

# Access to finance for SMEs in Georgia through the lens of the EIB Bank Lending Survey

*Needs, Challenges and Opportunities*

**From Access to Finance to Inclusive Growth**  
*European Investment Bank*

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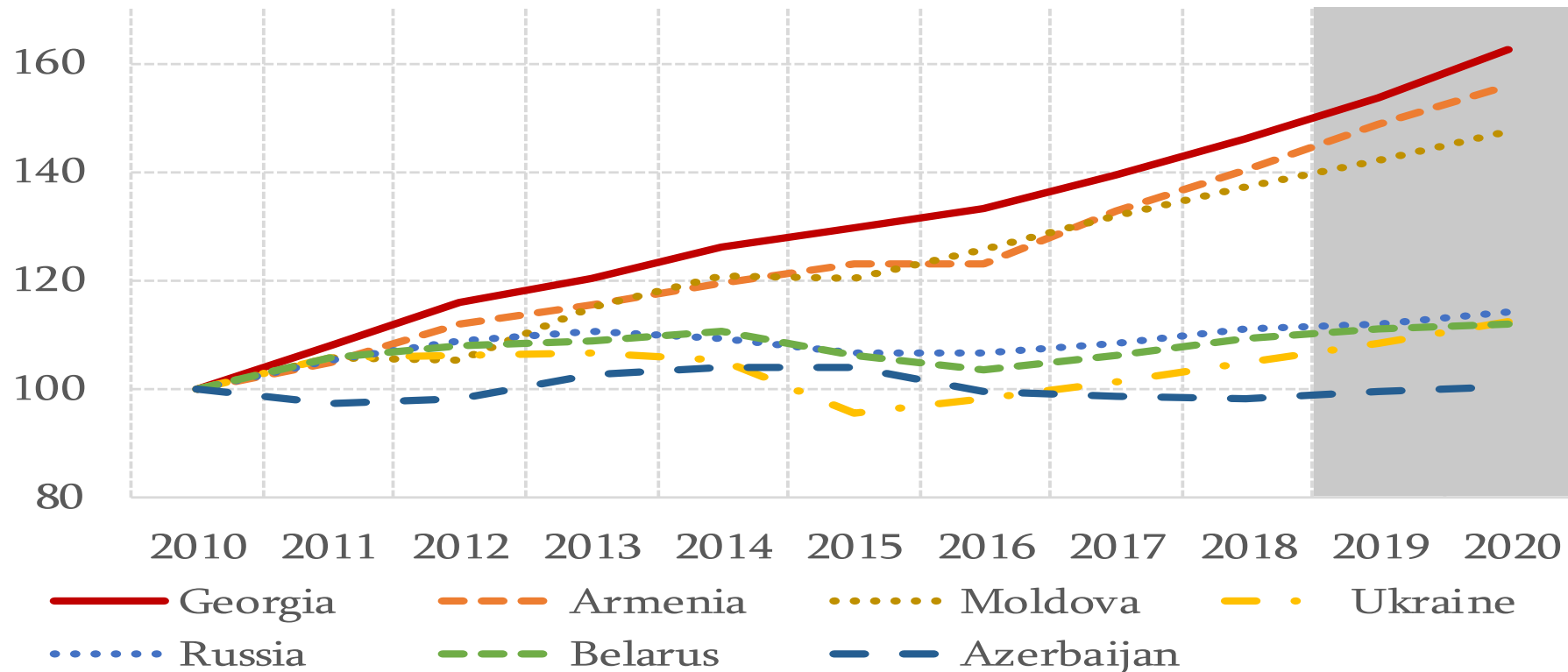
18<sup>th</sup> December 2019, Tbilisi

- ▶ Operating environment
- ▶ SMEs and financial intermediation
- ▶ EIB Bank Lending Survey
  - ▶ Bottlenecks to lending activity
  - ▶ SMEs constraints
  - ▶ Limiting factors
  - ▶ CGSs and other products
- ▶ Concluding remarks

- ▶ **Operating environment**
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# A story of robust growth for the Georgian Economy

Real GDP per capita - USD index based 2010=100

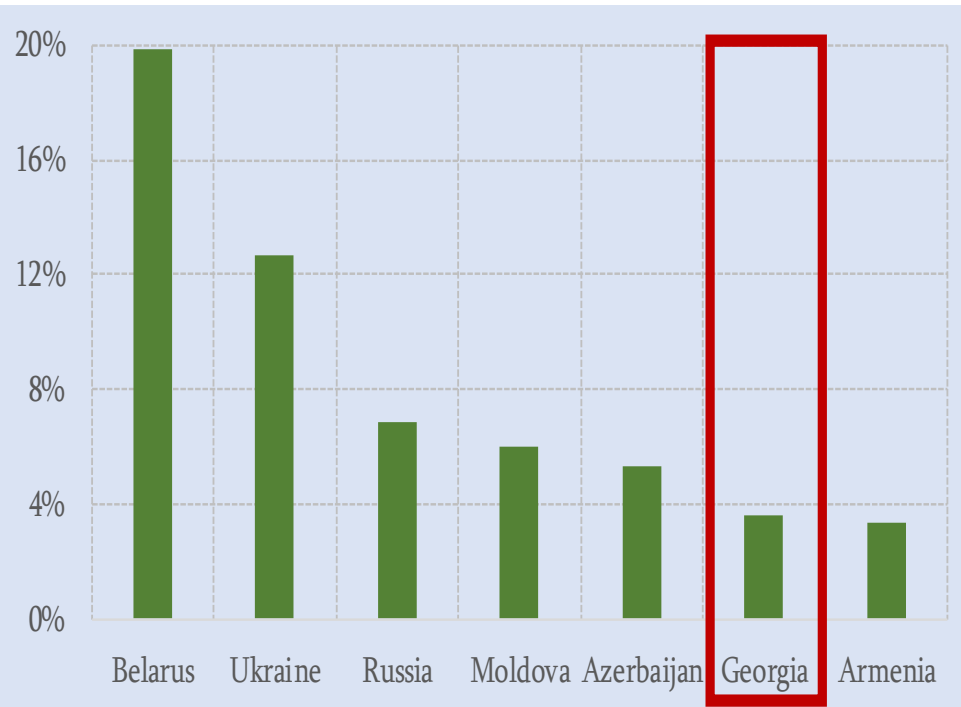


Source: Author's calculations based on IMF WEO data

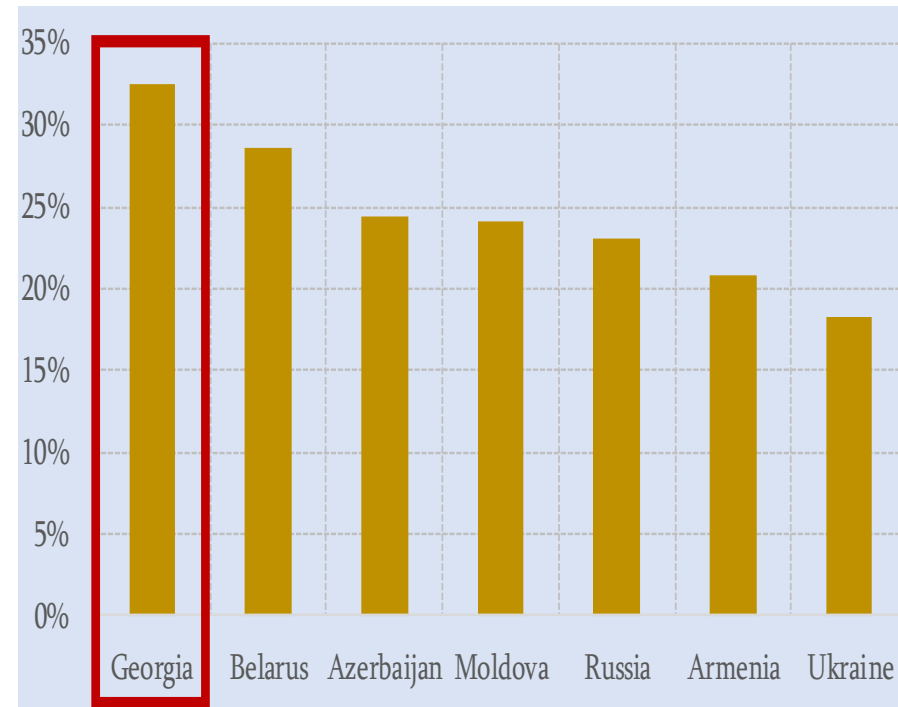
**Steady growth** over the medium term  
**Sustained performance** is expected in the near term

# Supportive environment to growth

**Inflation – 2014-2019 average**



**Investment – GFCF as % of GDP 2014-2019 average**



Source: Author's calculations based on IMF WEO data

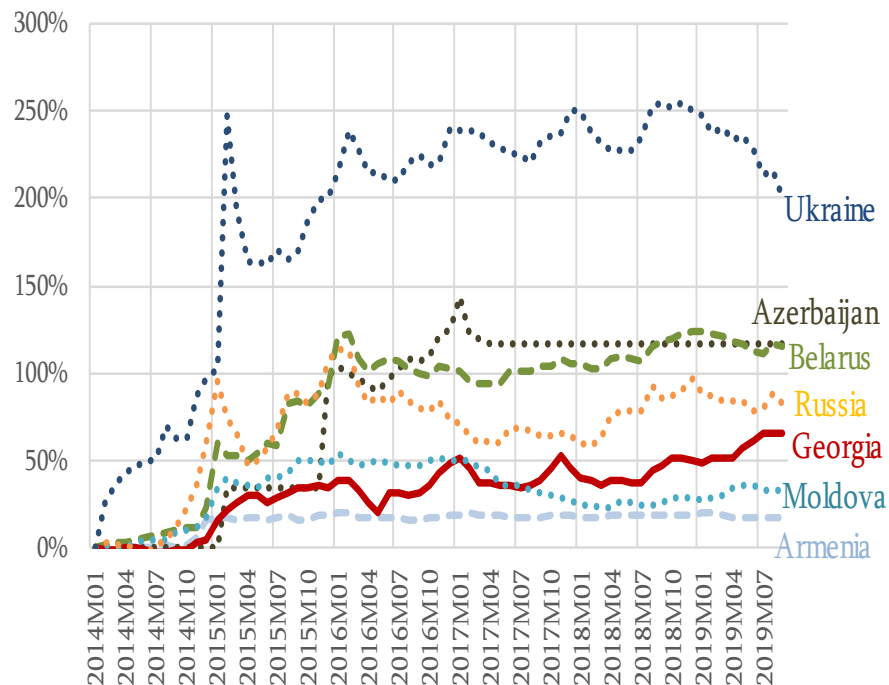
**Relatively low inflation** environment supported by the monetary policy framework

**High investment level:** growth sustained by productivity enhancing components of aggregate demand

# External environment: some headwinds but robust inflows

## Exchange rates

LC/USD rebased in January 2014 (positive figures depreciation)

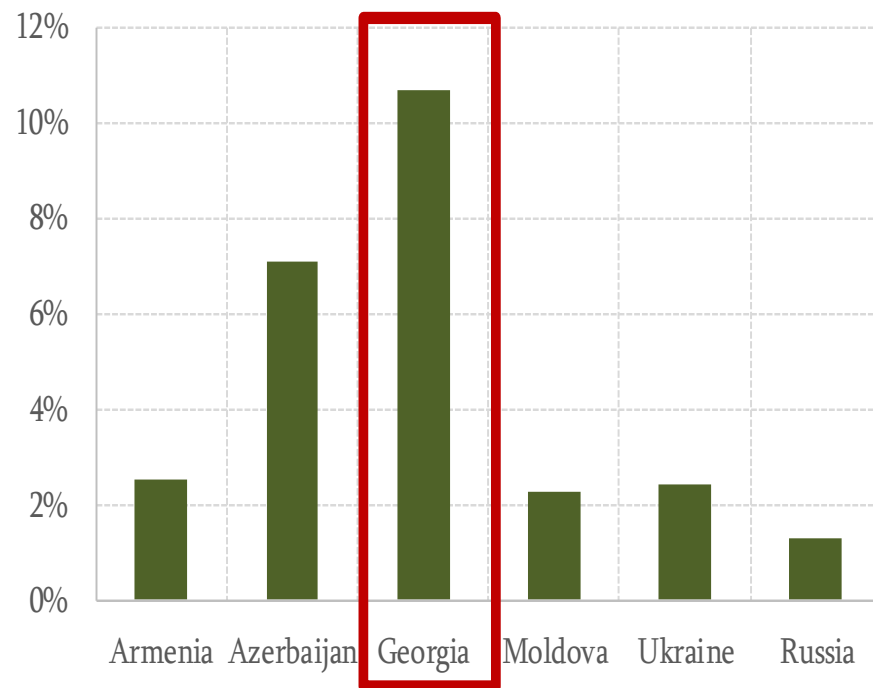


Source: Author's calculations based on International Financial Statistics data

**Some depreciation** but less than many other countries in the region

## FDI

FDI inflows as % of GDP – average 2014-2018



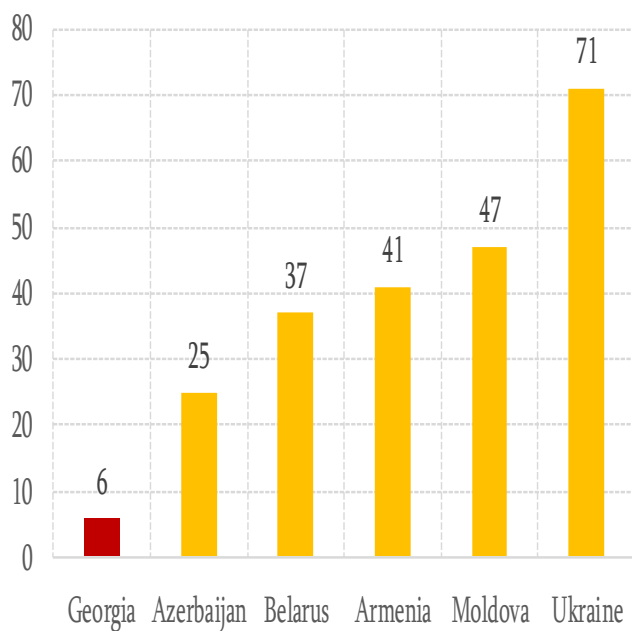
Source: Author's calculations based on UN data

**High level of FDI** support the current account deficit and signal a positive business environment

# An enabling domestic environment

## Doing business

ranking based on 190 countries

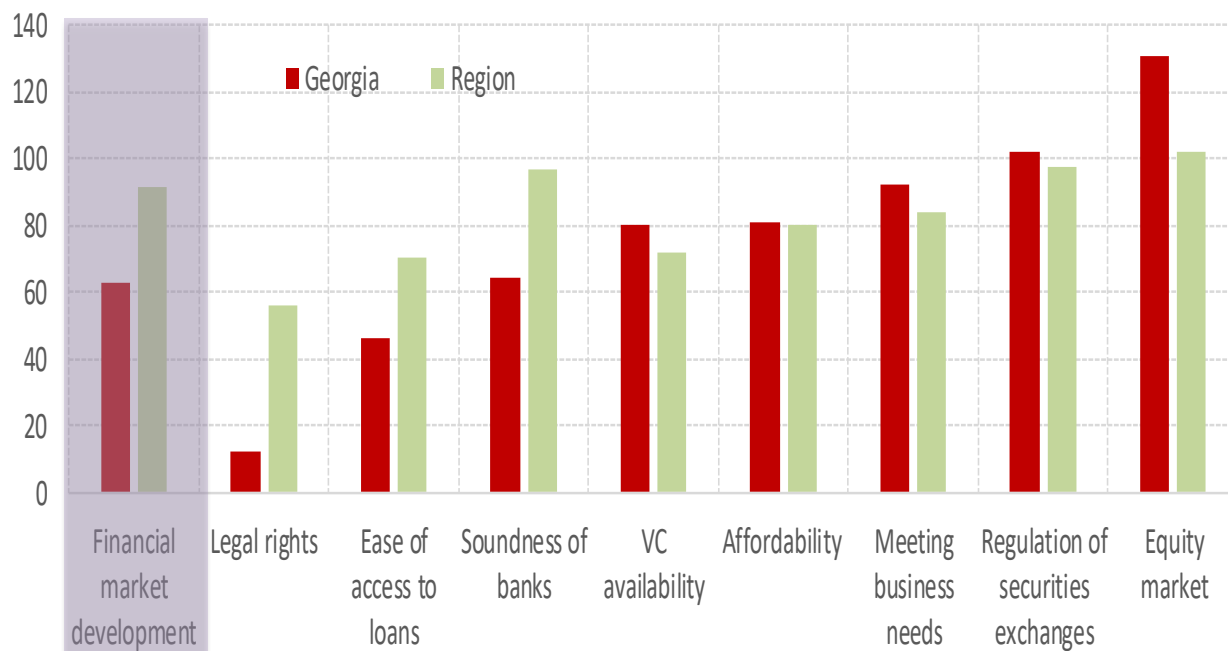


Source: WB Doing Business Indicators 2019

**Business friendly:** *de iure* Georgia is a regional and global top performer

## Financial Development Indicators

ranking based on 141 countries



Source: Author's calculations based on Global Competitiveness Indicators 2018

- **Financial development** Georgia scores well regionally but less so globally
- **Alternative sources of finance** less favorable than traditional sources

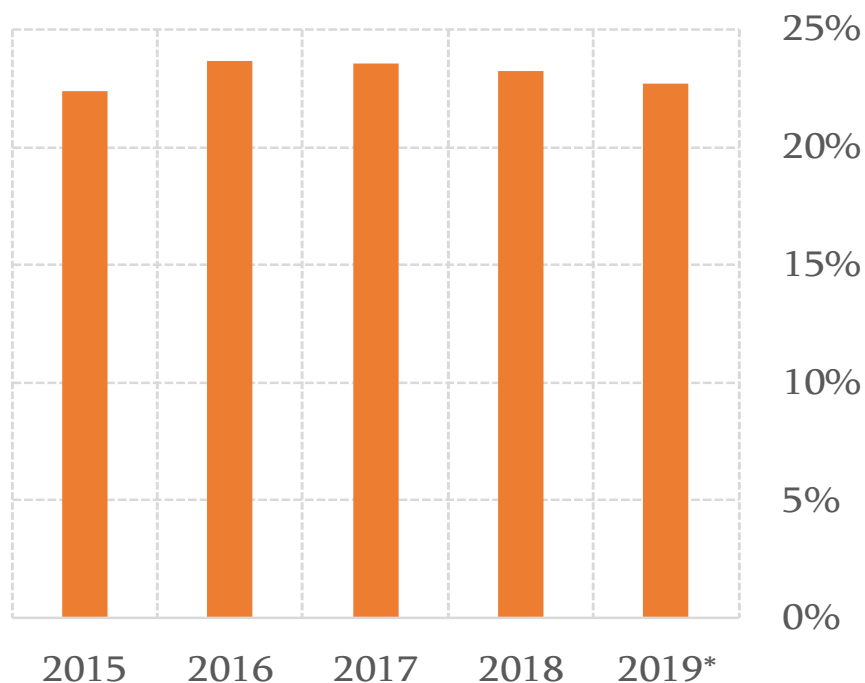
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# SMEs landscape

**Steady share** of SMEs lending

Share of SMEs loans in total loans

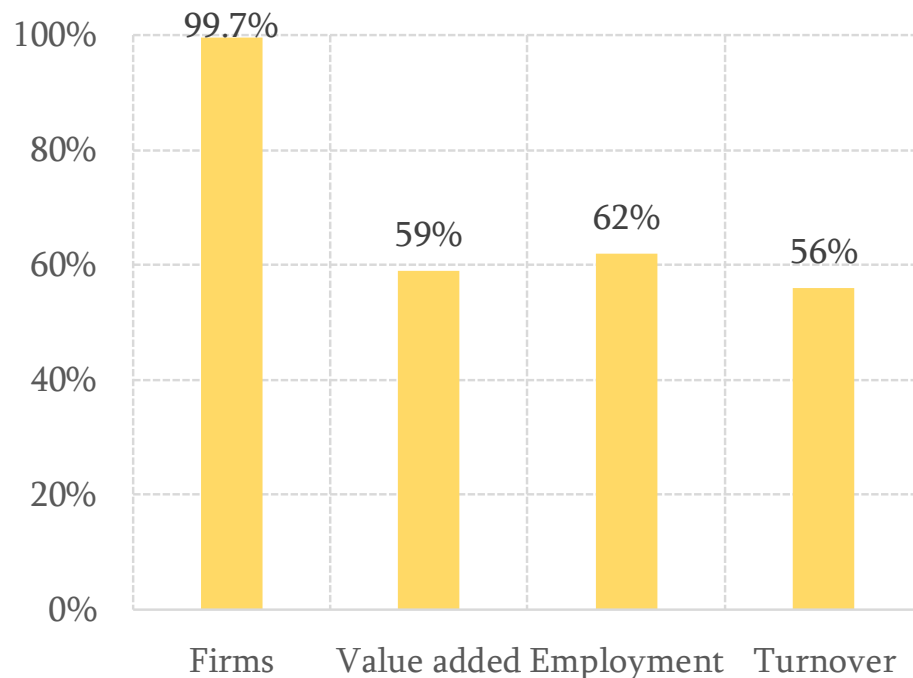


Note: \* data until October 2019

Source: Authors' calculation on National Bank of Georgia data

**Mismatch:** SMEs loan share lower than SMEs economic contribution

Size of the SMEs sector



Source: Authors' calculation on OECD and Geostat data

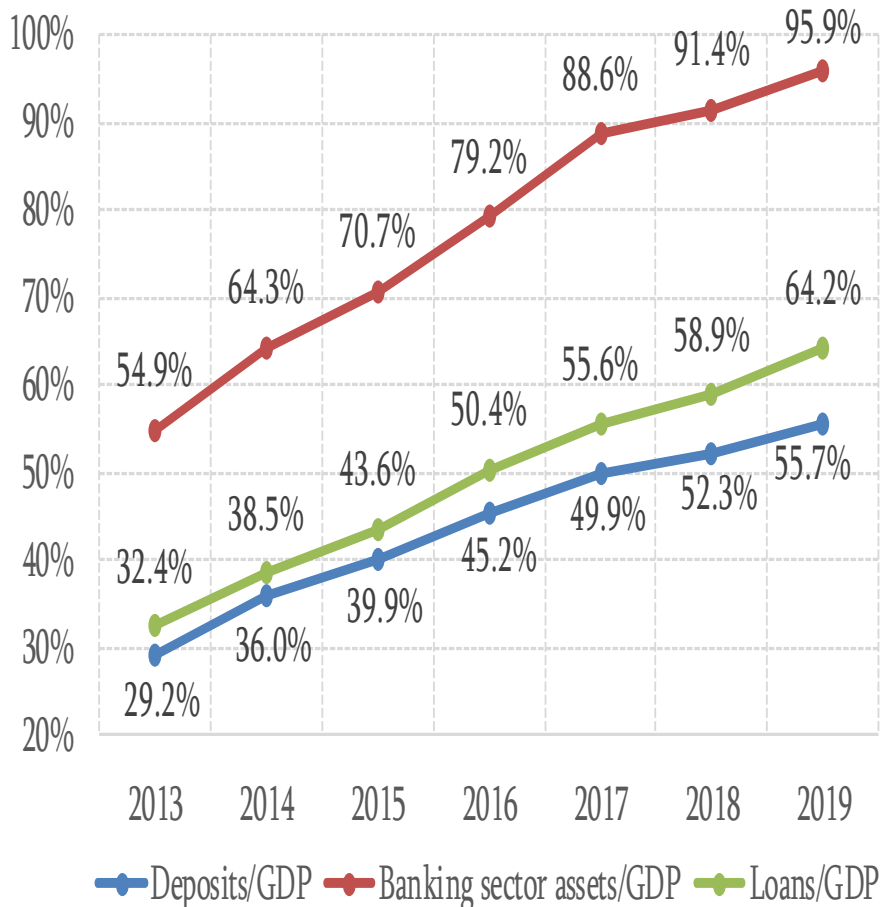
**Further outreach to:**

**Increase financing penetration** / decrease gap in the current SMEs market

**Boost activity** to increase prospective capacity, quality upgrading and scale-up of SMEs

# Banking Sector

## Banking sector in the economy



Source: Authors' calculation on National Bank of Georgia data

## Upside

Credit growth positive and persistent

Banks' Capital levels

Profitability (ROE & ROA) robust

Basel III (NFSR, LCR)

Larization plan

IFRS9

Low NPLs

Relatively low share of ST external debt

## Risks

Aggregate loan to deposit ratio

Still significant dollarization

Currency induced credit risk (second round)

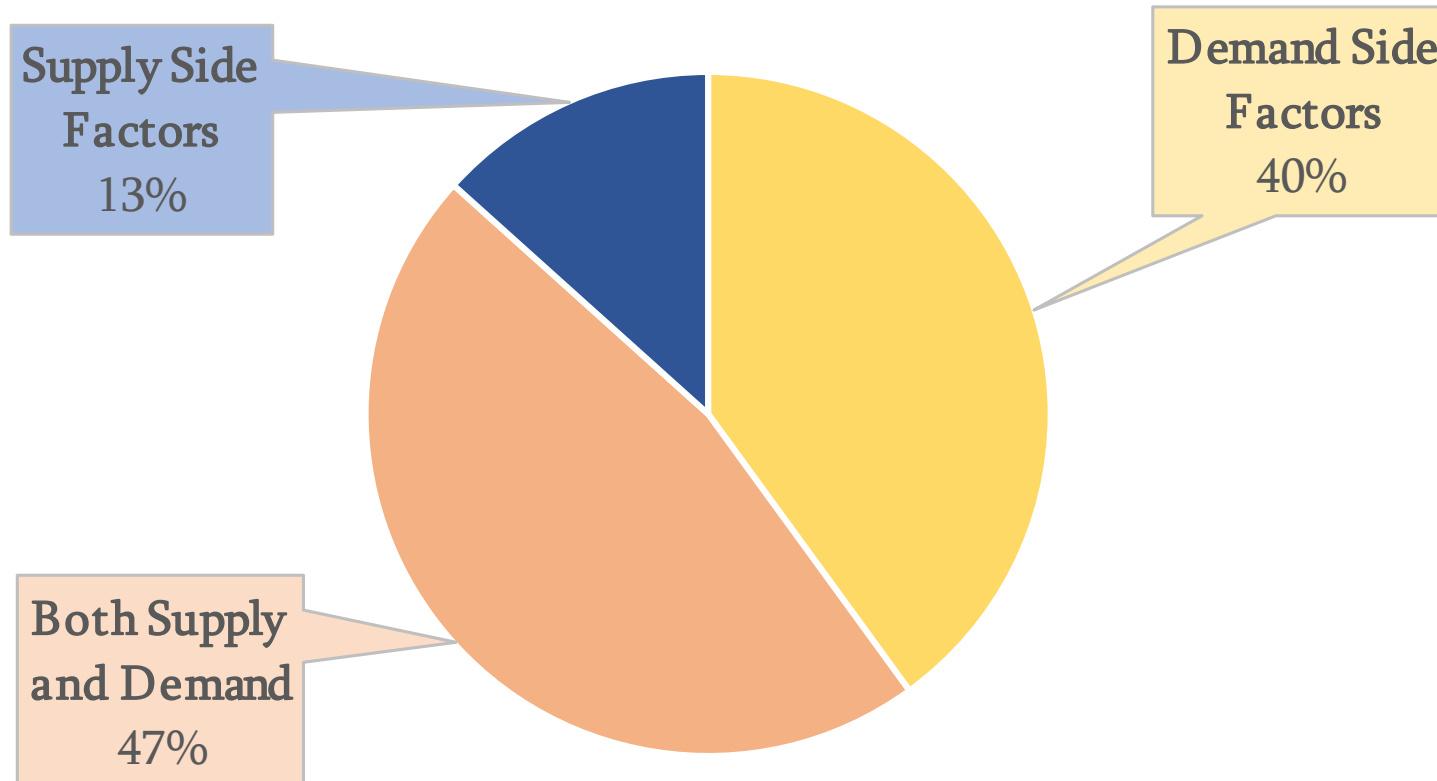
Concentration

High share of external debt

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# Demand and supply factors affect credit developments

Factors affecting credit development in the SMEs segment

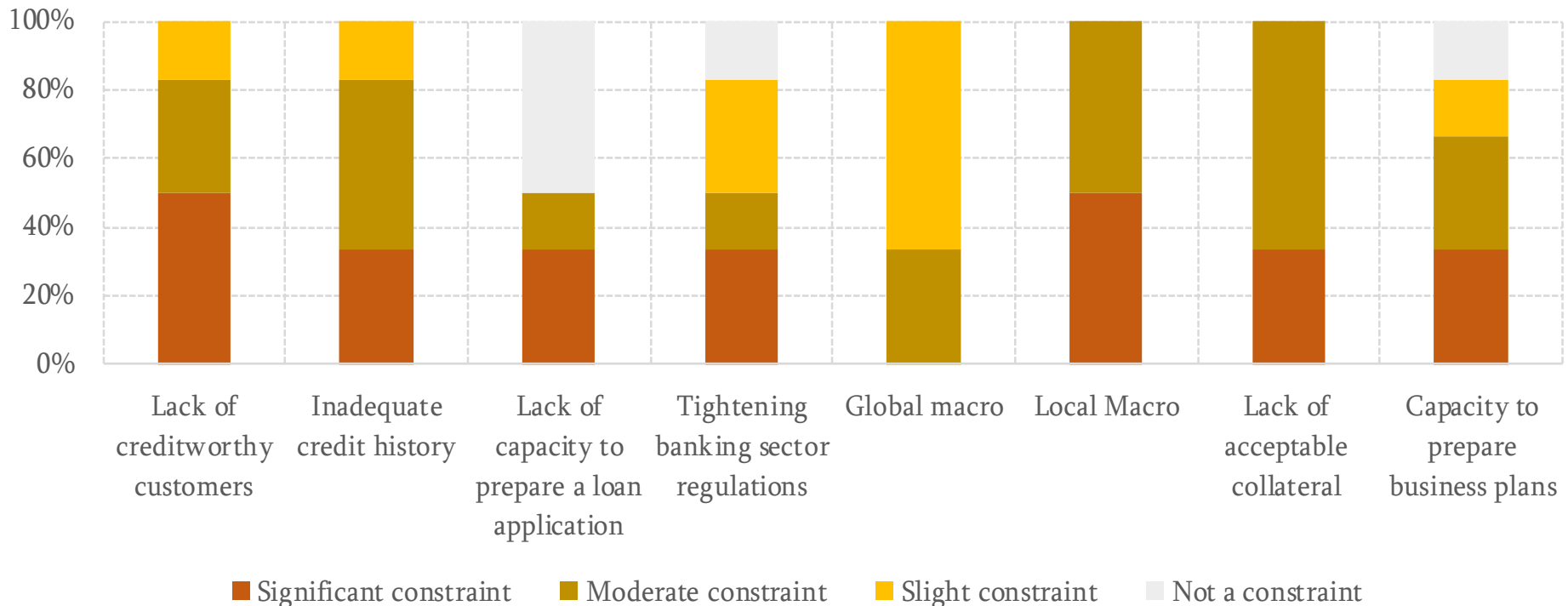


Source: EIB Bank Lending Survey for Georgia 2018/2019

# Many elements outside Banks' remits constrain lending to SMEs

**Significant to moderate impediments:** collateral, credit history, creditworthy customers, local macro, capacity to prepare a business plan

Factors outside banks' remits affecting credit development in the SMEs segment

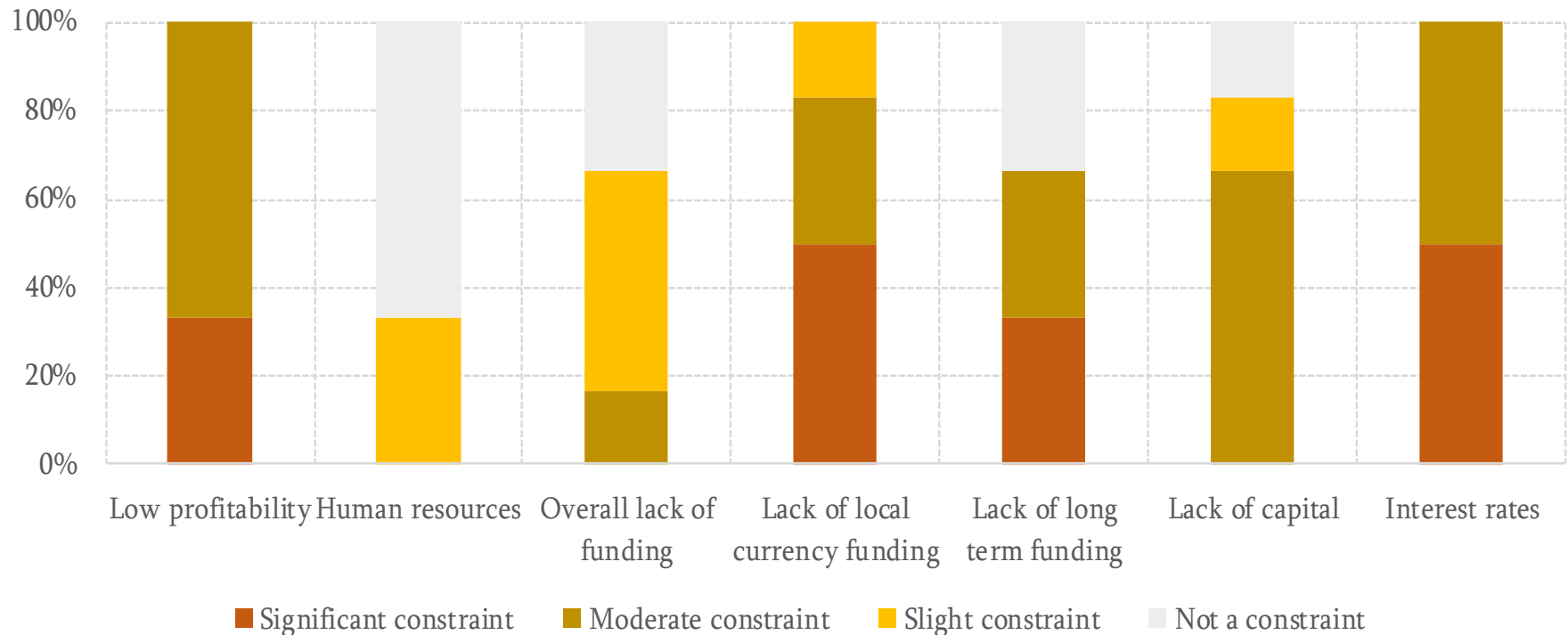


Source: EIB Bank Lending Survey for Georgia 2018/2019

# Also Banks' specific elements constrain lending to SMEs

**Significant to moderate impediments:** interest rates, profitability, LC funding, capital, long-term funding (FX and LC)

## Banks' specific factors affecting credit development in the SMEs segment



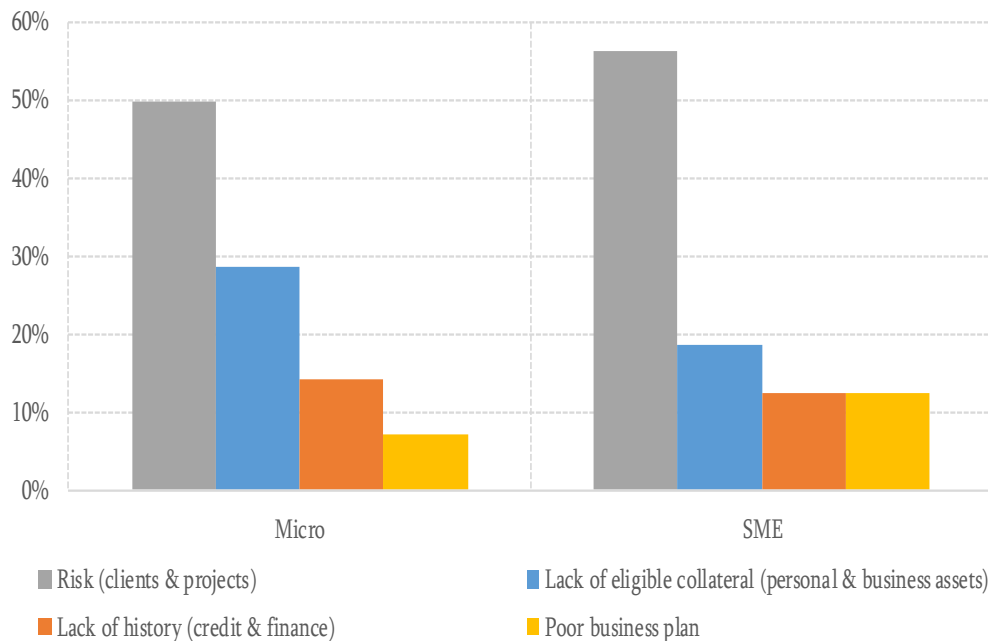
Source: EIB Bank Lending Survey for Georgia 2018/2019

# Elements behind loan rejections

**From most to least important reasons to reject a loan:** (1) unmeasurable risk considerations/risk bearing capacity, (2) lack of eligible collateral, (3) poor history and business plans

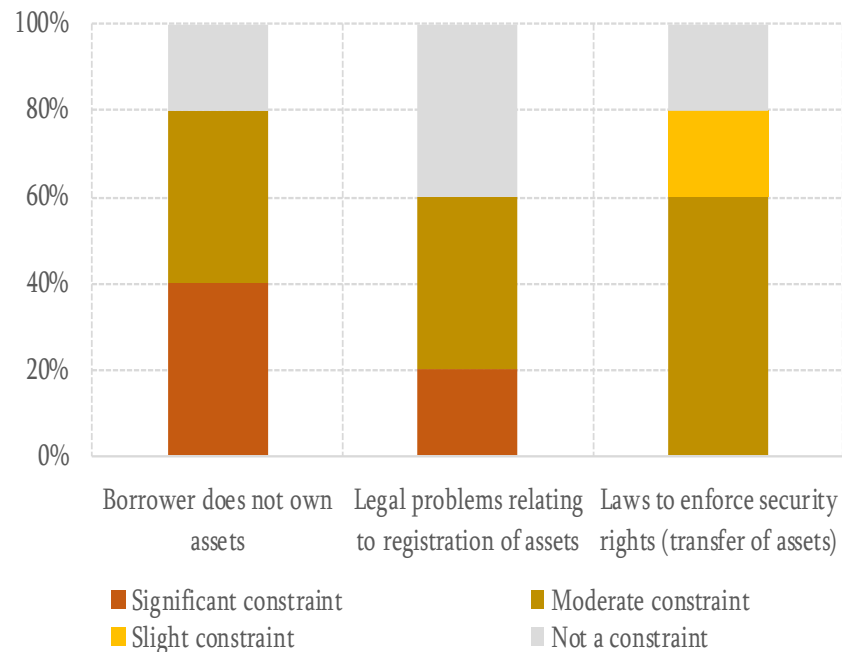
**Limiting elements in having eligible collateral:** (1) lack of proper physical/movable assets, (2) legal issues with registration of assets, (3) law enforcement / transfer of assets

## Most important reasons for rejecting a loan



Source: EIB Bank Lending Survey for Georgia 2018/2019

## Constraints on putting up collateral



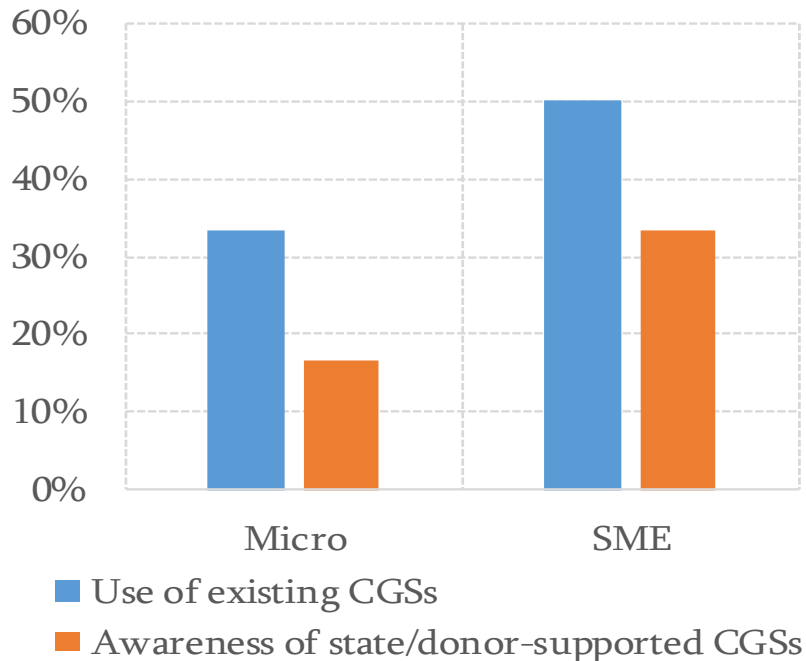
Source: EIB Bank Lending Survey for Georgia 2018/2019

# Diving into credit guarantee schemes (CGSs)

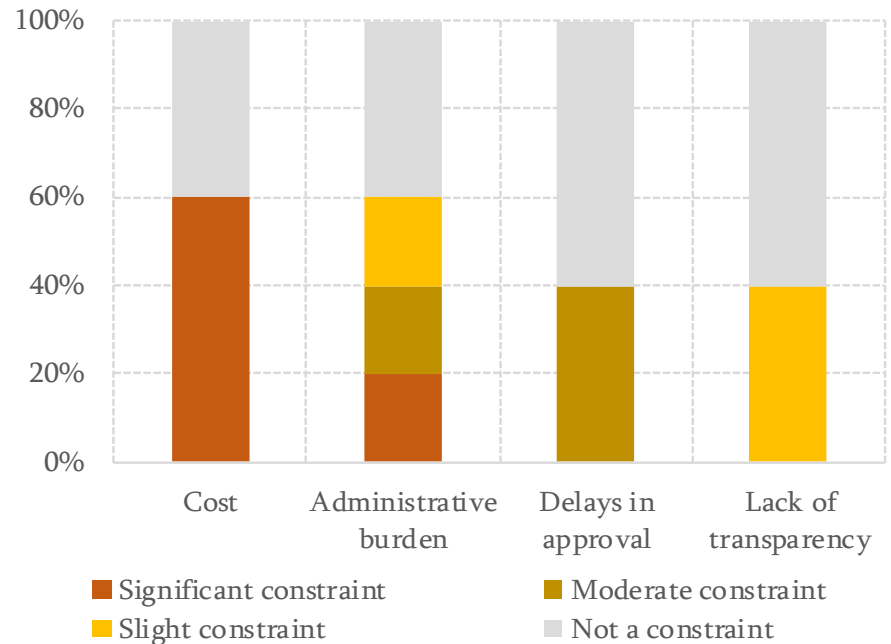
**Use of existing CGSs** still not largely widespread and awareness of state/donors supported schemes is limited

**Significant to moderate impediments:** i) cost; ii) administrative burdens (only partially)

## Use of existing CGSs and awareness of state/donor supported CGSs



## Factors constraining use of CGSs



Source: EIB Bank Lending Survey for Georgia 2018/2019

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**SMEs** are a significant contributor to Georgian growth and prosperity. Nevertheless the SMEs market needs to be further tapped

**Overcoming barriers to financing for SMEs** offers a real opportunity to further boost a resilient and inclusive growth

**Financial sector** grew in size and it is better equipped to boost private sector and SMEs growth. Banks and microfinance institutions account for more than 97% of total assets

**Alternative sources of finance** are still scarce – equity based financing (e.g. VC) still limited whilst capital market based financing at early, but promising, stage

**The European Investment Bank strategy for SMEs** is geared to

- **decrease SMEs financing gap**
- **boost SMEs activity** to strengthen capacity, quality upgrading and scale-up of SMEs

## **From limiting factors to needs to boost SMEs credit extensions:**

- **Lowering** funding costs
- **Increase** LC funding
- **Support** capital
- **Increase** long-term funding sources (FX and LC) to better match the lifetime of investment (fixed assets)
- **Strengthen** risk bearing capacity
- **CGSs** very much in need and not widespread
- **Particular attention** to young companies, start-ups and export potential firms
- **Support** on the collateral side
- **Improve** creditworthiness of customers
- **Enhancement** of the capacity to prepare a business plan

**TA for financial intermediaries** to meet full Basel III compliance, IFRS9 standards and improve lending technology

**Advisory and TA for SMEs** to improve business planning, financial literacy, assistance to secure financing and improve reporting standards