International microfinance institutions anticipate the first effects of a recession

The crisis is beginning to take its economic toll

A few days after our last publication, the impact of the coronavirus continues to expand and intensify. The milestone of one million infected people worldwide has been passed and new outbreaks of the epidemic are being confirmed.

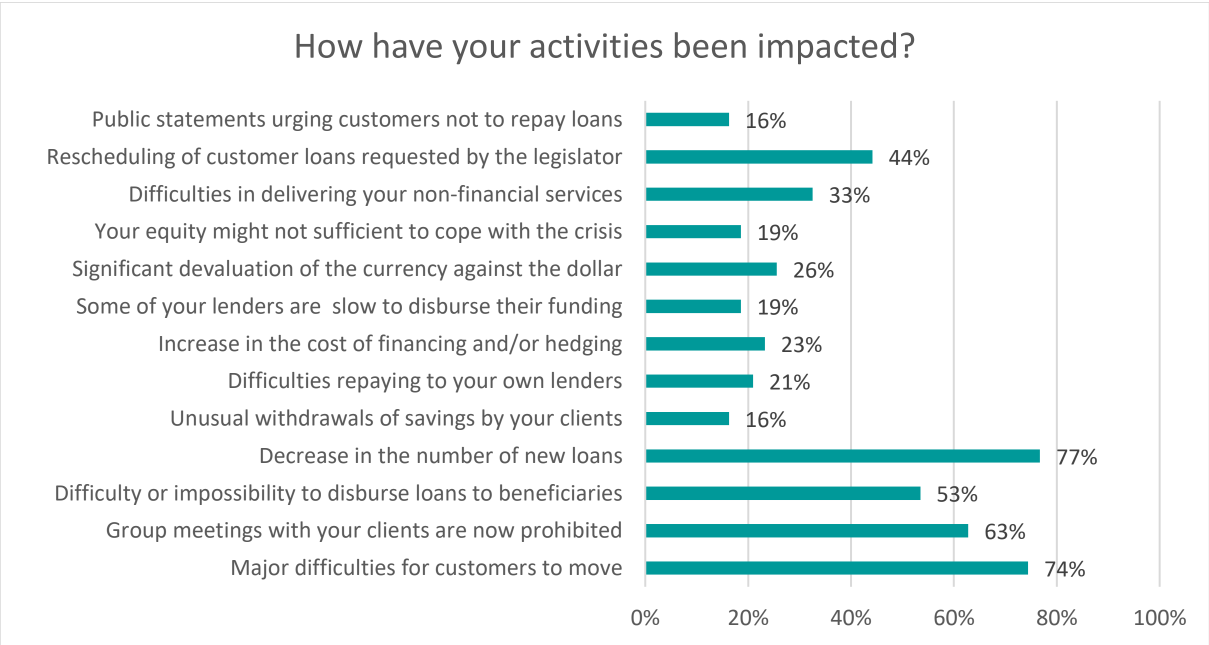
In constant contact with its network of nearly 80 partner microfinance institutions (MFIs) in 40 countries, the Grameen Crédit Agricole Foundation continues its work of collecting information, analysing and sharing its observations. Over the past few days, we have focused our monitoring efforts on the consequences of the crisis and the work of the MFIs to deal with it. Such information is very important. It enables us to take the most relevant decisions at our level for the management of the Foundation, for the support of our partners and the effectiveness of our action as close as possible to their difficulties and anticipations. It also contributes to the sharing of information by and between the stakeholders of this sector who are getting collectively organized in these times of crisis.

The results we have obtained confirm the trends identified in the information provided in the first weeks: the crisis is very hard, undoubtedly beyond our initial forecasts in early March, but the resistance is being organized. The effect of the health crisis is systemic. No stress model had anticipated it. The response will therefore have to be systemic, too, if we want to avoid a major failure in this sector.

Small-scale outreach activities are sliding into recession

78% of our partners are seeing the first effects of the economic recession on their areas of activity.

In the first feedback we received, rural areas seemed to be escaping the first effects of the crisis, especially in food-producing regions. By now, irrespective of the size of the institutions (the smallest have a financing portfolio of less than $10 million, and the largest over $100 million) and their geographic location, they are all, more or less, faced with similar problems: the inability to travel (74%), the drop in disbursements to borrowers (77%), and the ban on group meetings (63%) are the reasons most cited by our partners for the slowdown of their activity.



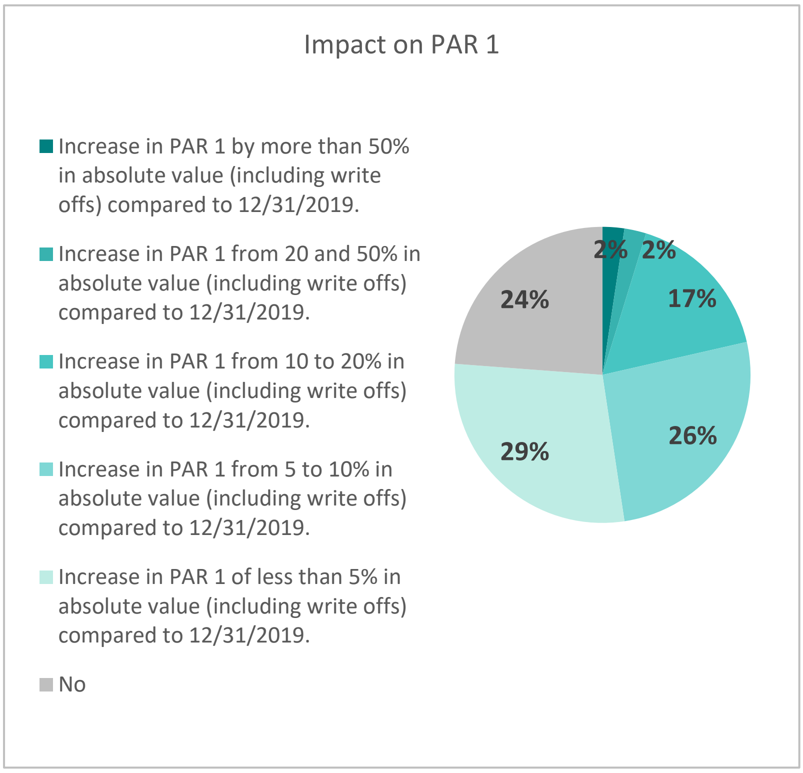
"As indicated in the first analysis, the expected direct impact (up to 6 months) is a possible deterioration in the quality of the portfolio in the tourism, transport and hotel sectors, as well as loans financed by remittances from abroad. A medium-term impact is also expected due to the general slowdown in the economy and the reduction of solvent customers." - **Partner in Georgia**

More than a third of our partners are under almost total lockdown (36%) and the rest are adapting to restrictive pre-lockdown measures.

"[Our] activities have been significantly affected so far, with client businesses primarily affected by general public fears and more directly by the strict guidelines implemented by the government in an effort to control the spread of the virus. An increase in the cost of living is also expected [...]. Imports are declining, production costs are going up. Kenya's GDP is likely to fall and inflation will most probably rise, which will affect the country's economy." - ***Partner in Kenya***

"We see that the government is taking increasing measures to limit travel and commercial activities. For example, a regional government has specified that all microfinance activities in the region should be suspended in April. We are getting similar requests from village authorities in other regions." - **Partner in Burma**

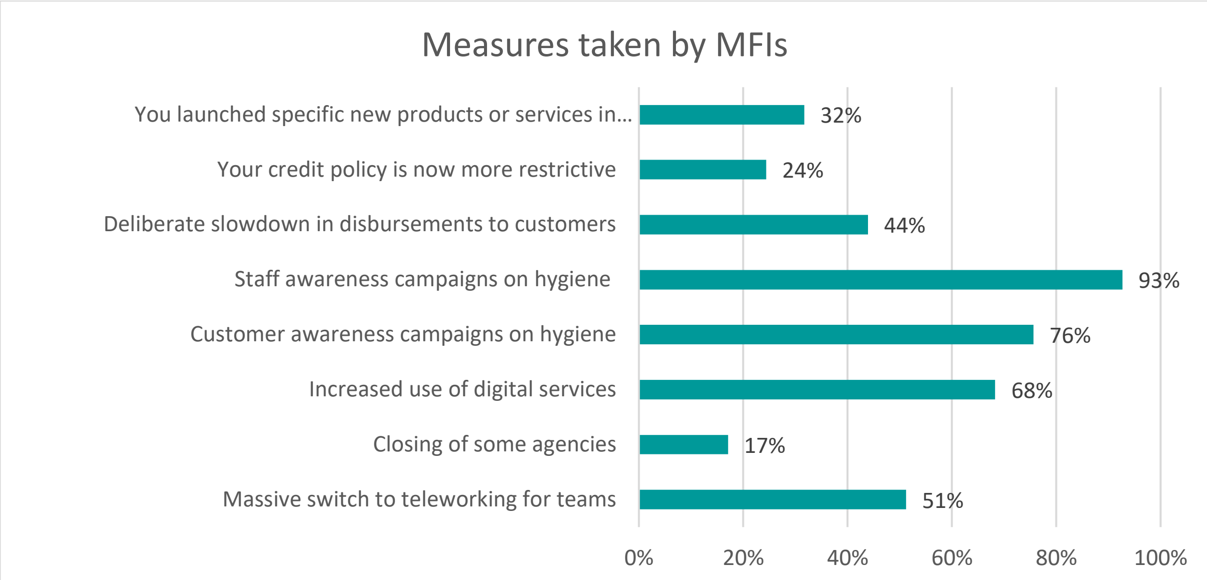
Effects that now impact the accounts of institutions



These difficulties are starting to be reflected in the figures of MFIs. For instance, 74% of the institutions explain that their portfolio at risk (PAR 1) has increased compared with the end of 2019. This increase is currently contained to less than 10% in absolute value for 8 out of 10 institutions.

The institutions are clearly accelerating and intensifying the use of digital technologies in order to make up for the fact that sales teams cannot travel and organize out-of-pocket payments. For example, 68% of the respondents say they are making greater use of digital services to carry out their activities remotely.

Loan restructuring operations have already started in nearly one out of two MFIs (43%). The intervention announced by regulators and legislators in the financial sector is confirmed: almost half of the respondents (44%) are encouraged to take the initiative in proposing moratoriums and restructuring operations for the benefit of their borrowers (the countries which have imposed these measures include in particular Kazakhstan, Kyrgyzstan, Sri Lanka, Cambodia, India, Uganda, Burkina Faso, Rwanda, Senegal, DRC, Egypt, Morocco and many countries in Eastern Europe). **New initiatives are also being considered such as the introduction of emergency products (such as minimum subsistence) in the coming months.**



Institutions are implementing crisis plans

This systemic crisis calls for an in-depth review of MFI business planning and financing needs. Upon closer scrutiny, the increase in maturity extensions granted to borrowers does not yet translate significantly into additional financial resource requirements for the MFIs surveyed. At the time of the survey, 48% of them did not yet see any change in their liquidity needs compared with the projections made for the year, and a third even envisaged a decrease in their needs due to a significant drop in their activity.

At this stage, only one out of five MFIs (19%) is expecting an increase in its financial needs, linked to the increase in the price of inputs (seeds, fertilizers, raw materials ...) which will trigger an increase in the financial needs on the part of borrowers, mainly in rural areas of our intervention territories. This prospective analysis has been spearheaded by the major international microfinance networks.

"In addition to the Covid-19 crisis, Kazakhstan has been affected by the sharp drop in oil prices which has weakened the national currency by 380 tenges to 445 to the dollar" - ***Partner in Kazakhstan***

The responses from our partners reveal other factors of concern, in particular their ability to finance their activity: a quarter of them foresee a loss of value of their local currency against the dollar (26%) and **a substantial increase in currency hedges** in their future funding (23%). One out of five MFIs is already experiencing funding difficulties with their usual donors.

In order to be able to monitor the rise in risks and funding developments as closely as possible, **more than half of the MFIs** (55%) **declare that they have finalized** (or that they are in the process of doing so) **a Business Continuity Plan** that includes precise liquidity monitoring. This responsiveness is remarkable and such plans are an essential element in helping MFIs cope with and manage the consequences of the crisis.

Our analysis shows **an apparent correlation in the quality of the Business Continuity Plans following the Coronavirus crisis and the past experience of a serious crisis that has already affected the MFI**. The lessons learned from past crises thus seem to play a very important role in the resilience of institutions in the face of a crisis, be it financial, political, health, etc. Many less experienced institutions however also show a remarkable willingness to innovate and an equally remarkable capacity to anticipate.

Donors reacted very quickly also. Drawing on the lessons of past crises they have shown remarkable capacity in the past few weeks to intervene and anticipate in a sector that, all things considered, is still young. International lenders, foundations, investment funds, and local banks in all regions of the world are thus working on joint action plans. A number of meetings are being held around the world to get ahead of the crisis and absorb its effects that would be absolutely devastating without such awareness and rapid and determined commitment. There is agreement across the board on the need for effective information sharing and coordination by and between the various stakeholders. **Donors are organizing their action around responses adapted to the funding needs of MFIs impacted by the crisis, but also by providing monitoring tools, technical assistance plans or training to strengthen the capacities of MFI teams in the face of a situation that is as sudden as it is exceptional.**

All of these elements remind us to which extent this crisis is a shared concern for all microfinance stakeholders. The involvement and rigour of local institutions, the coordination of international networks, the support of public and private donors and the confidence of investors will be the key values of our collective capacity to overcome the challenge of this health tsunami.