

Section 6. Finance, money circulation and credit

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STRUCTURAL ANALYSIS OF CREDIT PORTFOLIO OF MICROFINANCE ORGANIZATIONS ACTING IN GEORGIA

Abstract. Credit system is one of successful and rapidly growing field in the country's economy. Role of credit system in the development of economy of state is Multifaceted. There are many types of credit institution presented on credit market. Those institutions are divided into two groups – bank and non-bank credit institutions. Microfinance organizations, as subject of private sector, play a vital role in the development of country's economy.

Today's globalized economy, research and discussion on non-bank sector gains a bigger importance. Credit systems of developed as well as developing countries are characterized by the diversity of financial credit institutions. In Georgia, microfinance organizations are integral part of credit system. The microfinance sector as an important part of none banking sector is on of the most developing field and important player of credit market, their activities support improvement and sustainability of financial- credit system of country.

Keywords: credit system, microfinance organization, credit portfolio.

Formation of credit-bank system in Georgia started in XVIII–XIX centuries. As in other countries belonging Russian empire, Georgia had a branched, multilayered credit-banking system that provided a wide range of credit and other banking services to legal entities and individuals, but this system failed to become two-tier based system. In 1917–1921 independent credit system characteristics were formed in Georgia. It was developing on the bases of market economy, but due to the catastrophic state of the economy and numerous military and domestic political difficulties, creation of self-sustained credit system was not possible.

Credit organizations in Georgia had essential place in complex program of economic reforms during transition period to market economy. Laws on

national bank and commercial bank activities were adopted. In the beginning of XXI century structure of credit system in Georgia was as follows: 1) National Bank of Georgia; 2) commercial banks; 3) Specialized credit-financial institutions.

Non-banking credit- financing institutions are third element of banking-credit system. They are engaged in credit-financial services for certain sectors or areas of the economy. They typically have one or two major operations, they operate in relatively narrow segments of the loan capital market, and have specific customers [1, 31]

The National Bank of Georgia, within the framework of promoting financial stability, oversees activities of microfinance organizations, with the

aim to ensure the stable functioning, reliability and sustainability of the non-banking sector of Georgia and avoid possible risks and by doing so protect interest of creditors. An appropriate legal framework has been developed to improve the oversight and regulation of microfinance organizations. Law on “Microfinance organizations” represents the source for legal regulations of microfinance organizations acting in Georgia. This law was adopted in 18 July of 2006, by the National bank of Georgia and were amended several times in the following period.

Microfinance organization – is a legal entity established in the legal form of a limited liability or a joint stock company, registered on the basis of application by the National Bank of Georgia. It carries out the activities defined by the law under the supervision of the National Bank of Georgia [3, 1]. The authorized cash capital should not be lesser than 1,000,000 (one million) GEL;

By the Georgian legislation microfinance organizations are authorized to carry out following activities:

a) Grant microloans to legal entities and individuals, including mortgage, pawn, consumer, non-secured and group’s loans and other types of loans (credits). To generate credit payment card;

b) Invest in state and public securities;

c) Provide money transfers;

d) Perform duty of insurance agent;

e) Provide consultation services related to lending;

f) Receive loans (credits) from resident and non-resident individuals and legal entities;

g) Other financial services and transactions defined by the legislation of Georgia: micro-leasing, factoring, currency exchange, publishing, realization and redemption of promissory notes and bonds, and other transactions related to these financial services and operations.

The amount of microcredit issued by the micro-credit organization should not exceed 100000 Gel in total for per borrower.

Microfinance sector was prepared to meet covid-19 pandemic negative results in a proper way.

The experience got in 2020 proved to be effective in 2021 as well. the growth of the sector has not slowed down. It is important to mention that the trust and interest towards the microfinance sector has been increased including in terms of increasing funding from non-resident institutional lenders. During this period microfinance sector has been provided with high level of buffer of the capital and liquidity. In order to increase the access to GEL resources for the microfinance sector, the support instruments for the liquidity developed by the National Bank of Georgia in 2020 were maintained during 2021 such as: swap instruments at about 200 million dollars and Loans from commercial banks within the scope of the loan portfolio set by microfinance organizations in accordance with the established criteria, It is important that the financial instruments mentioned above improved the stability of the value of funds, which was positively evaluated by the sector.

According the data of I quarter of 2022, there are 38 microfinance organizations in Georgia (389 branches). The total assets of the sector makes up to 1.64 billion GEL. The share of the microfinance sector in the entire financial system is small (2.6 percent), although its role in terms of accessibility of finances is significant. Regional coverage is high, both in terms of the number of branches and the number of borrowers.

By the same data, credit portfolio maintained growing tendencies, despite the Covid-19 pandemic and declining number of microfinance organizations. Entire credit portfolio amounted to GEL 1.39 billion and 737,751 in loans.

The main direction of microcredit sector lending is loans issued to individuals, entire portfolio equals to 97%. Only 3% is directed to legal entities. 736493 loan in quantity is granted to individuals, which is cash equals to 1.36 billion GEL. 1258 loan in quantity is granted to legal entities, which in cash equals to 30.9 million GEL. 74% of loans granted to individuals, which in cash equals to 1.01 Billion GEL, are consumption lending (consumption lending, online

loans, pawn, installments and etc.). Only 16% of credit portfolio is issued for loans related to trade-service purposes, in cash 223.8 Million GEL. Loans for Agriculture equals to 9% and in cash 124.5 Million GEL. It is worth to notice that material growth in sector was the result of 26% growth in consumption lending, whereas business and agriculture sectors resulted in 11.8% reduction.

The quality of credit portfolio in 2021 against previous years, was improved despite the Covid-19 pandemic. In particular, share of inactive loans in entire portfolio were declined from 7.5 to 5.9%, whereas share of overdue portfolio declined from 9.3 to 8%. This was affected by the reduction of inactive loans, as well as by granting the new loans. The reserve of entire portfolio is within 6 percentage.

In 2021, loan coverage structure of credit portfolio was also improved. In particular share of blank credit and surety loans were declined to 25%, which is related to increase of pawn loans. By product, the highest reserve index 48%, belongs to online loan portfolio, though this index does not affect significantly the quality of entire credit portfolio because online loan portfolio has low balance rate.

According to the data of I quarter of 2022, reserve for loan losses amounted to 76.93 Milling GEL, which is 5.51% of entire portfolio. The dollarization index of credit portfolio of microfinance organizations is characterized by declining tendency. This happened mainly due to the amendments to Article 625 of the Civil Code of Georgia on the prohibition of granting loans to individuals of up to GEL 200,000 in foreign currency. The dollarization index is approximately 4%.

Rapid growth of credit portfolio in 2021 resulted in 129.3 Million Gel of operating profit, which is 27 percent higher than the profit in previous year. Net profit amounted to GEL 98 million. Consolidated net profit for the first quarter of 2022 is GEL 28. 45 Million GEL.

Since 2018 the order of the president of national bank of Georgia “On approval of the rule of supervision and regulation of the activities of microfinance organizations” came into force, 37 microfinance organizations liquidation proceeding has started, in the case of 30 of them the process has already been completed, liquidation process of 7 microfinance organization is undergoing.

At the moment of December 31 2018, 67 microfinance organizations operated in the country, during 2019 the quantity of microfinance organization has been reduced to 48 and today 38 microfinance organizations are operating on credit market. In ten cases, organizations changed the scope of their activities and registered as lending agents. After the evaluation of supervisory burden, part of organizations who left microfinance sector took the decision to transfer to the lending sector, where softer regulations are in place. However, lending agents/entities have limited scope of activities, including accessibility to personal resources, which in other hand results in having low impact on financial stability risks.

The microfinance sector continues developing process and promises significant innovations to both it's clients and Georgian and fringe investors. Leaders of the sector aware of the importance of responsible lending and take care of both the sector and their own professional reputation.

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