COVID-19 BRIEFING

CGAP

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Snapshot: MFIs During the Crisis

NOVEMBER 2020

MFIs on the rebound, but will it last?

A steady increase in disbursements and repayments since May could be leveling off, with both metrics flattening or contracting again across nearly all regions.

From February to April 2020, microfinance institutions (MFIs) within the Symbiotics portfolio saw disbursements and repayments contract sharply across all regions. Disbursements fell to around 20 percent of year-on-year figures as MFIs curtailed new lending amid widespread uncertainty about the development of the pandemic and the economic impact of lockdown measures. Over the same period, repayments by existing borrowers dropped to around half of normal levels due to mandatory or voluntary moratoria extended by MFIs to their clients.

There has been a steady rebound since May, with both disbursements and repayments growing back at a pace nearly comparable to the initial decline in every region. This recovery has been strikingly consistent across all regions for several months and likely reflects a combination of abating uncertainty around the pandemic, easing lockdown measures, expiring moratoria, economic recovery, and growing confidence among MFIs and their borrowers.

About this snapshot

This snapshot is the first in a series to be published by CGAP and Symbiotics, offering regular updates on how COVID-19 is affecting the microfinance sector's portfolio quality, financial health, and ability to serve excluded clients. All or most of the data shown and referenced come from the Symbiotics portfolio of over 300 MFIs worldwide. For more information about this partnership, visit www.cgap.org/MFI-snapshots.

However, the rebound may be waning; July and August data show both disbursements and repayments leveling off or declining again. The trend is evident across regions, but particularly pronounced in the Europe and Central Asia (ECA), Middle East and North Africa (MENA), and Africa regions. Disbursements in Asia and Latin America are still rising, but from lower levels than other regions and are also flattening out. All regions seem poised to level off at around 10-20 percent below normal levels of lending.

FIGURE 1. **Monthly disbursements (year over year)**

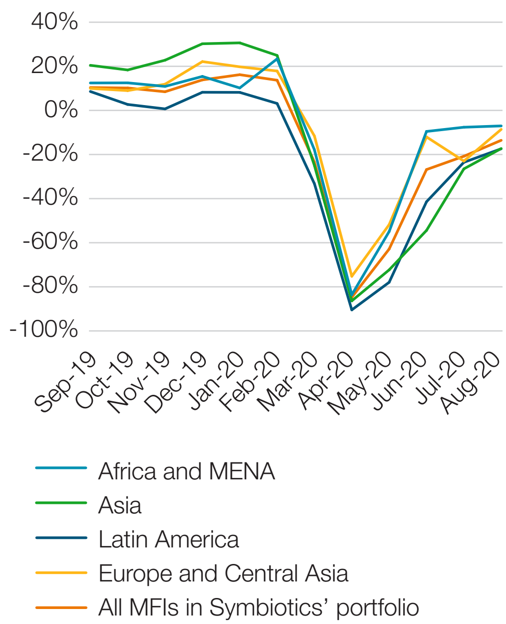
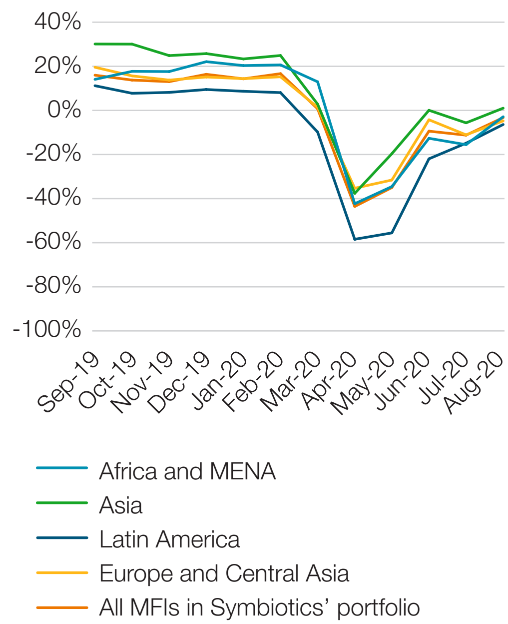


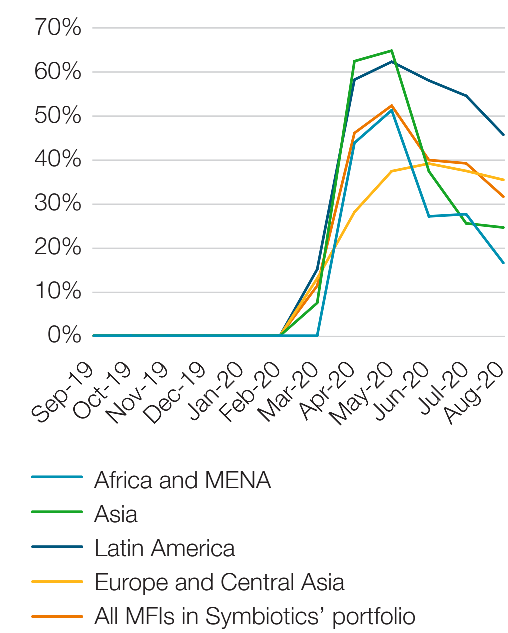
FIGURE 2. **Monthly repayments (year over year)**



Moratoria are diminishing across nearly all regions, and portfolio at risk appears to be growing as a result.

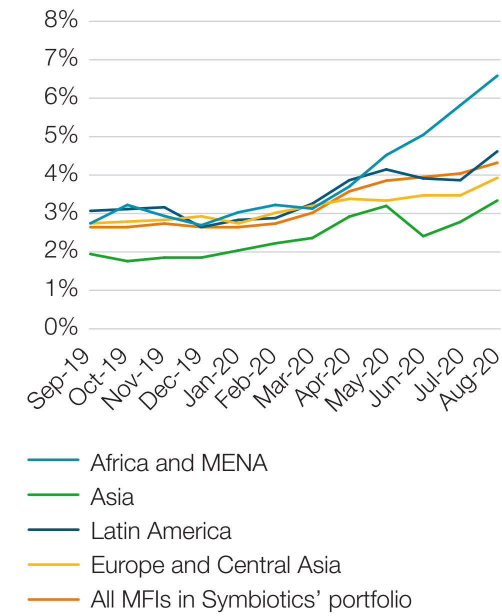
The shares of loan portfolio under moratorium has fallen across all regions from June through August. Across the sample, moratorium ratios have declined by around a third from their peak in May to the end of August. The fall has been particularly pronounced in Asia and Africa, where shares of portfolio under moratorium have fallen by two thirds or more. The only outlier is ECA, which appears to follow a more gradual trend, but which is also showing clear evidence of declining moratoria in August.

FIGURE 3. **Moratorium ratio**



This decline in moratoria coincides with an increase in portfolio at risk, which is also particularly pronounced in Asia and Africa but evident across regions. This development is not altogether surprising. A subset of borrowers with expiring moratoria have likely suffered pandemic-related financial hardships that make loan repayment more difficult. The critical question will be how far portfolio quality deteriorates as the impact of ending moratoria gradually makes itself felt on portfolio at risk after 90 days (PAR 90), with its built-in three-month lag**.**

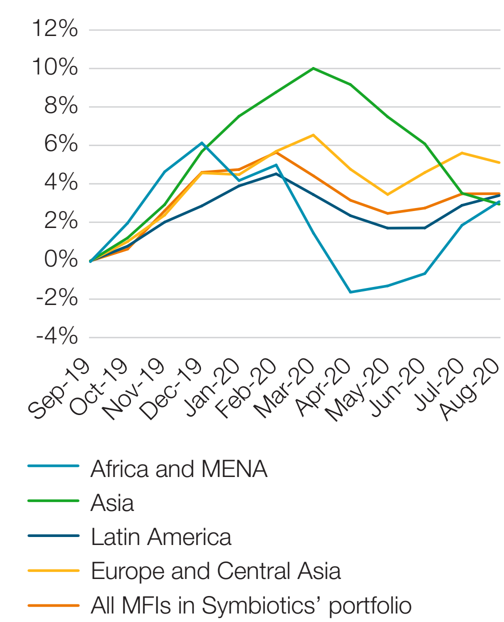
FIGURE 4. **Portfolio at risk**



While portfolios have been recuperating, MFIs are taking a more conservative approach that curtails access for some clients and focuses on larger loan sizes.

After a three-month decline through April, gross loan portfolios have been growing since May across most regions and are making their way back to pre-crisis levels. The notable exception is in Asia, where portfolios had grown very substantially before March but have been on a consistent slide since then and are leveling off at levels comparable to other regions in August.

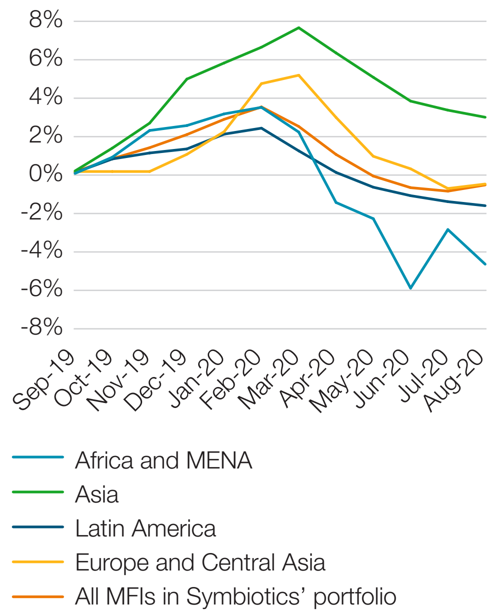
FIGURE 5. **Portfolio growth**



Despite this growth in portfolios, the number of borrowers has been declining steadily since the early months of the year, and there is nothing in the August figures to indicate that this will change. This indicates that even as MFIs have resumed lending, they are being more circumspect about who they lend to and tend to prefer larger ticket sizes.

This may be prudent from a risk management standpoint, but it also underscores the potential risk of further excluding poor clients. Funders with impact objectives may need to take these developments into consideration when negotiating financing rollovers or fresh debt with MFIs.

FIGURE 6. **Borrowers growth**



Over the coming months, CGAP and Symbiotics will continually monitor the data and publish additional snapshots covering issues such as liquidity, solvency, and portfolio restructuring.

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Latest Indicators

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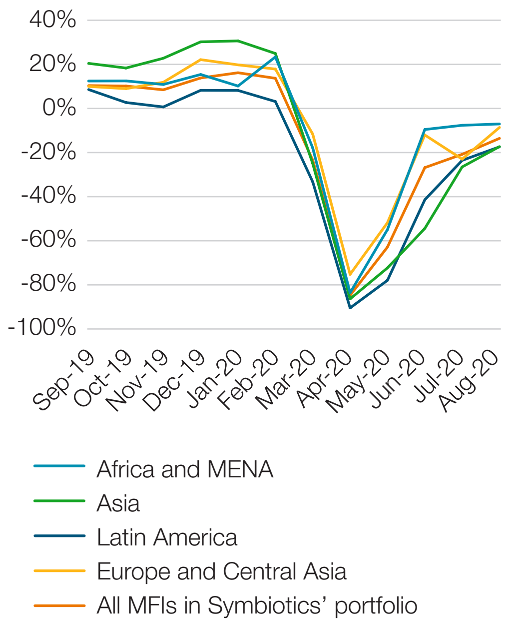


FIGURE 2. **Monthly repayments (year over year)**

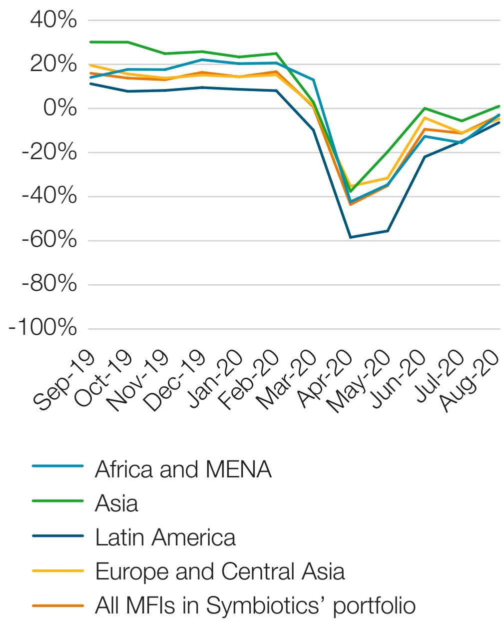


FIGURE 3. **Moratorium ratio**

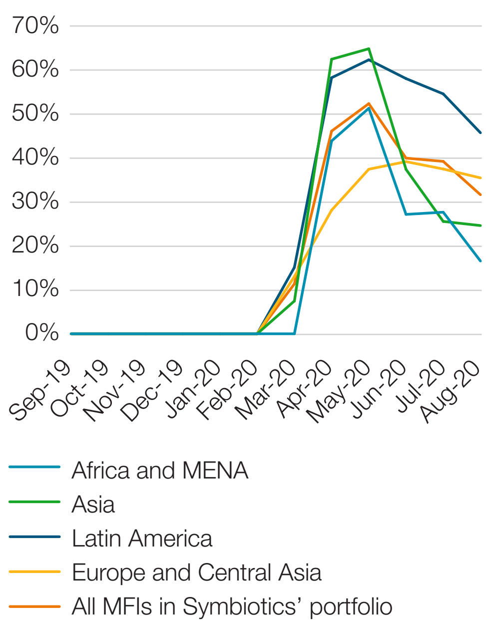
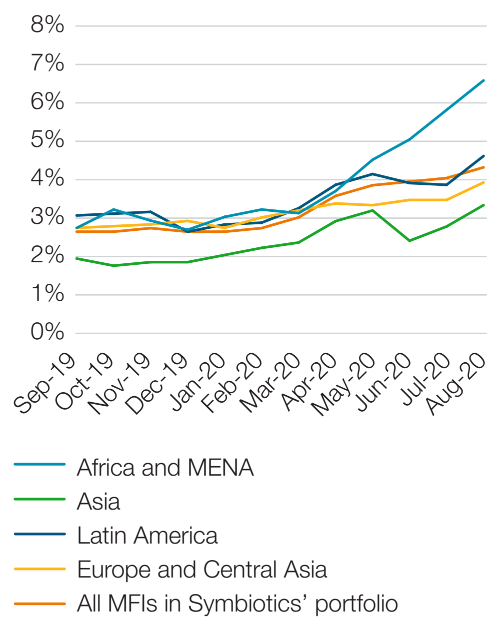


FIGURE 4. **Portfolio at risk**



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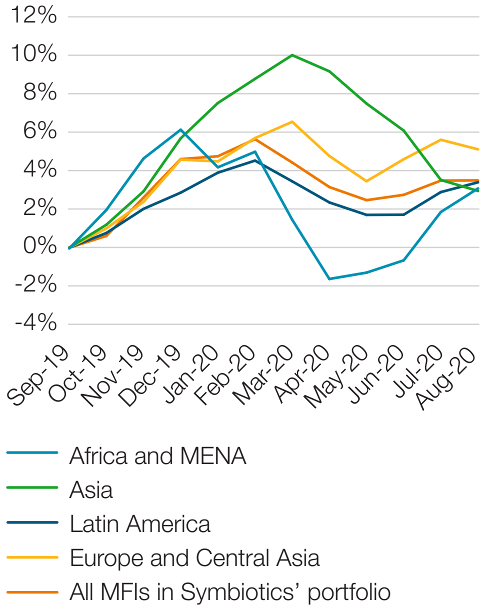


FIGURE 6. **Borrowers growth**

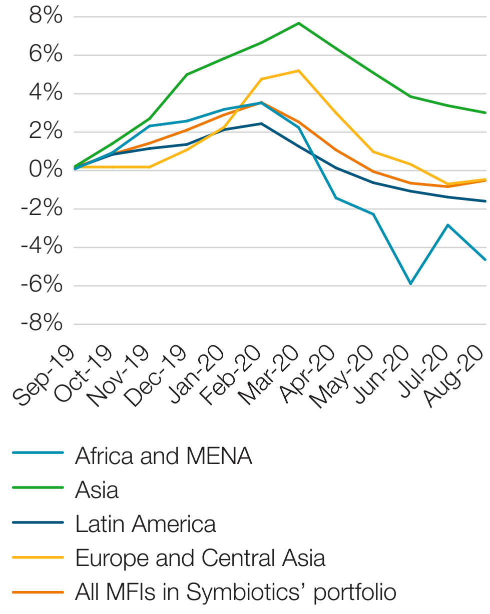


FIGURE 7. **Liquidity**

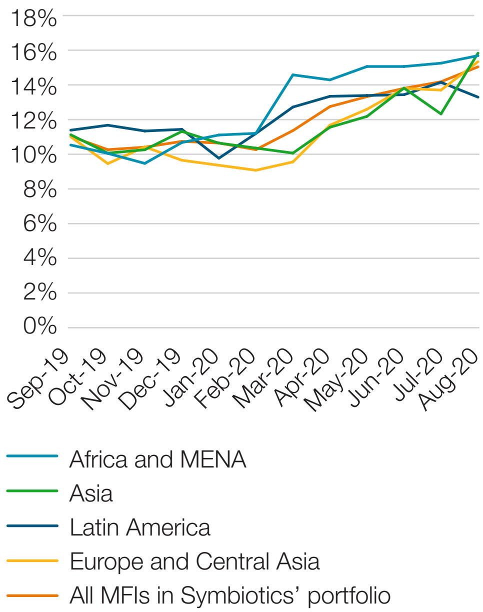


FIGURE 8. **Solvency**

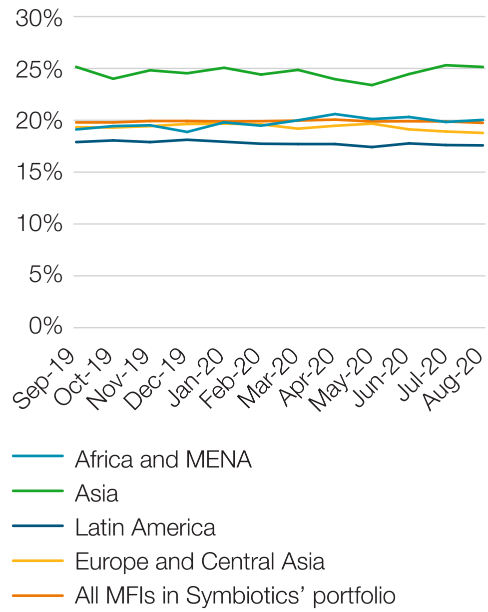
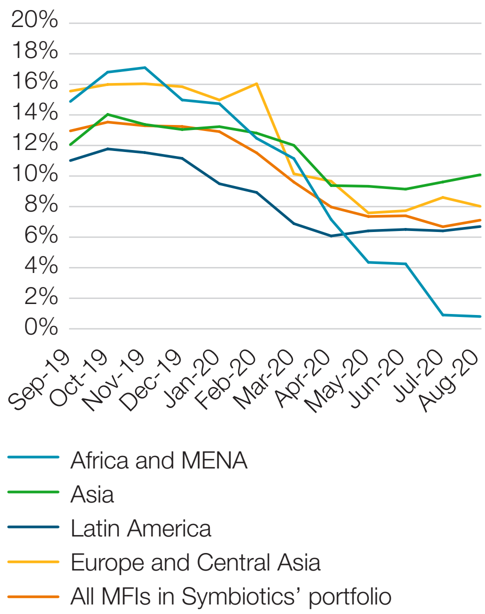


FIGURE 9. **Return on equity**



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Indicator definitions

For the following ratios, we always use the median value of a given regional or sub-regional group of MFIs, SME finance institutions and SME banks. All ratios are calculated in local currency.

MONTHLY DISBURSEMENTS (YEAR OVER YEAR)

Growth (respectively decline) of monthly loan disbursements to borrowers, compared to the same month in 2019.

MONTHLY REPAYMENTS (YEAR OVER YEAR)

Growth (respectively decline) of monthly repayments from borrowers, compared to the same month in 2019.

MORATORIUM RATIO

Loans subject to general payment moratorium recommended by local regulator divided by the total outstanding loan portfolio.

PORTFOLIO AT RISK

Portfolio at risk over 90 days + entire restructured portfolio, divided by the total outstanding loan portfolio.

PORTFOLIO GROWTH

Growth (respectively decline) of the total outstanding loan portfolio year-to-date.

BORROWERS GROWTH

Growth (respectively decline) of the number of active borrowers year-to-date.

LIQUIDITY

Unrestricted cash and short-term liquid investments divided by total assets.

SOLVENCY

Proxy of Basel III capital adequacy ratio.

RETURN ON EQUITY

Annualized net income divided by the average of current month equity and last fiscal year-end equity.