

OCTOBER 2021

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# COVID 19

## FOCUS ON THE CAUCASUS REGION

With the Covid-19 pandemic affecting every industry in the world, including the microfinance sector, Symbiotics and CGAP have partnered to publish a series of briefs that explore how Covid-19 has affected the microfinance sector based on Symbiotics' data and our analysts' expertise. Four briefs that tracked the performance of over 300 MFIs in Symbiotics' global portfolio were published.

Symbiotics, in collaboration with Convergences, contributed to the Impact Finance 2021 Barometer with an article using the same methodology as the Covid-19 brief, with a focus on Asia. This report, which follows the same methodology as the others, studies how the pandemic has affected the microfinance sector in the Caucasus region.

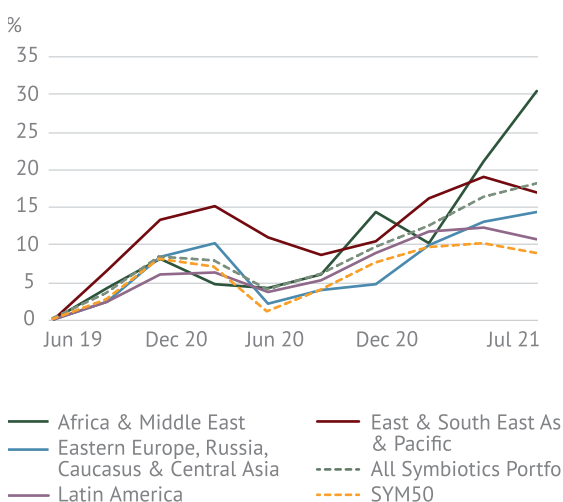
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Symbiotics data continue to record positive recovery in our portfolio, except in Asia where trends are different (see previous report on page 5 for details). Portfolio at Risk (PAR) levels have been declining since Q1-21, except in Africa, and the moratoriums on payments have steadily decreased in all regions. While portfolio and borrower growth continue to increase, liquidity levels have been declining since Q3-20, which may be a good sign, indicating business recovery. Monthly disbursements and repayments year-on-year (YoY) confirm this trend with rising levels, but July data shows signs of a downward trend for Q3-21. Solvency levels remain stable and an increase in return on equity (ROE) in most regions, except in Africa.

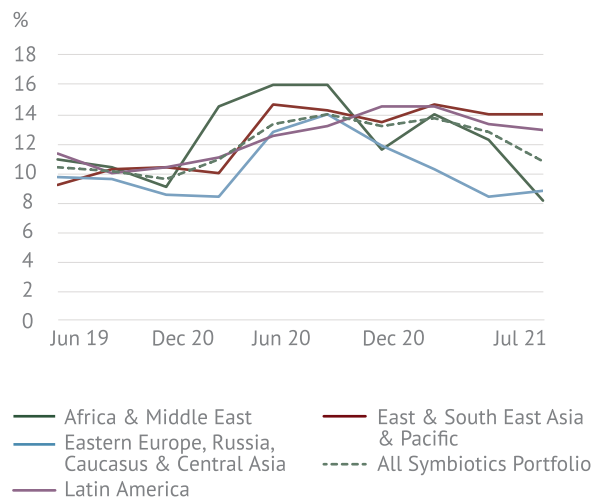
stronger negative effects from the pandemic and had more difficulty recovering. Yet, credit growth has remained strong, especially in the microfinance and corporate segments, as the first wave of the pandemic led to postponed demand. After the new wave of the pandemic, there was a slowdown in Q1-21, followed by a decline in portfolio growth in Q2-21. Then, with the removal of the restrictions, there was a rebound in July 2021. The fact that most businesses postponed decisions due to the uncertainty related to the snap parliamentary elections in Armenia influenced these fluctuations in Q1-21 and Q2-21.

Monthly disbursements and repayments have been

### PORTFOLIO GROWTH



### LIQUIDITY



In the Caucasus, the trends for most indicators follow the tendency of the Symbiotics portfolio overall, with a lower level, except for portfolio growth, borrower growth and profitability. Indeed, emerging markets with small and open economies characterize the Caucasus region. This regional market is sensitive to external shocks but is capable of rebounding quickly thanks to appropriate policy decisions and healthy banks that have strong cushions, have experience in dealing with problems and have benefitted from timely support measures taken by their governments and international partners.

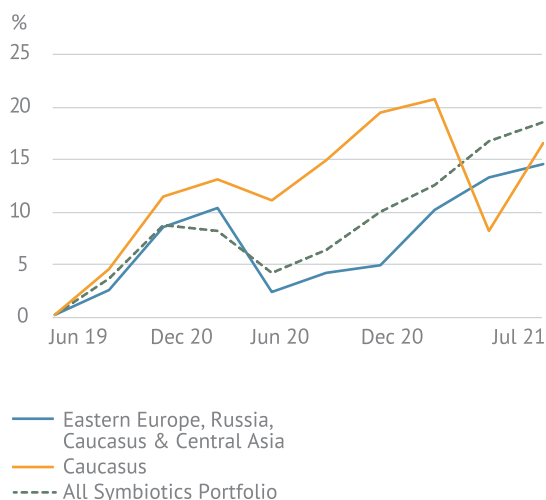
In the Caucasus, while borrower growth has been declining since Q1-20, portfolio growth has steadily increased since Q2-20, with a correction in Q2-21. Uncertainty related to the pandemic has led to cautious lending, which has restricted the supply of retail and small and medium enterprise (SME) lending and lowered demand from clients. This is because this type of loan has a higher credit risk, has experienced

fluctuating up and down due to significant sensitivity to the external environmental. The repayments and extensions of the moratorium on payments explain these fluctuations. During Q3-20 and Q4-20, there was a downward trend in the region resulting from different contexts. While in Georgia the government put in place a partial lockdown at the end of 2020 given the second wave, Armenia is facing a consequent political crisis with the escalation of the military conflict in the Nagorno-Karabakh region. PAR levels have also seen ups and downs but the trend has remained slightly upward since Q4-19 (4.15% in June 2019 and 5.9% in June 2021). The delayed impact of the pandemic on portfolio quality due to payment moratorium cycles in 2020 may explain this. Despite the decline in moratorium levels since Q3-20, the collection rate has recovered relatively quickly.

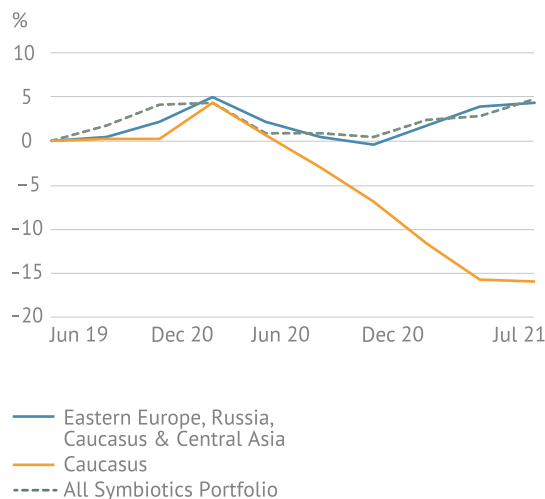
Symbiotics partners in the Caucasus entered the crisis with strong capitalization and liquidity levels. The temporary easing of capital requirements,

backing from central banks through local currency liquidity support, and access to hedging instruments provided further assistance. Nevertheless, liquidity levels began to decline slowly in Q3-20, even though financial institutions (FIs) were willing to accumulate a comfortable liquidity buffer by securing renewals and additional funding. Still, liquidities remained at adequate levels and July 2021 data show an upward trend for Q3-21. This decrease is related to the fact that local and international financial institutions have been more cautious in providing liquidity and funding to microfinance institutions (MFIs), as it has taken them time to digest associated uncertainty and risks caused by the pandemic. Halted lending has also

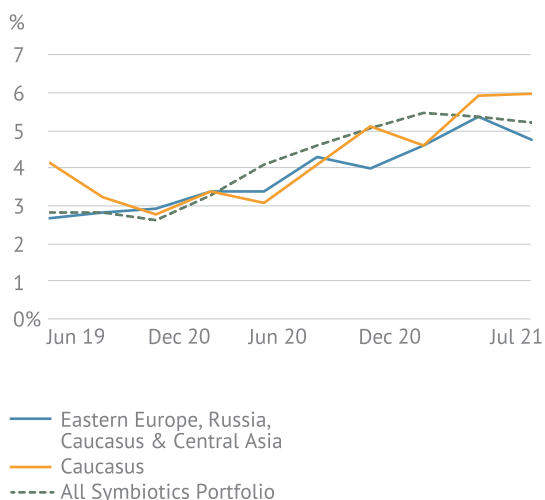
**PORTFOLIO GROWTH**



**BORROWER GROWTH**

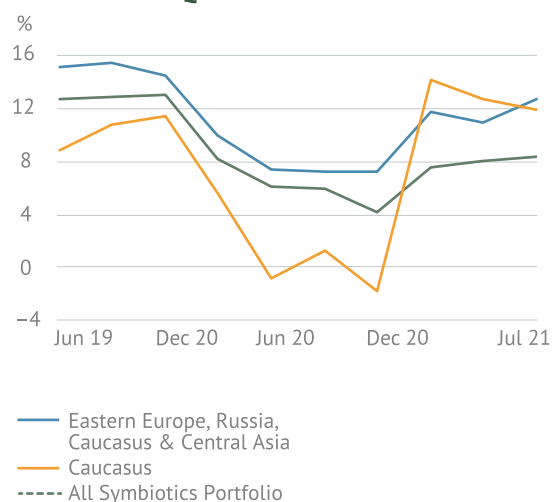


**PORTFOLIO AT RISK**



negatively affected capitalization. In addition, the mandatory special COVID-19 provisions and high financial expenses have weighed on capitalization, resulting in reduced solvency. Profitability, affected by the same factors, reported a downward trend until Q4-20 and then a rebound occurred in Q1-21. Thanks to the greater resilience of microfinance clients, high liquidity and healthy asset quality, MFIs were able to recover a large amount in special provisions and restart lending. Therefore, most MFIs registered a small loss or moderate profit in 2020 and have showed signs of recovery in 2021.

**RETURN ON EQUITY**



Overall, the Symbiotics portfolio is recovering from the crisis stemming from the pandemic and our partners from the Caucasus region are following a similar trend, but at a slower pace. Consumers and SMEs were more affected by the crisis than MFIs from the microfinance or corporate sector due to limited liquidity, halted growth and rising non-performing loans.

# LATEST INDICATORS

## INDICATOR DEFINITIONS

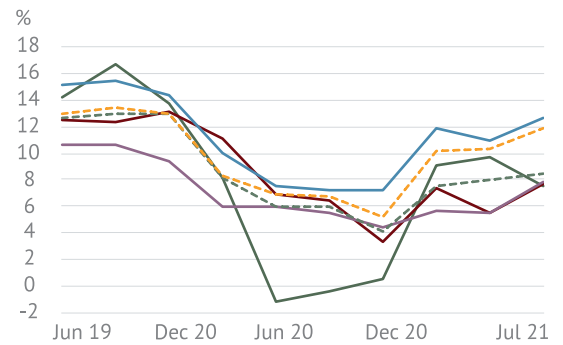
For the following ratios, we always use the median value of a given regional or sub-regional group of MFIs, SME finance institutions and SME banks. All ratios are calculated in local currency.

Key: (all graphs)

- Africa & Middle East
- Eastern Europe, Russia, Caucasus & Central Asia
- Latin America
- East & South East Asia & Pacific
- - - All Symbiotics Portfolio
- - - SYM50

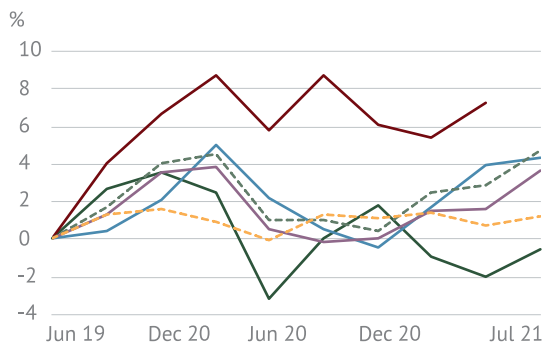
## RETURN ON EQUITY

Annualized net income divided by the average of current month equity and last fiscal year-end equity.



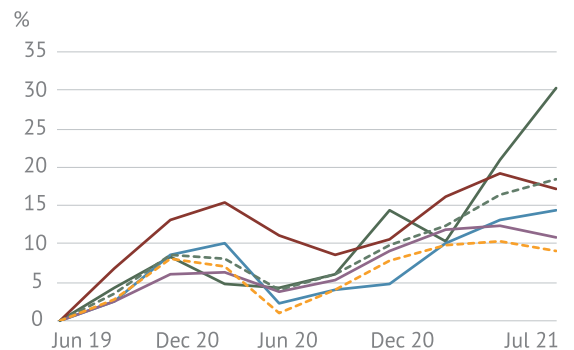
## BORROWER GROWTH

Growth (respectively decline) of the number of active borrowers on the last 24 months.



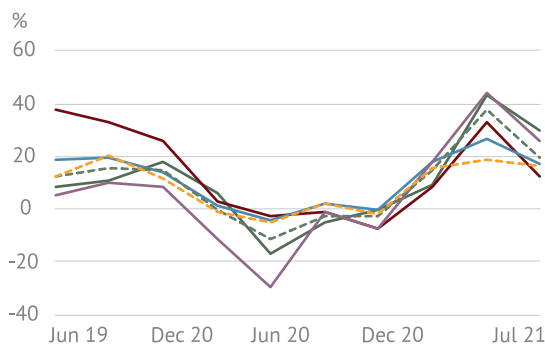
## PORTFOLIO GROWTH

Growth (respectively decline) of the total outstanding loan portfolio on the last 24 months.



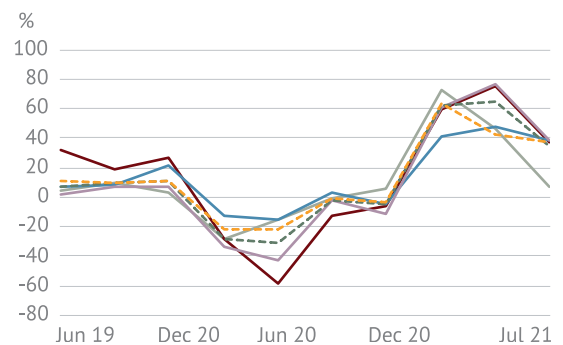
## MONTHLY REPAYMENTS YEAR OVER YEAR

Growth (respectively decline) of monthly repayments from borrowers, compared to the same month of the previous year.



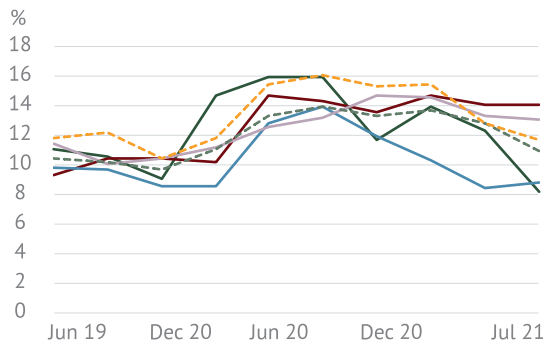
## MONTHLY DISBURSEMENTS YEAR OVER YEAR

Growth (respectively decline) of monthly loan disbursements to borrowers, compared to the same month of the previous year.



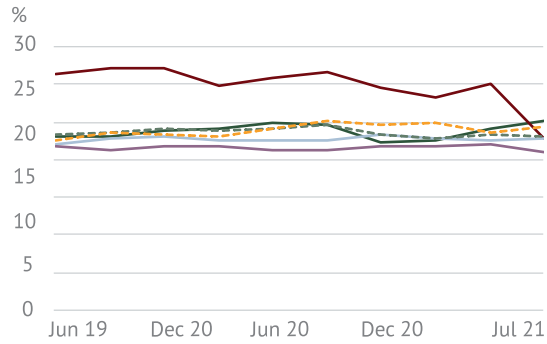
**LIQUIDITY**

Unrestricted cash and short-term liquid investments divided by total assets.



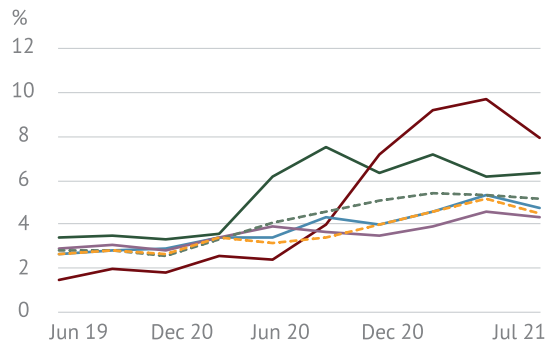
**SOLVENCY**

Proxy of Basel III capital adequacy ratio.



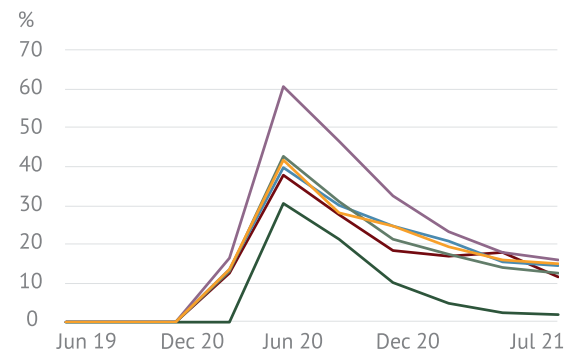
**PORTFOLIO AT RISK**

Portfolio at risk over 90 days + entire restructured portfolio, divided by the total outstanding loan portfolio.



**MORATORIUM RATIO**

Loans subject to general payment moratorium recommended by local regulator divided by the total outstanding loan portfolio.



Key: (all graphs)

- Africa & Middle East
- Eastern Europe, Russia, Caucasus & Central Asia
- Latin America
- East & South East Asia & Pacific
- - - All Symbiotics Portfolio
- - - SYM50

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