Research

Microfinance Sector in Georgia (2017-2020)

Sector Snapshots

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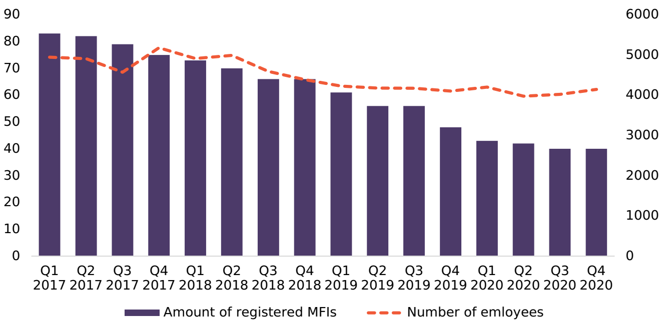
- In 2017-2019 new regulations on microfinance institutions (MFIs) entered into force, which significantly altered the landscape of the industry.
- Between Q1 2017 and Q4 2020, the number of MFIs and employees in the sector fell, with the former dropping to 40 and the latter to 4145 by Q4 2020 (52% and 16% decrease, respectively).
- In Q4 2020, MFIs in Georgia held 1.48 bln GEL of assets and 0.98 bln GEL of liabilities. In this period, the consolidated assets and liabilities of MFIs increased, compared to Q4 2019 with a growth of 7% and 9%, respectively. Compared to Q1 of 2017, figures increased by 6% and decreased by 1%, respectively.
- In 2020, gross income (revenue) of MFIs decreased, compared to 2019, and dropped by 10% to 332.6 mln GEL, while net income increased to 44.8 mln GEL. Moreover, the net income margin increased by 14 percentage points and reached 14%.
- By the end of 2020, portfolio of loans issued by MFIs amounted to 1.18 bln GEL, while number of loans in portfolio amounted to 0.66 mln loans, which represented 8% increase and 16% decrease, respectively, compared to the figures by the end of 2018.

In recent years, the Government of Georgia and the National Bank of Georgia have taken significant steps in order to regulate non-banking lending institutions (MFIs and loan-issuing entities). MFIs are now required to provide additional information (such as information on shareholders, governance, and business plans), while a minimum initial capital requirement for MFIs of 1 mln GEL and ongoing minimum capital requirements of either 18% or 24%[1] were also introduced, as well as minimum ongoing liquidity requirements for MFIs of either 18% or 25%[2]. It is worth noting that a maximum interest rate cap of 50% has been set and the individual loan limit has been increased to 100 000 GEL (instead of 50 000). Moreover, limits on investments and other regulations have also been imposed[3]. In this bulletin, the MFI sector in Georgia during the period of 2017-2020 will be reviewed.

Amount of registered MFIs and number of employees (Q1, 2017-Q4, 2020)



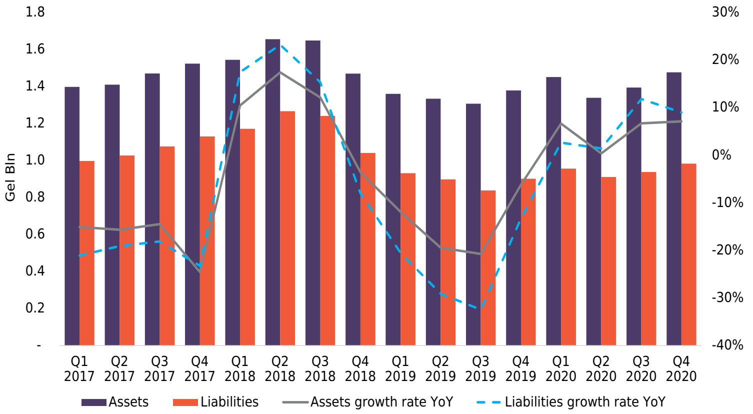
Source: National Bank of Georgia

In the period from Q1 2017 to Q4 2020, the number of MFIs decreased significantly and dropped from 83 to 40. Accordingly, the number of employees in microfinance organizations during the same period experienced downward trend, dropping from 4946 to 4145 employees.

In Q4 2020, compared to the corresponding period of 2019, the figures changed moderately. In this period, the number of MFIs decreased by 8, while the number of employees increased by 44.

Such a drop in the number of microfinance organizations in 2017-2020 can be attributed to a number of new regulatory and supervisory measures introduced into the sector during that period.

Assets, liabilties and growth rates YoY (Q1, 2017-Q4, 2020)



Source: National Bank of Georgia

In the period of Q1 2017 to Q4 2020, the consolidated assets and liabilities of the MFI sector fluctuated significantly.

In Q4 2020, assets of MFIs amounted to 1.48 bln GEL, which represented a 7% increase, compared to Q4 2019. Meanwhile, liabilities of MFIs amounted to 0.98 bln GEL, which marked a 9% increase, compared to the corresponding period of 2019.

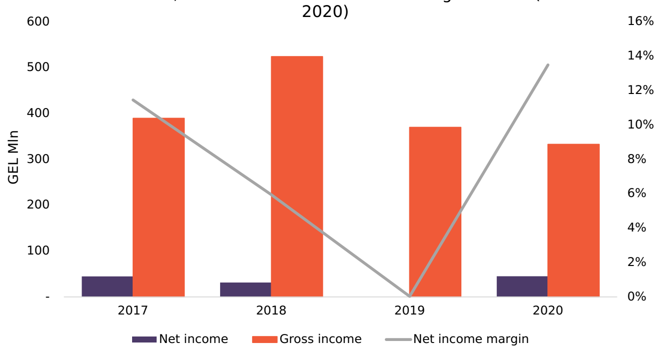
It is worth noting that assets and liabilities experienced a rapid YoY decrease from Q2 2018 to Q3 2019. In Q3 2019, assets decreased by 21% YoY, while liabilities by 32% YoY. The decrease for assets in this period could be explained by the introduction of minimum capital requirements and the obligation imposed on MFIs to meet the set ratio[4].

It is important to explore the fluctuations with respect to the gross income (revenue)[5], net income[6] and net income margin[7] of MFIs in 2017-2020.

In 2020, compared to 2019, gross income decreased by 10% and dropped to 332.6 mln GEL. However, net income increased, compared to 2019 and reached 44.8 mln GEL. In this same period net income margin increased by 14 percentage points and reached 14%.

It should be noted that in 2020, compared to 2017, net income increased by 1%, the net income margin increased by 2 percentage points, while gross income decreased by 15%.

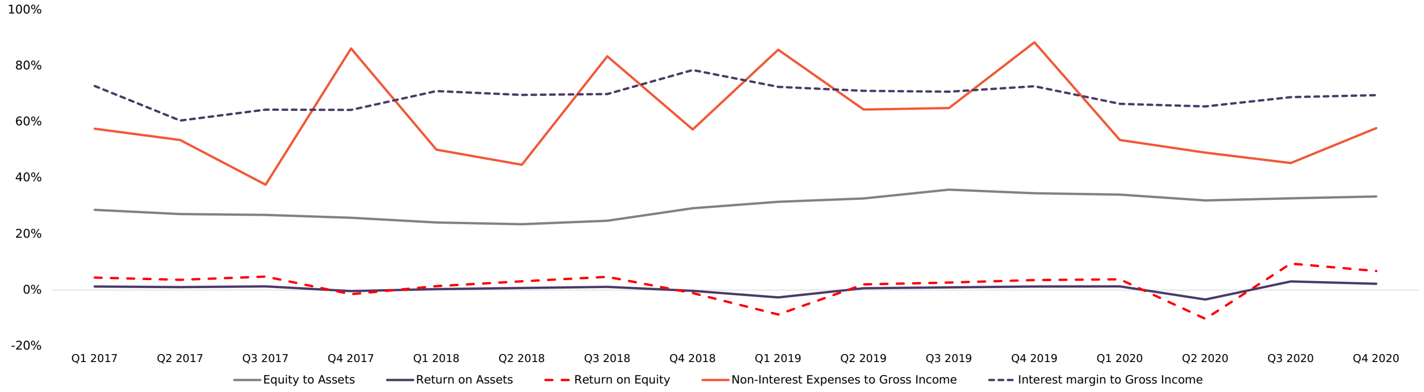
Gross income, net income and net income margin of MFIs (2017-2020)



Source: National Bank of Georgia

1 Capital adequacy requirements are based on a non-risk weighted ratio of regulatory capital to assets. For those MFIs which attract funds from individuals in excess of 50 percent of regulatory capital, requiring a ratio of 24 percent is required, and for those not meeting that threshold, 18 percent is required. Both capital and liquidity requirements are higher than those on the bank side, reflecting the higher risk in the nonbank sector.
2 Liquidity requirements are based on a ratio of liquid assets to average current liabilities. For those MFIs which attract funds in excess of 50 percent of regulatory capital, a ratio of 25 percent is required, while for others 18 percent is required.
3 Source: https://matsne.gov.ge/ka/document/view/4131861?publication=0.
4 The MFIs that were required to meet an 18% ratio were obliged to meet the ratio by 31st December 2018, while MFIs with the 24% reuirement had a deadline of 30th June, 2019
5 Gross income (revenue) is equal to the sum of total interest income and total non-interest income of MFIs combined
6 Net income is equal to gross income minus all costs.
7 Net income margin shows how much net income is generated as a percentage of gross income.

Financial Soundness Indicators (Q1, 2017-Q4, 2020)



Source: National Bank of Georgia; PMC RC's calculations

In the period of Q1 2017-Q4 2020, financial soundness indicators based on the consolidated income statements of MFIs in Georgia underwent notable fluctuations, largely brought on by new regulations introduced into the sector.

Return on Assets (ROA), which shows the profitability of MFIs relative to their assets, reached its lowest point in Q2 2020, when it amounted to -3.4%. Its highest point was recorded in Q3 2020 (3.1%). In Q4 2020, the ratio amounted to 2.2%, which marked a 1 percentage points increase compared to Q4 2019. On a yearly basis, ROA amounted to 2.1%, 0% and 3.1% in 2018, 2019 and 2020, respectively.

Return on Equity (ROE), which shows the profitability of MFIs relative to their equity, reached its lowest point in Q2 2020 (-10.3%). Its highest point was recorded in Q3 2020 (9.4%). ROE reached 6.8% in Q4 2020, which represented a 3.3 percentage points increase compared to Q4 2019. On a yearly basis, ROE amounted to 7.6%, 0% and 9.2% in 2018, 2019 and 2020, respectively.

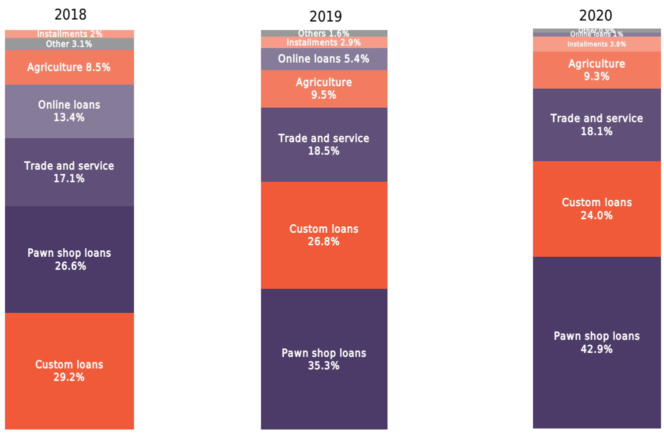
Equity to Asset ratio, which shows the amount of equity a company has compared to the total assets it owns, did not show high levels of volatility in 2017-2020, but there was an increase recorded between Q2 2018 and Q3 2019 as a result of a decrease of assets, precipitated by the introduction of the minimum capital requirement regulation. In Q4 2020, the ratio amounted to 33.4%, which marked a 1.2 percentage points decrease, compared to Q4 2019.

By the end of 2020, portfolio of loans issued by MFIs (both to individuals and to legal entities) amounted to 1.18 bln GEL, while the number of loans in portfolio amounted to 0.66 mln loans, which represented 8% increase and a 16% decrease, respectively, compared to the figure recorded by the end of 2018.

As a result of introduced regulations, several trends can be identified in the structure of amount of loans issued to individuals[8].

In 2018-2020, a significant decrease of online loans and custom loans (by 12.4 and 5.2 percentage points, respectively) was recorded. As a result, pawn shop loans emerged as a popular alternative, with its share rising by 16.3 percentage points over the same period. Moreover, trade and service loans and agricultural loans did not encounter noteworthy changes in this period (1 percentage point and 0.8 percentage points increases, respectively).

Portfolio of loans issued to individuals by purpose on average (2018-2020)



Source: National Bank of Georgia; PMC RC's calculations

According to the IMF, microfinance sector in Georgia currently faces a number of challenges[9], stating in particular that there is a mismatch between foreign currency borrowing and local currency lending. MFIs are obliged to lend to individuals and connected parties not more than 100 000 GEL and all loans up to that level must be in GEL. Moreover, funding from commercial banks is mostly denominated in foreign currency, which increases costs for MFIs (with regard to interest rate costs), when they need to exchange foreign currencies to GEL.

In addition, the 50% interest rate cap is considered too low by a number of MFIs which usually follow a strategy of providing risky microcredits to individuals. Therefore, they desire a higher interest rate cap to cover probable losses.

It is also worth noting that the IMF supported the NBG's proposed restructuring of the micro lending sector, which would result in transforming MFIs into micro-banks with the ability to take deposits and have deposit insurance as well as access to GEL from the NBG, which would in turn significantly alleviate the sector's dependence on foreign currency and thus its exposure to GEL fluctuations.

8 Only loans issued to individuals were taken into account in calculations because in 2018-2020 they represented more than 93% of total loans.
9 Source: IMF Country Report No 20/273-Technical assistance report-strengthen regulation, supervision, and oversight of micro lending institutions.

Basic Economic Indicators	2016	2017	2018	2019	2020
Nominal GDP (mln USD)	15 141.7	16 248.5	17 596.6	17 470.7	15 888.1*
GDP per Capita (USD)	4 062.1	4 358.5	4 722.0	4 696.2	4 274.6*
GDP Real Growth (%)	2.9%	4.8%	4.8%	5.0%	-6.2%*
Inflation	2.1%	6.0%	2.6%	4.9%	5.2%
FDI (mln USD)	1 652.6	1 978.3	1 306.3	1 310.8*	616.9*
Unemployment Rate (%)	21.7%	21.6%	19.2%	17.6%	18.5%
External Debt (mln USD)	4 516	5 177	5 434	5 741	7 535
Poverty Rate (relative)	21.0%	22.3%	20.5%	20.1%	-

*preliminary data