



# CRISIS ROADMAP FOR MICROFINANCE INSTITUTIONS

COVID-19 and Beyond

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# EXECUTIVE SUMMARY

**T**HE COVID-19 PANDEMIC IS THE latest in a series of crises that microfinance institutions (MFIs) all over the world have faced in recent decades, from the 2007 global financial crisis to the Ebola outbreaks in West Africa and political and economic upheavals. All of these events have taught important lessons on how to respond to crises, and they underscore the importance of preparedness and best-practice responses. COVID-19, however, is a challenge of unprecedented scale, one that is particularly affecting small- to medium-sized MFIs and providers, commonly called Tier 2 and Tier 3 MFIs. It is causing severe and sustained market disruptions, presents many uncertainties, and has had a negative impact on microbusinesses and people's livelihoods. The depth, extent, and duration of these effects are not yet fully known. This crisis response roadmap is designed to help MFIs navigate the immediate health pandemic and its economic impact, and to provide guidance on recommended

practices that are both relevant today and for future crises. It lays out a sequence of steps for MFIs to follow, some of which are informed by earlier crises. The first series of steps are ongoing ones that are fundamental to good crisis management and cut across all others. Subsequent steps build upon this foundation and are sequential and cumulative in nature and should be continually revisited in a dynamic iterative process. The second series focuses on business continuity: these steps ensure that key operating processes are in place to assure business continuity. The third series addresses financial and portfolio topics: these steps focus on close control of finances to ensure proper measures are taken in time, along with a nuanced approach to portfolio segmentation and management. The roadmap is practical in nature, providing MFIs with checklists and milestones to achieve in the short and long term to help them measure their progress.

# Crisis Management Roadmap



FIGURE 1. COVID-19 Crisis Roadmap Sections

# INTRODUCTION

**C** COVID-19 IS A CHALLENGE OF unprecedented scale that is putting pressure on microfinance institutions (MFIs) globally. The pandemic has led to severe and sustained market disruptions, and it has unique features. The novelty of the disease has left uncertainty about its course and its longer-term consequences (see Box 1). As the 2020 CGAP Pulse Survey results show,<sup>1</sup> it has especially had an impact on the portfolios of small- to medium-sized MFIs and providers, commonly called Tier 2 and Tier 3 MFIs.<sup>2</sup> This crisis response roadmap is designed to help MFIs navigate their way through the health pandemic and the economic crisis, and to provide guidance on recommended practices. The unprecedented way that the crisis has unfolded and evolved has determined the steps laid out in this roadmap and the sequence in which they should be implemented in this crisis, and potentially in future crises. Many of the actions in this roadmap are similar to those adopted in the face of earlier health, financial, economic, and political crises, which in many cases presented similar challenges.<sup>3</sup> These include a negative impact on people's livelihoods and moderate to severe impact on microfinance funding loan supply and demand, which were features of earlier events such as the global financial crisis and the Ebola outbreak. Many of the steps outlined in this roadmap also will be relevant for future crises.

This roadmap is intended as a practical resource for smaller MFIs to help them develop the necessary institutional resilience, a robust business continuity plan (BCP), and the management capacity to navigate a fundamental business disruption on the scale of the COVID-19 pandemic. The roadmap is suitable for a range of Tier 2 and

3 MFIs, whether or not they are deposit-taking institutions, members of an international microfinance network, or have previously experienced a serious crisis. Any MFI facing the COVID-19 health and economic crisis, or future crises, may find the roadmap a beneficial guide to recommended practices.

The roadmap is intended to be cumulative and sequential. It focuses on both immediate and near-term tactics and operations, as well as medium- to longer-term strategic and governance priorities. The roadmap sections cover the major elements of an effective COVID-19 health and economic crisis response (see Figure 1), many of which are part of a business continuity plan that can be relevant for future crises. The sections are organized by the ascending horizontal steps as shown in Figure 1. Each section includes checklists for immediate tactical actions and longer-term strategic measures and concludes with milestones for an MFI to achieve. While MFIs should aim to achieve one section's milestones before moving on to the next section, in practice implementation of different topics may overlap. There are three cross-cutting topics shown at the base of the figure as Foundational, Ongoing Steps that are relevant throughout the crisis to support and strengthen the MFI, including leadership, investor relations, and monitoring of government moratoria and other relief programs. As the layers of the graphic show, certain elements are more foundational than others, starting with staff and customer safety.

The roadmap can also be helpful for an MFI later in the crisis, either to review the checklists and milestones to ensure that key steps and actions have been taken, or to implement steps that were not taken, for example activating a business continuity plan.

1 See "CGAP Global Pulse Survey of Microfinance Institutions." CGAP. 2020. <https://www.cgap.org/pulse>

2 These are sometimes called MFPs, microfinance providers. This paper uses the commonly known acronym MFI to denote microfinance institution.

3 Information on past microfinance crises can be found at "COVID-19 (Coronavirus) Insights for Inclusive Finance: What Can we Learn from Past Crises?" CGAP. 2020. <https://www.cgap.org/topics/collections/coronavirus-inclusive-finance/lessons-past-crises>

## Box 1. Unique Features of COVID-19 Crisis Pandemic versus Earlier Crises in Microfinance

The World Health Organization (WHO) declared COVID-19 a pandemic on March 11, 2020. WHO defines a pandemic as “an epidemic occurring worldwide, or over a very wide area, crossing international boundaries and usually affecting a large number of people.”<sup>a</sup> In contrast, Ebola, SARS, Zika, and influenza (flu) were considered epidemics. The last previously declared pandemic was the 2009 H1N1 pandemic.<sup>b</sup> Following are the unique features of the COVID-19 pandemic:

### Ongoing

- The COVID-19 pandemic and resulting crises are ongoing. This is in contrast to a discrete one-time event, such as a singular natural disaster that causes a crisis.
- There is not a clear end date of the pandemic. As of this publication’s date, although a number of COVID-19 vaccines have been developed, they have not yet been widely distributed, and there is not yet a cure. Vaccines will have to be distributed and administered globally.
- It is unclear at this time if the COVID-19 virus may always, or for a long time, be present, and whether societies will have to adjust to this.

### Severe and sustained market disruptions

- Lockdowns, mandated temporary business closures, curfews, social isolation, social distancing mandates, sanitation requirements, and protocols such as mask usage and intensive repeated cleaning resulting in

lower or no revenues, along with increased costs, have led to a dramatic drop in commerce across the world, affecting both credit supply and demand in local and global markets. The initial and ongoing economic dampening due to COVID-19 may lead to permanent economic shifts. This in turn has had a negative and damaging effect on people’s livelihoods, with poor people affected most severely. It may also lead to greater digitalization, which could be a beneficial outcome.

### Unknowns and uncertainty

- Because of the novel nature of this coronavirus, there remain uncertainties related to its transmission and its immediate and long-term impact, ranging from the medical effects of infection and the duration of the implications, to how long the pandemic will last.
- Its toll will differ greatly by country and can also vary within a country by urban versus rural areas, or in different regions due to a range of factors. There can also be subsequent surges or waves.
- The evolving nature of the crisis means that the depth, extent, and duration of negative impact on people’s livelihoods, as well as on microfinance supply and demand, are not known.
- This level of uncertainty adds significantly to the current challenges as well as to the difficulty in future planning for MFIs, their clients, and their investors.

a See “The Classical Definition of a Pandemic is not Elusive.” Kelly, Heath. 2011. World Health Organization. Geneva, Switzerland. <https://www.who.int/bulletin/volumes/89/7/11-088815/en/>

b See “2009 H1N1 Pandemic (H1N1pdm09 virus).” Centers for Disease Control and Prevention. 2020. Atlanta. <https://www.cdc.gov/flu/pandemic-resources/2009-h1n1-pandemic.html>



# FOUNDATIONAL, ONGOING STEPS

## 3. Government Moratoria and Other Relief Programs

## 2. Investor Relations

## 1. Leadership

### 1. Leadership

Among the important initial and ongoing measures that need to be taken at the onset of a crisis are the components of a business continuity plan (BCP), centering on the role of the board and the responsibilities of senior management. BCPs, which are designed to react to sudden events, are followed by crisis management and rebuilding processes. COVID-19 is an ongoing situation with both operational (including health) and economic challenges. Box 2 provides a standard definition of business continuity management and a BCP according to the Bank for International Settlements (BIS) Basel Committee on Banking Supervision.<sup>4</sup> Most standard BCPs did not fully foresee the unprecedented severity and duration of the COVID-19 crisis. Thus, BCPs need to be adapted and extended for the COVID-19 environment, both in terms of health and economic impact.

Leadership throughout the crisis is key. Effective leadership is critical to ensuring a quick response and can make the difference between an effective and an ineffectual response. Staff can be empowered to take on more responsibility. They may have to take on increased autonomy in their relationships with customers because they are working

virtually and with less immediate supervision. This may be the MFI's intentional strategy. Tips for an MFI's leadership in response to the crisis are shown in Box 3.

It is one of the responsibilities of a board of directors and senior management to establish a business continuity plan and to manage business continuity. If a BCP was developed prior to the crisis, it can be activated by the MFI, including the steps listed in this roadmap. If the MFI did not have a BCP in place before the crisis, it can still take the steps described in this roadmap.

A cautionary note: sometimes the biggest operational disasters happen while dealing with a crisis. Secondary disasters, such as wasteful procurement, theft, and internal or external fraud, are generally operational risk events. Hence, operational effectiveness is vital during the crisis.

<sup>4</sup> The Bank for International Settlement (BIS) Basel Committee on Banking Supervision (BCBS) “is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.” <https://www.bis.org/bcbs/charter.htm> Although many Tier 2 and 3 are not regulated financial institutions, BCBS's business continuity management definitions are presented here as a globally-used definition.

## Box 2. BIS Definitions of Business Continuity Management and Plan<sup>a</sup>

### Business Continuity Management

“A whole-of-business approach that includes policies, standards, and procedures for ensuring that specified operations can be maintained or recovered in a timely fashion in the event of a disruption. Its purpose is to minimize the operational, financial, legal, reputational and other material consequences arising from a disruption.”

“Effective *business continuity management* typically incorporates *business impact analyses*, *recovery*

*strategies*, and *business continuity plans* as well as testing programs, training, and awareness programs, and communication and crisis management programs.”

### Business Continuity Plan

“A component of *business continuity management*. A business continuity plan is a comprehensive written plan of action that sets out the procedures and systems necessary to continue or restore the operation of an organization in the event of a disruption.”

a See “High-level Principles for Business Continuity.” Bank for International Settlements Basel Committee on Banking Supervision. 2006. Basel, Switzerland. <https://www.bis.org/publ/joint17.pdf>, pages 1 and 7.

## Box 3. Eight Tips for MFI Leadership During COVID-19 or Other Crises

### 1. Communicate

An MFI’s stakeholders -- staff, board, customers, suppliers, government officials, community, members of local and international networks, and investors -- need to know what the institution is doing and how it is handling the crisis. MFI board, management, and staff can communicate with other stakeholders in both strategic and personal ways that can be tailored to address the particular impact of COVID-19, which will vary across geographies and sectors that the MFI serves.

### 2. Be transparent

MFI transparency is cited as a key factor by customers, investors, and others for creating trust, and as the foundation of a strong, long-term relationship. This includes candidly and honestly communicating and being transparent about both good news and relevant bad news. This will benefit the institution in the near, medium, and long term. Transparency also includes being honest about what is known and not known, and clearly stating when stakeholders can expect information updates. An MFI does not have to have all the answers, particularly because this is an unprecedented crisis driven by an evolving pandemic, causing related and unfolding health and economic consequences, but it is vital that it provide as much information and guidance as it can.

### 3. Focus on relationships

A pandemic, or any major crisis, is a time when reputations are made or lost. Nothing is business as usual. Ensure that all stakeholders feel valued. If it is helpful, the MFI can prioritize its different types of stakeholders as appropriate. “Clients have strong, trusting bonds with relationship officers,” Acción noted in its pandemic guidance to financial service providers.<sup>a</sup> Do what is needed to maintain bonds of trust. “All of us want to reach the other side with our customer and employee relationships intact. We want to be proud of how we treated people in the most turbulent times,” the Social Performance Task Force said in its advice on a responsible response to the crisis.<sup>b</sup> MFI ECLOF Kenya CEO Mary Munyiri noted, “Avoid taking advantage of the pandemic situation to implement preconceived ideas like trimming the workforce, undertaking salary cuts, and [other] such actions (inflicting additional pain on staff) while such actions are not necessary to keep the business afloat.”<sup>c</sup>

### 4. Be responsive and flexible

In a pandemic, or any health crisis in which health and economic factors are constantly changing and evolving, responsiveness, flexibility (being able to adapt and modify actions), and agility (ability to do so quickly) will allow the institution to do what is needed.

### Box 3. Eight Tips for MFI Leadership during COVID-19 or Other Crises (continued)

Work quickly with Board of Directors to determine the parameters of allowed flexibility and agility.

#### 5. Empower staff to make front-line decisions

With governance oversight guidance from the board, and management team making decisions on strategy and practice, determine what decision-making authority loan officers and other staff should have in working with each customer. Include staff in discussions and decisions of the best way to work with customers during the crisis, authorizing and empowering staff as much as possible. Ideally, staff will have far more flexibility than normal -- based upon clear guidelines and criteria provided by the MFI specific to the crisis -- to tailor a product, recommend interest and principal repayment moratoria, schedule repayments, and renegotiate loans to respond to customers' situations within a well-articulated set of boundaries. MFI staff can hopefully draw upon the institutional, digital, and technological capabilities already in place regarding statistical credit scoring, digital processes, or even possibly machine learning, to be responsive to customers in the crisis.

#### 6. Think bigger, act faster<sup>d</sup>

The magnitude of the crisis presents an unprecedented call for decisive and bold action. The pandemic may force longer-term strategic shifts to be rapidly executed well before originally anticipated. New opportunities may also arise quickly that were not previously envisioned. For example, a longer-term planned transition to digitization that is expedited to better handle loan portfolios, customer relations, or cashless disbursements during COVID-19 could be key to the MFI's success in the

pandemic and may yield unexpected business growth. There may be a chance for partnerships with digital providers or fintechs, or opportunities to access digital channels of in-country commercial banks or mobile network operators for payments.

#### 7. Be customer centric

It is always the right thing to be customer centered and customer focused. A focus on listening to, understanding, and meeting the needs of customers will contribute to the MFI maximizing customer benefit and positive impact, even more important during COVID-19 or any crisis. Some MFIs have added useful services and initiatives for their clients during the COVID-19 crisis.

#### 8. Convey hope

Express (realistic) expectations that things will improve over time. Stakeholders, particularly employees, customers and investors, want to hear a voice of hope based on facts and long-term optimism.

a See "Responding to the COVID-19 Pandemic: Guidance for Financial Service Providers." Acción. 2020. Boston, MA. <https://www.accion.org/responding-to-the-pandemic-guidance-for-financial-service-providers>

b See "Treating Staff Responsibly During the Pandemic: Three Things to Do Today." Wardle, Leah. 2020. Social Performance Task Force. <https://www.findevgateway.org/blog/2020/04/treating-staff-responsibly-during-pandemic-three-things-do-today>.

c Per comments provided to CGAP, October 16, 2020.

d This is an adaptation of the "think bigger and faster" principle found in "The CEO Moment: Leadership for a New Era," McKinsey Quarterly. 2020. <https://www.mckinsey.com/featured-insights/leadership/the-ceo-moment-leadership-for-a-new-era>.

## A. IMMEDIATE TACTICAL ACTIONS

✓ As part of a business continuity plan, establish a crisis management committee. Appoint a designated senior management or staff member for each key operational area. Crisis management committee members should include relevant senior management and line staff including a point person for each essential MFI function. Quickly define the committee's mandate and remit. This can be revised over time or at a later date as more is known about the crisis.

✓ Convene a meeting of the board of directors early on to provide initial assessment of the current and anticipated impact of the crisis.

✓ Keep the board apprised of the status of the MFI during the crisis. Convene brief weekly or bi-weekly meetings, or at intervals best for the MFI, to provide regular updates and allow the board to provide governance and timely oversight guidance as the pandemic evolves.

- ✓ Establish clearly delegated management authority levels to frontline and operational staff that enable them to be responsive and best address customer needs during the crisis.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Assess which new actions taken to address the crisis should be temporary and which should be permanently incorporated into the institution's strategy, tactics, and operations.
- ✓ Keep apprised of the actions of key actors that affect the MFI's business. This includes the regulator (for regulated MFIs), the MFI's major competitors, and important market makers. Market and competitive intelligence can assist the MFI in making strategic decisions throughout the crisis.
- ✓ Draft a brief leadership manifesto that will guide leadership style, approach, and commitment to professionally support others during the crisis and beyond. It can be updated as needed at any time.
- ✓ Conduct debriefings to distill leadership lessons after the first wave of the acute pandemic-driven phase of the crisis has ended or subsided.
- ✓ Briefly document all actions taken throughout the crisis as they are occurring, as much as possible. Reflect, when possible, on the impact of those actions. The documentation and reflections can be analyzed later and distilled for valuable lessons learned.

### MILESTONES

- Crisis management committee has been established.
- Board has established new, crisis-focused meeting frequency and reporting requirements.
- Clearly delegated temporary authority levels have been established for frontline and operational staff and/or digital loan approval standards have been modified for the crisis.

## 2. Investor Relations

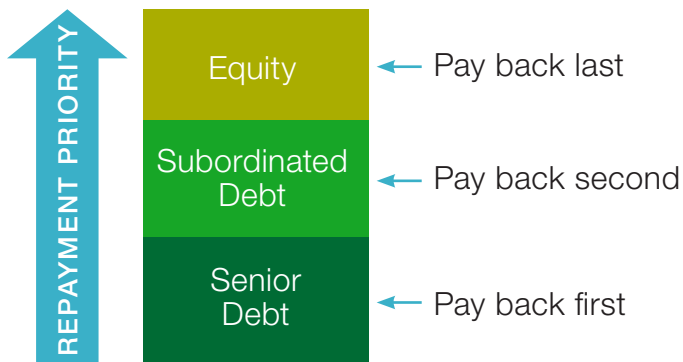
Investors are facing similar challenges to those of MFIs: ensuring their staff are safe, making arrangements for a remote and/or on-site workforce, reviewing and managing their entire portfolio of inclusive finance investments--in this case, MFI investees--and deciding the risk, reward, and impact tradeoffs of working with new clients, or new investments with existing clients using virtual due diligence.

This section focuses on both debt and equity investors. Debt investors may also be called lenders or creditors and can include local and international banks that provide loan capital to MFIs for onlending. Equity investors include funds as well as individual or institutional investors that have invested in privately-owned MFIs. Non-profits or cooperatives do not have external equity investors.

There are key differences between debt and equity investors. First is the order in which investors are paid back. As can be seen in Figure 2, senior debt investors will be paid back first, before subordinated debt investors. Equity investors recoup their investment only after all debt investors, senior and subordinated, have been paid back, unless the equity investor is selling its stake in the MFI to another investor and exiting the investment. Second, during the crisis there is likely to be more to negotiate regarding investment terms between an MFI and a debt investor related to debt outstanding and potential new loans, as compared to an equity investor, who holds a longer-term "illiquid" ownership stake in the MFI. Third, the actions of one investor type may affect the other. For example, equity investors making capital infusions into the MFI can give confidence to debt investors of the institution's financial strength and viability and can thus indirectly benefit debt negotiations. A decision by an MFI to suspend dividend payouts to its equity investors during a crisis also demonstrates to both debt and equity investors that it is focused on preserving cash. Any type of investor may find it important for the MFI to seek and use technical assistance if managing the COVID-19 crisis is more than it can do on its own.

It is common for loans to MFIs to be renegotiated during a crisis, with the most common form being restructuring. Box 4 describes different types of renegotiated loans. These loan definitions apply both to loans made by

FIGURE 2. **MFI Capital Stack Investor  
Repayment Priority**



investors to MFIs, as well as those in the MFI’s own portfolio of loans to its customers.

In reporting on the MFI’s portfolio quality, it is helpful both to investors, and for the MFI’s own analysis and planning, to separate out COVID-19 restructured loans (i.e., loans restructured specifically due to the impact of COVID-19) as well as any loan portfolio currently under moratorium. The Social Performance Task Force’s 2020 Lender’s Guidelines describes how investors consider COVID-19 restructured loans.<sup>5</sup> This additional loan portfolio reporting is useful to ensure an accurate view of overall loan portfolio quality. Excluding COVID-19 restructured loans may improve reported loan portfolio quality because overdue delinquent loans are now reported as on time (i.e., “kicking the can down the road”). However, this can result in upcoming loan portfolio deterioration if fundamental portfolio quality does not improve, particularly in light of the ongoing crisis. It can also be informative to separate out pre-COVID-19 portfolio from loans disbursed since the pandemic’s onset, such as is done in a vintage analysis.

An MFI that is able to continue servicing its debt during the pandemic should not seek to restructure its loans from investors. Not renegotiating loans may benefit the MFI’s reputation among investors. Conversely, if the MFI needs relief from its investors, it is best to let them know as early as possible.

#### Box 4. Types of Renegotiated Loans

##### Restructured loan

A restructured loan has modified terms of the original loan but is still considered to be the same loan. Restructuring a loan can change any or all of these elements: principal, interest rate, tenor, term, and maturity date. A rescheduled loan, or loan deferral, means the loan’s end date has been modified, which is a form of restructuring. In some countries, a rescheduled loan is called a reprogrammed or deferred loan. In a loan deferral, interest may or may not continue to accrue, based on the terms agreed upon. Many investors lending to MFIs will expect interest payments to continue to be paid according to the original loan schedule, even if a loan is restructured. Less desirable is capitalizing the interest, in which the interest not paid according to the original schedule is added to the amount of principal due. This is not standard practice in microfinance.

##### Refinanced loan

Refinancing a loan allows a borrower to replace the current loan with a new loan that may have different principal, interest rate, repayment terms, and timing. This is considered a new loan rather than a restructured loan.

##### Forbearance

Temporary suspension of loan payments, typically due to a borrower in financial distress. Interest continues to accrue during forbearance and thus may extend the repayment period or cause payments to increase once they begin again.

Box 5 below provides summaries of three statements issued by financial inclusion and other impact investors in 2020 to provide coordinated responses during COVID-19. None of the statements are legally binding but have been actively applied by investor signatories.

The topics below focus on two key areas: 1) financial aspects of investment in the MFI, also addressed in later

5 See page 3, “Lenders’ Guidelines for Defining and Monitoring Responsible Covenants in the COVID-19 context.” Social Performance Task Force. 2020. [https://sptf.info/images/20200929\\_Guidelines\\_for\\_Covenants\\_outstanding\\_comments\\_CLEAN.pdf](https://sptf.info/images/20200929_Guidelines_for_Covenants_outstanding_comments_CLEAN.pdf)

## Box 5. Investor Statements Issued during COVID-19

### Memorandum of Understanding (MoU):

#### Coordination among MIVs<sup>a</sup> in response to

**COVID-19<sup>b</sup>** was developed and signed by nine leading microfinance and impact fund managers<sup>c</sup> with about \$15 billion in assets under management, in a coalition that included BlueOrchard and responsAbility, among others. It coordinates efforts to support the sector during the COVID-19 pandemic through the responsible provision of ongoing refinancing, thereby enabling investee institutions to adequately respond to temporary changes in business conditions. The MoU distinguishes between four core loan categories, each with a clear order of preference requiring its own level of coordination among lenders: 1) ordinary renewal; 2) informal handshake rollover; 3) legally binding forbearance agreement; and 4) ordinary restructuring.

#### Pledge: Key principles to protect microfinance institutions and their clients in the COVID-19

**crisis<sup>d</sup>** is an initiative of Grameen Crédit Agricole Foundation, along with a group of microfinance lenders and key players in inclusive finance.<sup>e</sup> Its aim is to guide lenders and other stakeholders to support

the microfinance sector, including MFIs and fragile clientele, in the health and economic crisis caused by COVID-19. It is inspired by best practices and tools of the microfinance sector, such as work done by the Social Performance Task Force<sup>f</sup> and the IAMFI Microfinance Voluntary Debt Workout Principles.<sup>g</sup> The signatories agree to coordinate policies, technical assistance, and resources to help MFIs face the crisis.

#### Leading Financial Inclusion Equity Investors

**Response to COVID-19<sup>h</sup>**, issued by the Financial Inclusion Equity Council (FIEC),<sup>i</sup> whose 20 members have in aggregate over \$5 billion in financial inclusion investments. It states that FIEC members commit to working with the entire investor community to achieve maximum cooperation among stakeholders. FIEC members also commit to making financial instruments and structures available to help optimize financial outcomes while accommodating the diverse circumstances of creditors, shareholders, and other funders. It pledges to preserve a focus on social impact and commitment to patient capital.

a Microfinance Investment Vehicles.

b See full text of the Memorandum of Understanding at [https://7eab7e50-e834-461b-8539-7e8435e86338.filesusr.com/ugd/361833\\_8dcc8ce984984ee2bcc2c4fccc66d0d5.pdf](https://7eab7e50-e834-461b-8539-7e8435e86338.filesusr.com/ugd/361833_8dcc8ce984984ee2bcc2c4fccc66d0d5.pdf)

c The nine original signatories are investment originators and fund managers with about \$15B in assets under management invested in more than 80 emerging markets. Initial signatories included BlueOrchard, Developing World Markets, Incofin, MicroVest, Oikocredit, responsAbility, Symbiotics, Triodos Investment Management, and Triple Jump. Subsequent additional signatories include BIB Fair Banking, Invest in Visions, Social Investment Managers and Advisors (SIMA), and Verdant Capital.

d See full text of the Pledge at [https://www.gca-foundation.org/wp-content/uploads/2020/06/2020-06\\_Principles-to-protect-MFIs-and-clients-in-COVID-19-crisis.pdf](https://www.gca-foundation.org/wp-content/uploads/2020/06/2020-06_Principles-to-protect-MFIs-and-clients-in-COVID-19-crisis.pdf)

e Initial signatories included Grameen Crédit Agricole Foundation, ADA, Alterfin, Cerise, CIDR Pamiga, Cordaid Investment Management, Crédit Agricole CIB India, CA Indosuez Wealth (Asset Management), Crédit Agricole S.A., European Microfinance Network, FS Impact Finance, Inclusive Finance Network Luxembourg, Inpulse, Luxembourg Microfinance and Development Fund, MCE Social Capital, Microfinance Centre, Rabo Foundation, Solidarité Internationale pour le Développement et L'Investissement (SID), Social Investment Managers & Advisors (SIMA), and the Social Performance Task Force. Subsequent additional signatories include ABC Fund, Azerbaijan Micro-finance Association, Bamboo Capital Partners, Gawa Capital, Injaro, Kiva, Microfinance African Institutions Network (MAIN), Microfinance Solidaire, Verdant Capital, and Whole Planet Foundation.

f For additional details, see <https://sptf.info/covid-19/spm-during-the-crisis>

g See International Association of Microfinance Investors (IAMFI). 2011. "Charting the Course: Best Practices and Tools for Voluntary Debt Restructuring in Microfinance." New York, NY: IAMFI. <https://www.findevgateway.org/paper/2011/02/charting-course-best-practices-and-tools-voluntary-debt-restructuring-microfinance>

h See full text of the FIEC statement at [https://7eab7e50-e834-461b-8539-7e8435e86338.filesusr.com/ugd/fd10e9\\_18c9db58dd0342c290e5dea5da055b81.pdf](https://7eab7e50-e834-461b-8539-7e8435e86338.filesusr.com/ugd/fd10e9_18c9db58dd0342c290e5dea5da055b81.pdf)

i FIEC's 20 members include: Acción (Acción Investments and Venture Lab), Aga Khan Development Network, Agora Microfinance, Bamboo Capital Partners, Base of Pyramid Asia (BOPA), Citi Inclusive Finance, FINCA International, Gojo & Company, Inc., Grassroots Capital Management, Incofin, Insitor Partners, Maj Invest, Norwegian Microfinance Initiative, Oikocredit, Omtrix, responsAbility, Triodos Investment Management, Triple Jump, Vitas Group, Women's World Banking <https://www.centerforfinancialinclusion.org/about/what-we-do/fiec#members>.

sections on cash flow and liquidity, cash-based forecasting, scenario planning, and stress testing; and 2) the relationship with investors. Many of the points apply to all of an MFI's investors: those providing debt, equity, and guarantees. It should be noted that some investors provide both debt and equity investments. If that is the case for an MFI, different investor representatives from the investor's fund or institution should handle these investment types separately, particularly during a crisis. This serves to avoid a conflict of interest between the priorities and interests of a debt versus equity investor.

## A. IMMEDIATE TACTICAL ACTIONS

### For debt investments

- ✓ For loans outstanding due to investors, an MFI will find it helpful to prepare a cash-based summary of *all principal and interest due per creditor per month per year* for the duration of all current loans owed to creditors. An example of a high-level summary tool developed by investors, the Crisis Assessment Tool, is available free online in English, French, Portuguese, and Spanish.<sup>6</sup> It summarizes loan principal and interest repayment amounts and timing as part of a cash flow estimation model. If using the Crisis Assessment Tool, it should be extended out to the last month and year of loans currently outstanding to the MFI's creditors.
- ✓ An MFI will need to assess whether it requires some form of loan moratoria from its investors, depending on a cash flow analysis of its current and projected liquidity position, as well as stress tests that help determine scenario-based funding gaps.
- ✓ The MFI should confirm that investors will continue to charge interest during a moratorium, which is common in microfinance. If interest is not charged, confirm that the accrued unpaid interest will not be capitalized (defined earlier in Box 4), as adding the accrued interest to the principal would lead to a larger outstanding loan. Capitalized interest should be avoided when possible.

- ✓ Review all creditors' loan covenants to determine if covenants are in compliance or in breach. If any covenant is currently in breach, or anticipated to soon be breached, proactively apprise all relevant creditors regarding a request for covenant waivers, no action letters, or reservation of rights' letters. While an MFI may not be able to say when it will be back in compliance with covenants, it can offer investors its plan of action, requests for support from the debt investor such as rescheduling or restructuring a loan, and provide monthly reporting of projected versus actual results.
- ✓ If loan rescheduling and restructuring become complicated, or new loan contracts are used, contract a lawyer.<sup>7</sup>

### For equity investments

- ✓ Keep all equity investors regularly informed of the MFI's situation, financial and business results, and plans. A standard set of financial information can be sent to all investors using the above-mentioned Crisis Assessment Tool, with any useful supplements specific to the MFI.
- ✓ In a crisis, dividend payouts to equity shareholders should be suspended for cash preservation purposes.
- ✓ If appropriate, discuss any additional assistance equity investors may provide, such as additional capital infusions, referral to additional resources, or provision for the cost of technical assistance to strengthen the equity holding and the MFI overall.

### Communications and relationships with all investors

- ✓ Use the approaches summarized in the Leadership section in working with investors. Consider debt, equity, and guarantee investors each as an important ongoing long-term relationship.
- ✓ MFIs that are credible, trustworthy, and organized in creditor communications are more likely to develop good working relationships with their investors, including microfinance investment vehicles (MIVs) - even MIVs that may be distracted by other MFI negotiations.<sup>8</sup>

6 See link for Crisis Assessment Tool on European Microfinance Platform, Acción Center for Financial Inclusion, and Social Performance Task Force. 2020. <https://www.covid-finclusion.org/investors>.

7 See "COVID Briefing: Debt Restructuring in Microfinance," Burand, Deborah Burand and Ivo Jeník. CGAP. 2020. [https://www.cgap.org/sites/default/files/publications/2020\\_09\\_COVID\\_Briefing\\_Debt\\_Restructuring\\_in\\_Microfinance.pdf](https://www.cgap.org/sites/default/files/publications/2020_09_COVID_Briefing_Debt_Restructuring_in_Microfinance.pdf), page 5.

8 Ibid. page 3.

- ✓ Develop an initial forecast and “point of view” on how the MFI is faring in the crisis, and a best estimate of how this may affect the MFI’s ability to meet its investors’ requirements. For debt investors, this includes the MFI’s ability to service loan principal and interest and to anticipate, and eventually cure, covenant breaches.
- ✓ Keep all investors regularly apprised of how the MFI is coping in the pandemic. A standard set of this information can be sent to all investors. This can include financial and portfolio performance results as well as qualitative descriptions and insights. A number of investors have requested that MFIs provide their existing reporting format plus the above-mentioned Crisis Assessment Tool, submitted on a monthly basis to provide both financial and qualitative information about the impact of the crisis on the MFI.
- ✓ Describe to investors the qualitative and quantitative measures the MFI is taking, such as those described in this roadmap: serving clients’ needs and keeping them well informed, cash and liquidity assessment, crisis-specific portfolio segmentation and assessment, and forecasting, scenario planning, and stress testing, even if the final results and outcomes are not known.
- ✓ The MFI can develop an internal management plan with short- and medium-term projections, and clear and expected measures and objectives, which can be shared with its investors. Note to investors any measures taken to benefit employees, customers, and community members during the crisis.
- ✓ Communicate with investors with the underlying assumption that investors greatly value MFI transparency, candor, full disclosure, and timely reporting whether it is good, bad, or uncertain news.
- ✓ Determine who in the MFI will be the primary liaison with its investors during the pandemic crisis period. Initially, the MFI team member who already was the primary liaison can continue in that role. If there are discussions with investors that require a more senior team member and/or a financial team member, that MFI staff or board member(s) can be added to specific conversations.
- ✓ Review the three statements issued by international investors during the COVID-19 crisis, described in Box 5 above. Determine if any of the MFI’s MIV investors are signatories to any of these documents. If so, discuss with those investors the specific implications of these statements for their investments in the MFI.
- ✓ Ensure that the MFI’s board is regularly apprised about the relationship with and status of each debt and equity investor, incorporating board oversight and governance guidance regarding the investor role and the MFI as part of regularly scheduled board meetings during the COVID-19 crisis.
- ✓ Prepare standardized communications that go to all investors at once. Be consistent in messaging to each and all investors. If an investor is asking the MFI for additional reporting beyond the prior standard, request their usage of the above-mentioned Crisis Assessment Tool common template utilized by a wide range of investors.
- ✓ An MFI can convene its investors on group video meetings and conference calls for coordination and alignment. Assume that the international investors are actively talking to each other during this pandemic crisis. Use any messaging program<sup>9</sup> or video calls with investors as a way to build the relationship.
- ✓ Do not assume that the MFI’s local investors are talking to each other, or that local and international investors are talking to each other. It is acceptable to ask if any of the investors are communicating with each other.
- ✓ Coordinate message and communications with investors within the MFI’s network if the MFI is a member of any microfinance or other network.
- ✓ Consider contracting an outside expert to advise the MFI if investor relations or needed negotiations are becoming overly complex for the MFI’s internal capacity or capability. Bringing in an outside consultant with crisis experience is extremely valuable and can be effective in assisting the MFI as well as giving investors greater confidence.

9 Examples include Signal, Telegram, Threema, Viber, WeChat, and WhatsApp, among others.



- ✓ Investors may have different requirements and capacity during a stress situation. For example, local bank lenders may not have an impact focus and may interact with the MFI in the same manner as with any other bank client.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Develop an investor relations policy if one is not already in place. This can include an investor relations manifesto on how the MFI wants to communicate with its investors during the crisis.
- ✓ Briefly document actions taken regarding investors throughout the crisis as they are occurring, as much as is possible. Reflect, when possible, on the impact of those actions. Conduct a debriefing on lessons learned on investor relations after the pandemic-related crisis has ended or subsided.



### MILESTONES

- MFI has determined its primary staff member who will serve as the investor relations point person.
- MFI has determined whether any of its investors are signatories to: Memorandum of Understanding, Pledge, and/or FIEC Investor Response. Understand the implications of these statements for the MFI.
- All investors have been contacted and updated since the crisis started. A schedule has been set of virtual meetings to regularly update investors as a group on financial reporting and qualitative descriptions of how the MFI is operating and performing.
- A standardized investor reporting template is being used to provide updates to all investors, supplementing the pre-crisis reporting format.

## 3. Government Moratoria and Other Relief Programs

The MFI should keep apprised of any government loan moratoria throughout the COVID-19 crisis, or during any crisis in which the government undertakes such measures. CGAP has published “Microfinance and COVID-19: Examples of Regulatory Responses affecting Microfinance Providers,”<sup>10</sup> which includes, among other things, information on which countries enable MFIs to operate during lockdown, provide relief to MFI clients, and improve MFI liquidity by relaxing prudential requirements.

### A. IMMEDIATE TACTICAL ACTION

- ✓ Appoint at least one staff member to stay apprised on an ongoing basis of government and regulatory announcements that affect the MFI as a borrower and lender, including the factors described in Box 6 below. This role may fall under regulatory compliance, which may be part of risk management in some MFIs.
- ✓ Ensure that a senior member from the relevant unit on government moratoria and relief programs is on

#### Box 6. Loan Payment Moratoria and/or Forgiveness Characteristics

Loan moratoria can take different forms. This is true of moratoria mandated by government regulators or investors, or moratoria that the institution offers certain segments of customers, or unilaterally for all customers. Issues related to moratoria and loan terms include:

- Length of moratorium in days, weeks, or months.
- Possibility of extension of the moratorium.
- Whether interest is frozen or accrues during the moratorium.
- Loan forgiveness on principal and/or interest.

<sup>10</sup> See “Microfinance & COVID-19: Examples of Regulatory Responses affecting Microfinance Providers,” CGAP. 2020. <https://www.cgap.org/research/data/microfinance-covid-19-examples-regulatory-responses-affecting-microfinance-providers>.

the crisis management committee and incorporates its findings into financial forecasting, scenario planning, and stress testing.

- ✓ Government measures that may affect MFI lenders include government loan moratoria, changes in calculations of reserves, provisioning requirements, regulatory reporting, and changes in prudential thresholds, regulations, and requirements.
- ✓ For deposit-taking institutions, the appointed staff member should stay apprised of any measures the government has taken that affect deposits and depositors.
- ✓ The staff appointee(s) can also be responsible both for internal communication on this topic with fellow employees and providing information to all staff on clear messaging for customers. Some governments extended the end dates of initial relief measures due to the protracted nature of the crisis and/or modified the terms of government relief programs. This underscores the importance of ongoing monitoring.
- ✓ If there is a government loan payment moratorium, inform MFI customers of the facts regarding their loans. Provide information regarding what will happen when the moratorium ends, whether there will be an extension and whether their loan repayments will recommence immediately thereafter.
- ✓ Determine if there is any direct or indirect government support to MFIs such as emergency liquidity facilities, moratoria on MFIs' debt, etc.
- ✓ Look into whether there is a government-to-person cash transfer program to provide emergency aid to people during the crisis, and if so, whether the MFI would be eligible to be a cash distribution provider. Be aware that income from such a program may or may not cover the costs incurred to operate it. If this is the case, the MFI should clearly identify which customer segments(s) it hopes to serve, what the operating costs are, and how those combine with the MFI's financial inclusion objectives. Such programs can help the MFI in two ways:
  - They generate additional income for the institution.
  - Customers could take out additional low-cost loans or receive social transfers that would enhance their business results. These may put the customer in a better position to repay earlier loans.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Ensure that monitoring government regulatory actions relevant to an MFI is a permanent and ongoing role, not solely during times of crisis.
- ✓ If desired, an institution, along with other MFIs in the country, can advocate for customer-centric and responsible finance policies.



### MILESTONES

- At least one staff member is appointed to keep MFI up to date on all government regulatory announcements and policies that affect it, including loan moratoria, any changes in prudential and regulatory requirements, and any changes affecting deposit-taking MFIs.

# BUSINESS CONTINUITY STEPS

6. Ensure Ongoing Operations

5. Ensure Customer Safety and Communications

4. Ensure Staff Safety and Communications

## 4. Ensure Staff Safety and Communications

A key initial step following the onset of the crisis is assessing and ensuring as much as possible the health, safety, and well-being of each staff member. MFI offices may have been closed and staff may have been geographically dispersed and be expected to work remotely for the foreseeable future. If offices have not been closed or are partially closed, office layouts may need to be reorganized to maintain physical distancing. How this is done will vary depending on whether or not the MFI office or branch is open to customers.

### A. IMMEDIATE TACTICAL ACTIONS

#### Communications

- ✓ At the onset of the crisis, be sure that each staff member is contacted and determine if they and their family are safe and healthy and where they are sheltering (in their own home, another family member's home, or elsewhere). Obtain emergency contact information if not already in place.
- ✓ Establish separate all-staff and departmental communications channels to stay in close contact with staff and to receive and provide immediate updates when something happens. This can be done via any online messenger program or other communication format. This channel or another channel can also be used for ongoing updates and announcements.

- ✓ Set up a mechanism so every staff member is clear on procedures if and when certain situations happen. This should include what to do if a staff member becomes ill with COVID-19, if a COVID-19 infection has occurred among staff, clients, or others connected to the MFI, or other needed COVID-19-related procedures. (These procedures can be left in place in case of a future crisis.)

#### Flexibility and connectivity

- ✓ Identify which activities can be performed remotely versus those that must be done on site.
- ✓ If some staff are to work onsite and some remotely, identify staff members at risk and enable them to work remotely or take a leave to avoid infection.
- ✓ Determine if offsite staff members have internet access, a laptop, and any other electronic equipment they need to work remotely. If not, determine if the MFI has the means to provide remote internet access and/or equipment. (This is related to business continuity operations in Section 6 below but can be done on the same call).
- ✓ If financially feasible, consider early in a crisis whether to provide emergency staff loans or a voluntary extra monthly payroll for non-management staff so they can stock up on food and buy prepaid airtime and data packages, generator fuel, and other essentials for a lockdown or extended period of remote work. In a sustained crisis, determine whether any additional employee assistance is feasible.
- ✓ Determine what the institution is prepared to offer in terms of flexibility during the crisis. For example, staff

members may have to change work hours due to child- or elder-care needs. Consider remote work or reassignment to another branch in the event staff need to relocate to be with a parent or another family member.

### COVID-19 prevention measures and health

- ✓ Communicate to staff current best practices regarding COVID-19 health and safety measures recommended by the national government and the World Health Organization.
- ✓ Ensure that the MFI provides a safe working environment for those who are required to be physically at the office, such as information technology staff. This may involve rearranging or reconfiguring office furniture to allow for social distancing and adding physical barriers made of plexiglass, acrylic, or other material. It entails establishing and implementing cleaning and sanitation protocols. It may also require developing staggered work schedules so that fewer people are in the office at the same time.
- ✓ If staff members are conducting client visits, ensure they are provided all the personal protective equipment they need such as masks, hand sanitizer, and gloves, and that they comply with all social distancing recommendations. For staff making face-to-face visits to clients, be aware of transportation (buses, subways, taxis, or other forms of ridesharing) as a possible source of contagion.

### B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Ensure that the MFI management team and staff always have virtual access to staff contact information.
- ✓ Schedule an annual check to ensure that all staff contact information and emergency contacts are up to date.
- ✓ Determine any permanent changes to benefits, services, office layouts, and safety protocols and procedures for employees based on lessons learned from the pandemic crisis.



### MILESTONES

- MFI has checked in initially with each staff member and knows each one's location and health and safety status. MFI has identified staff at risk and taken necessary preventative measures.
- MFI has established a regular staff communication plan during the pandemic (daily is ideal).
- MFI has assessed and, where possible, secured the health and personal protective equipment that staff need to do their work, and developed and implemented policies for COVID-19-safe operations.
- MFI has set up appropriate safety measures for staff working in MFI offices.

## 5. Ensure Customer Safety and Communications

At the onset of the crisis, customer communications should focus on first ascertaining customer health and safety, as well as an initial estimate of the impact of the crisis on the loan portfolio. Measures should be put in place for more frequent communications than occurred pre-crisis. This further strengthens the MFI-client relationship, including offering the client other forms of resources or support as possible, provide the MFI information in order to segment the portfolio appropriately for the crisis, assess portfolio performance, and analyze the resulting impact on the MFI's cash balances, liquidity forecasting, and stress testing. In any acute phase of the COVID-19 crisis locally, whether or not the MFI will be open will depend on whether it is considered an "essential service" during government-mandated closures. Regulated banks are typically considered essential services, while MFIs that are non-bank microfinance institutions (NBFIs)<sup>11</sup> may not be considered essential services.

11 Also called NBFCs: non-bank financial companies or NBMFC: non-bank microfinance companies.

## A. IMMEDIATE TACTICAL ACTIONS

### Communications and assessment

- ✓ The MFI should send a text message or voice mail from the CEO to all customers to quickly relay a broad company message.

#### Depositor clients (for MFIs that accept deposits)

- ✓ For deposit-taking institutions, the message should include an assurance of the MFI's financial health and ability to service all deposits without delay and note any government measures in place that affect all depositors. A new message to all depositors should go out when there are any changes in government measures that directly affect depositors to keep them up to date and confident that the MFI is keeping them informed.

#### Borrower clients

- ✓ For the MFI's borrowers, loan officers should contact each customer and speak to him or her personally, preferably by phone, or at a minimum via text message (SMS) or any messenger program. While contacting every customer in a short time may seem daunting, given that loan officers may have 250 or more customers each, this could be an all-staff exercise that will yield valuable information about customer well-being as well as portfolio status. There should be a follow-up call with the client each month, or as often as is thought necessary.
- ✓ Assess basic information, for example:
  - Whether the customer is safely sheltering at home or elsewhere or has temporarily relocated or is planning to relocate.
  - Whether they and their family are healthy regarding COVID-19.
  - Mobile phone contact number, as well as one or two backup contacts.
- ✓ Answer the customer's questions about the crisis and about his or her loan. Understand the status of the client's business or work, as well as that of household members. Re-evaluate income and follow up monthly to see what, if anything, has changed.
- ✓ Be as responsive as possible to the customers' needs within the institution's capabilities and limitations.

- ✓ Where possible and if prioritized, provide client-centric non-financial support to clients, such as COVID-19 health information noted below, as well as other services such as financial education specific to managing finances during the crisis. Institutions will have varying levels of ability and willingness to assist customers beyond the MFI's pre-COVID-19 crisis mandate.
- ✓ As much as possible, compile and consolidate all results from loan customer communication in digital form. This could range from a shared Google Sheet, Microsoft Teams, a customer relations management (CRM) database such as Salesforce, Microsoft Dynamics, Pipedrive, or other. This will help the MFI's leadership and credit staff members gain a better understanding of what is happening with customers. It is also useful in analyzing the current and upcoming state of the loan portfolio, as well as providing inputs for strategic decisions.
- ✓ Establish an active cascading customer communications channel for ongoing follow-up with customers. This could include staff assignments of customer lists. If the MFI has access to an app or widely accessible digital or cellular channel, even if it was previously not much used, this could become an important source for incoming and outgoing communications and information flow for and by customers. Various messaging applications, such as WhatsApp, have been used by MFIs during the crisis to deliver regular messages to customers, including short videos.
- ✓ Consider establishing a virtual distributed call center to handle the high volume of client communications both for borrower and depositor clients if one is not currently in place. (This can be implemented later as well.) MFI personnel such as a receptionist or office staff not needed in a remote work environment could be reassigned and trained to provide customer support.

### COVID-safe operations

- ✓ Make available and disseminate to customers on an ongoing basis current best practices re COVID-19 health and safety measures, as recommended by the national government and the World Health Organization (<https://www.who.int/>).

- ✓ If staff are conducting client visits, ensure the office provides them with proper personal protective equipment such as masks, hand sanitizer, and gloves to protect all parties and ensure all health safety protocols are posted and practiced, including compliance with all recommended social distancing provisions. *(All of the measures recommended in Section 4 protect both staff and employees, so are not repeated here.)*

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Include checks at regularly scheduled intervals of all customer contact information and emergency contacts as part of loan-focused communication. Ensure that relevant staff members always have virtual access to this information.
- ✓ Upgrade to the most useful and appropriate form of customer relations management and communication channels.
- ✓ Additional actions are included in later sections, broken out by category.



### MILESTONES

- MFI CEO has issued a voice mail or text message announcement to all depositor (for deposit-taking MFIs) and borrower clients.
- MFI staff members have spoken with each loan customer to learn their health and safety status, offered clear information about recommended health protocols, and offered assistance as authorized by MFI.
- A centralized electronic database has been compiled with codified customer status for at least 80% of customers.

## 6. Ensure Ongoing Operations

This section describes key operational, organizational, and information technology measures to be implemented as part of a business continuity plan.

### A. IMMEDIATE TACTICAL ACTIONS

#### Organizational issues

- ✓ As addressed in the Leadership section, set up a crisis management committee.
- ✓ Establish and implement all necessary health and safety protocols, which may change over the course of the crisis.
- ✓ Identify the most critical operational functions, particularly in the COVID-19 crisis context. Identify and deploy all resources and staff needed to conduct those activities.
- ✓ Commit to frequent regular staff communication sessions, being clear who leads them and who is included. It is beneficial to hear often from top management and to have frequent virtual communication among those working closely together.
- ✓ Social Performance Task Force recommends, if and when possible, to 1) keep staff employed; 2) repurpose staff to client outreach; and 3) communicate with staff every day.<sup>12</sup> If it is not feasible to maintain current staffing expenditures, any salary cuts should be first imposed on senior management, before expecting loan officers and frontline staff to accept pay cuts. Seek ways to cut non-staffing expenses before making staff cuts.

#### Operational issues

- ✓ As described earlier, if feasible, establish a call center or some form of client service help line so that clients can reach the institution virtually and be efficiently served.
- ✓ Ensure that good basic internal controls are in place, even during the crisis period.
- ✓ Be aware that new risks may emerge.

#### Information technology (IT) issues

- ✓ Determine if all onsite electronic files are currently backed up, and as of what time and date.

<sup>12</sup> See “Treating Staff Responsibly During the Pandemic: Three Things to Do Today.” Wardle, Leah. Social Performance Task Force. 2020, <https://www.findevgateway.org/blog/2020/04/treating-staff-responsibly-during-pandemic-three-things-do-today>.

- ✓ Confirm if electronic backup is conducted on an ongoing basis. If not, set that up immediately.
- ✓ Determine if internal IT staff can operate in the pandemic and can fully support operations. If not, consider contracting external third-party providers that can fulfill this role.
- ✓ Add or confirm cybersecurity measures, since remote cloud-based working may lead to new cyber risks.
- ✓ Identify what IT services that are typically outsourced might be at risk of failure, such as those provided by third parties, particularly in localities or countries strongly affected by the crisis, or at risk of being so. Determine if they are in a position to provide full continuity of services, and if the provider itself has a sufficient business continuity plan to ensure its own continued operations.
- ✓ Determine if staff members have remote access to electronic files, as well as the electronic equipment (computer and phone) they need to work.
- ✓ Consider, if feasible, setting up digital channels for as many functions as possible. This can include basic communications with clients, digital monitoring or digitalized loan application, review, and approval.
- ✓ Determine if paper copies of documents are accessible as a backup to the technology.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Develop a comprehensive business continuity plan, incorporating lessons learned from the COVID-19 crisis. A business continuity plan must be up to date and ready to deploy at any moment, as has become especially clear during the COVID-19 pandemic. It should include internal controls in place, even during a crisis.
- ✓ Review and revise the business continuity plan on a planned schedule.
- ✓ Determine time-limited substitution plans for key management roles.
- ✓ Develop a succession plan for key senior roles to be activated in case of an emergency.
- ✓ Prepare a plan to restart operations incorporating staff, clients, MFI offices, and MFI partners.

### Box 7. Distribute the Essential MFI Workforce: Crédit Mutuel du Sénégal

The Senegalese MFI Crédit Mutuel du Sénégal (CMS) reviewed its organizational structure and considered how to avoid an interruption in the activity of a department if any one staff member contracted COVID-19. CMS distributed its key IT, HR, and Financial Department staff to three different sites, so that in the event any member of a department was affected by the coronavirus, the other members of the CMS team could remain fully operational, and activities could continue.<sup>a</sup>

<sup>a</sup> Source: CGAP.

### Box 8. Digital Monitoring Solution Example

Access Holding, in partnership with the Mastercard Foundation, quickly set up a practical, digital solution for monitoring loans with its network banks. It collaborated with Juakali, a French automated business process and automation platform that works with MFIs. The first partnership with AccessBank Liberia was set up in nine days, enabling Access staff to collect client information for potential client loan renegotiation and to upload the data to a platform, resulting in expedited and virtual loan restructuring decision-making.<sup>a</sup>

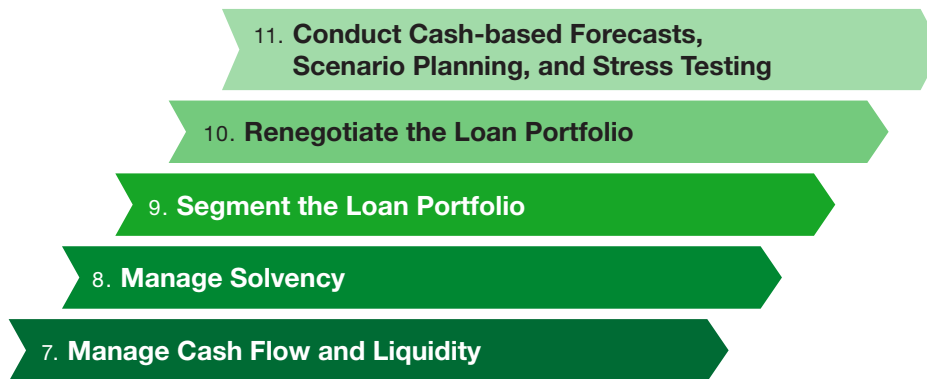
<sup>a</sup> See "A Pragmatic Solution to a Business Continuity Problem Arising Out of the COVID-19 Crisis. The Monitoring Application that Allows Customers to be Served at a Distance." Access Holding. <https://accessholding.com/a-pragmatic-solution-to-a-business-continuity-problem-arising-out-of-the-covid-19-crisis-the-monitoring-application-that-allows-customers-to-be-served-at-a-distance/>



## MILESTONES

- Electronic backups have been made of all files and most or all aspects of the institution's work can be conducted virtually.
- A basic business continuity plan has been implemented.

# FINANCIAL AND PORTFOLIO STEPS



## 7. Manage Cash Flow and Liquidity

This section provides guidance for a quick, initial cash and liquidity<sup>13</sup> estimate, followed by cash-flow monitoring on a more frequent and ongoing basis. More comprehensive analyses, including cash-flow forecasting, scenario planning, and stress testing activities, are described later in Section 11, which focuses on the MFI's total cash balance and how long it will last.

The liquidity estimation exercise focuses on incoming and outgoing funds in the MFI's bank accounts, customer deposits held by and withdrawn from the MFI, and any other holdings, all on a cash basis. Additional cash-based factors for deposit-taking institutions include cash-reserve requirements, expected deposit balances and anticipated withdrawals, interest paid out to deposit holders, and how "sticky" depositors are, i.e., how likely they are to retain their deposits with the MFI.

This section does not address institutional solvency, rather, it focuses on near-term cash and liquidity metrics and assumes near-term solvency, i.e. sufficient equity capital to absorb actual or probable upcoming losses. If an institution has immediate near-term concerns about its solvency, those metrics should be a focus. Solvency is addressed in Section 8 of the roadmap. Women's World Banking developed a cash flow tool for MFIs that computes current cash flow, but is not a forecasting tool.<sup>14</sup> Additional financial models for forecasting and stress testing are listed in Additional Resources section at end of the Roadmap.

### WHAT IS INCLUDED IN CASH?

The line items listed below should be included in any current cash and projected cash balance calculations only when they are expected to be received or paid **on a cash basis**. For example, during a moratorium, interest and fee income would not be received so would not be included in expected cash while it was in effect. During a creditor standstill agreement or deferral, the MFI might not be paying

<sup>13</sup> Defined as the ability to "meet maturing obligations when due" and "access to adequate liquidity to meet growth projections and to fund ongoing operations in the case of a liquidity disruption" from "Asset and Liability Management for Deposit-Taking Microfinance Institutions," CGAP. 2009. <https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Asset-and-Liability-Management-for-Deposit-Taking-Microfinance-Institutions-Jun-2009.pdf>.

<sup>14</sup> See "Cash Management - A Toolkit for Microfinance Institutions" Women's World Banking. December 2012. [https://www.womensworldbanking.org/insights-and-impact/publications\\_cash-management-toolkit/](https://www.womensworldbanking.org/insights-and-impact/publications_cash-management-toolkit/) (Contains a stress test module as well.)



principal and/or interest. *Include* any other cash-based line items not listed below; *exclude* any line items below that the MFI does not expect to receive in the reporting period.

### CASH INFLOWS FROM INCOME STATEMENT: INCOME LINE ITEMS

- Interest and fee income from the loan portfolio (exclude during the months that the loan is in moratorium, or if the client is in arrears and is not paying interest on the loan)
- Interest income from MFI funds held on deposit in bank accounts
- Investment income
- Fees paid by depositors
- Other income from financial services provided to customers
- Other income from operations
- Cash-based non-operating income

### CASH OUTFLOWS FROM INCOME STATEMENT: EXPENSE LINE ITEMS<sup>15</sup>

- Financial expenses: interest and fees for customer deposits (for deposit-taking MFIs)
- Financial expenses: interest and fees for borrowed funds or lines of credit (may not be immediately due in cash depending on payment frequency, or if there is a payment deferral or standstill agreement)
- Other financial expenses
- All operating expenses (personnel, administration, rent or lease, security, bonuses)
- All cash-based administrative expenses
- Income tax expense
- Cash-based non-operating expenses

### CASH FLOW NET CHANGES FROM BALANCE SHEET LINE ITEMS<sup>16</sup>

- Net change in current assets such as accounts receivable
- Net change in current liabilities such as accounts payable

- Net change in savings deposits (for deposit-taking MFIs)
- Net change in loans to customers
- Principal repayments to lenders (may not be paid if there is a standstill agreement in place)
- Purchase of property, equipment and intangible assets
- Proceeds from sale of plant, property and equipment
- Net change in quasi capital

### BURN RATE AND RUNWAY

“**Burn rate**” and “**runway**,” are two practical and useful cash-focused metrics to measure how much cash is left at the end of each month and how long it will last. They are terms used when analyzing growing companies and are also useful concepts for an MFI, particularly during the COVID-19 crisis, as they focus clearly on the importance of cash and how long an MFI can continue to operate based on its cash levels. The three key terms are **gross burn rate**, **net burn rate**, and **runway**. The cash-based financial line items listed above are used to calculate burn rate and runway.

**Burn rate** describes the rate at which an institution is spending its cash. It is a measure of negative i.e., decreasing, cash flow. It is often expressed in total cash per month, although it can be expressed in any time frame. When an MFI is experiencing a cash crisis, it may need to calculate a weekly burn rate, or even a daily burn rate, to see how long its cash will last. The burn rate is an important calculation for an MFI, as it clearly states how much time an MFI has before it runs out of money, using current assumptions of cash inflows and outflows. There are two kinds of burn rates: gross and net. The gross burn rate measures total spending, while the net burn rate is a measure of net cash flow. For an MFI, the net burn rate is likely a more useful figure as it shows the true net cash results. It could also be called or considered an operating liquidity ratio.

**Runway** is the amount of time before the MFI runs out of cash. Runway is typically measured in months, but just as with burn rate, can be adjusted for any time interval. The more dire the cash position, the shorter the time frame that should be used. For example, if an MFI is nearly out

<sup>15</sup> Depreciation and loan loss provisioning expenses found on the income statement are non-cash items so are **not** included in this list.

<sup>16</sup> While dividend payouts are a cash-based balance sheet item, MFIs should not be expected to pay dividends during a crisis, so dividends are excluded here.

of cash, it may choose to measure runway and burn rate in days or weeks, whereas if it has a more comfortable cash cushion, it can apply these metrics on a monthly basis.

- **Net Burn Rate** = (Beginning Cash Balance - Ending Cash Balance)/Month (or any time period measurement)
- **Gross Burn Rate** = Expenses/Month (or any time period measurement)
- **Runway** = **Cash Balance/Net Burn Rate**

Example: if an MFI has 500,000 in cash and has a net burn rate of 100,000 per month, it has a 5-month runway before it runs out of cash.

## LIQUIDITY RATIOS

- **Total Liquid Assets/Total Assets** is a useful liquidity ratio for both deposit-taking and non-deposit-taking financial institutions during COVID-19 or other crisis or stress scenarios. Note that accounts receivable are considered liquid assets. However, any accounts receivable based upon MFI client loan repayments that are not currently being paid back (i.e., are not resulting in additional cash to the MFI such as during a grace period or payment moratorium) should be **excluded** from accounts receivable liquid assets in the numerator of the ratio.
- The **Quick Ratio**, also called **Cash Ratio**, is a common liquidity measure. Due to the inclusion of accounts receivable consisting of illiquid microloans to clients, it is a less useful liquidity measure during COVID-19 or any crisis that has a strong impact on timely client loan repayments.
- **Liquidity Coverage Ratio** and **Net Stable Funding Ratio** are two liquidity measures used (in Basel III) for financial institutions. While these ratios are typically used by larger financial institutions as liquidity metrics, they require further understanding and analysis, such as what are considered “high quality assets” and “stable assets,” and thus are not as quick and easy to calculate as the above-mentioned ratios. As such, they are presented for informational

purposes and may be more sophisticated than needed unless a regulator requires the MFI to compute them, or the MFI wishes to track these financial indicators.

The **Liquidity Coverage Ratio** reflects an institution’s ability to convert high-quality, unencumbered liquid assets to cash to offset projected cash flows during a 30-calendar day period. It is related to the amount of available liquid assets an institution has to offset the projected amount of outflows over the thirty-day period.

- **Liquidity Coverage Ratio:** High-quality liquid assets (HQLA)<sup>17</sup>/Total monthly net cash outflow amount over the next 30 calendar days.<sup>18</sup>

## NET STABLE FUNDING RATIO

Banks are required to maintain enough stable funding to cover the potential use of funds over a one-year period. The Net Stable Funding Ratio relates to the amount of stable funding an institution needs to finance the liquidity of the assets being funded over a one-year period.

- **Net Stable Funding Ratio** = Available amount of stable funding/Required amount of stable funding  $\geq$  100%.<sup>19</sup>

## LIQUIDITY RATIOS FOR DEPOSIT-TAKING INSTITUTIONS

Deposit-taking institutional liquidity ratios are relevant for a deposit-taking MFI. Regulated and/or deposit-taking MFIs also have country-specific supervisory liquidity requirements. Four key deposit-focused liquidity ratios are described below.

- **Total Liquid Assets/Total Assets** (defined earlier above)
- **Cash Deposits Ratio** = (Cash minus three months of operating expenses)/Deposits
- **Savings Liquidity Ratio** = (Reserves held against deposits required by regulator + unrestricted cash)/Deposits
- **Loan/Deposits Ratio** = Gross loan portfolio/Deposits

17 For banks, it is preferred to exclude balances held with other banks from High Quality Liquid Assets (HQLA) and use “free” liquid assets, i.e., liquid or HQLA in excess of required reserves on customer deposits.

18 See “Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools,” Bank for International Settlements Basel Committee on Banking Supervision. 2013. <https://www.bis.org/publ/bcbs238.pdf>.

19 See “Basel III: The Net Stable Funding Ratio,” Basel Committee on Banking Supervision, Bank for International Settlements. 2014. Basel, Switzerland. <https://www.bis.org/bcbs/publ/d295.pdf>.

## A. IMMEDIATE TACTICAL ACTIONS

- ✓ Determine the current available total cash balance from all accounts. Ideally, the financial management information system updates automatically with cash balances from banks and income from clients. If not, there are programs that can be set up that automatically update cash balances held in financial institutions, or less optimally, this can be done manually.
  - ✓ Set up the easiest way to monitor the cash balance daily if it is not currently being done.
  - ✓ Identify who will be in charge of monitoring and reporting on the daily cash balance. This may or may not be the same MFI staff member who normally handles this task.
  - ✓ The electronic database results described in Section 5 on Customer Safety can be used to make initial client income estimates, including timing and likelihood of principal and interest payments. Seek input from the loan officers' team and use their estimates of customers' situation, and expectations for loan recovery probability in the short term.
  - ✓ Estimate the collections rate for the upcoming month at a minimum. Keep the forecast updated regularly.
  - ✓ Income: Extra focus and close monitoring is required to maximize daily, weekly, and monthly loan collections and repayments. The MFI should assess its clients' ability and willingness to repay, adopting a customer-centric approach with close client collaboration to achieve a mutually beneficial (win-win) repayment and collections outcome.
  - ✓ Expenses: can be considered in a four-tier priority order, as seen below. Cost savings should start with tier 4 expenses that are most readily cut and proceed from there. While loan disbursements can be decreased, they should ideally never stop entirely. Continuing to lend is crucial to institutional survival during a crisis. Expenses should be cut as much as possible to provide a meaningful cash flow that can fund loan disbursements. Spending on capital assets or items should be suspended to preserve cash needed for managed disbursement. This ensures business continuity for the MFIs.
    - **Tier 1:** core operating expenses, including COVID-related costs.
    - **Tier 2:** Debt repayments owed to creditors.
    - **Tier 3:** Non-core operating expenses, such as capital expenditures and staff bonuses, should be halted or decreased during a crisis.
    - **Tier 4:** dividend payouts, which should not be made during a crisis.
- ✓ Conduct a quick estimate of weekly cash-based income inflows, expenses' outflows, and net cash flow changes from the balance sheet using the definitions described above. Use these to determine the ending cash balance per week and month, showing available liquidity.
  - ✓ Conduct an early estimate of projected cash flows and resulting liquidity. It is optimal to develop the projected cash flow based on the MFI's latest financial projections, with any needed modifications made to ensure that all figures are on a cash basis.
  - ✓ Determine net burn rate: how much cash is being consumed weekly on a net basis for the next three months.
  - ✓ Determine runway: establish how long cash will last, given current assumptions.
  - ✓ Determine the MFI's minimum cash balance threshold target and how to achieve and maintain it. Setting this threshold can be done by the board as part of its governance role during the crisis.

### Additional tips:

- ✓ Analyze debt from all sources, including local banks and other domestic and international lenders. List the debt interest and principal payments due in each of the next three months as described in Section 2, Investor Relations.
- ✓ Begin internal discussions in the MFI regarding what expenses can be cut. Consider and prioritize what are necessary operating expenses and which capital expenditures can be postponed.
- ✓ Factor in additional expenses for pandemic-related supplies such as masks, hand sanitizers, face shields, and other personal protective equipment, as well as any cost of reconfiguring an office or providing physical barriers (e.g., plexiglass) that will be needed if branches or headquarters are open or staff visit customers, or if MFI

is trying to provide any supplies to staff or customers for their own use.

- ✓ Communicate with all creditors (local banks, domestic and international funds) to determine what loan principal and interest payment relief may be available.
- ✓ Bank overdraft facilities can also be negotiated, with appropriate limits to pay for priority payments needed that exceed available cash.
- ✓ Negotiate for foreign debts contracts to be denominated in local currencies, when possible, to help manage foreign exchange risk fluctuations.
- ✓ Suspend declaration and subsequent payment of dividends for the duration of the crisis.
- ✓ Incorporate any government actions, such as national loan moratoria (principal and/or interest) that affect the institution's current and near-term cash balance as described in Section 3 above. Local banks will be subject to these moratoria, and foreign lenders may or may not be. A moratorium may also affect the institution's ability to collect payments from its own customers if the moratorium extends to MFIs as lenders. Government relaxation of prudential requirements may improve cash liquidity depending on the measures enacted.
- ✓ Establish a key performance indicators (KPIs) dashboard if one is not in place already. KPIs are **essential metrics** that the Board wishes to see, the MFI uses to best analyze its performance, and investors have requested. Each MFI can develop its own KPIs' dashboard tailored to its needs. These can include cash balance, liquidity, solvency, portfolio quality, and other top line indicators that are helpful for the board, management, and staff to see on a regular basis.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Set a cash reserve goal. Best practice is minimum 3-6 months of cash; in a prolonged stress scenario, more is optimal. It is important to put measures in place to eventually reach that goal on an ongoing basis, to best cope with crises such as the current one.
- ✓ Set and measure client loan portfolio early warning indicators such as missed payments to identify risk profiles and prepare ensuing action steps.

- ✓ Use loan vintage analysis to track loans segmented by start date.
- ✓ Further develop plans for strategies for the MFI's income to be increased, while remaining sensitive to customers' limitations in a prolonged crisis. Implement plans for new client segments and new products.



### MILESTONES

- MFI has determined current cash available.
- MFI has determined what income can be maximized and what expenses can be minimized in the near term.
- MFI has determined net burn rate and runway by number of weeks or months and will continue to track these on an ongoing basis.

## 8. Manage Solvency

While cash balance and liquidity are immediate concerns in any crisis, it is also vital for the institution to measure and track its solvency. Regulated MFIs have solvency or capital adequacy minimum threshold requirements. An expectation that the MFI will remain solvent is also important for current debt investors assessing whether to restructure their loans to the MFI. Debt investors commonly have solvency covenants associated with loans issued to the institution. Below are three commonly used solvency ratios.

### SOLVENCY, LEVERAGE, AND CAPITAL ADEQUACY RATIOS

- **Debt to Equity (Leverage) Ratio:** Total liabilities/Total equity
- **Equity to Assets Ratio:** Total equity/Total assets
- **Capital Adequacy Ratio:** (Tier 1 capital + restricted Tier 2 capital)/(Risk-weighted assets)

The following ratio, when combined with the capital adequacy ratio above, provides further capital sufficiency insight:

- **Uncovered Capital Ratio (also called Uncovered Exposure Ratio):**  $\frac{\text{PAR30 - impairment loss allowance}}{\text{Total capital}}$

## A. IMMEDIATE TACTICAL ACTIONS

- ✓ Measure current solvency.
- ✓ Determine initial estimated solvency, to be reassessed on an ongoing basis, in order to measure the financial impact of the crisis on the MFI's solvency.
- ✓ Increase liquid assets as much as possible, e.g. cash collections from loans repayment and cash collateral.
- ✓ Significantly reduce or suspend long-term investments such as the purchase of fixed assets.
- ✓ Do not sell fixed assets such as land because it may be under-valued during the crisis and yield a loss.
- ✓ Understand the definition of a “going concern.” Strive to meet this standard. The institution's accountant can provide a precise definition of it in the local context.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Closely monitor the current and forecasted impact of financial performance on the MFI's current and evolving solvency against the desired solvency level.
- ✓ Monitor any mandated regulatory capital adequacy or solvency levels, as well as investor solvency covenants.
- ✓ Develop crisis resilience strategies to ensure the desired solvency is achieved. Report the measures to be adopted both to regulators, to comply with requirements, and to investors.



### MILESTONES

- Current solvency has been measured.
- An initial estimate of the impact of the crisis on solvency has been determined and can be monitored.

## 9. Segment the Loan Portfolio

The COVID-19 pandemic affects sectors differently, even in the same city or rural area. This will vary over time over the course of the crisis. An institution can assume that its borrowers will be affected differently by the crisis, far more so than before it occurred. Each borrower's situation will depend on how the business or sector fares locally in the crisis. For example, if there is a government-mandated lockdown for all but essential businesses, the non-essential businesses may come to a full halt with all of the associated economic difficulties and loss of income. The business owners may be unable to pay loan interest or principal if they do not have sufficient cash to do so. In contrast, essential businesses, suppliers to essential businesses, or entities that have pivoted to meet demand in the COVID-19 crisis may have stable or even increased business and may be able to continue to fully pay their loans. They may even seek to borrow additional capital because their business is growing. Box 9 provides an example of a new business product offered by an MFI. The MFI's borrowers may also have new product or service offerings to launch that were only in the planning stage before the pandemic or are fully new ideas arising from the unique economic context of the pandemic.

## A. IMMEDIATE TACTICAL ACTIONS

- ✓ Determine the status of any lockdown or other government measures that affect business demand currently in

### Box 9. CreditAccess Philippines health insurance product

CreditAccess, an MFI based in the Philippines, launched a health insurance product in May 2020 that provides coverage for specific non-COVID-19 viral and infectious diseases. The product is offered through a partner brokerage firm and uses a basic technology platform to enable digital customer interface. In the first three months after launch, the product attracted tens of thousands of clients. While the insurance had been in the product planning stages prior to the pandemic, it launched more quickly to respond to market demand during the COVID-19 health and economic crisis.

place for customers' geographic areas. Broadly identify the types of businesses and other loan types it affects. For example, if the government has ordered certain types of businesses to temporarily close or if schools are closed, portfolio quality for loans made to those businesses or for school fees will be affected.

- ✓ Segment borrowers by:
  - Type of productive loan business.
  - “Non-productive” loans not intended to generate current income for the MFI’s borrower. These could include loans for school fees, housing improvements, water and sanitation, or cookstoves.
  - Geography: rural versus urban if they are affected differently.
  - Gender, so as to be able to report any differential by gender.
  - Economic and/or official status of the loan category in the current stage of the pandemic-driven crisis in the local jurisdiction. For example, food providers, pharmacies, etc. are often considered essential services. A sewing business that has shifted production to making protective masks may also be considered an essential business.
  - Agricultural portfolio: status of farms per type of crop, livestock, etc.
  
- ✓ Create a simple segmentation that works well for the MFI and describes customers per segment. Segmentation can be used for lending, as well as other products such as money transfers and digital financial services. Segmentation should be refined and updated as the crisis evolves and recovers, as additional business categories are allowed to reopen. For example, bicycle repairs may be allowed to reopen, but hair salons may be left closed due to the required proximity of employees and customers; both will eventually reopen. Pre-COVID-19, these may have been similarly categorized as micro- or small businesses, but in the COVID-19 environment, or a similar crisis, they would be segmented separately and considered differently.

Some MFIs may want to adopt a strategy to temporarily stop lending because of concern about the borrowers' repayment capacity or about the general economic decline and uncertainty. There is already anecdotal evidence that

the MFIs that are succeeding in this crisis are those that are *selectively lending to a strategically segmented customer portfolio*. MFIs are using the type of analyses described in the above portfolio segmentation. For example, an MFI can analyze how supply and demand of the economic activity in borrower segments is affected by the crisis, incorporating that data in a simple risk model that enables the MFI to authorize loans quickly and remotely. This can help the MFI to avoid or lessen severe loan portfolio contraction. Importantly, it also supports the recovery of part of its client base. MFIs that stop lending entirely may worsen their own business contraction. Crucially, continuing to lend helps maintain solvency. Stopping or shrinking lending can exacerbate the risk of insolvency. Stopping lending will signal to clients that the MFI may not survive, in which case clients may be less likely to repay existing loans. This can have particularly negative effects on deposit-taking institutions, which, in the worst cases, can lead to customer deposit runs.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Continue monitoring and refining portfolio segmentation based on sectors active during the crisis.
- ✓ Identify what financing gaps customers have per active business segment and develop new products or services that best address these segments. Consider if and how these products can be delivered digitally.
- ✓ Look for large or growing segments that can help drive loan portfolio growth and the ability to better serve customers' needs and deliver high impact.



### MILESTONES

- An initial quick COVID-19 crisis portfolio segmentation by business, loan usage, geography, and gender has been completed.

## 10. Renegotiate the Loan Portfolio

Following the loan segmentation in the prior section, it will be clearer which portfolio segments are negatively affected by the crisis. This allows the MFI to provide targeted repayment relief to the negatively affected segments. A customer segmentation strategy is preferable to offering across-the-board, unilateral repayment relief to all borrowers. It enables the MFI to apply a framework to make decisions on providing growth capital to healthy businesses and offering debt relief to clients facing greater loan repayment hardship. This requires more effort and analysis by the MFI but has the benefit of providing an effective nuanced customer loan repayment and portfolio strategy.

Beyond any government-mandated moratoria, the MFI, in consultation with its board, can determine what type of principal or interest relief it wishes to offer, and to which loan portfolio segments. This strategy can build further trust and strengthen its relationships with customers, both those seeking new loans for growth, and those struggling to survive. The recommended actions in this section may also overlap with those already outlined in Section 5, Customer Safety. It is useful to bear in mind the advice from the Social Performance Review on the value of maintaining strong customer relations: “One of the best investments you can make right now is to maintain close contact with your customers. Many can’t make payments, but they are valuable assets just the same.”<sup>20</sup> Similarly, Acción says focusing on the customer brings long-term benefits: “Take a customer-centric view to repayment and think through how you will build loyalty, trust and market share through and beyond this crisis.”<sup>21</sup>

### A. IMMEDIATE TACTICAL ACTIONS

✓ Determine all government-mandated loan moratoria and when they are scheduled to end as described in Section 3 above. Make a best estimate of the likelihood of any mandated government moratoria being extended, and if so, for how long. Factor in allowed use of cash collateral that the government is permitting to encourage small and medium-sized business loans during the pandemic.

- ✓ Identify the best timing for potential immediate and medium-term concessions needed per borrower business segment based on portfolio segmentation from Section 9 above.
- ✓ Develop clear criteria under which a loan can be renegotiated immediately or should be evaluated. The criteria should clearly specify the approach to renegotiated loans and be disseminated to all loan officers, including head office and field staff.
- ✓ If certain business categories remain completely shut down but have been under a government moratorium that is ending soon, or if the government allows the businesses to reopen, but demand has plummeted due to the economic crisis, the MFI can offer a loan moratorium to its borrowers after the government moratorium has ended, by providing some form of renegotiated loans.
- ✓ Strategically decide if new loans to existing customers that are for a different business segment, perhaps a business with high demand in the crisis, would be considered a new loan, separate from an existing loan, and with a different risk profile. While this is not standard loan portfolio practice, instances of MFIs doing this have been noted specifically during this crisis.
- ✓ Assess the impairment on the portfolio and make any accounting adjustments needed to reflect this.
- ✓ Determine which type of renegotiated loan is best suited for customer segments needing some form of modification to the original loan as defined earlier in the roadmap in Box 4, namely restructured or refinanced loans. As described in the Investor Relations section, ensure that all renegotiated loans that are separated into a new portfolio, and result in improved portfolio quality results, be explicitly noted and flagged for reporting to the institution’s management, board, and all investors for full transparency.
- ✓ Develop an estimated collections rate per portfolio segment. Continue to update the forecast on a rolling basis.
- ✓ Once loans have been renegotiated, the MFI should revisit its loan portfolio to determine what, if any, provisioning is required.

20 See “Treating Staff Responsibly During the Pandemic: Three Things to Do Today.” Wardle.

21 See “Responding to the COVID-19 Pandemic: Guidance for Financial Service Providers.” Acción. 2020. <https://content.accion.org/wp-content/uploads/2020/03/COVID-19-Briefing-vf.pdf>, page 19.

- ✓ Develop a management reporting tool to track the quality and volume of the renegotiated loan portfolio on a monthly basis.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Use the segmented renegotiated loan portfolio approach.
- ✓ Update the renegotiated loan policy as needed.
- ✓ Review and revisit provisioning and write-off policies especially as affected by any renegotiated loan policies.
- ✓ Analyze MFI performance using the Crisis Assessment Tool monthly reporting template noted in Section 2 and any other needed analyses on the quality, volume, and repayment of the negotiated loans. Use it also for liquidity forecasting.



### MILESTONES

- Select segments of the loan portfolio have been renegotiated, based on portfolio segmentation.

## 11. Conduct Cash-Based Forecasts, Scenario Planning, and Stress Testing

This section focuses on strategic and systemic cash flow forecasting and scenario planning over time, as well as stress testing. These tools are useful during the COVID-19 pandemic, as well as for any crisis that an MFI is experiencing. This section builds upon all of the earlier roadmap steps, including the near-term cash flow and liquidity exercises described in Section 7. It presumes all steps and milestones from the prior sections have been completed.

## CASH-BASED FINANCIAL FORECAST

While it is common to prepare budgets and financial forecasts, it is less common to prepare a projected **cash-based** financial forecast. The concept is the same, but the end result provides the projected cash balance at the end of each period. A cash-based forecast is crucial to manage the institution through the crisis and is invaluable for ongoing financial analyses of the MFI. Creating the cash-based forecast as a key action step during the crisis may not correspond to the MFI's traditional timing cycle for its strategic plan, annual plan, and budgeting process. It should be presumed that most if not all pre-COVID-19 forecast assumptions have changed dramatically.

## SCENARIO PLANNING

Scenario planning provides alternative versions of the above-mentioned forecast. Scenarios can be developed that classify potential financial performance outcomes, such as: Best, Worst, and Medium, or alternatively simply a Best and Worst scenario.

## STRESS TESTING

Stress testing is a particularly useful tool both before and during a crisis to better plan for the potential financial impact resulting from the crisis. It examines how potential shocks from adverse market conditions could undermine an institution's profits and losses, liquidity, and capital position. Stress test results are an important strategic decision-making tool to prepare for undesirable scenarios before they occur and to plan accordingly. An MFI can use stress test results to be well prepared when faced with an unexpected and immediate stress such as the current COVID-19 crisis. Stress scenarios must be realistic and should consider multiple simultaneous stress factors.

It can also be helpful to do a reverse stress test to identify where the critical thresholds are for each stress dimension regarding the MFI remaining a going concern. For example, what levels of default, length of payment moratorium, exchange rate changes, or other factors, will cause the MFI to experience a liquidity shortfall by year-end or will lead to capital depletion?



## USES OF FORECASTING, SCENARIO PLANNING, AND STRESS TESTING

Two benefits of the results of forecasting, scenario planning, and stress testing are:

1. To track whether, and ultimately ensure that, the MFI remains a “going concern” even in times of financial stress. Both liquidity and solvency are key to remaining a going concern.
2. Once forecasts and scenarios have been developed, the information can be used as a strategic decision-making institutional tool for the board and senior management.

It should be noted that an MFI’s ability to conduct these financial analysis exercises will vary depending on its financial situation; it may have some cash cushion and want to plan ahead, or it may be nearly out of cash and need a financial emergency exercise. If an MFI does not have staff well versed in these financial analyses, or with sufficient time to do so, an external contractor can be hired. Ideally, the institution develops its own forecasting, scenario planning, and stress testing financial model to optimally meet its institutional needs. However, there are a number of free financial models with forecasting capability available that focus on MFIs, which are listed in the Additional Resources section at end of the Roadmap.

### A. IMMEDIATE TACTICAL ACTIONS

#### Cash-based forecasts and scenario planning

- ✓ Use results of Section 7 on current cash balance, as well as calculated burn rate and runway as an initial estimate of how long the MFI’s cash will last.
- ✓ Update the existing financial forecast or create a new forecast on a cash basis, incorporating most recent actual financial results.
- ✓ Determine if financial, treasury, or risk management staff (not all MFIs have all of these functions on staff) have the capability to complete the cash-based forecast. If not, identify and contract with an external expert. This may involve securing technical assistance funding if the institution cannot afford this assistance at this time. It is a high-priority expenditure.
- ✓ Develop Worst, Medium, and Best scenarios. It is possible that the MFI’s best-case scenario is worse than any pre-COVID-19 crisis scenario. It is important to candidly

look at worst-case scenarios and plan ahead for them, despite the many unknowns of an evolving crisis.

- ✓ Illustrative examples of variables that can be used to drive scenarios are listed below. Each institution will want to develop its own set of variables to use for scenario planning. Other variables can be used for stress testing. Ideally, each key factor is set up as an independent variable such that changing it flows through the entire financial forecast, scenario, or stress test.
- ✓ Examples of variables:
  - Anticipated length of the crisis.
  - Estimated percent of economic contraction, per portfolio segment if possible.
  - Estimated duration and scope of government-mandated loan moratoria.
  - Investor grace periods.
  - Projected loan disbursement volumes and timing.
  - Decrease in collection rates.
  - Default rate increases.
  - Loss given default (lower collections on defaults).
  - Deposit withdrawals if it is a deposit-taking MFI.
  - Expected ability of the institution to get new loans and/or restructured loans from current lenders for onlending.
  - Potential equity infusions from current equity investors.
  - Local currency devaluation.
  - Increased cost of funding.
  - Decreased availability of funding.
  - Increased cost of hedging foreign currency.
  - Operational risk incidents (fraud, theft, system failures, or connectivity issues).

#### Stress testing

- ✓ Decide what key stress factors to use as variables to stress test the financial forecast. For example, one stress test could be that the institution’s loan portfolio shrinks at the same percentage as the country’s GDP decline.
- ✓ The Microvision model listed in the Additional Resources section at end of the Roadmap can be used for stress testing.

## B. LONGER-TERM STRATEGIC ACTIONS

- ✓ Develop a robust dynamic cash-based financial scenario forecasting, scenario planning, and stress-testing tool that is structured to enable easy updates to key variables and stress factors and incorporates most recent actual financial performance results on an ongoing basis.
- ✓ Revisit the model structure (not solely inputs) every three months during the crisis, and every six or twelve months following recovery or specify another update schedule.
- ✓ Use the above for strategic and financial decision-making at the board and operational levels.



### MILESTONES

- Cash-based financial projections have been developed.
- Cash-based projected scenarios, including Worst, Medium, and Best case, have been developed.
- Cash-based projected scenarios have been used by the board and senior management for institutional strategic decision-making.
- Initial stress tests applying key stress factors have been conducted.
- A cash-flow stress testing tool has been developed and will be used both for monitoring and projections.
- An external contractor has been identified and retained to conduct cash-based forecasts, scenarios, and stress testing if the institution does not currently have this capability in-house.



# SUMMARY OF MILESTONES

<b>Leadership</b>	<ul style="list-style-type: none"> <li>• Crisis management committee has been established.</li> <li>• Board has established new crisis-focused meeting frequency and reporting requirements.</li> <li>• Clearly delegated temporary authority levels have been established for frontline and operational staff and/or digital loan approval standards have been modified for the crisis.</li> </ul>
<b>Investor Relations</b>	<ul style="list-style-type: none"> <li>• MFI has determined its primary staff member who will serve as the investor relations point person.</li> <li>• MFI has determined whether any of its lenders are signatories to: Memorandum of Understanding, Pledge, and/or FIEC Investor Response. Understand the implications of these statements for the MFI.</li> <li>• All investors have been contacted and updated since the crisis started. A schedule has been set of virtual meetings to regularly update investors as a group on financial reporting and qualitative descriptions of how the MFI is operating and performing.</li> <li>• A standardized investor reporting template is being used to provide updates to all investors, supplementing the pre-crisis reporting format.</li> </ul>
<b>Government Moratoria and Other Relief Programs</b>	<ul style="list-style-type: none"> <li>• At least one staff member is appointed to keep MFI up to date on all government regulatory announcements and policies that affect it, including loan moratoria, any changes in prudential and regulatory requirements, and any changes affecting deposit-taking MFIs.</li> </ul>
<b>Ensure Staff Safety and Communications</b>	<ul style="list-style-type: none"> <li>• MFI has checked in initially with each staff member and knows each one's location and health and safety status. MFI has identified staff at risk and taken necessary preventative measures.</li> <li>• MFI has established a regular staff communication plan during the pandemic (daily is ideal).</li> <li>• MFI has assessed and, where possible, secured the health and personal protective equipment that staff need to do their work, and developed and implemented policies for COVID-safe operations.</li> <li>• MFI has set up appropriate safety measures for staff working in MFI offices.</li> </ul>
<b>Ensure Customer Safety and Communications</b>	<ul style="list-style-type: none"> <li>• MFI CEO has issued a voice mail or text message announcement to all depositor (for deposit-taking MFIs) and borrower clients.</li> <li>• MFI staff members have spoken with each loan customer to learn their health and safety status, offered clear information about recommended health protocols, and offered assistance as authorized by MFI.</li> <li>• A centralized electronic database has been compiled with codified customer status for at least 80% of customers.</li> </ul>
<b>Ensure Ongoing Operations</b>	<ul style="list-style-type: none"> <li>• Electronic backups have been made of all files and most or all aspects of the institution's work can be conducted virtually.</li> <li>• A basic business continuity plan has been implemented.</li> </ul>
<b>Manage Cash Flow and Liquidity</b>	<ul style="list-style-type: none"> <li>• MFI has determined current cash available.</li> <li>• MFI has determined what income can be maximized and what expenses can be minimized in the near term.</li> <li>• MFI has determined net burn rate and runway by number of weeks or months and will continue to track these on an ongoing basis.</li> </ul>
<b>Manage Solvency</b>	<ul style="list-style-type: none"> <li>• Current solvency has been measured.</li> <li>• An initial estimate of the impact of the crisis on solvency has been determined and can be monitored.</li> </ul>
<b>Segment the Loan Portfolio</b>	<ul style="list-style-type: none"> <li>• An initial quick COVID-19 crisis portfolio segmentation by business, loan usage, geography, and gender has been completed.</li> </ul>
<b>Renegotiate the Loan Portfolio</b>	<ul style="list-style-type: none"> <li>• Select segments of the loan portfolio have been renegotiated, based on portfolio segmentation.</li> </ul>
<b>Conduct Cash-Based Forecasts, Scenario Planning, and Stress Testing</b>	<ul style="list-style-type: none"> <li>• Cash-based financial projections have been developed.</li> <li>• Cash-based projected scenarios, including Worst, Medium, and Best case, have been developed.</li> <li>• Cash-based projected scenarios have been used by the board and senior management for institutional strategic decision-making.</li> <li>• Initial stress tests applying key stress factors have been conducted.</li> <li>• A cash-flow stress testing tool has been developed and will be used both for monitoring and projections.</li> <li>• An external contractor has been identified and retained to conduct cash-based forecasts, scenarios, and stress testing if the institution does not currently have this capability in-house.</li> </ul>

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# ADDITIONAL RESOURCES

## ORGANIZED BY TOPIC

### Free Financial Model Programs for MFIs

Below are existing financial models with forecasting capability focused on MFIs. These may or may not be useful or best for each institution. Ideally, the institution develops its own forecasting, scenario planning, and stress testing financial model to optimally meet its institutional needs:

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