

COVID-19: SURVEYING THE IMPACT ON MICROFINANCE

Insights from microfinance institutions on how the pandemic is affecting loan origination and digitization

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01 EXECUTIVE SUMMARY



01

EXECUTIVE SUMMARY

As the COVID-19 outbreak sweeps across the globe, it has left a trail of disruption that threatens lives and livelihoods. The pandemic has hit poor & vulnerable people especially hard, creating new challenges for the institutions that were built to serve these communities.

To understand how COVID-19 is impacting microfinance institutions (MFIs) on the ground, MoneyPhone collaborated with MicroRate to survey MFIs worldwide. Participants from 56 institutions—most of them based in Latin America and Africa—shared their insights. As well as highlighting the difficulties brought about by the pandemic, MFIs revealed how they are prioritizing

digitization initiatives in response.

The findings of the report confirm that the pandemic has made it much harder for MFIs to keep their activities running as usual. More than 50% of the institutions surveyed have been unable to meet with customers in person during COVID-19.





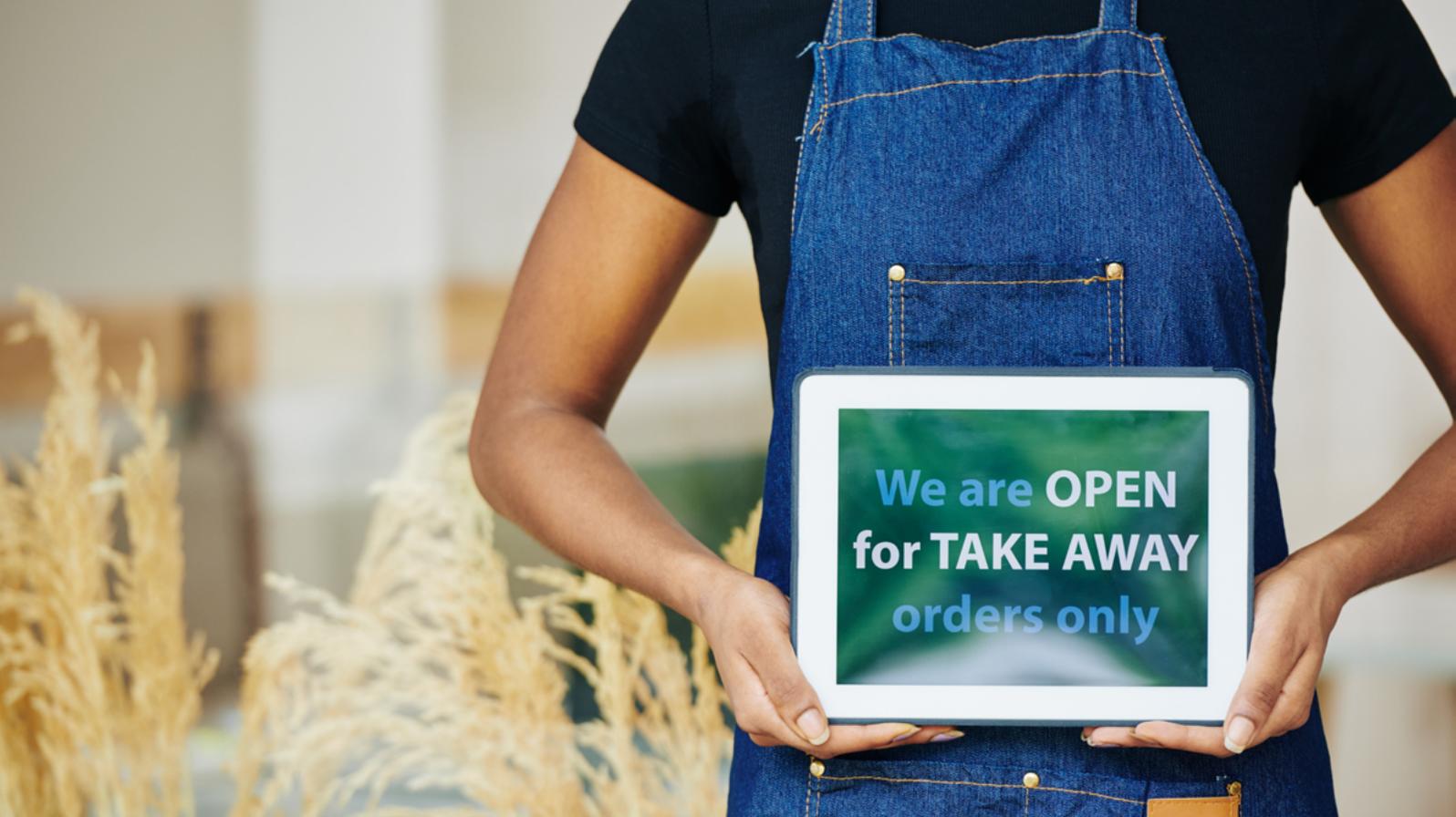
Many of them have seen loan applications plummet and loan officer workload shrink. Others have suspended new customer onboarding and loan repayments as the wider economic picture remains unclear.

Faced with these challenges, MFIs are stepping up digitization efforts.

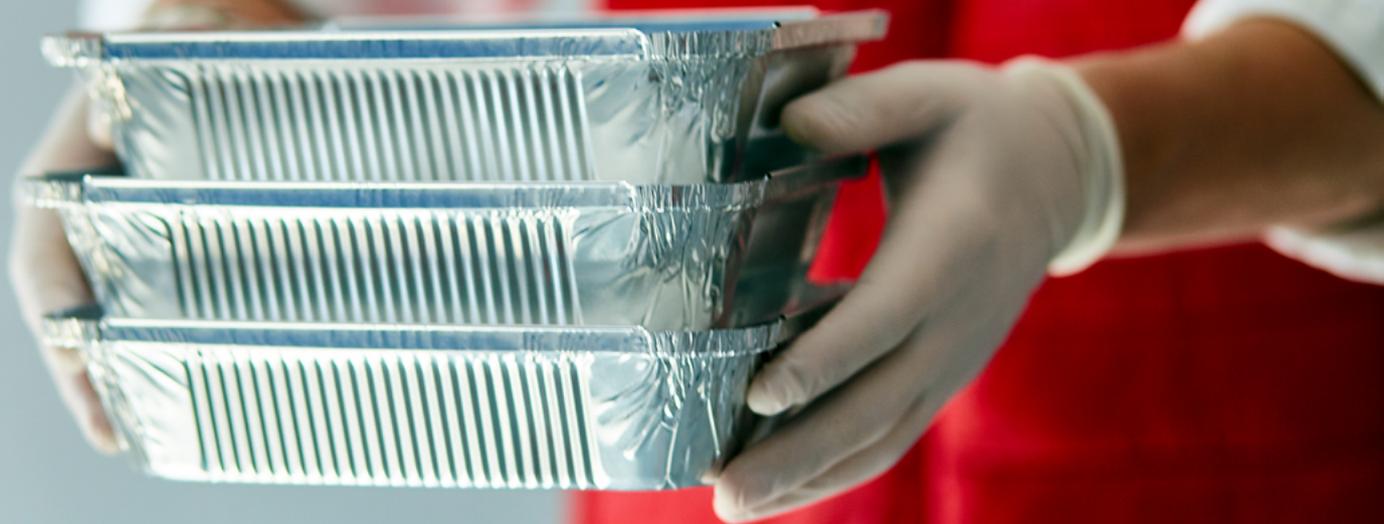
85% of respondents now plan to introduce digital loan application solutions and another 70% are fast-tracking e-wallet implementation. While conceding that obstacles to digitization persist, survey participants acknowledge that a strong digital foundation will be key to survival during the pandemic and beyond.

The microfinance sector can emerge from the COVID-19 crisis stronger than before, but doing so will require meaningful change—including a faster and farther-reaching shift to digital. MFIs who continue to rely on face-to-face operations and manual processes will struggle to serve clients effectively, continue loan origination and disbursement, and keep both their staff and communities safe. By taking this opportunity to invest in a digital future, microfinance can weather the COVID-19 storm and support communities worldwide who need inclusive finance now more than ever.

This report examines the impact of COVID-19 on four key areas of MFI operations: 1) serving customers; 2) loan applications; 3) loan processing and 4) loan payments. For each area, the report distils common issues affecting institutions during the pandemic and the steps they are taking to address them. In a final section, MFIs reflect on how they plan to harness digital solutions to reinforce operations in the wake of COVID-19.



02 SERVING CUSTOMERS



02

SERVING CUSTOMERS

Lockdowns and social distancing rules have impeded microfinance operations, particularly when it comes to customer interaction. Before the pandemic, 76% of survey respondents relied on in-person visits—at branches or in the field—as their primary service channel. During COVID-19, more than 50% of MFIs have been unable to meet with customers face-to-face.

ARE LOAN OFFICERS ABLE TO MEET WITH YOUR CUSTOMERS DURING COVID-19?



WHAT WERE YOUR MAIN CHANNELS FOR SERVING CUSTOMERS PRE-COVID-19?

"In person using a digital field application on a tablet device with printer."

"Calls, text messages, field visits, WhatsApp."

"We advised using digital services like depositing, withdrawing and requesting loans using mobile phones."

"Branch network; call center and social media."

"Electronic banking channels like POS, ATM, mobile banking and skeletal banking services."

"Traditional microfinance loan products at our brick and mortar branches."

"Field visits at the clients' workplace, collecting payments manually in the field and at branches."

"Traditional face-to-face sales."



Loan officers have experienced considerable disruption to their normal workflow during the pandemic. Unable to meet directly with customers due to lockdowns or otherwise hindered by strict social distancing and safety requirements, MFIs have had to adjust working practices. Many teams have switched to remote working, contacting customers virtually or by telephone. Several survey respondents indicated that they lacked the necessary digital tools and infrastructure to



HOW HAS LOAN OFFICER WORKFLOW CHANGED DURING COVID-19?

“Schedules have been changed. Loan officers had to reduce their movement due to government restrictions.”

“The workflow has significantly changed; they rely on telephone calls and all are working at home remotely.”

“Reduced. Loan applications are received on digital channels. We do not offer trainings. Following up is via WhatsApp.”

“They can meet customers provided that all the needed protocols are observed. Some loan officers are working from home, but do not have the necessary gadgets to facilitate their work.”

“Their workflow has decreased significantly. Loan officers did not work during the lockdown period.”

“More focus on monitoring operational performance, implementing new strategies for loan disbursements and product design. Taking advantage of the lower productivity (and higher capacity) to prospect new clients.”

In this new reality, digital channels have grown more useful than ever for customer acquisition. For many MFIs, social media is already a vital avenue for reaching out to prospective customers.

75% of survey respondents confirm that they count on social media advertising to find new business. This tendency seems likely to grow as social distancing rules continue to make in-person outreach difficult.

DO YOU USE SOCIAL MEDIA ADVERTISING TO FIND NEW CLIENTS?

75%



YES

25%



NO





03 LOAN APPLICATIONS

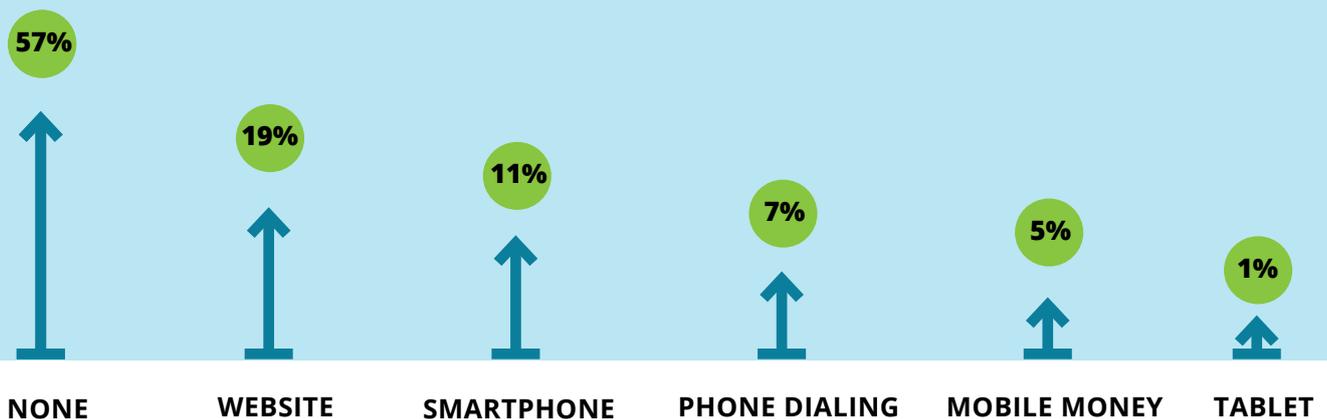


LOAN APPLICATIONS

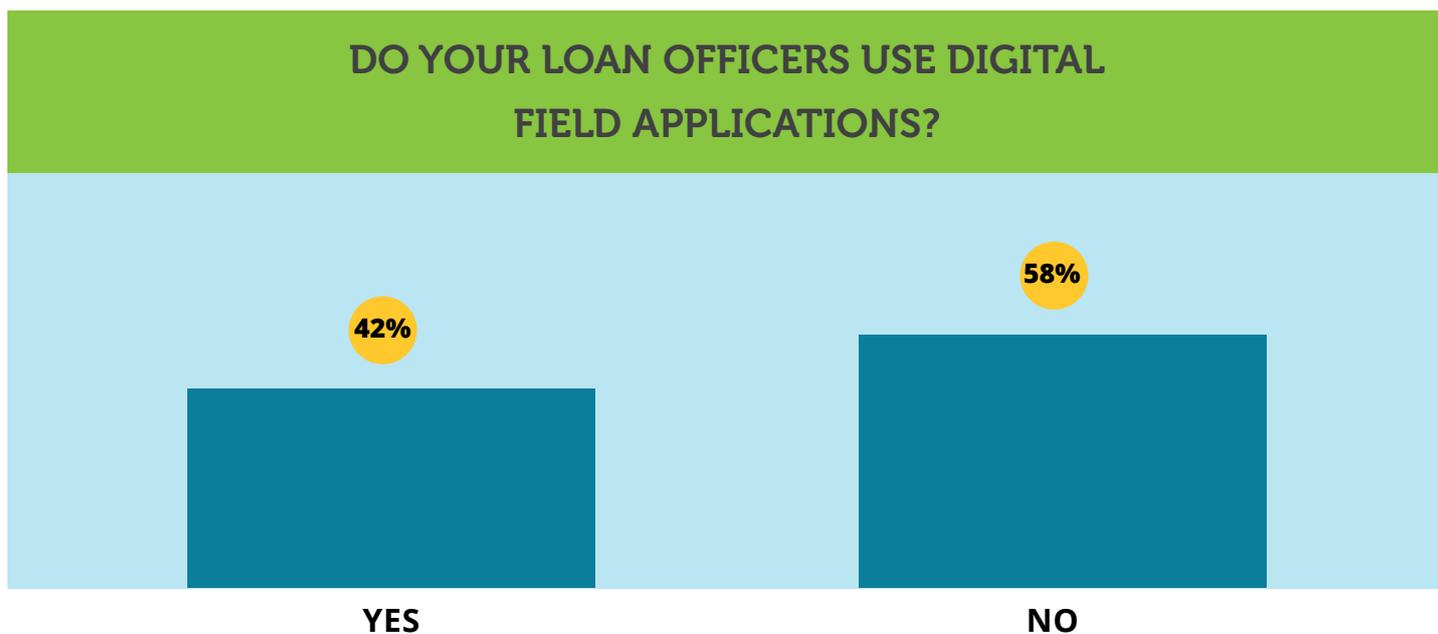
Loan applications have fallen sharply as a result of COVID-19. A large number of MFIs reported a dramatic reduction in the number of loan requests, while others have seen applications suspended altogether. This could be due to wider economic instability and a greater unwillingness of clients to take on more debt. However, considering the economic lockdowns, the fall in loan applications is more likely to point to the inability of existing processes to cope with new requirements brought on by the pandemic.

Before the outbreak of COVID-19, manual loan applications were the norm for microfinance customers. More than 55% of survey respondents revealed that they did not make use of digital loan origination solutions before the pandemic. Again, the lack of a digital channel could explain why some MFIs have seen such a strong decline in loan application volumes, as it makes it more difficult for them to work around COVID-19 restrictions.

WHAT DIGITAL SOLUTIONS DID YOU HAVE IN PLACE FOR CUSTOMERS TO APPLY FOR LOANS PRE-COVID-19?



COVID-19 lockdowns in certain areas have limited the effectiveness of digital field applications (DFAs). More than 40% of survey respondents have equipped their teams with DFAs for processing loan applications in the field, but many were left unable to leverage these tools during the pandemic due to restrictions on movement. When face-to-face customer contact is not possible, DFAs are simply not effective. In this particular case, a 100% internet-only solution is needed to counterbalance COVID-19 restrictions. Such an example also highlights why it is important for MFIs to embrace fully digital workflows and not just point solutions. With the pandemic creating such profound disruption to normal operations, end-to-end digitization is often the only way to overcome limitations on in-person contact and support effective remote working practices.



HOW HAS USE OF THE DIGITAL FIELD APPLICATION BEEN IMPACTED DURING COVID-19?

"It is still used, but with less frequency due to restrictions on movement."

"Limited effectiveness of digital field application while staff worked from home. The long-term impact on use of DFA is still to be determined as loan officers have only just been able to get back in the field during the last 2-3 weeks."

"Use has declined, but is back on track."

"Some communities closed their borders so no credit officer was allowed to get in."

On the whole, MFIs see digital as the way forward. When asked about new digital initiatives in response to COVID-19, survey participants overwhelmingly highlighted the need to digitize their operations. From loan applications and appraisals to disbursements and repayments, there is considerable appetite for digital transformation across the end-to-end lending process.



WHAT DIGITAL SOLUTIONS WILL YOU IMPLEMENT DUE TO COVID-19?

“Online digital appraisal by officers and education.”

“Linking clients’ mobile money wallets to their bank accounts to enable them to deposit money from their wallet into their account, and vice versa.”

“Online loan origination for SMEs.”

“Additional features for our digital field application and integration of mobile money services.”

“We are planning to introduce a 3 PINs digital solution to allow savings group members to make withdrawals without needing to come into the bank office.”

“An application that enables us to track loan officers’ work with clients.”

“Credit loan fabric and mobile apps for credit officers and loan committee leaders of rural loan references.”

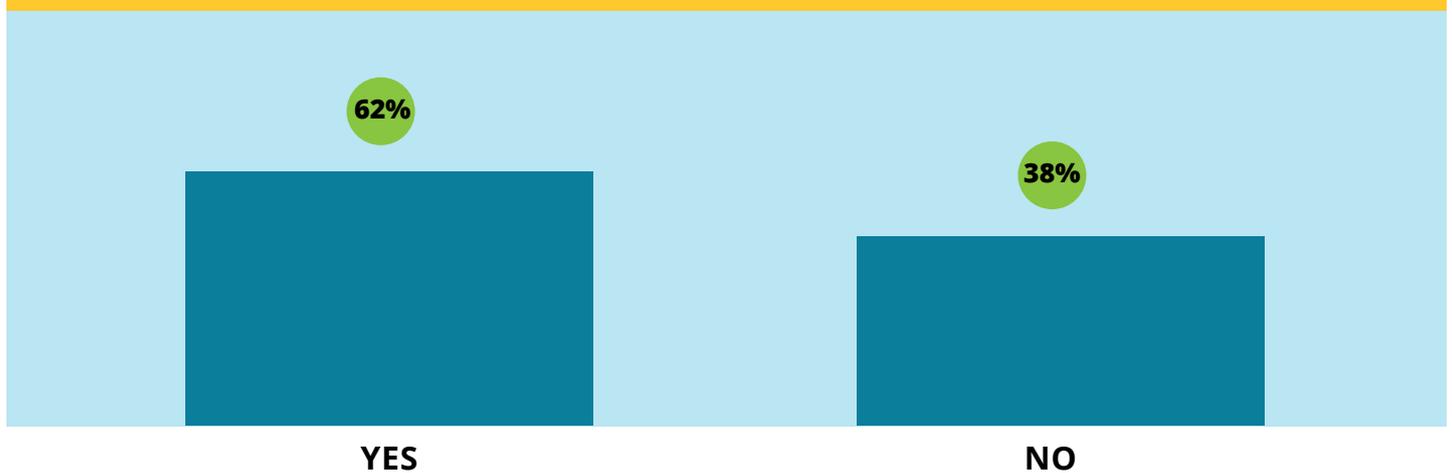
“CRM. Digital contracting. Online loan applications.”

MFIs want to give customers more self-service options for loan applications. Before the pandemic, over 80% of MFIs surveyed did not offer self-service loan applications online. More than 60% now confirm that they plan to introduce self-service options for customers as a result of COVID-19. Not only would this help MFIs to overcome current restrictions on in-person transactions, it would also support faster, more cost-efficient loan applications—valuable advantages for any institution.

DID YOU OFFER NEW CUSTOMERS SELF-SERVICE LOAN APPLICATIONS VIA YOUR WEBSITE BEFORE COVID-19?



IF YOU DON'T OFFER THEM ALREADY, DO YOU PLAN TO INTRODUCE SELF-SERVICE LOAN APPLICATIONS DURING COVID-19?





04 LOAN PROCESSING



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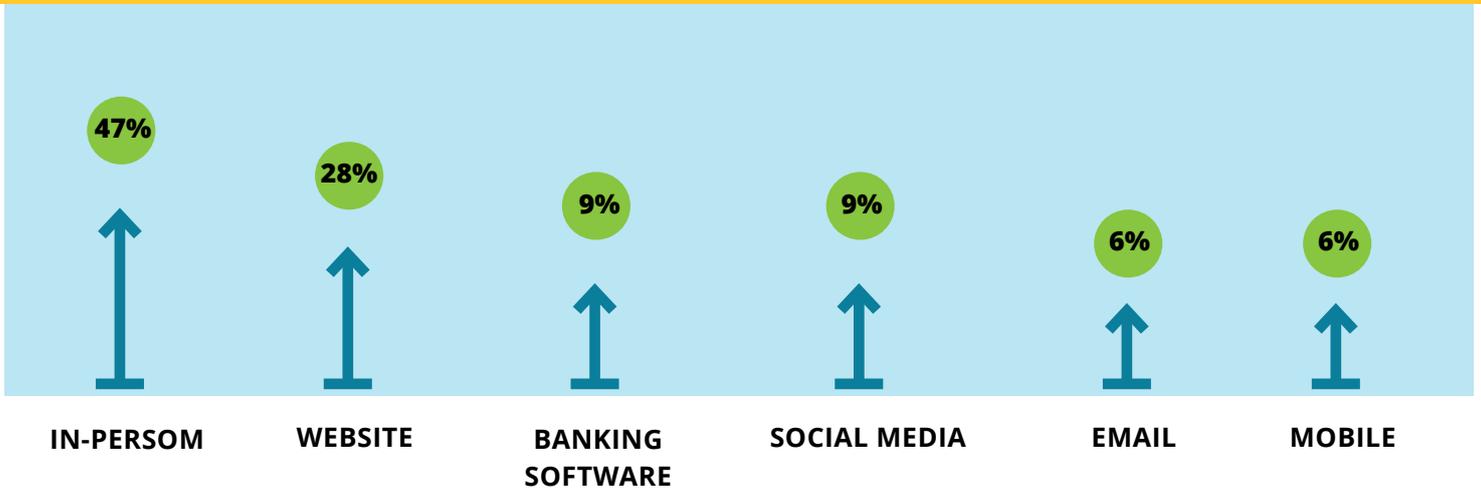
LOAN PROCESSING

Many MFIs still lack digital loan processing capabilities. More than half of the institutions surveyed did not have an online loan processing platform, leaving loan officers unable to process loans remotely. This could be a contributing factor to the lower operational volumes that many MFIs have experienced during COVID-19. Without online loan servicing capabilities, and with restrictions on movement limiting in-person contact, some institutions might have found it necessary to reduce or suspend loan processing during the pandemic.



Reliance on in-person customer onboarding left many MFIs with limited options during the pandemic. Before the outbreak of COVID-19, 47% of survey respondents took on new clients using traditional, face-to-face methods. These same institutions found that customer onboarding was limited by lockdowns and social distancing measures. Some MFIs were able to pivot to virtual onboarding practices, but a majority reported significant interruption to operations. Several institutions saw far fewer customers coming into branches. Others were unable to send officers out into the field to welcome new customers and some chose to suspend onboarding and loan origination while restrictions were in place.

HOW DID YOU ONBOARD NEW CUSTOMERS PRE-COVID-19?



HOW DID CUSTOMER ONBOARDING CHANGE DURING COVID-19?

"We have limited the number of customers allowed in the branches to a maximum of three people to respect social distancing."

"Group loan meetings and new client incorporation were performed via Zoom conferences."

"Branches' working hours and clients' attendance decreased."

"Loans were delayed until restrictions were eased."

"Clients were given the option to restructure their loans (2 months of postponed payments)."

"We implemented a WhatsApp service for credit requests, then agents carried out client visits in person, following strict hygiene and social distancing protocols."



05 LOAN PAYMENTS



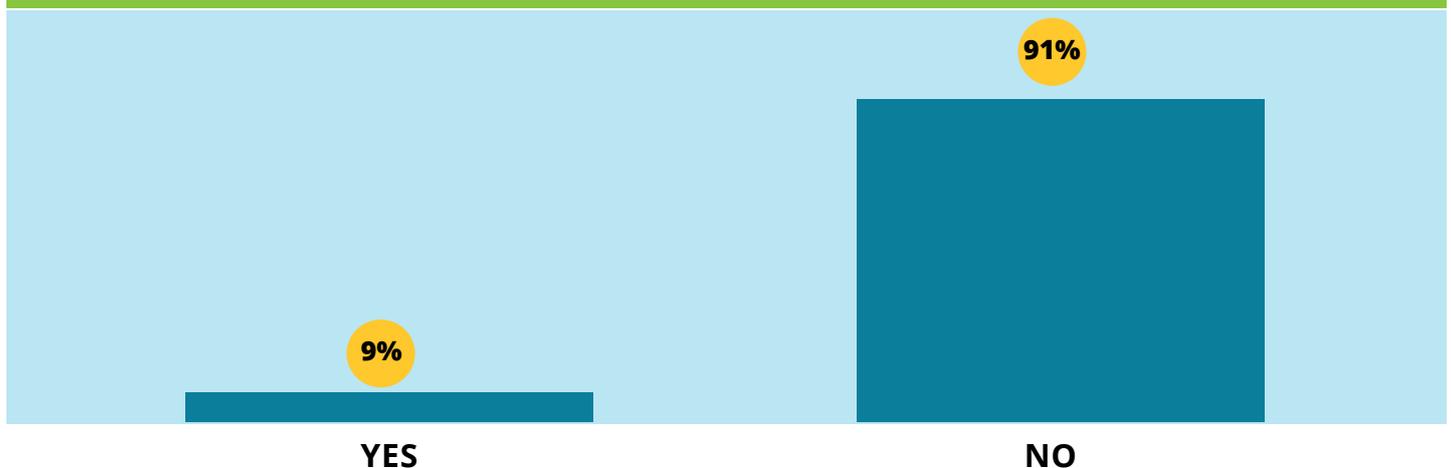
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LOAN PAYMENTS

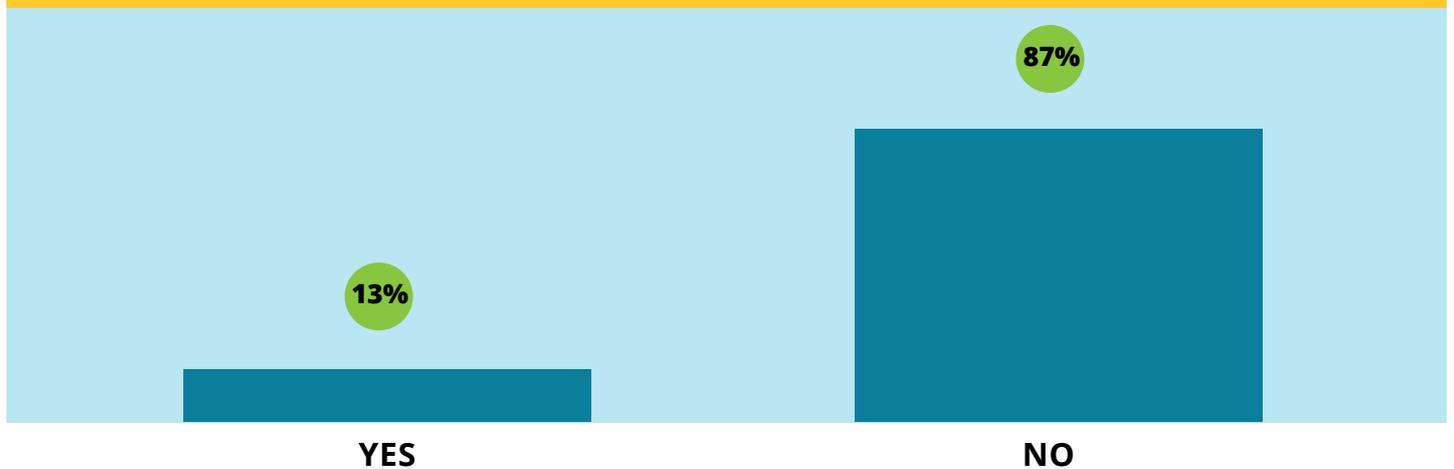
Use of e-wallets was not widespread before COVID-19, but that looks set to change. An overwhelming majority of survey respondents admitted that they did not offer automated loan payments for e-wallet prior to the pandemic.

Now, 70% of MFIs are working to speed up e-wallet implementation, recognizing the value of this technology in prevailing over restrictions on movement created by COVID-19, as well as its ability to streamline the repayment experience for both customers and loan providers.

DID YOU OFFER AUTOMATED LOAN PAYMENTS FOR E-WALLETS PRE-COVID-19?



WERE YOUR CUSTOMERS SET UP TO MAKE AUTOMATED REPAYMENTS USING E-WALLETS PRE-COVID-19?



HAVE YOU CONSIDERED SPEEDING UP E-WALLET IMPLEMENTATION DUE TO COVID-19?



However, wider barriers to e-wallet adoption remain. Many MFIs acknowledged several obstacles that had traditionally held them back from e-wallet implementation. These ranged from poor awareness and education among consumers, shortcomings of the local banking infrastructure, lack of technology options in their local market and high implementation costs. Until these broader issues are addressed, it is difficult to see e-wallets becoming a widespread and sustainable part of the microfinance landscape in some markets.

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WHY HAVEN'T YOU IMPLEMENTED AUTOMATED LOAN PAYMENTS FOR E-WALLET AS YET?

"We have other electronic channels currently accepted by local banks."

"Not commonly used in our country."

"Implementation and maintenance cost implications."

"There are no local companies who offer the service."

"Tools are not well developed for our niche market."

"Clients are averse to e-wallet use due to high level of illiteracy."

"High cost and loan disbursement amount limits due to limitations on cash flow management."

"Our customers are mostly traders. We interact with them in their marketplaces."





06

COVID-19 CHALLENGES AND OPPORTUNITIES



06

COVID-19 CHALLENGES AND OPPORTUNITIES

COVID-19 represents a real risk to the continued existence of microfinance, as well as an opportunity for institutions to evolve. Microfinance has weathered tough crises before, but the sheer scale of this pandemic makes it an existential threat like no other. MFIs recognize that the challenge they face is great and that they will require new tools to overcome it. Many institutions acknowledge that digital transformation will be key to supporting clients and sustaining operations in these extreme circumstances. They also believe that the introduction of new digital solutions must go hand-in-hand with proper employee training and client education to be truly successful.



WHAT OTHER CHALLENGES ARE YOU FACING DURING COVID-19 THAT YOU WOULD LIKE TO SOLVE BY SPEEDING UP YOUR DIGITIZATION?

"We want to make use of digital solutions to have a client-centric approach; increase payment channels in rural areas and start e-wallet implementation."

"Better services and process times. Reduce risks and travel costs."

"Delayed repayment, limited access to information like interest rates, documentation, and processes to follow to access a loan. All of these can be digitalized."

"Another challenge is about digital awareness and education for clients. Most of our clients have no knowledge about digital services, thus they need training. They also have to trust it and start using it, especially female clients in rural places."

"Training on digital transformation for clients. Many of them have neither mail nor a banking account."

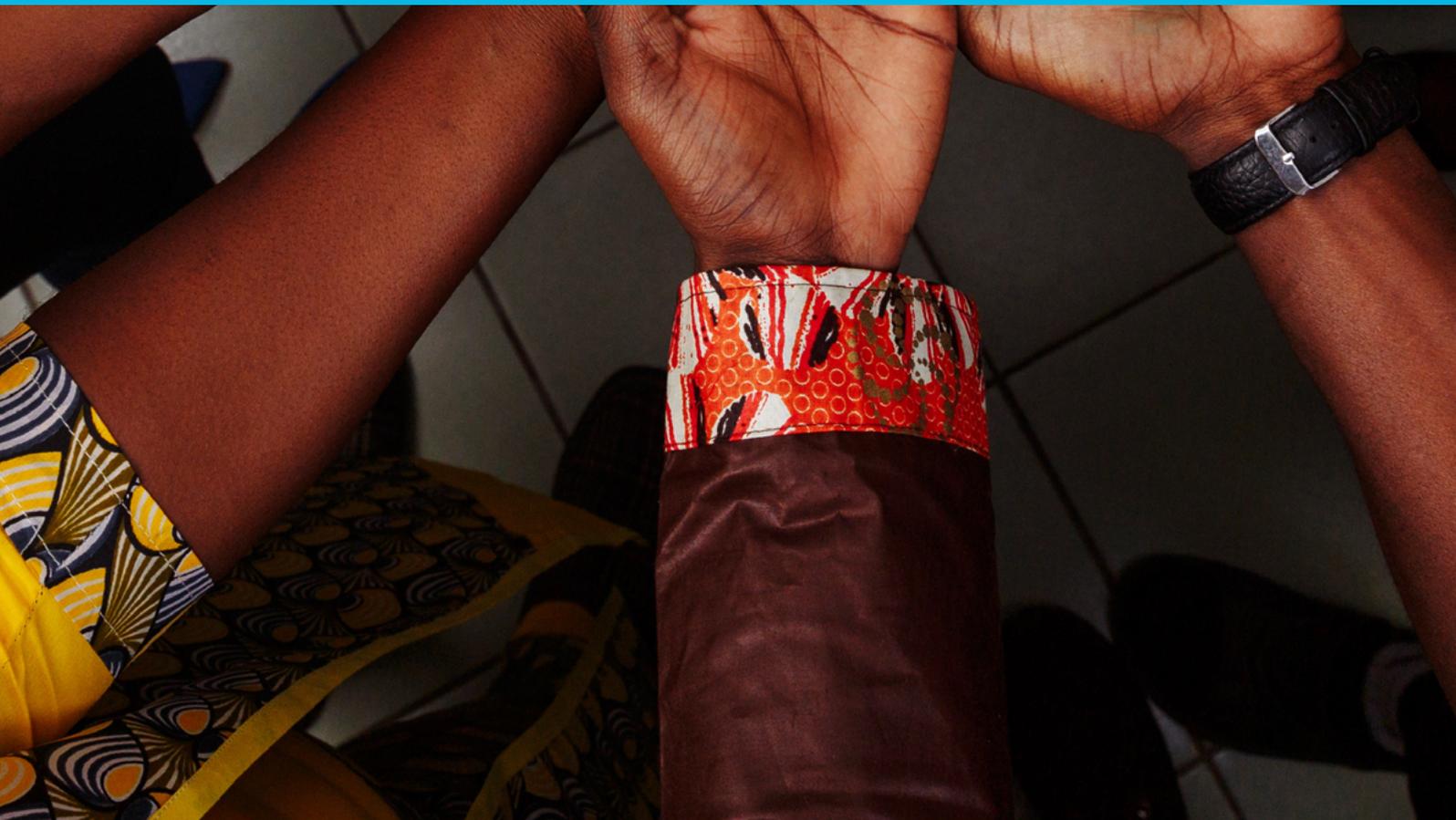
"A serious challenge is that our type of client is less adapted to technology and has less access to technological resources/tools."

COVID-19 has shown that digitization is not just a passing trend for microfinance. Digital solutions are needed to address the immediate challenges posed by COVID-19 and they are also a matter of long-term survival for MFIs. Organizations that embrace digital transformation will be in a much stronger position to deliver more convenient and relevant services to their clients, in a more flexible and cost-effective way.



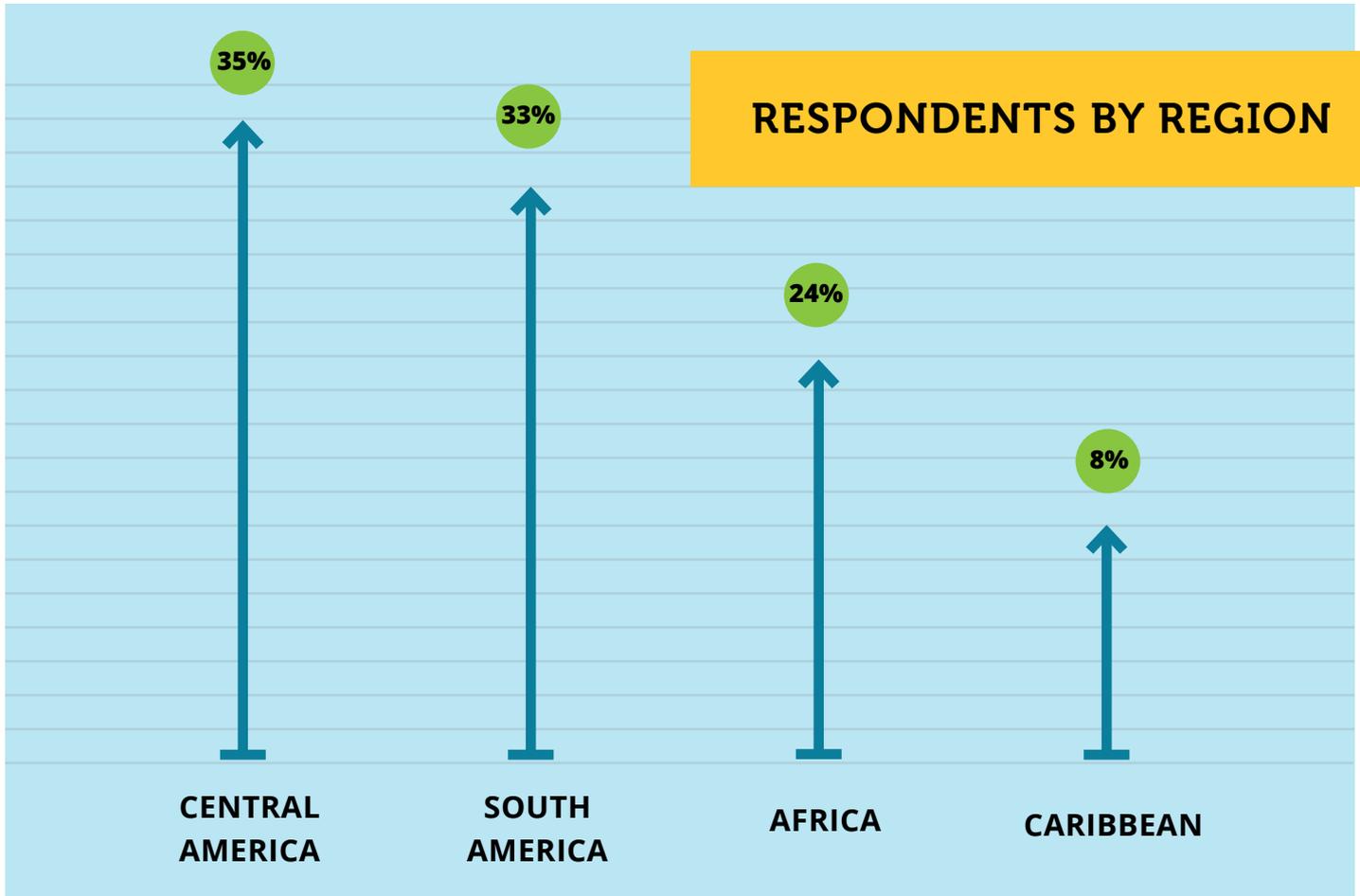


07 SURVEY SCOPE



SURVEY SCOPE

The survey focused on institutions based in Latin America, Africa and the Caribbean. A total of 56 MFIs responded to the survey, 46 of them online and 10 by telephone.



Survey respondents were predominantly from Latin American countries. MFIs in Mexico and Brazil made up 23% of the total number of respondents.

RESPONDENTS BY COUNTRY

BOLIVIA
BRAZIL
BURKINA FASO
CAMEROON
CHAD
COLOMBIA
COSTA RICA

ECUADOR
EL SALVADOR
GHANA
GUATEMALA
HONDURAS
MEXICO
NIGERIA

PANAMA
PARAGUAY
PERU
DOMINICAN REPUBLIC
RWANDA
TUNISIA
UGANDA



ABOUT MONEYPHONE

MoneyPhone's mission is to empower the 2 billion underbanked and poorly banked inhabitants of our planet. We deploy cutting-edge technology that allows MFIs and SME banks to provide borrowers with easy access to the cheapest credit possible—anytime and anywhere.

The MoneyPhone Digital Loan Origination Solution is a cloud-based platform that digitizes the end-to-end lending process.



With MoneyPhone, financial institutions can:

- ✓ Offer self-service loan applications directly on their website.
- ✓ Support loan officers with remote loan processing.
- ✓ Enable borrowers to receive disbursements and make repayments on their smartphones.

If you are looking to mitigate the impact of COVID-19 on your loan origination activities, reach out to the MoneyPhone team today. We would love to learn more about your goals and discuss how we can optimize your lending operations.

To get started, visit: www.money-phone.com/contact-us
or email us at info@money-phone.com