inclusive microeconomics

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Covid-19 Coping Strategies for the Microfinance Ecosystem

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Harsh Shrivastava, CEO, MFIN, India
Lorisa Canillas, Sr Investment Manager, Cordaid Investment Management
Jan Postmus, Cordaid Investment Management, Netherlands
Abhishek Agarwal, Chief Regional Officer, South Asia, Accion International

Key Takeaways

Financial Institutions

- **Communication is key** in the uncertain times of this pandemic and all staff should be made aware that they need to take ownership and address client concerns. ***There is no such thing as "too much communication"***
- **Leadership should enable staff ownership** of coping strategies without overloading them
- **Appoint a well-respected senior staff member as focal person** to collect queries, take CxO guidance and disseminate FAQs to staff as weekly or, if necessary, daily updates
- **Customize communication** with each of the stakeholders **–** Board, employees, clients, government, regulator, media, investors
- Take care of **employees' safety** and **remuneration** during this downtime as it goes a long way to build trust and gain loyalty
- **Show care and concern for clients** and do not press for collections unreasonably; enquire about client health and coping strategies
- Develop and test **Business Continuity Plans** – it is not just a document!
- **Be agile and proactive** to keep operations running
- **Maximise use of tech-based tools and digital payments as an enabler** for cashless transactions and maintaining operations

Investors

- **Take a responsible view of the crisis,** work accordingly with investee companies
- **Communicate regularly**, offer advice and share experiences between investees to enable learning from good practices

- **Liquidity management and recycling capital** to facilitate investee operations may be required to tide over the crisis
- **Position the crisis as an opportunity** and have conversations with investees about an increased digital footprint in operations
- **Help investees prepare a post-crisis plan**

Industry Associations

- **Lead and develop a coherent plan of action** for the sector – focus on all stakeholders in the ecosystem: employees, clients, investors, regulators.
- **Engage proactively with the regulator** on enabling measures to support the sector
- **Converse regularly** with the media and government institutions on the steps being taken by the sector to address the crisis.

How are financial institutions coping?

Yannick Milev, CEO Chamroeun MFI in Cambodia emphasised the importance of communication with all stakeholders as a key step to managing the crisis. Chamroeun has implemented the following approach to mitigate the fallout of the crisis

- <u>Focus on change management</u> with greater staff ownership and better communication with clients. Management needs to build and support a high level of sensitivity and awareness of the staff regarding the problem and how the institution intends to manage the situation.
- <u>Identify a focal person</u> who has a long-standing reputation and rapport with operations staff. This will enable staff to share their concerns regarding the crisis and will facilitate discussion with a senior management committee: CEO, COO, CFO and Head of HR. Steps to address concerns can be immediately communicated to staff via the focal person
- <u>Model for uncertainty and have an agile response</u>: To ensure that operations do not suffer – revisions, changes and updates to polices and processes should be addressed proactively and communicated to stakeholders in a clear manner.
- <u>Effective communication strategy</u>: Communication with stakeholders – clients, staff, shareholders, investors, government, media – must be regular, customized and clear. It must be tailored and effectively address the concerns of respective stakeholders.

In the case of India, participants reported that their institutions had tested Business Continuity Plans (BCPs) in order to manage their operations better during the ongoing 21-day lockdown in the country.

Regulators can help…

Regulators need to be proactive in times of crisis and take steps promptly as the situation develops. In some countries the regulator is yet to address the concerns of the financial inclusion sector. In India, the central bank, Reserve Bank of India (RBI), has granted a moratorium of 3 months for all loan repayments to handle liquidity issues arising from a 21 day lockdown and economic downturn due to the crisis. **Harsh Shrivastava, CEO of the Microfinance Institutions Network of India (MFIN)**, a Self-Regulatory Organisation (SRO) for the microfinance sector appointed by the RBI, noted that its member financial institutions have extended the moratorium to their end-clients. However, the banks and financial institutions that lend to MFIs are yet to grant the moratorium to them. If the moratorium is not extended to MFIs it could result in liquidity problems for them; the regulator needs to take action.

Industry associations can lead in times of crisis

MFIN has developed clear guidelines for MFIs to manage staff and clients.

- **Focus on staff**: build networks among members to ensure safety of staff and use the downtime for their continuing education
- **Communication with customers of MFIs**: Develop a standard template for communicating key points about the crisis and the actions taken by MFIs. Risks of miscommunication are high and clients should understand the problems caused by the crisis and also the impact and opportunities provided by support policies like loan moratorium/re-structuring
- **Collection management**: The emphasis is on communicating to clients that in the movement restrictions resulting from lockdowns, collections will be deferred until the situation improves. Given the RBI moratorium, MFIs have been encouraged to communicate clearly with customers about the conditions to enable them to make a conscious and informed choice regarding repayments.

MFIN is now liaising with around 135 lenders to MFIs for an extension of the moratorium to MFIs to extend the benefit of the measure to them as lenders to ultimate clients; otherwise there are likely to be serious liquidity challenges in the microfinance ecosystem.

Investors need to think of mitigating strategies

Jan Postmus from Cordaid Investment Management and **Abhishek Agarwal, Chief Regional Officer of Accion** in South Asia, highlighted the importance of working together with peers in the ecosystem to develop an action plan for the sector. Cordaid believes investors should take a responsible view of the crisis and is working with its peers in the region to consider refinancing if it is required. It is working with its investees to create a post-crisis plan for liquidity management and other key operational issues. The crisis is likely to result in faster digitisation and cashless payments to enhance efficiency in MFIs' operations. A further benefit in the current crisis is that digital transactions facilitate sanitation.

Accion has formed an internal taskforce comprised of senior members from across 37 countries, where it operates. The purpose is to lead Accion's response to the pandemic's effect on its partners. Abhishek emphasized that MFIs have to be at the frontline of offering solutions that respond to the dynamic scenario and be in constant touch (as well as build relationships) with clients.

Lessons from past experience: What the Ebola crisis teaches us

Lorisa Canillas, Senior Investment Manager of Cordaid was on the spot when there were lockdowns and downturns in Sierra Leone due to the Ebola crisis in 2014-15. During the crisis Cordaid conducted a study on how small entrepreneurs coped.[1]

Some of the main lessons learned from the study were

- Take care of staff and ensure their safety while continuing to pay them during the downtime; this goes a long way in building loyalty towards the institution.
- Keep channels of communication with clients open: In light of lockdowns, regular communication over the phone or other digital means is required to assess impact of the crisis on the customer and also maintain relationships with clients
- Follow the client protection principles, especially CPP 5, relating to fair and respectful treatment of clients. Do not force clients to repay at this time as they many not have the means. Allow field officers to assess the repayment capacity of clients and propose possible solutions since clients employ several strategies to cope with crises and manage their cash flows. Understanding their situation and needs is important.
- Use information to formulate strategy: Field staff should gather intelligence such as details of clients and households affected, loss of livelihoods, loss of main earning members, coping mechanisms of clients. This can help to formulate future strategy.
- Support business opportunities: During times of crisis, new business opportunities might present themselves for clients. Classify business opportunities according to the risk level in respect of the crisis and ensure support to clients with appropriate business models.
- Adjust credit policies for the crisis: Advantage seekers should be discouraged, by conducting rigorous underwriting and strictly following credit policies. Disbursements during a crisis might even be approved by a higher authority than normal.
- Manage the recovery process with clear and compassionate policies: Once the situation starts to ease off the staff should have standard communication about loan repayments to avoid confusion. From the Ebola response of MFIs, customers were found to have responded positively to have been allowed time to 'catch-up' on late/delayed repayments.

[1] See https://www.cordaid.org/media/medialibrary/2015/07/Cordaid-4pager-Ebola_juni_2015_webversie.pdf

Points to ponder: Is tech (digital payments system) a panacea for such issues?

The panelists were of the view that institutions and investors should not be hesitant to use technology-based solutions and saw this as an opportunity for change management both internally and in client engagement with higher levels of digitisation, mobile money and Fintech solutions.

In Asia, efforts around digital transformation have taken a mixed approach – **using digital tools while maintaining human contact with clients**. Technology based solutions should not be 'thrown at clients' but a learning by doing approach is recommended. Abhishek, from Accion, emphasized that previous disruptions (like demonetization in India) resulted in greater digitization of payments and similarly this crisis could also be seen as an opportunity to further engage and develop technology-based tools and payments mechanisms.

How does the future look?

The world is facing an unprecedented crisis and there are not many precedents to guide us on what the future holds. However, the consensus was that microfinance will play a big role in getting people's lives on track after the crisis as it will provide economic support to clients either to restart their existing businesses or start new ventures. A lesson from the Ebola crisis is that the demand for loans will not spike in its aftermath and MFIs can deploy their working capital efficiently in the days following the crisis to ensure that they are able to address the needs of clients. In Sierra Leone most MFIs bounced back to the levels of pre-Ebola operations within a year after the crisis and we hope that this will be case with the Covid-19 crisis as well.

The silver lining of this crisis is that the financial services and more specifically the MFI industry has come together to share best practices and jointly identify innovative ways to deal with such situations. The key is to be truly customer focused, listening to and addressing the concerns of low-income clients whilst ensuring employee safety and well-being.

M-CRIL hopes that this webinar, amongst other efforts, will help MFIs craft their responses to the Covid-19 crisis through a systematic and sympathetic approach to managing operations in a customer-centric environment.