



The Covid-19 *Financial Inclusion Compass*

**A special edition e-MFP survey
of sector challenges & priorities**

By Sam Mendelson

With support from Camille Dassy, Gabriela Erice, Daniel Rozas and Joana Silva Afonso



EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

www.e-mfp.eu



Table of Contents

Foreword	5
Introduction	7
Executive Summary	8
Background & Methodology	12
Survey Respondents	13
The Challenges Covid-19 Poses to Financial Inclusion	14
Challenges facing Clients	14
What respondents wrote	15
Respondents' Other Suggested Challenges facing Clients	17
Challenges facing FSPs	18
What respondents wrote	19
Respondents' Other Suggested Challenges facing FSPs	21
Challenges facing Funders (including debt investors, wholesale lenders and equity investors)	21
What respondents wrote	22
Challenges facing Others (including researchers, raters, TA providers, regulators and infrastructure organisations)	23
What respondents wrote	24
Medium-Term Priorities for a post-Covid Sector	26
Priorities for FSPs	26
What respondents wrote	27
Selected Comments from Other Priorities for FSPs	28
Respondents' Other Suggested Priorities for FSPs	29
Priorities for Funders (including donors, DFIs, MIVs and others)	30
What respondents wrote	31
Priorities for Regulators/Policy-Makers	32
What respondents wrote	33
Priorities for Others (Consultants & Support Service Providers, Researchers & Infrastructure Organisations)	35
What respondents wrote	35
Concerns	37
Opportunities	40
Forecasts	44
Where To From Here?	46

Foreword



In 2018, the European Microfinance Platform (e-MFP) saw a need and an opportunity – for a cross-sector, mixed-methodology survey of various stakeholder groups on the trends underway (and on the horizon) in financial inclusion. It leveraged e-MFP's unique position as a member-led platform, knowledge hub and coordinator of all sorts of sector initiatives, to capture a real sense of the direction in which the sector is heading. This became the *Financial Inclusion Compass* survey of sector trends. The inaugural *Compass* was well received, and after collecting feedback, we published the 2019 *Compass* a year later too.

With proof of concept established, the plan was to continue with the annual paper. But the world turned upside down in the early months of this year, and as the impact of the Covid-19 pandemic on the financial inclusion sector became increasingly apparent, we decided to take advantage of the methodology, brand, goodwill and expertise developed in the previous two editions to re-purpose this year's survey for this critical moment, to ask: how severe are the various challenges facing different stakeholder groups? What should be the priorities of the sector in the medium-term (both to recover from this crisis and put in place measures to mitigate the next)? And how will this year transform the sector – for better or worse?

What you have here – the *Covid-19 Financial Inclusion Compass* – is the output of a remarkable effort by the e-MFP team. We want to thank all the team members, as well as the e-MFP Board, which has strongly supported the *Compass* project from its start, and the over 130 e-MFP members who contribute in various ways to its success. We would also like to especially thank Mayada El-Zoghbi and her team at CFI, Noémie Renier from Incofin and Babak Abbaszadeh and Demet Çanakçı from Toronto Centre for the feedback they gave to the early drafts of the survey, which – despite the methodology and structure refined over the past two years – this time had to effectively start with a blank page.

Finally, we would like to thank the respondents who took the time to participate in this project. While we try to make the survey as short and simple as possible, the reality is that we are asking expert people about highly complex issues, and it takes time for them to give their comprehensive thoughts. Thank you.

It's not yet clear how the direction of the financial inclusion sector will change because of the stormy seas of Covid-19 – although it seems certain that it will. We hope that this special edition *Compass* will provide useful navigational guidance as clients, providers, funders, researchers and others try to sail safely ahead.

Laura Hemrika
e-MFP Chairwoman

Christoph Pausch
e-MFP Executive Secretary

Introduction



In times of crisis,
it is of utmost
importance to
keep one's head

Marie Antoinette

At the time of writing, the whole world is in the midst of a crisis. *Twin* crises in fact – a novel and highly contagious virus with no vaccine or cure that shows no signs of abating, and a genuinely global recession as a result of the unavoidable containment measures put in place. One way or another, things will continue to change quickly. Six months from now, the landscape will surely be unrecognisable from today.

This is as true in the financial inclusion sector as anywhere else. It also means that this paper is unusual, in that, on the 'challenges' different stakeholder groups are facing, it may provide valuable insights right now – but may be out of date very quickly. By contrast, on the 'priorities', 'concerns', 'opportunities' and 'forecasts' that make up the rest of this survey research, it will likely be years until we find out if the respondents' views contained in this paper are 'on the money', as it were.

There's another reason this paper is a bit unusual, and that's because while it is ostensibly part of a series that began in 2018 to track perceptions of trends and as a result designed with year-to-year comparison firmly in mind, this particular *Compass* stands alone. You will not find within it the Trends rankings of the past two years, or indeed the New Areas of Focus Index. The reason is simple: right now there is no part of the sector that is 'business as usual'. Covid-19 is affecting everything, and at the moment the consequences of this pandemic on clients, providers, investors, TA providers and everyone else (and the amount of their resources and time it consumes) is such that asking them to look at a survey of the usual trends would be confusing at best, and tone-deaf at worst.

It's clear that there is real concern that this crisis may be the death-knell for the sector, undoing decades of progress. For others, there are glimmers of hope – that once the acute crisis brought about by economic shutdowns passes, there are chances to make changes that the gravitational pull of the *status quo* would never allow in more normal times.

So, when putting together this special *Compass* survey we began with a blank page, soliciting feedback from various members and friends. What emerged was a more granular survey than usual, broken down by the heterogeneous impacts that different stakeholder groups are experiencing – and the responses to those impacts that they will each need to prioritise in the months ahead.

This really is a 'special edition' of the *Compass*. Perhaps by this time next year, things will have returned sufficiently to 'normal' that we can continue with the next in the typical *Compass* series. For now though, we have the first multi-stakeholder, cross-sector, mixed-methodology snapshot of a sector in real turmoil, the viability of which depends on the various paths that countless actors choose to take. It's e-MFP's hope that a reliable compass can offer some assistance in finding the best paths ahead.

Sam Mendelson

Financial Inclusion Specialist
European Microfinance Platform
July 2020

Executive Summary







The *Covid-19 Financial Inclusion Compass* survey was open for two weeks in June 2020, and was available in English, Spanish and French. The survey had two sections, with the first section having two parts. In Section 1A, respondents were asked to score various challenges facing different stakeholder groups on a severity scale of 1-10 (or 'I don't know'). In Section 1B, respondents were asked to rate the importance of various medium-term priorities for different stakeholder groups (again, on a 1-10, or 'I don't know' scale) and offer comments. Section 2 was entirely optional, and involved three open-ended questions on concerns, opportunities and forecasts.

There were 108 complete responses to the *Covid-19 Financial Inclusion Compass*. Respondents were based in 44 different countries. A plurality (33%) of respondents were financial services providers (FSPs), followed by consultants and support service providers (25%), funders (11%), infrastructure organisations (10%) researchers (8%) and others (13%). In terms of respondents' *primary* geographical region of focus, a plurality (41%) worked globally, 27% in Sub-Saharan Africa, 8% in Latin America, 7% in Middle East & North Africa, 6% in South & Central Asia, 4% in both Central & Eastern Europe and East Asia Pacific, and 3% in Western Europe.

Challenges

The following table shows the top three current **challenges** facing different stakeholder groups, as rated by all respondents.

 Facing Clients	<ol style="list-style-type: none"> 1. Financial Pressures 2. Immobility 3. Reduced Remittance Flows 	 Facing FSPs	<ol style="list-style-type: none"> 1. Client Repayment 2. Macroeconomic Context 3. Liquidity Constraints
 Facing Funders	<ol style="list-style-type: none"> 1. Informational and Operational Challenges 2. Financial Losses 3. Inability to Meet Investees' Needs 	 Facing Others*	<ol style="list-style-type: none"> 1. Field Work 2. Demand Decreased 3. Strategic (Re)alignment

* including researchers, raters, TA providers, regulators and infrastructure organisations.

Priorities

The following table shows what the top three **priorities** should be for different stakeholder groups in the next 6-12 months, as rated by all respondents.



For FSPs

1. Expanding Digital Finance
2. Protecting Staff and Maintaining Morale
3. Maintaining Collections Where Possible



For Funders

1. Rescheduling Existing Loans Where Relevant
2. Ensuring Special Support for FSPs Serving Most Vulnerable Groups
3. Coordinating Collective Action with Other Investors (including Data Sharing)



For Regulators/ policy-makers

1. Promoting Use or Expansion of Digital Finance Services or Branchless Banking Models
2. Developing an Exit Strategy from Covid-19-Specific Measures
3. Encouraging Financial Institutions to Allow Borrowers with Temporary Cash-flow Problems to Delay Interest and Principle Repayments



For Consultants & support service providers, researchers & infrastructure organisations

1. Researching Impact on Clients
2. Facilitating Support for the Most Vulnerable Providers Who are Serving the Most Vulnerable Clients
3. Facilitating Data Information and Sharing

Concerns

In the second part of the survey, *Compass* respondents were asked “*What is your biggest concern about the consequences of Covid-19 on the sector?*” They see several – and there is a real sense of anxiety that many years of progress risks being undone by the pandemic, even if the full impacts are not yet clear.

It’s clear that most respondents are concerned most about the adverse effects on **clients**. These include, among others, losses to businesses – especially **MSMEs** – and opportunity costs for clients’ children in **education**. For providers, respondents are concerned about the maintenance of **client protection and social mission** – especially as business models move away from high-touch, onsite visits. **Investors** will be key to mitigation here, from maintaining liquidity, protecting staff, letting providers recapitalise clients’ businesses while being flexible with existing loans, to being willing to absorb some defaults.

This will need **coordination** among investors, new strategies, strong governance and management with patience, direction and long-term vision. FSPs that survive or prosper will need institutional change and flexibility – a willingness to adapt or learn, and to do so while communicating with clients, staff and funders. These adaptations would be a challenge even in normal times, but these are times riven by **uncertainty**. Nobody has complete answers, and it is this uncertainty of the present context that for some is potentially the greatest concern of all. What is seemingly clear is that respondents are concerned about portfolio risk issues, business failures, liquidity and solvency issues, but the breadth, severity and duration will depend upon the level of coordination and financial and non-financial support from authorities and the financial sector at large. All of this depends not only on the spread and lethality of the coronavirus,

but what respondents see as the bigger crisis – the consequence of **macroeconomic trends**, both global from slowdown/recession and market specific, especially impacts on trade and tourism.

Once the health crisis comes under control, **what's next?** Respondents are concerned about the risk of yet more severe outcomes driven by possible **subsequent waves of contagions** requiring further full or partial lockdowns and preventing timely recovery of the economy. This is a systemic risk, complex and nonsequential, and needs deep understanding of the resilience of the markets where stakeholders operate and fundamental strengths of financial institutions with whom they work. Customer-centricity and strong social performance will be key in navigating through the crisis and limiting unsustainable deterioration of portfolio quality.

Finally, some respondents are concerned about an especially sad outcome, of **recession causing regression**; that the considerable advances and innovations, such as in demand-led product development and diversification and client protection of the several last years, might be lost.

Opportunities

Respondents were also invited to respond in terms of what, if any, opportunities they see for the sector as a result of the Covid-19 pandemic. And there *are* glimmers of opportunity – the disruption of Covid-19 is not all doom and gloom. 'Disruption' always has two meanings: the chaos and hardship of restrictions, costs and losses, and an upending of the *status quo* with an opportunity to change things for the better which in normal times inertia would prevent.

Certain respondents see the opportunities primarily through the lens of the **challenges the crisis has revealed**; after all, one needs to know what needs fixing in order to start doing so. There is a general sense among respondents that a crisis as severe as this one is an **opportunity for clarity**, to recognise which providers and support organisations are truly mission-driven and are willing to take big decisions, keeping clients' and staff well-being at the forefront. In this sense, the Covid crisis is a chance to 'separate the wheat from the chaff', as the saying goes. How do the strong and client-focused providers distinguish themselves?

The best organisations are always collaborators – even in the good times. But many respondents see this crisis as unleashing an impressive wave of **cooperation within the sector**, even if the *direct* benefits of doing so for that organisation aren't always obvious, and in fact may sacrifice individual advantages for collective benefit.

There are **efficiencies** in this sort of collective action, with benefits for larger and smaller players alike. Overall, respondents believe this is well underway, with various examples offered of new methodologies and partnerships that have already kept the most acute threats of the crisis at bay. Perhaps too, this spirit of cooperation will endure beyond the pandemic, with more recognition of the importance of FSPs as last-mile providers of indispensable services that must diversify and remain client-centric.

Part of this new framework will be the **innovation** that crises can sometimes expedite. **Digital finance (DFS)** was by far the most mentioned opportunity, with many examples given from digital school fees payments options, mobile work staff and online meetings to the broader digital transformation of institutions on the client and back office sides. The crisis has already led to behavioural change enhancing the use of digital solutions, which presents a chance for FSPs who develop customer-centric DFS to shift distribution of products to digital channels, and increasingly digitise overall operations. But while many believe the case for DFS has been strengthened by the demands of the crisis, not everyone is on board, and point to a rush to digitisation as a continuing threat to client protection and social mission.

Beyond digital, there are plenty of other opportunities respondents see. There is the chance for promoting/enhancing **non-financial services**. **Jobs** and the consequences of reverse migration are a repeated theme, too, including better labour markets for employers, with migrants returning. And the jobs they need will often be within **MSMEs** – making these more important than ever.

The hardest opportunity to quantify, but for many respondents potentially the most significant of all, however, is the opportunity to **re-think the direction the sector** has been going, and how it can adapt to work better for more people. Perhaps there can be a ‘forced’ rethinking of business operations and products that can yield better, more well adapted approaches and products. This could be everything from how group meetings were substituted during lockdown to greater flexibility in loan products and terms. There are plenty of pessimists among the respondents of course, who see the crisis as an unmitigated calamity for financial inclusion. But several others believe that, amidst the pain at household, provider and global stakeholder levels, there is a chance to be seized here – the chance to make things better than they were before.

Forecasts

“How will the financial inclusion sector be different after the Covid crisis has passed?” was the final question put to respondents, asking them to think towards a undefined date in the future once the crisis is over. How (if at all) do respondents think the crisis will change the financial inclusion sector?

Many respondents again pointed to **digital transformation** of FSPs, with the sector increasingly seeing it as a friend rather than a foe, but the onus should be on providers, not consultants, to best ensure digital solutions are matched to clients’ real needs.

Others foresee a **refocusing of the sector** on new segments, including different characteristics of the clients to whom outreach is prioritised, a new definition of the threshold of financial inclusion, and a refocusing of lending on productive sectors that are essential to the economy. For some respondents, a rapid, pro-client approach (mostly voluntary and not imposed by regulation like for large banks) is not only socially responsible but also economically viable and a risk management tool.

As mentioned before, **collaboration** may be a more permanent and welcome fixture in the sector, rather than a fleeting occurrence. And respondents see **consolidation** as likely too, with fewer but more resilient institutions, not a large number of moribund, zombie institutions being supported by donors or governments. Those with strong capital positions should do better in the medium term, leading to a likely concentration of providers in many markets. Some respondents believe we can expect fewer players and larger concentration among venerable and well-funded FSPs, but the challenge will be to keep alive those medium-sized grassroots cooperatives that provide basic but essential last-mile services. Consolidation doesn’t just apply to financial providers, either, but will potentially involve a continuation of a trend of rationalisation among infrastructure organisations as well.

Financing of the sector may be changed too, leading to FSPs being leaner in their staffing, and funders and internal financial policies being more conservative. FSPs may have to implement strict financial management, working on their cost-efficiency as well as risk management, and maintaining clear and close communication with their investors. This crisis may force some FSPs to accelerate not only their digitalisation but also their professionalisation.

Overall, if there is agreement on one point at all throughout the entire *Compass* survey, it is that Covid-19 will – and perhaps already has – **profoundly change the entire business of financial inclusion**.

As this paper was written, the sector remains in the relatively early days of the crisis – probably closer to the end of the beginning than the beginning of the end. There will undoubtedly be FSPs that will collapse. Possibly millions of small businesses likewise will not recover. Donor largesse from advanced economies may retreat, as those governments feel they have to take care of their own first. And aside from the consequences of the global economic shutdown, the coronavirus itself continues. It may be years until we are rid of it. It may recur, leading to cycles of economic standstill and misery.

Nobody knows what will come next. Whatever the accuracy of the forecasts put forward by the *Compass* respondents, it’s vital that all stakeholders keep in mind what this sector exists for and whom the crisis is really hurting, and to work together to protect them. If that happens, perhaps some of the more optimistic hopes that have shown up in these responses amidst the gloom may turn out to be prophetic after all.

Background & Methodology



The *Covid-19 Financial Inclusion Compass* survey was open for two weeks, from June 9-23, 2020. The survey was available in English, Spanish and French. Respondents had to complete their name, organisation name, organisation category and sub-category, country where based, geographic region of focus, and whether or not they were willing to have comments attributed in this *Compass* report.

The survey had two sections - Section 1 was quantitative and qualitative; Section 2 was qualitative only. In Section 1A, respondents were asked to score various challenges facing different stakeholder groups (clients, FSPs, funders, etc.) on a severity scale of 1-10 (or 'I don't know'). Each of the challenges included an explanatory note or definition alongside it. Respondents were invited to add comments to any of the listed challenges, and/or add new challenges. In Section 1B, respondents were asked to rate the importance of various medium-term priorities for different stakeholder groups (again, on a 1-10, or 'I don't know' scale) and offer comments. All scoring fields were mandatory – so respondents had to choose a score or 'I don't know' for all challenges and priorities in a section before moving on. All comments were optional.

Section 2 was entirely optional, and involved three open-ended questions on concerns, opportunities and forecasts.





Survey Respondents

There were 108 complete¹ responses to the *Covid-19 Financial Inclusion Compass*. 87 were in English, 14 in French and 7 in Spanish. Respondents were based in 44 different countries. The top twenty countries in terms of representation were: Luxembourg, France, United States, Uganda, Netherlands, Nigeria, Germany, Malaysia, UK, Bosnia and Herzegovina, Ethiopia, Belgium, Switzerland, Philippines, Cambodia, Costa Rica, Guatemala, Peru, Bangladesh and Lebanon.

Figure 1 shows that a plurality (33%) of respondents were financial services providers, followed by consultants and support service providers (25%), funders (11%), infrastructure organisations (10%), researchers (8%) and others (13%). This is a similar distribution to the 2018 and 2019 survey.

In terms of respondents' *primary* geographical region of focus, Figure 2 illustrates that a plurality (41%) worked globally, 27% mainly in Sub-Saharan Africa, 8% in Latin America, 7% in Middle East & North Africa, 6% in South & Central Asia, 4% in both Central & Eastern Europe and East Asia Pacific, and 3% in Western Europe. Again, this is a very similar distribution to 2019.

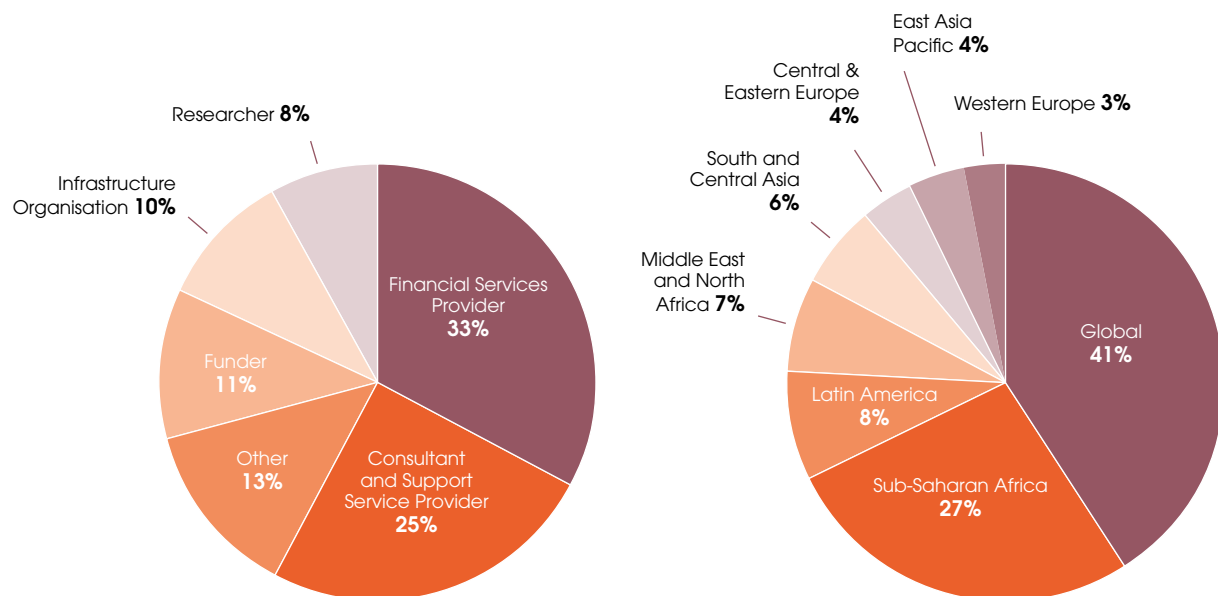


Figure 1

Distribution of Respondents by Type of Organisation

Figure 2

Distribution of Respondents by Primary Geographical Focus of Work

¹ For the purposes of this survey, a response was categorised as complete if there was at least one section completed by the respondent, and/or there were significant relevant comments added. This was a judgment call and marginal cases were included or excluded on a case-by-case basis depending on if there was a significant and valuable contribution made, even if that respondent only partially completed the survey.

The Challenges Covid-19 Poses to Financial Inclusion



Please rate the importance of the following challenge on a scale of 1-10, and provide comments if you wish. If you don't have an opinion on a particular challenge, please select 'Don't Know'.

If you aren't in over your head, how do you know how tall you are?

T.S. Eliot

Challenges facing Clients

Respondents rated **Financial Pressures** clearly the most pressing challenge facing clients, at 8.32 a full decile point ahead of **Immobility** (7.35) and – uniquely among all challenges – it was rated top by all respondent groups. These two top scores contrast very strongly with the lowest score, for **Illness/Incapacity**, bolstering the thesis made in the qualitative responses that it is not the health crisis *per se* which is the greatest threat, but the acute and longer-term financial consequences of the pandemic, and income pressures on households. Perhaps as expected, considering their closest vantage-point to the challenges clients face, FSPs were the main respondent group who rated Financial Pressures the highest.

Reduced Remittance Flows – in very close third place – was rated consistently highly by all groups, especially by infrastructure organisations (8.00).

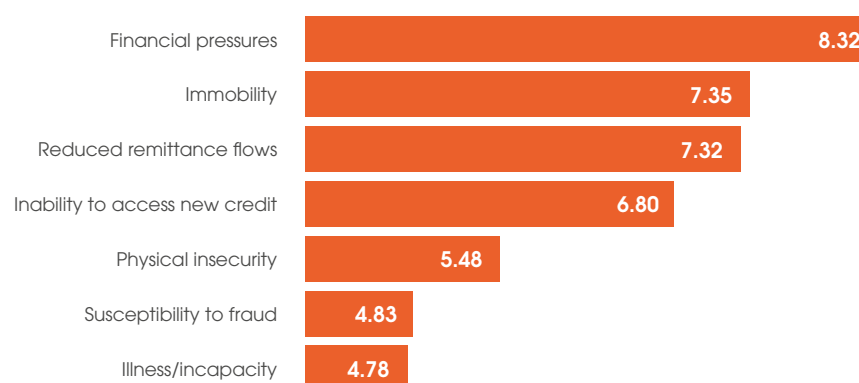


Figure 3

Challenges Facing Clients, Ranked - All Respondents

What respondents wrote

As already shown, **Financial Pressures**² was far and away the challenge that interested or concerned respondents the most, not only in its score but in the number and breadth of comments it produced.

Several respondents pointed to the importance of the context on the severity of financial pressures on clients. It depends on the *“economic sector and rural/urban focus”*, according to Luis Miguel Romani, a practitioner in South America. It’s very severe for those working in the transport sector, but not for those in agriculture – they are *“not in harvest season”*, writes a global funder.

The drivers of financial pressures on clients are several. They include *“low sales”* (according to Cheta Agbo, a practitioner in Sub-Saharan Africa); cash shortages leading to *“demand only for essential food items”* (according to Alaba Ekundayo, a TA provider in Sub-Saharan Africa); *“increases in global prices for commodities especially due to the transport challenge”*, according to Fran Imokol, a consultant based in East Africa; and *“an increased expenditure on businesses”* due to new health protocols, including *“buying digital thermometers to check temperatures, hand sanitizers, tissue, soap every day for all clients using the facility,”* writes Joyce Nyamekye, a practitioner in Sub-Saharan Africa.

But there is a soft consensus that it is loss of income that is the main driver: *“A majority of clients have faced strong decreases in their income due to lockdown and the global economic slowdown [especially] transport, trading and tourism... the effect on the expenditures side has been less important”*, writes a Europe-based TA provider.

Some have benefited from the economic lockdowns. Dr Ihab Amin, a practitioner in the MENA region, observes that *“there are commercial sectors that were more affected than others due to the Covid-19 crisis and precautionary measures such as the curfew in the streets, for example the coffee shop and social clubs sectors, and there are sectors that have benefited from the Covid-19 crisis because they have been practicing their activities and sales while not roaming the streets”*. Moreover, for some clients, *“while their income has dropped, most have found new ways to generate income to compensate for the drop in income from the original business”*, writes Georgina Vázquez, a support service provider working in South America. And *“it depends on the products or services...essential businesses are doing well”*, writes Adetunji Afolabi, a microfinance trainer in West Africa.

Nevertheless, for the majority, the concerns are very significant, and downward pressures on incomes and upward pressures on expenditures have unavoidable consequential effects for providers, funders and all the other sector stakeholders: *“There is a vicious circle of poverty due to coronavirus: low income to low investment to low business activity leading again to low income”*, writes Mohammad Sadiqunnabi Choudhury, a researcher in South Asia.

Client Immobility³ also generated considerable feedback. A microfinance officer at a global infrastructure organisation fears that clients *“actually might have no choice but to move to where they can generate income (might not be their usual income generating activity, but a new one), therefore increasing their chances of getting sick”*. This is also region-dependent; a global data provider says that he has *“heard very different stories by country and within countries (e.g. freedom of movement for smallholders in rural areas, but limited movement in urban areas for small shop/day wage workers)”*.

Immobility doesn’t just affect the particular immobile client, either, but affects the supply chain and therefore other clients too. *“Some customers have had their businesses closed down [due to] difficulty acquiring goods due to containment measures”*, writes a practitioner in Sub-Saharan Africa. Plus, some clients depend on cross-border mobility for livelihoods. The extent of the challenge *“depends on where the client is located - in some countries borders are closed, but in the country itself one is able to move more*

2 ‘Clients facing decreased income or business failure through reduced demand and/or increased expenditure’

3 ‘Clients unable or unwilling to travel to work, business or other places needed to generate income’

or less freely”, writes a global support provider. And rural communities, for once, may be advantaged. Anne Marie van Swinderen, managing director of a European research institution, notes that *“while in rural areas most people in most countries are still able to produce food, those in urban areas and those active in business have lost a lot of their livelihood.”*

On the whole, though, this is possibly a receding challenge, as in most countries as of writing, lockdowns and other containment measures are being loosened. Time will tell if this trend continues, or if recurrence of the virus leads to repeat closures of the economy and restriction of movement.

Reduced Remittance Flows⁴, largely due to financial pressures on international diasporas and urban migrants as well as migrants returning home, generated considerable commentary as well. Noémie Renier, a Europe-based funder working globally points to recent data forecasting that remittances *“are expected to decrease by 20% in 2020 (and even further by 30% in some regions) with significant impact on some remittance-dependent clients”*.

The consequences are complex and varied. It will *“highly impact refugees”*, writes one researcher. It is also highly geographically heterogenous. On the receiving (remittee) side, writes Alex Silva, a support service provider working in Latin America and Africa, this challenge *“probably will be crucial for El Salvador and/or Dominican Republic and not so important for other countries”*. A European funder points to *“a notable problem in Americas and Central Asia”*. On the sending, or remitter side, a European TA provider sees a key challenge from the economic impacts in the countries where diasporas are based: *“Europe and the USA [being] very much affected, the impact on remittances could be very important”*.

Some respondents pointed to not just the numbers of remittance flows declining, but a change in their nature. Alex Ahabwe, a practitioner in Sub-Saharan Africa writes that *“relatives abroad are sending remittances from their savings [rather than from their] earnings to support their families”*. Natalie Parke, from an FSP in Central America notes that larger but less frequent transactions are taking place: *“Interestingly, while [our institution] has seen a decline in the number of money transfer transactions, the amounts have actually increased, yielding a net gain over this time last year”*. And there may be undue focus on international remittance flows at the expense of the often-underappreciated importance of domestic transfers. A respondent from a global data collection body writes that *“while on average I am hearing about lower international remittances from sending countries, there seems to be a strong flow of domestic remittances still”*.

But there may be surprising consequences of a contraction in remittance flows – including on inequality levels. A researcher working in Sub-Saharan Africa, MENA and Latin America notes that in previous studies, *“remittances went [disproportionately] to middle or better-off groups, so this may have an equalising effect”*.

Inability to Access New Credit⁵ also generated rich commentary, despite its middling rank of 4th out of 7 challenges. Practitioners sought to explain it from their own position – restraints on their ability to provide new credit to clients. A respondent from an FSP in a Sub-Saharan Africa still under significant restrictions says it’s *“very tricky to lend since we don’t know when the lockdown will be uplifted”*. A different African practitioner expands on the difficulties FSPs have in mitigating this challenge to clients: *“Clients need to have cashflow to show that they are able to repay the loans they are asking for...[but] most businesses are not performing as expected and giving fresh loans to new clients is very risky”*. She adds that *“refinancing old clients to help revamp their businesses will be the best option for financial institutions. Most of the loans have been rescheduled due to the pandemic but clients still need money to keep their businesses running. Clients who are diligent in the repayments can be considered for refinancing, but the ability to access new credit is very low”*.

This risk-aversion was seconded by funders and support service providers, who blame underwriting standards, macroeconomic pressures and defaults. A funder working globally explains that *“while we see more liquidity flowing, banks and FSPs are tightening their credit underwriting standards which may*

4 ‘Clients receiving fewer remittances from relatives (both domestic and international)’

5 ‘Clients are unable to access new loans for household expenses, business recapitalisation or new business opportunities’

reduce access to credit to the most vulnerable.” A TA provider in Sub-Saharan Africa says that “MFIs are very cautious at the moment in granting new loans, in the face of growing uncertainty and repayment defaults”. A consultant working globally claims that most financial institutions “have either stopped new lending activities or are currently predominantly occupied with arrears management. This is a major problem for MSMEs”.

Unfortunately, solutions to this were scarce among responses. “We should change the rules and offer a second chance to borrowers who make default”, writes a researcher.

“Less of a problem than expected. Appetite for credit declining perhaps”

Funder working globally

Respondents’ Other Suggested Challenges facing Clients

Respondents were also asked to provide comments on the other listed challenges, as well as any other unlisted challenges they observe.

“Lack of access to information and not understanding the situation and the importance of preventive [health] measures, leading to fear and confusion and not effective decision making”

Consultant and support service provider working globally

“Women, youth, and forcibly displaced communities feel these pressures most. Women-owned and managed businesses face great risk in many jurisdictions”

Inter-Governmental network working globally

“Reduced opportunities for informal sector participants”

Funder working globally

“Repression of informal workers and street entrepreneurs”

Microfinance network in South America

“The impact of Covid-19 on the informal economy”

Consultant and support service provider working globally

“Lack of agents, and when agents are available, lack of float/liquidity among agents”

Global infrastructure organisation

Challenges facing FSPs

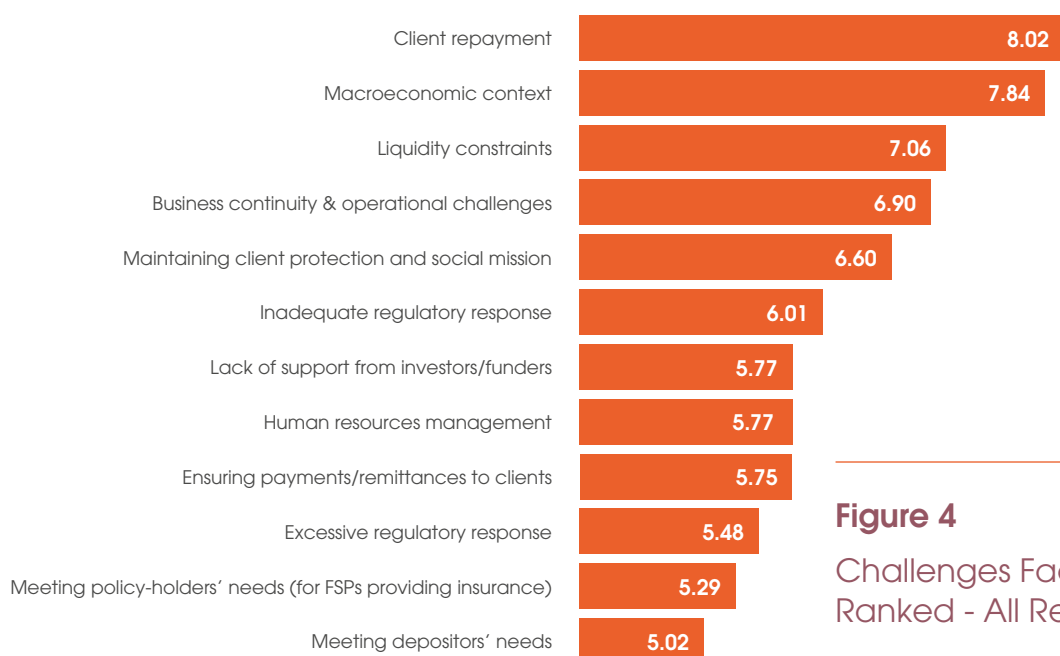


Figure 4

Challenges Facing FSPs,
Ranked - All Respondents

Client Repayment, the top challenge facing FSPs, received the second highest score among all challenges, rated high as a challenge by all respondent groups. Interestingly, though, FSPs and TA providers – the two respondent groups who typically work most closely with clients – rated it lower than did other respondent groups. **Macroeconomic Context**, in close second place and far ahead of third, was also rated highly across the board.

Maintaining Client Protection and Social Mission revealed significant differences between respondent groups, with FSPs (5.85) and funders (5.80) showing low concern, in stark contrast to 8.38 among others and 7.04 among consultants and support providers.

Meeting Depositors' [Savers'] Needs scored the lowest among FSP respondents of any category in any section (3.43), with almost a third of practitioners scoring it 1 out of 10. Because deposits are only relevant for some FSPs and the possibility that 1 was used as a proxy for 'not applicable', even excluding all those scores of 1 nevertheless still yields a score of only 4.9, showing that practitioners did not see protecting access to savings as a major challenge to ensure.

Perhaps surprisingly, both FSPs (5.18) and funders (4.56) rated **Human Resources Management** very low.

What respondents wrote

On the quantitative side, **Client Repayment** and **Macroeconomic Context** were the clear top two most significant challenges facing FSPs, according to respondents overall. Nevertheless, the comments from respondents paint a more opaque picture.

On **Client Repayment**⁶, practitioners provided their own experiences: *"A lot of customers were delinquent, collections were not regular, however our response was to ask them to pay whatever they could"*, writes one financial services provider in Sub-Saharan Africa. Another African practitioner points to the closure of schools, which make up 12% of her MFI's loan portfolio, and adds that *"clients who were unable to pay had their repayment offset by their 10% compulsory savings. This has affected the portfolio quality of the institution"*. Others say it's been mostly business as usual: *"Levels of recovery are normal in most of our partner MFIs"*, writes an investment officer at a European funder working in Sub-Saharan Africa.

Respondents who work *with* MFIs (rather than *at* them) also paint a mixed picture. Bonnie Brusky, from a global infrastructure organisation working with several MFIs says that their feedback *"has been surprisingly positive regarding repayment rates"*. Georgina Vázquez, working for a Fund Manager in South America says that most clients decided not to take the option of a general moratorium that was offered, and paid according to the original schedule, [which] *"allows us to maintain sufficient liquidity for the business"*.

The clearest explanation for the disconnect is that respondents rate this high as a *potential* challenge, but it remains too early in this crisis for genuine incapacity to pay to become widespread. A Europe-based TA provider working globally certainly believes this is the case: *"The full outcome will only be visible in two to three [more] months"*.

"Different regulatory responses are having different outcomes. We fear some governments are pushing FSPs to increase lending, while ordering general moratoria without a clear exit strategy for the client"

TA provider in Central America

On **Macroeconomic Context**⁷, respondents cited both country-specific and transnational drivers of the challenge. A support service provider working in Latin America writes that her country *"faces one of the largest fiscal deficits, depending heavily on tourism, as well as on foreign labor for the harvest of its largest export products. The inefficiency and irresponsibility of the current government represents a great risk that [will] affect the economy significantly"*.

Dountio Zacheri, a trainer for microfinance institutions in Sub-Saharan Africa observes the *"rising prices of staple foods and imported products due to border closures"*. Cheta Agbo, a practitioner in West Africa points to the deliberate devaluation of that country's currency, with traders *"worried about erosion of capital to finance purchases"*.

6 'Large number of clients not repaying according to schedule, affecting portfolio quality - either due to government closures/moratoria or client inability to pay'

7 'The macroeconomic situation resulting in unstable/declining currency, high inflation, slow or negative GDP growth, high unemployment and other challenges'

But the picture remains mixed, and the impacts will be staggered, argues a US-based consultant working globally: *“Some Asian economies are already recovering, some African economies have not yet been hit”*. If there was a consensus among respondents here, it is that while different countries will be affected in different ways, the macroeconomic context that is causing those impacts is global, with decline in global trade and tourism most regularly cited – both of which will lead to severe impact in most countries, mostly as *“a fallout of reduced economic activity in advanced economies”*, writes Maximir Alvarez, a US-based support service provider working in Central America.

Liquidity Constraints on FSPs⁸ has been at the forefront of the sector’s concern for months – behind much of the impact funders’ coordinated responses on moratoria⁹, and analysed in various fora, including the CGAP Pulse survey¹⁰, and considerable traffic to a series of e-MFP essays on covid-finclusion.org, in particular on analysis of MFIs’ liquidity situations based on MIX data¹¹.

Compass respondents generally sought to distinguish between deposit-taking and non-deposit-taking providers, and generally seeing the liquidity issue less about providers’ needs to meet operational expenses or debt repayments to funders, but rather the consequences of clients’ withdrawing savings (notwithstanding ‘Meeting Depositors’ Needs’ lowly score, as highlighted earlier in this section). This is a challenge *“particularly for those with savings”*, writes a Europe-based global funder. There is a *“challenge on the demand for savings”*, writes Cécile Lapenu, from a global infrastructure organisation. It is *“the biggest issue that can lead to the risk of massive savings withdrawal”*, observes support service provider Micol Guarneri, adding that *“putting in place effective strategies to deal with liquidity and savings stability become crucial in the Covid context, as well as ability to negotiate with donors and investors”*.

Other respondents saw the liquidity challenge as more severe for credit-only institutions. A practitioner from Sub-Saharan Africa believes that it will depend on the duration of the crisis, writing that *“so far those more specialized in collecting savings, have been able to more or less stabilize withdrawals; but for credit, the problem is common, the drop in repayment rates has a considerable impact on cash flow, therefore on the functioning and grants ... but if the crisis continues, confidence in depositors may be shaken”*. A consultant working in Central America agrees. *“This is not an immediate concern, but rather a medium-term issue as the economic downturn starts to bite”*.

“(Our) operating cost has increased due to unbudgeted expenses putting all the Covid-19 protocols in place in all our branches. All savings withdrawals are being honoured to prevent a bank run. Lenders have been told to reschedule debts that are due to help improve the liquidity position. More loans are now made to salary workers with the guarantee that repayment will be automatically deducted every month. All these are to ensure that there are no liquidity constraints”

Practitioner in Sub-Saharan Africa

8 ‘Providers are unable to meet operating costs, honour savings withdrawals, repay maturing debt, issue new loans’

9 <https://www.covid-finclusion.org/investors>

10 <https://www.cgap.org/pulse>

11 <https://www.covid-finclusion.org/post/how-long-can-microfinance-institutions-last-the-liquidity-crunch-an-analysis-of-the-data>

Respondents' Other Suggested Challenges facing FSPs

Respondents were also asked to provide comments on the other listed challenges, as well as any other unlisted challenges they observe.

"The need to cater for new clients' needs such as food assistance, medical assistance, psychosocial support, domestic violence referral. We conducted individual phone surveys with 62,000 clients in April 2020; 8% of our clients highlighted their need for food assistance"

Practitioner in MENA region

"Maintain[ing] social mission and client protection during a crisis is a reputational issue for our industry. It's our reason to be. And it's good business practice"

Global infrastructure organisation

"Lack of familiarity with digital technologies..."

Europe-based support service provider

Challenges facing Funders (including debt investors, wholesale lenders and equity investors)



Figure 5
Challenges Facing Funders, Ranked - All Respondents

Informational and Operation Challenges was clearly the top challenge facing funders, according to respondents overall – although the score (7.14) suggests that most respondents don't perceive it as important as challenges to other stakeholder groups. Funders themselves did rate this the biggest challenge facing funders, but with a comparatively low score of 6.80, and in fact, overall funder respondents appeared more concerned about the challenges facing investees and end-clients – perhaps understandably as those challenges necessarily affect funders anyway as well.

Funders themselves also rate funders' **Financial Losses** very low – 5.20 – a full standard deviation lower than any other respondents' scores, and in strong contrast to the ratings from FSPs and infrastructure organisations (both 7.33). Whether this means funders do not foresee considerable losses, or that they do but can absorb them is not clear from either the scores or the comments.

What respondents wrote

On **Informational and Operational Challenges**¹², respondents saw differentiated impacts. It's *"especially penalizing for investments in new partners (without prior relationship)"*, writes a researcher working globally. *"The limited ability to assess risk, both for funders and assessor"*, believes a rater, *"is likely to affect more those newer FSPs that received little/no funding from international investors or have not been assessed in person prior to the crisis."*

This challenge is exacerbated not just by the logistics of conducting due diligence, but the other time demands on potential investees – *"[FSPs] are busy with larger emergencies"*, writes a practitioner. But there are signs of life, and opportunities that can come out of these current difficulties. *"We have to re-invent new ways of exchanging, relying also more on local capacities"*, according to a respondent from a European infrastructure organisation.

Financial Losses¹³ for funders gained fairly high scores (except from funders themselves), but comparatively cautious commentary. One European consultant foresees *"some delay in repayments"*; a respondent from a global infrastructure organisation thinks there will be *"certainly financial losses but globally at a level that can be absorbed if this crisis remains time-limited"*, a caveat repeated by a TA provider who believed this challenge would only have *"short term influence"*, and that *"long term [will be] dependent on the overall stability of the institution in question before Covid-19"*. A Latin American fund manager's equanimity is fairly typical of funder respondents: *"The reduction in placement [of funds], due to clients' fear of taking out more credit, did impact us. We hope that with the release of containment measures we can resume growth and thus reverse the decline in revenue"*.

"Yes, but (absorbing financial losses) should be also the role of donors..."

Global infrastructure organisation

By contrast, **Inability to Meet Investees' Needs**¹⁴ did generate fairly clear comments. One practitioner in Sub-Saharan Africa writes that *"most [funders] could not pipeline commitment and had to postpone disbursement"*, but overall the consensus was that this challenge was much more specific to non-financial support than finance itself.

¹² 'Inability to travel and meet in person leads to limited ability to assess risks, conduct due diligence'

¹³ 'Investment losses leading to lower or negative returns'

¹⁴ 'Unable to provide financial and non-financial support'

One TA provider writes, “[there are] no technological challenges in providing financial support. I do not think that the concrete ability of investors to provide financial support was too much affected.” A senior manager at a network of FSPs writes that “extensions of maturity [and] new disbursements [are] almost always approved”. A respondent from a global infrastructure organisation observes that the challenge is specific to “non-financial support - many funds have TA [facilities] that will be less active as long as travelling is limited”. Jurgen Hammer from a global infrastructure organisation says there is “already some new lending activity happening, but [it’s] very focused and targeted. There needs to be TA support and better coordination of providers”. And Noémie Renier, a funder, speaks for many when she writes that “overall, we have been able to support our clients’ needs through financial support...however non-financial support through TA has been difficult to provide due to logistical challenges.

“‘Inability’? or ‘unwilling’, maybe? (Is it) a lack of creativity?”

Global researcher

Challenges facing Others (including researchers, raters, TA providers, regulators and infrastructure organisations)

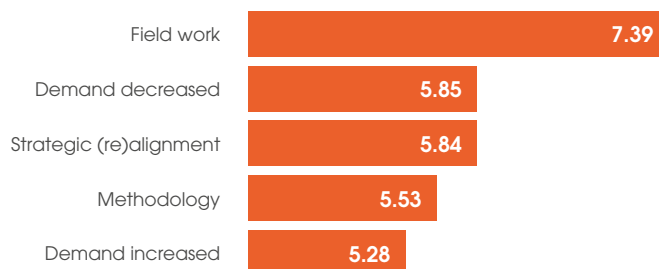


Figure 6

Challenges Facing Others, Ranked - All Respondents

Field Work was the biggest challenge for researchers, raters, TA providers, regulators and infrastructure organisations – and by the highest margin of any category. Understandably, the respondent groups most directly affected scored it highest (researchers 8.08; consultants and TA providers 7.86). **Demand [for services] Decreased** had the highest variance between respondent groups of any challenge; funders – whose support services are needed more than ever, rated this at 3.29; consultants and infrastructure organisations, whose various technical assistance services are lower priority while MFIs are facing liquidity or solvency crises, scored it at 6.50 and 6.60 respectively. The obverse is true as well: **Demand Increased** was rated low among infrastructure organisations and consultants, and higher among funders.

What respondents wrote

Field Work¹⁵ is among the most easily identifiable and understandable challenges facing any stakeholder group. But it is a challenge that is derivative from other challenges. Not only has international travel been effectively frozen, but providers and clients are dealing with health and financial concerns that relegate the importance of field work – even though now more than ever, it is field work which can be critical to better understanding the nature of these challenges.

Joyce Nyamekye, a practitioner in Sub-Saharan Africa writes that *“some people are not ready to engage strangers due to the pandemic and this has made research and field work difficult”*. And while there are sometimes alternatives – *“most research can be conducted by phone, though not with all beneficiaries”*, writes Johanna Ryan from a global network of providers – *“there is no substitute for the trust that comes with personal contact, so some research will not be as effective, especially qualitative research”*, she adds.

It's not just trust that is limited, but insight too. *“It might be challenging to fully understand the operations of a certain provider without a physical visit. Anything can be done remotely and it's certainly good for the planet, but the lack of physical human interaction hampers the consultant/assessor capacity to grasp all the shades of the business... for example, remote focus group discussions with clients is almost impossible and must be delegated to the FSP”*, writes Chiara Pescatori, a Europe-based consultant.

And even if remote field work can be established, there are added complications, ranging from *“exchanges over Skype or WhatsApp hampered by weak connectivity of partners”*, according to Manon Plouchart from a network of FSPs, to difficulties *“ensur[ing] competence levels of local researchers in all countries”*, according to Christian Schmitz, who works for a global funder.

Others are more positive, though. Bonnie Brusky from a global infrastructure organisation writes that the challenge of field work *“is mitigated by working with local experts, which has always been part of our modus operandi”*. And besides, writes a support service provider in Latin America, this is not specific to field work, but is a *“general constraint for all data gathering activities, including government agencies”*.

Related to logistical constraints on field work, but broader, is **Demand Decreased**¹⁶, as crisis management dominates time and resources for FSPs in particular, and the ‘urgent’ takes precedence over the ‘important’. What are researchers, raters, consultants and others supposed to do?

Some respondents distinguish between different services. Alia Nazar-Farhat, a practitioner in MENA says there is *“less demand [for] ratings but higher demand [for] TA (risk management, liquidity management, financial stress tests)”*. A European consultant writes that *“TA might still be needed, especially if supported by large donors and/or DFIs”* but that *“mainly financial ratings have more chance to survive in regulated markets, but if not co-funded or sponsored by donors/investors/etc. might not be considered a priority”*.

A US-based consultant working globally is fairly bearish: *“As donors and others re-structure, either as a result of their own decreased resources or as they define solutions to the new context, some opportunities have dried up”*. Job Blijdenstein, a support service provider in Central America notes that *“because of the lack of liquidity there is a certain fear of investing in training, which is a strategic error”*.

But not everyone agrees. A Sub-Saharan African practitioner insists that Covid-19 itself will generate demand for new services: *“Institutions are ready to engage and research into the impact of Covid-19 on financial markets and institutions”*. A Latin America-focused consultant writes that *“on the contrary, our perception is an increased demand for these services”*. If there is agreement at all, it is that the support sector is changing, but it's not yet fully clear how. *“Quantity wise, the work is not reduced, [but the] work ‘character’ is changing”*, writes a TA provider.

¹⁵ ‘Unable to travel and/or identify other methods to collect information for your work (research, rating, TA, etc.)’

¹⁶ ‘There is reduced demand for services (ratings, research, TA, etc.)’

“The market is not clear. Normally there are more transparent tendering processes. Now it appears just known companies get a chance and get large assignments, smaller companies are unable to demonstrate what they have on offer”

Head of European research body working globally

Strategic (re)Alignment¹⁷ is a looser and more existential challenge for the support providers in the financial inclusion sector. “We want to help, we want to do something, but how can we add real value?” were among e-MFP’s own questions during the early days of the pandemic several months ago (one answer to which was the re-purposing of the *Compass* survey this year).

Months down the track, other infrastructure organisations, consultants and support bodies seem to have come to their own conclusions too. A respondent from another European infrastructure organisation highlights *“the importance of collecting and analysing client-centred data...the crisis has highlighted the importance of having channels, methods and frameworks to collect regular data on clients, and from a social performance perspective, this is a good thing”*.

A representative of a microfinance network says that investors and funders *“will be looking for more impact value for money, so research and impact evaluations are, if anything, now more important than ever”* while Cécile Lapenu from another infrastructure organisation argues that *“the role and value-added of supporting ‘mission driven’ organisations remains key”*, adding that *“operations may have to be adapted, but not necessarily strategy”*.

“The effects are not yet known well enough to be able to make adjustments in strategies, but the time is coming”

TA provider in Central America

17 ‘Needs of the sector are evolving and role and value add are not clear or require adjustment’



Medium-Term Priorities for a post-Covid Sector

Question: Please rate from 1-10 the following priorities once economic activity resumes over the coming 6-12 months period, for different stakeholder categories (1 being lowest priority; 10 being the highest). If you don't have an opinion on a particular priority, please select 'Don't Know'.

“Things which matter most must never be at the mercy of things which matter least”

Goethe

Priorities for FSPs



Figure 7

Priorities for FSPs, Ranked - All Respondents

Expanding Digital Finance was rated top for all respondent categories except researchers, who rated it a very low 5.43. Excluding researchers as a respondent group, this would have been a very clear top priority for FSPs.

Researchers also rate **Maintaining Collections Where Possible** almost two full points lower than the average score. But they score **Rescheduling Loans to Existing Clients** very high, 8.00 – a score that is effectively even higher when juxtaposed with that group’s typically lower scores.

Significantly, **Lending to Clients Who Need Credit** received a very high score among FSPs (8.67), higher even than the rating FSPs gave to Financial Pressures facing clients (8.61) in the challenges section. This was also among the top priorities for funders (8.56), but notably lower among the other groups, with consultants and support providers rating it as their second *lowest* priority for FSPs (7.00). Meanwhile, both FSPs and funders score **Reducing or Suspending Dividends/Profits to Shareholders** as a very low priority.

Finally, **Protecting Staff and Maintaining Morale** is the second highest priority for FSPs among all respondents, but is also high for FSP respondents themselves (8.33), who are of course closest to the issue and bear the most direct consequences of failing to manage this.

What respondents wrote

Expanding Digital Finance is, like in the two previous *Compass* editions, a dominant priority among virtually all respondent groups. In 2019, Digital transformation (institution-side) was the top trend; Digital innovations (client-side) was third, and the topic dominated that survey’s Opportunities section. Already extremely bullish on the transformative prospects for digital financial services (DFS), the *Compass* respondents generally perceive the Covid-19 crisis – because of social distancing measures in particular – as further argument for digital finance’s takeover of the financial inclusion sector and see the pandemic as having only catalysed that inevitable trend – a perspective which can be seen in greater detail in the Opportunities section of this paper, on page 40.

Some see this as merely a continuation of an existing trend – there is “*good evidence that this is already happening*”, writes a respondent from a data platform. It was “*high on the agenda anyway*”, writes a European support service provider, and is “*relevant to developing a more low-touch approach*” believes an independent consultant based in Europe.

But while in the open-ended Opportunities section respondents explained how and why they saw the expansion of DFS to previously under-served segments as the proverbial ‘silver lining’ on the Covid cloud, here in priorities respondents were more measured. Job Blijdenstein from a support provider working in Central America writes that “*in some fields, the cost is high and requires time that we may not have*”, and a researcher based in Europe concedes that digital finance is “*important, but [it] cannot be done from scratch in 6-12 months period*” – a realism that was generally commonplace in the Priorities comments. It’s one thing, after all, to express broad aspirations for longer-term positive outcomes of a crisis; another to point to actionable short-to medium-term priorities for FSPs.

“(Expanding digital finance) should be not just linked to an answer to the crisis, but (done) with global strategic thinking”

Global infrastructure organisation respondent based in Europe

Selected Comments from Other Priorities for FSPs

Protecting Staff and Maintaining Morale

"There have been no layoffs due to covid-19. Salaries of all staff are paid in full although some are on shift or working from home"

Financial services provider in Sub-Saharan Africa

Renegotiating Existing Funding to Manage Liquidity or Increase Capital

"Letters are already out to lenders for renegotiation"

Financial services provider in Sub-Saharan Africa

"To the extent that you can"

TA provider in Central America

"Recapitalizing will likely be a bigger challenge than liquidity"

Global infrastructure organisation

Lending to Clients who Need Credit

"Although credit is not the best instrument in this context"

Europe-based independent consultant

"The revival of economic activity is a major priority; FSPs need to have a good appreciation of customer risk, even if it means setting up an internal guarantee fund"

European funder

Rescheduling Loans to Existing Clients

"Will expand with the proportional increase in troubled loans"

North American consultant

Ensuring Access to Clients' Deposits

"That is crucial so that clients can smooth consumption and avoid massive withdrawals"

European TA provider

Preventing Fraud

"This is always top of mind, not sure the current crisis would impact focus except possibly for institutions in serious trouble who take their eye off of internal controls to focus on fighting fires"

US-based TA provider

Coordinating Action with Other FSPs

“There is a need for FSPs to set up a minimum of concerted actions for [appraising] clients depending on the risks. Let’s say a client has 2 loans, one with MFI 1 and one with MFI 2. He asks for loan restructuring to MFI 1 as well as another loan to get his business going; he also asks MFI2 for restructuring but MFI2 does not agree and asks him to repay... the risk being that the client will use the new loan from MFI1 to repay MFI2, be more indebted, unable to repay his other loans... and the negative spiral begins”

Technical Advisor to NGO in SE Asia

Cutting Costs/Reducing Operating Expenses

“Should always be a [priority]”

Support services provider in Europe

Reducing or Suspending Dividends/Profits to Shareholders

“That depends on the shareholder - for some it is not just nice income, but a source for benevolent activities”

European TA Provider

“Can be a good message at this stage”

Global infrastructure organisation

Respondents’ Other Suggested Priorities for FSPs

Respondents were also asked to suggest other priorities for FSPs.

“Introduce health protocols within financial education to help clients to make wiser decision about access to and use of financial services”

TA provider working globally

“Lending to clients who have business opportunity due to the pandemic”

Financial services provider in MENA and East Africa

“Worth noting challenges surrounding group loan methodology”

Global infrastructure organisation

Priorities for Funders (including donors, DFIs, MIVs and others)



Figure 8

Priorities for Funders,
Ranked - All Respondents

In this section, different respondent groups generally scored the priorities as they affected their particular stakeholder group. So FSPs gave a high priority to funders **Making New Investments** (8.75). Infrastructure organisations, with their coordinating mandate, gave 9.00 to funders **Coordinating Collective Action with Other Investors (including Data Sharing)**.

Funders themselves reconsidered **Facilitating General Grant Support** outside their remit and scored it very low, but – perhaps reflecting the high representation of socially-focused MIVs among funder respondents – they rated **Ensuring Client and Staff Protection at Investees** extremely high at 8.70. Moreover, and reassuringly, they scored **Coordinating Collective Action with Other Investors (including data sharing)** also highly (8.60), perhaps reflecting a visible and welcome trend of cooperative action among (especially European) investors in recent months.

What respondents wrote

Strangely, the lower the priority for funders in Figure 8 on page 30, the more comments were offered. The following are selected comments on certain Priorities for Funders.

Ensuring Special Support for FSPs Serving Most Vulnerable Groups

“Actually [we should be] more focused on special support for agriculture given food security concerns”

Global funder based in Europe

Reputation and the reason to be of our industry”

Global infrastructure organisation

Communicating with Asset Owners/Retail Investors

“Important in this phase to secure more funds to manage crisis”

European TA provider

Providing Guarantees to FSPs and/or Investors

“[it should be] not only guarantees, but innovative blended finance de-risking instruments to offer long term solutions”

Technical advisor to FSP in SE Asia

Facilitating General Grant Support (to Sustain FSP Operations)

“Debt forgiveness; not grants”

Consultant and support services provider working in Central America

“This would help to overcome the crisis and cover some higher expenses (operating, financial, and loan loss provisions)”

Independent consultant working globally

“Where required and justified”

Global infrastructure organisation

“Depending on the form of FSP - not if it's a purely commercial actor”

Financial services provider working globally

Facilitating TA support for FSPs

“MFI are putting all efforts in managing the crisis; there is no time to be dedicated to TA programs”

European TA provider

Making New Investments (Debt & Equity)

“There is no incentive to make new investment in this period”

Support services provider

Reducing Dividends/Profits to Asset Owners If Necessary

“This seems a natural decision for a year of crisis”

Europe-based infrastructure organisation

“With the losses expected in 2020, it’s virtually inevitable”

TA provider in Latin America

Priorities for Regulators/ Policy-Makers

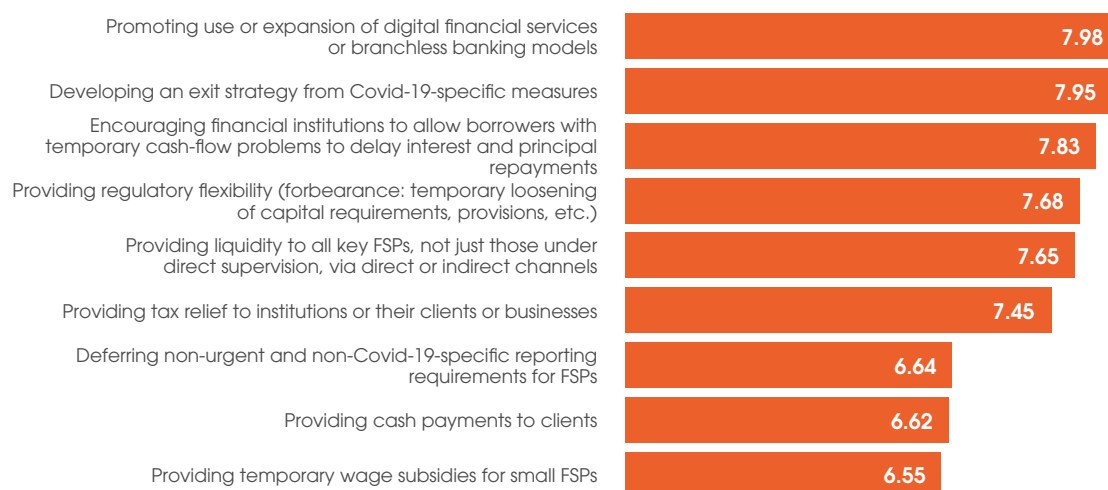


Figure 9

Priorities for Regulators/Policy-Makers, Ranked - All Respondents

Once again, **Digital Finance** was a top priority for *Compass* respondents – this time as **Promoting Use or Expansion of Digital Services or Branchless Banking**, for regulators and policy-makers. It was scored extremely high by FSPs and Funders (8.67 and 8.83, respectively) and low by researchers, who themselves thought that **Encouraging Financial Institutions to Allow Borrowers with Temporary Cash-Flow Problems to Delay Interest and Principal Repayments** should be regulators’ top priority.

Infrastructure organisations gave **Developing an Exit Strategy from Covid-Specific Measures** among the highest scores anywhere (9.25).

Unsurprisingly, funders wanted regulators and policy-makers to shoulder some of the burden of maintaining liquidity among investee FSPs. They believed regulators should be prioritising **Providing liquidity to all key FSPs, Not Just Those Under Direct Supervision, Via Direct or Indirect Channels** (at 8.60 by far the highest score for this priority).

Providing Cash Payments to Clients was scored low across board except infrastructure organisations (8.00) and FSPs (7.53) with a very high variance between respondent groups.

Finally, **Providing Temporary Wage Subsidies for Small FSPs** was low for all categories except FSPs, who presumably see an opportunity to mitigate deterioration of their loan portfolio by providing cashflow to struggling borrowers - not to mention the prospect of having the wages of their own staff subsidised.

What respondents wrote

Unlike in the previous section, there was a wide range of comments offered by respondents for most of the priorities for regulators/policy-makers. The following are selected contributions.

Promoting Use and Expansion of Digital Finance

“They should ensure a ‘conductive environment’, but not be especially pushing”

Europe-based support services provider working globally

“This should always be a priority, not just under crisis pressure”

Global infrastructure organisation

“In certain areas, especially for payments/transfers”

TA provider in Central America

Developing an Exit strategy from Covid-19-Specific Measures

"This is THE big pending task. Very few regulators have even started thinking about this challenge"

US-based TA provider working in Latin America

"Covid is the new reality, instead of focusing on phasing out we should embrace and adjust rapidly to our new reality"

Researcher and consultant working globally

Encouraging Financial Institutions to Allow Borrowers with Temporary Cash-Flow Problems to Delay Interest and Principal Repayments

"Some [FSPs] will; some won't"

US-based consultant

"This has already been implemented in many countries by government decrees or by FSPs themselves"

TA provider in Latin America

Providing Regulatory Flexibility (Forbearance: Temporary Loosening of Capital Requirements, Provisions, Etc.)

"Most regulators have already implemented these measures"

TA provider in Latin America

"This should be only as a temporary measure with well-defined limits"

support service provider working globally

"Some adjustments need to be made for institutions that [before the crisis] were basically solid"

Consultant in Central America

"They should be reviewing the regulations that impose barriers to entry for innovative models"

TA provider working globally

Priorities for Others (Consultants & Support Service Providers, Researchers & Infrastructure Organisations)

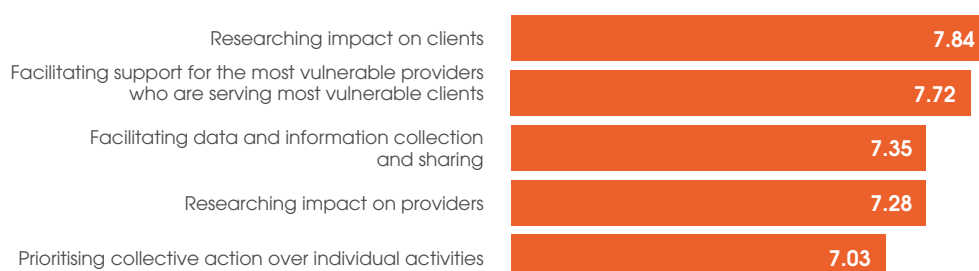


Figure 10

Priorities for Others,
Ranked - All Respondents

There was fairly strong consistency between respondent groups' scores in this section, with notable exceptions. Infrastructure organisations gave **Facilitating Data Information and Sharing** the highest score of any priority in the survey at 9.36, but consultants and support service providers scored it only 6.67.

Infrastructure organisations also scored the top priority in this section, **Researching Impact on Clients**, very high at 9.09 – much higher than they prioritised **Researching Impact on Providers**, at 7.55.

FSPs considered that the support entities in this category should prioritise **Facilitating Support for the Most Vulnerable Providers who are Serving the Most Vulnerable Clients** (8.37).

What respondents wrote

In this final part of Section 1 of the survey, respondents provided rich commentary, especially from those on whom this section was directed – consultants and support service providers, researchers and infrastructure organisations.

Reflecting the particular vulnerability of the financially excluded to the consequences of economic downturns in most markets, and the increased (and welcome) focus on client-centricity that previous *Compass* surveys have revealed, **Researching Impact on Clients** was a high priority for respondents. Several had ideas on how this can be done in this difficult context. *“Interactive Voice Response and other remote phone/app based surveying is proving helpful here in early surveys”*, writes a respondent from a global

data collection platform. It can be done “by moving more and more to rapid surveys”, writes Chiara Pescatori, a support service provider based in Europe. “A sector-developed client assessment tool is being rolled out and should be tested and used universally”, writes Jurgen Hammer, from a global infrastructure organisation. Cécile Lapenu from another infrastructure organisation is more prescriptive, writing that this is positive “if it can be used more widely on understanding clients’ needs and preferences, testing lean approaches, etc. - not just focused on the current crisis”. And Christian Schmitz, who works for a global funder, adds a condition: “That all research is shared for the mutual benefit of all sector actors”.

Facilitating Support for the Most Vulnerable Providers who are Serving the Most Vulnerable Clients also generated considerable discussion. Bonnie Brusky from a global infrastructure organisation thinks it should be the investors “that focus on tiers 3 and 4 that can do this”. A consultant working globally suggests that “donor-driven solutions (cash vouchers) might be the best way to support the most vulnerable clients in the short term”. But beware, add others: this may be a futile effort, and triage of those to be helped is important. “There may be some that cannot be rescued, and the emphasis must be on vulnerable clients”, writes Job Blijdenstein, a consultant in Central America. A US-based support provider says there are “two schools of thought: let creative destruction do its job, or the ‘squeaky wheel gets the grease’. Dealer’s choice”.

“This is the ‘raison d’être’ of impact investing! Back to our values and social goals!”

Global infrastructure organisation

Facilitating Data and Information Collection and Sharing has never been as important as it is now. Alia Nazar-Farhat, from an NGO in the MENA region, highlights the “important role of providing evidence-based findings to advocate for the industry”. Anne Marie van Swinderen, a research institution Director working in Sub-Saharan Africa, MENA and Latin America writes that “we hope, post the 1st wave of Covid, we will see a more collaborative sector, where organisations are sharing information and methodologies. We hope wasteful competitiveness will stop”, a caution echoed by a different researcher who says we must all avoid “duplication of efforts”. Overall, however, respondents are strongly supportive of this as an enduring trend, and even a positive outcome of this crisis. As a respondent from an infrastructure organisation puts it, “in times of crisis, stakeholders realise the value of standardised information and sharing to reduce reporting burdens. This should be a principle to keep after the crisis!”

Concerns



"What is your biggest concern about the consequences of Covid-19 on the sector?"

"It is your concern when your neighbour's wall is on fire"

Horace

In Section 2 of the survey, *Compass* respondents were invited to respond to three open-ended questions – on their concerns; potential opportunities; and their longer-term forecasts.

Respondents' concerns regarding how Covid-19 will negatively impact the sector were as diverse as the respondents themselves – and ran the full gamut from impacts on clients, staff and institutions to funders and the entire support ecosystem of researchers, TA providers and others.

It was reassuringly clear from the responses to Section 1 of this *Compass* survey – both in the scores and the tone and volume of comments – that the **impact on clients** remains at the forefront of all stakeholders' concerns. So the crisis is bottom-heavy; it is the financially excluded and un(der)banked who virtually by definition are most susceptible to shocks. The impacts they face come in various forms: **Education** will be among the consequences – through *"interruption in students' learning and disruptions in assessments, home-schooling affecting students' social skills and awareness, increased drop-out rates and teen pregnancies, and private schools [permanently] closing"*, according to Alex Ahabwe, an Education Finance Manager at a Microfinance Bank in Sub-Saharan Africa.

"I think FSPs are weathering the storm and (their crisis) won't last too long if regulators, investors and funders are flexible and supportive. But the client level impact risks are high"

Researcher working globally

Clients' businesses, and the **MSME sector** generally, risk a *"negative impact on micro, small and medium businesses (and informal sector in general)"* according to a researcher at a global think-tank, and even *"irreparable damage"*, writes Job Blijdenstein, director of a CSR consultancy in Central America. Gillian Foster Wilkinson, MFI Manager at a global network, fears that Covid threatens *"the livelihood of MSME entrepreneurs who are the most vulnerable to both COVID-19 and the economic effects of the pandemic. Many clients have been unable to operate at all during government lockdowns, and many clients may find their business activities are no longer viable in the post-COVID-19 reality."*

Maintaining client protection and social mission, according to many respondents, is therefore more important than ever. But can FSPs manage to keep their eye on their mission when they risk insolvency themselves? Chiara Pescatori, a Europe-based TA provider and former rater, bemoans client protection's *"limited implementation"*. A respondent from a European infrastructure organisation working globally fears that *"the most vulnerable are left (even more) behind if those FSPs who serve them can't survive the crisis. And that social challenges (regarding clients and also staff) fall from the agenda if the sector only*

pays attention to the urgent financial challenges.” This is on top of the threats to “group [models] and concerns about responsible lending practices as business models evolve away from onsite visits”, according to a European funder. It may be that institutions do ok, but that their clients do not.

Investment into the sector is a dominant concern, “especially for early stage inclusive finance companies/FinTechs”, writes Michael Rothe, founder of a FinTech working in Sub-Saharan Africa, who observes that “funding for FinTechs was already in short supply for developing markets-focused FinTechs, and now investors seem to be focusing on supporting their existing portfolios and may become even more risk averse than they had been prior to the crisis... so the opportunity that the crisis presents for advancing digitisation and bring[ing] FinTech innovation to vulnerable groups will not be seized due to insufficient adequate funding” .

Investment directly impacts FSPs of course. Johanna Ryan from a global network of MFIs is concerned that funding will be restricted from all sources, leading to **MFIs closing**, with the greatest impact being on those who depend on credit and other MFI services to run their livelihoods. “When livelihoods fail, the most vulnerable suffer, that is, women, children, disabled, elderly”, she writes. Héritier Kitumaini, CEO of a FSP in Sub-Saharan Africa says this is already underway, with some of their clients’ businesses closing, leading to loan delinquency and subsequently suspension of penalties and loan rescheduling, “which has severely affected our portfolio”. The impact on portfolio quality clearly risks a liquidity crunch and “can lead to MFI failure”, writes Micol Guarneri, a TA provider working globally, threatening “long term sustainability especially at smaller [FSPs]”, according to Lev Plaves, a senior investment manager at a global funder. And loan defaults are also compounded by a more distant “MFI-client relationship, which needs [a] longer time to rebuild”, suggests South Asian researcher Mohammad Sadiqunnabi Choudhury (not to mention “the risk of losing staff and work stoppages”, according to Elkhidir Abdelrasoul, CEO of an FSP in Sub-Saharan Africa).

So whether these negative scenarios transpire will depend on how providers and their funders respond. Europe-based researcher Nahla Dhib is worried about clients’ futures if “MFIs and funders behave like other [mainstream] financial institutions, which try to avoid the [economic] fallout from Covid yet struggle to find a solution...we need to decide on a new strategy and behave differently”. Moreover, there’s the possibility of a domino effect. A CEO of a South East Asian MFI writes that FSPs “[are] becoming too risk-averse and slowing down disbursements due to risk aversion from their leadership leading to deepening of the crisis at the client level, heightened poverty, and potential aggressive collection behaviour.”

To avoid this, there needs to be **institutional change**. But do FSPs have the capacity to change while also finding the capacity to survive? Covid-19 will expose and even magnify all the issues that have always been there before, writes a division head at an international TA provider, adding that it really comes down to institutional capacity. “... defined as ‘strong governance, knowledgeable management on all levels and willingness to adapt or learn’, [many] institutions lack one or more of these ingredients... so the sector might face a number of failures. Are institutions able to formulate (and eventually adapt) their strategies to the needs of the clients? Are institutions able to meet the demands of the clients in a sustainable manner? Will digitisation finally succeed (to the benefit of clients) - i.e. reducing costs thus allowing [providers] to go rural?”

Some of these outcomes depend not on responses within the sector, but rather which ways the **macro-economic** winds are blowing. Max Nino-Zarazua, programme director at an international TA provider, argues that “countries with [a large] informal economy plus high unemployment due to Covid will see deeper economic recession...and social challenges - including social unrest.” And there is broad agreement – both in the scores in Section 1 and here in the open-ended comments, that it’s not the health crisis that is the biggest concern, but the ripples through economies from downturns in trade and tourism in particular.

Once the health crisis comes under control, what's next? The downside risk for more severe outcomes remains substantial, driven by possible subsequent waves of contagions requiring further full or partial lockdowns, and preventing timely recovery of the economy. As Noémie Renier, a Europe-based funder working globally puts it: *"Financial institutions have been battling the impact of the Covid pandemic on multiple fronts for months worldwide, raising concerns about systemic risk affecting the entire microfinance sector more deeply. Such a threat is complex and non-sequential...it requires a deep understanding of the resilience of the markets where we operate and fundamental strengths of financial institutions with whom we work. Customer-centricity and strong social performance may reveal to be key in navigating through the crisis and limiting unsustainable deterioration of portfolio quality."*

"How will the business strategy of FIs be impacted by the economic crisis? How shall we resume business renewal and revise our growth strategy?"

Impact fund manager

Nobody has comprehensive answers to any of these questions. And it is that fact – the **uncertainty** of the present context – that is potentially the greatest concern of all for some. This includes *"the great uncertainty about the shape of the economic recovery, not only in their countries but worldwide"*, according to US-based consultant Maximir Alvarez, but also the 'unknown unknowns' too (to borrow from one of the great Pentagon poets). As Jurgen Hammer from a global infrastructure organisation observes, the crisis *"may not be over yet and we still don't know how much worse it could get or how long it will last. We don't know if it is a unique crisis or if it will return. [If it doesn't] there are more opportunities than concerns, certainly in the medium to longer run"*. He argues that there will inevitably be portfolio risk issues, business failures, liquidity and solvency issues, but *"[the impact depends upon the] level of coordination and verbal and financial supports from authorities and the financial sector at large"*, adding that the problem is compounded by the fact that, if the crisis persists, many of the measures implemented are not replicable long term –and the sector may have no more arrows in its quiver.

Perhaps the saddest outcome (if not necessarily the most quantifiable) would be **recession causing regression** – that the considerable advances and innovations of the several last years were to be lost. What would that look like? *"I fear that the whole sector will go back to the 1980s with straight up and down loans, little customisation, less listening to clients"*, writes Anne Marie van Swinderen, managing director of a European research institution.

Opportunities



“What if any opportunities do you see for the sector as a result of the Covid-19 pandemic?”

“Who seeks, and will not take when once ‘tis offer’d, shall never find it more”

Shakespeare

It’s not all doom and gloom. Disruption always has two meanings: the chaos and hardship of restrictions, costs and losses – the ‘disruption’ to business and normal life – but also the sense in which technologists typically use it – an upending of the status quo with an opportunity to change things for the better which inertia, in normal times, always seems to prevent. And without in any way wanting to diminish the very real hardships that clients, their families and the institutions that serve them are experiencing, it’s undeniable that, as in all countries and for all people, a crisis such as this presents opportunities too.

The *Compass* respondents are clear on this point, and generally see the opportunities as *potential* only – none of the positive outcomes are predetermined but rather depend on a confluence of external events and/or actions taken within the sector for these opportunities to be realised.

Certain respondents see the opportunities primarily through the lens of the **challenges the crisis has revealed**; after all, one needs to know what needs fixing in order to start doing so. Barbara Scola, a researcher at a global think-tank, writes that the crisis has shown *“systemic constraints, e.g. the problem of fragmented regulatory frameworks which leads to banks and MFIs being treated differently; lack of deposit-protection schemes; dependency on limited number of funding sources; difficulty to gather sector-level information quickly; limited dialogue between regulators and FSPs in some markets; weak digital ecosystem”*. This is where the opportunities arise, though. *“Maybe”*, she believes, *“this will help raise support to address these constraints in the future”*.

There was a general sense among respondents that a crisis as severe as this one is an **opportunity for clarity**, to recognise which providers – and by extension, their ecosystem of support organisations – are truly mission-driven and are willing to take big decisions, keeping clients’ and staff well-being at the forefront. In this sense, the Covid crisis is a chance to ‘separate the wheat from the chaff’, as the saying goes. How do the strong and client-focused providers distinguish themselves?

The crisis can *“demonstrate the added value of a [FSP] that is close to its clients, stands out through client focus, debt rescheduling, technical support to get a business back on track”*, writes a respondent from a development finance institution. It provides confirmation that *“client-value and staff-centered business practice is the strongest business case over time”*, writes a European infrastructure organisation respondent.

The best organisations are always collaborators – even in the good times. But many respondents see this crisis as unleashing an impressive wave of **cooperation within the sector**, even if the *direct* benefits of doing so for that organisation aren’t always obvious, and in fact may sacrifice individual advantages for collective benefit. A respondent from a European infrastructure organisation pointed to the various initiatives among social investors in recent months (such as the MOU among the so-called Group of Nine on debt rescheduling and repayment moratoria) and has hope that this cooperation *“will remain once the crisis is over and we can envisage stronger coordination in the future to move the sector forward.”*

There are efficiencies in this sort of collective action, with benefits for larger and smaller players alike. A TA provider observes that *“crises generally trigger creative and collaborative solutions; new tools and*

methodologies, and a chance to give more attention to environmental questions". A European researcher writes that "in a more collaborative model you can imagine that smaller organisations can specialise and make their contribution and these contributions may be used by several organisations at the time rather than each working out its systems in their own way". Another respondent for a global infrastructure organisation believes the evidence from the past months is already in: "Coordination and cooperation does work and contributes to avoiding a crash during a crisis" and says this is true from the MFI and investor levels all the way up to multi-and supra-national bodies. A European investor also lauds "more collaboration among investors and other actors", adding this has revealed "a better understanding that FI is at the heart of achieving SDGs" with an opportunity, once this crisis has passed, for "more [recognition of the] importance of FSPs as last-mile providers and therefore more diversification of products and services".

"More organisations are willing to collaborate and listen to each other. If things work out well, this can be a turning point and we will have less market mechanisms and toxic competition and supposedly transparent tendering processes which basically only give assignments to the large consulting firms who don't necessarily do the best job"

European researcher

But more - and continued – collaboration will be needed, between *"researchers who may propose new strategies to get out from the trap of recession, and between authorities and funders to...create value from other investment opportunities [under] different rules"*, writes a European researcher.

Part of this new framework will be **innovation** that crises can sometimes serve to expedite. A Fund Manager working globally speaks for many respondents when she says that digital innovation *"has been a long time coming, but there is a big impetus to support MFIs [with digital finance] now"*. In fact, **digital finance** was by far the most mentioned opportunity – an outcome which is highly consistent with the priorities respondents rated in Section 1. Respondents gave many examples of digital innovations that the crisis could catalyse, from *"digital school fees payments options, mobile work staff and online meetings using Zoom and similar"*, according to a practitioner from an African Microfinance Bank, to the broader *"digital transformation of institutions"*, according to the founder-CEO of an African NBF. A UK-based FinTech CEO writes that the Covid-19 crisis *"has already led to behavioural change enhancing the use of digital solutions... fuelled by governments, such as in East Africa, promoting the use of mobile money. This presents a vast opportunity for FSPs who develop customer-centric digital finance solutions to shift distribution to digital channels, and increasingly digitise operations"*. He adds that the crisis *"has been managed very well by many African Governments...I hope this will boost confidence in Africa and make investors see it for what it is: a land of vast economic opportunity"*.

"Greater focus on impact should force better analysis, not through expensive RCTs and other complicated studies, but analysis of what works in localised contexts, i.e. one size does not fit all, so what works where, and build on that"

Senior executive at global microfinance network

Respondents were fairly emphatic on this point. One researcher argues that the crisis should have put a stop to bearish prevarications on the utility of digital financial services, writing that *“the case for DFS and digitisation of G2P has been made”*. A programme director at a global TA provider is more cautious, conceding that there is *“an important opportunity for digital services dealing with some of the challenges faced by the pandemic”*, but that *“there is still a problem with adopting DFS...the FinTech sector in many developing countries is still focused on middle and higher segments of the economy leaving the bottom of the pyramid out.”* The solution, he argues, is for different actors to work towards building the structure needed to make a FinTech ecosystem work effectively. *“Having payments systems is important, but [they have to be] accessible to remote areas with limited access to connectivity...and in times of a pandemic, people need support to make wiser decisions in the access to and use of financial services, so they are less vulnerable to abuse and fraud.”*

“Digitization finally really going rural - that would be the largest hope”

Europe-based support provider

Beyond digital, there are plenty of **other opportunities** respondents see. Gillian Foster Wilkinson, MFI Manager at a network working globally, sees the chance for promoting/enhancing **non-financial services**, *“using interactions related to financial services to reinforce health best practices.”* A consultant focused on regulation notes that government schemes for job creation and retention *“will demand active support from FSPs committed to financial inclusion. If these institutions are able and willing to convey decision makers about their distinctive advantage, they could emerge as crisis winners.”* **Jobs** and the consequences of reverse migration were a repeated theme, too. As a respondent from a Eastern European NBFi sees it, the crisis offers a *“better labour market for employers, with migrants back”*. And the jobs they need will often be within **MSMEs** – making these more important than ever. An impact investor in Europe writes that *“MSMEs will form a vital basis for future social and economic recovery post-Covid...it is critical that as an impact funds manager, we continue to support the FSPs reaching out to the MSMEs, the informal economy, and support income-generating activities for the most vulnerable.”*

“At the client/entrepreneur level (we need) a push towards more sustainable activities that focus on addressing rather than creating client needs”

Infrastructure organisation respondent working globally

The hardest opportunity to quantify, but for many respondents potentially the most significant of all, however, is the opportunity for a **re-think about the direction the sector** has been going, and how it can adapt to work better for more people. A TA provider working globally writes that the pandemic “*can be a game changer opportunity to reconsider the entire sector. There might be no need to support so much trade-related businesses when goods are produced locally, with responsible practices and quality standards. Asset finance (e.g. energy efficiency solutions) could gain new traction, while green and environmental products could become a must instead of being considered a CSR practice*”. Similarly, a CFO of a global infrastructure organisation welcomes a “*‘forced’ rethinking of business operations and products that can yield better, more well adapted approaches and products. This could be everything from how group meetings were replaced/managed to greater flexibility in loan products*”. The Compass yielded many responses along this theme – that amidst the pain at household, provider and global stakeholder levels, there is a chance to be seized here – the chance to make things better than they were before.

But this rose-coloured perspective is not unanimous, or even dominant. For some, this crisis – still underway – is an unmitigated calamity, especially for the most vulnerable of all. A CEO of an Asian Microfinance Bank puts it tersely: “*The situation is and will continue to be tragic for low-income households. FSPs will react in accordance with their true nature, as is usually the case in the face of crisis. There is no silver lining here*”.

Forecasts



"How will the financial inclusion sector be different after the Covid crisis has passed?"

"The best way to predict your future is to create it"

Lincoln

In the final question, we asked *Compass* respondents to think longer term, beyond the 6-12 month period in the Priorities part of the survey, and towards a undefined date in the future once the crisis has passed – although obviously, this both presupposes that the crisis will indeed pass, and recognises that different markets will recover at different rates. Nevertheless, how (if at all) do respondents think the crisis will change the financial inclusion sector?

Many respondents, as in previous sections, pointed to **digital transformation** of FSPs, with the sector *"increasingly seeing it as a positive rather than an enemy"*, according to one investor, but with the onus on providers themselves, who, according to an African practitioner, *"will have to put a lot of effort into developing and creating digital financial solutions [and] should expect to play a very important role in financial inclusion in order to respond effectively to the economic effects of Covid"*.

"Profit-driven FinTechs will withdraw from what has become a far riskier market sector, leaving the social impact-focused FSPs to provide credit, savings, training, etc."

Impact specialist at global microfinance body

Others foresee a **refocusing of the sector** on new segments, including *"different characteristics of clients who get financial inclusion, a new definition of the threshold of financial inclusion"*, according to a researcher based in Europe, and a *"refocusing of lending on productive sectors, essential to the economy"*, says a consultant at a think-tank, proving that *"a rapid, pro-client approach (mostly voluntary and not imposed by regulation like for large banks) is not only socially responsible but also economically viable and a risk management tool"*, according to a Europe-based respondent from an infrastructure organisation.

But such a re-focusing needs to take into account both the concerns and opportunities outlined in the previous questions. *"Perhaps MFIs will know their clients better and will be more aware of their needs and challenges, which in turn could lead to better services, or at least more aligned to clients' needs"*, writes a TA provider. But alongside this, *"clients will be more indebted and will struggle to recover from the Covid aftermath"*, he forecasts, adding that *"regulators will need to change their mindset and work towards building a more inclusive and accessible market with players providing more flexible products that meet regulations and are profitable"*.

“There will be a shift in clients’ needs, not only focused on financial services, but there will be an increasing need to provide non-financial capabilities to cope with future outbreaks, such as sanitary protocols, and tools to deal with both health and economic crises”

European consultant

Collaboration may be a more permanent and welcome fixture in the sector, rather than a fleeting occurrence. “More care. More flexibility, more discussion among lenders and investors”, hopes a representative of a global bank. And respondents see **consolidation** as likely too: “fewer but more resilient institutions”, according to a rater, mean “hopefully ‘survival of the fittest’ (in the sense of institutional strong ones) - and not a large number of ‘zombies’ being supported by donors or governments”, according to Ilonka Rühle-Stern, a TA provider working globally.

Who are these ‘fittest’? According to a senior executive at a global data collection body, “well-capitalized companies (of all stripes) are faring better in this crisis... while liquidity is the immediate concern for many lenders (and FinTech start-ups), those with strong capital positions should do better in the medium term, leading to a likely concentration of providers in many markets.”

A ratings expert also sees the likelihood of “less players and larger concentration in long standing and well-funded FSPs” but observes that the challenge therefore will be “to keep alive those medium-sized grassroots cooperatives that provide basic but essential ‘capillary’ services.”

“(The sector) will be slimmer and more efficient. Expertise will be siloed in different organisations because of the need to focus only on core expertise. This could encourage more partnerships for greater impact, especially between NGOs and the private sector, e.g. education finance, health finance, etc.”

Global microfinance network

Consolidation doesn’t just apply to financial providers, either. A researcher at a European infrastructure organisation believes that “the trend we are seeing over the past years of rationalisation and consolidation of infrastructure organisations will probably be further strengthened due to the COVID crisis”.

Financing of the sector will be changed too, leading to “FSPs [being] leaner in their staffing, and funders and internal financial policies [being] more conservative”, according to a North America-based practitioner. An impact fund manager in Europe gives the investor rationale for this: “The economic crisis will require FSPs to implement strict financial management, working on their cost-efficiency as well as risk management, and maintaining very transparent and close communication with their investors”. She adds that this crisis will force FSPs “to accelerate not only their digitalisation but also their professionalisation”.

Overall, the forecasts for a post-Covid sector are mixed in tone, and understandably general in a time of more uncertainty than ever. But if there is agreement on one point at all throughout the entire *Compass* survey, it is that Covid will – and perhaps already has – profoundly change the entire business of financial inclusion.

Budgets from donors are likely to be reduced due to local priorities in Europe and the US. More work to be done but with less funding”

European funder

Where To From Here?



“I’m not lost, for I know where I am.
But however, where I am may be lost”

Winnie the Pooh

Overall, perhaps it is unsurprising that respondents are generally negative about the future, glimmers of opportunity notwithstanding. The financially excluded – the hundreds of millions at the bottom of the economic pyramid that the sector exists to serve – are already terribly affected. Incomes will decline or even collapse as tourism and trade stays mired by a global recession – likely for years. Mitigating these adverse effects will be a monumental challenge for all stakeholder groups, and it is “*highly likely*”, as one respondent puts it, that financial inclusion “*will experience a setback*”. Even in advanced economies, this respondent argues, the management of the crisis has shown how difficult it is to rapidly channel government financial support to people and businesses, and how much vulnerable people rely on cash for daily transactions.

Maybe so. But what does that mean for where we go from here? Early data (including from CGAP’s recently launched longitudinal ‘Pulse’ survey of MFIs) shows that while a sector-wide collapse because of a blanket liquidity crunch has been avoided, there are large gulfs in how different providers are managing – and the same certainly applies to their clients too.

Moreover, as this paper is being written, in July 2020, we remain in the early days of the crisis – probably closer to the end of the beginning than the beginning of the end. There will undoubtedly be many financial services providers that will collapse. Possibly millions of micro and small businesses likewise will not recover. Donor largesse from advanced economies may retreat, as those governments – facing generational recessions in their own economies – feel they have to take care of their own first. And aside from the consequences of the global economic shutdown that has defined the first months of this year – the coronavirus itself continues to stalk virtually the whole world. It may be years rather than months until we are rid of it. It may come back, and back again – leading to repeats of the only way we know – for now at least – how to deal with it: economic standstill.

Nobody knows the answers to any of these questions. The uncertainty from the vantage point of investors, consultants, researchers and others can seem overwhelming and stressful. But it is nothing to the stress the crisis is injecting into the lives of the people it exists to benefit, already financially precarious, with their lives and livelihoods at stake. It is our hope at e-MFP that, whatever the accuracy of the forecasts put forward by the respondents to this survey and presented in this paper, that all stakeholders keep in mind what this sector exists for and whom the crisis is really hurting, and work together to protect them. If that happens, perhaps some of the rose-tinted, optimistic hopes that have shown up in these responses amidst the gloom may turn out to have been prophetic after all.



www.e-mfp.eu

About the European Microfinance Platform (e-MFP)

The European Microfinance Platform (e-MFP) is the leading network of organisations and individuals active in the financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers.

Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. The Platform achieves this through its numerous year-round expert Action Groups, the annual European Microfinance Week which attracts over 400 top stakeholders representing dozens of countries from the sector, the prestigious annual European Microfinance Award and its many and regular publications.

European Microfinance Platform
39 rue Glesener
L-1631 Luxembourg
contact@e-mfp.eu
www.e-mfp.eu



Copyright © 2020

Short excerpts from this publications may be reproduced without authorisation, on condition that the source is acknowledged.

Photo: Noah Syed via Unsplash

ISBN 978-2-9199549-7-1



With the support of



THE GOVERNMENT
OF THE GRAND-DUCHY OF LUXEMBOURG
Ministry of Finance