COVID-19

The impact of the crisis on microfinance institutions.
Analyses and perspectives.

ada

FONDATION GRAMEEN CRÉDIT AGRICOLE
Microfinance & Social Business

Inpulse

CONTENTS



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KWFT (Kenya) ©Godong

CROSS VIEWS

The Covid-19 pandemic has hit the world hard, impacting fragile economies in particular, and calling on the entire microfinance sector to act in a responsible way.

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As early as February 2020, the Grameen Crédit Agricole Foundation began to investigate the unprecedented effects of this global crisis on microfinance institutions (MFIs). An initial survey was launched by the Foundation in March among 75 institutions to understand how they were preparing and adapting to the impact of the pandemic. In May 2020, ADA and Inpulse partnered with the Foundation to expand the scope of the study to more than 100 MFIs in four continents: Africa, South America, Asia and Europe.

As part of the monitoring of our partners' activities, we receive regular information on their financial and non-financial performance. These normative elements have been complemented by 6 waves of surveys conducted since the inaugural questionnaire in March 2020. As information sharing is essential in these uncertain times, the results have been shared with a wide range of stakeholders in the sector: international development agencies, our peers, specialized information platforms, the public. These results illustrated the pronounced resilience of the sector and the adaptability of microfinance institutions, which played a crucial role in cushioning the effects of the crisis on their clients and continuing to finance local economies.

Nonetheless, the crisis is not over. We will continue to monitor its development with caution and responsibility as our three organisations advise and guide more than two hundred microfinance institutions that rely on our support. This is why we have mobilized, together and in consultation, to support their activities in favour of a rapid and inclusive economic recovery. ●

• EXECUTIVE SUMMARY •

ANALYSES AND PERSPECTIVES

All microfinance institutions and their clients have seen their activities severely disrupted by the Covid-19 pandemic. The effects differ depending on demographics, country, region, profile or size, but some trends can be identified.

Operationally, the measures impeding free movement have had a profound effect on the disbursement of microloans, the collection of repayments and the ability to meet clients.

During the summer of 2020, there were tentative signs of recovery, but activities were constrained again in the autumn by epidemic outbreaks in some countries. By the end of the year, the number of MFIs in difficulty had fallen sharply, in part thanks to the many adaptive measures they had taken over the months.

Despite the (sometimes partial) lifting of restrictions, the context remains unstable. MFI clients continue to suffer the economic consequences of the crisis, which leads to a significant increase in credit risk among our partners. Similarly, the outstanding loans of MFIs declined in the first part of 2020, mainly for three reasons: operational constraints, greater caution and less appetite for credit risk, and a temporary drop in demand for new funding on the part of clients.

> MFIs are still looking to the future, reflecting on strategic issues

The return to growth in outstanding portfolio in the second half of 2020 is partly attributable to the arrival of new clients but above all by an increase in the average loan size. The analysis to institution size and by region allowed us to discriminate and better understand reactions to the crisis based on these criteria. Smaller institutions appeared to face more difficulties to adapt due to their lack of resources in terms of human expertise and management tools (cash flow and risk).

The data collected shows that MFIs in the Middle East, North Africa, and Latin America and the Caribbean have been more significantly affected, with a higher risk ratio, a larger drop in the number of active clients, and a decline in outstanding loans. In contrast, the performance of the Europe and Central Asia region remained good, with a controlled risk level, a limited decrease in the number of active clients, and stable portfolios. 80% of MFIs in Europe report a gradual return to their pre-crisis activities, which again reflects a good adaptability. In sub-Saharan Africa, a greater return to pre-crisis levels of activity confirms the growth trend over the year, in terms of both volume and number of clients.

At the end of 2020, almost half of the institutions recorded an increase in provisioning expenses to cover the risk of default on overdue loans. Client difficulties continue in 2021 and are reflected in the balance sheets of MFIs. For example, almost half of the institutions surveyed say that they will need recapitalisation in 2021 if they are to return to their pre-crisis activities.

Ultimately, discussions with our partners show a return to optimism for the majority of them. MFIs are still looking to the future, reflecting on strategic topics such as launching new products, digitalising their processes and turning to other sectors such as agriculture, savings, targeting women, green products and digital transition. For this to happen, the inclusive finance sector will need to be strongly mobilised to advise and support them on the road to recovery. ●

Pahal (India) ©Pahal

PARTNERS

The Grameen Crédit Agricole Foundation, ADA and Inpulse: three players in the inclusive finance sector harbouring a daily commitment to the fight against poverty.


Mec Fadec (Sénégal) © Godong

76
MICROFINANCE INSTITUTIONS SUPPORTED[1]

€82.1 M
OUTSTANDING PORTFOLIO MONITORED IN MICROFINANCE

91%
SMALL AND MEDIUM-SIZED INSTITUTIONS SUPPORTED

7.3 M
CLIENTS OF THE INSTITUTIONS SUPPORTED, OF WHICH 73% ARE WOMEN AND 85% RURAL

Key figures - March 2021

GRAMEEN CREDIT AGRICOLE FOUNDATION

A commitment to women and rural economies

Founded on the initiative of Crédit Agricole and the Grameen Trust, the Grameen Crédit Agricole Foundation is committed to fighting poverty and inequality on an ongoing basis through financial inclusion and social impact entrepreneurship.

Since 2008, the Grameen Crédit Agricole Foundation has been financing and supporting organisations committed to financial inclusion, women empowerment and rural development. It grants 40% of its outstanding loans to institutions in sub-Saharan Africa, 31% to Eastern Europe and Central Asia and 24% to South and South-East Asia.

The Foundation finances small and medium-sized institutions as a matter of priority. Thus, 91% of its partners manage portfolios of less than $100 million and 43% of them manage a portfolio of less than $10 million. The average funding granted by the Foundation to these smaller organisations is €504,000, far from market standards. These target criteria according to the size of the institutions supported and the regions of intervention were maintained in 2020. The Foundation focused on supporting its existing partners in strengthening their resilience while facing the Covid-19 crisis.

In addition to funding, the Foundation supports these institutions through seven technical assistance programmes, on themes such as refugee inclusion, strengthening agricultural value chains, digitalisation and microinsurance.

The Grameen Crédit Agricole Foundation works actively together with other entities of the Crédit Agricole group. A fund dedicated to rural microfinance and a skills volunteering programme called «Solidarity Bankers» have been set up via cooperation schemes.

To strengthen its financial and technical support to microfinance, the Foundation works with institutional donors such as the Agence Française de Développement (AFD) and its subsidiary PROPARCO, or the European Investment Bank (EIB). The Foundation is also developing a programme for the financial inclusion of refugees with the United Nations High Commissioner for Refugee (UNHCR) and the Swedish Cooperation (SIDA). ●

Read more:
gca-foundation.org/en/

1. 69 microfinance institutions financed and 7 institutions supported only through technical assistance.

• FOCUS •

UNDERSTANDING, WORKING AND ACTING TOGETHER IN A RESPONSIBLE WAY

Since March 2020, the Grameen Crédit Agricole Foundation has seen its activities impacted by an unprecedented context. Observation, consultation and adaptation were the key-principles of the Foundation to have a better understanding and to guide the organisations it supports in the face of the Covid-19 crisis.

At the end of February 2020, the Foundation set up an Observatory to monitor the effects of the crisis on microfinance institutions and to share useful information with the sector. It was fed by the results of surveys conducted among the Foundation's partners. The aim is to garner their perception of the situation, understand their needs and address them by implementing effective measures.

In May 2020, the Foundation joined forces with ADA and Inpulse to extend the scope of the study to more than a hundred microfinance institutions, which made it possible to cover almost all regions where microfinance is developed. The information sharing and comparison of perceptions of the crisis made it possible to obtain a global vision of the situation and to provide more appropriate responses to it.

In parallel, the Foundation facilitated the implementation of an international coalition of 30 inclusive finance actors. By adopting rules of transparency, rapid action and protection of final beneficiaries, we have contributed collectively to a strong consultation and sustained dialogue with microfinance institutions in the face of the economic consequences of the pandemic. The unprecedented and anticipatory testimonies of our partners, which you will find throughout these pages, led us to take this approach.

And from this collective work derive the key measures taken by the Foundation and its peers at the peak of the crisis: postponement of loan instalments, continued funding to support existing partners, and development of dedicated technical assistance missions. In 2020, the Foundation granted rollovers to 28 institutions for a total amount of €9.4 million. With 93 coordinated technical assistance missions, the Foundation also contributed to the institutional strengthening and adaptation of its partners' product offering throughout the crisis.

We responded to the crisis in two stages. First, by understanding the effects of Covid-19 and coordinating with other actors in the sector; and then by adapting to the context and needs. This is ultimately similar to what our partner microfinance institutions have done with their clients. The results presented in the following pages reflect the historical resilience that MFIs have shown. Despite the difficulties encountered, the institutions have managed to adapt with agility, notably by developing new digital distribution channels, strengthening their offer and protecting their staff and clients.

The return to normality is not yet in the cards. However, 2021 should be a year of gradual recovery for microfinance institutions in most countries. We must nonetheless remain cautious: we still perceive a general increase in risk. More than ever, we are mindful of the needs of each MFI and will continue to help them innovate and adapt. ●

Bolivia©Andrés Lejona

370 MICROFINANCE INSTITUTIONS SUPPORTED WITH TRAINING AND/OR TECHNICAL ASSISTANCE

51 MICROFINANCE INSTITUTIONS SUPPORTED WITH INVESTMENT FROM THE LUXEMBOURG MICROFINANCE DEVELOPMENT FUND

137,000 CLIENTS HAVE ACCESS TO NEW FINANCIAL SERVICE

Key figures 2020

ADA (APPUI AU DÉVELOPPEMENT AUTONOME)

An agent of change in inclusive finance

ADA (Appui au Développement Autonome) is a Luxembourg-based non-governmental organisation that has been working for over 25 years to improve the living conditions of vulnerable populations through financial inclusion in Africa, Latin America and Asia.

ADA's work aims to strengthen the autonomy and capacity of microfinance institutions (MFIs) so that they can offer financial services adapted to their clients' needs. In 2020, thanks to direct support or via the networks and professional associations, 300 MFIs benefited from training on subjects such as risk management, financial management or governance, and 126 MFIs were supported with technical assistance to strengthen their capacities or develop a new service.

Microinsurance, agricultural loans and digital distribution channels are the main financial services that vulnerable populations have been able to access thanks to ADA's work in 2020. In parallel, non-financial services such as financial education, technical agricultural training and entrepreneurship training have also been developed and offered through other types of actors such as incubators and accelerators.

Furthermore, ADA assists governments and regulators in supporting and structuring the microfinance sector at the regional and national level, **and advises the Luxembourg Microfinance and Development Fund** (LMDF) on access to finance for MFIs, a fund that was initially created by ADA over 10 years ago.

Finally, through its research activities, ADA aims to analyse the trends and needs of the sector, assess the impact of its action, generate new knowledge and disseminate it to other actors, notably through communication actions and organisation of events such as the African Microfinance Week or the Midis de la Microfinance. ●

Read more: ada-microfinance.org/en

• FOCUS •

FACED WITH THE CRISIS, PRIORITY GIVEN TO OPENNESS AND RECEPTIVITY TO PROVIDE AN AGILE RESPONSE

In 2020, ADA quickly reorganised its activities and set up a Covid-19 crisis response programme to strengthen the capacities of its MFI partners to overcome the pandemic and take measures to ensure business continuity.

From the beginning of 2020, our partners reported on the difficulties caused by the pandemic. It quickly became clear that we had to put our ongoing projects on hold and reallocate our human and financial resources to new activities dedicated to crisis management: a budget of €1 million was thus reallocated to a response programme.

The core of this programme consisted of providing MFIs with grants for the purchase of health, IT and communication equipment to ensure business continuity, and technical assistance from consultants to set up business continuity plans, analyse and manage the portfolio, manage cash flow, identify digital solutions to be implemented, etc. In total, 72 MFIs benefited from the programme (68 MFIs from grants and 42 from technical assistance, with a number of MFIs benefiting from both), 46% of which were located in Latin America, 31% in Africa and 23% in Asia.

In parallel, the need for information on how the situation was experienced by our partner MFIs and their clients also quickly emerged. In response, ADA embarked on a joint initiative with the Grameen Crédit Agricole Foundation and Inpulse to survey our partner MFIs regularly in order to monitor the situation throughout the year. ADA also contributed to the SPTF's initiative to develop and use a single questionnaire for MFI clients to gain a better understanding of the impact of the crisis on vulnerable populations. As a result, surveys were conducted among more than 6,000 clients of partner MFIs or MFIs that are members of ADA's partner networks, which in some cases also enabled MFIs to take concrete steps to address their clients' needs.

Several lessons can be drawn from these various initiatives. On the one hand, risk management support was relevant in all regions. Although the crisis hit Africa relatively less severely, in terms of both health and restraint measures, the level of preparedness for crisis management was lower than elsewhere. On the other hand, again from the experience of this programme, certain factors were critical to the ability of MFIs to recover:

- **First and foremost, the ability to analyse portfolio data,** to identify client segments to which to continue disbursing to or to restructure loans with; as some MFIs do not always have the resources to do this, the support of the expert consultants on this topic has been crucial.
- **Listening to clients' needs:** some MFIs have made special efforts on this front, for example through client surveys, which have clearly paid off. This has actually enabled them to identify actions to be taken and to strengthen trust and their relationship with clients.
- **Agility:** MFIs that were able to use these portfolio data and the voice of their clients to adapt their procedures rapidly managed to respond to the immediate needs of their clients while keeping the quality of their portfolio and outstanding loans under control.

These three key elements - the ability to make data speak, listening to the clients' voice, and agility - are certainly part of the future challenges for a resilient, relevant and innovative microfinance sector. ●

LIDER Microfinance Foundation (Bosnia-Herzegovina) ©Inpulse

42 INSTITUTIONS FINANCED

300,000 CLIENTS OF MFIs SUPPORTED

50% WOMEN CLIENTS

70% LOANS SUPPORTING INCOME-GENERATING ACTIVITIES.

Key figures 2020

INPULSE INVESTMENT MANAGER

Promoting inclusive, responsible and sustainable finance

Inpulse is a Brussels-based impact fund manager with distinctive expertise in social investment and microfinance in Europe and the Middle East/North Africa (MENA) region.

On a daily basis, Inpulse fights against inequalities by promoting financial inclusion and entrepreneurship for vulnerable segments of the population.

Inpulse supports microfinance actors and promotes social entrepreneurship through three funds: **CoopEst**, founded in 2006, operates in Eastern Europe. **CoopMed**, created in 2015, operates in the MENA region. And **Helenos**, created in 2018, supports mainly entrepreneurship in Europe.

Inpulse funds are invested in 42 partner institutions across 17 countries for a total amount of €43 million. **68% of the portfolio is allocated to small and medium-sized microfinance institutions** that are strongly committed to financial inclusion and support local economic activity. The average loan size to end clients is €2,485.

In 2020, Inpulse contributed through its funds to support its MFI partners which serve around 300,000 clients, **of which 50% are women, 49% reside in rural areas and 63% are micro-entrepreneurs.**

Furthermore, **strategic partnerships with institutional donors** such as the European Investment Bank (EIB) and the French Development Agency (AFD) have enabled the development of a Technical Assistance fund to provide support through targeted strengthening missions to CoopMed's partner institutions.

Throughout the crisis period, we have worked to promote impact investing in our countries of intervention. In 2021, our efforts are focused on building the resilience of our clients. We continue to renew our financing lines and to support the creation of new funds dedicated to impact investing and ESG (Environmental, Social and Governance) strategies. ●

Read more: inpulse.coop

FOCUS

UNDERSTANDING THE PROBLEMS ENCOUNTERED TO PROPOSE APPROPRIATE SOLUTIONS

Inpulse has intensified its exchanges with its clients from the beginning of the crisis in order to identify their situations accurately.

Our funds CoopEst, CoopMed and Helenos were able to provide their MFI partners **with rapid, flexible and appropriate responses** according to their particular needs and the specificities of each country.

CoopEst has always maintained close relationships with its clients. At the beginning of the Covid-19 crisis, communication was intensified to understand the specific challenges and the type of support needed. CoopEst helped to ensure the liquidity of the sector throughout 2020 by renewing and even increasing its loans to most of its MFI partners.

A significant part of CoopEst's MFI and bank portfolio is located in rural areas and finances businesses that supply commodities to local markets. This portfolio structure has enabled MFIs and cooperative banks to limit losses. Another asset has been their relatively comfortable capitalisation, which provides for sufficient leverage on increased borrowing.

CoopEst's partners have proved resilient to the crisis. They adopted effective measures quickly to ensure the safety of their staff and set up continuous communication with their clients. While the quality of the portfolio decreased and despite an increase in provisions, only two partners did not close the year with a profit. Moreover, the crisis has greatly accelerated the process of digitalisation.

In the MENA region, CoopMed's area of intervention, the pandemic has not only had direct impacts on our partner institutions, which have granted extensions to their clients and restructured their working methods, but also on micro-entrepreneurs. The crisis has hit hard the MENA region (more than the European Economic Community) and particularly the most vulnerable groups: women, informal sector workers and refugee populations, categories over-represented in the portfolio of CoopMed's partners.

Close monitoring was established by and between MFIs and the co-donors in order to adapt the contractual deadlines. Technical assistance (TA) was also requested for some clients to support the recovery.

For Helenos, an equity fund, the Covid-19 crisis has been an opportunity to strengthen its role as an intermediary catalyst for development. At the height of the crisis, Helenos continued its investment activities, based on a strengthened screening process, and expanded its interventions through short-term loan contributions.

In 2020, Helenos partner banks saw their level of deposits increase, which attests to the confidence of their clients, but puts more pressure on their capital. In addition, the Covid-19 crisis has significantly accelerated the development of digital financial services. These recent developments reinforce Helenos positioning as a fund which also targets alternative lenders and social impact fintechs.

One of the key challenges that Helenos will face after the crisis will be to deploy its technical assistance fund, to provide targeted support in terms of digital solutions, impact indicator monitoring, innovative financial services or product development.

The recovery has been palpable since the beginning of 2021. The major challenge in the coming months will be not only to emerge from the crisis, but also to move forward thanks to the lessons learnt from it. ●

METHODOLOGY

The Grameen Crédit Agricole Foundation, ADA and Inpulse have joined forces to provide appropriate responses to this global crisis with its unprecedented effects.

In May 2020, ADA and Inpulse joined forces with the Grameen Crédit Agricole Foundation to analyse in depth and with greater geographical coverage the effects of the Covid-19 crisis on the microfinance institutions they support worldwide. Five surveys in all were conducted jointly between May and December 2020 among some one hundred institutions.[1] The results and analyses were published on our respective websites and relayed by microfinance institutions and several inclusive finance actors.[2]

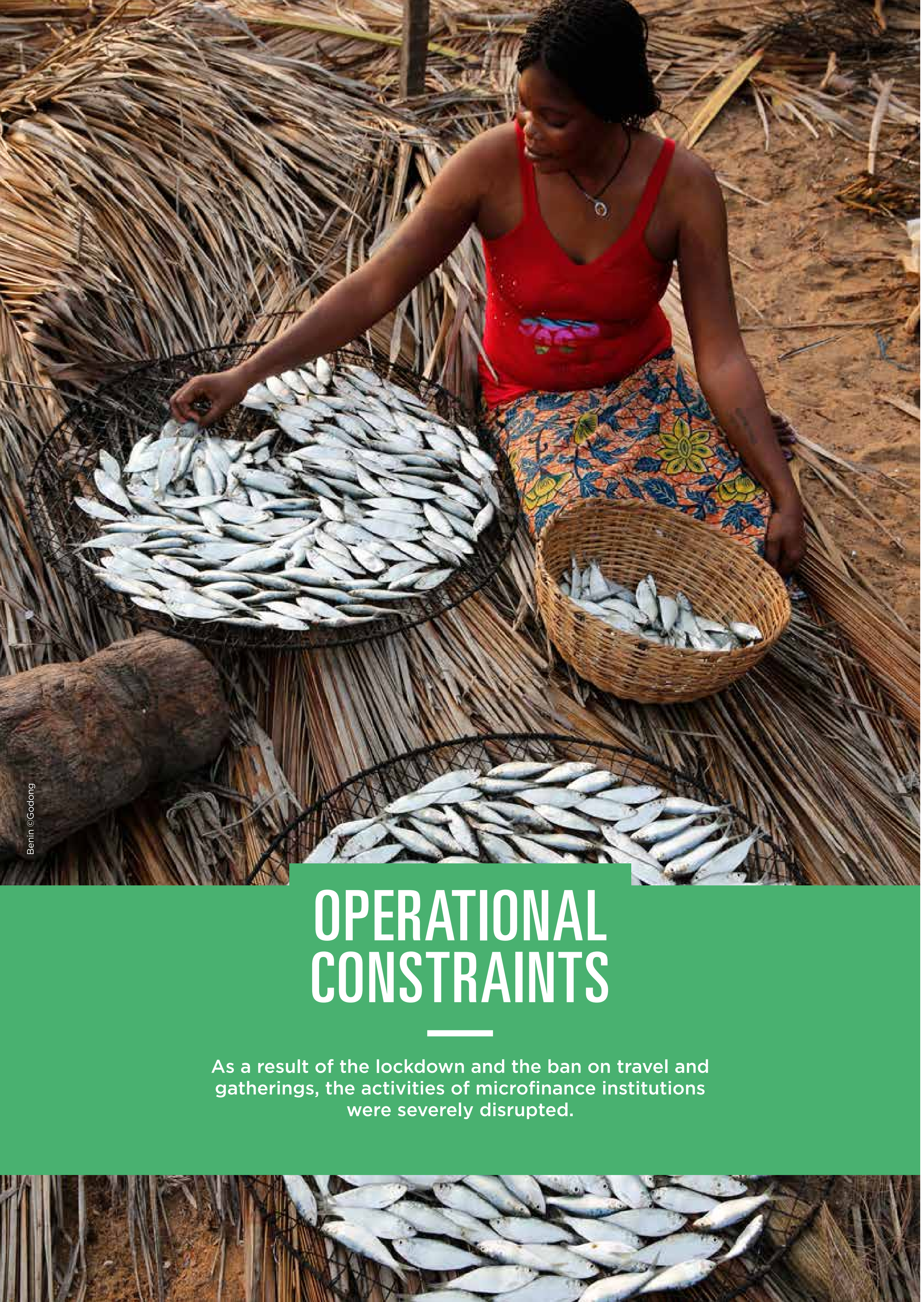
> A questionnaire was sent to all our partners to better understand the effects of the crisis and provide appropriate responses as quickly as possible

This publication presents the responses of 40 microfinance institutions, all of which participated in three waves of the survey (May, July and December 2020). The analysis sample is composed as follows: 14 institutions from Europe and Central Asia (ECA), 8 from South and South-East Asia (SSEA), 8 from sub-Saharan Africa (SSA), 5 from Latin America and the Caribbean (LAC) and 5 from the Middle East and North Africa («MENA») region.[3] They vary in size: there are 8 Tier 1 institutions (loan portfolio above $50 million), 19 Tier 2 institutions (portfolio between $5 and $50 million) and 13 Tier 3 institutions (portfolio below $5 million). Geographically, Tier 1 institutions are mainly located in the Europe, Asia and MENA regions, while smaller Tier 3 institutions are more numerous in sub-Saharan Africa.

Longitudinal analysis (tracking the «Covid-19 effect» over time) enables us to observe the development of the crisis over the past year. Some questions were common to all waves of the survey, others were asked on an ad hoc basis so as to focus on a specific aspect at a particular time of the year. We also enhanced the analysis with quarterly data provided by the MFIs on financial indicators such as the performance of outstanding loans, the number of borrowers or the portfolio at risk in 2020.

The results presented in this study are consistent with those of each wave of surveys we have conducted, including particularities by region or by MFI size. The findings in this document are consequently representative of what we have observed not only through our different waves of surveys, but also through other complementary analyses carried out by each of our institutions. We would like to thank all the participating organisations that helped us understand the impacts of the crisis on microfinance and the responses we can provide to better support the sector.[4] ●

1. 110 in May, 108 in June, 91 in July, 73 in October, 74 in December
2. Each of the five articles can be found on the respective websites of our organisations:
https://www.ada-microfinance.org/en/covid-19-crisis ; https://www.gca-foundation.org/en/covid-19-observatory// ; https://www.inpulse.coop/news-and-media/
3. **ECA**: Bosnia, Bulgaria, Georgia, Kosovo, Kyrgyzstan, Macedonia, Moldova, Romania, Tajikistan, Lithuania, Denmark; **SSEA:** Cambodia, Indonesia, Burma, Sri Lanka; **SSA:** Benin, Madagascar, Mali, Senegal, South Africa, Togo, Uganda; **LAC:** Dominican Republic, Guatemala, Peru; **MENA:** Lebanon, Morocco and Palestine
4. The list of MFI partners participating in at least one survey in 2020 is available in the appendix



Benin ©Godong

OPERATIONAL CONSTRAINTS

As a result of the lockdown and the ban on travel and gatherings, the activities of microfinance institutions were severely disrupted.

Adapting rapidly to operational constraints

Surveys conducted throughout 2020 revealed three major difficulties: the impossibility of meeting clients in person, difficulties in collecting repayments and complications in disbursing loans **(Figure 1)**.

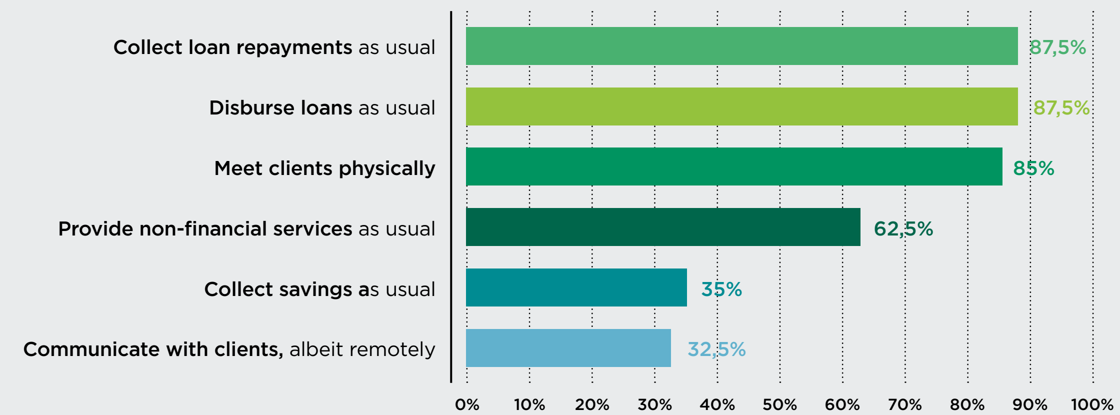
Looking at the results of the sample surveyed, we see that these problems are partly related to mobility constraints, although they do not explain in and of themselves the problems in collecting repayments or disbursing loans. MFIs in sub-Saharan Africa, for example, were all affected by repayment and loan disbursement impediments, but only 63% of them were unable to meet their clients physically. In point of fact, the surveys indicate that the financial difficulties faced by clients are also part of the factors contributing to the difficulties of MFIs. We will come back to this issue.

More generally, only 5 institutions, i.e. 12.5% of the sample, located in countries little or not affected by Covid-19, declared that they had not experienced any difficulties in meeting their clients in 2020. The 35 others, although hampered by this lack of physical contact, managed to keep in touch with their clients, particularly by telephone.

A gradual recovery after the first few months of severe constraints

The proportion of MFIs experiencing operational difficulties fell sharply during the year in all regions. By the end of 2020, one third of them even claimed to have overcome the problems.[1] The first signs of recovery appeared in July, with a slight improvement in loan disbursements and the collection of repayments **(Figure 2)**. Physical meetings with clients have contributed to the gradual resumption of activities.

Figure 1 — Operational difficulties encountered by MFIs (all surveys combined)



→ **Reading:** More than 80% of MFIs in the sample mentioned that they had experienced difficulties collecting repayments and/or disbursing loans as usual at least once during the year.

1. By the end of 2020, 22 out of 74 MFIs indicated that they no longer faced operational constraints in their activities.

Figure 2 — Development of operational difficulties encountered by MFIs

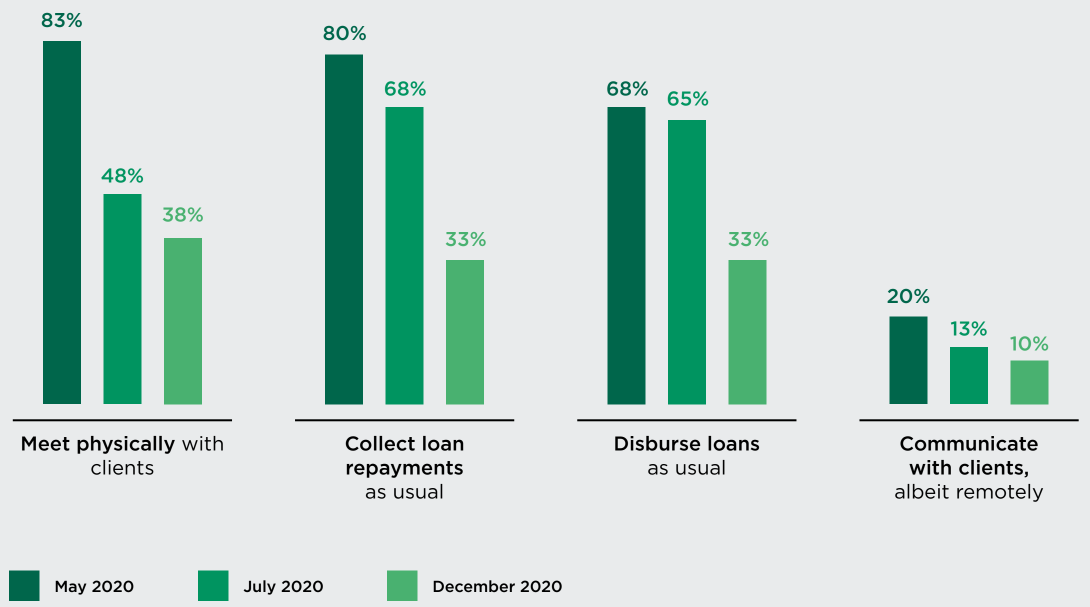


Figure 3 — Development of operational difficulties per region

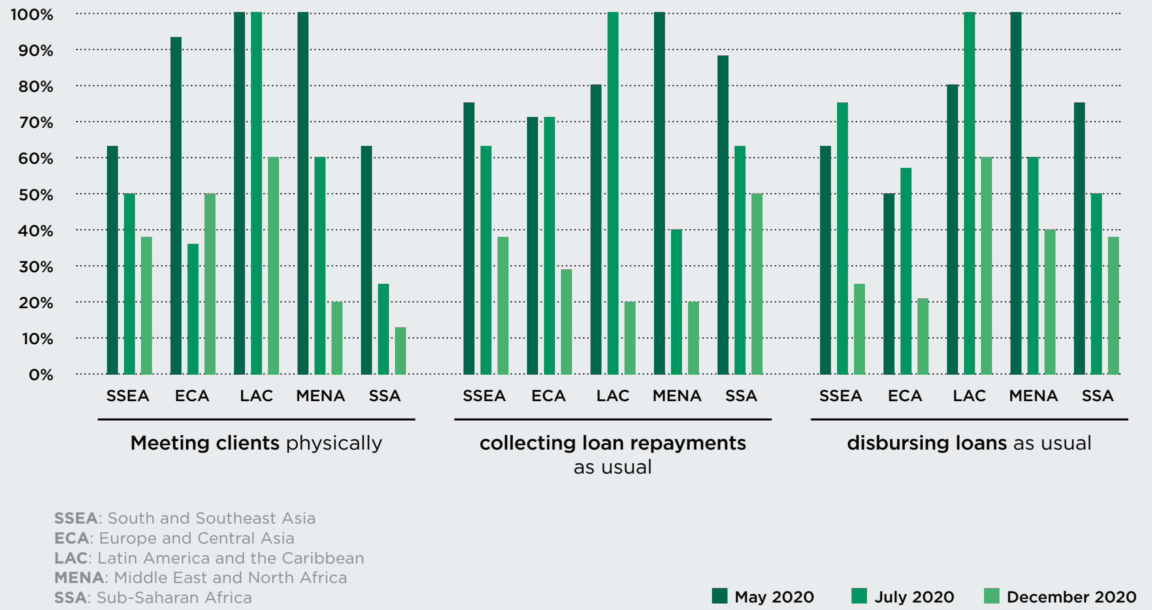
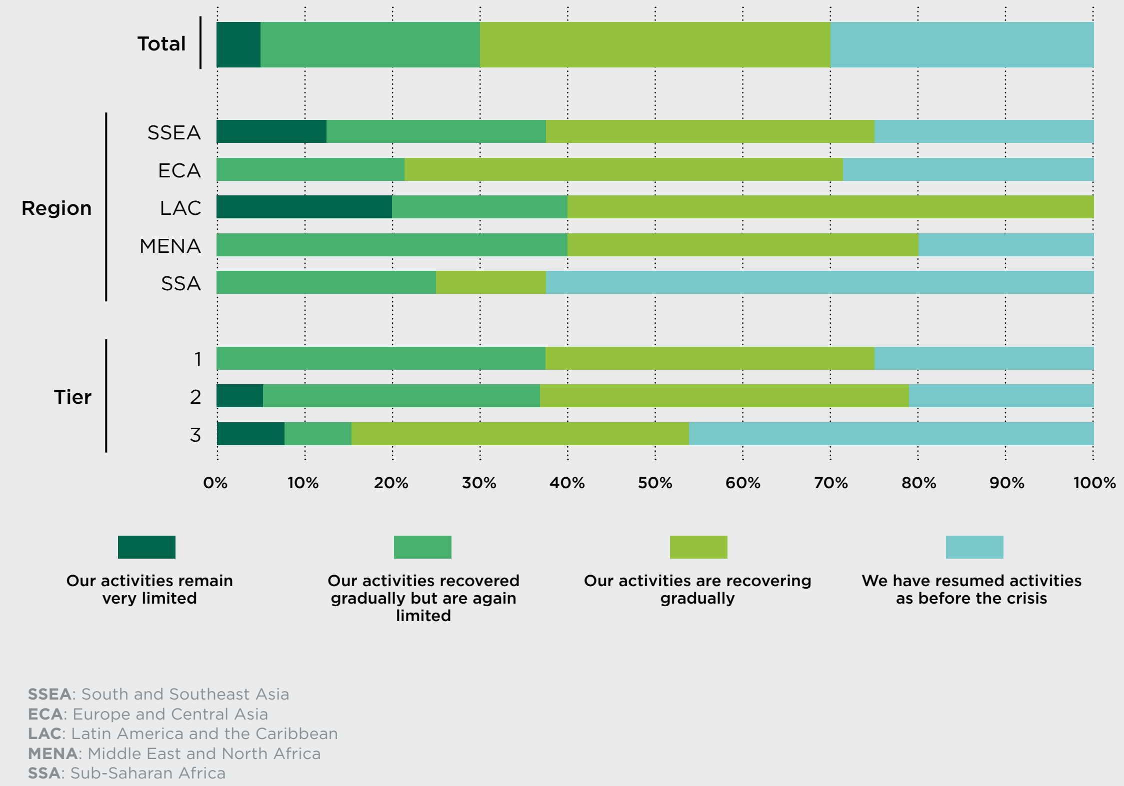


Figure 4 — To what extent do these different constraints weigh on your activities? (December survey)



The evolution by region shows that difficulties in disbursing loans in Latin America and in the MENA region persist at the end of the year (Figures 3 and 4). Moreover, behind the overall improvement trend, there are regional particularities: for example, the return of the restrictive measures in Europe at the end of 2020 again caused difficulties to meet clients physically in December. Nevertheless, this does not translate into increased difficulties in conducting business, as 80% of MFIs in the region report that they have resumed their activities as before the crisis or are gradually resuming them on an ongoing basis, which probably reflects a good capacity for adaptation.

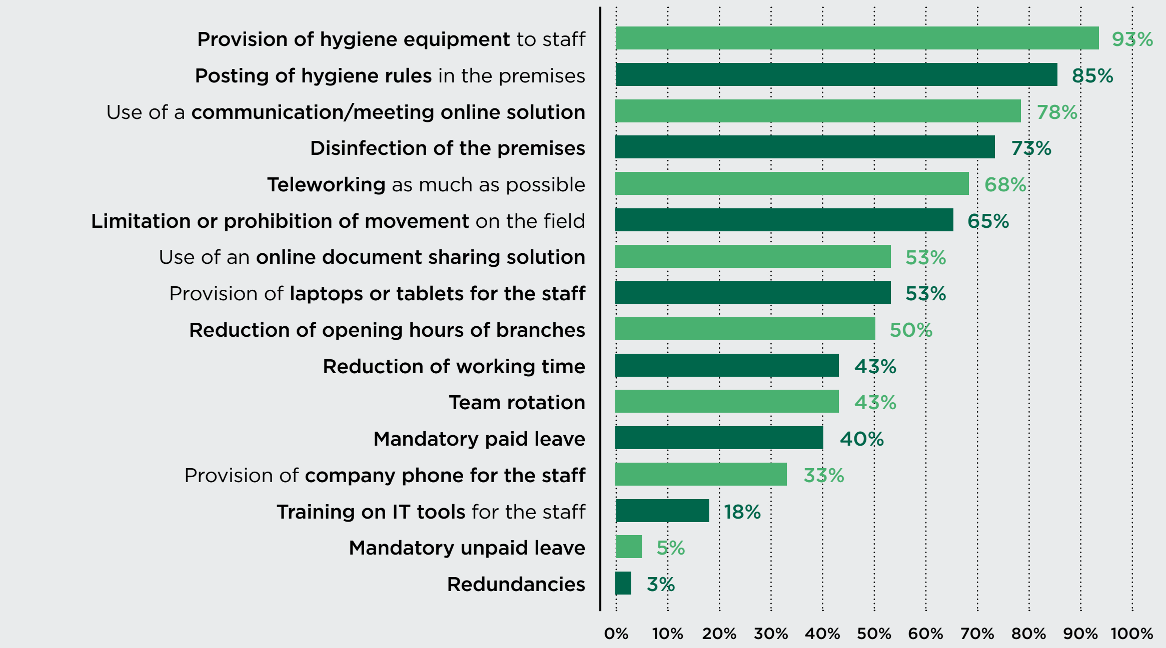
Overall, MFIs in the sub-Saharan Africa region seem to be the least constrained at the end of 2020.

A real capacity for adaptation

MFIs were quick to adapt their organisation, management and operations by taking appropriate measures while maintaining a responsible approach towards their clients. From the beginning of the crisis, institutions prioritized hygiene measures by providing hygiene equipment to their staff (93% of them, as shown in Figure 5). Furthermore, teleworking was widely implemented. Only 40% of the institutions surveyed resorted to compulsory leave (paid or unpaid), and only 3% had to proceed to redundancies.

Many MFIs have been proactive in response to the crisis, preparing and monitoring: crisis committees, business continuity plans, scenario simulations of their performance, etc. Most have taken the lead to find appropriate measures quickly.

Figure 5 — What measures did you implement with regard to human resources? (May survey)



Reading: In May, 93% of MFIs report having provided their staff with hygiene equipment.

Figure 6 — What crisis management measures have you put in place? (May survey)

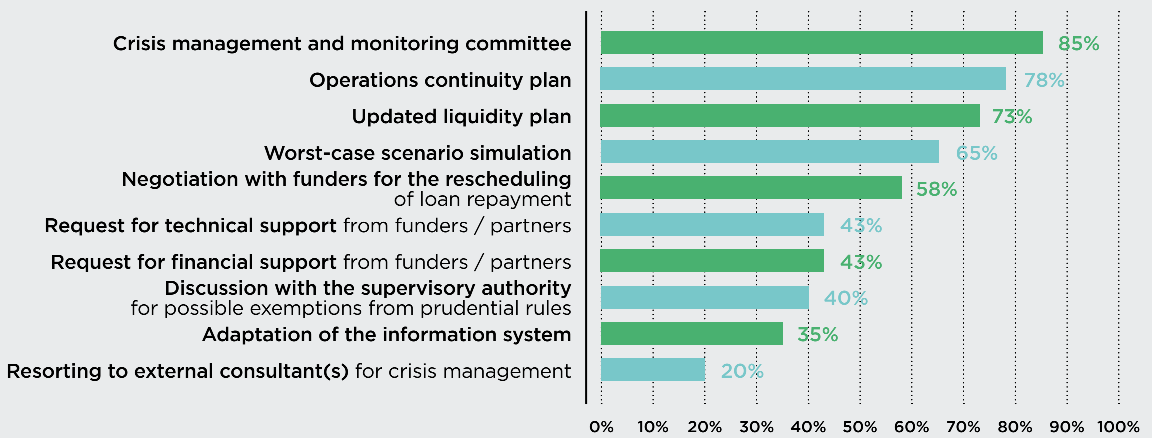
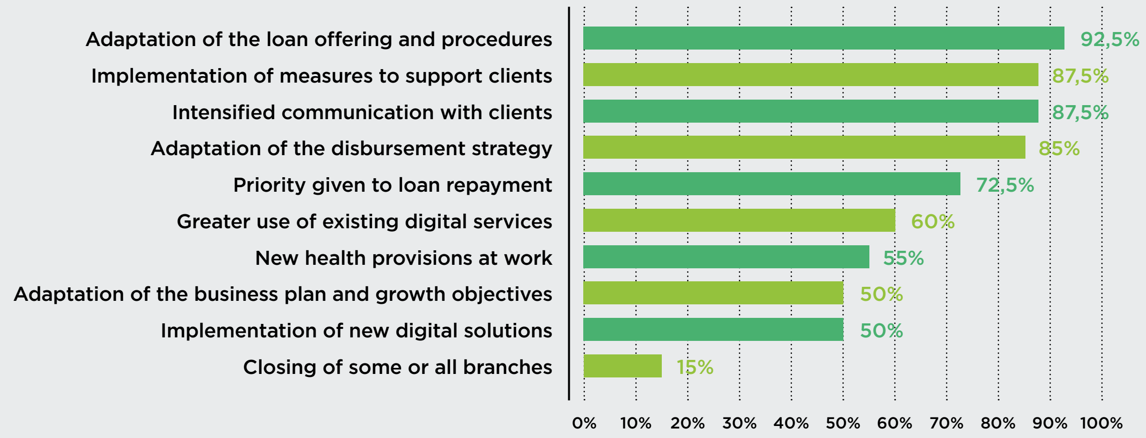


Figure 7 — Operational measures put in place to address the crisis in 2020 (all surveys combined)

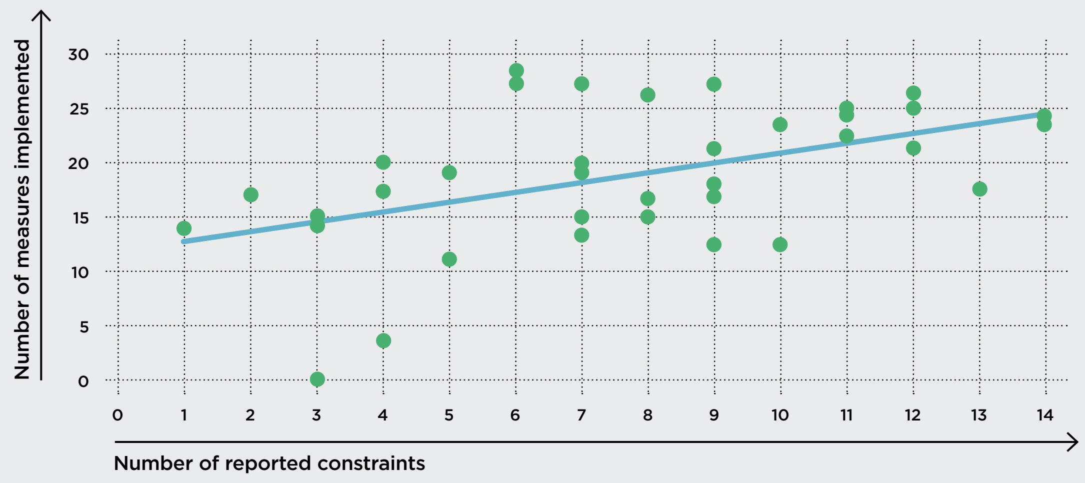


Reading: Most MFIs mention having adapted their loan offering and procedures at least once during the year.

Some requested financial assistance from funders and partners, particularly for cash management, while others requested technical support **(Figure 6)**. We noted that for loans this could take the form of State guarantees or government grants, which larger MFIs were more likely to receive.

Institutions have also stepped up their efforts with their clients. In terms of communication, they intensified contacts with clients, used different channels to communicate, and conducted surveys and polls to gauge their needs and the impact of the crisis on their activities and lives. Most MFIs have also put in place direct assistance measures for clients: disbursement of emergency loans, provision of kits containing food and hygiene equipment, partnerships with humanitarian organisations, and launch of hygiene awareness campaigns via SMS and videos, etc. However, the most cited measure is the adaptation of the loan offering and procedures **(Figure 7)**, which was mentioned by more than 90% of MFIs in the course of the year 2020. The aim is to restructure the loans of clients (mainly by granting moratoriums), but also to implement new lending policies and, to a lesser extent, to launch new products.

Figure 8 — Correlation between the number of reported difficulties and the number of measures implemented by MFI (May survey)



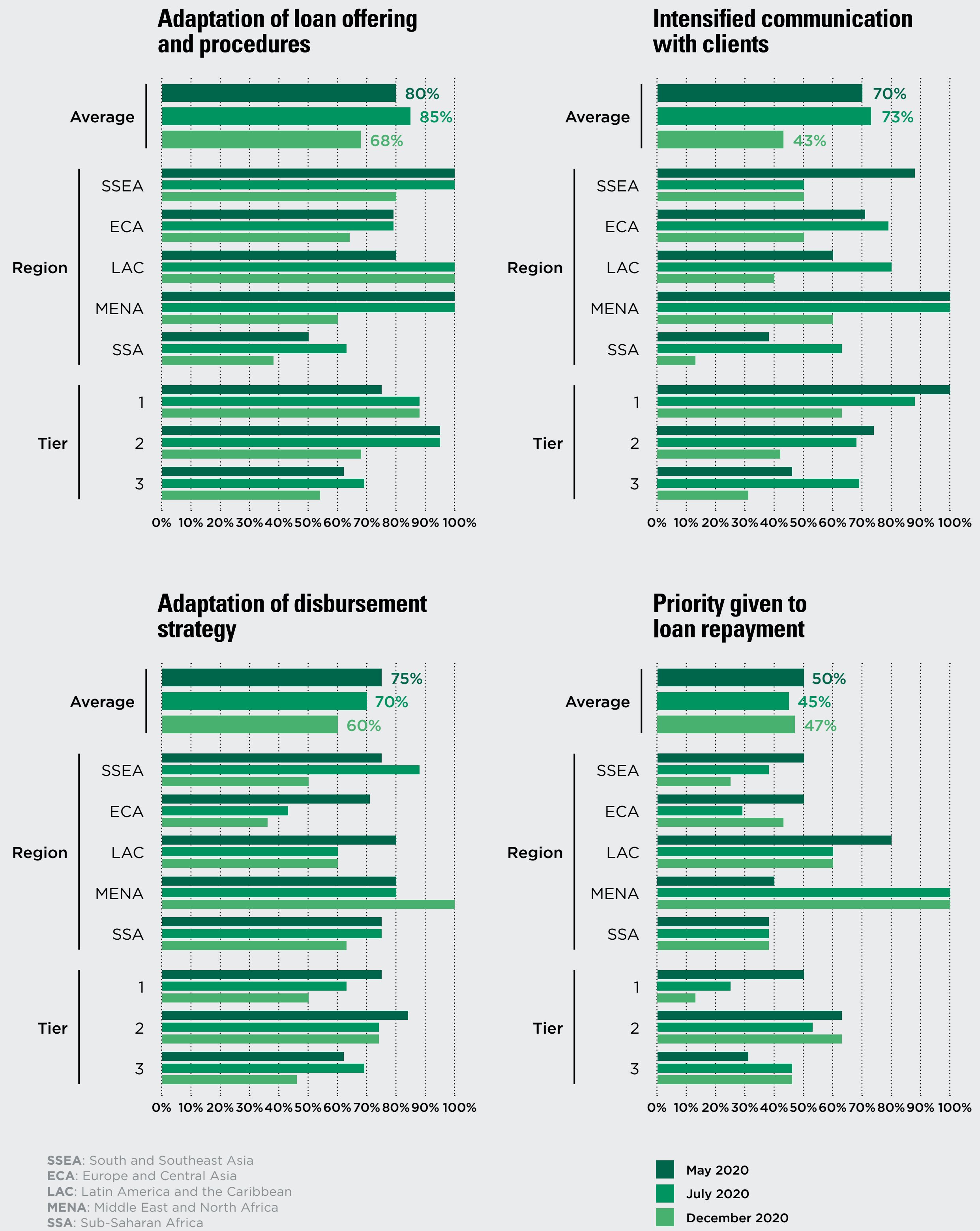
→ **Note:** The graph shows the correlation between the total number of operational, human resources and management problems and the total number of measures implemented by MFIs.

To restore their financial stability, most MFIs gave priority to recovering loans. They also adapted their disbursement strategy, with a slowdown or voluntary stop at the beginning of the crisis and a gradual resumption later in the year. The crisis was also an opportunity for some MFIs to embrace digitalisation fully and to accelerate the digital transformation process. Some reported increased use of existing digital services, others implemented new digital solutions.

A general trend is emerging from the surveys: the operational measures put in place by MFIs to cope with the crisis have become fewer and fewer over the year, as the operational constraints progressively eased. The responsiveness of MFIs to the crisis is illustrated by the positive correlation between the number of problems identified and the number of measures put in place: Figure 8 shows that the greater the number of problems encountered by MFIs, the greater the number of measures put in place.

However, a detailed analysis of the measures taken during the year shows that the proportion of MFIs that give priority to loan recovery has remained stable over time, with the exception of Tier 1 MFIs, for which this proportion has largely decreased over the year, thanks in particular to their better control of credit risk. On the other hand, these same Tier 1 MFIs continued to adapt their offer and procedures throughout the year, unlike the smaller MFIs. Finally, MFIs in the most impacted regions (LAC and MENA) also continued to adapt their disbursement strategy throughout the year (Figure 9). ●

Figure 9 — Percentage of MFIs (per region and size) reporting that they have implemented the following measures:



Read more:
attadamounemicrofinance.ma/

ATTADAMOUNE MICRO-FINANCE – MOROCCO

Response to the crisis on several levels

Focusing on clients, consolidating achievements and improving the organisation were key points in Attadamoune Micro-Finance's resilience to the health crisis.

Morocco ©Getty/Crédit Agricole

« We have every reason to be optimistic »

Zakaria Jebbouri,
General Manager

11,746 ACTIVE BORROWERS

€10.1 M GROSS LOAN PORTFOLIO

63% WOMEN CLIENTS

CONTEXT

In Morocco, the tourism, catering and hotel sectors were strongly affected by the Covid-19 crisis, directly impacting employment and the most vulnerable segments of the population.

THE MFI AND COOPMED

Attadamoune Micro-Finance is a Moroccan microfinance organisation, geared to the financing of micro-entrepreneurs. The institution has been supported by CoopMed since 2018. Signed in February 2020, CoopMed's €500,000 subordinated loan has strengthened MFI's equity and reassured other donors, both international and local, enabling the institution to continue to raise funds and overcome liquidity tensions.

RESPONSES TO THE CRISIS

- **Governance:**

In order to deal with the crisis, the Board of Directors of Attadamoune Micro-Finance has drawn up a Strategic Vision for Crisis Management, prioritising the preservation of the institution's equity and human resources.

- **Asset Liability Management:**

The consequences of the crisis were anticipated by creating alternative scenarios and by developing the corresponding measures to be undertaken.

- **HR management and clients:**

Remote trainings were implemented to advise and guide both agents and clients. An ad hoc listening unit was set up to receive calls, SMSs and emails from customers.

- **Flexibility:**

Developing an integrated committees between operational staff and board members gave great flexibility in decision-making.

- **Advocacy:**

Communication with local authorities has enabled to promote the importance of the microfinance sector in times of crisis.

- **Outlook:**

The institution is currently working on an organisational improvement strategy which will focus on internal controls, digitalisation and the development of non-financial services. ●

Read more:
www.oxusnetwork.org/

OXUS – KYRGYZSTAN

A crisis response designed to benefit customers

Despite the difficulties encountered since the beginning of 2020, OXUS Kyrgyzstan (OKG) is proving that it remains a reliable company for its clients, while maintaining its «zero exclusion» approach.

OXUS (Kyrgyzstan) ©Didier Gentilhomme

8,371 ACTIVE BORROWERS

€6.9 M GROSS LOAN PORTFOLIO

62% CLIENTS IN RURAL AREAS

CONTEXT

In Kyrgyzstan, 20% of the population were living below the national poverty line in 2019. With the sharp reduction in economic activity, household incomes have fallen and unemployment increased. The World Bank estimates that the poverty level increased by 11 points in 2020, pushing 700,000 people below the national poverty line.

THE MFI AND THE FOUNDATION

OXUS Kyrgyzstan (OKG) is a microfinance institution created in order to continue the microcredit activities of the ACTED NGO in the rural areas of the south of the country. Supported by the Grameen Crédit Agricole Foundation since 2017, it provides financial services to the working poor in Kyrgyzstan. As of March 2021, OKG serves 8,371 active borrowers (47% women) through a network of 15 branches and 133 employees. In March 2020, the Foundation supported OXUS to organise an agreement with investors in order to smoothen the liquidity risks caused by the spread of Covid-19.

RESPONSES TO THE CRISIS

The business continuity plan was launched at the onset of the crisis and supported the activity of OKG throughout the difficult times. OKG took the necessary measures to protect its staff from the start of the crisis (provision of health equipment and extensive remote working). The institution ensured close communication with its branches and clients, in order to implement the loan restructuring of those affected by the crisis. The credit policy was also strengthened in this context, in order to prevent any additional risk on newly disbursed loans.

OUTLOOK

Since the summer of 2020, the situation has improved and the country has not experienced any major new restrictions. In 2021, OKG continues to expand as it opened a new branch in the north of the country and a second one is expected to open this year. Other projects are underway, as the introduction of tablets to speed up loan disbursement and the launch of green loans to help fight air pollution. ●

MF Prisma (Peru) ©Lenin Quevedo Bardalez

FINANCIAL IMPACT

In 2020, all MFIs saw a direct impact of this unprecedented crisis on the volume of their portfolio. In parallel, they also experienced an increase in their credit risk, as a result of the problems caused by the crisis over time.

A significant and sustained financial impact

The operational constraints encountered have inevitably had significant financial repercussions **(Figures 10 and 11)**. We observe two major consequences for almost all MFIs: an increase in the portfolio at risk (PAR) due to lower repayments, and a reduction in outstanding loans due to lower disbursements. Other problems have also arisen from time to time: temporary lack of liquidity, the impact of depreciating local currencies and a slowdown in disbursements from donors.

In 2020, the increase of portfolio at risk emerged as the major difficulty faced by MFIs. However, the liquidity crisis expected at the beginning of 2020 did not materialise: only a minority of MFIs surveyed suffered liquidity shortages.

A strong impact on portfolio development

The activities of MFIs were severely disrupted during the first and second quarters of 2020 by the measures taken to contain the health crisis. The inability and/or increased caution of MFIs to disburse loans understandably led to a reduction in outstanding loans at the beginning of the crisis. Nevertheless, when looking at our sample for the study, a U-shaped curve shows resumed portfolio growth during the year **(Figure 12)**. Thus, compared to the end of 2019, the portfolio falls by -1.3% in Q1 2020, then down to -1.4% in Q2, before increasing again in Q3 and Q4.

This observation is particularly true for Tier 2 and Tier 3 MFIs, which experienced a portfolio decline in the first half of 2020 and then a return to growth. The

Figure 10 — Financial difficulties encountered by MFIs
(all surveys combined)

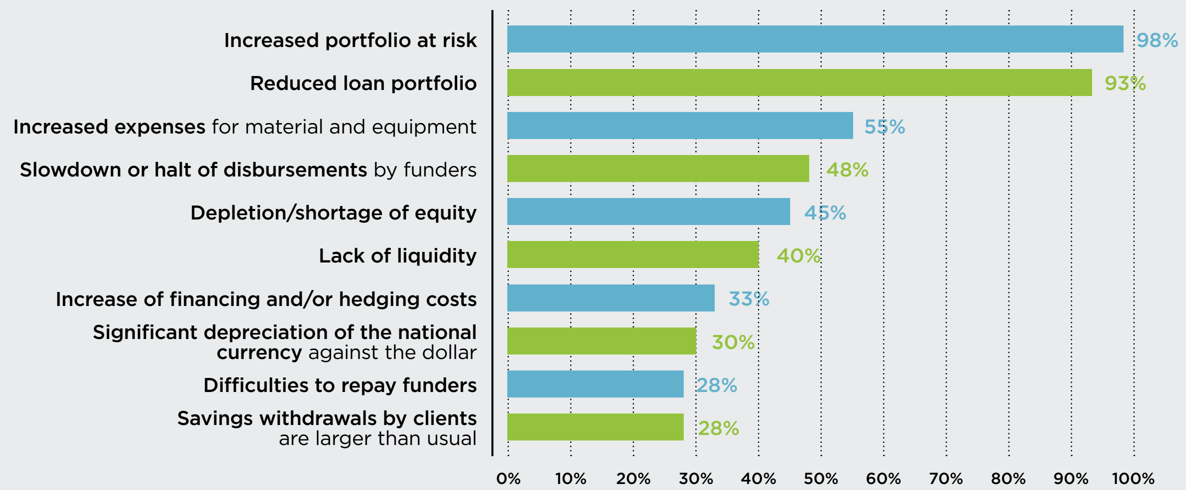


Figure 11 — Financial difficulties encountered by MFIs

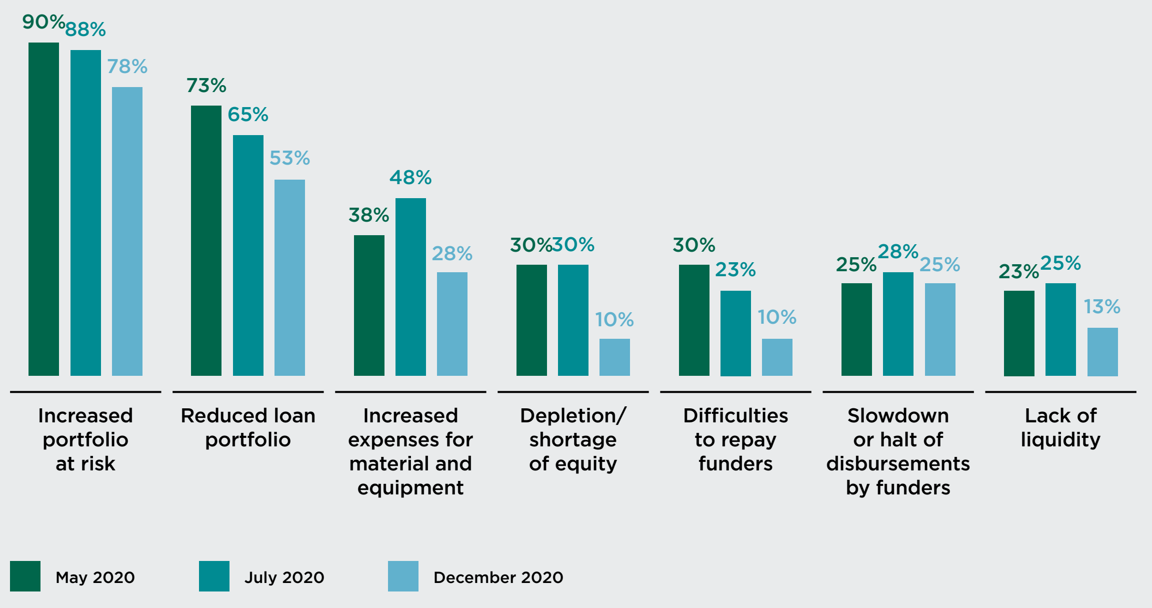


Figure 12 — Development of the portfolio per region compared to the end of 2019

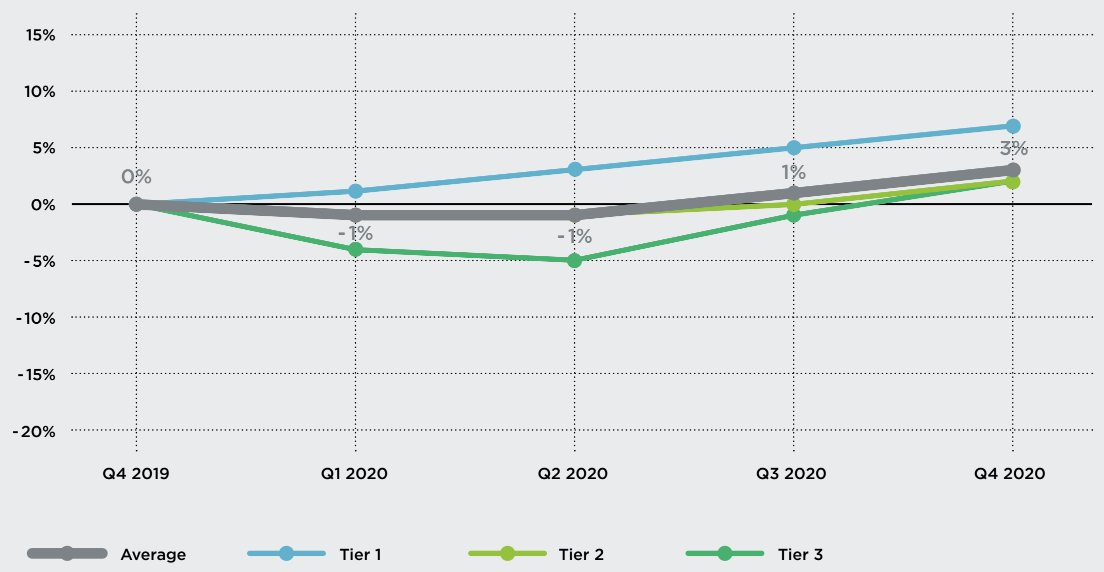


Figure 13 — Evolution of financial difficulties per size

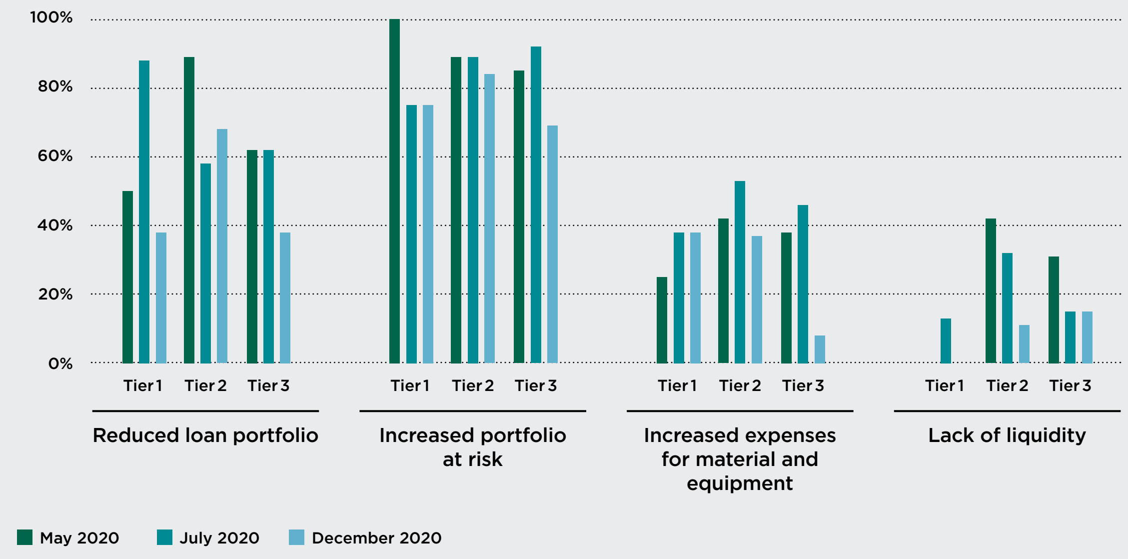
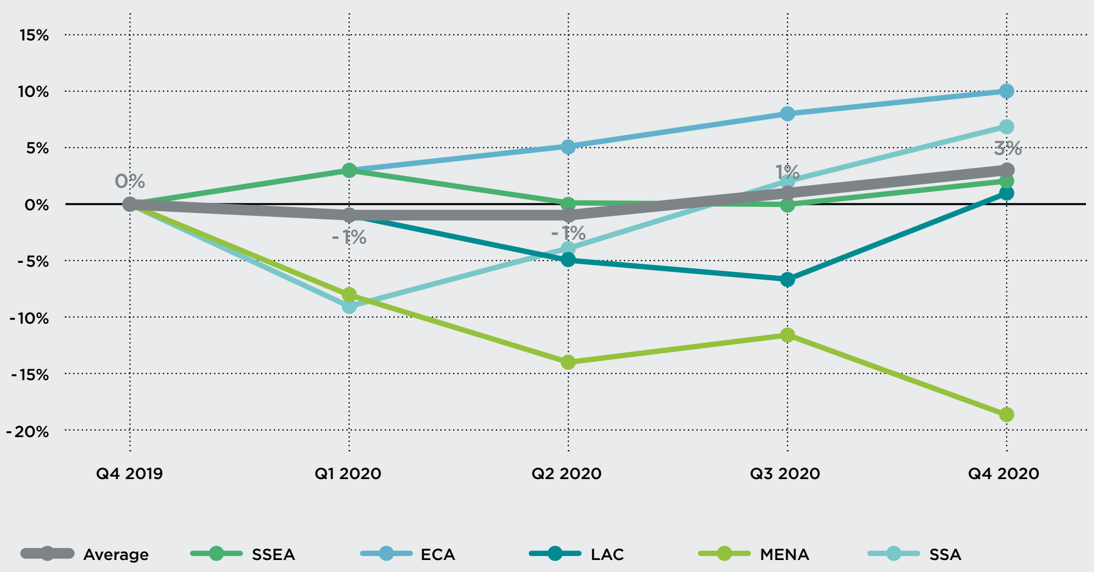


Figure 14 — Average development of portfolio per region (in aggregate compared with December survey)



SSEA: South and Southeast Asia / **ECA**: Europe and Central Asia / **LAC**: Latin America and the Caribbean / **MENA**: Middle East and North Africa / **SSA**: Sub-Saharan Africa

Figure 15 — Average development of number of clients (in aggregate compared with December survey)

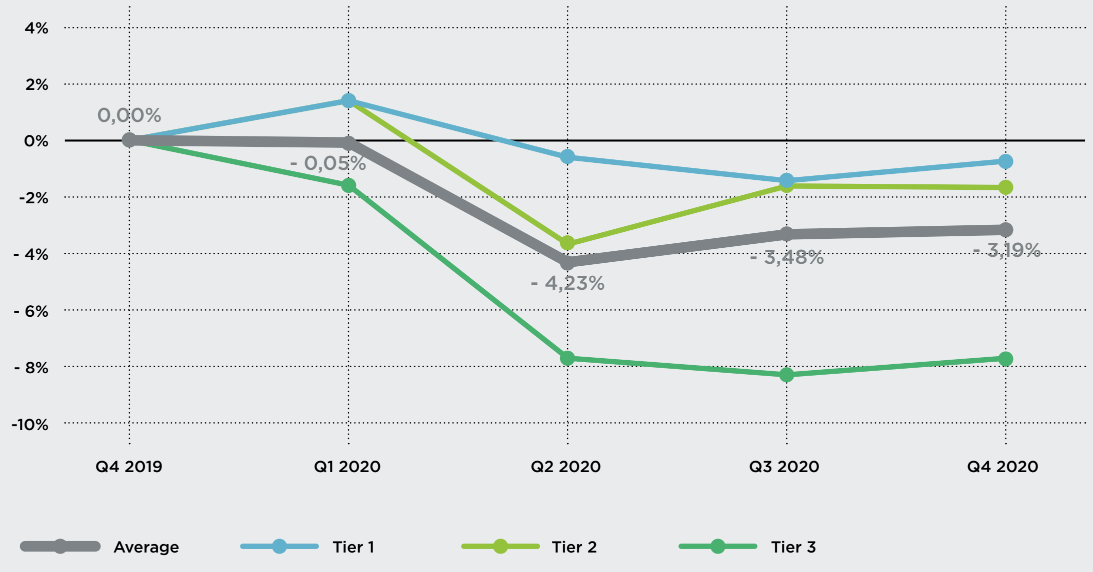
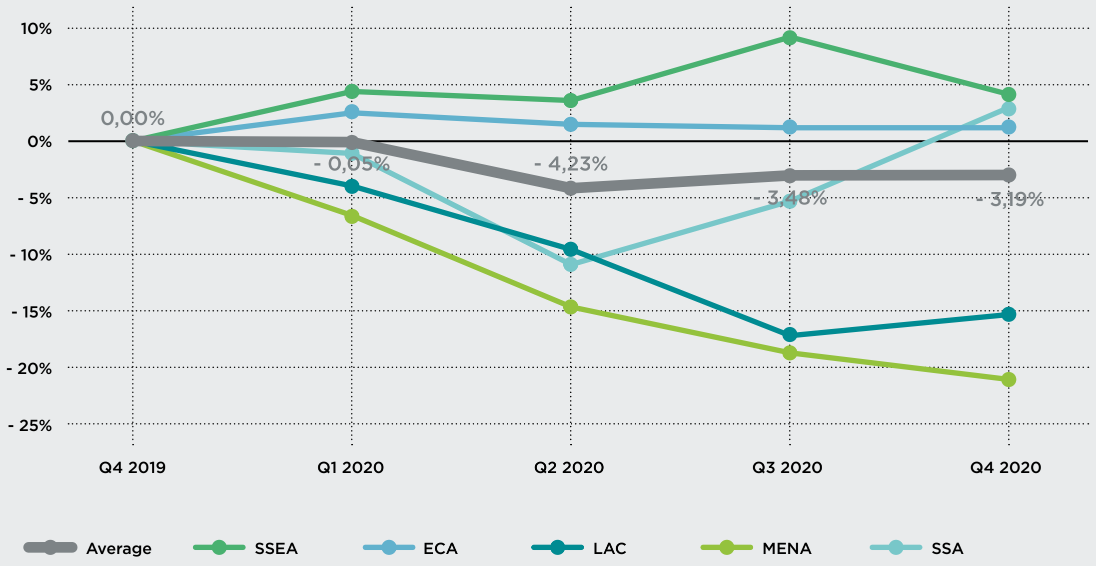
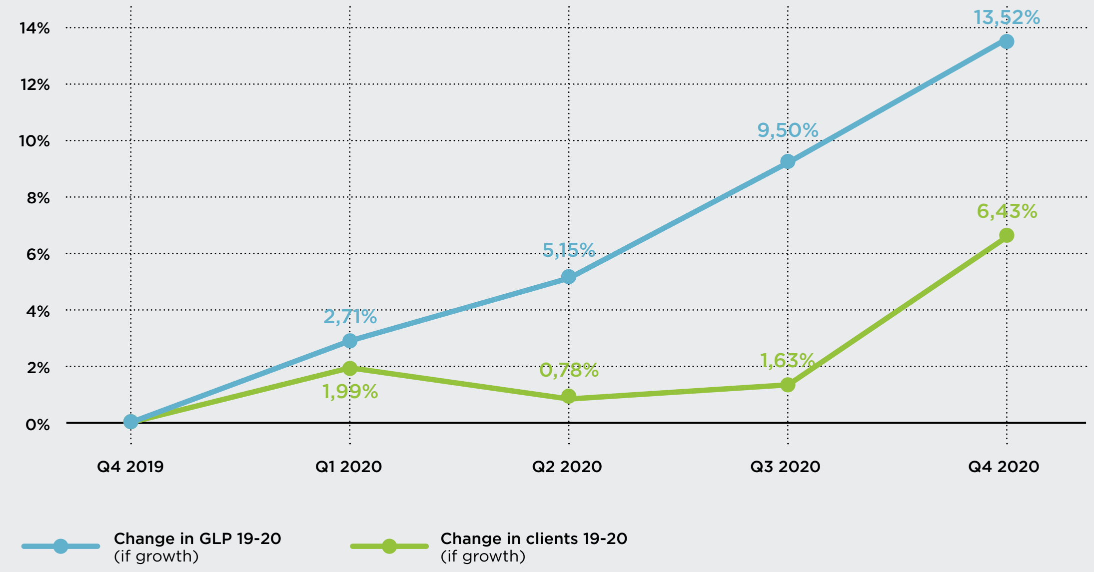


Figure 16 — Development of the number of clients per region (in aggregate compared with December survey)



SSEA: South and Southeast Asia / **ECA**: Europe and Central Asia / **LAC**: Latin America and the Caribbean / **MENA**: Middle East and North Africa / **SSA**: Sub-Saharan Africa

Figure 17 — Growth in clients and portfolio for growing MFIs in 2020



portfolio contraction of Tier 3 MFIs, however, is much more significant. Tier 1 MFIs, on the other hand, seem to have been spared, and have on average seen their portfolio continue to grow steadily over the year. They suffered the least from financial difficulties during this period, as they were better equipped in terms of liquidity, autonomy and processes **(Figure 13)**.

This trend of rebounding outstanding loans is also reflected in the analysis by geographical area **(Figure 14)**. All regions have improved, except for the MENA region. Europe and Central Asia (ECA) is the exception with a continuous and steady increase. In this case, the curve resembles that of the Tier 1 MFIs **(Figure 12)**. However, no link can be established as the Tier 1 MFIs in our sample represent only a minority of the ECA region. For the other regions, while the upward curve is clearly visible, the portfolio decline did not start at the same time. This reflects the variability in the timing of the epidemic in each region. For sub-Saharan Africa (SSA), the portfolio decline only appears in the first quarter of 2020. For Latin America and the Caribbean (LAC), it continues until the third quarter. For South and South-East Asia (SSEA), the decline occurs only in the second and third quarter.

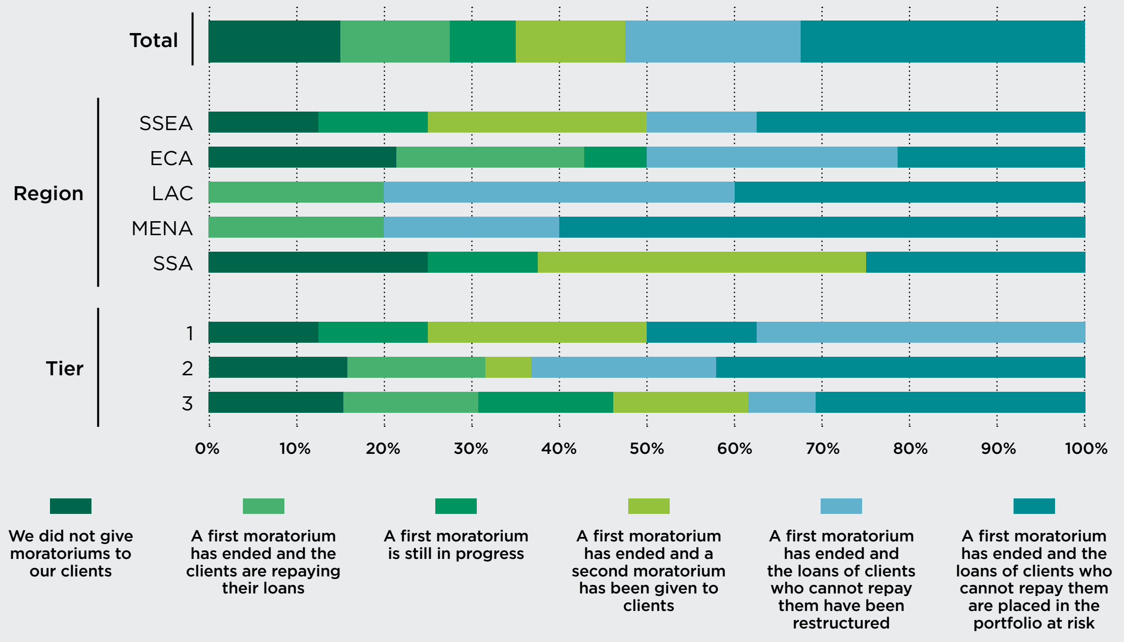
The development in the number of clients does not follow the same trend **(Figure 15)**. While the portfolio has increased on average by 3% from 2019 to 2020, the trend in the number of customers is -3% in value. The declining portfolio until the second quarter is due to the loss of clients: repayments are not offset by new disbursements and attracting new clients.

Resuming growth from the third quarter until the end of the year is driven only by a weak acquisition of customers. This phenomenon affects all MFIs regardless of their size. Overall, the number of clients has either decreased or increased slightly, but to a lesser extent than the growth of the region's loan portfolios. While 40% of the institutions in the Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC) regions were still facing limited activity at the end of the year, MENA MFIs suffered the largest loss of clients **(Figure 16)**.

For MFIs whose portfolio shrank in 2020 **(Figure 17)**, the drop in outstanding loans is accompanied by a drop in the number of clients (-14% and -19% respectively). For MFIs that have increased their outstanding loans in 2020, the increase is 13.5%, while the increase in clients is 6.4%. Growth is therefore fuelled in parallel by the increase in the average loan.[1]

1. These results are also shown by the CGAP/Symbiotics studies, the latest of which is available at the following link: https://www.cgap.org/sites/default/files/datasets/2021_4_CGAP_Symbiotics_COVID_Briefing.pdf

Figure 18 — Where do you stand on moratoriums? (December survey)



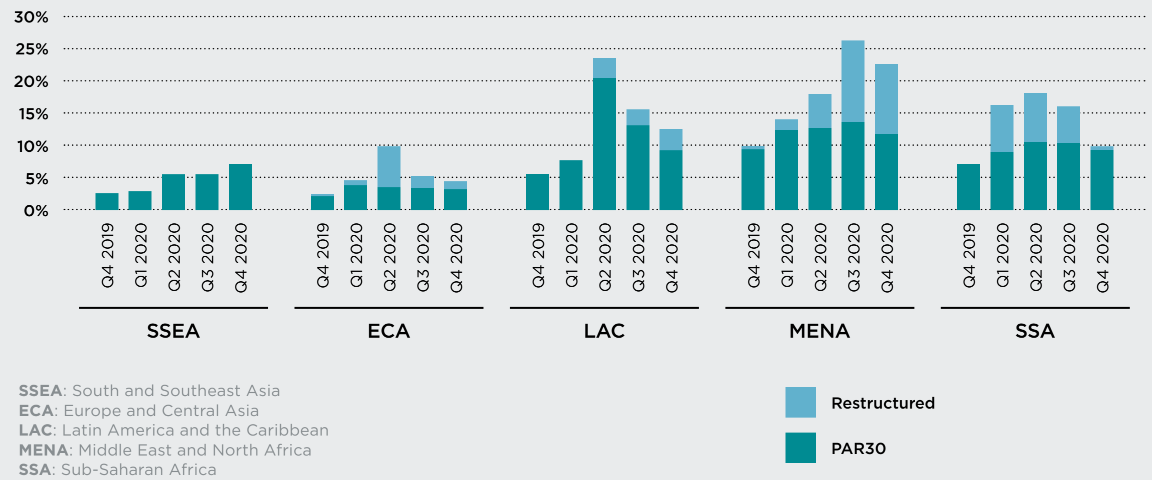
→ **Reading:** In total, just over 30% of MFIs in the sample mention in December 2020 that a first moratorium has ended and that the loans of clients who cannot repay them are now placed in the portfolio at risk.

A structural increase in credit risk

This small increase in the number of clients is largely explained by the difficulties they themselves have encountered. Their activities were in fact disrupted by the measures put in place to contain the epidemic, but also by the disruption of international trade, the slowdown of certain sectors or the reduction in the amount of remittances from abroad. This made it difficult for clients to repay their loans and prevented them from taking out new ones. Faced with this situation, a large majority of MFIs (notably under the stimulus of their regulators) offered moratoriums to their clients (34 MFIs out of 40 surveyed) at the very outset of the crisis (Figure 18). Only a very small proportion of MFIs in South and South-East Asia, Europe and Central Asia, and sub-Saharan Africa did not grant moratoriums. On the contrary, by the end of the year, several institutions in South and South-East Asia (SSEA) and sub-Saharan Africa (SSA) had granted their clients a second moratorium. For the rest, at the end of moratorium periods, loans that are not repaid move into the MFIs' portfolio at risk.

As we saw at the beginning of this chapter, the main financial difficulty encountered by MFIs is the increase in portfolio at risk (PAR), inflated by client defaults, exits from moratorium periods and potentially by portfolio reduction. Thus, according to the survey responses, only 20% of MFIs report that they have not experienced an increase in their portfolio at risk (i.e. portfolio at risk has decreased or remained stable). For the others, the PAR increased without doubling (40%), or more than doubled (also about 40%). The information from the figures available to us is consistent with these survey data: regardless of their size, all MFIs experienced a structural

Figure 19 — Development of credit risk (PAR 30 and restructured) per region



SSEA: South and Southeast Asia
ECA: Europe and Central Asia
LAC: Latin America and the Caribbean
MENA: Middle East and North Africa
SSA: Sub-Saharan Africa

increase in PAR30+r[2] between December 2019 and December 2020, with a peak in this indicator in the second quarter of 2020 (Figure 19). However, the PAR30+r of Tier 1 MFIs remained lower than that of Tier 2 and 3 MFIs throughout 2020, which is also observed in the CGAP Pulse survey.[3]

An analysis of PAR30+r by region shows that this indicator has increased for all MFIs but in different proportions, depending on the maturities of each market and the impact of the crisis in each country (Figure 19). Thus, PAR30+r rates reached higher levels for MFIs in the Middle East and North Africa (MENA), Latin America and the Caribbean (LAC), and sub-Saharan Africa (SSA) regions, than for the Europe and Central Asia (ECA) and South and Southeast Asia (SSEA) regions.[4]

Finally, the PAR30+r is composed of very few restructured loans at the end of 2020. This is a gradual return to the pre-Covid-19 credit risk structure (i.e. end 2019), where restructured loans were extremely low. This is noted in all regions except MENA.[5] In general, this also shows the low share of loans restructured under the crisis that become loans with late payments. In Figure 19, the decrease in restructured loans goes hand-in-hand with a decrease in PAR30. The increase in PAR30 is essentially linked to the end of moratoria or a deterioration directly attributable to the crisis, but the Covid-19 effect is gradually fading.

In summary, the financial data show that MFIs in the Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC) regions were more significantly affected by the crisis, with a higher PAR30+r ratio and a larger drop in the number of active clients and portfolio at year-end. In contrast, the performance of the Europe and Central Asia (ECA) region remained good with a relatively low and stable PAR30+r ratio throughout the year, a limited decline in the number of active clients, and stable portfolio growth. It is also interesting to note that Tier 1 MFIs were more resilient to the crisis. They were able to maintain portfolio growth throughout the year, fairly stable client growth and a lower level of risk.

At the end of the year, only one third of MFIs surveyed indicated that they had operational difficulties collecting repayments, but 80% still experienced PAR issues. The increase in the portfolio at risk is therefore not or no longer linked only to operational difficulties but also to the impact of the crisis on clients, especially in sectors or regions particularly exposed to Covid-19.

2. **PAR30+r:** all outstanding loans with payment arrears exceeding 30 days plus the renegotiated outstanding loans.
3. https://www.cgap.org/blog/microfinance-and-covid-19-insolvency-horizon
4. https://www.cgap.org/blog/survey-shows-gathering-clouds-no-storm-yet-microfinance ; idem, https://www.cgap.org/blog/microfinance-and-covid-19-insolvency-horizon
5. This is due to the figures of only one MFI whose end-of-year restructuring figures are extremely high.

Figure 20 — Several months into the crisis, how is it affecting client repayments?
(December survey)

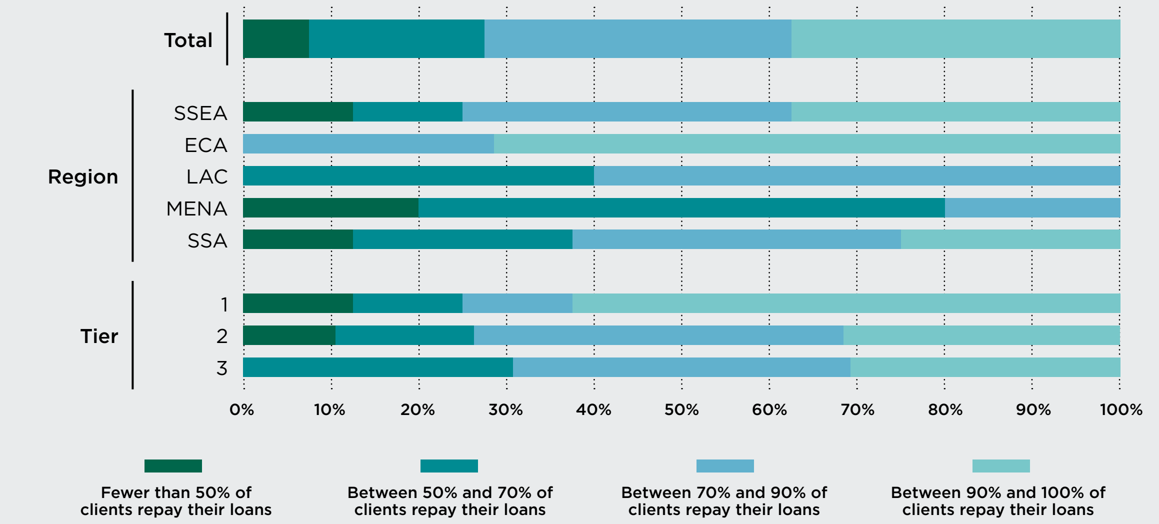
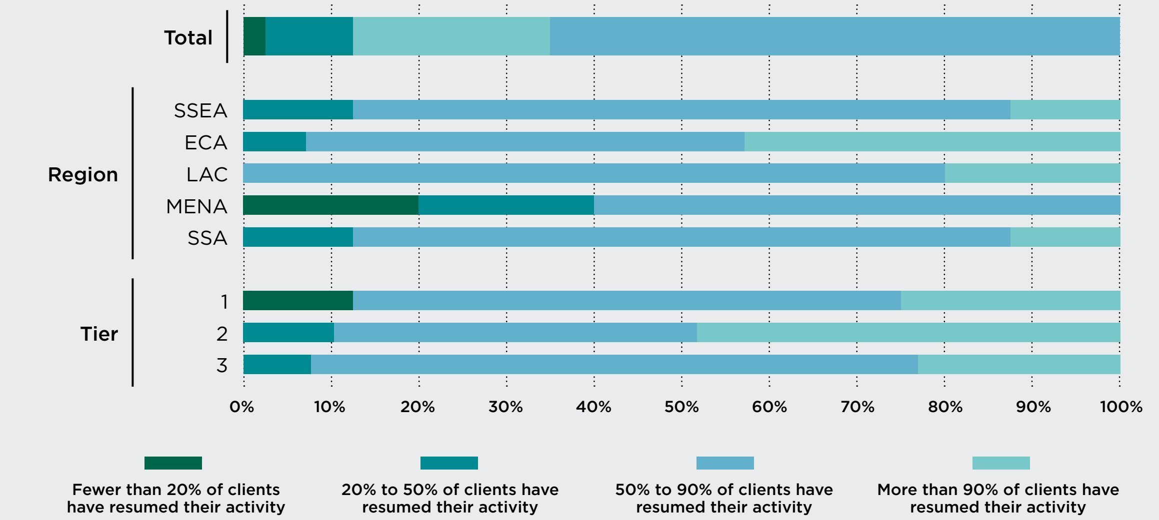


Figure 21 — How is your clients' business doing at currently?
(December survey)



SSEA: South and Southeast Asia / **ECA**: Europe and Central Asia / **LAC**: Latin America and the Caribbean / **MENA**: Middle East and North Africa / **SSA**: Sub-Saharan Africa

Fig. 22 — Which client segment(s) do you think is/are more affected?
(December survey)

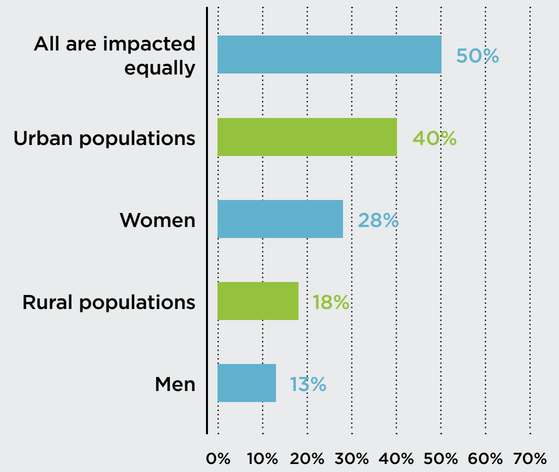
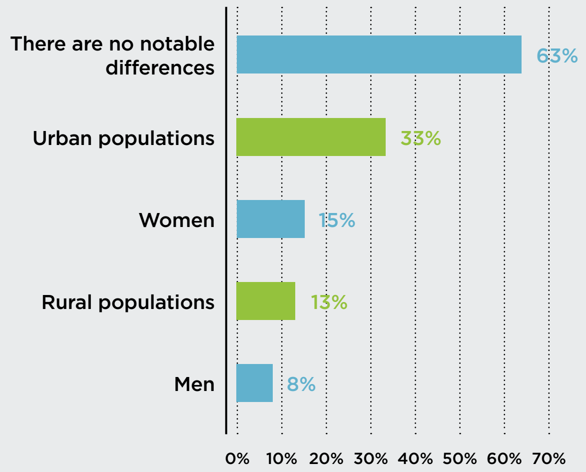


Fig. 23 — Which client segment(s) have the most difficulty repaying its (their) loan(s)?
(December survey)



A crisis with diverse effects on clients

At the end of 2020, a majority of institutions report that more than 70% of their clients are repaying their loans (Figure 20). This is mainly the case for MFIs in the Europe and Central Asia (ECA) region and for Tier 1 MFIs. In contrast, the MENA region has the highest number of MFIs reporting that less than 70% of their clients are repaying their loans; and the region in which the highest levels of PAR30+r are also observed. These results should be seen in light of our work conducted in October 2020 showing that tourism was the sector hardest hit by the crisis in most regions, ahead of the services sector.[6]

The ability of clients to repay their loans is clearly linked to their recovery. Indeed, by the end of the year, business had recovered for the majority of clients, except in the Middle East and North Africa (MENA) region, as shown in Figure 21. In contrast, client activity in the Europe and Central Asia (ECA) region fared better: most MFIs reported that more than 90% of their clients had resumed business.

According to half of MFIs, all clients have been impacted by the crisis, regardless of their demographic characteristics. Conversely, the other half of the MFIs found that the crisis has had a heavy impact on certain client groups: urban areas have been more affected than rural areas, and women more than men. Logically, these same two client groups (urban population and women) have more difficulties in repaying their loans (Figures 22 and 23). ●

6. https://www.gca-foundation.org/en/covid-19-a-gradual-recovery-of-mfis-in-sync-with-their-clients-recovery/
https://www.ada-microfinance.org/en/covid-19-crisis/gradual-recovery-mfis-sync-their-clients-recovery

• IMPACT STORY N°3 •

Read more:
mfprisma.com/

MF PRISMA – PERU

Support to an economy devastated by the crisis

MF Prisma received financial support from the Luxembourg Microfinance Development Fund, advised by ADA, from 2017 to 2020, and has been in partnership with ADA on an agricultural credit development project since 2018. In 2020, MF Prisma also benefited from the crisis response programme set up by ADA.

MF Prisma (Peru) ©Lenin Quevedo Bardalez

8,903 ACTIVE BORROWERS

€3.7 M GROSS LOAN PORTFOLIO

66% WOMEN CLIENTS

CONTEXT

Peru's economy is one of the largest in Latin America, based largely on the exploitation, processing and export of natural, mineral and agricultural resources. However, the country is still marked by strong social, ethnic and geographical disparities. The Covid-19 pandemic has had a devastating impact on the Peruvian economy, with strict and prolonged containment measures leading to a sharp contraction of the economy, increased unemployment and consequently rising poverty.

THE MFI AND ADA

MF Prisma is a savings and credit cooperative established in 2014, based in Lima and active in several regions of Peru. MF Prisma offers savings and credit services as well as non-financial services geared towards women and rural populations. ADA has been supporting MF Prisma since 2018 on the development of agricultural credit and technical training on production methods for small cocoa producers.

RESPONSES TO THE CRISIS

The very strict containment measures imposed in Peru have severely constrained MF Prisma's staff, who have had great difficulty meeting clients in the field. Disbursements fell, some clients withdrew their savings and stopped repaying, and portfolio quality deteriorated. In addition to that, the regulator became more demanding in terms of reporting. MF Prisma therefore applied for the response programme set up by ADA and received technical assistance from a consultant to support staff in crisis management. The support provided in analysing the portfolio, identifying client segments to continue disbursing to and those with whom to restructure loans, and making projections to manage liquidity better was instrumental in turning around the institution's financial situation.

OUTLOOK

MF Prisma's priority remains to improve financial performance, particularly through quality control and portfolio growth, aided by the ongoing process of digitalising its operations, and the support of its strategic allies in building its institutional capacity. ●

• IMPACT STORY N°4 •

Read more:
mitradhuafa.com/

KOMIDA – INDONESIA

Continued business activities in Indonesia

Founded in 2004 to help populations facing the consequences of the 2004 tsunami, Komida is today a major player in microfinance in Indonesia.

Komida (Indonesia) ©Didier Gentilhomme

776,650 ACTIVE BORROWERS

€102 M GROSS LOAN PORTFOLIO

100% WOMEN MEMBERS, OF WHICH 97% LIVE IN RURAL AREAS

CONTEXT

Indonesia is the largest economy in Southeast Asia and the world's fourth most populous nation. The country made vast efforts in poverty reduction over the last decades, cutting the poverty rate down to 10%. While the impact of the Covid-19 crisis was reduced compared to neighbouring countries, the unemployment rate rose and progress in poverty reduction was halted, if not deteriorated.

THE MFI AND THE FOUNDATION

KOMIDA is one of the Grameen Crédit Agricole Foundation's historical partners, with 9 loans granted since 2010. It is a cooperative owned by its women members, located in rural areas (97%). KOMIDA offers a large range of services (credit, savings, life insurance and trainings) to 766,650 persons and manages a total loan portfolio of €102 million (as of March 2021), through a network of 318 branches, and 4,558 employees.

RESPONSES TO THE CRISIS

At the beginning of the pandemic in March 2020, access to villages was impossible due to the nationwide moving restrictions. KOMIDA could not organise group meetings for transactions as usual. Therefore, it granted a first two weeks moratorium to all members. The introduction of the lockdown measures also caused a drastic drop of the voluntary savings with most clients were using it to repay their loans.
Among the businesses most affected were activities linked to gatherings of people or relying on commuting between districts, such as retail and trade with urban cities. Some clients had to adapt: members selling in crowded places (school, markets) changed their business location - while maintaining their core business. In spite of these constraints, the majority of the members' businesses (80%) were still running, as most of them are local and less impacted by Covid-19 measures.

OUTLOOK

Today, KOMIDA and most of its members' activities are running well, even if they still face changes in the restrictions due to the fluctuating Covid-19 context. In 2021, KOMIDA continues to expand in its existing rural areas with 10 additional branches. In addition, it will focus on providing their very loyal and resilient members social-oriented microcredits: education, sanitation, and home improvement, etc. ●

PROSPECTS FOR THE FUTURE

In the face of the crisis, most MFIs have shown resilience. Among the levers envisaged to return to financial stability: increasing the volume of their portfolio and the number of clients, and opening up to new products and services, and even to new markets, in 2021.

Microfinance is resilient

A matter of urgency: protecting solvency

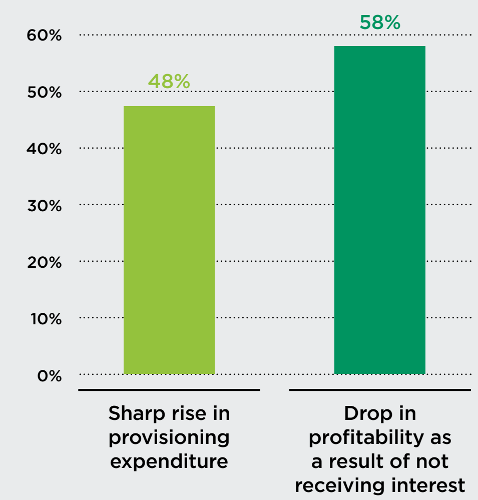
At the end of 2020, 48% of the institutions in the sample deplore the increase in provisioning charges, which cover the risk of default on loans in arrears. Client difficulties persist in 2021 and are reflected in the MFIs' balance sheets with direct consequences on their profitability, which is impacted by losses, portfolio decline, and interest not collected from clients. In turn, this drop in profitability affects the equity of the companies **(Figure 24)**.

In our latest survey, launched in April 2021[1], almost half of the respondents (48%) say they will need equity support in 2021. Two trends emerge: MFIs that plan to rely on their current shareholders and those that plan to bring in new international investors, in the absence of local opportunities and when business growth dynamic is established. More specifically, by April 2021, 18% of MFIs surveyed were feeling the effects of declining profitability on their equity, with some already falling below the financial covenants on equity in their loan agreements with their funders, and others falling below the regulatory thresholds.

A key word: resilience

While the crisis was at its peak in the middle of last year, the majority of MFIs were resilient and optimistic. Only 3% of them have considered the possibility of

Figure 24 — Financial difficulties linked to profitability (December survey)



1. Note: this is a survey of a different sample of 87 MFIs from the one in the study in April 2020. The results are available at the following link: https://www.gca-foundation.org/en/persistent-credit-risk-a-threat-to-the-solvency-of-microfinance-institutions/

Figure 25 — Do you think it is possible that your institution could be affected in the short or medium term by one or more of these eventualities? (July survey)

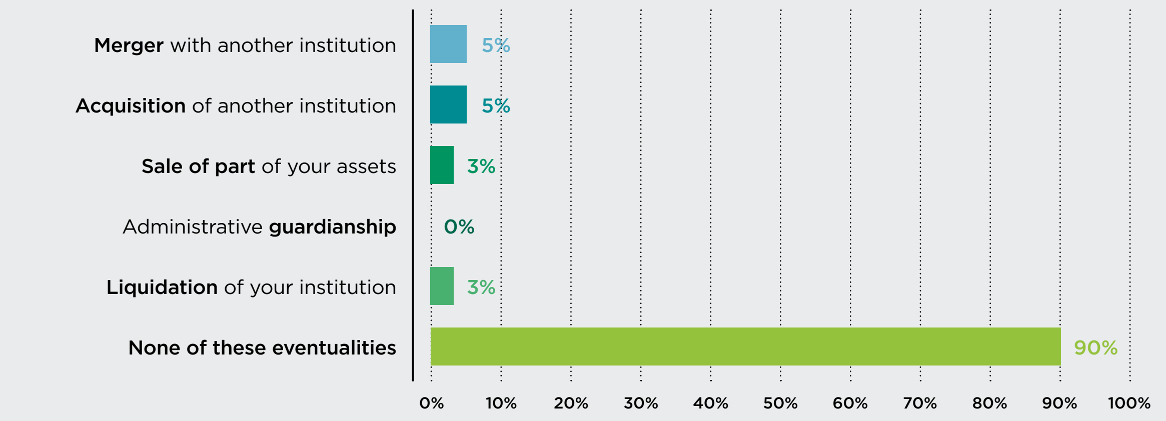
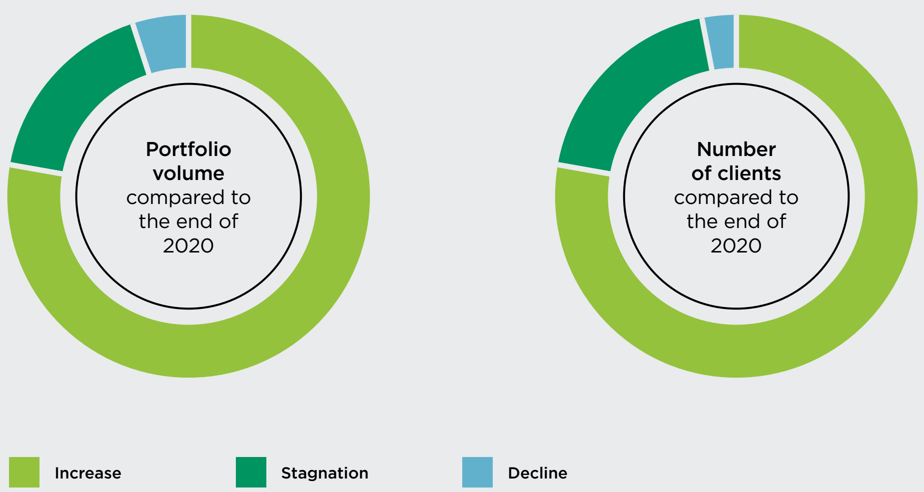
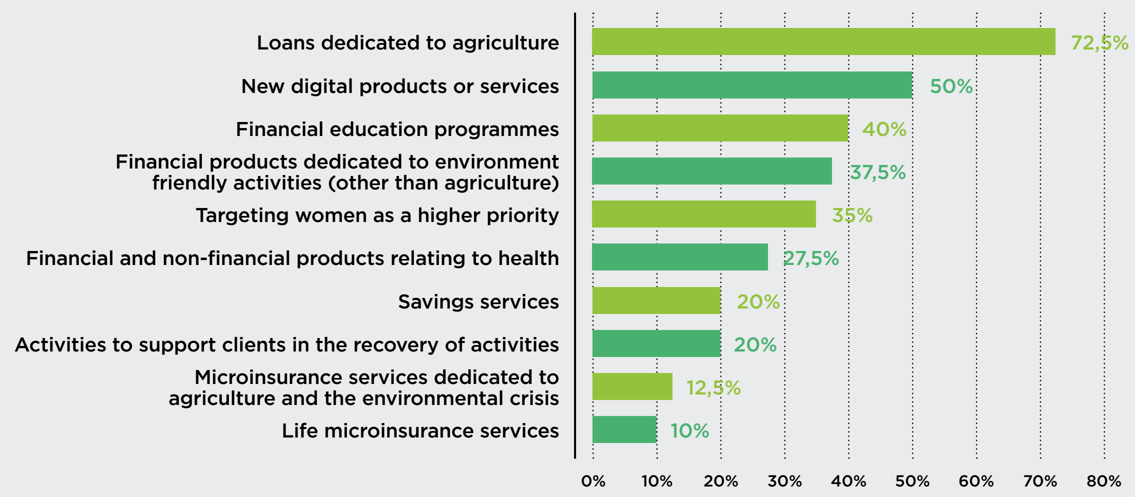


Figure 26 — What are your expectations in terms of growth for 2021? (December suvey)



→ **Reading:** The majority of MFIs in the sample reported in December that they expect their portfolio and number of clients to increase in 2021 compared to 2020.

Figure 27 — New products, services or markets envisaged



→ **Reading:** More than 70% of MFIs in the sample reported at least once in 2020 that they wanted to develop loans dedicated to agriculture.

selling part of their assets or putting their institution into liquidation, and only 5% have considered selling and merging with another institution **(Figure 25)**.

Most MFIs therefore remain optimistic at the end of 2020, and envisage an increase in the volume of their portfolio and number of clients **(Figure 26)**.

Opening up to new markets

Covid-19 has encouraged many MFIs to open up to new products and services, and even to new markets **(Figure 27)**. Overall, agriculture has been less affected by the crisis and therefore perceived as less risky than other sectors. Agriculture has elicited interest. The development of specific products linked to the agricultural sector was very often mentioned as a prospect. The appetite for this sector was expressed persistently throughout the surveys and in the same proportions in all regions. This shift has also given ideas to some institutions that are concerned with environmental challenges: several said they wanted to launch financial products dedicated to environment-friendly activities such as eco-tourism, recycling or green energy.

Mec Fadec (Senegal) © Godong

©Andres Lejona

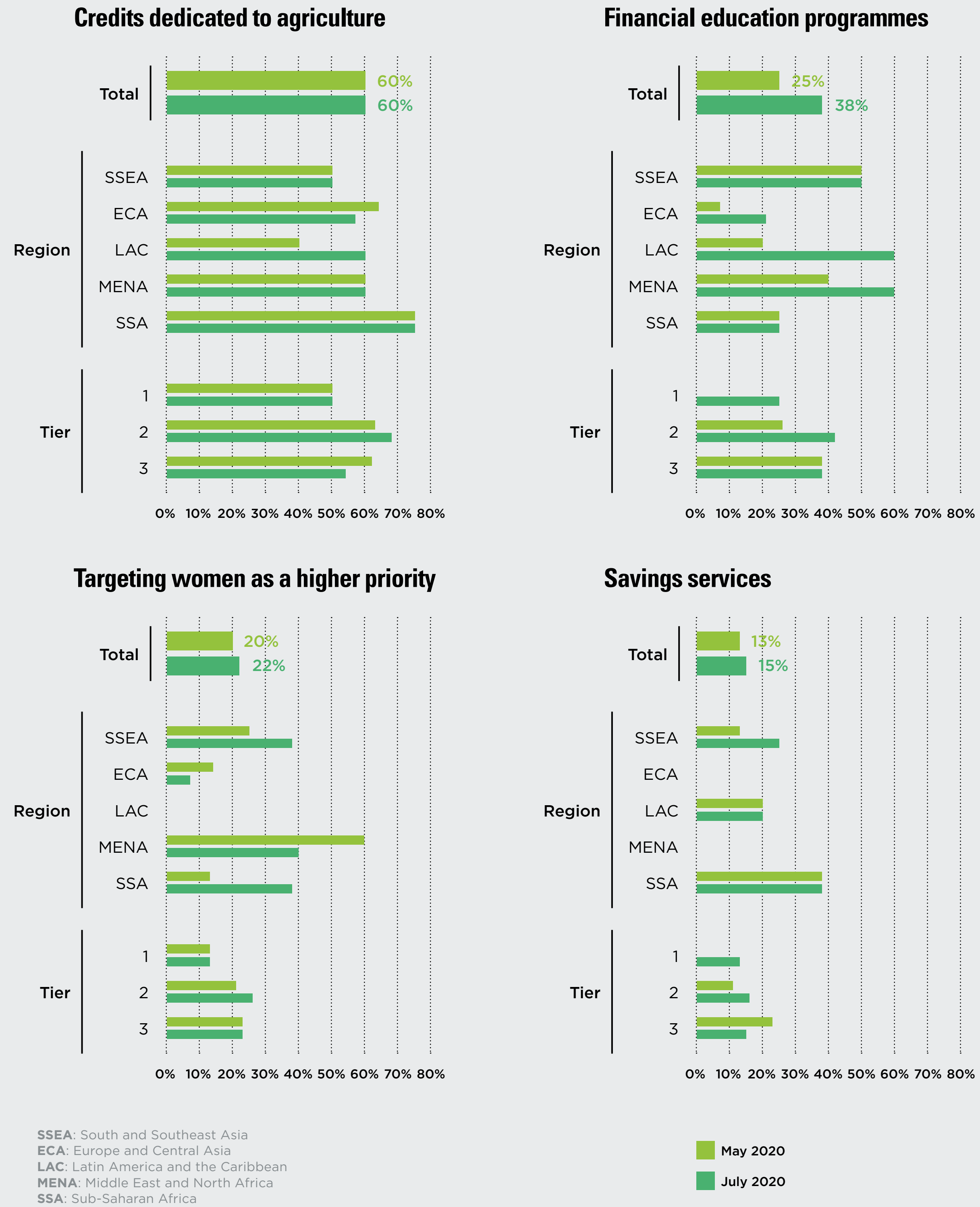
Savings services are an effective way to contribute to people's resilience to shocks, and were cited significantly by MFIs in sub-Saharan Africa

To a lesser extent, but still important, MFIs also expressed the wish to develop new digital products or services - an adapted, efficient and sustainable solution to the health crisis.

Other new products/services mentioned most frequently were financial education programmes and savings services **(Figure 28)**. This is particularly true for smaller institutions, with non-financial services such as financial education aiming to reduce risk. Savings services are an effective way to contribute to people's resilience to shocks, and were cited significantly by MFIs in sub-Saharan Africa - a solution less considered in other regions, partly because of specific regulations on savings.

Even though microinsurance services also contribute to client resilience, they were not frequently mentioned as a product to develop in the future. That said, this type of service, which requires specific expertise and significant outreach, is more relevant to larger MFIs even in ordinary times. Finally, we note that institutions in the MENA region (Lebanon, Morocco, Palestine) have expressed a greater desire than others to target women as a priority. ●

Figure 28 — Percentage of MFIs (per region and size) stating that they want to focus on the following areas:



Read more: mdbbenin.com/

MDB (MUTUELLE POUR LE DÉVELOPPEMENT À LA BASE) – BÉNIN

Moving from crisis management to preparing for the future

MDB in Benin was already partnering with ADA on a governance support project when the crisis broke out. MDB then applied for the response programme set up by ADA and was able to benefit from a grant and technical assistance provided by a consultant to better deal with the crisis.


Benin ©Godong

6,410 ACTIVE BORROWERS

€1.6 M GROSS LOAN PORTFOLIO

65% WOMEN CLIENTS

CONTEXT

Benin's economy is heavily dependent on informal trade, particularly through its border with Nigeria, and on agriculture. Despite stable economic growth in recent years, poverty remains widespread with a national poverty rate of 38% in 2020. Measures taken to contain the Covid-19 crisis, including border closures and movement restrictions, have particularly affected trade.

THE MFI AND ADA

The Mutuelle pour le Développement à la Base (MDB) is a mutual savings and credit institution created in 2001 and based in Cotonou. At the end of 2020, MDB was serving over 35,000 clients, including 6,410 borrowers, with various savings and credit products, the latter mainly for trade and to a lesser extent for agriculture. ADA has been supporting MDB since early 2020 with a governance support and institutional transformation programme.

RESPONSES TO THE CRISIS

Given the difficulties faced by its clients, MDB began by slowing down disbursements in the most affected sectors. MDB then quickly benefited from the crisis response programme put in place by ADA: with the subsidy received, MDB was able to buy equipment to ensure business continuity, such as masks, gels, thermometers for staff and clients at the entrance, and mobile phones per branch to retransfer client reimbursements made remotely via mobile money. MDB also benefited from technical assistance in risk management, which enabled the institution to put in place a business continuity plan, to better manage the credit portfolio, and to carry out a survey of its clients to better understand their urgent needs. Based on the results of this survey, MDB has implemented deferrals on a case-by-case basis for the clients concerned.

OUTLOOK

Today, MDB's priority is digitalisation. Its customers have expressed the need for this, which the crisis has confirmed. MDB also plans to diversify its products. A market study carried out before the crisis revealed the need for specialised loans for the agricultural sector, which represent only a minor part of MDB's current portfolio. ADA therefore broadened the scope of the technical support provided to MDB to include not only institutional transformation but also the digitalisation and development of agriculture loans. ●

Read more: lider.ba/en

LIDER MICROFINANCE FOUNDATION – BOSNIA-HERZEGOVINA

Responses to the crisis and optimism for the recovery

Proactivity and increased communication with its customers were LIDER's major assets in overcoming the Covid-19 crisis. The pandemic could prove to be an opportunity for the local microfinance sector.


Lider (Bosnia-Herzegovina) ©Inpulse

« This crisis has been the opportunity to strengthen LIDER relationship with our clients »

Džavid Sejfović,
General Manager

6,580 ACTIVE BORROWERS

€11.55 M GROSS LOAN PORTFOLIO

60% RURAL CLIENTS

CONTEXT

One of the main challenges in Bosnia-Herzegovina is to develop a business environment that is more conductive to private sector employment and more supportive to small and medium-sized enterprises. Youth unemployment rate reaches 40%.

THE MFI AND COOPEST

As part of CoopEst portfolio since 2013, LIDER is a microcredit foundation that contributes to the financial inclusion of micro-entrepreneurs and low-income households.

RESPONSES TO THE CRISIS

LIDER's main asset in its response to the Covid-19 crisis has been its proactivity. The institution began assessing its portfolio and contacting its clients before national banking regulators issued recommendations for moratoria or restructurings. This proactivity enabled LIDER to react quickly by assessing the resilience of its clients and to provide beforehand measures adapted to each particular case. It also allowed LIDER to analyse precisely the risks that the institution could take on without jeopardising its future.

The measures implemented to help clients overcome the crisis included a moratorium of up to six months, a grace period, an interest rate reduction of 25%, the possibility of repaying in one or more instalments, and in general, a high degree of adaptability and flexibility in the contractual terms and conditions according to each specific situation.

The development of some strategic projects had to be suspended because of the crisis. Several previous projects have nevertheless become a priority in a post-pandemic context, notably the development of non-financial online services, such as a sales platform for small local agri-producers, and the provision of educational content.

OUTLOOK

The economic recovery will be a long process, but this crisis offers the microfinance sector an opportunity to position itself in the Bosnian financial industry as a major player in supporting small and medium businesses. ●

Bolivia ©Andres Lejona

LESSONS LEARNT

2021 promises to be a year of gradual recovery. While most indicators are positive, caution and responsibility are required in today's unstable environment.

The surveys carried out throughout 2020 were a way for us to stay close to the field and to listen to MFIs we support, despite being unable to travel. The analyses enabled us and other actors in the sector to gain a better understanding of the context and how our partners experienced the crisis. We have used this valuable information in our own approach to try to meet the expectations of our counterparts and to communicate with our stakeholders by sharing with them elements that shed light on this unprecedented context. And we are summarising them in this document in order to draw lessons from this very particular crisis.

The institutions were able to cope with the initial emergency period by showing great agility and making significant changes to their organisation in order to offer even more relevant services to an even more vulnerable clientele. Other interesting adaptations are emerging that make us confident in the future of the sector: digital transformation, coordination between stakeholders as well as innovation in products and services will be the keys to a healthy microfinance industry.

> The evolution of the MFIs' situation is closely linked to that of their clients

Despite the often positive indicators, we remain vigilant in the face of the current volatile environment. Many of the most affected institutions will need the support and responsiveness of investors. For this reason, we have maintained our approach of regular surveys in 2021, on a quarterly basis.[1] The first survey of 2021, conducted in April, reported in particular on the credit risk that is gradually weighing on the financial statements of MFIs, mainly through provisioning of the portfolio at risk and loan write-offs. The next surveys will follow the evolution of the MFIs' situation, which is closely linked to that of their clients: the slowed down global activity and the fluctuations of local contexts continue to weigh on a part of the microfinance institutions' clients. We must therefore remain more wary than ever to help them emerge from this crisis without any irreversible damage. ●

1. https://www.gca-foundation.org/en/persistent-credit-risk-a-threat-to-the-solvency-of-microfinance-institutions/

Ghana ID (Ghana) ©Didier Gentilhomme

Publication of survey results and analyses since May 2020

MAY 2020 **Inpulse**

Beyond the difficulties posed by the Covid-19 crisis, new opportunities are emerging for microfinance institutions

https://www.inpulse.coop/wordpress/wp-content/uploads/2020/06/COVID-19-New-opportunities-are-emerging-for-MFIs_EN.pdf

JUNE 2020 **ADA**

Covid-19 affects MFIs of different sizes in different ways

https://www.ada-microfinance.org/sites/default/files/inline-files/covid-19-affects-mfis-of-different-sizes-in-different-ways.pdf

JULY 2020 **Grameen Crédit Agricole Foundation**

A resumption of activities under operational and financial constraints

https://www.gca-foundation.org/en/a-resumption-of-activities-under-operational-and-financial-constraints/

OCTOBER 2020 **ADA**

A gradual recovery of MFIs in sync with their clients' recovery

https://www.ada-microfinance.org/sites/default/files/inline-files/survey-mfi-4-en.pdf

DECEMBER 2020 **Inpulse**

The will of MFIs to maintain their activities during Covid-19 crisis

https://www.inpulse.coop/wordpress/wp-content/uploads/2021/02/2021-02-03-The-will-of-MFIs-to-maintain-their-activities-during-Covid-19-crisis.pdf

APRIL 2021 **Grameen Crédit Agricole Foundation**

Persistent credit risk: a threat to the solvency of microfinance institutions?

https://www.gca-foundation.org/en/media-room/#persistent-credit-risk-a-threat-to-the-solvency-of-microfinance-institutions

We would like to thank all our MFI partners who participated in at least one survey in 2020:

South and Southeast Asia

Cambodia
Chamroeun
First Finance
LOLC

India
Annapurna

Indonesia
KOMIDA
TLM

Laos
SCU Nakai
Patukham
Champasak

Myanmar
BC Finance
Sont Oo Tehtwin Microfinance Program
Microfinance Delta
Myanmar Development Partners
Shine Heart Microfinance Company
Shwe Sin Hin Thar Company
UNIQUE QUALITY Microfinance and Business Development
VisionFund
Proximity
Thitsar Ooyin

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ECLOF

Ecuador
INSOTEC
Cooperativa 4 de Octubre

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FOMENTA
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Assilassimé

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KRK (Kosovo) ©Godong

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ADA and Inpulse are three key players
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to improving the living conditions of
vulnerable populations day in and day out.
Their actions in favour of access to
financial and non-financial services
and entrepreneurship contribute to local
development and the promotion
of a more inclusive world.

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