COVID-19 BRIEFING

CGAP

symbiotics

Snapshot: MFIs During the Crisis

APRIL 2021

Resilient microfinance industry signals path toward cautious, gradual recovery

Over a year into the COVID-19 pandemic that has challenged business continuity within the microfinance sector, disrupted borrowers' livelihoods, and impacted access to financial services, the sector remains resilient and on its way to a cautious and gradual recovery. The pace of recovery varies, however, depending on type of institution, region and capital buffers.

At the beginning of the COVID-19 crisis, many in the financial inclusion community feared that liquidity problems would lead to the structural failure of the microfinance sector. Fortunately, this did not happen. In fact, many microfinance institutions (MFIs), funders and policy makers proactively adapted to the COVID-19 crisis with adequate risk management measures, while maintaining a responsible, client-centric approach to lending.

However, the crisis is not over yet. Stakeholders continue to carefully monitor portfolio quality, provisioning, and especially solvency across the sector, since problems in these areas could precipitate a sudden downturn in this fragile recovery.

MFIs in the Symbiotics portfolio ended 2020 with monthly disbursements and repayments approaching pre-COVID levels and, overall, at their highest levels since the start of the crisis. Sub-Saharan Africa is showing an especially strong rebound.

About this snapshot

This snapshot is part of a series 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.

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

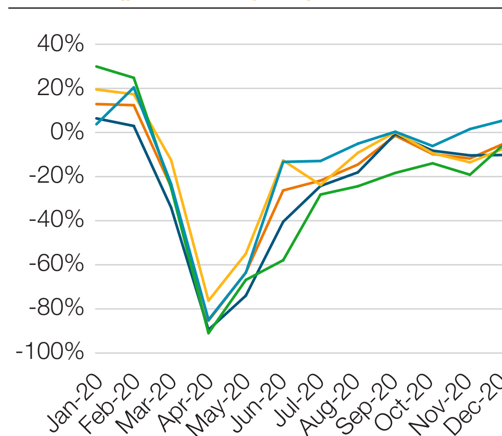
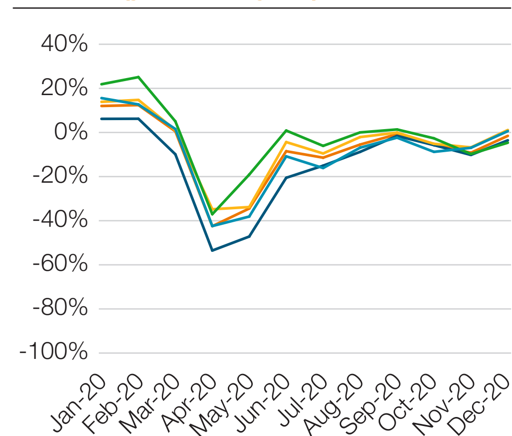


FIGURE 2. **Monthly repayments (year over year)**



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

Portfolio at risk and loans under moratorium continued their decline at the end of 2020. Portfolios grew, but borrower growth remains stagnant or in decline.

By the end of 2020, economic activity had resumed to some extent in most emerging economies, and the MFIs in the Symbiotics portfolio showed improved quality in their PAR 90 (plus restructuring) figures. This was the case across all regions except Asia.

The key factor to watch out for now is the fact that many moratoria arrangements are now expiring. This trend is especially pronounced in Africa, where moratoria levels are lower than in any other region. Latin America and Eastern Europe and Central Asia (ECA) countries are also seeing declines but continue to have the highest levels of loan restructuring.

FIGURE 3. **Portfolio at risk**

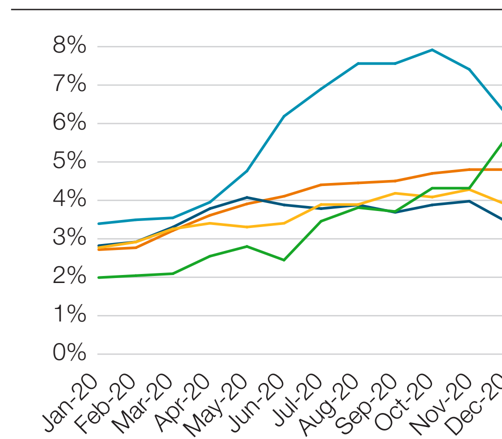
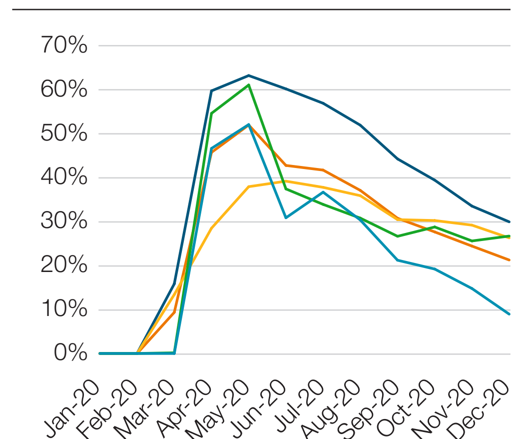


FIGURE 4. **Moratorium ratio**



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Microfinance portfolios grew steadily in the last quarter of 2020, except in Africa and the Middle East. The Symbiotics portfolio showed median growth figures of 2.2%. However, when looking at absolute figures, the growth rate year-on-year for December 2020 was over 6%, suggesting that MFIs in the Symbiotics database overall seem to have been resilient in the face of the pandemic.

As seen in previous snapshots, the picture is more mixed regarding borrower growth. Overall, the number of borrowers remains stagnant or continues to decline in most regions. This can be explained by the fact that many MFIs focused on lending to existing clients with proven repayment histories during the crisis and were reluctant to onboard new clients.

FIGURE 5. **Portfolio growth**

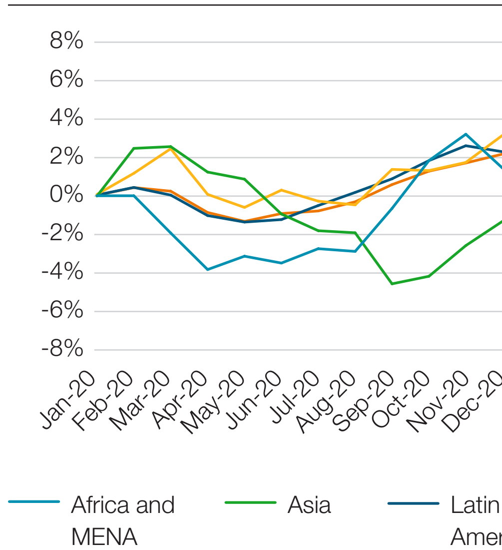
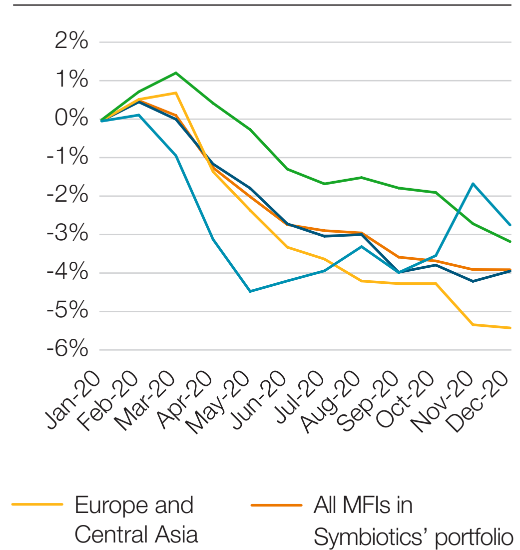
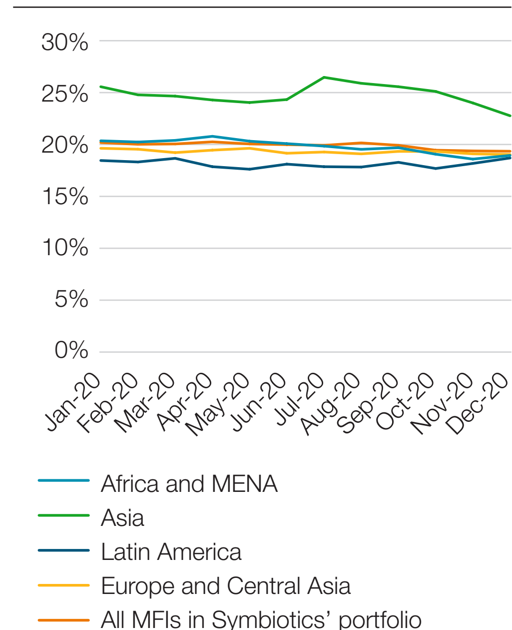


FIGURE 6. **Borrowers growth**



As analyzed in previous snapshots, solvency remains stable. However, the recovery is fragile, and data still shows elevated levels of restructured portfolios. The financial inclusion community should continue to keep a close eye on MFIs' solvency. If a widespread insolvency problem arises, it could trigger a structural challenge to the microfinance industry linked to the extent of potential losses from troubled portfolios. Digital transformation, stakeholder alignment and product innovation remain key to strengthening MFIs' resilience and maximizing their impact on customers during and after the COVID-19 era.

FIGURE 7. **Solvency**

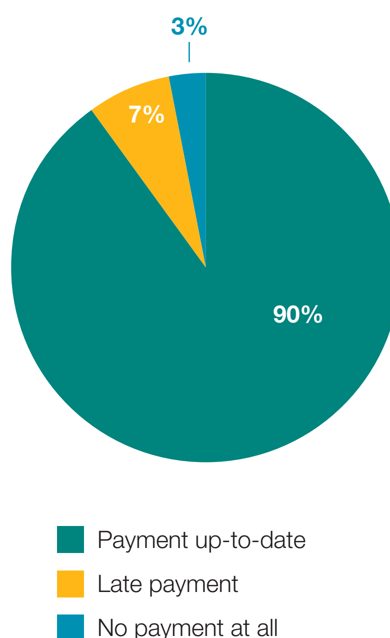


Latin America may face significant impacts if its restructured portfolios underperform.

In an attempt to help answer lingering questions about how to size the potential solvency problem, Symbiotics surveyed companies in its portfolio in Latin America. The situation in the region remains fluid, and we cannot forecast the behavior of portfolios to fully assess the potential impact of losses as the situation evolves. However, year-end data from 42 MFIs, representing 50% of Symbiotics portfolio in the region, show the following (in median values):

- **41%** of the total outstanding portfolio of MFIs in the sample are under some sort of payment-under-moratorium arrangement, which amounts to over $3 billion.
- **90%** of the MFI loans under payment moratorium were being repaid according to an existing payment schedule and were up to date.
- **7%** of the MFI loans under payment moratorium were in arrears, while **3%** were still without any payments. The proportion of loans restructured or written off was minimal, as most MFIs were still operating under the original payment schedules at the end of 2020.

FIGURE 7. **State of Loans Under Payment Moratoria in Latin America (Data as of December 31, 2020)**



This situation is relatively reassuring compared to the proxy stress test exercise presented in our February snapshot. In the earlier stress test, CGAP and Symbiotics analyzed a global scenario assuming that 20% of the restructured portfolios would not perform.

When analyzing responses to this supplementary Latin American survey in absolute terms, beyond the median results presented above, we see that 50% of the MFIs do not report any late or non-payments within their restructured portfolios. However, the situation needs to be watched closely, as solvency and capital position could change suddenly and cause further distress.

Regulatory responses in Latin America contributed to the relatively stable financial performance of the region's MFIs and mitigated the impact of the crisis for their clients.

In this supplemental survey, Symbiotics also asked MFIs how financial regulators in Latin America reacted to the crisis and what measures were implemented to preserve MFI's capital and mitigate the impact of the pandemic. According to the MFIs, the most important regulatory measures addressed the conditions of payment moratoria, loan restructuring and reprogramming measures, registration of accrued interests, and provisioning requirements.

As illustrated below, the specific rules and terms varied from country to country, despite similar trends across the region:

- **Payment moratoria.** Most regulators facilitated payment moratoria or loan restructuring and reprogramming (LRR) measures, generally starting in March 2020. In Bolivia, El Salvador, and Panama, the moratorium was mandatory and included principal and interest payments. Thus, all installments affected by the moratorium had to be suspended and were added to the initial payment schedule. In Ecuador, Honduras, and Mexico, MFIs were required to renegotiate with their clients on an individual basis but free to agree on a payment schedule based on client payment capacity. In all other countries within the sample, these measures were allowed but voluntary. Over time, as more and more clients expressed their willingness to repay their loans (even those in moratorium), portfolio in moratorium across the region shrank from its peak in May at 63.7% to 31.8% in December 2020.
- **Accrued interests.** In all countries except for Paraguay, surveyed MFIs were allowed to register accrued interests as income, regardless of whether clients were in moratorium or under any type of restructuring. For loans in moratorium, accrued interest was limited to the interest payments agreed upon in the original payment plan. Consequently, MFIs could not accrue additional interests on the outstanding principal that was "frozen" in the moratorium. Thus, the unproductive, non-interest-generating part of the outstanding principal under moratorium increased month by month. As a result, nearly all institutions included in the survey saw a reduction of their portfolio yield, and consequently, of their return on equity (RoE) and return on assets (RoA).
- **Loan loss provisions.** In all countries included in the survey, financial institutions were not obliged to establish specific loan loss provisions for loans in moratorium. The exceptions were Nicaragua (where at least 20% of provisions were required for every loan in moratorium) and Panama (with a generic provision of 3% for every loan that entered moratorium). In some countries, provisioning requirements for loans outside moratorium were even reduced during 2020. In Ecuador, for example, the regulator loosened its criteria for the categorization of credit risks and implemented a more flexible range for the required provisions. Paraguay granted MFIs 18 months to establish provisions for new loans that had been disbursed during the pandemic.

Toward the end of 2020, some regulators started to implement stricter regulations again. In Bolivia, Costa Rica, Nicaragua, Ecuador, and Honduras, regulators have started to phase out COVID-related rules. Others like Colombia, El Salvador, Honduras, and Panama followed suit in early 2021. As this return to stricter regulations implies higher provisions and reversion of accrued interests for MFIs, a generous time frame has been implemented allowing them to "move back to normal" gradually without significant impact on their equity and performance. In general, this policy reflects regulators' perception of the economic recovery process and the expectation that the pandemic will be under control before the end of 2021.

Regulators' concern for the health hand stability of the financial sector underlies this prudent transition. However, it can be assumed that regulators will continue to respond to the COVID-19 crisis with adequate policy measures in 2021, especially if the slow pace of vaccinations and the risk of a new wave triggered by new mutations affect the speed of the microfinance sector's recovery.

In June 2021, CGAP and Symbiotics will publish the final snapshot in this COVID-19 Briefing series.

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Latest Indicators

APRIL 2021

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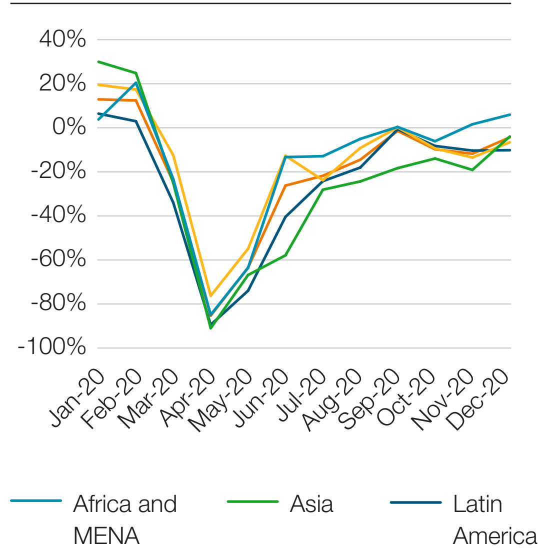

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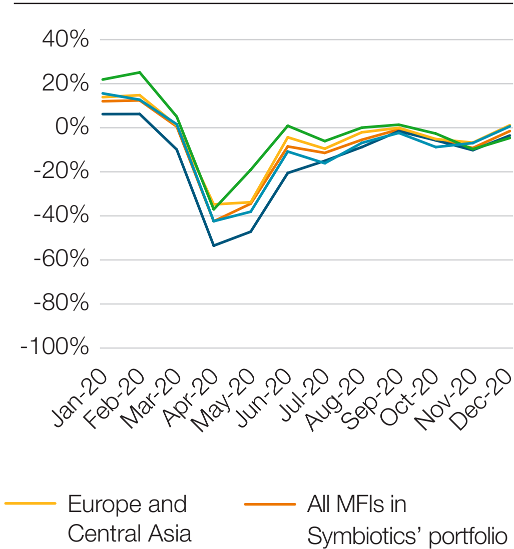


Africa and MENA — Asia — Latin America — Europe and Central Asia — All MFIs in Symbiotics' portfolio

FIGURE 3. **Portfolio at risk**

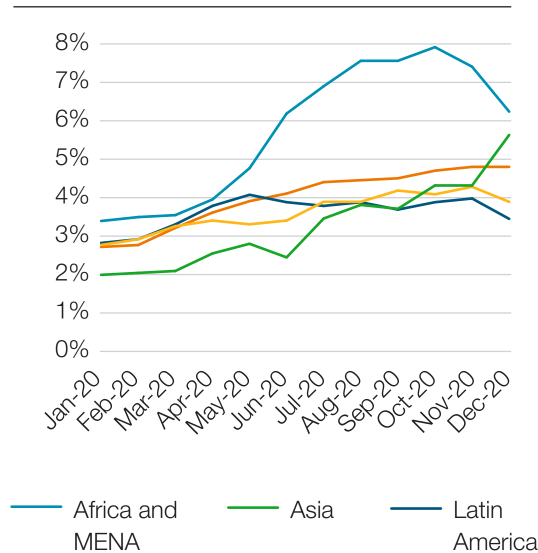
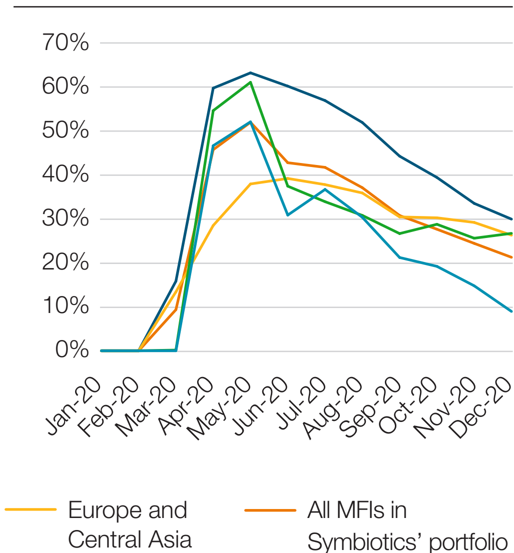


FIGURE 4. **Moratorium ratio**



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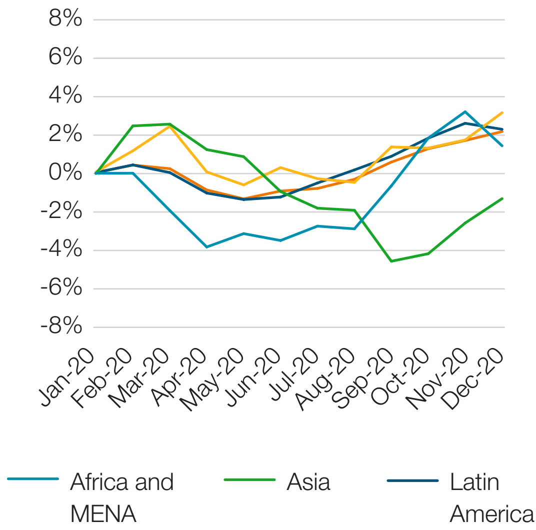

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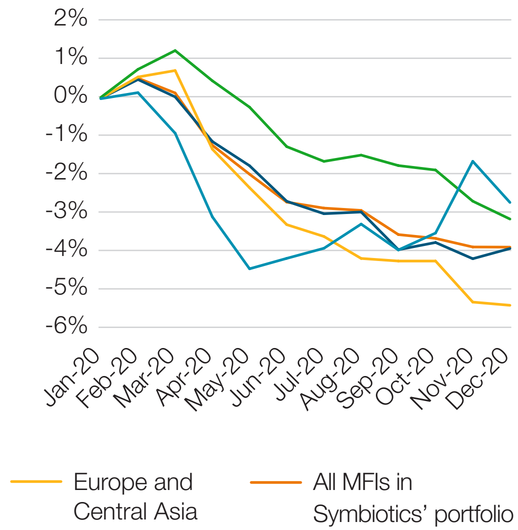

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FIGURE 7. **Solvency**

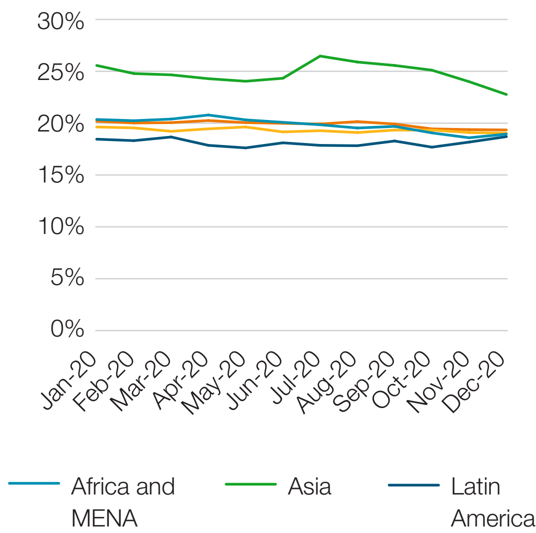

FIGURE 8. **Liquidity**

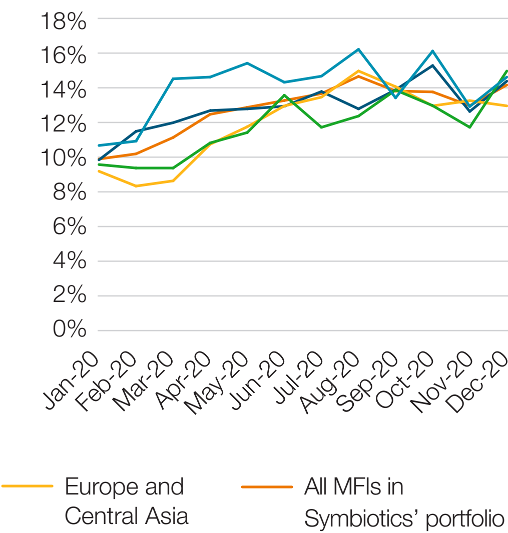

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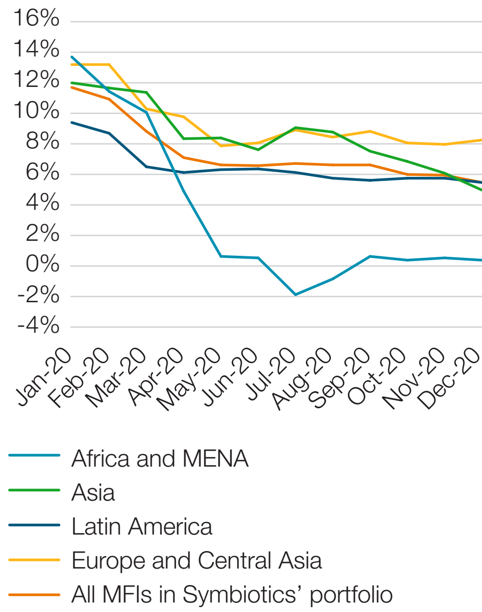
FIGURE 9. **Return on equity**



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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.

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.

RETURN ON EQUITY

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

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