საქართველოს ეროვნული ბანკი
National Bank of Georgia

FINTECH DEVELOPMENT STRATEGY OF GEORGIA

A Concept Paper for Public Consultation

2024

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ABBREVIATIONS

ACH (Automated Clearing House)

AI (Artificial Intelligence)

AML (Anti-Money Laundering)

API (Application Programming Interface)

AUM (Assets under Management)

BISIH (Bank for International Settlement Innovation Hub)

B2B2C (Business-to-Business-to-Consumer)

CBDC (Central Bank Digital Currency)

CFT (Countering the Financing of Terrorism)

DFS (Digital Financial Services)

DGA (Digital Governance Agency)

DLT (Distributed Ledger Technology)

ECB (European Central Bank)

E-KYC (Electronic Know Your Customer)

EPA (Electronic Payments Acceptance)

ESG (Environmental, Social, and Governance)

EU (European Union)

FCP (Financial Consumer Protection)

FSB (Financial Stability Board)

GC (Georgian Card)

GDP (Gross Domestic Product)

GDPR (General Data Protection Regulation)

GFIN (Global Financial Innovation Network)

GITA (Georgia's Innovation and Technology Agency)

GCCA (Georgian Competition and Consumer Agency)

GPSS (Georgia Payment and Securities System)

IFC (International Finance Corporation)

IMF (International Monetary Fund)

IoT (Internet of Things)

IPS (Instant Payment System)

ISSSG (Insurance State Supervision Service)

IT (Information Technology)

KFTC (Korea Financial Telecommunications and Clearings Institute)

KPIs (Key Performance Indicators)

MC (Middle Corridor)

MFIs (Microfinance Organizations)

ML (Machine Learning)

MoESD (Ministry of Economy and Sustainable Development)

MoF (Ministry of Finance)

MoJ (Ministry of Justice)

MOU (Memoranda of Understanding)

MSMEs (Micro, Small and Medium-sized Enterprises)

NBG (National Bank of Georgia)

NPS (National Payments System)

PISPs (Payment Initiation Service Providers)

PSDA (Public Service Development Agency)

PSD2 (EU Revised Payment Services Directive)

P2P (Peer-to-peer)

QR code (Quick-Response code)

RTGS (Real Time Gross Settlement System)

RTP (Request-To-Pay)

SEPA (Single Euro Payment Area)

SME (Small and Medium Enterprise)

SSBs (Standard Setting Bodies)

TPPs (Third Party Providers)

UFC (United Financial Corporation)

USAID (United States Agency for International Development)

VASPs (Virtual Asset Service Providers)

VRPs (Variable Recurring Payments)

INTRODUCTION

Technology-enabled innovation in financial services ("fintech")[1] presents a remarkable opportunity for financial deepening and financial sector development more broadly. Technology can lower transaction costs by overcoming geographical access barriers, increasing the speed, security, and transparency of transactions, and allowing for more tailored financial services that better serve consumers. Additionally, advancements in technologies such as data analytics and artificial intelligence (AI) can empower regulators to better monitor and mitigate risks, thus promoting stability within financial systems. Policy makers globally have embraced fintech developments by adapting policy, regulatory and supervisory frameworks. Across advanced economies and emerging markets and developing economies, fintech solutions are improving access to financial services, introducing higher levels of competition and efficiency, and benefiting consumers.

At the same time, fintech can pose certain challenges. Regulators and supervisors must manage complex policy tradeoffs between stability and integrity, competition and efficiency, and consumer protection and privacy. Policy tradeoffs evolve as countries rise on the fintech adoption ladder, challenging authorities to ensure that market outcomes remain aligned with core policy objectives. Furthermore, fintech developments often span different sectors and regulatory/supervisory remits, challenging siloed approaches and institutional cooperation frameworks. Finally, the supranational and decentralized nature of emerging technologies such as those underpinning digital assets/currencies also raises cross-border regulatory arbitrage risks and coordination challenges.

Georgia has embraced fintech, under the leadership of the National Bank of Georgia (NBG). The NBG has already taken significant steps in developing an enabling environment for fintech and has incorporated innovation as a key driver of its supervisory strategy. Key achievements include the development of a regulatory framework that facilitates new activities and the safe entry of new players in the payments and banking market, through the amendment of Payment Systems and Payment Services Law in alignment with the EU Revised Payment Services Directive (PSD2) and the issuance of digital banking guidelines, among others. The NBG has also strengthened its institutional capacity on fintech issues, set up a regulatory sandbox, spearheaded key infrastructure reforms and has been actively researching central bank digital currency (CBDC) as well as engaging stakeholders.

Realizing the full potential of fintech requires broadening and strengthening the institutional arrangements. In general, the fintech institutional framework mirrors the established responsibilities for financial sector policy, supervision, and development. At the domestic level, the NBG will foster cooperation with other financial sector authorities and industry regulators as well as with the digital governance agency. At the international level, the NBG will continue sharing experiences and will increase convening efforts, with a view to acting as a driver of regional policy coordination and leveraging its geopolitical position to lay the foundations to become a regional fintech hub.

[1] For the purposes of the strategy, we define fintech as advances in technology that have the potential to transform the provision of financial services, leading to new business models, applications, processes and products. New technologies can also be applied to existing products and/or access channels in a variety of combinations, and new products can simply use existing technologies in an optimized way (e.g., fast payments). This strategy aims to capture all relevant developments, with a focus on non-traditional business models and players.

The Fintech Development Strategy[2] aims to create a cohesive national framework that will enhance collaboration between relevant public and private stakeholders, both domestically and internationally to ensure joint and coordinated efforts towards fostering an integrated and innovative fintech ecosystem in Georgia.

[2] Prepared in collaboration with the World Bank.

1. STRATEGY VISION AND OBJECTIVES

Georgia's vision on fintech development is to provide an enabling environment and a modern infrastructure for fintech to drive responsible innovation and competition in financial services domestically and across borders. The goal is to establish Georgia as a leading fintech hub for the Middle Corridor (MC) countries.

FINTECH DEVELOPMENT VISION

Georgia's fintech development vision strives to **enable basic fintech infrastructure and facilitate the entry barriers' disruption in-house**, with the projects like Open Banking/Finance, CBDC as an ecosystem etc. Besides, thinking about the "cross-border regulatory sandbox" concept, Georgia aims to build on the "Middle Corridor Momentum" to **support the ongoing trends in the real economy with the new FinTech infrastructure and motivate others within the region.**

Establishing a fintech hub in Georgia is viewed as a continuous process rather than a final destination. Consequently, Georgia employs a "learning-by-doing" approach in developing initiatives that guide its strategic thinking and efforts towards fintech advancement.

HUB IS THE PROCESS RATHER THAN THE DESTINATION

WHAT

Fintech-enabled regional cooperation among the Middle Corridor countries, serving as a modern financial infrastructure enabler

WHY NOW

Taking first-mover advantage in promoting fintech-enabled regional cooperation, which could be a winning niche positioning for Georgia

WHO

Domestic and foreign fintech companies and startups that can develop innovative financial services and products in the market

HOW

Expanding regulatory cooperation around common standards and/or eliminating regulatory fragmentation through disruptive innovation

1.1. THREE KEY DIMENSIONS OF THE STRATEGY VISION

Georgia's fintech development vision focuses on three key dimensions:

POLICY	INFRASTRUCTURE	ECOSYSTEM
Facilitating regulatory-driven innovations in the financial sector by implementing proactive policy	**Early-stage experimentation of new technologies** to promote technology-driven innovations	**Facilitating "Beyond-Georgia FinTech ecosystem"** to establish Georgia as a regional FinTech hub for the Middle Corridor countries

01 Proactive Regulatory Policy Implementation

Georgia's legal and regulatory framework broadly supports fintech innovation. The NBG explored the 36 most common foreign fintech business models to assess legislative barriers to innovations in Georgia compared to other countries. The investigation revealed that under Georgian legislation and the NBG decrees, 25% of the business models are partially or fully restricted, while 75% can be implemented.

PROACTIVE POLICY: REGULATORY-DRIVEN INNOVATION

REGULATORY SANDBOX

Allows regulated financial entities to test innovative services and products like remote ID verification, digital forex, escrow services, credit bureau platforms, and crypto-backed loans

OPEN BANKING/FINANCE

Introduced in 2020, open banking became available to all regulated entities by May 2023. The next strategic goal is the transition to open finance

INNOVATION OFFICE

Consults FinTech organizations and startups in understanding the NBG's regulatory requirements

DIGITAL BANK LICENSISNG PRINCIPLES

Unveiled in 2019, the Digital Banking Licensing Principles paved the way for three Digital Bank license issuance by 2024

VASP REGISTRATION REGIME

Introduced In 2023, the Virtual Asset Service Provider (VASP) registration regime regulates VASPs operating in Georgia for AML/CFT compliance

SMART CONTRACTS LEGAL FRAMEWORK

In cooperation with USAID, the NBG is preparing the regulatory and legislative framework draft for smart contracts

The NBG also introduced digital bank licensing principles in 2019 to reduce entry barriers for new market players. As a result, the NBG has licensed three digital banks so far, including one that enables seamless transactions with the EU economic zone and the world's first programmable bank, originating from Singapore. These banks are expected to enhance cross-border payments and accelerate growth in trade volumes.

To support innovations in the fintech sector, the NBG established a Financial Innovation Office in 2020, providing guidance and consultations to fintech startups and companies on regulatory and supervisory matters within the scope of the NBG's mandate. The mission of the innovation office is to promote responsible innovation in the financial sector while helping fintech organizations/startups navigate the supervisory approach of NBG's regulations.

In 2020, the NBG also established a Regulatory Sandbox, enabling entities under its supervision to test innovative products and services in a controlled environment with relaxed regulatory requirements. The primary objective of the sandbox is to promote the expansion of the fintech sector by lowering barriers to entry in the financial market and identifying essential regulatory adjustments.

In early 2020, the NBG started working on the Open Banking project. Since May 2023, open banking has been available for all Third Party Providers (TTPs) who meet relevant criteria. To support the development of open banking, the NBG has also launched the first Open Banking Technical Sandbox in the region, in which selected fintech and other non-bank companies experimented with new open banking APIs. The next stop is open finance. The NBG plans to use the same approach and the first open finance APIs will be ready by the end 2024.

In 2023, the NBG introduced a mandatory registration regime for Virtual Asset Service Providers (VASPs) under new legislative changes. The framework includes Fit and Proper criteria for VASP administrators, Anti-Money Laundering (AML) and Counter-Terrorism Financing (CFT) supervision, and the power to issue instructions and impose additional requirements, ensuring comprehensive oversight of virtual asset activities.

Additionally, in cooperation with USAID, the NBG is spearheading the initiative to develop a legal and regulatory framework for smart contracts. The project aims to establish a clear and comprehensive legal foundation of smart contracts, define the rights and obligations of involved parties, and ensure compliance with existing laws and regulations. Ultimately, this will foster innovation, promote trust, and enhance the security of digital transactions.

02 Modern Financial Infrastructure Development

The priority in this direction is to identify the advantages of blockchain-based financial infrastructure to enhance the effectiveness and efficiency of current systems. Georgia sees blockchain as a technology-driven innovation in the financial sector and the goal is to make it accessible as a public good. A significant advantage of blockchain technology lies in its capacity to support a unified ledger, enabling the integration of diverse assets and transactions within a single, shared programmable platform. This design could underpin the Finternet concept proposed by the Bank for International Settlement (BIS)[3], envisioning the interconnection of multiple financial ecosystems in a manner akin to the internet. Consequently, consumers and businesses would gain access to a broader array of financial services and products tailored to their specific needs, offering enhanced flexibility in managing their financial affairs.

[3] See BIS, "Finternet: the financial system for the future", April 2024.

For the past few years, the NBG has been actively exploring retail CBDC at an early stage as a platform to power innovations. From the beginning of 2024, the Digital Lari pilot project has been launched. The experimentation focuses on advanced blockchain functionalities such as tokenization, programmability, and smart contracts. Tokenization involves creating digital representations of money and other assets on programmable platforms, streamlining transactions through integration into a unified system. By leveraging programmability and smart contracts, tokenization enhances automation, potentially making transactions faster, cheaper, and more convenient. Smart contracts automate predefined actions under meeting specific conditions, facilitating atomic settlement — a secure and instantaneous exchange of assets that mitigates counterparty risk. Additionally, the composability of smart contracts allows for the execution of complex transactions by bundling multiple components and instructions within a single contract, thereby enabling new methods of asset transfer.

In collaboration with the World Bank, the NBG is working on implementing an instant payment system (IPS) - a retail payment system that will work 24/7/365 and ensure immediate transfer of funds from the payer's account to the recipient's account. The IPS and its overlay services will allow payment service providers (PSPs), including fintech companies, to create new opportunities and channels for receiving customer and merchant payments, increasing the effectiveness and efficiency of the payment system. Furthermore, both banking and non-banking PSPs will gain direct access to the new system, enhancing competition in the retail payment market and delivering seamless, faster digital payment options to consumers.

In 2022, the NBG officially applied for membership in the Single Euro Payment Area (SEPA) to enhance Georgia's financial connectivity and position it as a crucial transactional gateway between other MC countries and the EU.

03 Promoting “Beyond-Georgia” Fintech Ecosystem

In recent years, Georgia has developed one of the most technologically advanced financial systems in the region. Leading Georgian banking groups are expanding regionally: TBC Group has launched the first digital bank in Uzbekistan, while Bank of Georgia Group has acquired the largest bank in Armenia. The ability of these banks to flexibly integrate with new markets underscores the innovative nature of their technology and services, which they are exporting abroad along with their banking expertise. Both banking groups are also listed on the London Stock Exchange, highlighting their credibility.

However, since Georgia is a small, open economy, it still lacks the market capacity to scale domestically. Thus, the focus is on business models that emphasize international cooperation. That is why the NBG is participating in the BIS Innovation Hub project mBridge, which aims to enhance international trade and connectivity between central and commercial banks through wholesale CBDCs. The NBG sees mBridge as a promising opportunity to accelerate trade growth along the MC, addressing inefficiencies in current international settlement systems through the elimination of intermediaries. In addition, the NBG aims to become an observer member in BIS Project Aperta, which seeks to reduce global finance frictions and costs by connecting interoperable APIs in open finance ecosystems.

1.2. FINTECH STRATEGY OBJECTIVES

The strategy can be broken down into the following six objectives:

01

Supporting Georgia's digital economy through safe, reliable, fast and convenient payment services. This goal entails promoting fast payments across a wide range of transaction channels and use cases, including at the point of interaction, large-volume, recurring payment streams and third-party payment initiation in synergy with open banking.

02

Leveraging innovation to reduce the financing gap for micro, small and medium-sized enterprises (MSMEs) and addressing the needs of underserved segments (e.g., remittance recipients). This includes promoting asset-based financing solutions and evaluating alternative financing models as well as building on open finance to reduce information asymmetries and improve credit decisions.

03

Increasing the participation of new players in financial service market, fostering competition. Building on reforms that sought to remove regulatory barriers, this goal focuses on enabling access to key infrastructures and data assets, while also strengthening the competition framework in light of platform models.

04

Fostering regional collaboration on fintech issues to promote regulatory harmonization and technical standardization with to improve cross-border payments and facilitate the provision of innovative services across borders, while ensuring effective cooperative oversight.

05

Supporting the MC agenda by creating the enabling conditions for the provision of innovative financial services for cross-border trade and e-commerce.

06

Attracting fintech solutions to Georgia, thereby growing the fintech ecosystem and talent pool, and raising the international profile of Georgia as a regional fintech hub.

1.3. KEY PERFORMANCE INDICATORS (KPIs)

The achievement of the vision and goals will be measured through the following pre-defined KPIs:

- Number of fast payments per capita
- Value of total new financing intermediated through fintech solutions
- Cost of cross-border retail payments and remittances (percentage of payment amount)
- Number of signed Memoranda of Understanding/cooperative arrangements with foreign central banks/regulators

- Number of fintech companies operating in Georgia
- Number of fintech companies attracted to Georgia
- Number of fintech companies operating from Georgia
- Number of TTPs involved in Open Banking/Finance
- Number of digital banks
- Investment growth in fintech activities
- Growth in the number of fintech startups
- Net fintech jobs created

2. FINTECH ECOSYSTEM OVERVIEW IN GEORGIA

Georgia has seen a sustained rise in fintech-related activity in recent years. As an indicator of the size of the market, Fintech Association of Georgia has around 30 members. Fintech developments in Georgia have primarily focused on payments. Several e-money providers are active in the market, even though they account for a fraction of card transactions. Despite an open banking regime in place, as of July 2024, there was only one licensed Payment Initiation Service Provider (PISP) and three others had applications officially submitted. Similarly, QR-code enabled payment acceptance is limited. Since the creation of a digital banking license in 2023, three digital banks have obtained licenses, with a focus on specialized services/specific segments (e.g., cross-border payments, B2B2C services). Fintech has not yet made inroads in factoring/reverse factoring or alternative financing models.[4] Entities engaged in crypto-asset services/activities are quite active instead: as of October 2024, there were 19 registered VASPs[5]. Finally, the fintech association reports the existence of regtech solutions in the field of e-KYC and authentication.

2.1. SUPPLY SIDE FINANCIAL LANDSCAPE

BANK-CENTRIC FINANCIAL SECTOR WITH HIGH CONCENTRATION

- As of 2023, Banking sector holds **90.3%** of the total financial sector assets and **102.6%** of Georgia's GDP by the second quarter of 2024.
- Two largest banks, both listed on the London Stock Exchange, control **more than three-quarters** of total banking assets.

CAPITAL MARKET

Despite the significant progress made over the past few years, the capital market remains small, with the total stock market capitalization of **GEL 6 billion,** and the corporate bond market of **GEL 2 billion**.

FINTECH ACTIVITIES

- Out of the 17 commercial banks, there are **3 fully digital banks**.
- As of October 2024, there were **19 VASPs** registered.

DIGITAL BANK STATISTICS

Source: NBG (August 2024)

The Georgian financial sector is moderately sized and bank-centric. By the end of 2023, the banking sector assets accounted for 90.3% of the total Georgian financial sector assets, and 102.6% of the country's gross domestic product (GDP) as of the second quarter of 2024.[6] Banks play a leading role as digital financial services (DFS) providers in Georgia. As mentioned above, the role of banks has been instrumental to the growth in access to transaction accounts and the adoption of card payments. Customer experience is the banks' main competitive differentiator, which has recently led banks to focus on developing all-inclusive banking apps/digital ecosystems. In parallel, incumbent banks partner with fintech companies to develop innovative products/services. Microfinance

[4] Prior to the enactment of responsible lending regulations by the NBG, unregulated lending platforms activity had proliferated in Georgia. Many of these entities were not domiciled in Georgia and were operating through agents and sourcing funds from countries in the region.
[5] Source: NBG.
[6] Source: NBG.

institutions (MFIs) are also actively digitizing their internal operations and enabling digital channels for transactions. In the field of insurance[7], sales origination and claim management are highly digitized. By contrast, fintech developments in the capital market have been almost non-existent.

Georgia's banking sector is highly concentrated. Georgia has 17 commercial banks, all privately-owned, of which three are fully digital banks. After a period of mergers and consolidations, the two largest banking groups, both listed on the London Stock Exchange, now make up more than three-quarters of total assets. Concentration is particularly high in rural areas, which are served by only a few banks. The largest banks are part of wider economic groups, including insurance companies, the credit bureau, stock exchange, card switches and e-commerce platforms, among others.

The non-banking financial sector is comparatively much smaller than the banking sector. As of August 2024, The non-banking financial sector is comprised of one non-bank depository institution, 34 MFIs, 162 loan-issuing entities, 720 exchange bureaus, 18 insurance companies, 4 pension schemes, and 2 stock exchanges. As of October 2024, there are also 32 licensed PSPs.[8] Despite its modest size, the capital market has witnessed significant growth, particularly in the corporate bond market. By the end of 2023, the corporate bond market had expanded 2.2 times compared to last year, reaching GEL 1.9 billion (approximately USD 0.7 billion), which represents 2.4% of GDP.[9] The total stock market capitalization stands at GEL 6 billion (approximately USD 2.2 billion).[10] Insurance companies are mostly focusing on health, property and casualty and credit risk insurance. The life insurance market is also small.

Georgia's national payments system (NPS) is underpinned by the NBG-owned and operated Georgia Payment and Securities System (GPSS); NBG's IPS, currently under development, is expected to go live in 2026. GPSS is a hybrid system owned and operated by NBG, combining the functionalities of a Real Time Gross Settlement System (RTGS) system, with an Automated Clearing House (ACH) integrated into it (processing deferred credit transfers). The RTGS provides a safe and effective mechanism for settlement of local currency-denominated large value payments and settlement of the funds leg of Government, NBG and private securities transactions. All commercial banks, the NBG and the Treasury are participants in the RTGS system. The ACH processes and settles interbank credit transfers in real time on a gross basis. Two competing card switches – Georgian Card (GC) and the United Financial Corporation (UFC) – process domestic payment card transactions between member banks and are owned and operated by subsidiary companies of banks. In addition, there are two in-house processing centers belonging to Liberty Bank and Cartu Bank.

Reforms on credit infrastructure in Georgia are ongoing. Recent reforms include the establishment of a credit reporting system regulatory and oversight framework (2019). With these changes, the Credit Information Bureau became regulated by the NBG. NBG has also established a Credit Registry (2021) and introduced regulation of credit information bureau platforms[11] (2022). The online notice-based

[7] Many commercial banks in Georgia own insurance companies.
[8] Source: NBG.
[9] Source: NBG.
[10] Source: Georgian Stock Exchange, October 2024.
[11] A credit information bureau platform is an entrepreneurial legal entity that collects, processes and issues credit information. The platform does not store credit information, nor does it collect information from lending entities in a mandatory manner. The platform is authorized to receive credit, non-credit information and/or other relevant data about a person from the credit information bureau, with the consent of the data subject.

collateral registry is rarely used as financial institutions prefer registering the contracts. The government has embarked on a comprehensive secured transactions reform; in addition to the reform of the general regime applicable under the Civil Code, authorities are working on reforms related to special types of assets/products, including factoring, leasing, and crop and warehouse receipts.

2.2. DEMAND SIDE FINANCIAL LANDSCAPE

ACCOUNT PENETRATION

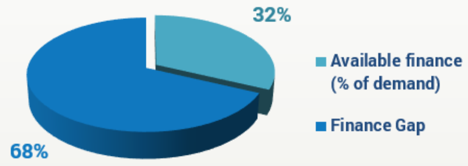
- Based on Global Findex, the share of Georgian adults with account access increased **from 61.2% in 2017 to 70.5% in 2021**.
- According to the IMF Financial Access Survey, **91% of Georgian adults** had at least one payment account in a commercial bank.

DIGITAL PAYMENTS

- Based on Global Findex, The share of adults using digital payments **increased from 24% in 2014 to 62% in 2021**.
- Payment cards are the most commonly used for electronic payments.
- According to Visa, Georgia leads globally in contactless payments penetration.
- Cash remains common for in-store and utility payments, particularly in rural areas and among micro and small merchants.

ACCESS TO FINANCE FOR MSMEs

By October 2024, The **MSME finance gap is 68%**, slightly above the regional average of 60.3%.



Source: SME Finance Forum

Georgia has made significant progress on account penetration. According to Global Findex, 70.5% of Georgian adults had access to a transaction account in 2021, up from 61.2% in 2017. [12] While, in 2023, the population aged 15 and over with at least one payment account in a commercial bank amounted to 2,695,003, or 91% of the total population of the mentioned age.[13]

Georgia has experienced a significant growth in digital payments, albeit from a low base, driven by payment cards. Based on Global Findex data, the share of adults making/receiving a digital payment grew from 24% in 2014 to 62% in 2021. Payment cards are the most used electronic payment instrument. Banks have made significant investments in upgrading the payment card acceptance infrastructure to contactless. According to Visa, Georgia ranks first in contactless payments penetration globally[14]. Building on the contactless infrastructure, new tokenization-based payment services like Apple Pay have been launched in Georgia. Despite these achievements, cash remains prevalent for in-store merchant payments and utility bill payments. An Electronic Payment Acceptance survey conducted by the World Bank in 2022 found that this is especially the case in rural areas and among micro and small merchants.

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[12] The Global Findex Database's country-level data is available at https://www.worldbank.org/en/publication/globalfindex/Data

[13] See IMF, Financial Access Survey, available at https://data.imf.org/?sk=e5dcab7e-a5ca-4892-a6ea-598b5463a34c&sid=1390030341854

[14] See Visa, available at https://www.visa.com.ge/en_GE/about-visa/newsroom/press-releases/prl-01022023.html

Household credit is not considered to be a major constraint. Consumer borrowing has declined slightly in recent years – likely due to policy actions taken by NBG to curtail irresponsible lending and address issues of over-indebtedness among households, as well as due to the general economic downturn related to the COVID-19 pandemic. Based on Global Findex data, the percentage of adults who reported borrowing any money (from any source) declined from 44.9 in 2017 to 40.3% in 2021, while the percentage of adults borrowing from a regulated financial institution was 24.2% in 2021.

Access to finance remains one of the major challenges for the growth of micro, small and medium enterprises (MSMEs). As of October 2024, the formal MSME finance gap is 68%, just slightly above the regional average for Europe and Central Asia (60.3%).[15] Although access to bank loans and credit lines have increased in recent years, alternative financing sources have also become available. Between January 2023 and August 2024, 19 issuers accessed the bond market - four of which could be classified as small enterprises (with revenues below GEL 12 million) and five, as medium-sized enterprises (with revenues below GEL 60 million) - issuing bonds totaling GEL 315 million.[16]

2.3. FINTECH SECTOR REGULATORY LANDSCAPE

The NBG is responsible for financial sector supervision, except for insurance[17] and leasing.[18] The NBG supervises banks, non-bank financial institutions and the securities market from a prudential – including AML/CFT – and market conduct perspective and is responsible for financial consumer protection. As of 2023, the NBG supervises VASPs for AML/CFT compliance. The NBG is also entrusted with the safety and efficiency of the NPS: in this context, it fulfills roles as payment system operator and NPS overseer.

Promoting fintech development is prominently featured in the NBG's 2023-2025 supervisory strategy. This strategy outlines NBG's supervision principles and vision regarding innovation, and sets out five supervisory priorities, including the "promotion of financial innovation and development of supervisory technologies". As part of this priority, the NBG strategy aims at supporting (i) the adoption of open banking and its development, and a transition to open finance, (ii) the upgrade the regulatory sandbox, and (iii) facilitating the development of suptech at the NBG, among others.

Over the last few years, the NBG has articulated several elements of a DFS/fintech policy framework and the supporting apparatuses. In 2019, the Financial and Supervisory Technologies Development Department was established to ensure the NBG remained at the forefront of industry advancements. Subsequently, in 2020, the NBG embarked on a series of strategic initiatives, including joining the

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[15] MSME finance gap is estimated as the difference between current supply and potential demand which can potentially be addressed by financial institutions. The MSME finance gap assumes that the firms in a developing country have the same willingness and ability to borrow as their counterparts in well- developed credit markets and operate in comparable institutional environments — and that financial institutions lend at similar intensities as their benchmarked counterparts. See https://www.smefinanceforum.org/data-sites/msme-finance-gap

[16] Source: NBG.

[17] In Georgia, insurance activities are regulated and supervised by an independent national regulatory body – the Insurance State Supervision Service (ISSSG).

[18] Leasing and factoring companies are not currently regulated. This gap is being addressed through a comprehensive secured transactions reform.

Global Financial Innovation Network (GFIN), establishing the Innovation Office, and a Regulatory Sandbox.

In 2020, the NBG launched a regulatory sandbox. The sandbox was created to enable the market to test new products and services within a controlled environment. The main aim of the sandbox was to lower barriers to market access and serve as a tool to identify the need for new/updated regulations with a view to supporting the expansion of the fintech sector. The sandbox has focused on remote identification/ID verification services, such as face recognition and liveness checks, and information extraction. Recently, in response to market developments, the NBG pivoted the focus of the sandbox towards digital foreign currency exchange transactions, escrow services, credit information bureau platforms, and crypto loans.

The NBG has led several efforts to modernize the legal and regulatory framework. The NBG developed principles of digital bank licensing: in 2022, the first digital bank was licensed. Other NBG-led key regulatory reforms include the amendment of the Law on Payment Systems and Payment Services in alignment with the EU PSD2, and the VASPs registration regime.

When first introduced in 2020, open banking was limited to banks; in May 2023, it was extended to all regulated entities. The approach taken by the NBG is to closely mirror the PSD2 regulatory framework and European technical standards. The Open Banking Committee set up with the Banking Association of Georgia is responsible for developing the common open banking standard, whereas the final approval and endorsement rest with the NBG. The scope of the standard has increased over time from "basic" PSD2 services to include bulk payments and, starting from August 2024, account information extensions (savings and credit accounts) and 'value-added' payment initiation services (e.g., variable recurring payments (VRP)).

The NBG actively works on central bank digital currency (CBDC)/Digital GEL. The NBG has focused on specific design features (programmability/smart contracts) and use cases (real estate transactions, cross-border payments). NBG's CBDC project has recently entered the pilot stage in partnership with Ripple. The NBG, in collaboration with USAID, is conducting further analysis on smart contracts from a legal perspective. The NBG participates in the BIS Innovation Hub (BISIH)'s Project mBridge[19] and Project Promissa[20].

The NBG is leveraging AI to develop advanced tools to enhance the execution of its regulatory and supervisory policy objectives. AI can automate reporting by analyzing large datasets and generating insights. For example, sentiment analysis techniques could help monitor market behaviors and stakeholder attitudes. AI-driven data collection and prediction could assist regulators in anticipating trends and potential issues, improving decision-making process. Moreover, through advanced data

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[19] This project aims to explore a multi-central bank digital currency (m-CBDC) platform shared among participating central banks and commercial banks, built on DLT to enable instant cross-border payments and settlement. Project mBridge is the result of extensive collaboration starting in 2021 between the BIS Innovation Hub, the Bank of Thailand, the Central Bank of the United Arab Emirates, the Digital Currency Institute of the People's Bank of China, the Hong Kong Monetary Authority, and the Saudi Central Bank. There are also now more than 26 observing members. See https://www.bis.org/about/bisih/topics/cbdc/mcbdc_bridge.htm

[20] Project Promissa is a joint experiment of the BIS Innovation Hub Swiss Centre, the Swiss National Bank and the World Bank that aims to build a proof of concept (PoC) of a platform for digital "tokenised" promissory notes. The International Monetary Fund is participating in the project as an observer. See https://www.bis.org/about/bisih/topics/fmis/promissa.htm

analytics and machine learning algorithms, AI could facilitate monitoring, detection and prevention of fraudulent activities across institutions and borders, strengthening AML/CFT compliance. However, AI also presents risks, such as potential biases in algorithms, data privacy and cybersecurity vulnerabilities, and the possibility of over-reliance on automated systems, which could lead to oversight failures. Therefore, the NBG is planning to develop its own AI regulation aligned with the EU AI Act to ensure the safe and effective implementation of these technologies within its regulatory framework.

The NBG has taken significant steps to foster the growth of fintech education and awareness through a series of strategic initiatives and collaborations. The central bank regularly meets different stakeholders to ensure that they remain updated about the latest fintech developments. For example, the NBG held informative sessions with the private sector on open banking initiatives. To engage a broader audience, the NBG also ran a TV show dedicated to discussing ongoing fintech trends and projects. Furthermore, NBG has partnered with 10x1000 Tech for Inclusion, a global educational platform jointly launched by the International Finance Corporation (IFC) and Ant Group, aimed at nurturing digital economic growth by training 1,000 emerging tech leaders. Through its Fintech Foundation Program Flex, this partnership offers a flexible, self-paced learning experience covering critical technologies such as blockchain, AI, and internet of things (IoT). Furthermore, NBG is collaborating with Elevandi, a global fintech leader, to promote Georgia's fintech ecosystem by organizing seminars, training sessions, and forums.

In addition to the NBG, several other regulators and government agencies play a role in DFS/fintech development and/or oversee cross-cutting issues. In particular:

- ISSSG is currently exploring and building institutional capacity on Insurtech.
- The Ministry of Economy and Sustainable Development (MoESD) is tasked with (i) promoting access to finance in the country, elaborating strategies/action plans and proposing new legislation related to capital market and private saving pension reform; (ii) managing and overseeing Enterprise Georgia (the entrepreneurship development agency) and Innovation and Technology Agency (GITA), and; (iii) participating in the elaboration and implementation of state policy in the fields of electronic communications, information technologies and postal services – among others. The MoESD issued the 2021-2025 SME Development Strategy of Georgia and the Capital Market Development Strategy 2023-2028 along with its Action Plan (2023-2024) and is currently finalizing a digital strategy for the country, which includes a pillar on DFS.
- The Digital Governance Agency (DGA), subordinate to the Ministry of Justice (MoJ), leads the development of Digital Georgia – Georgia’s e-governance strategy, data exchange infrastructure and unified digital services portal (my.gov.ge), among others. Trust services and cybersecurity in the area of private sector critical information infrastructure also fall under the scope of DGA. DGA is developing a framework for open government data. This framework would articulate uniform rules and standards for data sharing between government agencies and with private entities.
- The State Inspector’s Service is an independent state authority, which as a legal successor of the Office of the Personal Data Protection Inspector, operates in Georgia since May 2019 with a data protection mandate – particularly – to oversee the implementation of the data

protection legislation, handle citizens' complaints, and monitor lawfulness of data processing in Georgia. In June 2023, the new Law of Georgia on Personal Data Protection replacing the Data Protection Act of 2011 has brought the country in line with the EU's General Data Protection Regulation (GDPR).

- The National Security Council is a consultative body directly subordinated to the Prime Minister of Georgia. Through the Department of Information and Cybersecurity, the National Security Council coordinates national-level cybersecurity strategy and coordination.
- While NBG's mandate extends to applying competition law in the financial sector[21], the Georgian Competition and Consumer Agency (GCCA) maintains its role as a competition watchdog when other sectors are involved.

2.4. CHALLENGES AND OPPORTUNITIES FOR FINTECH DEVELOPMENT

This section summarizes gaps and opportunities for fintech development in Georgia along the four themes of the IMF-World Bank Bali Fintech Agenda: (i) Foster an enabling Fintech environment to harness opportunities; (ii) Strengthen the financial sector policy framework; (iii) Address potential risks and improve resilience, and; (iv) Promote international collaboration.

2.4.1. ENABLING ENVIRONMENT FOR FINTECH DEVELOPMENT

While NBG has articulated a forward-looking approach to fintech, and elements of fintech policy are present across several government initiatives, there is no national vision or strategy on fintech. A coherent national vision and strategy can act as an important tool to provide guidance to the market, promote consumer trust, clarify the mandates of the various public sector stakeholders, and ensure the smooth coordination between them. Similarly, Georgia has not established an active coordination and information exchange mechanism on fintech between relevant authorities. Few jurisdictions have a formal body in charge of coordinating fintech policies, such as South Africa's Inter-Regulatory Fintech Working Group. This work is often done, under ministerial responsibility, by a sub-committee, taskforce, or working group (for example, Thailand's Three Regulator Steering Committee). Their mandates are to study and understand fintech firms and business models, assess opportunities and risks, and investigate the necessary changes to align regulation and supervision with how the market is evolving. In some jurisdictions, authorities engage with industry: In France, the Fintech Forum is an example of "watch, dialogue, and proposition" between industry, experts, and public authorities.

There is a large, unrealized opportunity for fintech to expand financial inclusion, but limited synergies with existing strategies and no overarching financial inclusion policy. Increasingly, fintech issues are being integrated as part of national financial inclusion and/or financial literacy strategies. Access to finance is a case in point. Fintech can contribute to expanding MSMEs access to finance while reducing costs, providing new ways to raise funding, enabling new information services to assess risks, and spurring new services/activities. The MoESD's SME Development Strategy does make reference to the need for developing alternative financing instruments and refining the regulatory framework but does not explicitly promote new business models/entrants. The National Strategy for

[21] To this end, a new competition division was created within NBG's legal department.

Financial Education of Georgia 2023 stresses the importance of financial education activities to build consumer capability to navigate safely the digital world.

While significant steps has been taken to enhance access to finance for SMEs through various programs and regulatory frameworks, challenges remain, particularly for those with limited collateral. A new Capital Market Support Program managed by Enterprise Georgia in partnership with USAID Georgia has been launched to facilitate further bond issuances by SMEs. This program is expected to enable the issuance of up to 150 million GEL in bonds in 2024, with higher subsidies on underwriting and credit rating costs for smaller companies, thereby easing their access to the bond market. SMEs can also access financing through investment funds; by June 2024, 14 investment funds had been established in Georgia with a cumulative assets under management (AUM) of 159 million GEL,[22] many of which invest directly in SMEs via debt, equity or quasi-equity instruments. This sector is expected to grow further in the near future. In collaboration with the World Bank, the NBG has been involved with developing support mechanisms for private equity fund market development, leading to the approval of a support scheme where the Georgian government will act as an anchor investor in private equity funds targeting SME investments. Moreover, in December 2023, Georgia introduced a regulatory framework for securitization aimed at enhancing access to finance for both financial and non-financial sectors. While no SMEs have utilized this framework yet, it presents a potential future financing alternative. Despite these developments, access to finance still remains a major challenge for smaller firms with limited collateral.

Incomplete/fragmentary financial infrastructure can hinder fintech growth. For instance, despite a favorable regulatory framework, in the absence of an IPS, payment initiation services are currently lagging. The largest banks' digital wallets already provide a "fast payment experience" and wide reach, which stresses the importance of non-bank access, innovative overlay services (e.g., request-to-pay, RTP), and low-cost access channels (e.g., QR codes) as part of the design of the IPS. Incomplete information through the credit information bureau to assess creditworthiness of "thin file" customers[23], and gaps in the secured transaction framework as well as the lack of modern collateral registry put smaller players at a disadvantage compared to big banks with large in-house datasets and data analytics capabilities.

Several Important initiatives have been implemented to create strong digital government infrastructure. Georgia has developed a number of innovative digital platforms and solutions as part of its Public Administration Reform Strategy to promote open governance and e-service delivery. These include the Petitions Portal (Ichange.gov.ge), the open data portal (Data.gov.ge), and the unified digital services portal (My.gov.ge), which features over 700 transactional digital services for citizens. [24] DGA is currently working on a framework for the sharing of government data. Depending on the scope of data covered by this initiative, it could give rise to important synergies with open banking and the credit information system. Despite these developments, there still is no unified policy on access to government-held data.

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[22] Source: NBG.
[23] For example, based on information gathered in the context of the World Bank Financial Sector Assessment Program, data from utility bills cannot be incorporated because bill accounts are associated with an address, rather than an entity.
[24] See Public Administration Reform Strategy, available at https://matsne.gov.ge/ka/document/view/5723982?publication=0

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Work is ongoing under the leadership of the Ministry of Justice (MoJ) to develop a digital identity wallet, which can be used for the purpose of identification and authentication in financial transactions. Financial institutions have access to the national ID system and can validate the identity information of the customer online. This is being leveraged by financial institutions to digitize much of their customer onboarding process. The introduction of the digital identity wallet can further improve financial institutions' existing onboarding processes, lowering costs, and be used for authentication in remote transactions, complementing digital identity solutions provided by banks.

FinTech is uniquely fitted to affect an end user's environmental, social, and governance (ESG)-related user experience form minimizing negative footprint to maximizing positive handprint. Fintech solutions can shape end-user experiences in relation to ESG standards by subtly influencing individuals' choices through behavioral interventions, such as "nudges", without imposing strict mandates. For example, digital tools could highlight the environmental impact of different investment options, encouraging users to choose more sustainable alternatives. Open Banking/Finance, with its ability to provide a "single behavioral view" of an individual's financial activities, enables a comprehensive assessment of users' ESG profiles, facilitating tailored recommendations/incentives that encourage positive environmental and social behaviors. Moreover, fintech companies can leverage blockchain technology and AI/ML to offer innovative, data-driven solutions that enhance transparency, accountability, and efficiency in green finance and social impact investing. For example, blockchain can facilitate the creation of immutable records for carbon credits, renewable energy certificates, and other sustainability metrics, ensuring that ESG-related transactions are secure, traceable, and auditable. Additionally, AI can enhance risk management by analyzing large datasets to predict environmental impacts of financial products, optimize resource allocation, and identify emerging sustainability trends, enabling more informed investment decisions that align with sustainability goals.

Georgia's fintech ecosystem support, while growing, may not be yet sufficient to foster fintech growth at scale. 500 Global, a venture capital firm with USD 2.3 billion in AUM as of March 2024[25] that supports technology startups, launched Georgia's first international accelerator program in 2022, with support from GITA and Bank of Georgia. GITA supports startups through mentorship, financing, and connections with international partners, across the range of startup development, from ideation to growth. GITA has supported more than 200 startups[26]; Nevertheless, GITA's beneficiaries tend to be oriented towards international markets, and do not necessarily provide services to Georgian individuals and businesses. Some of the more advanced fintech firms are financed directly or indirectly by the two main banking groups. Overall, access to venture capital might still be limited, even more so at the scale required for a potential regional fintech hub.

2.4.2. FINANCIAL SECTOR POLICY FRAMEWORK

The regulatory response to fintech has thus far been embracing but could be further articulated to provide a framework to spark developments towards addressing SME finance gaps. In particular, authorities have undertaken initial research/benchmarking on P2P lending and crowdfunding

[25] See 500 Global, available at https://500.co/
[26] See GITA, available at https://gita.gov.ge/news/gita-s-10-tslis-iubile-b4Wi-iK2F

regulations, but this work has stalled or has not evolved into a coordinated stance/proposal, though the NBG plans on resuming it. A key aspect for consideration is whether platform-based models may help in addressing scale issues.

The NBG has laid out the open banking framework, but non-bank participation remains limited. Non-banks/fintech companies do not identify a compelling business case in open banking services. API standardization through the Berlin Group standard (NextGenPSD2) is currently led by the Banking Association of Georgia: this is a critical step to ensure adoption, which requires broad stakeholder participation/inputs and effective oversight. There is an opportunity to broaden the framework to non-financial entities (e.g., mobile network operators, utilities providers), but the commercial model is not clear. It is also unclear how the data governance framework – under the leadership of DGA – will interact with NBG's open banking framework, and the extent to which entities other than government agencies may be affected.

The NBG regulatory sandbox is a useful tool to facilitate the safe access of fintech to new markets but is currently limited to supervised entities and their partners. In many countries around the world, regulatory sandboxes are open to innovative business models, products, and processes, whether regulated, unregulated, or slated for possible future regulation. Typically, firms that apply to enter a regulatory sandbox have already developed an offering and wish to test its viability in the market. Authorities often apply a risk-based approach in determining the most appropriate form of regulatory support (e.g., the extent of any relaxation of specific legal and regulatory requirements) to facilitate the experimentation in the sandbox.

NBG's CBDC experimentation will contribute to shed light on legal and regulatory gaps, e.g., in the areas of distributed ledger technologies (DLTs), tokenization, and digital asset custody. While NBG's CBDC experimentation has focused on specific applications/use cases (e.g., programmability/smart contract, real estate, trade finance), it will inevitably pose questions on the suitability of legal and regulatory framework. Relevant aspects may include (i) powers to issue CBDC and oversee the CBDC ecosystem; (ii) application of data privacy and AML/CFT regulations; (iii) legal recognition of CBDC as an asset, and other issues pertaining to taxation, property foreclosure and disposal of electronic wallets in bankruptcy.

2.4.3. SUPERVISORY POLICY STRATEGY

The NBG's VASP regime of January 2023 allows addressing AML/CFT risks related to virtual assets and their service providers; however, it only provides a partial response to crypto-asset risks. A comprehensive framework to address crypto-asset risks is needed to enable a broad scope of crypto-asset services – the current registration regime is already quite extensive, covering crypto-asset exchange, trading platforms, custody/wallets, issuance/initial coin offerings (ICOs), portfolio management, and crypto lending. In addition to the Financial Action Task Force (FATF)'s updated recommendations, other international standard setting bodies (SSBs) have issued guidance on the prudential treatment of bank exposures, market integrity and investor protection, and the application of payment system oversight standards. The Financial Stability Board (FSB) issued recommendations on the regulation, supervision and oversight of crypto-assets markets from a financial stability perspective.

Policymakers in Georgia have made significant advances in recent years to establish a financial consumer protection (FCP) framework; as digitalization and innovation expand, an increase in fraud

may undermine consumer trust. Furthermore, the digital environment poses inherent challenges for disclosure and transparency, amplified by the novelty of fintech product offerings and consumers' lack of experience with such products. Consumers face potentially heightened risks when acquiring fintech products due to their lack of sophistication or inexperience, and as result of the use of algorithms for consumer related decisions. Fraud mitigation and product suitability are likely to require additional efforts from NBG particularly as regards consumer awareness and information. It is good practice to impose specific obligations on financial service providers to provide information to consumers that prominently highlights: security risks associated with physical and digital payments (such as risks of misuse of payment instrument and payment credentials, phishing scams, identity theft etc.); security precautions to be followed by the consumer; circumstances in which consumers will be liable for losses; and contact details to notify of lost or compromised payment instrument or credentials or unauthorized transactions. This information should be made available to consumers through physical and digital channels.[27]

The growth of DFS/fintech may expose gaps/weaknesses in outsourcing risk management (including cloud outsourcing) and cyber risk management. The scope of NBG's cybersecurity regulation and supervision function is mostly limited to banks and is expected to be extended to micro banks soon. PSPs would nonetheless have requirements on cyber risk management as part of their prudential framework. However, the application of cybersecurity rules/standards varies across the financial sector. The NBG does not oversee critical service providers but relies on the banks' due diligence, based on NBG regulations. Even though Georgia has a national strategy on cybersecurity in place – under the National Security Council – there is no formal coordination mechanism between authorities. The NBG considers cloud outsourcing as a critical fintech enabler and issued guidelines for banks based on its supervisory strategy, while it continues to analyze broader applications of cloud technology.

2.4.4. INTERNATIONAL COLLABORATION

The NBG has signed several memoranda of understanding (MOUs) for knowledge exchange with foreign authorities and other international counterparts and taken on a convening role in the region. Examples of relevant MoUs include the Central Bank of the Republic of Türkiye, and the Korea Financial Telecommunications and Clearings Institute (KFTC) – in the context of open banking, the BISIH and Ripple in the context of CBDC experimentation as well as Elevandi. NBG is an observing member to the BISIH project mBridge, which the NBG considers as a potential model for the MC countries to accelerate trade growth through a multi-CBDC platform.

The development of the MC represents a potential opportunity to foster fintech development across borders as a means to enhance trade flows and economic integration. The MC is a multimodal land and sea transport corridor starting in China, crossing through Central Asia, the Caspian Sea and extending into the South Caucasus and Türkiye before reaching Europe. Following Russia's invasion of Ukraine, improving the efficiency of the MC – as an alternative corridor to diversify trade routes and decrease dependency on corridors through Russia – has become imperative for Azerbaijan, Georgia,

[27] For example, Australia's ePayments Code requires that financial service providers include a clear, prominent and self-contained notice summarizing passcode security guidelines on or with periodic statements and at least annually. In addition to mandated disclosures, collaborative consumer awareness campaigns should ideally be undertaken on a regular, coordinated basis.

and Kazakhstan as well as Türkiye, and has received strong support from the international community. The World Bank estimates that, with a careful combination of investments and policy interventions, the MC can triple its volumes by 2030 compared to 2022.[28] In November 2022, the foreign ministers and transport ministers of Kazakhstan, Azerbaijan, Georgia and Türkiye signed a Roadmap for the simultaneous elimination of bottlenecks and the development of the MC for 2022-2027. The links to the digital economy, financial sector development and fintech have not been yet articulated in the Roadmap and related initiatives. Nevertheless, some of the requirements for corridor's digitalization, e.g., data sharing arrangements and digital infrastructure governance, require timely coordination and a cross-sectoral approach.

Cross-border data exchange is a critical aspect for the scaling-up of these initiatives. The importance of cross-border data flows is reflected in the G20 cross-border payments roadmap[29] and a Financial Stability Board (FSB)'s consultative report on "Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments".[30] A number of data-related frictions can affect cross-border payments and, more broadly, the provision of financial services across borders and related initiatives, particularly: (i) different and jurisdiction-specific data framework requirements, and (ii) outright restrictions on the flow of data across border (e.g., data localization requirements). While a sandbox approach might provide a temporary solution, in the absence of a standing cross-border regulatory coordination arrangement, and a transition mechanism from testing to live environment, a sandbox alone is unlikely to provide a definitive solution. Recently, privacy enhancing technologies/techniques (PETs)[31] have emerged as a potential solution to facilitate cross-border data flows while ensuring regulatory compliance.[32]

[28] See World Bank, "The Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030", November 2023.
[29] See Financial Stability Board, "G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2023", October 2023, available at https://www.fsb.org/2023/10/g20-roadmap-for-enhancing-cross-border-payments-consolidated-progress-report-for-2023/
[30] Available at https://www.fsb.org/2024/07/recommendations-to-promote-alignment-and-interoperability-across-data-frameworks-related-to-cross-border-payments-consultation-report/
[31] Such as homomorphic encryption, secure multi-party computation, differential privacy and zero-knowledge proofs.
[32] See World Economic Forum, "Data Free Flow with Trust: Overcoming Barriers to Cross-Border Data Flows. Briefing Paper", January 2023, available at https://www3.weforum.org/docs/WEF_Data_Free_Flow_with_Trust_2022.pdf

3. STRATEGY IMPLEMENTATION AND GOVERNANCE

The Fintech Development Strategy implementation and governance will rely on five pillars and the respective priority actions.

3.1. INSTITUTIONAL ARRANGEMENTS AND GOVERNANCE

Georgia has sound institutions and the public sector support has shown varying degrees of support for innovation. Authorities have generally embraced a pro-innovation stance across sectors/agencies, resulting in several initiatives that collectively benefit the fintech ecosystem in the country. The next step is to accelerate reforms and strengthen coordination between authorities and develop harmonized approaches to new fintech developments, with the goals of formulating a cohesive response to the next wave of innovation, and increasing efficiency and effectiveness. This will require establishing adequate cooperation arrangements and working methods. The Fintech Strategy provides a platform to convene all relevant agencies under a common vision/governance.

It is proposed that under this pillar, authorities create an Interinstitutional Fintech Committee/Working Group, which should be governed by formal rules and procedures, covering its composition, decision-making process, activities, reporting on its activities and dissemination, and involvement of the private sector, among others.

3.2. REGULATION, OVERSIGHT AND SUPERVISION

Georgia has already taken steps to articulate a regulatory and supervision approach to fintech. In particular, the NBG has issued regulations on PSPs and open banking, developed principles of digital bank licensing, and a registration regime for VASPs, among others. The regulatory framework underpins DFS/fintech by addressing relevant risks, e.g., to cybersecurity, data protection and privacy, and consumer protection. NBG's scope of oversight and supervision perimeter have gradually expanded. Appropriate regulation, oversight and supervision is an important focus of the fintech vision of creating an enabling environment for DFS/fintech while managing risks. Building on existing foundations, the Fintech Strategy aims at supporting a comprehensive and forward-looking regulatory agenda aligned with international best practices.

Under this pillar, within their respective mandates, Georgian regulators

- develop a staggered approach to broadening the scope of open banking to enable consent-based access to customer data across sectors;
- issue a call for evidence on P2P lending and securities crowdfunding to inform the development of a regulatory proposal;
- design a regulatory roadmap on crypto-assets/crypto-asset services, with a focus on consumer/investor protection aspects, supported by a broader review of legal aspects related to digital assets and tokenization; and,
- explore and operationalize uses of AI for regulatory and supervisory policy objectives.

In addition, Authorities work to establish appropriate cooperation mechanisms in the area of cybersecurity, expand the scope of cybersecurity supervision, and strengthen the framework for fraud management and product suitability in light of complex fintech products.

3.3. INFRASTRUCTURE

Georgia has several elements of a strong infrastructure foundation in place, and others in the process of being developed/upgraded. The country benefits from high levels of mobile-broadband penetration and mobile phone ownership – despite gaps in terms of rural access – as well as nearly universal coverage of ID among individuals. The NBG is developing an IPS, which will complement and modernize Georgia's retail payments infrastructure as well as deepen electronic payments acceptance (EPA). API standardization, which is a key precondition for broad participation in open banking, is carried out by the Banking Association.

Initiatives in asset-based lending and supply chain financing platforms are in the early stages of conceptualization. Work is ongoing under the leadership of the MoJ to develop a digital identity wallet, which can be used for identity verification and authentication in financial transactions. Financial and other supporting infrastructure is a key aspect of the Fintech Strategy, aiming to provide a sound foundation for sustainable and inclusive digital financial services.

This pillar includes the following proposed actions:

- Authorities seek to promote the development of infrastructures, overlay services and platforms that harness fintech developments to enable greater participation and competition in financial services, and leverage economies of scale to reduce costs.

- To promote technology-driven innovations in the financial sector through the modern financial infrastructure, new technologies are experimented at an early stage (e.g., blockchain) and already tested technologies are implemented (e.g., instant payment system).

- The NBG's IPS should be designed to enable a wide range of entities with differing regulatory statuses to connect to/use the platform, while maintaining the safeguards required for the system's safety, and incorporates overlay services on top of the core infrastructure as well as a wide range of use cases.

- The NBG evaluates the discharge of open banking arrangements and develops mechanisms to ensure broad stakeholders' inputs in decision-making.

- The NBG evaluates the possibility to expand the independence and the scope of the working group, responsible for all common open banking/finance/data API standards. Moreover, it should be independent of the Georgian Banking Association and become a stand-alone standard-setter body, which will be financed not by commercial banks or the government, but by an independent self-financing scheme. As a mid-term solution, before achieving self-sustainability, international donors could finance this standards-setting body. Additionally, a governing board with equal representation from all stakeholders—banks, MFIs, PSPs, other TPPs—and independent members should be established.

- Currently, only banks and micro banks are permitted to provide customers with IBAN accounts and access the RTGS system, creating an uneven competitive landscape for non-bank financial institutions. To promote a more level playing field, the NBG should consider granting non-bank institutions access to the existing infrastructure, including the IPS once implemented, provided they meet the necessary regulatory requirements.
- Authorities assess the feasibility of shared platforms applications for e.g., SME lending and/or regtech (such as KYC and fraud management).
- Authorities work with the MoJ to roll out the digital identity wallet in the financial sector.

3.4. INNOVATION SUPPORT

Georgia has a growing innovation support system that benefits fintech firms. The Fintech Strategy is not directly concerned with the broader innovation support system but is dependent on it to achieve its objectives. A closer coordination between government-led efforts and the NBG's own support mechanisms for fintech could help in leveraging resources for fulfilling the fintech vision.

Under this pillar, it is proposed that the NBG revises its regulatory sandbox access criteria to enable participation of unregulated entities. In a second stage, NBG's sandbox seeks to evolve towards a "one-stop shop" connecting sandbox entities to financial support.

Moreover, Authorities actively cultivate a culture of innovation through educational programs and awareness campaigns, aimed at equipping stakeholders with the necessary knowledge and skills to engage with fintech advancements and drive the adoption of innovative solutions in the financial sector.

3.5. INTERNATIONAL COLLABORATION

International collaboration is vital to Georgia's Fintech Strategy: (i) it allows firms to operate across markets/access larger markets, supporting the growth of "homegrown" fintech and attracting foreign companies, and (ii) capitalizes on the Georgia's strengths to drive regulatory and technical harmonization as well as policy coordination in the region, while ensuring alignment with EU regulations and standards as a priority. This pillar of the Fintech Strategy builds on the active international role of NBG and other authorities/stakeholders. Fintech also represents an opportunity to enhance trade flows under the MC agenda, thought this role is not yet fully recognized.

Under this pillar, it is suggested that NBG promotes common principles on open banking through the relevant regional fora, as a first step towards cross-border interoperability. NBG works with other regional central banks/authorities to explore (i) the establishment of a cross-border sandbox, and (ii) cross-border payments using QR codes. In a first phase, the cross-border sandbox can be construed as a framework to test innovative products/services in multiple jurisdictions participating in the framework, facilitating visibility of test results without prejudice to the application of country-specific sandbox rules. Furthermore, under this pillar, the NBG takes the lead in articulating the fintech aspects of the MC Roadmap, e.g., identifying enablers of cross-border e-commerce and specific actions to this effect.

NEXT STEPS

The NBG invites all relevant public and private sector stakeholders to submit their feedback on the draft fintech strategy.

Comments and recommendations can be submitted via email at: **innovationoffice@nbg.gov.ge**

The deadline for submissions is **December 4, 2024**.

The NBG will engage in further consultations with the stakeholders and incorporate the input received from them to develop a comprehensive, fully-fledged fintech strategy with a clear actions plan, outlining the key initiatives and regulatory measures, aimed at fostering innovation and growth in the fintech sector.