



## EDUCATION FINANCE TECHNICAL ASSISTANCE

Some advice for MFIs on handling crises

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**OPPORTUNITY**  
International



# Background

- This document is made for senior MFI managers as a reaction to the outbreak of COVID-19
- Its goal is to help managers handle risk (potentially very high risk in the case of corona)
- It is based on experience of several MFI managers
- What actions to take varies per situation and on local regulations
- We all hope that your institution, clients, people and country will not be overly affected by corona and that normality will return in some time

## FUNDING

### **Assume that profitability, capital and liquidity will deteriorate**

- Liquidity is key, push expenses down
- Where possible postpone rent, taxes, salaries (i.e. postpone 33% of salary for all, no bonus, but unsocial to fire staff during crises)
- However, aggressive loan collection might just bankrupt clients
- So maybe rollover is needed for clients to save them from bankruptcy, even though this would deteriorate an MFI's liquidity position
- Build bad case scenarios (PAR +30%, losses +15%) for liquidity planning
- Use this to prepare for debt rollovers from own funders (works if all funders are included; a rollover should not be used to repay other funders)
- Inform funders of expected losses (especially when that breaches loan covenants)



## MANAGEMENT

**Assume that only limited human interaction is possible for a long period**

- Directive, control focused top-down management styles may not work well in that setting
- Managers that motivate from a distance, include bottom-up input and inclusive planning may be better positioned
- Strict goal enforcement is less effective than understanding, listening and caring (if possible install a toll free line/whatsapp for staff and clients)



## HUMAN RESOURCES

### **Assume that some staff will get seriously ill**

- If not yet done, define key positions and prepare for a situation where some key staff are unavailable for a long period
- Key positions are senior managers, auditor, IT staff and branch managers
- Issues to prepare: temporary replacement, list of key issues, keys/codes (sealed envelop), back-up and up to date manuals



## BRANCH

### **Close branches for the public, or:**

- Use client separators (for instance tape on the floor, 1.5m between clients/staff)
- Limit the number of clients per branch per time
- Use special opening times for older clients, or longer opening times to spread people over time
- Place sanitizers and clean regularly
- Maybe spare electricity generators are needed, and maybe mob protection



## WORKING FROM HOME

### **Assume that offices may have to be closed temporarily**

- Test working from home, using skype/phone
- Virtual meetings require a different management style (more structured, non-verbal communication is difficult)
- Test if additional bandwidth/smart phones are needed
- Distant working requires trust from management & staff (joint weekly goals help, i.e. develop a new SMS platform)
- A daily staff call per department can help
- Working from home entails distant access to data (hence, install extra virtual virus scanners)
- Times of stress hamper some people; it might block their thinking, difficult to pressure them into action. Time for caring & listening or a temporary release of duties can help.



## CLIENTS, GROUP MEETINGS

### **Seriously consider halting group meetings**

- Instead, use group calls (groups may have to be divided into subgroups, maybe finance a phone)
- Test group calls (better if groups can use mobile payments, see section *technology*)
- Distant training may help (eLearning), difficult to form new groups
- Play a role in advising clients (i.e. sanitation, risks, SMS can be useful)





## ARREARS

### **Assume arrears to increase massively**

- Loan repayment remains key, but clients may not be able to repay during a serious crisis
- In such case aggressive loan collection can just lead to bankruptcies
- Staff accessibility can be important for clients (by phone)
- Consider preparing a broad credit rollover option for 3-6 months (not advised under normal circumstances)
- Inform all funders of this approach in advance (it might help securing rollover of own *funding*)
- Be in contact with regulators about arrears collection (they may postpone all repayment)
- Serving new clients is difficult, small (online) overdrafts for good clients can keep them afloat



## FRAUD

### **Assume that in times of stress more fraud happens**

- Fraud could increase, some staff use the opportunity if there is less contact between staff and less control
- Fraud might show if clients halt repayments (some loan officers finance themselves through clients)
- Hasty operational changes/new technology use might create loopholes
- Fire fraudsters at once (good practice in all cases)
- Some clients might use the situation to default
- Senior managers may have to call clients to diminish such risks and keep in touch with reality



## TECHNOLOGY

### **Installing new technology rapidly during a crisis weakens control**

- Technology diminishes the risk of viruses (albeit not virtual virus risk):
  - Mobile payments: diminish cash handling
  - Mobile banking: diminish cash handling and some client enquiries
  - Voice of the Client: perform client satisfaction by phone
  - Virtual assistant: can handle some client enquiries
  - SMS: inform clients (easy to install)
- For MFIs that handle virtual cash: temporarily accept mobile cash only
- Risk: technology is often less well accepted by poor and older people
- Risk: introducing technology without proper back office set-up risks losing operational control
- Advice: moving to cloud can be done quickly (and is required for distant working), and use the moment to simplify operations and start planning to upgrade the MIS (to be able to handle new technologies in the future)



## ALGORITHMS

### **Assume that algorithms may not work during crises**

- Based on past data, algorithms link client characteristics to non-repayment risk
- As the situation changes during a crises, algorithms may not be good in assessing risk during corona
- Institutions might therefore have to halt using credit algorithms, especially if they trigger automatic credit approvals





## FINALLY

- COVID-19 seems worse than previous crises and damages whole sectors
- However, looking at other crises (ebola, SARS, civil strife, earthquakes, tsunamis) it is assumed that sectors will rebound, eventually
- Better prepared and more stable institutions have a higher chance of being part of that rebound

If you have time, we are available to reflect on the measures you are taking



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