

For some microfinance institutions, the health crisis is an opportunity to improve their operational performance through digital technology

The deployment of an ad hoc observatory to monitor the effects of the health crisis in relation to 80 microfinance institutions (MFIs) and social business partners in some forty emerging countries enables us to collect information regularly so as to share it and draw the best lessons from it.

This week we have monitored more specifically how microfinance institutions used their digital channels to overcome their difficulty of direct contact with borrowers which traditionally takes place either in the MFI branch or in group meetings or even during the disbursement of funds (microfinance uses mostly cash when disbursing the borrowed sums) or the monitoring of the projects financed.

According to the survey we conducted in the beginning of April, **68% of partner microfinance institutions indicated that they have made greater use of digital channels to overcome contact difficulties**, as a result of lockdown or group gathering prohibition measures. This strong growth in use observed in the traditional finance sector can be seen also in the microfinance sector which has had no alternative but to adapt.

The technological means and processes, including digital tools, are being developed rapidly by institutions of all sizes (the smallest with client portfolios of up to \$10 million, and the largest well over \$100 million). Since the beginning of the crisis, institutions have been producing business continuity plans, as the basis of new discussions and exchanges for their funding backers, in which they frequently include new digital applications.

For most institutions, **the first step entails raising awareness among clients about the possibility of using remote payment methods**. This step is implemented through SMSs (which are particularly suitable for 2G network coverage) but also through the social media – the telephone network permitting.

“[We] encourage clients through SMSs to utilize mobile money platforms for repayments as it is the safest mode at the moment.” – Partner in Uganda

“[We] start informing our clients by social media and SMS on possibility of repayment via terminals, mobile wallets, plastic cards and Internet banking” – Partner in Tajikistan

For many MFIs which did not yet have it in their range of services, **the first process developed rapidly at the beginning of this health crisis was that of electronic money payments**. This practice of remote payments is encouraged by many regulators, such as the Bank of Central African States (BEAC) for the countries under its authority or the Central Bank of West African States (BCEAO), which decided to reduce transfer and use fees for this form of currency. This implementation of remote payment is accompanied by mass mailings of information to clients to explain the new procedures.

“Sending bulky texts to customers to remind them how to use the mobile money code to make their loan repayments and also the hotline they can call for help or complaint.” – Partner in Uganda

These remote services enable customers to pay their instalments without having to travel (and therefore to use public transport) by using the pay station network of telephone operators which is generally dense and available even in rural areas.

The implementation of these means of payment also makes it possible **to disburse loans to the electronic portfolios of clients**, as the latter go to said pay stations not to pay their instalments but to obtain cash disbursements of their microcredits. The use of mobile money therefore makes it possible to continue the financing activity during a lockdown period.

“The Palestine Monetary Authority is urging all MFIs to start disbursing loans to income generating projects through digital channels with lower interest rate.” – Partner in Palestine

Yet, as astonishing as it may sound, **this crisis is seen by some institutions as a real opportunity to accelerate the deployment of digital platforms and to launch new services** in order to make headway in operational optimization and even excellence in customer relations. For the managers of these partner institutions, having to invest in digital tools for reasons that are “vital” for their institutions at this time seems to be a means of accelerating investment plans that they had been thinking about before the crisis broke out. It thus enables them to embark on modernizing their distribution mode and their processes, which has come as a pleasant surprise to us, even though we are well aware of the vitality and capacity for innovation of our partners.

“This was contemplated prior to the COVID issue [...]. However, discussions are ongoing with regard to the possibility of [the mobile payment solution] being launched to all clients.” – Partner in Sri Lanka

“In times like this when anything can be a source of transmission for the deadly virus, it is prudent that less physical cash is handled. [We] used the opportunity to pilot [our platform] in order to look out for the shortfalls and the loopholes in the system.” – Partner in Ghana

The economies of certain countries that were already highly digitized, as is the case in East Africa, for instance, seem to be more resilient to the effects of the crisis. Microfinance institutions operating in these areas have shown remarkable adaptability. By way of example, the Kenyan economy, which is particularly open to payment, financing and investment operations using digital wallets, is running according to remote uses that minimize the risk of spreading the virus.

“Kenya is better prepared than others because of the high penetration of mobile money. The concept is accepted widely by the public” – Partner in Kenya

Many institutions tell us that they will be more structured and more effective in the aftermath of this crisis. These experiences, which are sometimes vital to the continuation of their activities, seem to be very useful to them for operational performance gains in the future.

“Our team will tailor mobile app to add a feature enabling to apply for loan restructuring remotely. [...] We introduced a new criterion in our monitoring tool - “emergency (coronavirus)” meaning the loan officers will have to monitor their customers remotely, and get information and enter monitoring data into the software” – Partner in Kazakhstan

“The new strategy will focus on transforming [our] current mode of operations to embrace more digital solutions, decreasing the need for physical interactions between employees and customers, and replacing cash transactions with mobile payment functionalities.” – Partner in Georgia

These positive effects of digitization, which have been achieved by microfinance institutions thanks to forcibly imposed developments can also be found **in social enterprises** in our equity portfolio. **The digitization of the operational processes is a very effective means for combatting the constraints of**

the lockdown for companies that have to deal directly with the public or with suppliers of raw materials. This is the case, for instance, of a Senegalese company which, thanks to digital payments, has managed to continue its milk collection and sale of dairy products and to generate growth that has exceeded the forecasts.

For another social enterprise specializing in drinking water treatment, the health crisis has also led to the development of home water delivery following an order placed online.

Our partners are aware that the use of digital technologies is not a global solution to all the issues raised by this systemic crisis. They expect their customers and their operations to run into economic recovery problems in fact, where the digital dimension can only be of an altogether relative help. **Despite the more and more intensive use of digital channels, the commercial activity of microfinance institutions is slowing down.** They are all focusing on providing guidance and support to their customers by taking care to cope with the increasing number of requests for maturity extensions, while maintaining risk control and a good operational quality.

In some areas, the supervisory authorities have issued directives or strong recommendations for MFIs to grant moratoria to their clients that could last for several months, which entails a very high level of activity for the institutions.

In the majority of the testimonials we have collected, however, the health crisis is seen as a sequence that requires the different Management Committees of our partners to give serious thought to the operational performance under constraint. **Our partners are convinced that the experiences they have gone through and the solutions found to deal with the health crisis will prove very useful “the day after.”**