



AG on Research

From research to practice and back again

Action Group ‘From Research to Practice and Back Again’ Key findings from the research digest

“COVID-19 and the Value Chain of Financial Inclusion”

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Objectives of the AG

- Promote the **learning** of microfinance and financial inclusion at the university level
- Identify **research needs** of field level institutions as well as organisations supporting and enabling the development of the sector
- Identify the **sources of data** that enable conducting the research
- Disseminate and increase impact of research by translating research results into **practical guidance and solutions**



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Activities and projects

- **First Research Digest: COVID-19 and the Value Chain of Financial Inclusion**
- **First mapping** of data sources, academic programs and research institutions
- **First survey** on the research needs



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Objective and methodology research digest

- Describe how the financial inclusion **value chain** has faced and addressed challenges and risks. Identify new arising opportunities and lessons learned
- Qualitative insights from
 - literature review
 - 25 stakeholders interviews (March – Sept 2020)
- Two publications
 - executive report
 - full report rich in examples and reference

Background

- Outbreak of the COVID-19 global pandemic
- Country precautionary measures and repercussions on the broad economy
 - Decline in labor incomes (ILO 2020)
 - First increase, albeit slight, in global poverty (WB Estimates 2020)



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Challenges and measures taken



Impact on clients is still unfolding, depends on:

- the economic sector
- type of employment
- social protection and safety nets
- existing coping strategies
- age group / gender

Borrowers in **difficulties to honor their commitments** towards FSPs , and it may lead to an **increase of financial demand**



Welfare initiatives for households, workers and enterprises, often through digital channels

Measures from Central Banks:

- Debt relief measures (loan term extensions, rescheduling, restructuring)
- Changes in pricing and conditions (waiving interest, penalty fees)
- Changes in prudential regulation
- Liquidity injection



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Challenges and measures taken



Safety measures

Portfolio management (moratoria, restructuring/rescheduling, suspending interest and commissions payments, and write off)

Risk management system

Emergency loans / access to cash grants

Sharp increase in the **deterioration of the portfolio quality**

Problems with loan collection

- Clients' income reduction (difficulties to repay) and moratoria
- Movement restrictions and limited monitoring

Limited loan disbursement

- Liquidity issues or conservative strategies
- Clients' profile got riskier
- Difficult to assess remotely



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Challenges and measures taken



Investors:

Offered debt relief instruments
Injected new capital (debt or equity)
Provided other kinds of support (as funds for technical assistance)

Asked for more frequent reporting

Coordinated activities with other lenders and FSPs

Launched initiatives at sector level

- Memorandum of Understanding signed by 9 MIVs on "Coordination among Microfinance Investment Vehicle - MIVs in response to Covid 19";
- Common Pledge signed by 30 organizations on "*Key principles to protect microfinance institutions and their clients in the COVID-19 crisis*";
- *R3 Coalition* (Response, Recovery, and Resilience Investment Coalition), collaboration across impact investing networks;
- Key investing principles "*COVID-19 Investor Statement - Impact investors in emerging markets*" signed by 14 investors



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Key risks

Clients	FSPs	Investors
Risk of credit rationing – financial exclusion	Operational risk	Asymmetric information
Client Protection (CP) risks	Credit risk	Liquidity risk
Savings-panic	Liquidity risk	Solvency risk
Risk of changing repayment culture	Solvency risk	Foreign exchange risk
	Mission drift and CP risk	Mission drift



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Opportunities

- Digitalization
 - G2P transfers
 - FSPs credit process (communication, loan assessment, loan disbursement and repayment)
 - FSPs new products / services (money transfer, utilities payments, financial education)
 - Regulatory
- Innovation (products, services, internal policies/procedures)
- Continue leveraging the sector-level initiatives



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Lessons learned

Advanced planning

- Develop a sound risk management system
- Design a business continuity plan
- Put in place SPM and CP policies/procedures

During the crisis

- Identify the problem and how is affecting the biz model
- Monitor the situation
- Adopt a flexible approach (new products, procedures)
- Avoid asymmetric information
- Promote cooperation

After the crisis

- Customer at the center
- Promote innovation
- Take opportunities



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THANK YOU!

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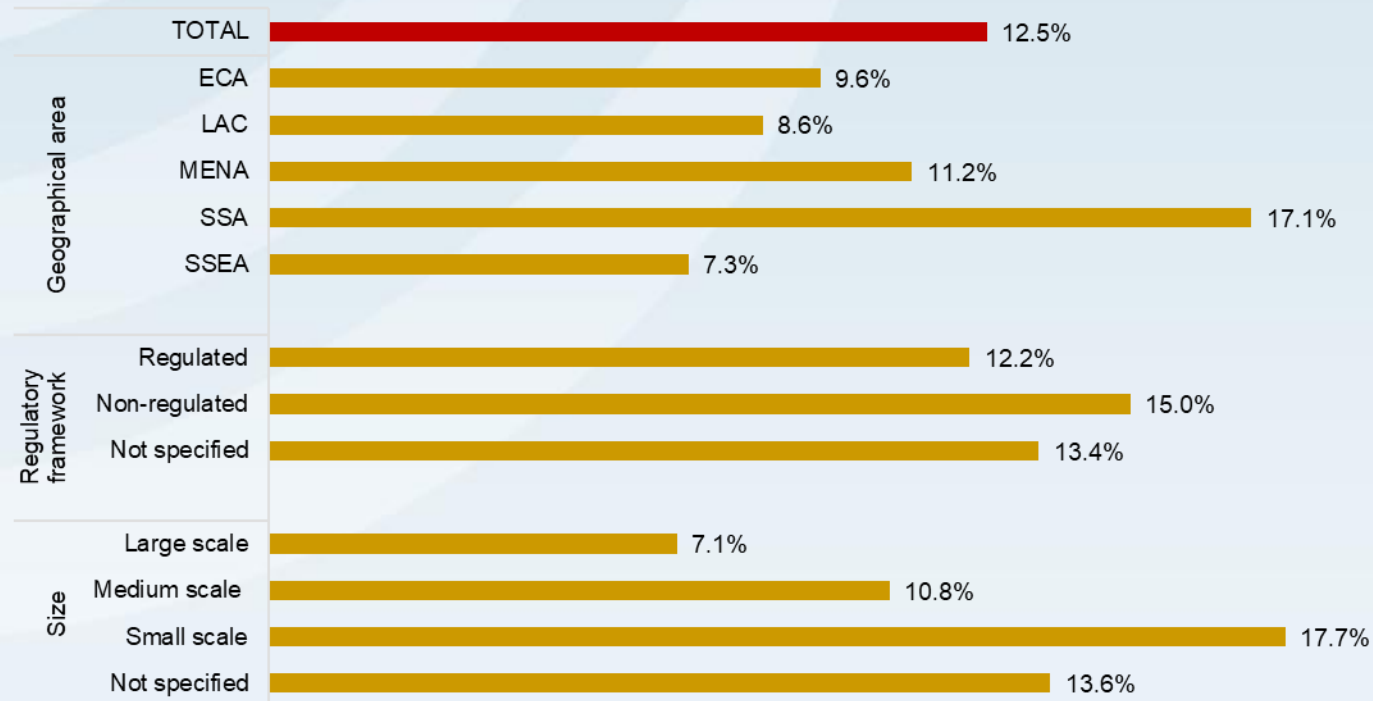


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Quantitative studies

par30 – Sept 2020



CGAP data as of Sept 2020:

Par30 = 12.5% (9.7% in 2019)

$\frac{par30}{equity} = 46\%$

$\frac{restructured}{total\ portfolio} = 19\%$

$\frac{disbursement}{total\ assets} = 7\%$ (16% in 2019)

CGAP survey “Pulse Survey of Microfinance Institutions” (2020) – data as of Sept 2020



Digital Financial Services (DFS)

In 2020 the mobile money accounts grew by 13% globally, twice the forecast (GSMA 2021)

G2P transfers and social distancing have pushed the use of DFS.

BARRIERS

- **INFRASTRUCTURE**

lack of proper access to digital technology (i.e., infrastructure, access to technology, connectivity, adequate regulation)

- **FSP LEVEL**

lack of knowledge, competency, investment and readiness

- **CLIENT LEVEL**

digital readiness, financial awareness, identification documents

gender digital divide (women limited digital literacy, access to mobile phone and internet connection)