Habitat for Humanity®

Terwilliger Center for Innovation in Shelter

Exploring the adoption of housing microfinance within the Georgian market

Report to the financial sector

October 2019

Contents

Acknowledgments 4
Abbreviations 4
Basic definitions and assumptions 5
Executive summary 6
- Findings on crowding-in hypothesis in Georgia 6
- Recommendations to Georgian financial sector 7

Overview of the study 8
- Mission of Habitat's Terwilliger Center for Innovation in Shelter and the MicroBuild Fund 8
- Study objective and framework 8
- Country selection and field visit 9

State of affordable housing in Georgia 9
- Georgian housing sector 9
- Urban housing context 9
- Rural housing context 10

State of housing microfinance in Georgia 11
Summary of findings 12
- Aggregate findings from microfinance institution interviews 12

Reasons to offer housing microfinance products 15
Closing thoughts 15
Appendix 1: Diffusion of Innovation theory 16
Appendix 2: Research framework 17
Appendix 3: Semistructured interview guide (for financial service providers) 18
Appendix 4: List of interviews conducted 20

On the cover:

Tea Kobaladze took several housing loans from JSC Credo Bank to fund incremental construction on her home.

Acknowledgments

AUTHORS

- **Monica Rashkin**, Global Senior Specialist, Impact Investments, *Terwilliger Center for Innovation in Shelter*
- **Emily Simmons**, Global Senior Specialist, Financial Inclusion and Capital Markets, *Terwilliger Center for Innovation in Shelter*

RESEARCH TEAM

- **Dariga Abilova**, Intern, *Terwilliger Center for Innovation in Shelter*
- **Dzenita Kicic**, Consultant, *Fundament LLC*

This report would not have been possible without the contributions of those financial institutions with whom Habitat for Humanity's Terwilliger Center for Innovation in Shelter has worked, JSC Credo Bank and JSC MFO Crystal, nor without the input and participation of many other institutions: Alliance Group Holding; Capital Express; Central Microfinance; FINCA Bank Georgia; JSC MFO Georgian Credit; Giro Credit; Global Credit LLC; ImerCredit; IntelExpress; MFO Lazika Capital; LENDUP; ProCredit, TBC Bank; and TbilMicroCredit. We extend our gratitude for their willingness to share insights and perceptions on the expansion of housing finance within the Georgian microfinance sector, and for making their data available to us. The full list of interviewees from these institutions and organizations can be found in **Appendix 4**.

We also thank the public and private actors who provided insights and reflections on the Georgian microfinance sector: Ministry of Finance, Ministry of Economy, National Bank of Georgia, Ministry of Internally Displaced Persons, Office of the Deputy Mayor of Kutaisi, Office of the Mayor of Rustavi, Mercy Corps, Colliers International (Research Department), CreditInfo Georgia and Aspekt.

We further would like to acknowledge the contributions of experts in the housing and finance sectors who contributed insights as reviewers of our research approach, namely Patrick Kelley, Jyoti Patel, Gregory Skowronski, Elena Milanovska, Scott Merrill and Malaika Cheney-Coker, all of Habitat for Humanity's Terwilliger Center for Innovation in Shelter. In addition, Marja Hoek-Smit of Wharton School University of Pennsylvania, Kate McKee of the MicroBuild board of directors, Tatiana Babii of Triple Jump, and Justyna Pytkowska and Ewa Bankowska of the Microfinance Centre provided vital contributions.

Lastly, we would like to thank consultant Dzenita Kicic of Fundament LLC and Terwilliger Center intern Dariga Abilova for their tremendous support during the implementation of this research project. Their professionalism and expertise were invaluable assets.

Abbreviations

EMEA	Europe, Middle East and Africa
EU	European Union
FSP	Financial service provider
HOA	Homeowners association
GEL	Georgian Lari
GLP	Gross loan portfolio (microfinance)
HMF	Housing microfinance
MBF	MicroBuild Fund
MFI	Microfinance institution
NBG	National Bank of Georgia
PAR30	Portfolio at risk, over 30 days
PTI	Payment to income
US$	U.S. dollar

Basic definitions and assumptions

To avoid misinterpretation of findings and recommendations, key terms referenced throughout the study are defined below:

- **Loan:** Legal agreement by which a bank or other financial service provider lends money at interest.
- **Housing finance:** Capital needed by homeowners to renovate, repair or purchase a home.
- **Mortgages:** Loan provided in exchange for taking the title of the debtor's property with the condition that the conveyance of title becomes void upon the debt payment.
- **Micromortgages:** Long-duration housing loans (often 10 years or more) that exhibit all the characteristics of traditional mortgage loans (long repayment period, home as loan collateral, ability to foreclose and sell the house in the case of default), which are small enough to be afforded by low-income households.
- **Loan products based on income:** Certain loan products are determined largely by the borrower's main income source. These include loans for different purposes but are labeled as agriculture or business loans (for borrowers with an informal salary) and consumption loans (for borrowers with a formal salary).
- **Loan products based on collateral:** Loans backed by an asset, such as a home (known as mortgage loans) or a car (known as auto loans); but with no specific use required.
- **Loan products based on delivery method:** Loans with a simplified approval and very fast disbursal process (express loans) or loans via cashless transfers from retailers (installment loans).
- **Dedicated loan products:** Loan products developed for a specific purpose, such as business loans (working capital or fixed assets), energy-efficiency loans or home improvements loans.
- **Housing microfinance loan products:** Dedicated microfinance loans intended to meet demand of low-income households to repair or improve their existing homes, purchase land or undertake construction.
- **Housing support services:** Demand-driven, nonfinancial services designed to enable households to reach adequate housing quality standards in secure tenure, basic services, shelter durability and space, and/or shelter-related improvements in health, safety or livelihood.

Executive summary

Study overview

MicroBuild Fund, an initiative of Habitat for Humanity's Terwilliger Center for Innovation in Shelter, aims to increase access to affordable housing finance products and services for low-income households globally by providing bundled capital and technical assistance to financial institutions. Through this work, the fund seeks to demonstrate housing microfinance's value to the broader industry, and to subsequently increase housing microfinance investment. To date, institutions that received capital and technical assistance from the MicroBuild Fund often subsequently scale their housing portfolios. A key unexplored question was: Has the success of MicroBuild Fund investee institutions yielded a *crowding-in effect*, whereby non-MicroBuild Fund financial institutions adopted and scaled housing microfinance products? This study sought to answer this question.

To perform the study, the Terwilliger Center conducted desk research and developed a research methodology based on the *Diffusion of Innovation Theory*.[1] Terwilliger Center staff members then spent three weeks in-country interviewing a diverse set of financial service providers, including commercial banks and microfinance institutions.[2] They also interviewed other key market actors, including government agencies, development organizations, investors and nongovernmental organizations.

Findings on crowding-in hypothesis in Georgia

Among financial institutions that are not MicroBuild Fund investees, diffusion of innovation does not appear to have moved beyond the awareness stage. Non-MicroBuild Fund investees were aware of the housing microfinance products offered by the fund's investees, but they did not understand the specific terms or features of these products, nor had they adopted such products. This can be attributed to the following factors identified during this study:

- **Microfinance institutions tended to emulate competitors of a similar size.** MicroBuild hypothesized that investing in market leaders who successfully scaled housing microfinance would result in smaller players subsequently creating such products. Yet, smaller and midsized microfinance institutions in Georgia mainly tracked institutions of a similar size.
- **However, increased awareness and understanding alone may not result in the scaling of housing microfinance among financial institutions because:**
    - **Motivation to offer dedicated loan products of any kind was low among most microfinance institutions.** Countrywide, Georgian microfinance institutions determined loan type by client income source or collateral (versus loan purpose/loan use). Even with greater understanding of housing microfinance, they had little appetite to introduce any dedicated products. A small subset of five microfinance institutions did offer or have an interest in dedicated loan products. The remaining eight microfinance institutions interviewed prioritized a handful of streamlined, general product offerings (e.g., agriculture or consumer loans). These eight interviewees appear representative of the larger market of microfinance institutions in Georgia (47 additional institutions) based on portfolio characteristics, date of organization formation, and lack of the SMART Certification.
    - **Capacity to develop dedicated housing products was low among most microfinance institutions.** Only the same five microfinance institutions noted above seemed capable of developing and refining housing microfinance products. All other microfinance institutions interviewed had limited ability to develop and offer dedicated products without receiving technical assistance. In terms of strategic impact, they have less operational capacity and will to undertake the complexity associated with developing dedicated products, particularly for those products that are not tied to a client's income generation.[3]

1 Diffusion of Innovation Theory seeks to explain how, why and at what rate new ideas and innovation spread. Refer to **Appendix 1** for additional details.

2 For the purposes of this report, the size of the microfinance sector and the term "microfinance institution" will be characterized by financial service providers whose legal entity is "microfinance institution," along with those microfinance institutions that transformed into banks but continue to predominantly serve the microfinance sector.

3 Access to longer-term capital was not a constraining factor for most microfinance institutions, as the loan duration for general loan products ranged anywhere between four and six years on the lower end (for business/agriculture/consumer/auto loans) and up to 15 years (for mortgage loans).

Regulatory changes impacted the sector. Beginning in 2017, the National Bank of Georgia, or NBG, introduced an interest rate cap on microfinance lending at 100% per annum, followed by subsequent regulations to further restrict interest rates, tighten liquidity ratios, and reduce payment-to-income, or PTI, ratios. As a result, many microfinance institutions focused on improving capital structures and back-office efficiencies in the short term. Efforts to comply with new requirements have increased pressure on many institutions' portfolios, as options for borrowers are more restricted and operational expenses have risen, lowering profitability and slowing portfolio growth. The Terwilliger Center's interviews show that the challenges posed by this adjustment process are consuming a lot of institutions' operational energy and strategic focus; therefore, developing dedicated housing products is not feasible in the near term.

MicroBuild Fund knowledge-sharing initiatives were focused at the regional (versus national) level and had limited evidence of influence on non-investees. While several microfinance institutions indicated conferences as a key information source, not many attended the conferences where MicroBuild Fund presented on its work with institutions to develop, refine and scale dedicated housing products. For those where attendance did overlap, MicroBuild Fund aimed to increase awareness around housing microfinance and thus provided information in a generalized format. However, the Terwilliger Center did not present the information to them in a way that addressed national challenges and norms in Georgia (such as disinterest in offering dedicated products). Therefore, understanding of housing microfinance did not increase among Georgia microfinance institutions, as field interviews indicated a persistent inability to describe housing microfinance product features and benefits.

Recommendations to Georgian financial sector

Although non-investee microfinance institutions showed limited appetite for introducing housing microfinance products, the Terwilliger Center identified two to three non-investee institutions that demonstrated strong technical know-how around product design and missional alignment in terms of a clear interest in improving their clients' lives, which can motivate the introduction of dedicated products. For the other microfinance institutions that had a different focus in the sector, a housing microfinance product does not appear to be of interest at this time.

For the two to three microfinance institutions identified as potential housing microfinance providers, the value proposition of introducing such a product includes:

- **Reducing portfolio risk** through product diversification and the addition of a lower-risk product (housing microfinance products typically carry a lower portfolio at risk, over 30 days, or PAR30, compared with the overall portfolio).
- **Receiving a better risk-return match.** Housing microfinance typically boasts lower PAR30, which allows microfinance institutions to offer more competitive rates versus standard consumption loans from commercial banks.
- **Enhancing portfolio transparency and planning** by tracking portfolio allocation by loan purpose.
- **Enabling a microfinance institution to differentiate itself in a saturated market,** especially as commercial banks continue to encroach on the sector.
- **Increasing client satisfaction and loyalty** by offering products that address clients' needs and capacities.

Furthering these select microfinance institutions' understanding of housing microfinance products and potentially providing technical assistance to support product design and implementation could surmount reluctance and incentivize increased adoption of dedicated housing products.

Overview of the study

Mission of Habitat's Terwilliger Center for Innovation in Shelter and the MicroBuild Fund

To bring about change within housing markets, Habitat's Terwilliger Center for Innovation in Shelter directs attention to the needs and growing profitability of the low-income homebuilder market segment. By testing new business models for reaching this underserved group and encouraging market actors to adopt them, the center hopes to dramatically influence the way in which the private sector addresses the affordable housing gap. To date, the Terwilliger Center has pioneered the use of microfinance and impact investment for incremental homebuilders and business accelerators for shelter-related startups. It also works with established companies to better design and target products for the low-income market.

Habitat's Terwilliger Center began the **MicroBuild Fund**, the first housing-specific microfinance investment vehicle to help low-income families access financing for adequate, affordable housing by providing debt capital bundled with technical assistance to financial institutions serving these target populations. Launched in FY2013, MicroBuild Fund is a closed-end, US$100 million fund that operates in 31 countries and has disbursed US$132.5 million to 54 microfinance institutions as of June 30, 2019.

MicroBuild Fund aims to scale access to housing finance for low-income households across the globe. Early studies indicated that only 2% of microfinance portfolios were dedicated to housing, while 10% to 20% of client loans were diverted to housing. As such, MicroBuild seeks to help shift housing finance from 2% to 10% of the gross microfinance loan portfolio of microfinance institutions globally.

Study objective and framework

This study seeks to answer the question: **Did MicroBuild Fund have a crowding-in effect for non-investee financial institutions in the markets in which the fund has invested?** The expected linkage was that if MicroBuild Fund shared its lessons and experiences, and investees' housing microfinance portfolios were performing well, then other microfinance institutions would see the value of housing microfinance and introduce these products within their own portfolios. As other microfinance institutions crowded into the market, housing microfinance would scale further.

There are two key research questions embedded in the crowding-in hypothesis:

- **Question 1***:* Is scaling housing microfinance in a market best achieved by crowding in more microfinance institutions offering housing microfinance products and services?
- **Question 2:** If a leading microfinance institution introduces a housing microfinance product successfully, do other microfinance institutions have sufficient insight, motivation and capability to copy them and introduce housing microfinance products?

ASSESSING QUESTION 1

To determine the validity of Question 1, this study focused on a national market (Georgia) and assessed the scale of housing microfinance. Since data on the microfinance sector is limited and disorganized, the scale of the housing microfinance sector was initially approximated by determining the housing microfinance portfolios of the two MicroBuild Fund investees and any other microfinance institutions with publicly available portfolio data, relative to combined gross microloan portfolios of all microfinance institutions. After a field visit, a review of portfolio data for the interviewed microfinance institutions was conducted to further refine the housing microfinance sector estimate. As information from the leading market players (in terms of market share) was available and included in the initial review, any information not available from the remaining institutions in the microfinance sector is not expected to have a substantial impact on the estimated scale of housing microfinance.

ASSESSING QUESTION 2

After determining the size of the Georgian microfinance sector under Question 1, Question 2 was assessed based on the Diffusion of Innovation Theory framework (see **Appendix 1**). It was anticipated that a microfinance institution would move through five phases, beginning with awareness through to scaling up a product, as outlined below:

- **Phase 1: Awareness** — Institutions become aware of MicroBuild Fund investees' housing microfinance offering, but may or may not recognize product conditions.

- **Phase 2: Understanding** — Institutions gain an understanding of housing microfinance product terms and the benefits of offering such a product.
- **Phase 3: Decision** — Institutions make a decision on whether to develop a housing microfinance product.
- **Phase 4: Implementation** — Institutions develop and launch a housing microfinance product.
- **Phase 5: Monitoring/scale** — Institutions make decisions on whether to scale housing microfinance products, based on monitoring and evaluation.

To address Question 2, qualitative research was employed by interviewing microfinance institutions with a loosely structured set of questions that left room for interviewees to share additional information that they deemed important, (**Appendix 3** provides the final set of financial service provider interview questions). Latter interviews with other stakeholders provided supplemental information on the market dynamics affecting the adoption of housing microfinance.

Country selection and field visit

When the study was initiated in 2018, the MicroBuild Fund operated in 14 countries within Europe, Middle East and Africa, or EMEA. Georgia was selected because of factors including but not limited to high country exposure within the MicroBuild Fund portfolio, substantial market share held by investee institutions (JSC Credo Bank, or Credo, and JSC MFO Crystal, or Crystal), growth of local investees' housing microfinance portfolios, and a high degree of openness in terms of obtaining microfinance data.[4]

The team spent three weeks in the field (May 13-31, 2019) and conducted interviews with 30 stakeholders: 16 financial institutions (microfinance institutions, commercial banks and a leasing company), six government agencies, and eight other stakeholders (nongovernmental organizations, a development firm and sector experts). Refer to **Appendix 4** for a complete list of stakeholders interviewed.

State of affordable housing in Georgia

Georgian housing sector

Georgia has high homeownership rates and a small, largely informal rental market. Homeownership hovered around 93% from 1997 to 2017 because of mass privatization of state-owned housing after Georgia's independence in 1991, and because of a cultural preference of buying versus renting. Most housing was built during the Soviet era and is now dilapidated or even past its life span.[5]

In addition to the poor quality of existing housing, newer housing stock also seems to be of questionable quality. Since the Ministry of Construction was abolished in 2004, construction norms and regulations have not been enforced. As a result, most low-end, multifamily buildings have been built with uncertain structural integrity or earthquake resilience (a prevalent country risk). In 2014, the central government reintroduced construction regulation similar to that of the Soviet era. More recently, the two municipalities of Tbilisi and Batumi enacted more rigorous regulations to align with European Union, or EU, standards.[6]

Urban housing context

MARKET CHALLENGES

Nearly 70% of urban households live in multifamily complexes constructed during the Soviet era.[7] Key housing challenges include:

4 Openness" is defined as the level of information available publicly and the level of willingness of stakeholders to meet with field interviewers. In the case of this study, openness included the areas of microfinance institutions, government policy and housing statistics.

5 Ashna S.; Salukvadze, Joseph; Budovitch, Max Missner (2015). "Georgia — Urban Strategy: Priority Area Three — Housing." Washington, D.C.: World Bank Group. Retrieved Aug. 1, 2019, from https://sputnik-georgia.ru/economy/20190502/245105701/Vyroslo-kolichestvo-vvedennykh-vekspluatatsiyu-obektov-v-Gruzii.html.

6 Sputnik Georgia (2019). Retrieved Aug. 1, 2019, from https://sputnik-georgia.ru/economy/20190502/245105701/Vyroslo-kolichestvo-vvedennykh-v-ekspluatatsiyu-obektov-v-Gruzii.html.

7 "Country Profiles on the Housing Sector — Georgia, Chapter 3." United Nations Economic Commission for Europe. Retrieved July 16, 2019, from https://www.unece.org/fileadmin/DAM/hlm/prgm/cph/countries/georgia/CPGeorgia_Chapter3.pdf.

- **Structural decay of buildings:** Eighty percent of multifamily buildings were constructed during the Soviet era and have not been well-maintained since privatization. Significant structural improvements are required.[8]
- **Energy inefficiency:** Soviet-era buildings often fail to meet minimum energy-efficiency standards.[9]
- **Flat size below European Union standard:** Affordable flats in Georgia are quite small, averaging 15.5 square meters (167 square feet) per resident, versus 60 square meters (645 square feet) in the EU.[10]
- **Natural disasters:** Urban centers are prone to earthquakes, landslides and flash floods.[11]

MARKET OPTIONS

Households in the urban context have few options for addressing their housing needs. Energy inefficiency, for example, could be addressed through renovations via individual housing loans. Such loans also provide an option for meeting the secondary housing need of improved comfort. Capital is accessible at the lowest interest rates through commercial banks to salaried workers, or at higher interest rates through microfinance institutions to both salaried and informal workers (particularly microentrepreneurs and those in agriculture). These loans are not sufficient, however, to address the challenges of small unit size and structural decay.

Upgrades to dilapidated building structures and improved energy efficiency at the building level can be addressed via partial financing from the government (50-90% of total project costs). But this solution depends on homeowners' willingness to form and manage a homeowners' association, or HOA, or other collective body and pay for upgrades. This solution is made more affordable through partnerships with municipalities (currently rather limited) and nongovernmental organizations, but challenges in HOAs and limitations on the level of available government funds pose an impediment to scaling this solution.[12]

Demand for larger housing units can be met via an active primary market for low- to middle-income households, but there is limited supply at an affordable price point for low-income households on the primary market. The secondary market for low-cost flats is larger (double the transactions of the primary market in 2017), but this option does not address the need of increased unit sizes. Neither of these offerings addresses quality, and buildings on the primary market might not withstand earthquakes as well as Soviet-era buildings.

Rural housing context

MARKET CHALLENGES

Over 90% of rural households live in single-family homes built during the Soviet era.[13] Key housing challenges include:

- **Decay of Soviet-era structures** built at low cost and intended to last only for a short period.[14]
- **Energy inefficiency of Soviet-era buildings,** which often fail to meet minimum energy-efficiency standards.[15]
- **Basic housing amenity access.** Rural households have less access to basic amenities compared with urban centers. Only a small percentage of rural families have access to gas central heating systems or a tap water supply.[16]

8 Ashna S.; Salukvadze, Joseph; Budovitch, Max Missner (2015). "Georgia — Urban Strategy: Priority Area Three — Housing." Washington, D.C.: World Bank Group. Retrieved Aug. 1, 2019, from https://sputnik-georgia.ru/economy/20190502/245105701/Vyroslo-kolichestvo-vvedennykh-vekspluatatsiyu-obektov-v-Gruzii.html.

9 Ibid.

10 Field interview with Ekaterine Mikabadze, Deputy Minister of Economy, (May 31, 2019).

11 Gadrani, Lela and Gaprindashvili, George (2017). "Landscape Architecture and Regional Planning." Science Publishing Group. Retrieved on July 15, 2019 from https://www.researchgate.net/publication/314449530_Modern_Geo-ecological_Conditions_and_Terrain_Transformation_of_Tbilisi_Georgia.

12 Lipman, Barbara J. (2012). "Homeowners Associations in the Former Soviet Union: Stalled on the Road to Reform." IHC Global. Retrieved June 1, 2019, from https://ihcglobal.org/wp-content/uploads/2016/04/HOAs-in-the-Former-Soviet-Union-B.-Lipman.pdf.

13 Geostat. Retrieved June 1, 2019 from https://www.geostat.ge/index.php/ka.

14 Ashna S.; Salukvadze, Joseph; Budovitch, Max Missner (2015). "Georgia — Urban Strategy: Priority Area Three — Housing." Washington, D.C.: World Bank Group. Retrieved Aug. 1, 2019, from https://sputnik-georgia.ru/economy/20190502/245105701/Vyroslo-kolichestvo-vvedennykh-vekspluatatsiyu-obektov-v-Gruzii.html.

15 Ibid.

16 Geostat. Retrieved June 1, 2019, from https://www.geostat.ge/index.php/ka.

- **Natural disasters.** Like urban centers, rural regions are prone to earthquakes, landslides and flash floods. From 1967 to 2009, approximately 70% of Georgian territory experienced natural hazards.[17]

MARKET OPTIONS

Given the prevalence of single-family homes and extremely limited secondary and primary mortgage markets, households are most likely to pursue home improvements and/or repairs. Per the field interviews, microfinance institutions have a stronger foothold in rural areas than commercial banks because of brand recognition and trust (based on a longer history of working in the area) and speed (attributed in part to greater familiarity with evaluating financial capacities of households with informal income).

Exact figures for primary and secondary transaction sales were unavailable, but field interviews indicated dampened rural demand due to limited economic opportunities and subsequent urbanization/migration. While households retain ownership of family homes, many of these homes in rural areas sit dormant. New construction is virtually nonexistent, as developers have little incentive to build outside of urban centers. The exception is tourist regions, where new construction targets higher-income earners or foreigners purchasing vacation homes or real-estate investments. But low-income households will take loans to expand or improve their housing to include guest housing, which then serves as an additional income stream.

For the small percentage of households that reside in multifamily buildings in rural areas, municipal co-financing may also be an option, depending on the region.

State of housing microfinance in Georgia

The financial sector holds a significant role in the economy. With average annual growth of 21% year over year since 2000, the financial sector's value has increased by nearly 27 times in that period. The banking sector, comprising 15 institutions, accounted for 94% of the financial sector's value in 2018. TBC Bank and Bank of Georgia control a majority of the banking sector's assets and are held by the two largest holding groups in the country. Other players include insurance and pension funds, nonbanking depository corporations, the stock exchange, brokerages, exchange bureaus and the microfinance sector.

The microfinance market is highly concentrated in a few players. Georgia's microfinance market began quite small, with about five players in the mid-1990s. After a microfinance legal registration was introduced in 2006, the sector swelled dramatically to 88 microfinance institutions at its peak in 2017 (and 5.5% of financial sector assets in 2016). As of December 2018, Georgia's microfinance sector had dropped to 67 microfinance institutions (US$411 million in outstanding loans) and accounted for around 3.5% of the financial sector. This was due in part to recent regulations aimed at strengthening liquidity ratios and increasing client protections regarding overindebtedness, which have contributed to market consolidation. As a result, roughly 20 microfinance institutions had exited the sector by the time of the field interviews in May 2019. An estimate of the microfinance market typically would be limited to microfinance entities, but two former microfinance institutions, Credo and FINCA Bank Georgia, transformed into banks while continuing to serve low-income households. Further, several commercial banks have expanded their offerings down-market to lower-income households.[18] In this collective market, Crystal holds 11% and together with Credo, Rico Express and FINCA Bank Georgia represents over 70% market share in the microfinance market (this does not include commercial banks, as the size of their microfinance portfolios could not be obtained).

Microfinance products are not often provided based on loan purpose. While product orientation toward agricultural clients or microenterprise clients is a traditional approach to microfinance, lending based on collateral (mortgage and auto) is a growing trend, as it allows microfinance institutions to circumvent income assessments (now required by NBG). Additional products were designed around delivery methods: express loans and installment loans (also referred to as cashless transfers via a retailer). A few institutions also offer currency exchange services and money transfers.

17 Dr. Sasha Tsenkova (2008). "Provision of affordable housing in Europe, North America and Central Asia: policies and practices." Prepared for United Nations-HABITAT. Retrieved on July 15, 2019 from https://www.ucalgary.ca/cities/files/cities/AffordableHousingInternationalExperiences.pdf.

18 For example, TBC Bank, the second-largest commercial bank in Georgia, acquired the microfinance institution Constanta, completing the merger in 2015. Source: (2014). "TBC and Constanta Merger to be Completed in Jan." Financial times. Retrieved June 1, 2019 from: https://markets.ft.com/data/announce/full?dockey=1323-12183613-2P4DGD0BFP5T1TAJNE8ABM504O.

In summary, microfinance institutions diversified portfolios as follows:

- Loans based on income source: agriculture, business and consumer loans.
- Loans secured by collateral: mortgage, auto and pawnshop loans.
- Loans based on purpose: dedicated housing products, energy-efficiency loans and more.
- Loans by disbursement methodology: installment loans and online/express/fast loans (cash loans or goods, no collateral required, available to all client segments).

Dedicated products. Offering dedicated purpose loans beyond agriculture or business were limited, with the exception of products for energy efficiency and home improvements. Interviewees' responses reflected limited capacity and appetite within the industry for dedicated housing products. Instead, most institutions provide financing for housing purposes under consumption loans or as a portion of a business loan.

Summary of findings

Aggregate findings from microfinance institution interviews

The field visit from Habitat's Terwilliger Center found that awareness of housing microfinance products was high, but understanding of the features and benefits was much lower:

AWARENESS AND UNDERSTANDING OF HOUSING MICROFINANCE PRODUCTS

Figure 1: Awareness of housing microfinance products among interviewed microfinance institutions

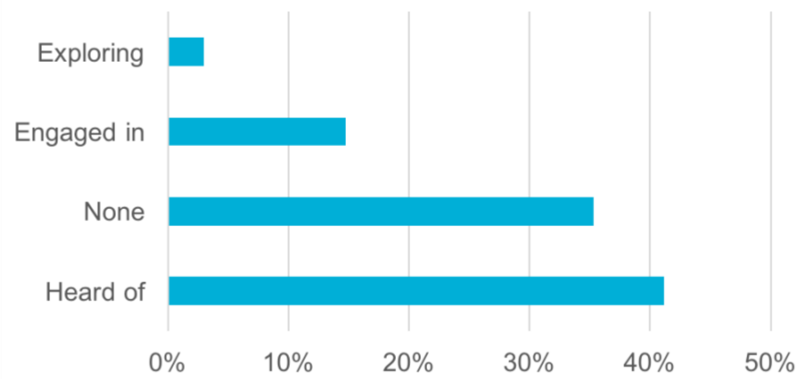
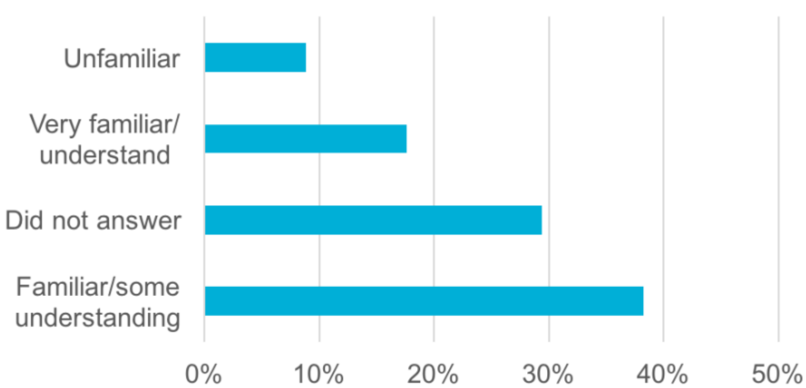


Figure 2: Understanding of housing microfinance products among microfinance institutions interviewed

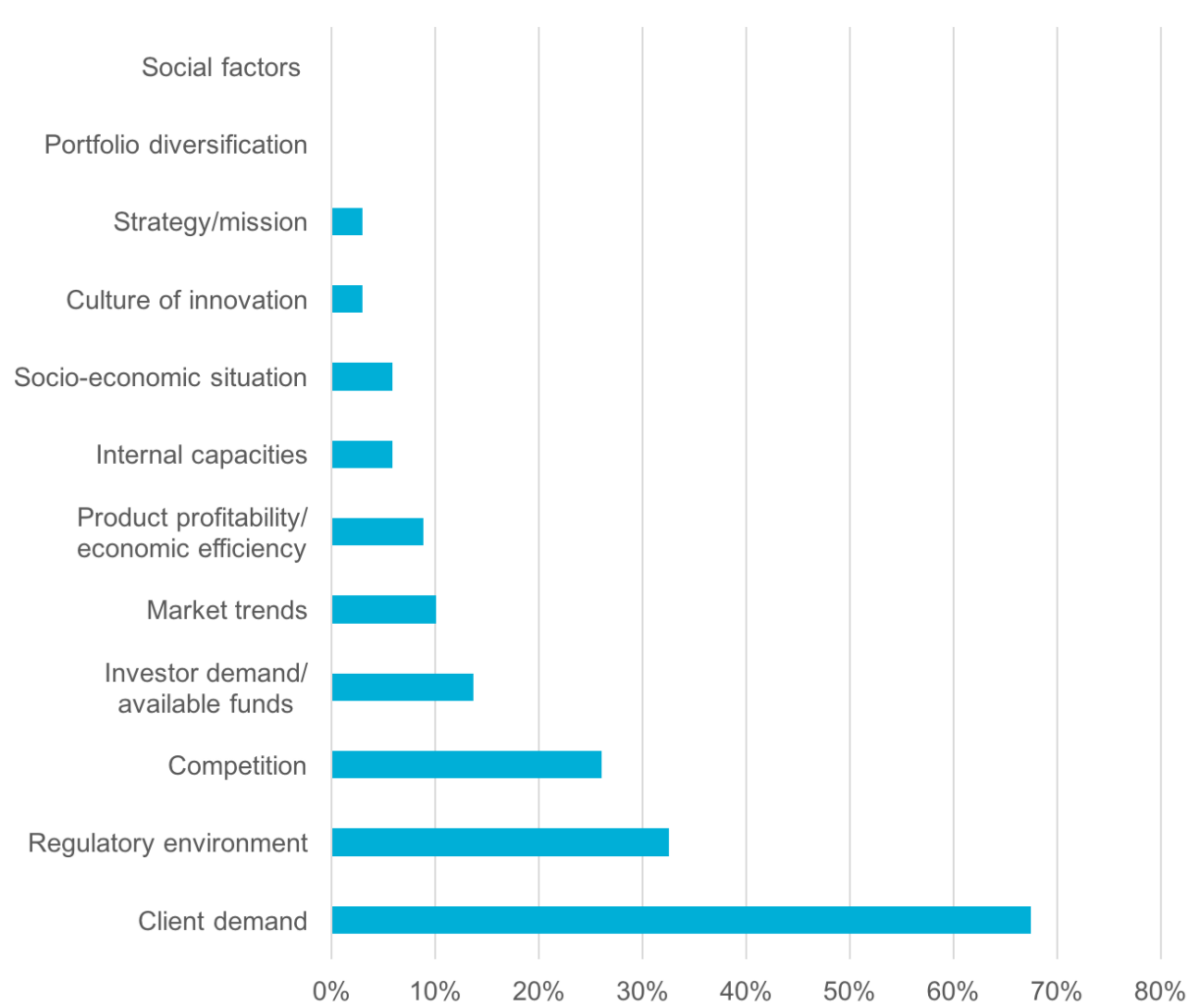


Microfinance institutions have been exposed to housing microfinance but have limited understanding of product offerings. Returning to the research framework, most microfinance providers indicated awareness of housing microfinance, but only a handful exhibited product understanding. Nearly all institutions, when asked if they were aware of others offering a housing product, referenced Crystal, Credo, Bank of Georgia and TBC Bank as offering housing products. This indicated exposure to the housing microfinance offerings of MicroBuild Fund investees, but when asked to explain further what the offering was and how it worked, few understood how the housing microfinance products were structured, their viability, and what value the products offer to an institution. One institution stated that it knew Crystal was offering a housing product, but that Crystal must have received a grant in order to offer the product at such low rates. This misunderstanding is even more glaring considering that the housing offerings of Bank of Georgia and TBC Bank are mortgage-backed loan products, rather than loans exclusively for housing purposes.

Industry experience is the primary medium through which interviewees learned about housing microfinance. Roughly one-third of interviewees explained that their initial exposure to housing microfinance came from earlier roles in the financial sector, but few were actually implementing those housing microfinance programs at their previous institutions (i.e., they worked in different capacities there).

Client demand, regulatory environment and competition were key in microfinance institutions' decision-making on product development, as seen in Figure 3 below. But, the implications of these did not support diffusion of housing microfinance products.

Figure 3: Key factors influencing new product development



- **For client demand, interviewees expressed mixed understanding of clients' actual housing needs**. Many interviewees acknowledged a large need for housing upgrades, and said a percentage of client funds may be diverted to this purpose (often ranging from 40% to 50%). There were differing perceptions on whether clients would pursue incremental building or prefer to conduct only one major renovation. Some interviewees (both MicroBuild Fund investee institutions and non-investees) had a detailed understanding of pricing for specific home renovations in their area. With the exception of MicroBuild Fund investees, no microfinance institution had constructed estimates of the potential housing need and subsequent market.
- **For the regulatory environment, recent changes have been at the forefront of microfinance institutions' concerns, dampening interest in product innovation*.*** Recent NBG regulations tightened liquidity ratios, further lowered interest caps and restricted payment-to-income, or PTI, ratios, which reduced microfinance institutions' profitability and resulted in the deterioration of some institutions' portfolio quality. In response, microfinance institutions in the near term are focused on securing funding sources and strengthening internal operations (particularly around client income assessments) to stabilize their portfolios. Developing new products is not a priority.
- **For competition, market leaders proved less influential than anticipated.** Theoretically, market competition is a key driver in an institution's decision to introduce a housing microfinance product (per the Terwilliger Center's **2016-17 State of Housing Microfinance** study), and indeed, desktop research indicated that numerous institutions appeared to offer housing products. Thus, a crowding-in effect may have been possible given the competitive environment in Georgia and the successful scaling of housing microfinance portfolios by Crystal and Credo (MicroBuild investees). But in practice, only a small number of institutions have the resources and capabilities to directly compete with the market leaders, and as such, do not actively monitor nor consider market leaders' offerings and approach as a feasible strategy for themselves. While they may admire the expansive offerings of the market leaders, they do not attempt to emulate them, and look elsewhere for innovative concepts.

Numerous other factors were mentioned, including mission alignment, investor demand, internal capacities, market trends and profitability. How interviewees perceived investor influence was of particular interest for MicroBuild Fund.

Investors may influence priorities but have limited influence on perceptions. Four of the interviewed institutions mentioned that investors influence product development. Interviews indicated that if a donor or investor offered significant funding for a designated purpose, then the institution would develop that product or adopt the practices necessary to comply and receive the funding. Feedback was fairly pointed, however, in saying that access to funding drove a willingness to develop new products. This does not necessarily correspond to a change of the institution's perception around the products.

Few institutions view product development as a form of innovation. Instead, the focus was on back-office consolidation that could increase speed and efficiency in client assessments and payment processes. Digitization efforts were spoken of as vital for increasing speed of delivery and competing against the lower rates of the commercial banks. Some institutions, however, did express that innovation could take place around services offered to clients. In particular, there was excitement around programs that brought suppliers directly to clients in rural areas and in trainings that could increase the productivity of microenterprises.

Reasons to offer housing microfinance products

There are several benefits to offering housing microfinance over the more prominent practice in Georgia of addressing clients' housing needs through consumer or other generalist microloan products. These include:

IMPROVING PORTFOLIO MANAGEMENT

- **Diversification of products and portfolio:** Adding dedicated products, such as a housing product, diversifies a microfinance institution's portfolio, thus reducing portfolio risk.
- **Better risk/return matching:** For the 54 microfinance institutions within MicroBuild's portfolio, their dedicated housing microfinance products have often been a lower-risk product, with an average PAR30 of 200 basis points lower than their gross loan portfolios.
- **Microfinance institutions can enhance their portfolio transparency** by tracking their portfolio structure by loan purposes. This enables a better alignment of product terms to the specific needs respective to that loan purpose and a deeper understanding of portfolio performance. This allows institutions to better allocate costs per product, improve portfolio management, and avoid a confusion in terminology among staff members, clients, competitors and investors.

IMPROVING CLIENT ACQUISITION AND RETENTION

- **Microfinance institutions can define themselves within a saturated market and while competing with increasingly encroaching commercial banks.** In a market composed of many microfinance players, and in which banks are continuing to encroach on the microfinance sector, dedicated products offer a unique selling proposition to clients. Dedicated housing products can improve institutional competitiveness, as these products are characterized by lower interest rates. Yet because these loans have a specific purpose, they help institutions avoid cannibalization.
- **Microfinance institutions can better serve clients.** Through dedicated housing products, microfinance institutions can offer product terms better aligned to clients' needs and services that support clients' housing aspirations. By offering larger loans at a longer tenure, microfinance institutions are able to also offer lower interest rates, making the products more affordable to clients. This can increase client loyalty, provide a better product suited to their needs, and increase competitiveness against commercial banks.

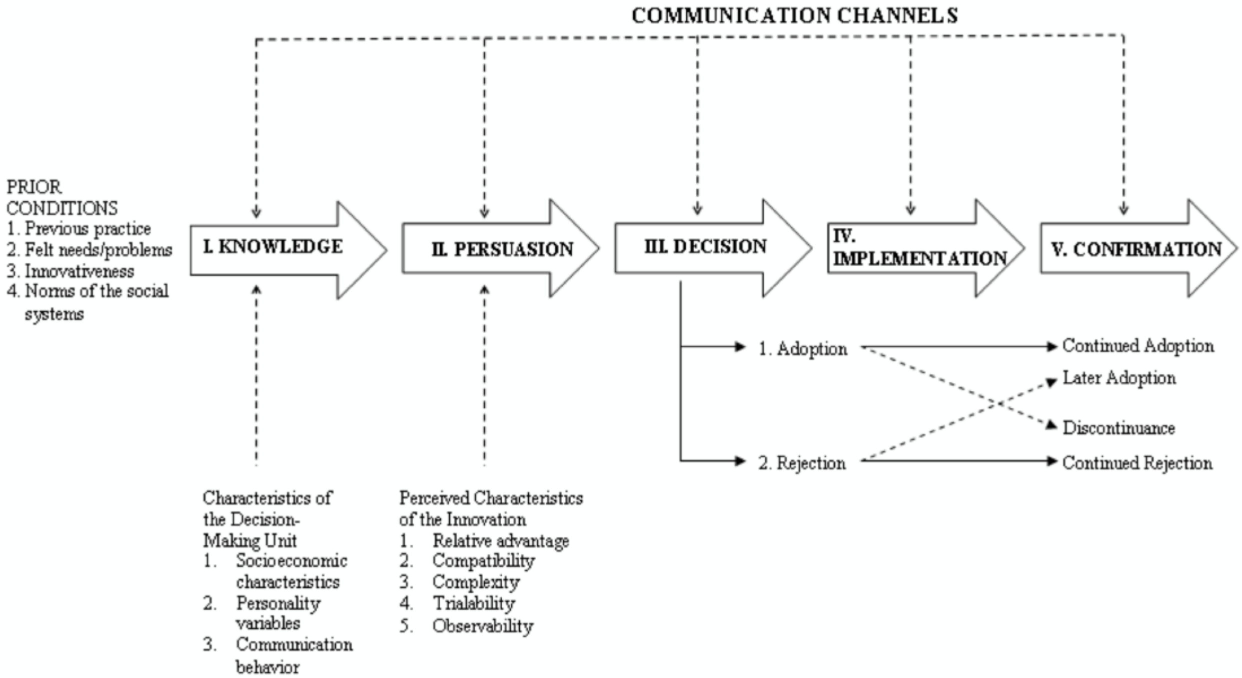
Closing thoughts

The natural housing demand in Georgia remains high. While housing microfinance alone cannot address the full range of Georgia's housing challenges, it is an effective tool for low- to middle-income households seeking to conduct repairs or renovations on a single-family house. Housing microfinance has not reached saturation within the Georgian market, and there is significant opportunity for microfinance institutions with a strong social mission and sufficient product development capacity to offer dedicated housing products. In the process, such institutions can bolster their portfolios and help their clients improve their quality of life.

Appendix 1: Diffusion of Innovation theory

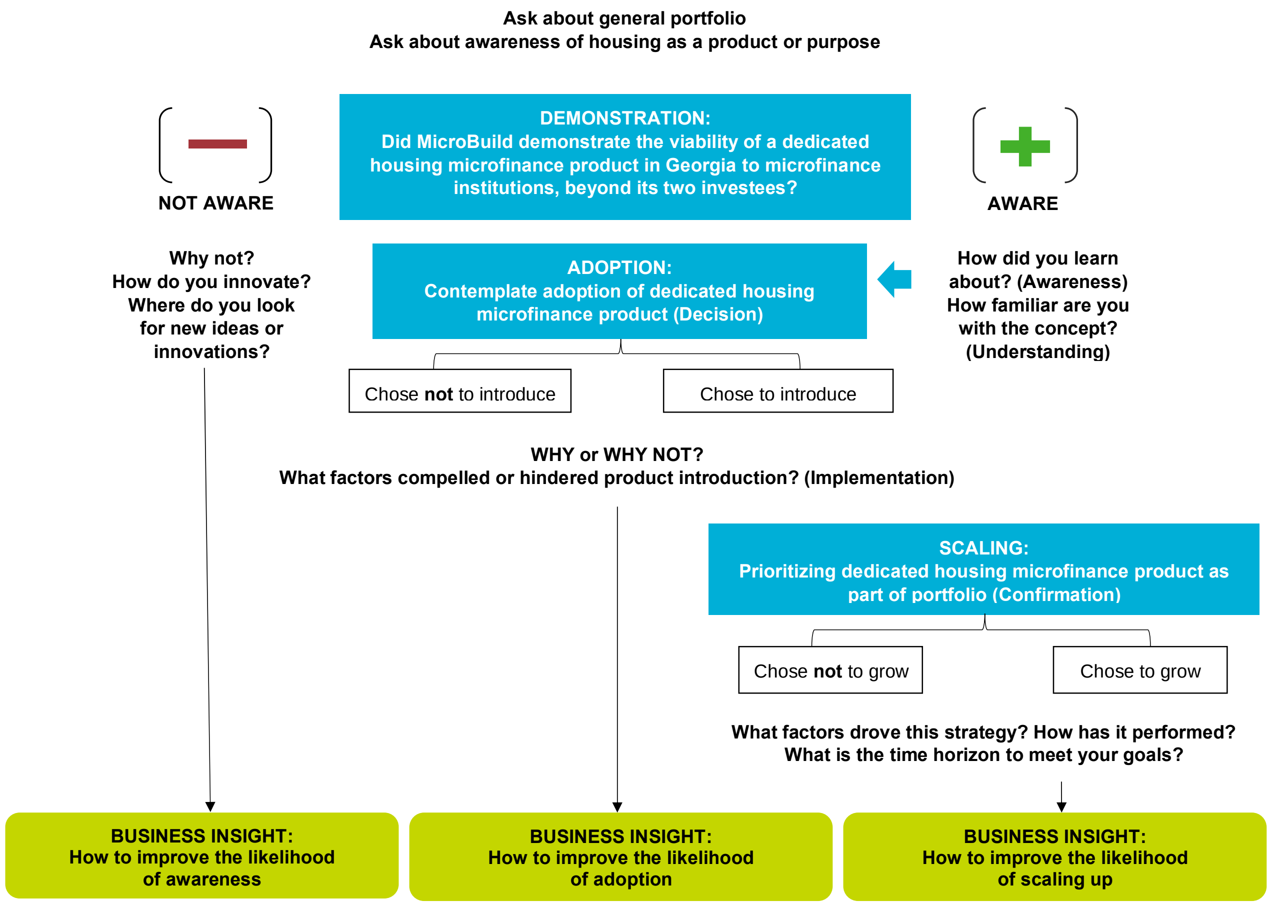
The Diffusion of Innovation framework below served as the foundation of the methodology, but it was then adapted to fit the study objective and framework developed in **Appendix 2**.

Figure 4: Model of five stages in the innovation-decision process



Source: *Diffusion of Innovations, Fifth Edition*, by Everett M. Rogers. ©2003 by The Free Press. Reprinted with permission of The Free Press: A Division of Simon & Schuster.

Appendix 2: Research framework



Appendix 3: Semistructured interview guide (for financial service providers)

We appreciate your taking the time to meet with us today. Habitat for Humanity is focused on increasing access to adequate, affordable housing among low-income households. The purpose of this study is to understand the uptake of housing microfinance in Georgia.
The interview will take approximately 45 minutes to conduct. All your answers will be kept confidential unless otherwise stated. We will share our report in draft form, should you wish to review the findings, and the final report will also be made available to you.
*We would like to emphasize that this a research study and is not meant to serve as a due diligence review for potential MicroBuild investment. Any interest in MicroBuild funding must be directed to Triple Jump, the fund manager.**
Do you have any questions before we proceed? Great, let's get started.

***[DEPENDING ON INTERVIEWEE].** *As a final point, we would like to request further details on the performance of your housing product relative to your overall lending portfolio. This information will be kept confidential, and results will only be shared in the aggregate form. Would you be willing to share with us your financial metrics from the past three years? [IF YES:] Great, our team will follow up via email with our specific requests.*

Interviewer:	**Date:**
Institution interviewed:	**Individual interviewed/position:**
Would you tell us a little bit about your background? • Individual: • Institution:	
Product offering: What kind of products does your institution offer?	
Do you currently offer loans for housing finance needs?	
• **If yes,** what percentage of your portfolio is this?	• **If no,** have you previously offered a product for housing or considered introducing a dedicated housing product?
1. Awareness of housing microfinance	
Are you familiar with the concept of housing microfinance?	
2: Knowledge/understanding of housing microfinance	
What is your familiarity/technical understanding of "dedicated or separate housing products"?	
• **If answer consumer loan understanding, then:** What is the difference between that and a specific product just for housing?	• **If they can't explain, then we explain what the difference is.** What is your perception of "dedicated housing products"?
Channels: How did you first learn about the concept of housing microfinance products? Were there other sources where you subsequently heard about dedicated housing products?	
Timing: When did you first hear about this type of product?	
3. Decision-making	
What does innovation mean to you? How do you perceive trends and "supposed" innovations in microfinance?	
What factors influenced your decision to introduce a new product? Which of these factors play the largest role in your decisions?	

How do you make decisions about adding new products to your portfolio? Who is responsible?
4. Implementation
Does your institution provide for nonfinancial services for any of your products?
For housing, anything specifically?
If housing product offering, do you require a mortgage or other collateral?
5. Monitoring/assessment
Do you monitor new products or existing products?
Do you collect any feedback from your clients?
Adaptations: Did you make any adjustments to the product, and if so, what?
6. Promoting your dedicated housing product to others
Have you promoted your housing product?
Have you heard of others — microfinance institutions, banks — doing so?
7. Growth and strategy
Institution: What do you think is the growth expectation of your portfolio in the next three to five years?
Prioritization: What is the most important product for your institution going forward?
Sector: What do you think the future of the microfinance sector looks like?
What do you think are the most important/strategic products sector-wise considering client needs?
General notes
Have you seen high turnover in the microfinance institution/banking sector?
Whom do you see as your main competitors?
How do you think the new regulations will impact the industry or your operations?
Expectations/concerns:

Appendix 4: List of interviews conducted

Entity type	Subentity type	Entity name	Names of interviewees
Financial institutions (16 entities interviewed)	Commercial banks	TBC Bank	**Otar Nadaraia,** chief economist (and former vice president of NBG)
		ProCredit Bank, Georgia	**Alex Matua,** chief executive officer and on management board **Grigol Saliashvili**
	Microfinance institutions transformed into banks	JSC Credo Bank	**Nana Tughushi,** investor relations manager **Natia Kochlashvili,** head of research & development unit **Irakli Nioradze,** retail credit products manager
		FINCA Bank Georgia	**Giorgi Nadareishvili,** chief compliance officer **Irakli Abashidze,** head of credit department **Khatuna Chelidze,** head of branch network
	Leasing company	Alliance Group Holding	**Aieti Kukava,** chief executive officer **Gerlof De Korte,** manager, international investor relations
	Microfinance institution (primarily money transfers)	IntelExpress	**Iva Bazhunaishvili,** lending director
	Microfinance institution (primarily currency exchange)	Giro Credit	**Toma Mchedlishvili,** financier **Giorgi Gugumberidze,** director
	Microfinance institutions	JSC MFO Crystal	**Malkhaz Dzadzua,** chief executive officer **Sergo Jolia,** head of business development **Marieta Chabukiani,** microbusiness product coordinator
		MFO Lazika Capital	**Besik Shengelia,** general director **Vasil Dzneladze,** chief operations officer **Irakli Kurashvili,** chief financial officer **Irakli Todua,** chief risk officer **Teimuraz Arjevanidze,** chief commercial officer
		JSC MFO Georgian Credit	**Anna Trapaidze,** head of marketing and public relations **David Metreveli,** head of credit risk department **Nodar Doreuli,** co-head of sales
		ImerCredit	**Konstantin Kotishadze,** chief executive officer
		Global Credit LLC	**Giorgi Nikoladze,** project manager, global credit
		Capital Express	**Vakhtang Gokhiel,** director **Natia Osepashvili,** head of operations department
		Central Microfinance	**Imran Khizar,** chief executive officer **Gegi Grdzelishvili,** head of commercial department **Nino Tskhvediani,** head of risk department
		LENDUP	**David Bobokhidze,** director **Giorgi Gvenetadze,** head of risk and operations **Tornike Chogovadze,** marketing manager
		TbilMicroCredit	**Alexander Tarieladze,** director **Davit Kareli,** deputy chief financial officer

Entity type	Subentity type	Entity name	Names of interviewees
Government (six entities interviewed)	Central government	Ministry of Economy	**Ekaterine Mikabadze,** deputy minister of economy and sustainable development
		Ministry of Finance	**Mirza Gelashvili,** head of macroeconomic analysis and fiscal policy planning department
		Ministry of Internally Displaced Persons	**Rostom Kobakhidze,** head of division of real estate restitution of internally displaced persons issues department **Levan Sigua,** head of social issues division **Tamar Burduli,** head of section for preliminary assessment of application for durable housing solutions **Tengiz Kurashvili,** deputy head of legal provision admin unit of legal department
		National Bank of Georgia	**Natia Tsotsonava,** head of department, head of division, non-banking institutions **Mariam Jakeli,** specialist nonbanking supervision **Avtandil Maisuradze,** leading specialist
	Municipal government	Kutaisi	**Nino Tvaltvadze,** deputy mayor of Kutaisi City Hall
		Rustavi	**Irakli Tabagua**, mayor
Other stakeholders (eight entities interviewed)	Commercial real estate	Colliers International	**Nino Makasarashvili,** research department
	Credit bureau	CreditInfo Georgia	**Alexander Gomiashvili,** chief executive officer **Bacho Japharidze,** business analyst
	MicroBuild Fund board member		**Kate McKee,** MicroBuild board of directors
	Microfinance investment vehicle	Triple Jump	**Tatiana Babii,** regional manager, Europe and Central Asia
	Nongovernmental organization	Mercy Corps	**Irakli Kasrashvili,** country director
	Regional consultant	Microfinance Centre	**Justyna Pytkowska,** program manager of research **Ewa Bankowska,** responsible finance expert
	Terwilliger Center advisory board member	Wharton School Zell/ Lurie Real Estate Center	**Marja Hoek-Smit,** director/founder, international housing finance program
	Regional technology consultant	Aspekt	**Rusudan Kharabadze,** business development manager

every hand

makes a difference

TERWILLIGER CENTER FOR INNOVATION IN SHELTER
285 Peachtree Center Ave. NE, Suite 2700, Atlanta, GA 30303-1220 (229) 924-6935
TCIS@habitat.org habitat.org/tcis

HABITAT FOR HUMANITY INTERNATIONAL
322 W. Lamar St., Americus, GA 31709-3543 USA (800) 422-4828 publicinfo@habitat.org habitat.org

19-69900/PDF/TCIS/10-2019