Tips for Maintaining Inclusive Finance Sector Resilience Through the COVID-19 Crisis

The COVID-19 pandemic and resulting global health challenge are having a major impact on the world, individual nations, Ayani's clients and financial institution partners, and the customers, communities and businesses they serve. Ayani has been active in building the resilience of microfinance sectors in post-conflict and health crisis contexts since the firm's inception in 2008. With the goal of sharing knowledge from our relevant experience, the Ayani team has assembled a set of lessons learned and crisis response solutions, drawing on our work in fragile states, including during the 2014-2016 Ebola crisis in Sierra Leone.

This health crisis will negatively impact micro, small and medium enterprise in sub-Saharan Africa.

Similar to the COVID-19 measures currently being implemented in sub-Saharan Africa and around the world, the Ebola epidemic in West Africa necessitated quarantines, travel restrictions, border closings, banning of market days, and barriers to the free-flow of goods. These measures inevitably led to a major decline in business activity. Ayani's Cordaid-funded study of the impacts of the Ebola crisis in Sierra Leone revealed that over three quarters of microfinance clients (micro and small business owners) reported a negative impact on their business income, and over two thirds reported a reduction in their business expenses. Most microenterprises reported a business decline of over 35% over the crisis period (second semester of 2014).[1]

Financial institutions will be negatively impacted by extension.

Financial institutions were directly affected by the downturn in economic activity during the Ebola crisis. Consequences for financial institutions included rising NPLs (for example, PAR>30 doubled in six months), a contraction of credit (loan disbursements fell by 36%), as well as liquidity crunch and other balance sheet sustainability issues. About one fourth of previously reliable business borrowers started missing loan payments due to the quarantine and its consequences. Faced with this crisis, microfinance institutions (MFIs) had to choose between closing operations indefinitely to protect their staff, redirecting staff to focus on loan restructuring and payment collection with no further disbursements, or changing their products and services to address new risks and market needs. For instance, some MFIs assessed the market circumstances and prioritized select segments (e.g., health clinics, sanitation products and food shops), and some introduced new products (e.g., salary loans, consumption loans) or payment methods (e.g., virtual payments or adapted group loan collection processes).

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[1] For more details, go to: http://www.microfinancegateway.org/sites/default/files/publication_files/sierra_leone_the_impact_of_ebola_crisis_on_the_microfinance_sector.pdf

Now is the time to identify and implement strategies to maintain the vital financial services that enable small enterprises to survive and to rebound after the COVID-19 crisis.

Local financial institutions—including MFIs and commercial banks focused on inclusive finance—provide critical services to support economic resilience among some of the most vulnerable populations in the global South. The survival of small enterprises and local financial institutions is integrally linked, and by taking actions to support their customers while protecting their own operations from risk, financial institutions can play a vital role in stemming the economic fallout from COVID-19. The following strategies can be helpful in navigating the current crisis and providing much needed support to business customers during this challenging period.[2]

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Strategy #1: Prioritize collections and client relationship management to stabilize operations, while following rigorous infection prevention measures.

Finding and instituting viable ways to maintain contact and relationships with clients despite quarantines and social upheaval is an important step. Reminders about loan payments can be sent via SMS to borrowers with approaching due dates. During the Ebola crisis, successful MFIs increased direct SMS messaging and phone calls to clients. Group loan meetings were suspended, and collections were handled through group leaders to reduce physical contact with customers, thereby minimizing transmission vectors. MFI staff were also educated on a series of hygiene techniques to continue their work while minimizing infection risk (e.g., proper hygiene and hand washing, maintaining physical distance, and wearing masks, gloves and long sleeves). When businesses that were previously good payers began defaulting, the MFIs worked with clients to find realistic repayment solutions and adjust the payment terms. The MFIs' ongoing communication and engagement of clients during the crisis period provided some assurance that the lending relationship would be sustained after the crisis period, which helped encourage repayment, maintain positive client relationships and build long-term loyalty.

Strategy #2: Realign business goals and communicate about them to retain, repair and sustain customer and investor trust.

Sudden and sustained upheaval can render financial institutions' existing business and growth targets moot. In the case of the Ebola crisis, financial institutions had to completely revise their market assumptions and business plans. Some of the most resilient MFIs were able to identify specific niches where new financial needs were emerging. MFIs with a range of products (e.g., savings, SME loans, salary and consumption loans) tended to withstand the downturn with better overall portfolio quality, as compared to those offering only business loan products. Diversification in client income level, geographical outreach and business sectors also helped mitigate portfolio risk. It is essential for MFIs to effectively communicate their revised strategy, products, channels and expectations to their staff, clients, investors and partners. For example, in the context of limited movement of people, MFIs should regularly update their clients on whether, when and which

[2] With the support of Cordaid, Ayani also prepared an MFI contingency planning guide which can be downloaded at: https://www.cordaid.org/media/medialibrary/2015/12/Contingency_Planning_Guide.pdf

services will be rendered. As markets contract, so will the pool of strong clients. It is therefore important to engage in effective communication plans to sustain customer and investor trust in the financial institution.

Strategy #3: Activate an internal task force to guide a coordinated strategy through the end of the crisis.

Establishing a temporary, cross-departmental team headed by a designated point person is important for managing the institution's response and contingency planning in a rapidly evolving situation. The task force should include staff representing risk, sales, credit, audit, administration and other key operations—with each representative working on crisis-related management within their own department, and then bringing questions, issues and lessons learned to the task force at regular meetings. The task force can consider categorizing the institution's credit portfolio according to COVID-19-related risk and deciding on actions to be taken at each risk level. In the case of loan committee decisions, for example, the institution might place a moratorium on certain business sectors or assigned risk levels, and prioritize those sectors meeting specific social and financial criteria. Ayani is currently providing technical assistance to partner financial institutions in Uganda to revise loan criteria, as well as analyze the current portfolio in order to gauge the risk level of borrowers according to the domain of business activity, reliance on imports and tourism, etc. This can help identify cases where extra attention is needed or where restructuring/refinancing may be necessary; Ayani recommends creating a warning list for monitoring and taking action as the need manifests. The institution should continually review its clients' status and upgrade or downgrade risk ratings as the situation evolves. The task force is also key to fielding observations and challenges from across the institution and working together to troubleshoot—thereby creating a useful feedback loop for continually revising the institution's crisis management strategy. Finally, the task force can consider establishing or revising its staff incentive system to support the temporary contingency efforts.

Strategy #4: Boost alternative payment solutions and products that leverage digital/electronic technologies and reduce physical interaction.

The digital financial revolution already afoot is clearly a promising tool for sustaining financial services and activity without endangering staff and customers. With the impetus of supporting the chain of healthcare workers closest to the populations affected by the Ebola virus, Ayani and its partners helped ensure timely delivery of hazard payments to Ebola Response Workers (ERW), through an engagement funded by UNDP and UNCDF. Ayani spearheaded the development of a range of products and distribution channels including cash, checks, bank transfers and mobile money to pay these workers. Ayani conferred with Mobile Network Operators (MNOs) for execution of payments to emergency response workers (ERW) and monitored the performance of agent networks, with a focus on liquidity. In total, Ayani managed the delivery of a total of 51,600 payments to ERW through five pay cycles and also directed broadcasts of SMS notifications and financial education

messages. As the Ebola crisis ebbed, Ayani also promoted and facilitated collaborative activities in Sierra Leone, including workshops, regional dialogues and trainings in payments-related areas during the recovery period. MNOs and banks should consider reducing or waiving transaction charges during the quarantine period and a subsequent grace period to encourage the use of digital banking and other products for a broader swath of the population. Ayani is seeking ways to build on this experience to provide practical support to inclusive finance stakeholders and the broader response ecosystem in response to the COVID-19 crisis.

Donors can play an important role.

Donors should recognize the role of microfinance in building local economy resilience and seek ways to support them through the crisis, keeping the following points in mind:

- Inclusive finance has proven to be one key to restoring the livelihoods for people affected by health crises, natural disasters and conflicts. However, while inclusive finance sector plays an increasingly vital role in the economic resilience of low-income communities, MFIs' solvency and sustainability could be threatened by the COVID-19 crisis and likely resulting economic downturn. It is critical that financial institutions receive the technical and financing support needed to weather the storm so that their clients can rely on them during and after the crisis.
- Moreover, financial services have been shown to be a practical and trusted vehicle for the distribution of nonfinancial services that can go hand in hand with financial services to support resilience. Donors can look for ways to engage local financial institutions in information campaigns, health and relief efforts—which can help clients and communities cope, while also contributing to financial institutions' social objectives and market reputation.
- Documenting client baseline data is another activity that is helpful for eventual financial recovery efforts. A methodological caveat in Ayani's Ebola study was the lack of micro- and small enterprise baseline data available. Instead, surveyed respondents were asked to remember how well their businesses were performing before the crisis. A longitudinal component of the study involved checking in with MFI clients two or three times after the peak of the crisis to gauge recovery, but having data from the start of the downturn would have made the study more robust. Donors can support a combination of research and client support that leverages MFI staff to engage with clients immediately to establish the baseline, and on a periodic and ongoing basis through the course of the crisis for the purpose of loan collections, general communication and coping strategies.

By working together and applying lessons from past crises, donors, technical assistance providers and financial institutions can bolster the inclusive financial sector to withstand the COVID-19 crisis. A strong inclusive financial sector is an important ingredient for protecting low-income populations in the Global South and enabling a more rapid economic recovery as the world returns to normalcy.

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