

Challenges of the microbank as a new representative of the financial sector

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***Anotation.** An important role for developing economies is played by the volume and facilities of business and population lending. Although the financial sector of Georgia has been characterized by stability in recent years and the volume of the sector is increasing, this growth was not the same for all participants in the sector and certainly effective for business and the population, because the commercial banks and insurance sectors are characterized by increasing trends from the financial sector and microfinance organizations and the securities market are characterized by a relatively decreasing trend.*

It is recognized that the development of the financial sector and high competition ensure greater access to finance and alternative resource investments. High interest rates are a challenge for the state, but it is logical that the existence of competition in the financial sector alone cannot ensure its reduction.

Participants of the financial sector need liquid assets to manage and effectively dispose of their own and raised funds, therefore, in this process, the supervisory body of the financial sector - the National Bank conducts a number of measures, which derives from and depends on the current economic situation in the country. It is with this logic that a new decision was made, which created microbanks and which should take the place of an intermediary link between commercial banks and microfinance organizations.

The world does not have a long history of microbanking experience, but we are certainly familiar with the classification of commercial banks by specialization, and the United States of America is a clear example of this. Commercial banks in Georgia operate on the principle of universality, and they include financing of loans of any field and volume in their portfolio.

Microbanks, based on their name, indicate a relatively reduced/truncated version of commercial banks, which should be focused on financing

relatively small volumes of loans, unlike commercial banks, but we understand that microbanks will have to enter into competition with both microfinance organizations and commercial banks, therefore, how much its creation will justify the goals of creation will be assessed by observing the practice, which requires time.

The task of the research is to evaluate and analyze the creation of an intermediary link between microbanks as new participants in the financial sector, commercial banks and microfinance organizations. Commercial banks operate on the principle of universality, and their portfolio includes financing loans of any field and volume. Microbanks indicate a relatively reduced/truncated version of commercial banks, which should be focused on financing loans of a relatively small volume, unlike commercial banks.

The subject of the study is the necessity and reasons for creating a new representative of the financial sector of Georgia, and the object of the study is the financial and statistical indicators of banking and non-banking institutions in the financial market of Georgia.

The following methods of scientific research were used to solve the set goal: analytical - for collection, summary; Analogies and comparisons - determining the impact of a new "player" on the financial sector; Generalization - for formulating conclusions based on research results.

Introduction

On February 22, 2023, the Parliament of Georgia adopted the law "On the activities of microbanks", which defined the basic provisions of the activities of such an organization. The government announced the creation of such organizations even before that, already in 2022,

moreover, the creation of microbanks was discussed in scientific and political circles even during the creation of microfinance organizations. In addition, it should be noted that financial institutions with similar characteristics were created in Georgia, for example, JSC "Procredit Bank", which operates in the banking sector of Georgia, was originally created as MBG microfinance bank, therefore, even today, the bank's goal is to finance small and medium-sized businesses, which have a long-term development plan. (Georgia P. b., 2024)

Accordingly, the mentioned law defined the main objectives of the adoption of this law, as well as defined the rules for the activity and licensing of microbanks and others.

Microbanks, as they represent the participants of the financial market, came under the supervision of the National Bank of Georgia, therefore, the National Bank of Georgia was instructed to prepare legal acts by July 1, 2023. For the current period, the National Bank of Georgia has adopted 32 legal and 2 supervisory acts on microbanks. In fact, from a supervisory point of view, microbanks should meet similar requirements as commercial banks, with relatively relaxed requirements, and this is logical. With the documents developed by July 2023, it is already possible to issue microbank licenses. According to the explanatory card, which preceded the adoption of the mentioned law, it is explained that: "It is important that, despite the same status, business models that differ in content were subject to a different regime of regulation and supervision." This has given rise to the need to improve the supervisory framework of non-banking institutions. In connection with the aforementioned, the International Monetary Fund developed relevant recommendations. (IMF, 2020) As a result, the National Bank of Georgia made a decision to develop a supervisory framework for a new financial institution - a micro bank.". (Georgia P. o., 2022)

Main part

As we know, the adoption of the law is immediately preceded by an explanatory card, which defines the reason and objectives of the adoption of the law, so it is interesting how the legislative body evaluated these factors. According to the explanatory card, the microbank will mainly carry out its activities in those sectors where the operational costs are high and, accordingly, the interest of commercial banks is low. In the explanatory card and directly in Article 3.1 of the law, it was mentioned that "the microbank model is based on crediting persons receiving income from entrepreneurial activities (including agricultural activities). In particular, at least 70 percent of the microbank's credit portfolio should consist of loans granted for entrepreneurial purposes and/or loans whose repayment source is income from entrepreneurial activities. (Georgia P. o., 2022)

Also, it is important that the legislation does not make a division into classic, entrepreneurial and agricultural financing organizations, from microfinance organizations focused on consumer credit products, therefore, it is unfair to bring such organizations into a single regulation.

It is important that the explanation card for the adoption of the draft law establishes the reason for the adoption of the law and the results to be achieved, in particular:

- Due to the lack of access to the GEL resource and the lack of direct access to the monetary instruments of the National Bank of Georgia, the need to hedge the resource received in foreign currency increases the cost of funds, which is reflected in expensive credit products. Micro banks will be granted the right to open correspondent accounts in the National Bank of Georgia. This will increase direct access to monetary instruments, promote the attraction of GEL resources, and reduce hedging costs, which, along with the increase in non-interest income, will affect the reduction of the interest rate of products.. (Georgia P. o., 2022)

- It should be taken into account that microfinance organizations, due to the permitted

activities defined by the law, lack the opportunity to offer their clients (micro and small lending segment) other basic banking services, such as opening an account and servicing it.

- On the one hand, this limits the financial involvement of clients, especially in the regions, and on the other hand, the possibility of receiving non-interest income, which is ultimately reflected in more expensive credit products. (Georgia P. o., 2022)

Microbanks will have the opportunity to grant loans to one borrower or a group of interconnected borrowers and undertake other obligations, the maximum total amount of which should not exceed 1,000,000 (one million) GEL, also unlike microfinance organizations, as mentioned, Mirkobanks will have the opportunity to receive deposits and serve customers by opening various accounts.

Based on the above, it is clear that the existence of microbanks should ensure more access to financial resources and relatively more competition, and competition should be a factor in reducing interest rates on loans (it is possible to extend a similar opinion to deposits as an

alternative way of investing money), In this regard, there are many papers that acknowledge such an opinion. (Vanroose, Annabel and Bert D’Espallier, 2013) In addition, it is also recognized that not only the presence of various types of financial organizations, but also their number and geographical distribution, i.e. branches, ATMs and others, are important for ensuring access to financial resources. (Robert Cull, Asli Demirgüç-Kunt, Jonathan Morduch, , 2013)

It should be noted that the purpose of creating microbanks is to occupy an intermediate link between microfinance organizations and commercial banks.

According to the consolidated statements of microfinance organizations published by the National Bank of Georgia, the financial indicators of microfinance organizations have been unstable over the last 8 years, as for the amount of loans issued, it has decreased (see Table 1).

Table 1

Selected financial and statistical indicators of microfinance organizations 2015-2023 yy.

(National, Consolidated financial data of microfinance organizations, 2023)

	2015	2016	2017	2018	2019	2020	2021	2022	2023, II
Total assets, thousand GEL	1,611,272	2,019,805	1,523,790	1,457,978	1,378,550	1,476,855	1,634,315	1,879,170	1,941,271
Total loans, thousand GEL	1,197,554	1,443,696	1,136,950	1,101,531	1,129,140	1,184,172	1,360,136	1,573,998	1,622,616
Number of loans	531,189	1,151,355	794,481	786,117	708,565	662,412	726,736	827,181	853,367

It should be noted here that the number of microfinance organizations has decreased and will amount to 34 by the 2nd quarter of 2023.

According to the report of the National Bank of Georgia, in 2006-2016, the number of microfinance organizations increased from 15 to

80, and the number of their branches and service centers increased from 21 to 430, which led to an increase in the number of employees to 5,900. The decreasing trend began in 2017. When the stricter requirements imposed by the National Bank and the growing competition created a

certain crisis in the market of microfinance organizations. (Dzadzua, 2022)

Unlike microfinance organizations, total

assets of commercial banks have increased from 25 billion to 70 billion GEL, and net profit from 537 million to 2 billion (see Table 2).

Table 2

Selected financial and statistical indicators of commercial banks
2015-2023 yy (National, Monetary and financial statistic, 2023)

	2015	2016	2017	2018	2019	2020	2021	2022	2023, II
Total assets, million GEL	25,632	30,149	34,593	39,983	47,183	56,871	60,021	70,350	69,931
Interest income from loans, million GEL	1,982	2,118	2,456	2,897	3,143	3,465	4,203	4,896	2,736
Net profit, million GEL	537	679	869.8	914.7	953.6	99.3	2,082	2,090	1,258

It should be noted that the profitability of commercial banks in Georgia is one of the highest and is highly stable, while the net profit and total assets of commercial banks are increasing year by year. The high potential and growing demand of commercial banks is determined by the variety of their product offerings and the existence of monopolistic competition (the listing of JSC "Bank of

Georgia" and JSC "TBC" Bank on the London Stock Exchange should be noted). It is logical that a strong financial institution also plays an important role in the introduction of innovative technologies, which makes the ways and means of providing their products relatively easier, therefore, microbanks will have to focus more on the selected segment at the initial stage using specific approaches and means

Table 3

Loans by volume range (Georgia N. B., Loans by volume ranges, 2024)

Period	Total	0.01 - 1,000.00	1,000.01 - 5,000.00	5,000.01 - 25,000.00	25,000.01 - 100,000.00	100,000.01 - 1,000,000.00	1,000,000.01 and over
2024-03	29,683.1	564.7	2,305.4	5,227.0	7,749.3	7,677.2	6,159.5
2024-02	29,120.8	562.5	2,302.5	5,138.9	7,629.8	7,495.2	5,991.9
2024-01	28,718.2	563.5	2,310.6	5,067.2	7,505.5	7,315.5	5,955.9
2023-12	28,833.3	557.9	2,309.0	5,039.6	7,460.6	7,295.0	6,171.2
2023-11	27,899.8	551.8	2,279.4	4,990.9	7,329.1	7,032.6	5,716.0
2023-10	27,476.9	546.3	2,262.4	4,924.9	7,210.2	6,854.7	5,678.4
2023-09	27,044.9	546.1	2,264.1	4,915.8	7,134.3	6,669.8	5,514.8
2023-08	26,441.7	548.0	2,259.2	4,881.1	7,041.8	6,469.0	5,242.6
2023-07	26,032.2	546.7	2,250.8	4,850.9	6,969.4	6,327.2	5,087.2
2023-06	25,938.6	546.3	2,247.5	4,817.6	6,893.0	6,169.8	5,264.5

As it can be seen from the table, according to the ranking of the volume of loans, medium and large volume loans prevail, among them the volume of loans of more than 1,000,000 GEL is more than 20% of the total loans, and we understand that the microbank will not be able to

participate in the competition for granting such loans. But the rest of the loans should theoretically have a competitive potential, but even in such a case there are many questions that need to be answered.

Table N4

Interest rates on loans by volume ranges (Georgia N. B., Interest Rates on Loans by volume Ranges, 2024)

Period ₾	Total	0.01 - 1,000.00	1,000.01 - 5,000.00	5,000.01 - 25,000.00	25,000.01 - 100,000.00	100,000.01 - 1,000,000.00	1,000,000.01 and over
2024-03	14.74%	22.40%	22.38%	18.46%	13.58%	12.33%	12.63%
2024-02	14.97%	23.09%	22.67%	18.54%	13.69%	12.52%	13.08%
2024-01	15.12%	23.20%	22.74%	18.58%	13.78%	12.66%	13.38%
2023-12	15.15%	23.32%	22.81%	18.56%	13.81%	12.74%	13.44%
2023-11	15.37%	23.58%	23.03%	18.64%	13.90%	12.91%	13.81%
2023-10	15.40%	23.70%	23.08%	18.60%	13.89%	12.97%	13.85%
2023-09	15.46%	23.73%	23.15%	18.59%	13.91%	13.02%	13.90%

According to Table N4, the shorter the term of the loan, the higher the interest rate on loans, and the interest rate decreases along with the increase in the volume of the loan, the exception is the volume of loans issued in the amount of more than 1,000,000 GEL, and the average interest rate on loans is 14.74% and in the last 6 months with a relatively decreasing trend characterized, but the interest rate of such a volume cannot be considered as an optimal volume for effectively lending the economy.

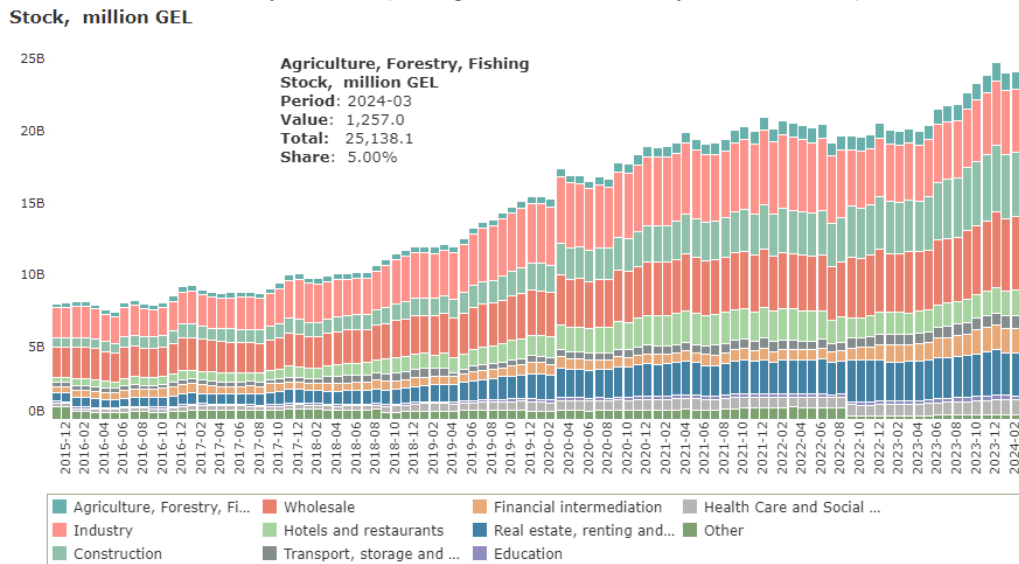
In addition, it is important that according to the regulations adopted by the National Bank in 2018, responsible lending of individuals is in

effect, which is focused on reducing over-indebtedness and increasing the borrower's creditworthiness. (Tsinaridze & Beridze, 2020) It is interesting that in the case of micro-banks, there will be a separation of loan service and collateral ratios, in order to attract more clients by micro-banks.

Based on the goals of the law, the state aims to finance enterprises with high operating costs, and the direction of agriculture is mentioned separately among them, therefore, we will highlight and characterize the ranking of loans issued by commercial banks in this direction according to economic sectors.

Diagram 1

Loans by NACE (Georgia N. B., Loans By NACE, 2024)



Looking at the diagram, we can conclude that the volume of loans granted by commercial banks to agriculture is quite low, despite the fact that the volume of lending has been increasing in recent years, its share is only 5% of total loans (1,257 million GEL), which is not considered a high volume portfolio.

Conclusion

It should be noted that, as in the case of microfinance organizations, microbanks will also have to enter into competition with commercial banks, and the latter will have more competitive leverage due to their experience and financial indicators, therefore the National Bank should allow microbanks to use such tools that will allow microbanks to take a competitive place in a fairly saturated market, as foreign practice shows, it can be online, innovative service offers and small volume credits for the main mass of the population, low-income and middle-income society. Of course, practice will highlight more trends, but it is difficult to determine how healthy competition or access to financial resources will be achieved, therefore, how microbanks will be involved in the supply chain of such resources may depend on the National Bank of Georgia.

In addition, commercial banks are highly liquid financial institutions with the support of highly liquid instruments from the National Bank with an already saturated market, therefore, the recruitment of potential or existing borrowers by microbanks from commercial banks will be related to a rather difficult process.

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**მიკრობანკის, როგორც საფინანსო სექტორის ახალი წარმომადგენლის გამოწვევები
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ანოტაცია. ფინანსურ სექტორში მხოლოდ საბანკო კონკურენციის არსებობა ვერ უზრუნველყოფს მის დაწევას. ფინანსური სექტორის მონაწილეებს ლიკვიდური აქტივები სჭირდებათ საკუთარი და მოზიდული სახსრების სამართავად და ეფექტიანად განსაკარგავად, შესაბამისად, ამ პროცესში ფინანსური სექტორის ზედამხედველი ორგანო - ეროვნული ბანკის ატარებს მთელ რიგ ღონისძიებებს, რომელიც დამოკიდებულია ქვეყანაში მიმდინარე ეკონომიკურ მდგომარეობაზე. სწორედ ამ ლოგიკით იქნა მიღებული ახალი გადაწყვეტილება, რომლითაც შეიქმნა მიკრობანკები.

მიკრობანკების გამოცდილების დიდი ისტორია მსოფლიოს არ აქვს, მაგრამ კომერციული ბანკების სპეციალიზაციით კლასიფიცირებას რა თქმა უნდა ვიცნობთ და აღნიშნულის ნათელი მაგალითი ამერიკის შეერთებული შტატებია. საქართველოში მიკრობანკებს მოუწევთ გამოწვევებთან გამკლავება და კონკურენციაში შესვლა როგორც მიკროსაფინანსო ორგანიზაციებთან, ასევე კომერციულ ბანკებთან, ამიტომ მისი შექმნა რამდენად გაამართლებს შექმნის მიზნებს შესაფასებელი იქნება პრაქტიკაზე დაკვირვებით, რომელიც დროს საჭიროებს.

კვლევის ამოცანაა მიკრობანკების, როგორც საფინანსო სექტორის ახალი მონაწილეების, კომერციულ ბანკებსა და მიკროსაფინანსო ორგანიზაციებს შორის შუამავალი რგოლის შექმნის შეფასება და გაანალიზება. კომერციული ბანკები მოქმედებენ უნივერსალურობის პრინ-

ციპზე და ისინი საკუთარ პორტფელში რთავენ ნებისმიერი დარგის და მოცულობის სესხების დაფინანსებას. მიკრობანკები კი - მიუთითებენ კომერციული ბანკების შედარებით შემცირებული/შეკვეცილ ვარიანტზე, რომელიც ორიენტირებული უნდა იყოს კომერციული ბანკებისაგან განსხვავებით შედარებით მცირე მოცულობის სესხების დაფინანსებაზე.

კვლევის საგანს წარმოადგენს საქართველოს საფინანსო სექტორის ახალი წარმომადგენლის შექმნის აუცილებლობა და მიზეზები, კვლევის ობიექტს კი საქართველოს საფინანსო ბაზარზე საბანკო და არასაბანკო ინსტიტუტების ფინანსური და სტატისტიკური მაჩვენებლები.

დასახული მიზნის გადასაჭრელად გამოყენებული იქნა სამეცნიერო კვლევის შემდეგი მეთოდები: ანალიტიკური - შეგროვებისთვის, შეჯამებისთვის; ანალოგიები და შედარება - საფინანსო სექტორზე ახალი „მოთამაშის“ გავლენის განსაზღვრა; განზოგადება - კვლევის შედეგების საფუძველზე დასკვნების ფორმულირებისთვის.

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