stability and customer protection mechanisms. At the same time:
 - NBG should amend its draft to better inform loan customers about dispute resolution mechanisms
 - Use of direct enforceability (writ of execution issued by a notary in circumvention of court) in case of non-payment, between customers and financial institutions, should be restricted to exceptional cases or completely banned
 - Use of arbitration (private court proceedings) in cases of indebtedness litigation should be regulated by criteria, using best EU practices

- Specifically, arbitration should be banned in debt litigation involving consumer loans
- The NBG, or another government body, should routinely review a random sample of cases at different arbitration institutions to ensure that good practice is being followed
- Banks, microfinance institutions, Loan Issuing Entities shall explicitly state, in written form and preferably on the first page of the contract, whether potential disputes can be settled in common courts, arbitration, or if there is a direct enforceability clause or other relevant clauses
- NBG Customer Protection department should pay particular attention to complaints by pensioners on communication between them and financial entities
- NBG should restrict banks' practice of taking money from other existing accounts without agreement from customers (so-called taking money from all existing bank accounts without acceptance of the client)

Pension loan

- NBG should create a special statistical database on loan products, marketed to retired persons (pensioners). Specifically, they should:
 - Create a special category of “pension loans” (similar to auto-loans, mortgage loans or other types of loans), where the loan guarantee is the person's monthly state pension.
 - NBG shall measure the interest rates of these pension loans and think of regulating them in a different form:
 - It may compel financial institutions to have higher standards of communication and informing when it comes to giving out pension loans
 - The NBG should keep internal statistics on the purpose of pension loans
 - NBG may have a specific effective annual interest cap, lower than the 50% for all other loans and for loan products that are guaranteed by monthly pensions
 - NBG should regulate, within the PTI regulations, that after pensioners pay their monthly installment for pension loans they be left with a monthly income that equals or is higher than the subsistence minimum for individuals, which is measured monthly by GeoStat

Execution of existing regulations

- Scam contracts entitled under “Right of redemption under contract for sale” should be regulated – either on a legislative level, by court practice, or another NBG regulation
- Banks should be compelled to send loan contracts to prospective customers, in advance and without delay on all occasions
- The Parliament of Georgia shall codify into the Law of Georgia on Enforcement Proceedings the existing practice from the National Enforcement Agency to withhold money from individual's monthly income during execution of debt (so-called wage garnishment or

attachment of earnings). Currently, this practice is based on precedent and is at 50% of income, which is too high and at the same time legally dubious. We recommend indexing the wage garnishment based on income, similar to UK practice (e.g. 0% of monthly income from 0-200 GEL, the monthly subsistence minimum estimate, 3% of income from GEL 200 to 300, 7% of GEL 300 to 400, and so on until 50% for the highest bracket) and codifying this system into the Law of Georgia on Enforcement Proceedings.

Tracking the indebtedness problem

- Using best practices from other international experiences, the NBG and/or GeoStat should create methodologies for collecting data on attitudes towards debt, reasons for indebtedness and the level of financial literacy. This data will be crucial in the development of communication, training and lending regulations.





Methodology

The main part of the desk research for indebtedness consisted of looking at various types of macro-economic data, provided by National Bank of Georgia (NBG). This included financial stability reports, longitudinal data for different types of loans, cross country analyses and loan portfolio quality checks. Additionally, we looked at macroeconomic data from GeoStat, Ministry of Finance and other government organizations. Secondly and from the opposing point of view, we looked at critical analyses of indebtedness in Georgia by academics, international development organizations and reports from involved parties that critically overviewed government macroeconomic, fiscal and monetary policies and ideological framework that guided it, and the consequences of those policies.

Third vantage point of analysis was interviews with ordinary Georgians. To get a better feeling of indebtedness on the ground, GeoWel conducted interviews in Local Action Groups (LAGs) that People in Need (PiN) works with in different areas and social and economic geographies of Georgia. These are LAGs in Tskaltubo and Kazbegi municipalities and Aragvi LAG, which serves a number of mountainous areas in Dusheti and Tianeti municipalities. Additionally we have spoken with seven persons in Tbilisi with direct experience of debt issues. The study was being implemented under the project “Tackling Indebtedness in Georgia through Czech Innovations”. It was funded by United Nations Development Programme (UNDP) through the Challenge Fund, with financial support from the Ministry of Foreign Affairs of Czechia.

The interviews in Tskaltubo and Kazbegi municipalities, as well as persons living in settlements in four mountain ranges in the vicinity of river Aragvi were made in the month of October and November 2020. The fieldwork consisted of semi-structured interviews with community members, bank and microfinance organization employees, local government, small businesspeople, and Civil Society Organizations (CSOs) (see Appendix 1 for the



breakdown of interviews). The respondents were selected with assistance from PiN. Due to an ongoing COVID-19 pandemic, most interviews were conducted over the phone. Two, more comprehensive interviews were held face-to-face. The interviews touched upon topics such as personal experiences, lives of the community members, government regulations, fairness and ethics of credit-giving organizations, the pandemic and the economy. Interviews were conducted anonymously due to sensitive and often personal nature of the topic. After the interviews in LAG areas, we interviewed seven people in Tbilisi who had various types of issues related to indebtedness, which have us a wider focus and a more general view of the issue.

Additionally, we have conducted 24 expert interviews with diverse knowledge of the topics related to debt. This included academics, CSO employees, journalists, economists and lawyers with diverse knowledge of the topic from different points of view – either theoretical or practical – including practice in court cases related to debt, banking, former practitioners of debt collection and community organizers that organized social movements that opposed predatory nature of the debt systems and usury.

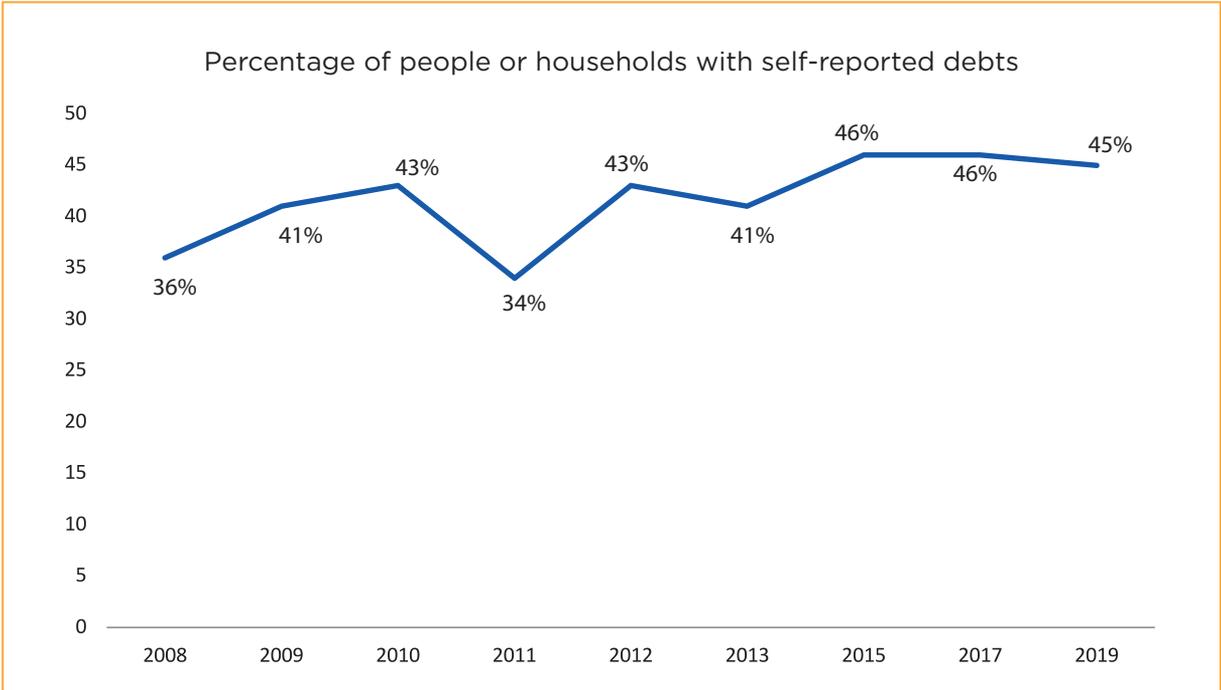
One of the challenges that we have met across our interviews in the field was the topic of debt. Talking about personal experience on this personal, private, guarded matter was difficult and establishing rapport was hard. The pledge to keep respondents anonymous helped to a certain amount. On the other hand, while topic remains awkward for many, we talked to a number of people for whom sharing their story felt like a relief, as if someone finally shared their forgotten pain. Finally there was a smaller, more activist type of people who attempted to expose the “loan shark” system that they found themselves facing. All in all, the interviews in LAGs and beyond showed a wide array of varying and often conflicting viewpoints and opinions which was then explored and synthesized topically.

In general, we believe that interviewing government, CSO employees, business people and bankers across cities, suburbs and rural areas, which were then compounded with interviews in Tbilisi – country’s political and economic capital, coupled with expert interviews with a more broad knowledge base gave us a comprehensive understanding of the issues Georgians face with debt and their assessment of the ways of going forward.

Background: Georgia’s history of debt and indebtedness

There is a growing consensus between all sides of the political spectrum around the country that issue of household and individual indebtedness has to be addressed. The mass of the problem can be measured in a number of ways. The easiest way is to simply ask people - who has debt?

Figure 1: Household or personal debt in Georgia, 2008-2019²



Source: Caucasus Research Resource Centers³

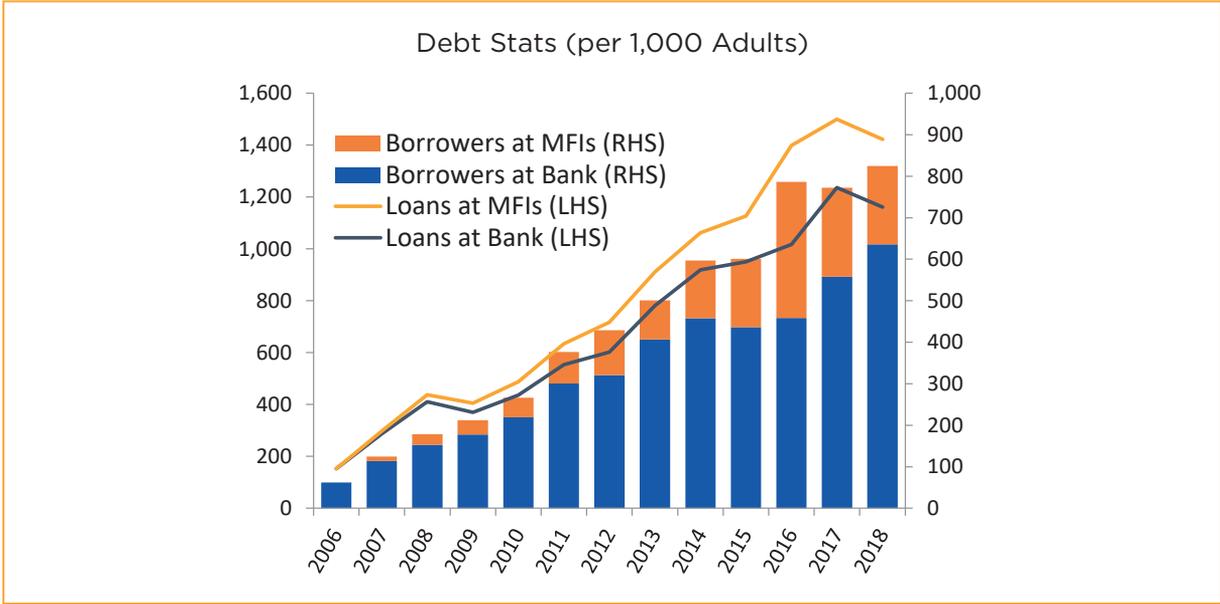
2 The Caucasus Research Resource Centers. (2008-2019) Caucasus Barometer Georgia. Retrieved through ODA - <http://caucasusbarometer.org>, Reviewed November 4 2020.

3 The table combines the question of household indebtedness (“Does your household currently have any debts?”), used for CRRC Caucasus Barometers 2008 to 2010, and again in 2019 with the question of personal indebtedness (Do you currently have any personal debts), used for years 2011-2017

As visible in the figure above, the number of people (or households for years 2008-10 and 2019) that report to have been indebted grows slowly from mid-30s in late 00s until mid-40s to date. However, one has to consider that self-reporting of personal/household debt is tricky to measure quantitatively. The numbers above may conceal a larger amount of indebtedness: firstly, respondents could have felt socially desirable not to report themselves or their households to have been indebted, and secondly, because of an awkward and discreet nature of debt, household members responding to the survey may not have been informed on indebtedness of other members, especially if that indebtedness could lead to social problems. Finally, indebtedness measurement in surveys can suffer from recall bias, when people may not remember debts that they have either have not serviced in years, or, conversely, the one that they automatically pay monthly through their bank account, as is often the case with mortgage debts.

National bank data offers another metric. The latest detailed reporting by the National Bank of Georgia (NBG) that specifically focused on consumer debt, were presentations that were made in July 2020, but using data that relates back to 2018. This shows an apparently horrifying level of borrowing.

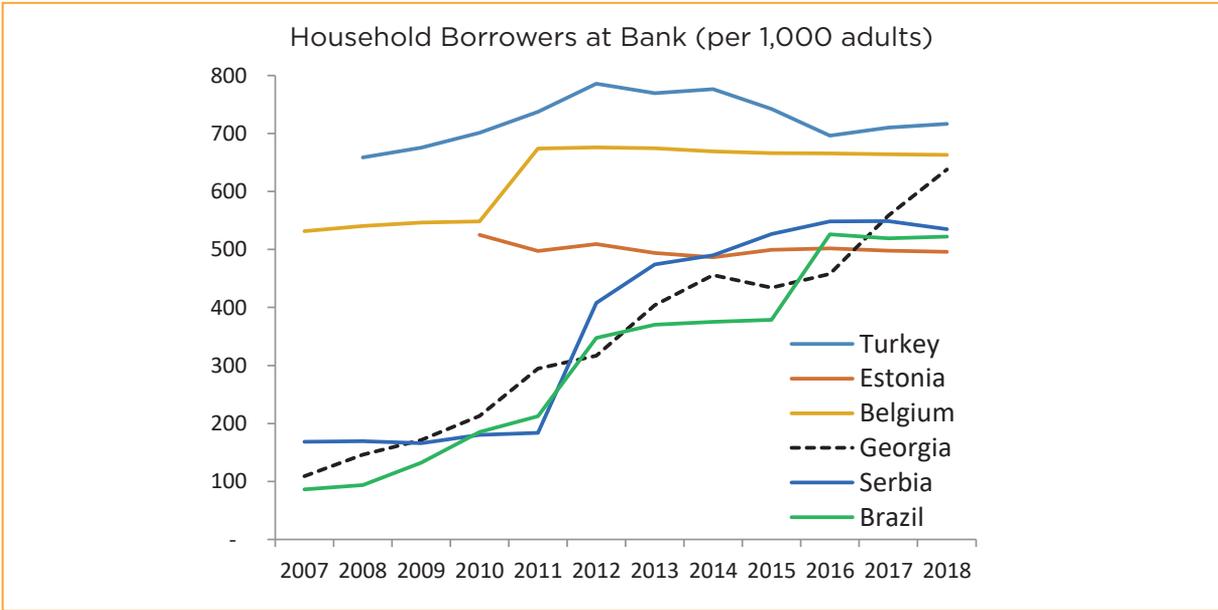
Figure 2: Number of loans (left hand side) and borrowers (right hand side) per 1,000 adults in Georgia at banks and microfinance institutions (MFIs)



Source: Financial Stability Review Presentation (Presented October 2020), National Bank of Georgia.

As one can see, this shows more than 800 loans for every 1000 adults in the country. This is not just a high number, relative to other countries, but it is also the result of very significant recent growth.

Figure 3: Number of household borrowers at Banks (per 1,000 adults) by select countries



Source: Financial Stability Review Presentation (Presented October 2020), National Bank of Georgia.

In many respects this understates the problem. According to the National Bank, say, that out of a population of approximately 3 million adults, 2.1 million were borrowers. This is the 70% represented in the chart above, and it is important to note that this is not percentage of households but of adults. Therefore, many households, since they have many adults, would have multiple debts. Also, many of the individuals would have more than one debt. The National Bank say that there were 5.6 million loans. The break down the number and the number of loans is presented below.

Figure 4: Number of Loans per Borrower (2018)

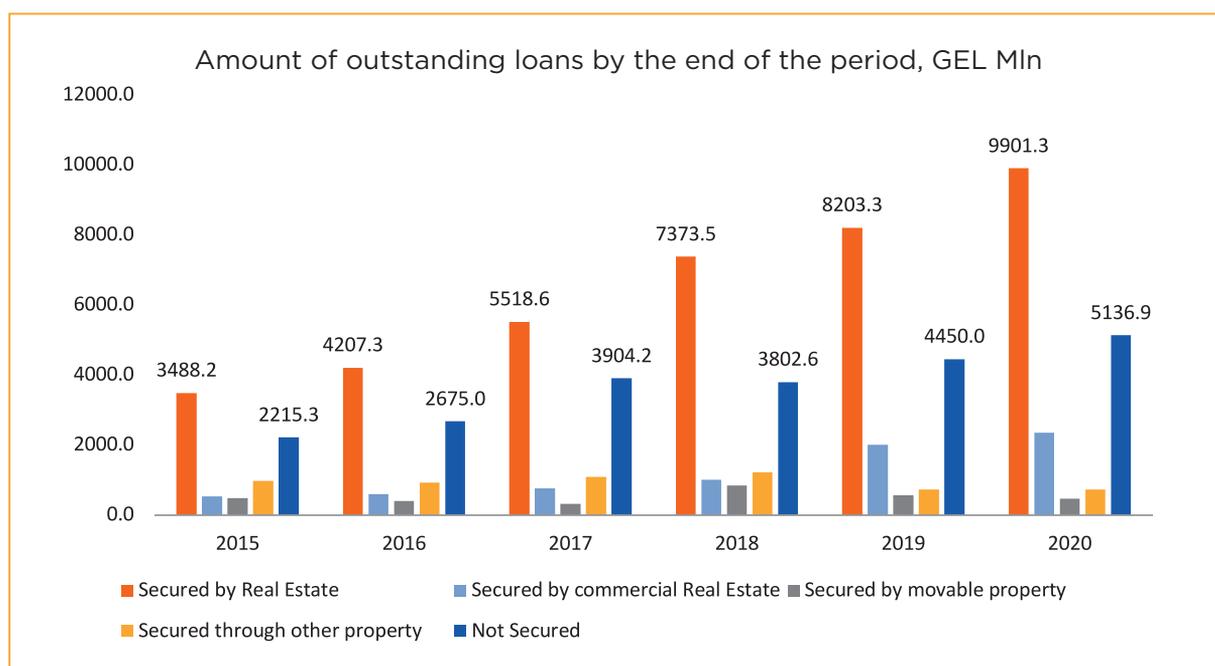
1	746,403
2	496,065
3	321,805
4	203,819
5	127,447
6-7	129,854
8-10	67,444
10<	33,387
Total	2,126,224

Source: Financial Stability Review Presentation (Presented October 2020), National Bank of Georgia.

Georgia has a culture of home ownership, which was further compounded by post-soviet mass privatization of housing, leading to high home ownership of 93% around the country and 86% in Tbilisi, the capital⁴. This means that many people don't need mortgage debt to pay for their flats. At the same time, with many younger, middle class Georgians moving out to live apart from their parents, mortgage loans in Georgia has been growing in. This on the one hand meant that less people would need a mortgage to buy a house for living but at the same time more people could afford to secure their loan with their property.

While general amount of loans, in terms of GEL, mortgage loans are still considerably more in money terms than consumer loans (see figure 5)

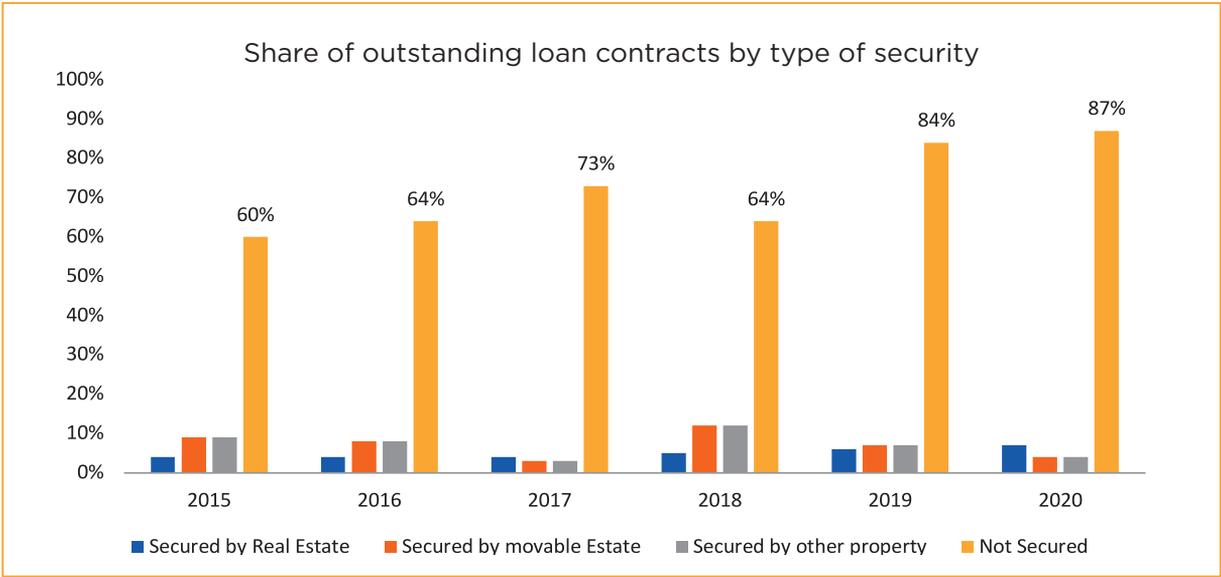
Figure 5: Amount of Outstanding loans by period, GEL million



Loans in terms of amounts show a different picture - indeed, as of October 2020, over 87 percent of outstanding loans (loan stocks) are unsecured, smaller loans (see figure 6)

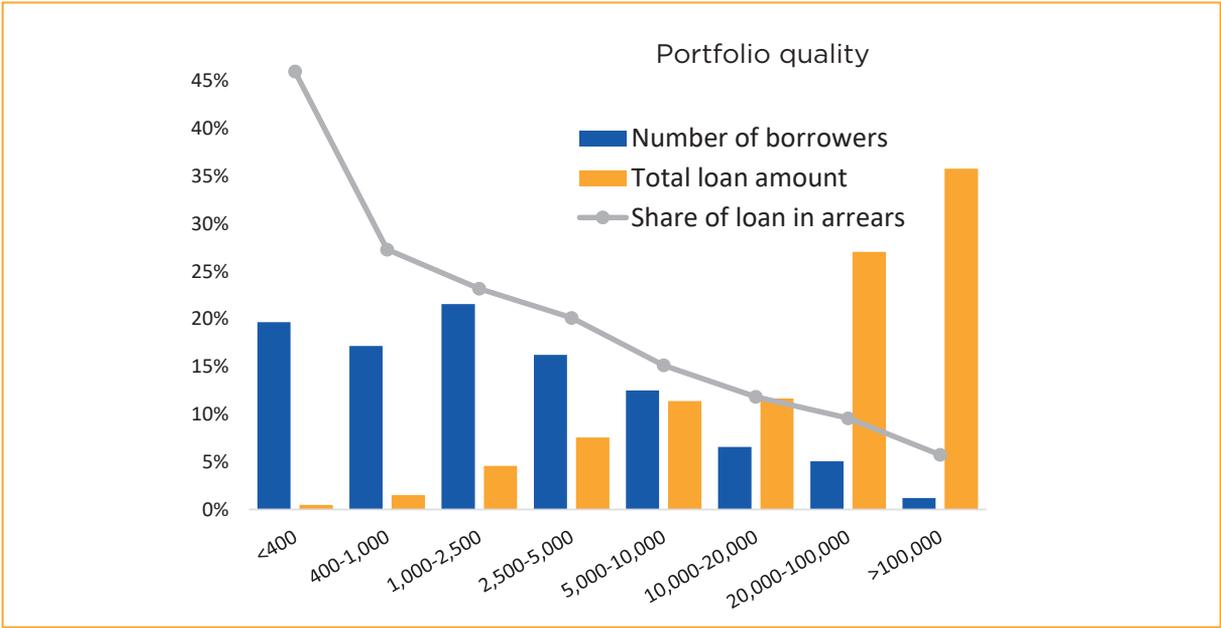
4 Colliers International. 2014. Residential Market Report. <https://fund.ge/upload/media/Georgia%20Residential%20Market%20Report.pdf> (Reviewed December 10, 2020)

Figure 6: Share of number of loan contracts by security



Source: NBG

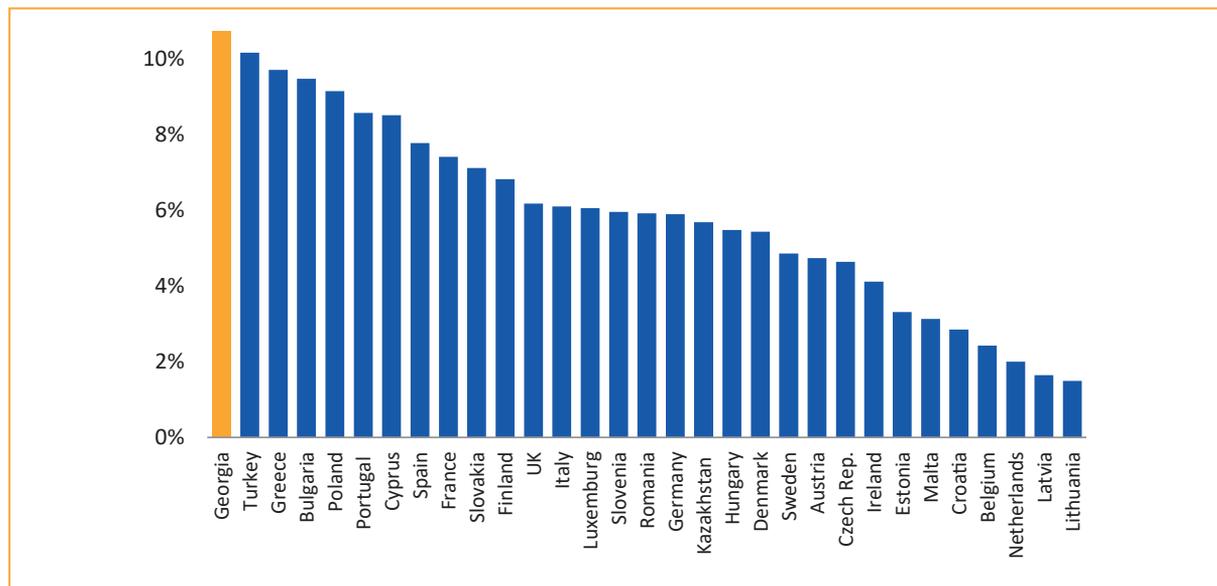
Figure 7: Loan Portfolio quality



Reference: Financial Stability Review Presentation (Presented October 2020), National Bank of Georgia.

While these loans are not exclusively consumer related, they do reflect a fairly high level of consumer debt. NBG points out that consumer debt in Georgia, had reached 10% of GDP by 2018, which is higher than other EU countries.

Figure 8: Level of Consumer Debt as a share of GDP in Georgia, compared to EU and neighborhood countries



Source: Financial Stability Review Presentation (Presented October 2020), National Bank of Georgia.

In 2010 65% of debtors said that debt has worsened their economic situation and around 40% reported debt as their household’s biggest problem⁵. While general economic conditions in the country have since improved, percentage of the indebted stayed similar or has grown; a larger amount of people stay indebted and vulnerable to economic shocks, or, in case of non-performing debts, risk staying in shadow economy or completely on its margin.

From Georgia’s independence in 1990 until around 2014 discussion around indebtedness was completely absent from the public discourse. It was understood as a function of general poverty and post-socialist economic downturn in Georgia. At the same time, the amount of banking excess indebtedness starts from around 2005-2006 with development of credit boom and the rise of the banking system, financial deregulation, banking Foreign Direct Investment (FDI), and general economic optimism all contributing to burgeoning of demand on consumer debt and mortgages⁶.

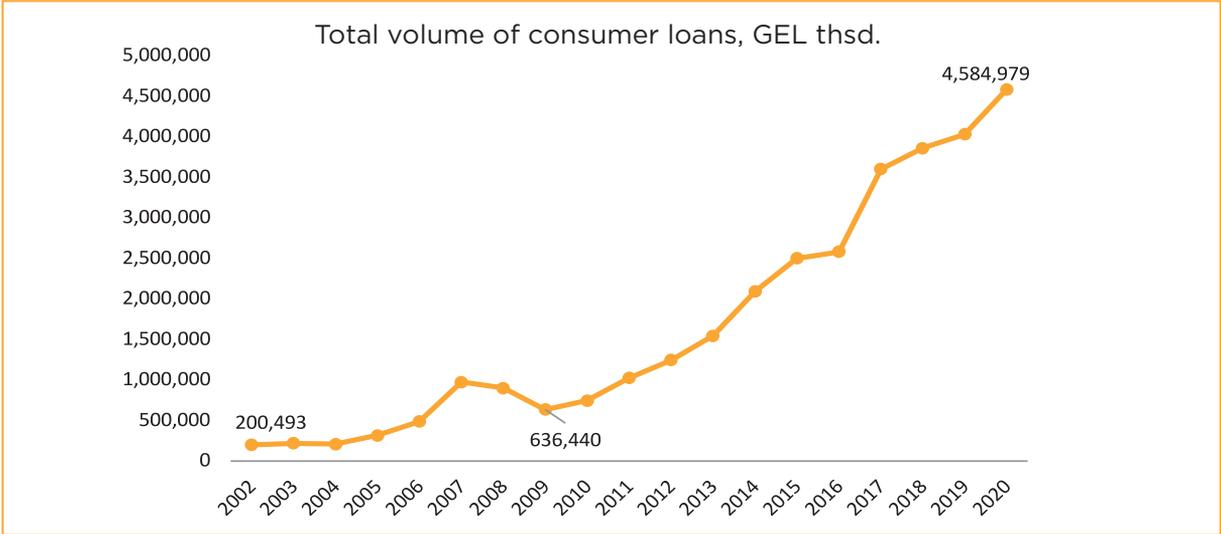
This was particularly true for consumer debt. Thanks to liberal lending, it has increased almost 23 times from 2002 and 7.5 times from 2009 until 2019 and average interest rates from banks for consumer debt was 26% in 2020. Consumer loans have been growing every year except for years 2008 and 2009, when Georgia was hit by two crises of the war with Russia

5 HOW DO GEORGIAN CHILDREN AND THEIR FAMILIES COPE WITH THE IMPACT OF THE FINANCIAL CRISIS? REPORT ON THE GEORGIA WELFARE MONITORING SURVEY. 2010. UNICEF Georgia/University of York.

6 Eradze, Ia. 2020. Credit Boom, Excess Debt and National Bank. EMC Policy https://emc.org.ge/uploads/products/pdf/%E1%83%A1%E1%83%90%E1%83%99%E1%83%A0%E1%83%94%E1%83%93%E1%83%98%E1%83%A2%E1%83%9D_%E1%83%91%E1%83%A3%E1%83%9B%E1%83%98_1589804631.pdf
Reviewed November 15 2020.

in August 2008 and the Great Recession. Additionally in the last 8 years, 20,000 homes have been repossessed with 65,000 people forced into homelessness or deeper poverty.

Figure 9: Consumer loans by year, GEL thsd

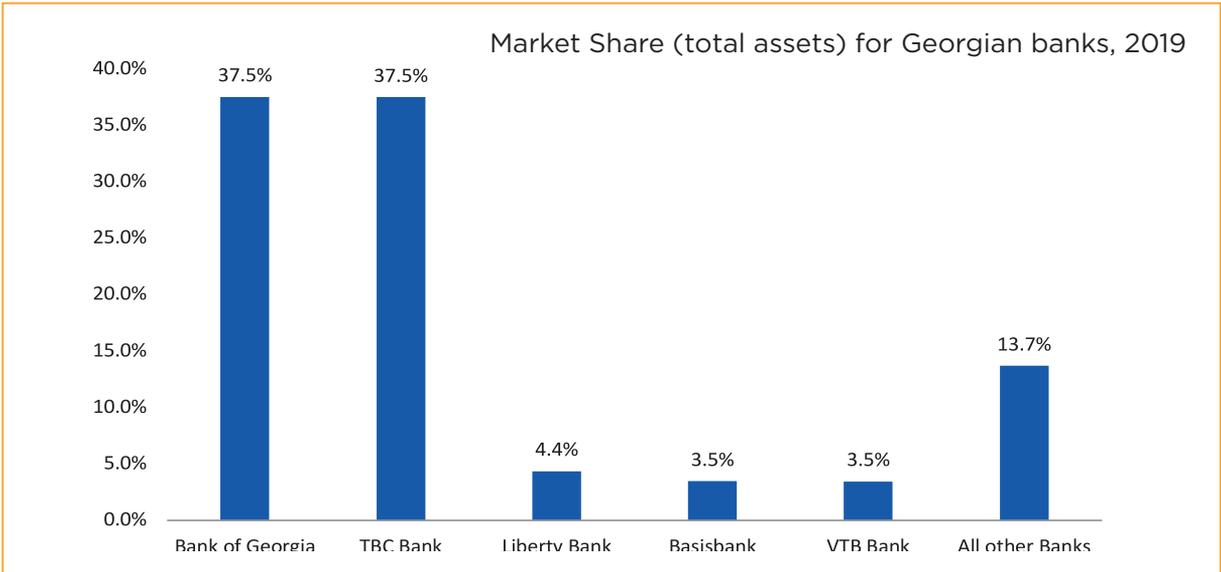


Source: NBG⁷

Banking and consumer loans at a glance

As of October 2020, Georgia has 15 NBG-certified banks. The two largest, Bank of Georgia (BoG) and TBC Bank⁸ hold around three-quarters of all market share in Georgia.

Figure 10: Market share for Georgian banks, 2019



Source: Thebanks.eu

7 Yearly data is taken from November 1 to incorporate the most up-to-date data on 2020
 8 Originally named as Tbilisi Business Centre bank, but currently uses TBC acronym as a standalone brand.

Consumer loans interests in Georgia have extreme variance for both short-term/long-term and local/foreign currency types. As of 2020, average bank loans in GEL vary from yearly 18 to 26 per cent, depending on longevity of the loan while loans in foreign currency vary from 7.2 per cent to 8 per cent depending on longevity⁹.

Figure 11: Average interest rates `by Maturity and Currency

Year	TOTAL	Short Term	Short Term GEL	Short Term Foreign	Long Term	Long Term GEL	Long Term Foreign
2016	15.1	16.0	20.2	9.3	15.1	16.0	12.2
2017	16.3	18.6	20.7	8.6	16.2	17.3	11.6
2018	16.8	19.8	26.7	6.4	16.6	17.9	10.2
2019	16.7	20.4	25.6	5.9	16.5	17.5	9.2
2020	17.2	23.0	26.2	7.2	17.0	18.2	8.0

Source: NBG

The two largest banks have large loan portfolios, including consumer loans. Both have relatively similar consumer loan conditions (see Table below for comparison)

Figure 12: Advertised Interest rates and conditions for consumer loans of two large banks as advertised on their sites

Condition	Bank of Georgia	TBC Bank
Limit	400 - 140 000 GEL	500-270 000 GEL
Term	6 - 120 months	6-120 months
Income	From 200 GEL	not specified
Minimum Annual interest rate	From 11.8% (GEL)	15.5% (GEL)
Minimum Effective interest rate	21.1% (GEL)	18.5% (GEL)
Loan Service fee	2%, minimum 10 GEL	2%, min. 50 GEL
Protection type	Up to 48 months (Max 50 000 GEL) unsecured, or through vehicle; above 48 months and above 50 000 secured through real estate	Maximum 48 months - unsecured, Maximum 120 months, secured through real estate

Source: Bank of Georgia and TBC websites

9 NBG defines short-term loans as all type of loans, primary maturity of which is less than one year and long-term loans are any loans with maturity of one year or more

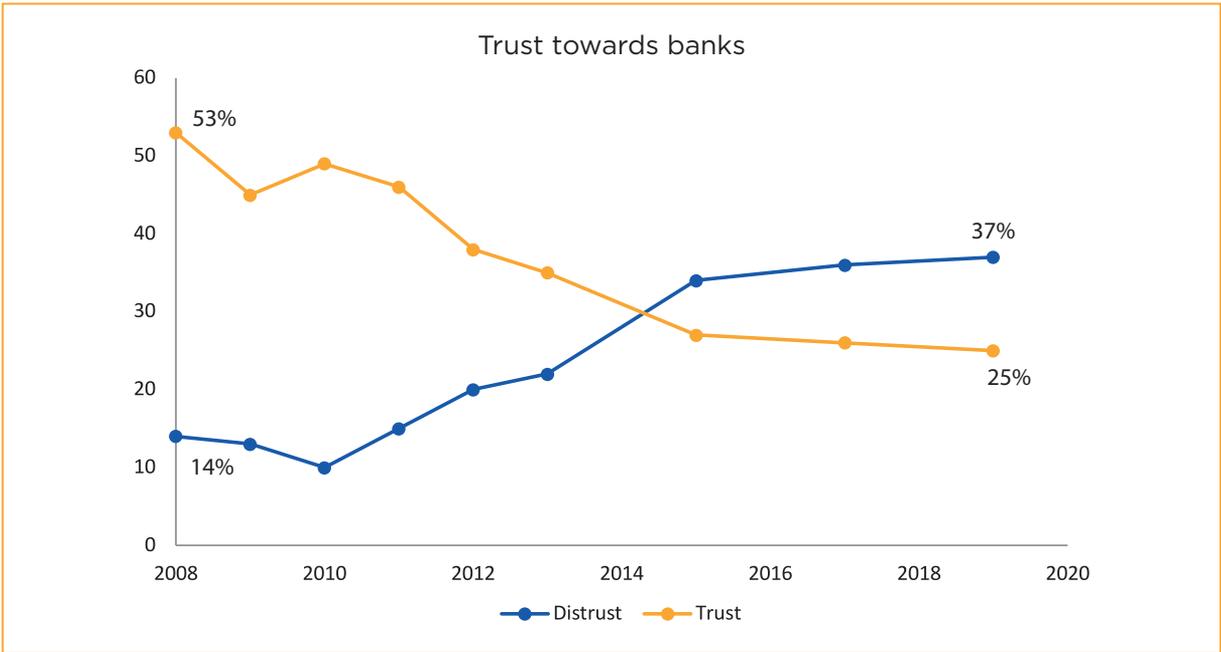
Liberty Bank

Liberty bank is the third largest by assets and has, beyond banking, a social role, being a legal heir of the “Peoples’ Bank of the Georgian Soviet Socialist Republic”. It later became People’s Bank of Georgia and after independence, has a largest regional network in Georgia. Often Liberty Bank is the only bank in a settlement – like in Kazbegi, our research area. It is the bank which carries out operations connected to the state – including paying salaries to state employees: local government workers, Police etc., as well as disbursement of state subsidies and pensions– for which they offer a type of pre-payment of pension with interest, a consumer loan otherwise known as the Pension loan.

Trust in Banks

With exponential growth of consumer credit and excess indebtedness, trust in the banks as institutions has cratered. Longitudinal data starting from 2008 until 2019 indicates that trust towards banks has gone down from a net positive rating of 39 to negative 12 – a change of almost 50 percentage points.

Figure 13: Trust towards banks (percentage of people trusting or distrusting banks)



Source: CRRG Georgia Barometers 2008-2019

History of debt/loan regulations

The story of debt and indebtedness and the guiding regulatory framework in Georgia can also be seen in a larger context of a libertarian deregulatory experiment with Rose Revolution's (2003/4-2012) government, and re-regulatory mitigation of its effects thereafter.

Version of the Georgian civil code valid from 1990 until 2007, which was largely based in its preceding Soviet version, stipulated that interest rate on credit “shall reasonably correspond to the ceiling interest rate fixed by the National Bank or by the Interbank Credit Auction (ICA). An agreement made in violation of this rule shall be void¹⁰.” While this law did not mention specific reasonable interest rates, in court practice from precedents from 1997 until 1999 they were set out to have been in the area of 2.5 to 5 percent monthly.¹¹ This was then further solidified by a number Georgian Supreme Court precedents from 2004 until 2006, after which the range of interest rates was further narrowed and was set at somewhere between 2.4% and 3% per month¹².

This was dramatically changed in 2007, when the United National Movement (UNM) party, (in power from Rose Revolution in 2003/4 until 2012), driven by an extreme libertarian philosophy and desire to deregulate, annulled the relevant article in the civil code, after which the sides (lender and lende) were free to have any interest rate based on their agreements. In legal terms, that meant that principle of contract fairness (when marginal interest was stipulated by the law and court practice) was substituted by principle of contractual freedom, when interest was determined by the relevant parties¹³.

Period from 2005-6 was also seen as a period of dramatic development of banking sector and increase in excess household over-indebtedness¹⁴.

10 Georgian Civil Code (old version), Article 615. See here: <https://www.wipo.int/edocs/lexdocs/laws/en/ge/ge012en.pdf>, Reviewed November 10, 2020

11 Khvichia, Iago. “State against ‘Usurers’” (opinion piece). 2014. Tabula Magazine. <http://www.tabula.ge/ge/story/80205-saxelmtsifo-mevaxsheebis-tsinaaghmdag>, Reviewed November 10 2020

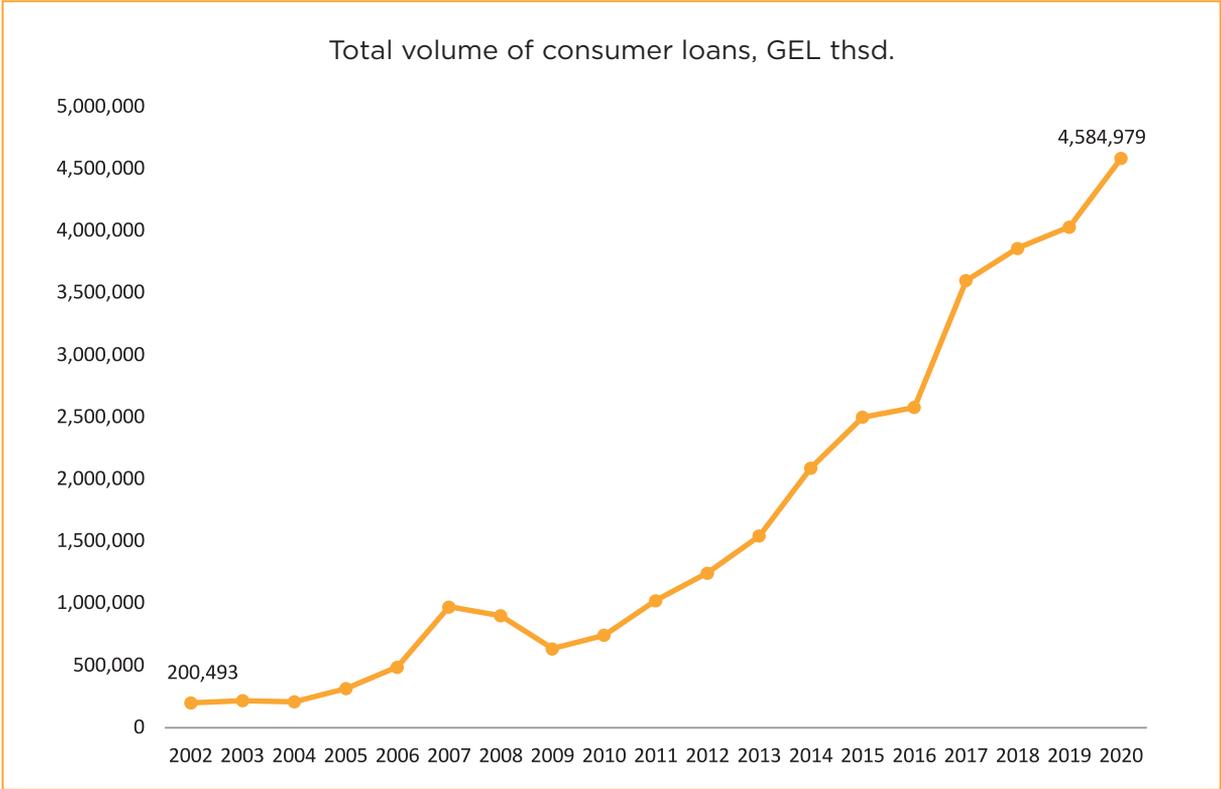
12 See rulings №ას-1083-1321-05 2006 წ. 20 ივლისი, №ას-192-614-06 2006 წ. 13 სექტემბერი, ას-1184-1428-05 30 მაისი, №ას-1199-1443-05 10 მარტი, 2006 წ. №ას-797-1163-06 18 ივნისი, 2007 წ. №ას-538-21-06 5 თებერვალი

13 Chubabria, Tamar. 2020. People against usurers. Predatory loans and their social consequences. (in Georgian) EMC. Policy paper https://emc.org.ge/uploads/products/pdf/%E1%83%9B%E1%83%9D%E1%83%A1%E1%83%90%E1%83%AE%E1%83%9A%E1%83%94%E1%83%9D%E1%83%91%E1%83%90_%E1%83%9B%E1%83%94%E1%83%95%E1%83%90%E1%83%AE%E1%83%A8%E1%83%94%E1%83%9D%E1%83%91%E1%83%98%E1%83%A1_%E1%83%9E%E1%83%98%E1%83%A0%E1%83%98%E1%83%A1%E1%83%9E%E1%83%98%E1%83%A0_1590066383.pdf, Reviewed November 20, 2020

14 In Georgian, this is termed as ქარბვლიანობა (charbvalianoba) – excess indebtedness, over-indebtedness.

Total consumer loans increased in Georgia exponentially after 2005-2006, financial sector development. Consumer loans have been growing every year except for years 2008 and 2009, due to two crises of global Great Recession and Georgia’s war with Russia in August 2008.

Figure 14: Consumer loan by year, GEL thsd



Source: NBG¹⁵

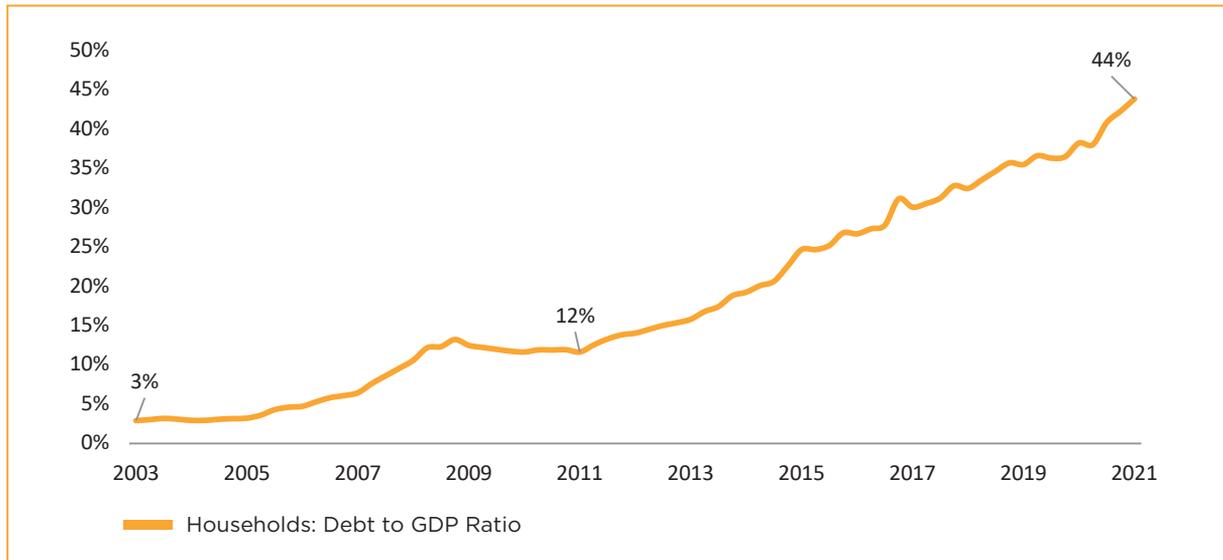
After Rose Revolution government was voted out in 2012 and a coalition led by a more economically centrist Georgian Dream (GD) took their place, tide gradually started to turn. While different factions within GD had different economic views, there seemed to be a consensus that extreme liberal lending conditions ought to have been gradually tightened with a number of regulations.

15 Yearly data is taken from November 1 to incorporate the most up-to-date data on 2020

In March of 2018, NBG has noted the over-indebtedness.

The household debt continues to grow at a rapid pace, which requires attention from the perspective of households' over-indebtedness. As of January 2018, household debt is 32% of gross domestic product and is close to the median of similar indicators of comparable countries. However, it should be noted that this indicator has been increasing rapidly in recent years. Especially important is the increase in the share of households, which have high credit burden relative to their income. In general, with the development of the country, household debt-to-GDP ratio is expected to increase, but it is important that the growth rate is moderate and does not create excessive financial burden for society. It should be noted that high household indebtedness has become one of the major challenges for financial stability around the world in recent years. Increased demand from households, which is the result of global economic recovery, and easier access to credit have contributed to the household indebtedness. Generally, household credit growth contributes to economic growth and wellbeing of society, but after some point the benefits decrease and excessive household indebtedness may create financial stability risks¹⁶.

Figure 15: Household loans as a share of GDP



Source: NBG

The bulk of regulations came in two steps: first, in January 2017, NBG capped effective annual interest rate at 100 per cent, penalties at 0.41 percent daily and restricted foreign currency lending for up to 100,000 GEL equivalent. After September 2018, effective interest rate cap became 50%, maximum penalties became 0.27 and restrictions on foreign lending went up to 200,000 equivalent. Additionally, NBG capped cumulative interest and fees for overdue loans at 150 percent of principal loans (see regulations in Figure 16).

16 New framework launched for the Financial Stability Committee of the National Bank of Georgia. NBG Financial Stability Committee monthly Decision. March 2018. NBG. <https://www.nbg.gov.ge/uploads/fsc/decisions/1.03.2018eng.pdf> (Reviewed November 20, 2020)

Figure 16: NBG Regulations

Regulation	January 2017	September 2018	January 2019
Effective interest rate cap	100% Yearly	50% Yearly	Maximum loan payments, limits, determined proportionally to a borrower's disposable income (PTI), and maximum value of a loan, according to the market value of the real estate used as collateral for the loan. (LTV)
Cap on penalties	0.41% daily	0.27% daily	
No Foreign currency lending ("Larization")	Loans up to GEL 200,000 equivalent	Loans up to GEL 100,000 equivalent	

Rise and fall of microfinance and online debts

Growth of financial sector and liberalization of spending regulations was echoed in the boom of microfinance and online loan systems. The number of microfinance and online credit-giving organizations increased especially rapidly in 2014-2016. This was due to the combination of unregulated market and low-income citizen's lack of access to more secure and trustworthy bank loans that required income statements and other documents, as well as technological development of online platforms of lending and ICT technology within the country, and the FDI from foreign, mostly Baltic and Eastern European investors.

In 2016, the credit bureau "Creditinfo" claimed that in their debtor database, 30% loans were from microfinance organizations, 35% from online lenders.¹⁷ Online loans and microfinance loans were small, quick and short-term. The main demographic group that these loans were marketed for was 18 to 35-year-old men with little to no income. If the borrowers could not pay the loan, annual effective interest rate would increase and, in some cases, could even reach 700%¹⁸. In 2016, an astonishing 28% of users of microfinance loans did not know interest rate for their loan¹⁹. Restructuration and other types of remedies were either unavailable or led to even more fees and fines. By the end of 2016, one in four residents of Tbilisi had taken at least one online loan, and 64% wanted online loans to be banned²⁰. Moreover, microfinance organization customers claimed that 37% of their monthly income was spent on loan payments²¹.

Proliferation of microfinance and the extreme ease of getting online loans without any regulatory framework contributed to a slow but steady public outcry over debt, extreme interest rates and manipulative practices that left large number of people in extreme debt

17 Role of Credit Bureaus in the development of Georgian financial sector. Society and Banks. (online newsletter) pp 5-6. http://sab.ge/sites/default/files/onlain_sesxebis_bazris_mimoxilva.pdf, Reviewed November 22, 2020

18 Ibid

19 Center for Financial Inclusion. 2016. "Client Voices" at the Georgian Parliament. Center for Financial Inclusion

20 Majority of Tbilisi citizens are for banning online loans. ACT Global. <https://act-global.com/news/loan/>, Reviewed November 20, 2020

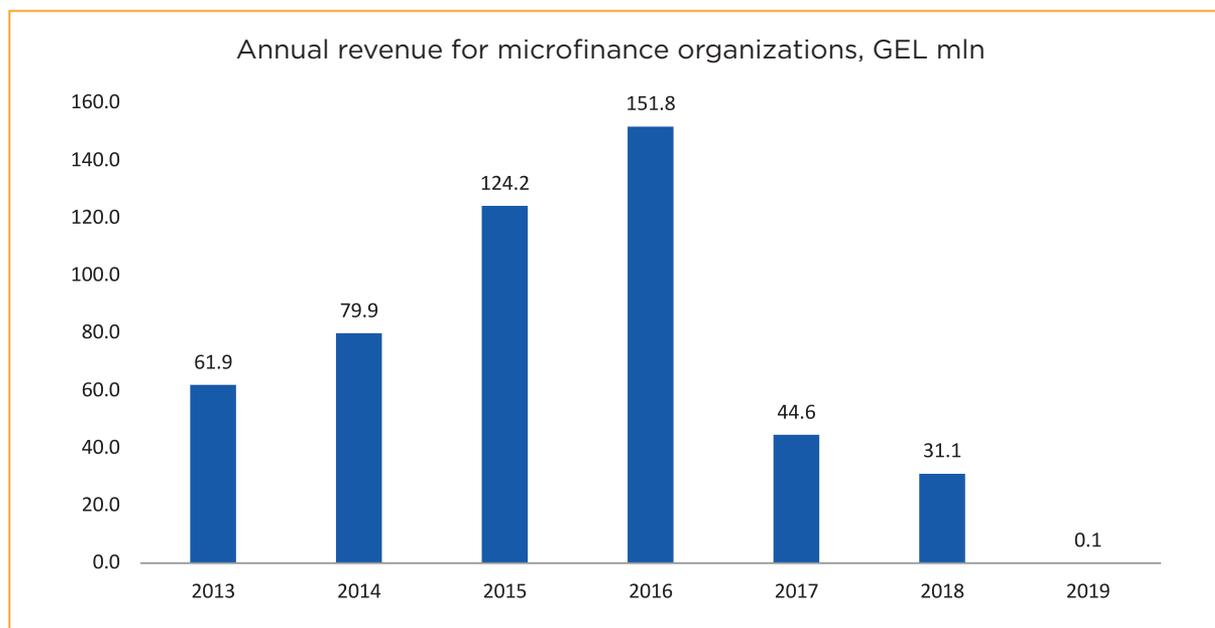
21 Center for Financial Inclusion. 2016. "Client Voices" at the Georgian Parliament. Center for Financial Inclusion

they were unable to repay and therefore had to live their economic life in the shadow sector. In a striking admission, Georgian Prime Minister Mamuka Bakhtadze claimed that in 2018, 630,000 of Georgian population – over about 30 percent of what he called the “economically active population” were unable to pay off their debts²².

The NBG’s new regulatory policies described in the previous section coupled with setting new standards for consumer-relations, contracts and marketing materials, required ethics codes, and outlined terms of prepayments, commissions and fees for all credit-giving organizations had a major effect on the market.

Online loan segment almost completely disappeared as their business model did not fit the new regulations²³. Total annual profits of all microfinance organization, which had increased from 62 million GEL in 2013 to 152 million in 2016 have decreased every year since the regulations – to 44,5 million in 2017; 31 million in 2018, and less than 115 000 in 2019²⁴.

Figure 17: Annual revenue for microfinance organizations, 2013-2019, GEL mln



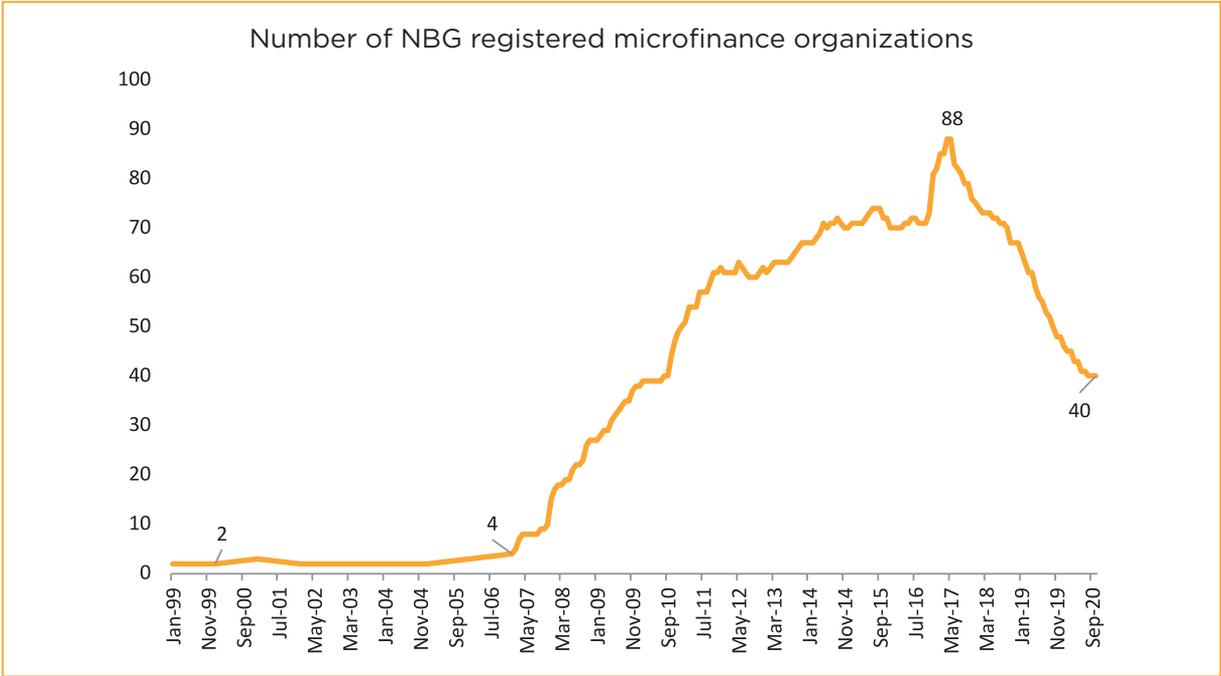
Source: Tkeshelashvili, Shota. 2020. Rating of Microfinance organizations. Forbes Georgia.

22 E.g. quoted in Lomsadze, Giorgi. 2018. Georgia’s predatory lenders are punishing the poor. Eurasianet. <https://eurasianet.org/georgias-predatory-lenders-are-punishing-the-poor> Reviewed November 14, 2020
23 Interview with Lasha Gzirishvili
24 Tkeshelashvili, Shota. 2020. Rating of Microfinance organizations. Forbes Georgia. <https://forbes.ge/news/8729/mikrosafinanso-organizaciebis-reitingi-> Reviewed November 15, 2020

The trend of rapid profit loss can partially be explained by huge reported losses by individual organizations, but it is safe to say that the regulations reshaped the market and put an end to the era of the most egregious unregulated predatory lending in Georgia.

Total number of legally registered microfinance organizations has also dwindled from a high of 88 in 2017 to 40 in October 2020 (see Figure 16). Many of those 40, while legally registered, are dormant with little loan activity.

Figure 18: Number of NBG registered microfinance organizations



Source: NBG

Cartu one-off debt relief program

In November 2018, Georgian Prime Minister Mamuka Bakhtadze said that fund Cartu would buy 1.5 bln worth of smaller, mostly non-performing loans – each of contracts under GEL 2000 and relieved those loans. This “One-time Social Solidarity Act”²⁵ (OSSA) annulled loans for over 600 thousand people – over 20 percent of Georgia’s adult population. The information on this happened between 1st and 2nd round of Georgia’s presidential elections. Special website, Vali.ge²⁶ was created for people to check if their loan was annulled.²⁷ According to numbers available from the defunct website, 1,387,296 loans, with amount of over GEL 4 billion and for 615,164 people were annulled.²⁸

To qualify for annulment, person had to have loaned under 2000 GEL before 2018 and had to be insolvent for at least one year – therefore ending up in so-called “black list.”

In practice – Cartu bought “problem loan portfolios” from each financial organization – banks and microfinance organizations individually and behind closed doors. While discussions on these negotiations were not public but, not all microfinance organizations took part and at least 20 refused.²⁹ Additionally, while people whose debt were relieved remained with a bad credit history, hindering their ability to access finance³⁰.

The act was criticized in two forms. Firstly, it was understood as electoral populist move in the middle of elections. Secondly - [Add expert opinions from Lela R. and Mate G.].

Usury practice and Informal Debt

Beyond increasingly regulatory climate with banking and microfinance loans there is an economic world of informal loans. About half of the employed in Georgia work informally³¹, which hinders their ability to access standard credit from banks or other types of formal credit. While some microfinance organizations and banks accept the bank statements from the workers from the informal market, others have to turn to individual lenders, otherwise known as usurers.

25 Georgian government. http://gov.ge/index.php?lang_id=geo&sec_id=491&info_id=69107

26 Vali (ვალი) – Georgian word for debt

27 As of November 2020, vali.ge is offline, but can be accessed via wayback machine archives [link]

28 Archived version for Vali.ge website - <https://web.archive.org/web/20190807125117/https://vali.ge/#profile-md>

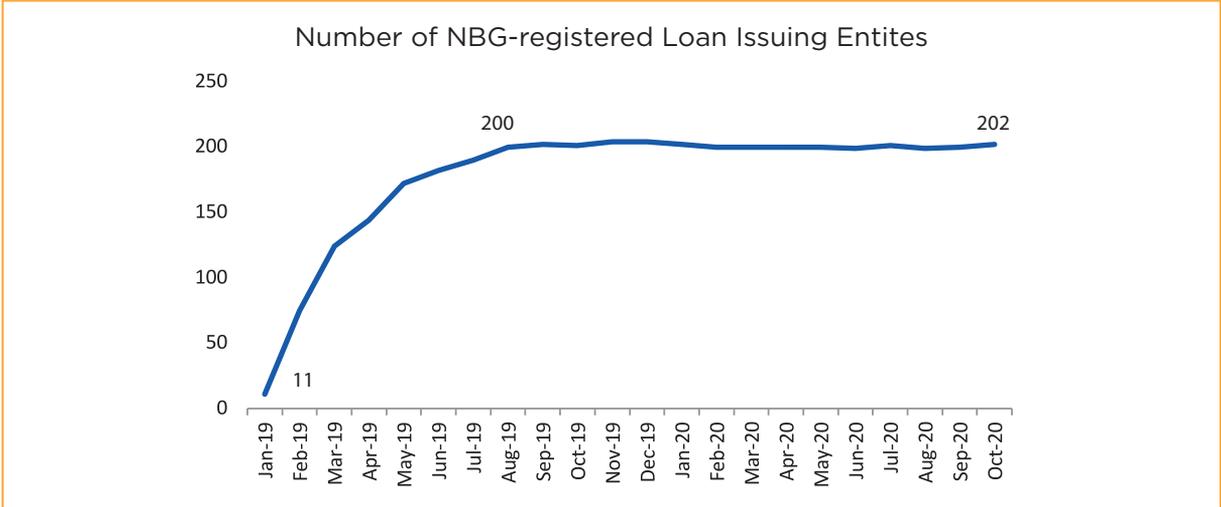
29 Mandaria, Tornike, 2018. Vali.ge – what do we know about the debt relief website? Radio Liberty. <https://www.radiotavisupleba.ge/a/vali-ge-%E1%83%A0%E1%83%90-%E1%83%95%E1%83%98%E1%83%A%E1%83%98%E1%83%97-%E1%83%A1%E1%83%94%E1%83%A1%E1%83%AE%E1%83%94%E1%83%91%E1%83%98%E1%83%A1-%E1%83%A9%E1%83%90%E1%83%9B%E1%83%9D%E1%83%AC%E1%83%94%E1%83%A0%E1%83%98%E1%83%A1-%E1%83%95%E1%83%94%E1%83%91%E1%83%A1%E1%83%90%E1%83%98%E1%83%A2%E1%83%98%E1%83%A1-%E1%83%A8%E1%83%94%E1%83%A1%E1%83%90%E1%83%AE%E1%83%94%E1%83%91/29648448.html>

30 Interview with David Utiashvili

31 WOMEN’S ECONOMIC INACTIVITY AND ENGAGEMENT IN THE INFORMAL SECTOR IN GEORGIA. 2018. UN Women. https://caucasusbarometer.org/downloads/UN_Women_Georgia_Eng.pdf Reviewed November 20, 2020

All users have to sign their loan contracts with a notary and, according to new NBG regulations, have to register as “Loan Issuing Entities” (LIEs) at the NBG if they have more than 20 loan contracts.³² As of October 2020, Georgia has 202 LIEs, around 70 percent of which are pawn-shops (lombards), where people hock their valuables (usually electronics or valuable items, sometimes cars) for money.

Figure 19: LIEs per month



Source: NBG

Beyond registered LIEs, there are other usurers with less individual loans, but more dodgy schemes for extortion. All LIEs have to conform to NBG’s 50% annual interest cap and since August 2018, can’t secure their loan with real estate property (which means they can’t repossess the home of a loaner for a smaller, non-mortgage loan)³³. Individual LIEs have since been using a practice of circumventing this by a legal agreement called „Right of redemption under a contract of sale“³⁴, often known in simple language as “გირავნობა“ in Georgian, or a type of a pledge agreement. In this agreement, loaner sells their real estate to LIE with a clause that they’ll get the apartment registered back to his name if they repay certain agreed sum (loan) in an agreed manner. In practice, this is a workaround agreement for now illegal loan that has dubious legal character. In some cases, courts see these agreements as null and void while in others they are deemed legitimate depending on circumstances of the loan and price of the property³⁵. “These kind of agreements are massive. Go to any real estate website and you’ll see lot of offers – “I will pledge to myself [ვიგირავებ] the house together with its tenants”. What kind of agreement is that, pledge to myself together with tenants?!”³⁶”

32 NBG Regulations (will put proper footnote later)
 33 <https://batumelebi.netgazeti.ge/news/150919/>
 34 გამოსყიდვის უფლება ნასყიდობის ხელშეკრულებით
 35 Interview with Marika Arevadze
 36 Interview with Giorgi Kumsishvili

Often loaners in this type of agreement don't know that house where they live now legally belongs to the LIE. They often only discover it when the LIE sues them and they discover that the house is actually usurer's property.³⁷

Usurers often use tactical moves to sign such an agreement, persuading their clients that if they don't pay the debt in time, they would simply sell the real estate secure the loan and return the difference to the owner. "When such a moment comes, the usurers say - 'I don't know you, there is no debt. I just bought property from you'. Then there's a question - how can you buy property that has a market price of 100 thousand for 15 thousand? But in Georgia, law says that you can buy and sell property for whatever agreed price, which may or may not be the market price".³⁸

These "right of redemption" contracts remain a grey area legally, and with the new NBG regulations, many lawyers and activists agree that this kind of contract is a type of fraud, which at the same time circumvents the NBG regulated 50% interest rate cap, that could be prosecuted under Georgian Criminal Law³⁹.

Usurers usually stick to a stricter enforcement strategy against non-performing loaners. As opposed to banks, who are legally obliged to follow procedures - wait for 2 months of non-payment before trying to seize the property, usurers often work immediately. They use a number of strategies to enforce the loans, like tricking loaners into voluntary non-payment.

"There was a usurer woman and she had a trick to approach the loaner and tell them - you have too much to pay me every month, you can maybe not pay me for a couple months. Often loaners believed this older lady was nice and considerate, and when the loaner did not and the interest accrued, the usurer would approach them and ask for everything at once.⁴⁰"

There is a current of thought among activists that criminalizing, illegalizing and punishing of usury is the correct legal remedy against the practice⁴¹. They argue that this is the case in many other countries, including neighboring countries like Armenia. Others disagree, saying that instead of criminalizing, creating a legal mechanism for bankruptcy for individuals - which currently is non-existent in Georgia - would stop usurers from acting in such questionable manner and ways and at the same time give individuals a chance to restart their economic life and not leave formal economy or go into hiding.⁴²

37 Interview with Giorgi Kumsishvili, law firm "Martali"

38 "Morning Talks" - Interview with Giga Tsuleiskiri Radio Liberty. https://www.facebook.com/watch/live/?v=506724790376487&ref=watch_permalink

39 Ibid; Interview with Marika Arevadzze

40 Interview with Giorgi Gvinjilia

41 Interviews with Tatuli Chubabria, Lela Gvishiani, Giorgi Gvinjilia, Merab Janiashvili

42 Interview with Ana Dolidze

There is little knowledge on the nature of large-scale informal, non-registered loan practice as a business model. Existence of informal loan schemes implies a mafia-like structure that enforces the non-payment of these loans and there is no evidence for that, since usurers have a great and legal practice and convenience to do their work legally.⁴³

However, Georgia has a number of schemes of solidarity lending structures and money-circling mechanisms. There are smaller instances of friends loaning money to each other interest free, or shop-debt, nisia, friends and relatives lending to each other short and long term, “lottery” practices at work – when a number of people pool money yearly and it becomes available at certain periods of time by lottery. Total amount of such loans is extremely hard to measure, but it can be hypothesized that number of people in “black lists” – i.e. unable to have access to formal credit contributes to the growth of these solidarity loans⁴⁴.

Example of a small time informal debt as social safety net: Nisia

One of the types of small time informal debt is a practice called nisia, or small-time informal shop debt. Most small neighbourhood shops and greengroceries in cities in Georgia keep a 40 page notebook that keeps local neighbors debts for what people take out for future payments. This is called nisia – which can roughly be translated as small-time obligation, short term, fleeting and devoid of moral imperative of repayment. Nisia is different from a standard term for debt (vali), which in itself implies a notion of morality and obligatory implication, (hence the same root for word vali and movaleoba (obligation)). Nisia is a product of convenience: one doesn’t have money before pay day, or is waiting for someone to pay them in a couple days, or simply forgot their wallet – this person ends up in the nisia notebook. Nisia is double-edged. From one point of view, it can be understood as subversive practice with low retention rate which undermines business model for local shops and greengrocer businesses, attracting customers less likely to pay off their debts. On the other hand, it is a local social alternative for online or other pay-day loans built on neighborhood social trust, where small business enterprise functions as an interest-free social safety system for working but financially vulnerable people of the neighborhoods. At the same time ability to offer nisia is competitive advantage for those shops that differ them from large chain supermarkets which often have lower prices for basic goods

43 Interview with Merab Janiashvili

44 Interview with Aleksandra Aroshvili

Preliminary Research results

Background to LAG areas

Communities of Tskaltubo, Kazbegi and Aragvi areas represent different types of economies and varying social and political settings.

Tskaltubo municipality surrounds Georgia's third largest city and erstwhile industrial center of Kutaisi (population of around 100 thousand). The city of Tskaltubo is home to 11 thousand, many of whom are internally displaced persons (IDPs). It's 8 kilometers away from, and is effectively a suburb of Kutaisi where a number of people go to work. Beyond that, city is home to soviet-time spa resorts and radon-carbonate mineral springs, which attracts tourism. Throughout municipality however, main source of income is agriculture.

The sparsely populated mountainous villages of Kazbegi municipality and its center – the small town of Stepantsminda (population of 1 326) are international and local tourist destinations. Kazbegi area has seen a tourist boom of large proportion, with many families building guesthouses, hotels, and tourism-affiliated businesses in addition to small farms – which many have abandoned.

Aragvi area is home to Georgia's depopulating mountainous valleys. People living in semi-permanent settlements in Dusheti and Tianeti municipalities move to Tbilisi or other cities during winter and return back to their homes in summer. Their personal incomes are limited to local low-wage jobs and government assistance.

General opinions on indebtedness

The respondents from the three communities overwhelmingly consider indebtedness to be a major issue in Georgia. When respondents were asked whether they know someone with debt issues, often heard answer was “everyone around here has a problem with debt.” While this is not the case factually as there are people who have no debt, these responses allude to the omnipresence of the topic in public and private discussions and the far-reaching social tension it creates in families and local communities.

Second overarching opinion of debt is its abstract nature – debt is referred to as a given, but discussion around it is less concrete. Opinions of the idea of debt differ accordingly: some believe debt to be a “necessary evil,” crucial for economic growth and development, while others view it more as a last resort for survival.

Thirdly, morality of repaying back the debt is never questioned. Even within groups that protest predatory nature of loan sharks and usurers, the discourse stays that “debt has to be repaid.”

Respondents from Kazbegi, an area with booming tourist development mostly focused on business loans and consumer loans during the interviews. Tskaltubo residents discussed harsh economic conditions and the need for loans to cover healthcare costs and other basic necessities. Many respondents from Tskaltubo also pointed to pension loans and pointed to their high interest rates. Unlike the other two cases, some Aragvi valley residents have claimed to avoid loans altogether and look for other sources of finances.

Tskaltubo

Fourteen phone interviews were held with Tskaltubo community members: Four with local small business owners, two with local government representatives, two with non-government organization representatives, one with a microfinance organization employee, and five with LAG beneficiaries. Beyond these primary roles, these people also represent a layer of ordinary people from the area, if not slightly better off due to social positions held.

Poverty in Tskaltubo area was the topic of almost every interview. When asked about debt, respondents immediately talked about the poverty in their communities. While most people are aware and conscious of what they are getting into when taking a loan, even though they don't read the contracts.

Credit-giving organizations are said to improve the loan terms and conditions but high interest rates are still viewed as a burden. The recent (2017-2019) NBG regulations, especially regulation which capped maximum interest at 50% annually is viewed as a positive development as earlier, microfinance and online companies had interest rates higher than the current cap.

The credit-giving organization employees explain every important term and condition in detail, before customers sign the loan contracts, but unfavorable loan conditions don't deter customers from taking the loan - when they need the money, even the highest interest rates are acceptable. Consumer loans are used for household costs, small agricultural costs and healthcare costs, among others. The loan payments are covered with seasonal income from harvest, small business profit, government assistance, salaries or money transfers from abroad (remittances). Banks are viewed to be more trustworthy and reliable, with better interest rates on loans. Some people take loans from micro-finance organizations rather than banks anyways, because the loans are approved there easier, with less paperwork, and less need of proof of monthly income.

The topic of Liberty Bank's pension loans was discussed in detail by multiple respondents. People who receive government assistance (older people, internally displaced, socially vulnerable and disabled) have an option to take a small loan and cover it later with the monthly assistance. It is an attractive and convenient banking product but respondents have claimed that the terms and conditions were vague for the people eligible – mostly pensioners have a hard time understanding the nature of debt. One respondent claimed that some pensioners still believe Liberty Bank is a state institution and that money they receive from it is allowance-type. Interest rates for pension loans are higher than regular consumer loans (pension loan topic is covered by another chapter as well) due to – from banking point of view – increased risks of morbidity and high operation costs. Pensioners sometimes don't know how much of a burden will the pension loan be on their personal incomes and finances when taking pension loans. They expect lower monthly deductions from pensions and feel deceived when their incomes have shrunk.

Many respondents mentioned men taking loans to cover gambling debt but no one wished to elaborate on this sensitive topic. Another sensitive topic that respondents brought up was the cyclical and unsustainable practice of taking new loans to cover the previous unpaid loans. Finally, impulse decisions also play into indebtedness. SMS, online banking, calls from financial institutions about approved loans and other marketing strategies use the impulsive human nature to their advantage. One might need and even think about taking a loan, but a quick and simple loan offer takes away the opportunity to calculate the costs and benefits. Financial literacy in Tskaltubo comes down to problems managing limited budget, unstable and inconsistent income.

Kazbegi

Kazbegi Municipality has a small population. Its main source of income is tourist-oriented business activity – hotels, guesthouses, restaurants and touring services. A tourism boom in Kazbegi a few years ago created new opportunities but the pandemic jeopardized the future plans of upwards mobile, new, vulnerable middle class.

13 respondents were interviewed from this community. According to the respondents, the majority of family businesses in Kazbegi started with business loans. The annual inflow of both international and local tourists left an impression of a stable income stream and good credit histories.

Local tourism could not compensate for lost income this year. The population waits for pandemic to end so they can go back to their normal lives. Meanwhile, they negotiate loan restructuring and grace periods with banks. Some hotel and guesthouse businesses qualify for government subsidies, others re-budget and complain about increased prices. All of our respondents in Kazbegi, including local government representatives and financial institution employees said that their families partially depend on income from tourism. Other income

sources are the small farms and government jobs (schools, police, border patrol and others), enough for survival but not for large debt payments.

The only bank that has a permanent office in this small municipality, Liberty Bank. It does not have a separate business credit department, and therefore most locals go to Tbilisi to take the loans. Pension loans, which are different from the other loans are available but “we never reach our pension loan targets here” says the head of the branch. She talks about the increased visits to the bank’s gold pawn shop. Another bank employee, the pawnbroker notes – “the pandemic did not affect payments much. More clients come now, who have not been to the pawnshop before. They complain about the virus. That was the effect.”

Generally, Kazbegi area is symbol of overreliance on tourism as source of income and making far-reaching financial decisions based on the prediction that tourism will keep the area afloat economically in the long run. While this may have been an impression prior to COVID-19 pandemic, it has hit the region hard, and especially the relatively under-privileged people in the area: people in the more remote villages benefited from the international tourism boom and were even more vulnerable than business owners in the Kazbegi center of Stepantsminda, which still has some Georgian visitors as of autumn 2020.

Aragvi Valley

Aragvi valley has a more heterogeneous population. Many young people spend most of the year in Tbilisi or other cities and return to the mountains in summer. Those people who live near the main road or in bigger villages have an advantage and might have small businesses. Others depend on subsistence farming for survival. A challenge we faced during the research is the unwillingness of Aragvi respondents to open up and talk about the sensitive topic. They discussed their personal experiences but avoided talking about their neighbors, friends, and acquaintances. Some admitted that they did not know how other people lived and could not hypothesize. Individual respondents said that debt is not as big of an issue as in other parts of Georgia. In addition to six phone interviews, two, longer interviews were held in person with Aragvi Valley LAG beneficiaries who live in Tbilisi. The two, more extensive face-to-face interviews were informative but not generalizable to the whole community.

Women and Debt

Traditional gender roles dictate that men are the primary breadwinners, they are the ones with jobs and businesses, and thus they make decisions regarding financial matters. The burden of men’s financial obligations, however, may rest on women – household chores, caretaking children, education and healthcare are women’s domain. In General, women are more cautious and responsible when taking a loan in Georgia. They avoid taking unreasonable or unneeded financial responsibilities due to their inability to fulfill those responsibilities. They partake in risky behavior, such as gambling less often than men. The list of our female respondents includes single mothers, elderly women, small business owners and hired professionals.

Based on our findings, younger, single women and hired professionals with stable income generally avoid taking loans and only take credit in small amounts and for a short term if they need additional financing. “I was raised by my parents so that I would avoid loans”- one respondent claimed. These women are more financially literate - they have friends and relatives who work in banks and have option to consult with them before signing any contracts. Additionally, they know people, mostly men, who were negatively impacted by loans and the practice of spiraling debt. Because of these reasons they are more cautious of banks.

During the interview, a pawn shop employee from Kazbegi mentioned that most of her customers were elderly women. Elderly women we interviewed don't have many sources of income and spend much of their pension on medical costs - “Medicines are getting more expensive, the prices have doubled and tripled, Detralex costs three time more than before”. They sometimes end up taking a pension loan, a banking product which has vague terms of service. The information available online or over the phone is not very accessible to the elderly. Caught up in understanding all the financial jargon, they end up not knowing how much money will be cut from their pension in the upcoming months when signing the contract. This problem is particularly evident in Tskaltubo, where it was discussed quite often, even by men and younger respondents. Meanwhile, in Aragvi and Kazbegi some people had never heard of the pension loans. Representative from Kazbegi branch of Liberty bank that we interviewed mentioned that the management had to decrease the monthly targets for pension loans in Kazbegi because they never exceed their monthly plan in this Tourist destination, unlike other branches where the management increased those targets.

Single mothers and married women who operate small family businesses, such as guesthouses and markets understand the need for loans for the business to grow. They face the same problems relating to indebtedness as their husbands, fathers, or sons. In addition to business operations, they raise children, take care of elderly and take on household management responsibilities. Consultations with local experts revealed that banks give women loans to start small businesses more liberally, based on the assumption that women are more reliable and less likely to irresponsibly spend the money, seeing them as more responsible debtors than men.⁴⁵ On the other hand, small business loans from a Georgian bank, specifically designed for and given to rural women favored ones who already had income and experience operating businesses, excluding women from remote villages, who were financially disenfranchised and probably needed additional financing more. These disenfranchised women were forced to seek funding from less trustworthy sources - microfinance organizations and private creditors, who offered worse terms⁴⁶.

45 Interview with Nukri Tabidze

46 Ibid

Types of recourses available for debtors

Research showed a dire lack of resources available for people who felt misled or badly treated by different financial institutions or LIEs. This is especially alarming and is an area where policy intervention would be extremely fruitful for Georgian's vulnerable and indebted.

Consumer Protection Law

Georgia has no working consumer protection law, the old one was in force from 1996 until 2012, when Georgia's previous, libertarian minded government substituted it for more business friendly "Law of Georgia on Product Safety and Free Movement"⁴⁷. Within Association Agreement, it has pledged to approximate its legislation to promote various aspects of consumer rights, product safety and information exchange⁴⁸ and Georgian Parliament has on two occasions, in 2015⁴⁹ and 2019⁵⁰, drafted new laws on consumer protection, but they have failed to become laws in either of the occasions. The second draft in particular offered better than minimal protections, but saw resistance from various interested parties and died in the parliamentary committee hearing stage⁵¹. EU has been expecting the passage of the law draft, and wrote in the final AA implementation report that adoption was pending in 2020⁵², but law is yet to be signed. According to the draft lead author, former MP Tamar Khulordava, the process around the law was controversial and was initially subject to resistance by various business associations. Since the new parliament was elected at the end of 2020, work on the draft had not been resumed. Ms. Khulordava said she did not expect the law to be tabled again in the legislative body until the situation surrounding COVID-19 pandemic subsided⁵³.

NBG Consumer Service Protection

NBG's Consumer Service protection service acts as a mediating mechanism between commercial financial organizations (Banks, microfinance and LIEs) and aggrieved customers. While they can't help customers legally, they approach banks with customers' complaints

47 Law of Georgia on Product Safety and Free Movement. <https://matsne.gov.ge/ka/document/view/32974?publication=12>

48 Association Agreement Between European Union and Georgia, p.145, [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02))

49 <https://info.parliament.ge/v1/law-drafting/bill/9950>

50 <https://info.parliament.ge/v1/law-drafting/bill/18389>

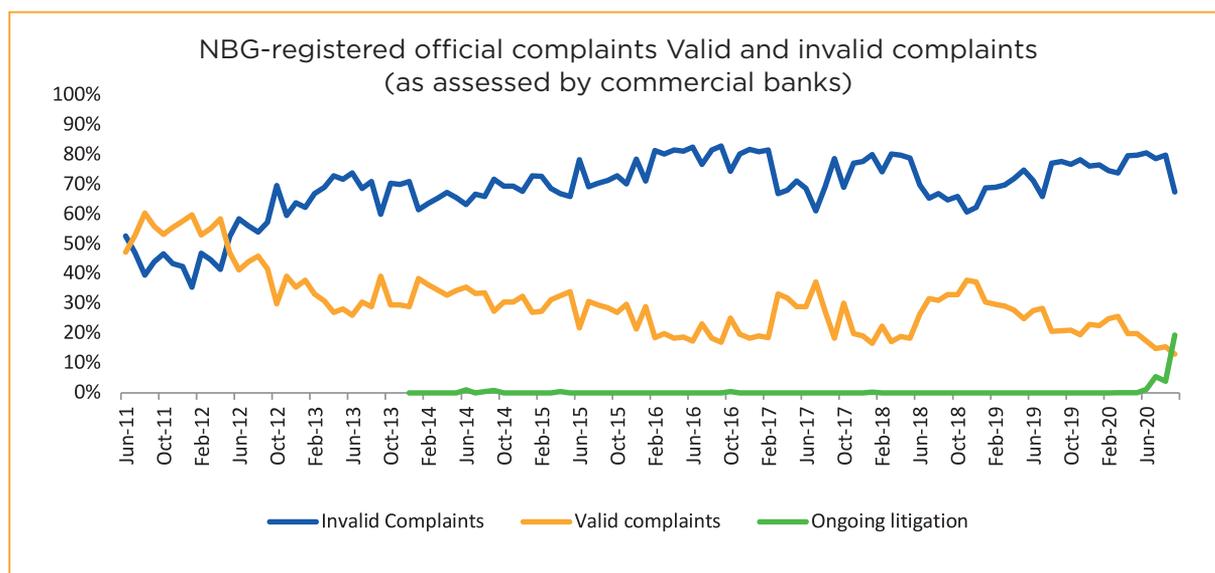
51 Interview with Dimitri Tskitishvili

52 JOINT STAFF WORKING DOCUMENT. Association Implementation Report on Georgia (February, 2021). https://www.euneighbours.eu/sites/default/files/publications/2021-02/2021_association_implementation_report_in_georgia.pdf

53 Interview with Tamar Khulordava

and try to resolve the matter. NBG CSP is entitled to check customers' debt contracts and their conformity to NBG regulations⁵⁴. While important as an institution, is still limited from consumer point of view, acting only as go-betweens.

Figure 20: NBG Registered Complaints by year and validity



Source: NBG

Public Defender's office

Georgian law on the Public Defender⁵⁵ specifies that their office's mandate only covers legal aid when the dispute is between the creditor and a state institution - local or central government, police, NBE or the like. Therefore when approached by debtors who feel mistreated by the banks or other type of private financial institutions, they don't have the mandate to help the regular people. Their usual modus operandi in such cases is to forward their claims to NBG's customer protection office⁵⁶.

Lawyers

There is no centralized system of assistance for "problem debtors". Georgia's state Legal Aid Service⁵⁷, which has recently expanded their role, but it only provides free legal assistance for a special category of most socially vulnerable citizens who would not be able to pay for attorney's services otherwise⁵⁸. Many of the bona fide lawyerly assistance groups help

54 Interview with Lasha Gzirishvili, NBG CSP head

55 Organic Law of Georgia on the Public Defender of Georgia. <https://matsne.gov.ge/en/document/view/33034?publication=18>

56 Interview with Lika Tsiklauri, Public Defender's office Social protection Department head

57 Legal Aid Service. <http://www.legalaid.ge/en>

58 Ibid

out people in their court cases. Georgian Young Lawyers Association (GYLA)⁵⁹ and Young Advocates Association (YAA)⁶⁰ are two groups that are more popular in this, but their profile is wider and their resources to help in this particular respect are limited. Beyond the NGO-based assistance, every Georgian municipality has one local lawyer to help people who cannot afford one for free – however many of these lawyers are of a general profile and can't offer specialized assistance in cases of debt.

Beyond the large profile organizations there are project-based assistance programs that help. This include a 4-month program “Pause for Free”, which helped many people pause their loans properly during COVID-19 crisis.⁶¹ While such projects exist, their scope for action is limited, both in time and in human resources.

Political Movements

With lack of legal mean of recourse, many people in desperate conditions see social protests and political actions as the ways to stop financial institutions from taking their homes or other property. Neighborhood protests during evictions, with assistance of various political figures or political movements happen quite often. Facebook political groups, such as “People are Right⁶²”, populist political organizations like “People’s Tribune”, “Free Georgia,” “The government of the People – People’s Law⁶³”, “For People⁶⁴”, often spend their resources to assist debtors at various steps of their struggle – this means both legal and human assistance with looking at contracts and using legal resources available within political institutions⁶⁵, but also holding rallies with many people in front of the evictees home to physically stop eviction by the Police.⁶⁶ For example, in 2012 and 2013, Batumi had a large groups that would protest evictions. “These were people, self-organized group who would literally go house to house, when word of mouth spread that eviction was coming up. It was almost Occupy! – like movement, but it wasn’t emulation of such practices elsewhere, but completely self-made.”⁶⁷ While there is a lot of media and social attention toward public and political resistance to evictions, most of the home repossessions happen quietly as home owners leave their property voluntarily. Activists think this is connected to the moral component and the shame of indebtedness and the sentiment that if you are about to get evicted, you must have made some grave mistakes that you are responsible for.⁶⁸

59 Georgian Young Lawyers Association, GYLA <http://gyla.ge/en>

60 Young Barristers . <https://www.barristers.ge/ge>

61 Interview with Marika Arevadze, “Daapauze Upasod”

62 <https://www.facebook.com/ModzraobaKhma>

63 <https://www.facebook.com/%E1%83%AE%E1%83%90%E1%83%9A%E1%83%AE%E1%83%98%E1%83%A1-%E1%83%AE%E1%83%94%E1%83%9A%E1%83%98%E1%83%A1%E1%83%A3%E1%83%A4%E1%83%9A%E1%83%94%E1%83%91%E1%83%90-%E1%83%A1%E1%83%90%E1%83%AE%E1%83%90%E1%83%9A%E1%83%AE%E1%83%9D-%E1%83%A1%E1%83%90%E1%83%9B%E1%83%90%E1%83%A0%E1%83%97%E1%83%90%E1%83%9A%E1%83%98-106256604748065>

64 For People. <https://www.facebook.com/modzraobakhalkhistvis>

65 Interview with Ana Dolidze, “For the People”

66 Interview with Giorgi Gvinjilia

67 Interview with Tamta Khalvashi, an anthropologist describing their fieldwork in Batumi in 2012-13

68 Interviews with Giorgi Gvinjilia, Tamta Khalvashi

There is a strong consensus among experts that debtors with issues in Georgia have very limited scope of assistance. There is no centralized system similar to a financial ombudsperson, similar to one used in UK⁶⁹, Czechia⁷⁰, Australia⁷¹ or other countries. Secondly, there is no legal system for personal bankruptcy. This means that after loans are executed, National Enforcement Bureau (NEB) or private executors have legally 10 years to freeze person's assets to claim their loans, which in turn means that persons with outstanding loans are pressured out of economy for 10 years. When such debtors start jobs, NEB employees can legally withhold all but subsistence minimum (currently around GEL 200, or USD 59) against the debt, though in practice they most often withhold half of the salary⁷². In many of those cases, the people left behind either take up informal jobs, emigrate or stay under or unemployed, outside national economy and on the margin of the society⁷³.



69 <https://www.financial-ombudsman.org.uk/#:-:text=The%20Financial%20Ombudsman%20Service%20is,power%20to%20put%20things%20right>

70 <https://finarbitr.cz/en/>

71 Australian Financial Complaints Authority (AFCA). <https://www.afca.org.au/about-afca>

72 While enforcers can withhold all but the subsistence minimum, the practice of withholding just 50% comes from law in the Labor Code, which caps deduction as 50 per cent of the remuneration. (Labor Code article 33.2). NBE practitioners uses this as an analogy and use the same 50% for their enforcement practice.

73 Interview with someone I can't remember now but will add when I check the notes. Even if nobody said this it's pretty evident

Pension Debt

Pension debt is a credit system used by people with state pension. Using it, persons with a confirmed retirement benefits of any age – but mostly elderly – are able to receive loan which they cover using their monthly pension sum. Annual interest on such pension loans as of 2019 is thought to be in the region between 31 per cent⁷⁴ up to 36 per cent⁷⁵ annually. Currently all pensioners receive their cards and pensions at Liberty Bank. I which is also the only institution that markets these pension loans.

Legally, pension debts are identical to consumer loans, but from a banking point they are a ‘high risk category’ product due to a higher percentage of morbidity in retired people. At the same time, pension is a guaranteed basic monthly income for every man over 65 and woman over 60, which means that death is the only risk of non- additional risks. Currently around half of Georgia’s pensioners, more than 417 thousand people have a pension debt⁷⁶.

NBG does not keep statistics on pension debt separately. When approached with official requests from GeoWel, their statistical office said that as such, pension debts are subsumed in the category of consumer loans in NBG analytical statistics page. At the same time, they have claimed that Liberty Bank is the only bank that markets these loans and majority of these pension loans are from it – while loans guaranteed by pension at other banks are simple consumer loans⁷⁷. Liberty Bank did not return an official request for statistical information on the amount and annual effective interest on their product of pension loan.

74 Agenda.ge. 2020. Pensioners, independent MP candidate organize ‘corridor of shame’ protesting high rate of pension loans from Liberty Bank. 2020. <https://agenda.ge/en/news/2020/3180>. Reviewed November 16, 2020)

75 Bogveradze, Mariam. 2019. Ana Dolidze offers lawyer assistance for pensioners before taking out pension loan. (in Georgian). Netgazeti. <https://netgazeti.ge/news/457920/> Reviewed November 20, 2020

76 Tarkhnishvili, Nino. 2019. 417 thousand pensioners are bank debtors. (in Georgian) Radio Tavisupleba. <https://www.radiotavisupleba.ge/a/%E1%83%91%E1%83%90%E1%83%9C%E1%83%99%E1%83%98%E1%83%A1-%E1%83%9B%E1%83%9D%E1%83%95%E1%83%90%E1%83%9A%E1%83%94-417-%E1%83%90%E1%83%97%E1%83%90%E1%83%A1%E1%83%98-%E1%83%9E%E1%83%94%E1%83%9C%E1%83%A1%E1%83%98%E1%83%9D%E1%83%9C%E1%83%94%E1%83%A0%E1%83%98/30138030.html> Reviewed November 20, 2020

77 Talk with NBG statistics department

Figure 21: Pension loan interest rates

Year	Pension loan average interest rate
2012	100-200%
2014	53-80%
2015	50, up to 80% in some cases
2017	41.7%-49.7%
2018	43%, decreasing
2020	30%-35% (up to 39%)

Source: NBG Head Koba Gvenetadze's presentation at a parliamentary hearing (transcribed from oral presentation)

There is a lack of research on social consequences pension credit system, but it is a target of widespread and multi-pronged social, political and media critique. Firstly, while risks for pension debt are understood, interest rate is thought to be very high for the vulnerable people who often have very high monthly expenses on medication. Second, information asymmetry between pensioners and banks is higher than in general cases, which leads to many pensioners taking out “unnecessary” pension debt. Often these pension debts are termed as “pension overdraft” and these are the types of phrases that pensioners, educated in a different political and economic system under Soviet Union have no trouble understanding⁷⁸. Third, some critique Liberty Bank’s monopoly on issuing pension and therefore being in the advantageous position to offer pension debt as part of the problem and see the solution in decentralization of this system⁷⁹. Fourth, pension credit system has no specific legal regulation and is regulated within general debt terms, which are still flexible.

On April 12, 2021, Budget and Finance committee at the Georgian Parliament held a hearing on pension loan with representatives of NBG, Liberty Bank, Ministry of Health Pension Agency and other relevant parties present⁸⁰. At this meeting, various political and civil society representatives offered policy remedies for the problem (they are summarized in figure 23). It remains important that the issue continues to be salient for Georgia’s political and social spectrum.

78 Interview with Ana Dolidze

79 Interview with Merab Janiashvili and Ana Dolidze

80 Budget and Finance committee held a hearing on high interest rates on citizens’ and pensioners’ debt. <http://www.parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/axali-ambebi-safinanso/fi000003.page.htm>

Figure 22: Pension debt possible remedies

Policy or legal remedy	Hindering factors
Capping pension debt separately (e.g. at 30% annual effective rate)	Political will; Liberty Bank may lobby against this or stop offering pension debts
Effective demonopolisation of Pension Debt (Other banks shall have the chance to give out pension and be competitive with pension debt)	Administrative problems
Other entities (such as Georgian Post) shall take up distribution of pensions and reduce cost for financial institutions	Legal issues of handling cash
Subsidizing of this particular loan by the state	Better to raise pension than subsidize loan on it
Have a higher standard of informing pensioners on contract conditions (e.g. larger font, more detailed and lengthy explanation by the bank employee, etc.)	May not change much



Final thoughts

Large scale indebtedness in Georgia is not disappearing soon. While experts point to NBG's 2017 and 2018 regulatory interventions as a good albeit belated start⁸¹, a long entrenched financial system, coupled with lobbying from large private financial institutions and the state's amorphous, contradictory and changeable ideological stance adds up to a fragile regulatory status quo. Advocacy is therefore essential for defending the existing protections, ensuring effective implementation and adding protections to filling the existing lacunae in the current system (e.g. further regulations on the pension debts system).

Appendix 1: List of interviews in LAGs

LAG Area	CSO	Local Government	Business	Lag Beneficiary	Bank/ Microfinance	Total
Tskaltubo	2	2	4	5	1	14
Kazbegi	4	2	3	2	2	13
Aragvi	1	2	1	4 (2 FTF)	0	8
TOTAL	7	6	8	11	3	35

81 Eradze, Ia 2020. Credit Boom, Excess Debt and National Bank. EMC Policy Paper https://emc.org.ge/uploads/products/pdf/%E1%83%A1%E1%83%90%E1%83%99%E1%83%A0%E1%83%94%E1%83%93%E1%83%98%E1%83%A2%E1%83%9D_%E1%83%91%E1%83%A3%E1%83%9B%E1%83%98_1589804631.pdf
Reviewed November 15 2020.

Appendix 2: List of experts interviewed

#	Name	Role	Organization
1	Lela Gvishiani	Lawyer	EMC
2	Giorgi Antadze	Lawyer	GYLA
3	David Omsarashvili	Lawyer	Solidarity Network
4	Giorgi Kumsishvili	Lawyer	Martali Firm
5	Marika Arevadze	Lawyer	Daapauze Upasod
6	Tatuli Chubabria	Social Scientist	World Vision / EMC
7	Lela Rekhviashvili	Political Economist	Leibniz Institute for Regional Geography
8	Mate Gabitsinashvili	Journalist	1TV
9	Tornike Chivadze	Sociologist/ Economist	Corvinus Institute, Budapest
10	Merab Janiashvili	Journalist	1TV
11	David Utiashvili	Finance Expert	NBG
12	David Utiashvili (second interview)	Finance Expert	NBG
13	Lasha Gzirishvili	Finance Expert	NBG
14	Irina Ioseliani	Finance Expert	NBG
15	Giorgi Gvinjilia	Social Activist	-
16	Ana Dolidze	Politician	Candidate for MP in 2020
17	Dea Bokeria	Banker	Anonymous
18	Nukri Tabidze	Women's Rights Activist	-
19	Gvantsa Khonelidze	Gender Expert	Women's Gaze
20	Baia Pataria	Gender Expert	Sapari
21	Anonymous	Banker	-
22	Anonymous	Banker	-
23	Sandra Aroshvili	Social Activist	-
24	Levan Asabashvili	Urban Planner	Urban Reactor
25	Giorgi Glonti		CARE
26	Zakro Tavberidze	Sociologist	Mercy Corps
27	Tamta Khalvashi	Anthropologist	Ilia State University
28	Dimitri Tskitishvili	Former MP	Parliament of Georgia
29	Tamar Khulordava	Former MP	Parliament of Georgia
30	Ia Eradze	Economist	Leibniz Center for Contemporary History, Potsdam
31	Vako Natsvilishvili	Lawyer	OSFG
32	Ana Diakonidze	Sociologist	TSU
33	Anonymous	Businessman	Hospitality sector
34	Anonymous	Executor	
35	Anonymous	Banker	
36	Giorgi Niniashvili	Businessman	Retail/neighborhood shop
37	Lika Tsiklauri	Social worker	Public Defender's office

Appendix 3: Questionnaire for LAG interviews

Interview Questionnaire - General Questions

Intro (5 minutes)

Hello, I am [...] from the research organization GeoWel Research. The topic of our research is over indebtedness, and the problem of debt in Georgia for regular people. We will talk about this topic in general and your experience in particular, the debt around you and the general situation in this regard.

We are interested in your opinion in general - your name, phone number or other personal information will not be made public, the data will be processed in a general (generalized) manner and confidentiality will be fully protected.

Our project is implemented in cooperation with the Czech NGO People in Need and with the support of the United Nations Development Programme.

Warm-up

- Tell us about your life in [LAG Area]. What do you do, a daily basis?

Debt in general

[Our research addresses debt and debt problems in Georgia. We wonder how big this problem is around you and what impact debt has on people's daily lives.]

- How would you assess the debt problem in general in your region, in acquaintances, among your friends and acquaintances??
- How much has the situation changed in recent years?
- When do people around you get into debt?
- How active are debt lending organizations in the region with you?
 - What about banks?
 - Microfinance organizations?
 - Private lenders?

Personal experience with debt

- Did you, or your social circles have any connection to debt?
 - If yes, what kind?
 - How has the situation changed in recent years?
- Why, under what circumstances did you (or your relatives, acquaintances) decide to take the loan? What was the purpose?
- What was your life like before and after taking out a loan?
- What has borrowing changed in your life?
- How does your household deal with loans?
 - Have you had a problematic situation in this regard and how did you cope with this problem yourself?

The role of the state

- How do you see the role of the state in solving the problem of over indebtedness?
 - What do you think is the government doing to help the situation?
 - What does the government not do?
 - What should the government do?
- What do you know about the activities of the National Bank in Georgia? What have you heard about him lately?

Covid

- How has the pandemic affected the financial situation of your region?
- Have you applied to the bank for a loan deferral or interest rate reduction?
- How did the state help you in this regard?

