COVID-19 BRIEFING

CGAP

symbiotics

Snapshot: MFIs During the Crisis

JULY 2021

Global microfinance recovery continues, especially in Africa, but pandemic's long-term impact remains uncertain

Microfinance institutions (MFIs) are starting to recover, particularly in Africa, and some have managed the crisis better than expected so far. However, the recovery remains fragile. There is pressure on asset quality, and questions remain about how restructured portfolios will impact MFIs' longer-term solvency. Structural issues at the macro and country levels, coupled with the slow rollout of vaccines in many regions, contribute to fragility.

The COVID-19 pandemic and economic lockdowns of the past 18 months have disrupted livelihoods globally, and the poor have suffered the most. While decades of advances in financial services delivery have equipped governments and individuals with new tools for dealing with the crisis, COVID-19 has put parts of the financial inclusion ecosystem at risk. The global liquidity crisis in the microfinance sector that many initially feared did not fully materialize, and a recovery is clearly on its way. But the recovery is uneven, and potential vulnerabilities remain in certain regions.

MFIs and other credit-issuing organizations faced rising non-performing loans in 2020 that endangered their portfolios and hampered their ability to extend urgently needed credit to help

About this snapshot

This snapshot is the last in a series published by CGAP and Symbiotics, offering 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 comes from the Symbiotics portfolio of over 300 MFIs worldwide. For more information about this partnership, visit www.cgap.org/MFI-snapshots.

poor people recover from the crisis. Nonetheless, data from the Symbiotics portfolio provides, so far, a positive outlook for 2021 as first quarter results confirm a rebound in key metrics. As at the end of March 2021, monthly disbursements and repayments were in positive territory across all regions for the first time since the pandemic started. The graphs below present the growth trajectory contrasting the onset of the pandemic in March 2020 with March 2021, with Africa and Eastern Europe and Central Asia showing a significant rebound.

FIGURE 1. **Growth of monthly disbursements (from March 2019)**

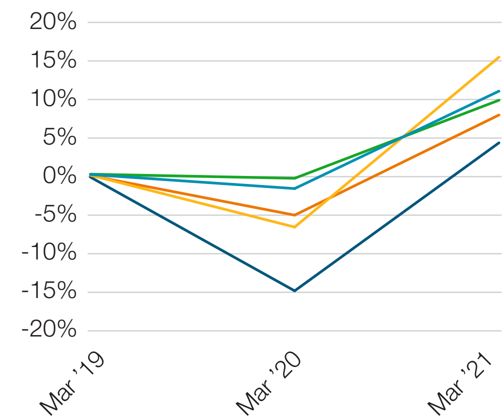
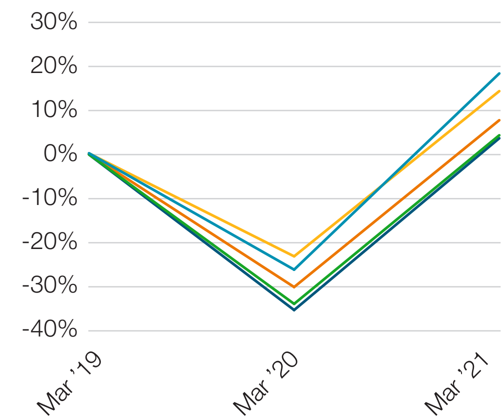


FIGURE 2. **Growth of monthly repayments (from March 2019)**



Africa and MENA | Asia | Latin America | Europe and Central Asia | All MFIs in Symbiotics' portfolio

Restructured portfolio and portfolio at risk levels increased sharply in 2020. The credit quality risk is now being carried within PAR 90+Restructuring, which reflects a stable and marginally improving position in Q1 2021.

By the end of March 2021, as economic activity resumed strongly in most emerging economies, the MFIs in the Symbiotics portfolio continued to show improved quality in their Portfolio at Risk (PAR 90 plus restructuring) figures. This was the case across all regions, with Asia showing strong improvement levels.

While portfolio levels in Africa continue to improve, they are still in negative growth territory. However, the overall number of borrowers continues to decline, except in Latin America and Africa. While lower demand and prudent lending practices are likely causing this muted trend in borrower growth, these dynamics underscore the risk of excluding poorer clients. And, at least in some markets, we are starting to see COVID-19 cases ticking up, which could lead to lockdowns that exacerbate the situation.

FIGURE 3. **Portfolio at risk**

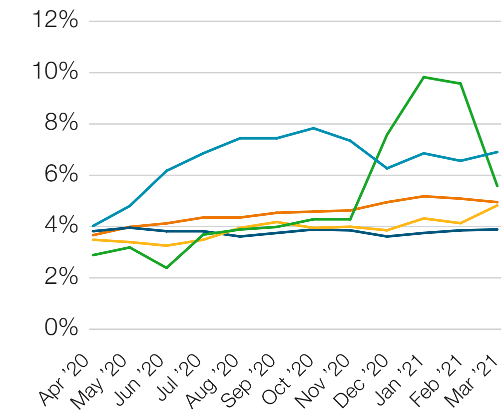
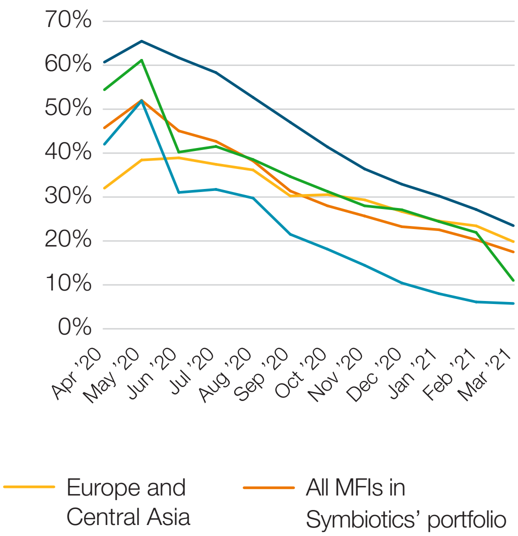


FIGURE 4. **Moratorium ratio**



Microfinance portfolios started growing steadily again in the last quarter of 2020. In the first quarter of 2021, they have picked up the pace and are showing solid numbers across all regions, especially in Africa and Asia. The overall Symbiotics portfolio shows median growth figures of almost 7%, confirming the resilience and recovery of MFIs in the aftermath of the pandemic.

In tandem with this portfolio growth, borrowers growth has also increased significantly in the first quarter of 2021, especially in Africa and Asia. Growth is slower in Latin America and Eastern Europe and Central Asia. MFIs in these regions may be taking a more conservative approach to lending, possibly focusing on existing clients and larger loan sizes.

FIGURE 5. **Portfolio growth**

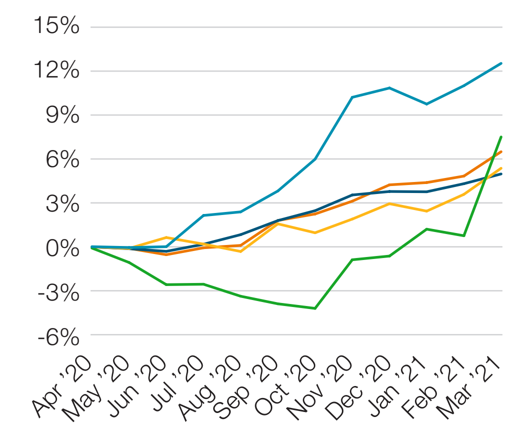
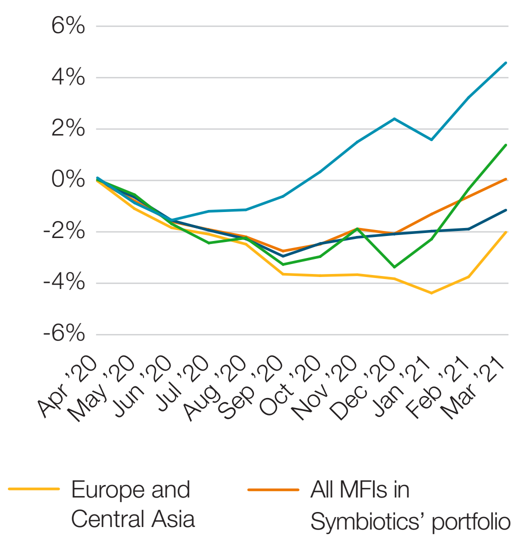
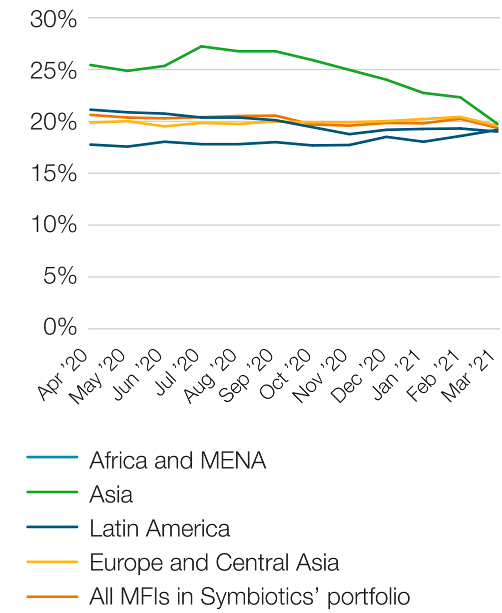


FIGURE 6. **Borrowers growth**



As analyzed in the previous COVID-19 Snapshot (April 2021), solvency remains stable and Asia is now in line with the levels seen in other regions. However, the performance of restructured portfolios and asset quality should be monitored closely, especially for smaller, more vulnerable MFIs in regions where the macro and health situation may worsen, as restructurings may mask latent credit risk.

FIGURE 7. **Solvency**



MFIs are recovering faster in Africa than they are in other regions, but structural issues in the microfinance sector and the macro situation could slow this.

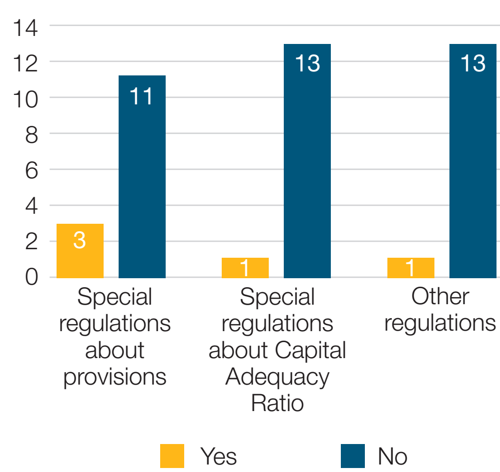
To help size the potential solvency problem in the wider microfinance sector, Symbiotics recently surveyed companies in its own Sub-Saharan Africa portfolio. This survey follows a similar survey it conducted with its Latin America portfolio, the results of which were presented in the April snapshot. This latest analysis includes results from over 40 MFIs in Africa, with data as of March 2021.

Overall, MFIs in Africa seem to be recovering more strongly than MFIs in other regions in terms of number of borrowers, disbursements, and profitability. However, from an asset quality perspective, portfolio at risk combined with moratorium ratio is higher than what we see in some other regions. This is a reflection of the fact that Symbiotics' portfolio in Africa targets Tier 2 and Tier 3 MFIs that show higher risks than MFIs in other regions.

Compared to other regions, especially Latin America, fewer African countries experienced financial regulatory influence during the pandemic. Regulators that intervened were in larger countries with more mature financial services.

MFIs, backed by some of their investors, responded to the crisis by offering a wide set of options ranging from no moratoria to blanket payment holidays. Initially,

Special COVID-19 Regulations in Africa, per Country (as of March 31, 2021)

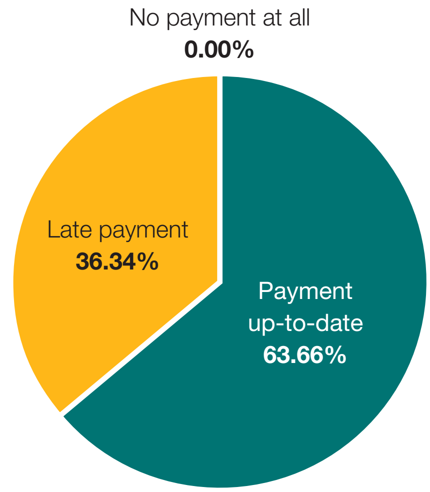


Source: Symbiotics MFI Africa Survey, April 2021.
Sample: 14 countries.

around 80% of the total outstanding portfolio in North Africa and around 40% in Sub-Saharan Africa had access to some sort of moratoria solutions provided by funders. These percentages have dropped to low single digits in the past few months and the decline is possibly due to the fact that lockdowns were more limited in Africa generally and that loans in the region are fairly short in tenor.

The performance of restructured loans is a key element for potential solvency issues. Over the past six months, the loan portfolio under moratoria in Africa has fallen as more loans have been repaid and moratoria have ended. Looking at the Symbiotics portfolio, all clients are making some form of payment, around 64% are repaying their loans on time, and 36% are not fully meeting their full commitments.

State of Loans Under Moratorium with Existing Payment Schedule (as of March 31, 2021)



Source: Symbiotics MFI Africa Survey, April 2021. Sample: 42 MFIs in 19 countries.

In conclusion, the Symbiotics survey and portfolio data confirms that Africa's response to the pandemic has been markedly different than responses in other regions, with little to no regulatory intervention, short-lived lockdowns mirrored by short-term moratoria that are now having very little impact on the gross loan portfolio quality. The credit quality risk is now being carried within PAR 90+Restructuring, and this reflects a stable and marginally improving position in Q1 2021.

To supplement the findings of the survey, Symbiotics provided some field insights on the situation in South Africa, one of the African countries most affected by the pandemic. Despite heavy COVID -19 related business restrictions, small and medium enterprises (SMEs) exhibited strong resilience in the face of business restrictions thanks to digital business capabilities and some policy support. Yet, it still had a negative impact on micro, small and medium enterprises (MSMEs) and low- and middle-income housing activities. Micro-entrepreneurs showed agility thanks to their ability to lower overhead costs, implement flexible business models, and adjust more rapidly to the changing environment.

MFIs in Symbiotics portfolio in South Africa responded accordingly with reviewing their credit underwriting policies, leveraging technology, and focusing on the more resilient sectors of the economy. Overall, loan portfolio growth has not been as expected, but on average portfolio quality remains manageable despite the challenging economic environment. With tighter restrictions currently in place in South Africa, Symbiotics portfolio should withstand the situation as they have been selectively avoiding the more vulnerable sectors over the past 12 months.

The real impact of the pandemic will take time to unwind, and it will be felt differently among MFIs globally due to disparities across regions and with respect to their legal status, lending methodology, operating models and technology, as well as the duration of the pandemic and regulatory responses in their countries. However, the resilience shown by the MFIs in the Symbiotics portfolio leads us to believe that the worst of the crisis is likely in the rearview mirror. MFIs are recovering well; however, there are still some long-term performance concerns, and solvency remains an unknown development going forward.

We hope that MFIs around the world will use the lessons of the pandemic to strengthen their underwriting; improve their distribution rails, especially digital channels; and be more client-centric to help accelerate the breadth and depth of financial inclusion.

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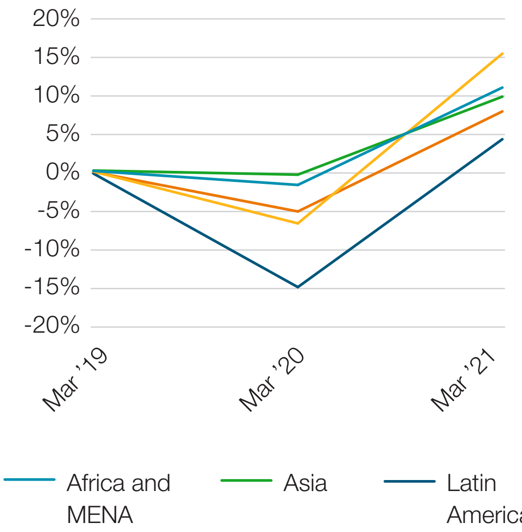
Latest Indicators

JULY 2021

FIGURE 1. **Growth of monthly disbursements (from March 2019)**



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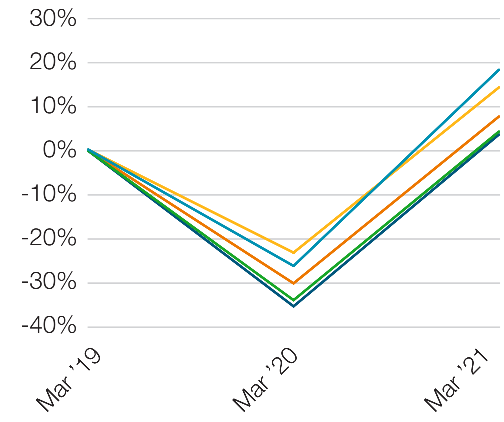


FIGURE 3. **Portfolio at risk**

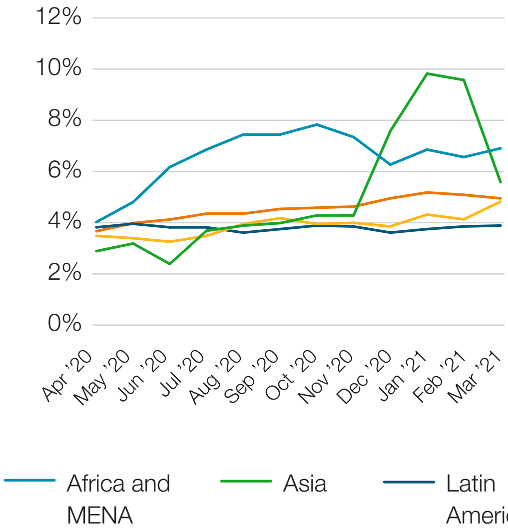
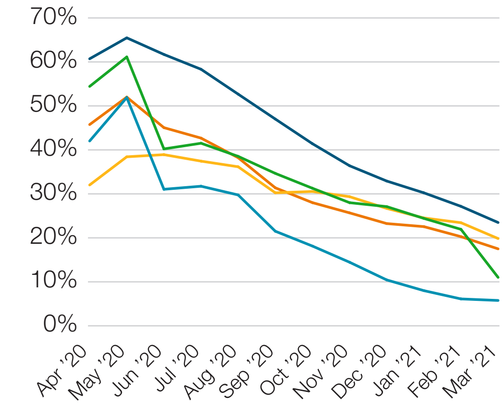


FIGURE 4. **Moratorium ratio**



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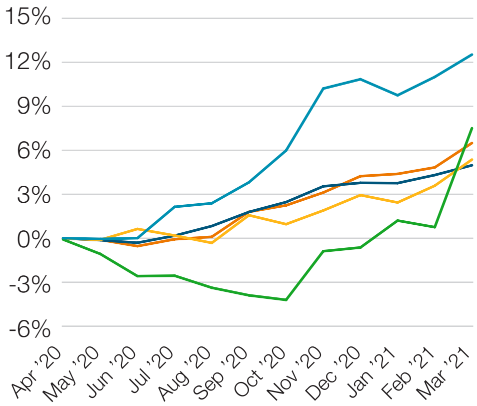

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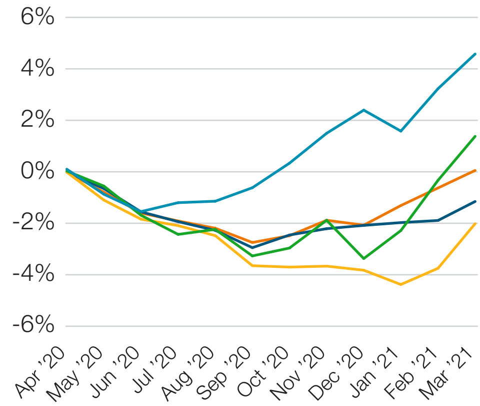

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FIGURE 7. **Solvency**

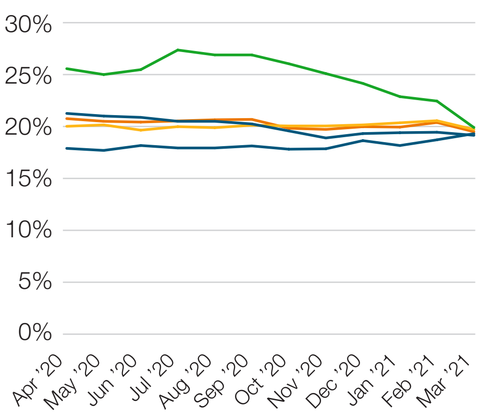
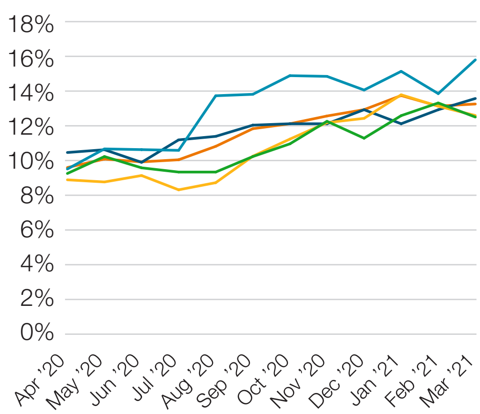


FIGURE 8. **Liquidity**



Africa and MENA | Asia | Latin America | Europe and Central Asia | All MFIs in Symbiotics' portfolio

FIGURE 9. **Monthly disbursements (year over year)**

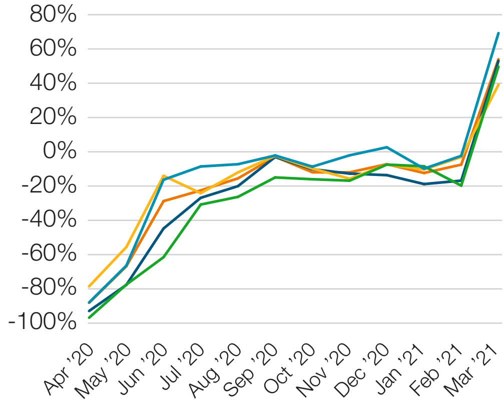


FIGURE 10. **Monthly repayments (year over year)**

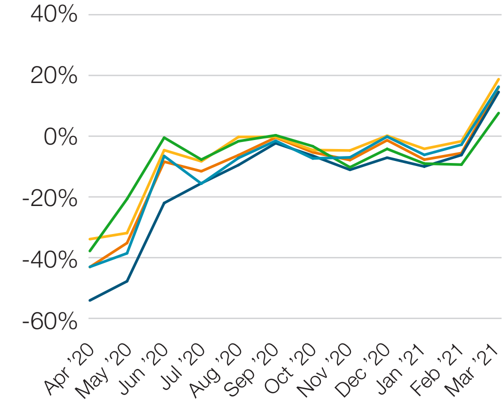


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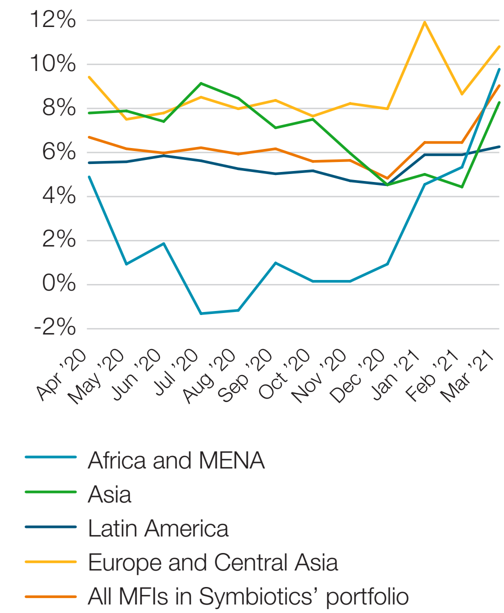
FIGURE 11. **Return on equity**



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.

PORTFOLIO AT RISK

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

MORATORIUM RATIO

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

PORTFOLIO GROWTH

Growth (respectively decline) of the total outstanding loan portfolio on the last 12 months.

BORROWERS GROWTH

Growth (respectively decline) of the number of active borrowers on the last 12 months.

SOLVENCY

Proxy of Basel III capital adequacy ratio.

LIQUIDITY

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

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.

RETURN ON EQUITY

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

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