

How Coronavirus affects Microfinance sector

By Grameen Credit Agricole Foundation, Paris, March 20th 2020

Created in 2008, at the joint initiative of Crédit Agricole SA and Professor Yunus, founder of the Grameen Bank and 2006 Nobel Peace Prize, the Grameen Credit Agricole Foundation is a cross-business actor committed to promoting a better-shared economy.

Investor, funder, technical assistance provider and fund advisor, the Foundation has more than 80 partners (microfinances institutions and social business) and operates in around 40 countries with nearly 100 million euros in outstanding. The Foundation focuses on microfinance institutions that serve women and rural people. These institutions support approximately 4 million clients.

The Microfinance sector is concerned

On March 19th, according to the latest figures from *Santé Publique France*, the Coronavirus has reached 213,254 people worldwide. 8 843 deaths are to be deplored. After following announcements of the closings of many institutions and companies, confinement measures continue to be taken around the world. Africa and South America were not officially affected for a long time by the virus, but they now face the crisis with hundreds of cases.

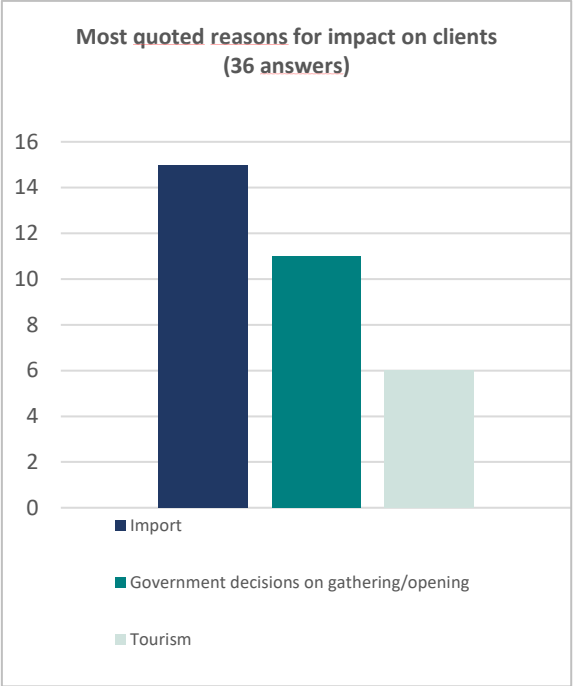
The global sanitary crisis also became an economic crisis. Economic activities are extremely limited in all countries and stock exchanges have lost almost a third of their value in less than a month. Quite logically, the worldwide microfinance sector is also not immune.

For this reason, the Grameen Credit Agricole Foundation's team launched a survey among its partners on March 11th in order to gather their first impressions and analysis, the impact on their clients' activity, on their institution and their potential needs. We also took advantage of our regular interactions with our partners to obtain as much information as possible. All further information in this document come from these resources. 56 Micro Finance Institutions (MFIs) responded to our survey, out of 75 reached partners (75% participation rate) with the last answers received on March 19.

All our partners are expressing in their responses a real concern about the expected effects of this global health crisis.

Government decisions and impact on businesses

48% (27) of surveyed MFIs felt their clients are impacted by the coronavirus at the time of the survey, and 68% (38) of them think they will be in a near future. Thanks to a quick feedback, we learn that governments have decided to close schools, to close down non-essential activities, to restrict movement or to prohibit gatherings in Sri Lanka, Cambodia, Romania, Myanmar, Sierra Leone, Jordan, Mali and other operating countries. These changes are taking place everywhere today and very day new countries are added in that list.



Such decisions have a direct impact on our partners' customers. First, many customers rely on imports for their business. Border closures and travel bans affect trading activities.

It should also be noted that concerns about the travel ban in China is affecting not only Asian countries but also African countries.

“As the border to China has been closed, some agricultural product prices are decreasing so our farmer clients aren't getting

good prices for their harvest.” - Partner from Myanmar

“We have customers who travel for purchases (China, Ivory Coast, Togo, Benin,..). Informal sector traders are afraid and this can affect their activities.” - Partner from Burkina Faso

The impossibility of gathering will also have an impact on all the operations that take place in markets and fairs. Merchants will not be able to carry out their activities. The travel ban will strongly affect global tourism. All activities relying on tourism will face many problems (stocks, lack of customers, refunds) as well as countries depending on remittances.

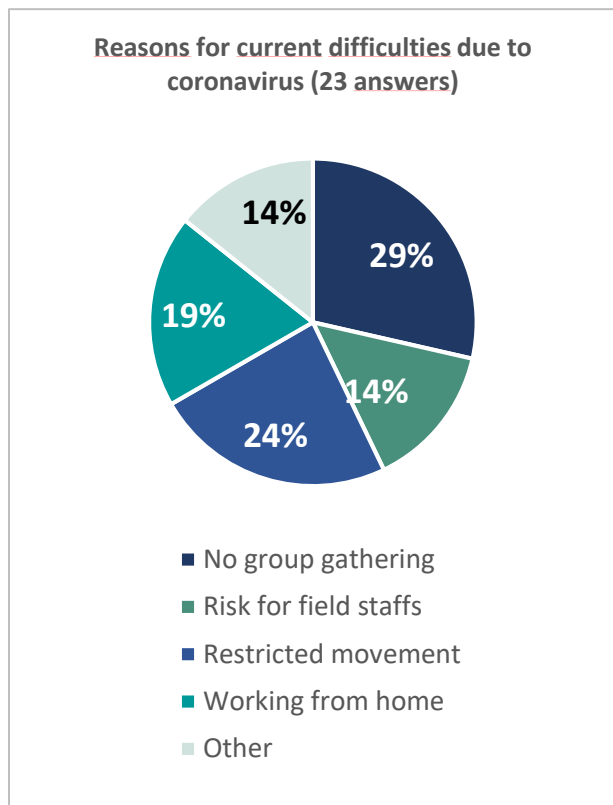
“If travel bans will continue due to increased coronavirus cases in Gulf region and Europe as economy of Jordan is dependent on tourism income and money remittances from the Gulf” - Partner from Jordan

Finally, we had **no feedback yet on the plans of local authorities** regarding the adjustments to be made by the financial institutions in particular. The only compelling example we were provided is that of Palestine. Through 8 guidelines, **the Palestine Monetary Authority urges financial companies to continue provide lending services to people** to ensure the continuation of the commercial and economic cycle and also postpone the periodic monthly payments of all borrowers for the next 4 months' period (6 months for tourism and hotel sector).

Also, no any additional fees, commissions, or interest on delayed instalments can be collected during the period.

MFIs activity could be reduced

59% (33 MFIs) of the surveyed MFIs mentioned that their activity was still not affected by the epidemic at the time. 23 MFIs (37%) were feeling concerned at the time of this survey, giving several explanations such as risk for field staffs, restricted movement, working from home.



One of the main concern is the prohibition of group meetings, which will affect all MFIs whose microfinance methodology is based on a group approach. Few partners are already adapting.

In some countries with no clear decisions yet, MFIs will have to postpone disbursements if their loan officers are unable to travel or will have to temporarily adapt their processes.

“During the emergency period until 29 May 2020 above, client centre meetings will not take place as usual. Instead, the ‘Pay and Go’ method has been put in place as follows: only group leaders, two to four persons per centre of some 15-20 clients usually, are requested to come to the usual centre meeting at the usual location. The group leaders are requested to collect the instalment of their respective group members”. - Partner from **Indonesia**

“We have set up a special procedure to meet members of the solidarity groups individually. We provide advice to clients on how

best to deal with the situation” - Partner from **Senegal**

Our partners must also adapt to the situation for their own staff. The risks of virus transmission is an important factor to take into account for the activity of credit agents. Likewise, the confinement rules prevent the smooth running of the activity for all departments and operations. Some staff are already working from home in some MFIs.

“Imaty where HQ is located will be on quarantine from 19 March, employees will be working on distance” - Partner from **Kazakhstan**

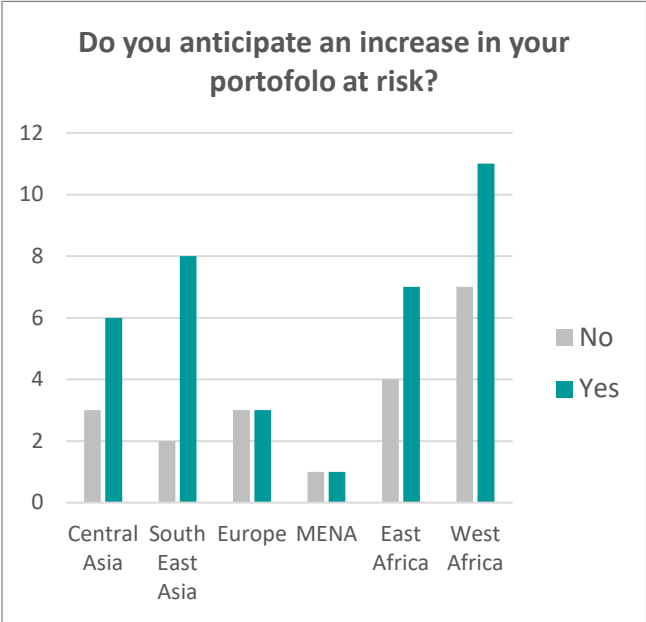
“Field staff are at high risk of contracting, so they are hesitant to work on clients, a quarantine will hit and polarize the whole MFI market” - Partner from **Uganda**

Portfolio risk and liquidity needs are under scrutiny

Many concerns are raised about portfolio risk. According to our survey, at the time of answering, only 11 MFIs were noticing an increase in the portfolio at risk. African partners raised more concerns. However, when asked if they anticipate an increase in the portfolio at risk, 36 of the MFIs answer “yes” (64%). In this case, anticipation of a risk increase comes from all over our regions of activity.

“Potential increase in PAR30 and reduced credit demand. Estimate an increase of PAR30 not to go beyond 2% and portfolio growth to potentially slow down by around 20%” - Partner from **Cambodia**

However, some partners consider that they are no more at risk than usual. In most cases, these MFIs are those with a particularly rural customer base.



“In general, since our customers are rural residents (70%), we predict that they will not have a strong deterioration due to rising prices for their agricultural products. But we think that a clearer situation will appear in the second half of pril.” - Partner from **Kyrgyzstan**

"As of 16 March 2020, our business continue as usual. We have not seen impact on loan payment yet across Cambodia include Siem Reap and Phnom Penh. However, we would expect some increase in Siem Reap from end of this month onward. Please note that our client are mainly living in rural areas. The exposure has on Tourist, hotel, services industry is minimal." - Partner from **Cambodia**

Coronavirus is going to have an impact on liquidity needs. According to our survey, 29 MFIs (52%) forecast a change in their needs. Most Tiers 3 MFIs do not forecast changes as the time, as a majority of Tiers 2 MFIs (17 MFIs) do forecast such changes. MFIs expect problems on the funding side. In particular, hedging issues are expected, and discussions with all the different lenders are initiated.

“Mainly, the exchange rate has been very volatile, indirectly due to the epidemic, and this causes new disbursements in USD to exchange to less local currency which has affected the number of loans we can disburse” - Partner from **Myanmar**

Liquidity problems are also anticipated. Indeed, non-repayment could be a barrier to the possibility of disbursing new loans. Rising provisions for risk and potential losses is also a cause of the drought in liquidity.

“if the situation continues up to mid-year, we will need liquidity as most of the liquid assets will have been suppressed by high provisioning for impaired assets (Expected losses) due to increased non-repayment” - Partner from **Uganda**

"The non-repayment of loans leads to a decrease in liquidity. Yes, we have taken steps to limit a potential situation” - Partner from **Mali**

Microfinance sector needs specific measures

Some MFIs already asked the Foundation if there was a possibility of helping their institutions through the epidemic crisis.

“We would like further advice on how to avoid the disease and what treatments are available and effective for treatment in the event of infection” - Partner from **Benin**

“We would prefer that Grameen Credit Agricole Foundation compile information about corona virus coup up measures especially in regards to MFIs around the world on how to deal with the challenges” - Partner from **Uganda**

One partner recalled their approaches during natural disaster, in which based on their (very counter- intuitive) approach, clients to recover from shocks actually need MORE money, not less”.