

# TAKING THE FLOOR



## SIGNATORY ORGANIZATIONS REPORT ON COVID-19 PLEDGE IMPLEMENTATION AND LESSONS LEARNED

By Grameen Credit Agricole Foundation

Over the past months, the financial inclusion sector has embarked on a journey to face the Covid-19 crisis. On the field, Financial Service Providers have taken measures to face the health risks, lock downs and the economic recession<sup>1</sup>. They have also formed a global coalition to make their voice heard. Debt providers, investors, support organizations and technical assistance providers had to adapt their intervention principles and coordinate their actions.<sup>2</sup> By signing the Pledge on Key principles to protect microfinance institutions and their clients in the COVID-19 crisis (the "Pledge"), 30 signatories committed to complying with some key principles. Six months after the signature of the Pledge, a working group of signatories<sup>3</sup> draws lessons from the implementation of the pledge principles. To what extent have we implemented pledge principles? What have been the major challenges? What lessons do we learn to better face the crisis and be up to our Pledge in the months to come?

Our working group includes 5 debt providers, as well as the Social Performance Task Force and ADA as technical assistance coordinator. We have analyzed 70 cases of debt rollover requests and checked to what extent we implemented the Pledge principles. The article focuses on 10 principles mostly related to the approach prior to voluntary debt workouts, as this is what we can observe in the first months of the crisis. These cases span over 6 regions and

tier 1, tier 2 and tier 3 MFIs<sup>4</sup> as shown in the graphs below.

This article recalls the principles to which we adhered to, provides transparency on the pledge implementation and includes useful lessons and ideas for our industry.

### 1. A HIGH LEVEL OF COORDINATION AMONG INTERNATIONAL LENDERS

Extracts from the pledge - The signatories pledged to coordinate their action in the best possible timeframe and in all transparency as they respond to requests from MFIs for moratoriums or restructuring of their debt. [...] The signatories pledged to be cautious to establish a balanced and fair relationship with the MFI, to avoid imposing any unilateral decisions coming from the lenders' side. Dialogue and transparent communication remain key. [...] In each case needed and as soon as it will be possible, the outlines of the solutions agreed between the lenders and the MFIs will be formalized through gentlepersons' agreements. [...] The signatories agree on designating a leader among the lenders in each lenders group, to facilitate coordination within the group and with the MFIs.

As was pledged, the lenders' response to MFIs' requests for moratoriums and restructurings was well coordinated. In the vast majority of cases (85%), lenders coordinated themselves before

<sup>1</sup> <https://www.gca-foundation.org/en/covid-19-observatory/>

<sup>2</sup> <https://www.covid-finclusion.org/investors>

<sup>3</sup> ADA, Cordaid Investment Management, Frankfurt School Impact Finance, Grameen Credit Agricole Foundation, Microfinance Solidaire, SIDI, and the Social Performance Task Force. Disclaimer: examples in the article illustrate how working group participants individually implemented the pledge but do not necessarily reflect the views of all participants or all signatories.

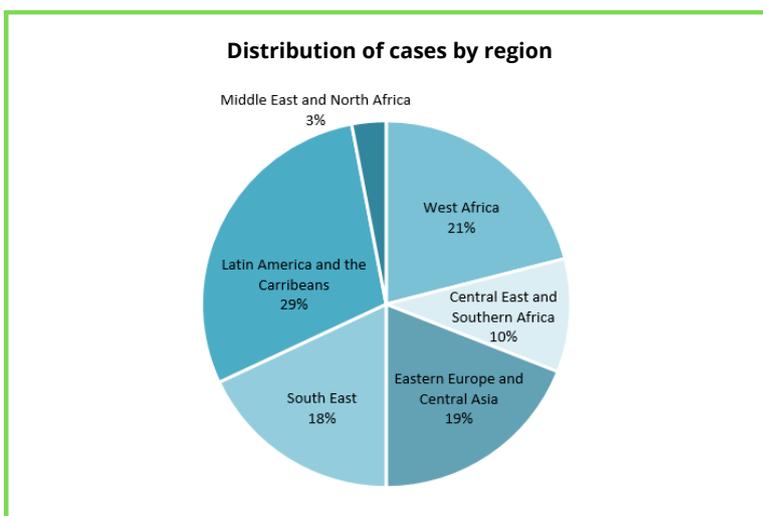
<sup>4</sup> Tier definition: Tier 3 = MFIs with a gross loan portfolio below \$ 10 mln; Tier 2 = MFIs with a gross loan portfolio between \$ 10 mln and \$ 100 mln; Tier 1 = MFIs with a gross loan portfolio above \$ 100 mln.

providing a rollover. Handshake agreements<sup>5</sup> have been largely used (76%) and were recognized as an effective tool to respond to these requests efficiently and with a good level of transparency. The detailed guidance provided in the Memorandum of Understanding on debt refinancing coordination principles<sup>6</sup> has also proved very useful to align the practice of the major lenders of the sector. In most cases, the largest funders took the lead, however some managed without a designated leader and were still effective due to their simplicity.

On the other hand, there were also a number of participants providing debt rollovers without using a handshake agreement.

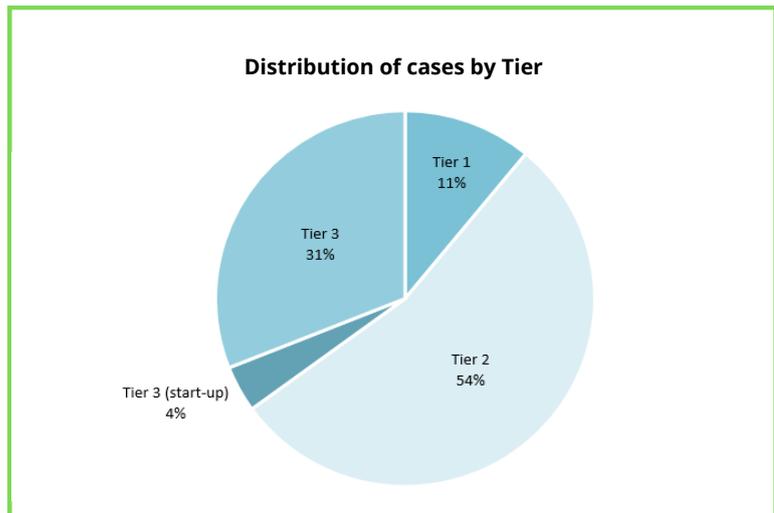
Participants mentioned three specific conditions under which this happened: (1) for tier-3 MFIs with a limited number of international debt providers or an acceptable risk profile; (2) when bilateral coordination between lenders themselves or between lenders and MFIs proved enough; or (3) when other lenders had already provided a few months rollover without handshake agreement before they were solicited. For example, Cordaid Investment Management (CIM) provided several rollovers bilaterally, which was initiated by the MFIs themselves, and accepted as they were smaller MFIs and often smaller amounts outstanding. While handshake agreements proved to be the most effective tool in some cases, providing rollovers without them allowed some lenders to face the high number of rollover requests in a more efficient manner. Participants of the working group shared that, regardless of the approach, the lenders always informed MFIs of the lenders' coordination and characteristics and conditions of the handshake agreements, and made sure to collect the MFIs feedback before finalizing handshake agreements if appropriate.

The situation was more problematic in two instances where the MFIs did not warn a lender before the debt installment due date that it decided not to repay it. Although the relationship between the concerned lender and the MFI deteriorated, the MFIs and the lender finally managed to sign handshake agreements thanks to the will to find a constructive solution.



When there was coordination, it was primarily between international

lenders only. International lenders ensured or trusted that the MFI would inform the local lenders. Given the difficulty to agree promptly with local lenders on the concept of a handshake agreement, international lenders generally deemed this approach appropriate to encourage local banks to adopt a similar approach to help MFIs manage their liquidity. Local lenders were nevertheless occasionally required locally to provide rollovers. When not required locally, it happened that local lenders did not provide rollover but made a new disbursement after receiving the installments due. However, in a few cases, coordination was not at all manageable due to the importance of local funding and the non-coordinated approach of local banks. Although rare, this happened in India and Sri Lanka where the international lender either was a lender of the MFI among a majority of



international lender either was a lender of the MFI among a majority of local banks or played the role of guarantor of a local bank.

## 2. ROLLOVERS ALLOWED MFIS TO MAINTAIN ENOUGH LIQUIDITY

Extracts from the pledge - Signatories pledged to provide a reasonable period of relief and moratorium

The working group provided moratoria on principal payment with an extension term of 10 months on average, including a significant portion (37%) of 6 months. This was mainly decided based on the MFIs' needs in terms of rollover duration. In most cases, the lenders agreed relatively easily on a minimum extension term applicable to all lenders, which was instrumental for MFIs to avoid a liquidity crisis. At times, MFIs requested a shorter moratorium (3 months) while lenders preferred to be cautious and extend this to 6 or even 12 months (except in relatively rare cases of uncertainty on the solvency of the MFI). In three cases, lenders did not provide a rollover but committed not to accelerate (see the bar for "0 month" on the graph). As an exception, Microfinance Solidaire (MFS) provided 24-month moratoria, mainly for tiers 3 or startup MFIs supporting very poor entrepreneurs and small farmers.<sup>7</sup>

After several months, the lenders have seen that the cash levels of MFIs within their portfolio have generally

remained at a safe level. This is also in part due to the absence of

<sup>5</sup> Also called "gentlepersons' agreement", handshake agreements have consisted in a list of characteristics and conditions framing the debt rollover agreed via email by the lenders of the MFI and submitted to the MFI for comments and no objection. In some cases, lenders and the MFI have chosen to sign the handshake agreement. Handshake agreements are non-legally binding.

<sup>6</sup> <https://www.covid-finclusion.org/investors>

<sup>7</sup> According to MFS, these MFIs, with no - or very little - access to other sources of funding, need very patient debt through moratorium to avoid a decrease of their outstanding portfolio. By granting long term rollovers quickly after the announcements of lockdowns, Microfinance Solidaire intended to give visibility to its partner MFIs so they could be reactive and support the small entrepreneurs needing cash to pursue or restart their income generating activities, and allow the MFIs to meet the funding needs of the agricultural activities (6 to 12 months bullet loans having a high impact on the MFIs' cashflow).

major run on deposits. At the same time, there have also been a couple of cases where the initial extension term was insufficient and has already been extended since. Looking ahead, participants are confident that their partner MFIs have a great capacity to adapt to the difficult macro-economic situation. Nevertheless, it can be expected that between 15% and 30% of MFIs that requested rollovers might request a renewal of the rollover in the coming months if the repayment from clients under moratoria is not good enough. If the MFI still presents an appropriate solvency and crisis management, the rollovers could certainly be renewed, though this does bring more difficulties for closed-end funds in particular. Overall, given the increase in PAR indicators and proportion of

portfolios under moratoria, lenders will have to adapt their risk analysis to differentiate between MFIs able to recover from the present situation and attract new debt and MFIs that need either new rollovers or deeper restructuring.

For the months to come, the liquidity risk varies according to the different kinds of rollovers provided: (A) rollovers of installments due during a given period (the “effective period” as per the handshake agreement wording) by an extension term; and (B) rollovers of all installments due by the extension term, resulting in an extension of the final maturity of the loan. Type A has been most commonly used, especially in the case of handshake agreements. Cordaid Investment Management (CIM) and the Grameen Credit Agricole Foundation primarily used Type B in the case of bilateral agreements between MFIs and the lender. The concern is that Type A will put more pressure on the MFI at the end of 2020 and

beginning of 2021, but it can be effective if MFIs manage to attract new debt in the coming months (see dedicated section below).

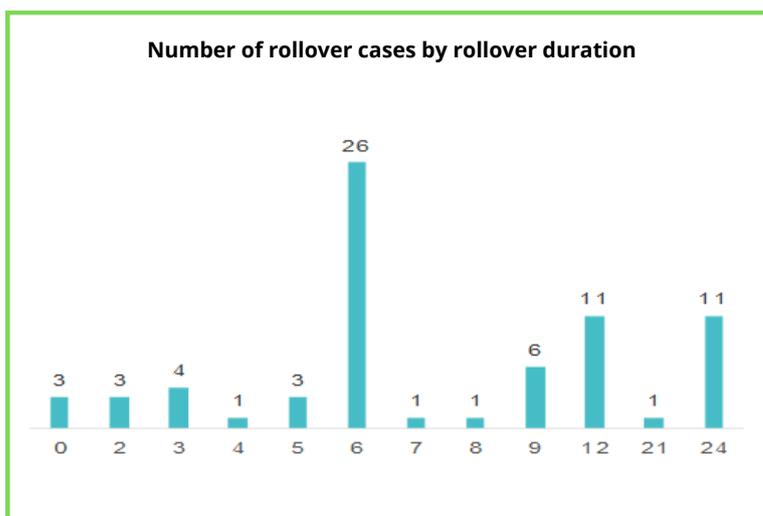
### 3. SIGNATORIES ENCOURAGE INITIATIVES TO PROMOTE CONTINUED CLIENT AND STAFF PROTECTION AND NEED TO PURSUE SUCH EFFORTS

Extracts from the pledge - The signatories pledged to require from any debtor MFI benefiting from a period of relief that it commits to great caution in handling its end clients. [...] The signatories pledged to require from a debtor MFI benefiting from a period of relief that it commits to treating staff responsibly.

According to the working group members, search for impact should lead lenders to pay attention to client and staff protection during the due diligence screening. Loan contracts often include clauses on these issues. Pledge signatories believe that good staff and client protection contribute to an MFI's sustainability in the long term and its capacity to rebound after the crisis as it connects the staff closer to the organization and increases client and staff loyalty. In order to encourage MFIs to commit to responsible treatment of their clients, the signatories have pledged to protect MFIs through flexibility in payments (through rollovers). The signatories believe that the flexibility they gave to MFIs benefiting from rollovers should translate into flexibility on their part in the way they handle loan recoveries and staff costs in these times of crisis. If a lender shall not interfere in the decision-making process of an MFI on such topics, it is agreed that

these questions should be brought to the table of discussions to foster mutual understanding and sharing of good practices.

In order to do so, GCAF has requested its co-lenders to include specific client and staff protection clauses in handshake agreements (35% of the sample). These clauses aim at raising the awareness of the MFI on the lenders' expectations on these topics. However, it has at times been a challenge for GCAF to obtain a consensus in a lenders' group on this topic, as some lenders were not at ease with including these clauses that are usually not part of standard restructuring agreements. Debates on such items can be lengthy and delay the rollover process that needs to be efficient.



As a way forward, the Grameen Crédit Agricole Foundation and its co-lenders found interesting alternatives, such as: i) requesting from the MFI a statement on client and staff protection issues, so that lenders are fully informed prior to finalizing the HSA; and ii) having a side letter signed by all lenders specifically on these topics and requesting that the future MFI reporting include information on these topics when relevant.

On the staff protection topic, the working group have not witnessed excessive firing of staff in the past few months. Statistics about GCAF debt investees show that the number of MFIs with a decrease in staff count is similar from Q1 2020 to Q2 2020, showing a relatively protective stance so far. On the other hand, the number of MFIs with an increase in staff in Q2 2020 is half what it was in previous quarters. These trends deserve further monitoring as the crisis lasts. Microfinance Solidaire has encouraged MFIs to use staff for other purposes (e.g. field and/or phone surveys) when they could not perform their usual fieldwork. Finding alternative ways to use field staff in these times of Covid-19 crisis is a theme tackled by several papers and webinars available on the SPTF webpage.<sup>8</sup>

### 4. SIGNATORIES ENCOURAGE FURTHER COLLECTION AND USE OF CLIENT OUTCOME INFORMATION THROUGHOUT THE CRISIS

Extracts from the pledge - The signatories pledged to encourage MFIs collect regular information to understand the situation and needs of clients.

<sup>8</sup> <https://sptf.info/covid-19/spm-during-the-crisis>

Several signatories, including the Social Performance Task Force and several investors (signatories and endorsers)<sup>9</sup> have promoted the collection of field data to track the situation of the clients on the field and help understand how MFIs and their funders can do to best support them. According to 60 Decibels,<sup>10</sup> “FSP clients have taken a major financial hit due to the COVID-19 pandemic. The vast majority of clients report a high level of concern and a significant worsening of their financial situation. Most are deeply worried about their ability to earn an income in the near future. To cope with a drop in incomes, most clients are using savings, reducing investments, borrowing money or selling assets as coping mechanisms.” According to an MFI in Romania, “The majority of clients (72%) stopped paying loan installments, which was mandated by the National Bank of Romania for banks to give an option from one to up to nine months; 58% used savings and 31% sold asset”. According to the SPTF, data also shows that the severity of impact varies considerably from country to country and as economies begin to restart, some sectors and businesses appear better poised for recovery than others.

Many MFIs are conducting field studies which results are important to inform them as well as their lenders and other stakeholders of the sector. For example, an MFI adapted an existing credit product by revising the terms to access it (in this case, the amount of savings required), so they could better meet their clients’ needs.

Seven months after the beginning of the crisis, many moratoria that MFIs granted to clients have already ended while some MFIs may need a renewal of existing handshake agreements. Lenders usually take their decisions based on the MFI quality of relationships of its lenders, information on credit, liquidity and solvency risks and its general turnaround capacity. Given that credit risk indicators give only a largely incomplete view of the end clients’ financial health, we encourage the monitoring of client outcome data. In 33% of cases of our sample, the handshake agreements include a clause encouraging the MFIs to provide client outcome information to investors. We believe that such a practice should be further encouraged, which can be reasonably done by amending existing common reporting tools. Outcome data collection would notably help analyze savings patterns, the capacity of clients to use the loan to enlarge their business rather than pay back existing debts, or the proportion of clients selling important assets to repay their debt.

## 5. COMMON REPORTING PROVES USEFUL FOR MORE MATURE MFIS AND NEW INDUSTRY INITIATIVES CONTRIBUTE TO BETTER COORDINATION

Extracts from the pledge - The signatories pledged that the additional information requested from MFIs in this time of crisis shall be harmonized between lenders.

Signatories agreed that additional information collected throughout the crisis should be as minimally burdensome as possible and be coordinated among the lenders. To that end, a group of MIVs developed a Crisis Assessment and Monitoring Tool (CAT) to reduce the reporting burden on investees during the COVID-19 crisis and collect relevant credit risk information (especially on Covid-19 moratorium) as well as timely and additional liquidity information. Some lenders such as Incofin and the Grameen Credit Agricole Foundation have even integrated some parts of the CAT tool into their reporting process for all their investees. Lenders also promoted

this tool within lenders’ groups when setting the conditions for the handshake agreements or at a slightly later stage when time was missing. In our sample, among cases when there is more than one international lender, 39% include a common reporting agreed among lenders. Although low, we do not find this result concerning because the common reporting option was used when needed: common reporting has had more success in Eastern Europe and Central Asia, South East Asia and Latin America; and for Tier 2 and Tier 1 MFIs. Less so in Sub Saharan Africa where MFIs have fewer lenders, in smaller Tier 3 MFIs (sometimes with 1 or 2 lenders), and of course when there was no lenders coordination. It should be noted finally that common reporting on Covid-19 moratoria may not satisfy the need of all lenders, potentially subject to different regulatory quantitative reporting requirements, particularly regarding the risk classification of moratoria given to clients.

In order to facilitate future common reporting and harmonization of financial covenants, coordination happened also through the Social Investor Working Group of the SPTF. The working group issued Lenders’ Guidelines for Defining and Monitoring Responsible Covenants in the Covid-19 context. This document provides a useful proposal to define Covid-19 restructured loans, guidelines on the treatment of the management of breaches and waivers under these exceptional circumstances, as well as on responsible monitoring of the impact of the crisis.

## 6. AN UNPRECEDENTED COORDINATION ON TECHNICAL ASSISTANCE THAT HOWEVER REQUIRES FURTHER EFFORTS

Extracts from the pledge - The signatories agree to coordinate technical assistance and training efforts and resources among MIVs, in order to avoid any duplication. The technical assistance agenda must also work on identifying potential funding for such new programmes.

As the crisis started unfolding, the signatories acknowledged the need to coordinate the support that they were providing through their TA facilities, be it technical assistance, webinars or any other tool useful for their investees to cope with the Covid-19 situation. A group of MIVs and funders representatives was set up to join forces and avoid duplication of efforts towards the same beneficiary partner. The first step to foster coordination was to exchange information about supported investees. A shared file on Microsoft Teams was soon created in order to do so.

At first, all the 12 participants were enthusiastic to collaborate and share their resources. The crisis had created a sense of unity and solidarity that needed to be harnessed to best support partners in the field. The file on Teams was filled by 7 of the group’s members with a total of 94 MFIs, detailing which type of support they were receiving by which lender or funder. Although this unprecedented sharing effort was useful to identify common TA recipients, the file remains incomplete and quite static. A dynamic screening of the MFIs listed followed by dedicated exchanges would probably be necessary to make the most of the shared file and achieve a real coordination of the support provided. The lack of follow-up was due to the fact that participants were very busy to manage the immediate consequences of the crisis and were left with little to no time to look for coordination. Nevertheless, the initial meeting organized to set up the coordination group steered a useful brainstorming that resulted

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<sup>9</sup> The signatories of the Pledge and of the Memorandum of Understanding to coordinate among microfinance MIVs in response to Covid-19 crisis have respectively endorsed each other initiatives as they are considered complementary serving a similar purpose.

<sup>10</sup> 60-decibel a technology-enabled impact measurement company that specializes in voice-based data collection for social businesses. <https://www.60decibels.com/>

<sup>11</sup> The document can be downloaded at that address: <https://sptf.info/working-groups/investors>

in a common webinar project on liquidity management for 44 MFIs (Fefisol, GCA, SIDI, MAIN), a few guidance tools on business continuity were developed (ADA and Oikocredit), some clients' survey on the field were jointly organized and financed (ADA, GCA, KIVA, SIDI, and SPTF) and other conversations to exchange views and ideas that allowed each participant to get to know each other better. The trust built during these exchanges and the extended mailing list of the group are probably the greatest achievements so far, preparing the ground to maybe initiate new common projects, or to launch more focused coordination groups in the future, for example by region or by topic.

The second part of the principle that provided for the identification of potential funding for new TA programmes is still to be achieved. Now that communication lines have been established within the coordination group, funding opportunities will hopefully be shared as they arise.

## **7. FOREIGN EXCHANGE AND RE-HEDGING RISK HAVE REMAINED UNDER CONTROL BUT COULD PROVE MORE PROBLEMATIC IN DEEPER RESTRUCTURING CASES**

Extracts from the pledge - The creditors pledged to minimize the impact for the debtor MFIs of additional hedging costs related to debt work out; and not to increase the debtor MFI's exposure to foreign exchange risk, beyond what it is able to manage and to absorb.

The Covid-19 crisis triggered extreme volatility on financial markets, with a huge peak mid-March 2020. Many emerging and frontier currencies took a strong hit in March, before gradually recovering –at least partially– in April and May. In the sample of rollovers reviewed by the working group, most MFIs are not exposed to foreign exchange risks because many of the loan agreements are in local currency with the FX risk covered through hedging mechanisms or borne by the lender. The highly volatile context in March pushed hedging costs upwards on most currencies, but pricing of hedges then improved in April and May. For loans with a hedging mechanism in place, the costs linked to re-hedging have been contained to similar or lower levels than the initial hedging solution, thanks to close discussions with the hedging provider and somewhat normalized market conditions after the initial drastic peak in March. In some cases which had to be re-hedged early on, when FX markets were still strongly impacted, the lender agreed with the MFI to convert the rolled over installment into hard currency, as long as the open currency position remained limited and manageable. In other cases, when negotiations took time to finalize, and re-hedging was done several weeks or months after the rollover, the cost or re-hedging has proved to be much higher. Finally, there is remaining uncertainty on some potentially deeper restructuring cases where the cost of re-hedging could be much higher than for simple rollovers due to the length of negotiating an agreement.

## **8. NO ISSUES DETECTED RELATED TO THE DISCLOSURE OF CONFLICTS OF INTERESTS**

Extracts from the pledge - The signatories pledged to disclose their conflict of interest.

Members of the working group have not encountered issues related to the disclosure of conflict of interests. The financing structure of investees being transparent, it is relatively easy to

identify a stakeholder with conflicting positions (e.g. lender and shareholder) and members of the lenders' group may take the necessary measures. These instances are more the exception than the rule given that most lenders do not manage funds with conflicting positions. This area should nevertheless remain an area of attention (e.g. some lenders may finance the MFI but also its shareholders, putting them in potentially conflicting situations).

## **9. EFFECTIVE PEER PRESSURE AND FAIR BURDEN SHARING AMONGST INTERNATIONAL STAKEHOLDERS**

Extracts from the pledge - Creditors should [take decisions] in line with the pari passu principle for creditors in a single category, provided, however, that equity shareholders of the debtor MFI also make the financial effort expected from their rank in order to prevent the risk of failure of the MFI. For cases of debt rollovers, creditors shall define a minimum rollover period applicable to all creditors.

In general, lenders observed that the rollover burden has been fairly shared amongst stakeholders, which is consistent with the high level of coordination noted earlier in the article. There were, however, some cases of asymmetry within international lenders (sometimes in the case of lenders advising or managing several funds or in the case of closed-ended funds with lesser flexibility on payment dates due to an upcoming liquidation) or between international lenders and local lenders. When it was needed, peer pressure has proved very effective to convince international lenders to adopt the same approach and to persuade investment committees to review their initial decision, if needed.

Keeping in mind the importance of ensuring a similar treatment of funders of the same rank, but also to remain pragmatic, earlier payments to closed-end funds were deemed acceptable by lenders on a case-by-case approach: for example, when the amount was very limited but represented a major share of the fund or when a related-company of the fund (with no closed-end fund constraint) was able to provide a similar amount of funding through a coordinated approach (for example the role played by SIDI in refinancing the Fefisol clients it follows up on).

Local lenders are often not part of the lenders group, as explained in section 1, which of course prevents peer pressure. When local lenders are part of the lenders group, peer pressure may work. However, it happened once that international lenders experienced an unfortunate development when a local lender who previously participated to the rollover discussions breached the informal agreement by requesting a payment without providing new funding. This resulted in an unfair treatment of remaining lenders and endangered the cohesiveness within the lenders' group, as well as the MFI's sustainability.

It is also important to underline that lenders that play a specific role with MFIs (long-term strategic partners, shareholders and/or board members) have often granted longer rollovers than other lenders. This is the case of SIDI when it is a shareholder or of MicroFinance Solidaire, which has granted a 24 months rollover to all its partner organizations (compared to an average of 6-12 months rollover).

## **10. LENDERS REMAIN CAUTIOUS BUT PROVIDE ADDITIONAL DEBT FUNDING**

Extracts from the pledge - Additional debt funding will be needed to ensure the continued access of MFIs and their clients to funding during the Covid-19 crisis.

Although we lack an industry-wide overview of the evolution of debt funding throughout the crisis, statistics about the investees within the GCAF debt portfolio provide some insights. From March to May 2020, we observe a stagnation of the amount of senior debt<sup>12</sup> followed by a progressive increase until July 2020 (21% then saw an increase in their senior debt during that month from only 5% in May 2020). These trends somehow reflect the effect of the first followers in Q2 2020 followed by the disbursement of funding committed before the crisis. Interestingly, a limited but continued increase in senior debt has been more prevalent in West Africa throughout the period (from March to July 2020), a region less hit by the crisis and where there was a strong need to finance the agriculture season. The dynamism of Sub Saharan Africa during the crisis is also visible in CGAP Pulse survey of Microfinance Institutions where Sub Saharan Africa is the only region with a growth of the loan portfolio as of June 2020.<sup>13</sup>

The members of the working group observed that lenders have kept providing new funding to MFIs, but in more cautious manner, as illustrated in the figures above. In the first stage of the crisis (March to May 2020), lenders have been more cautious as it was unclear to what extent their own liquidity position was in danger. (March to May 2020), lenders have been more cautious as it was unclear to what extent their own liquidity position was in danger. Probably the expectation of deferral requests by MFIs was estimated at the higher end by lenders, which was reversed later on and turned into a more benign attitude in the second stage of the crisis when negotiating about rollovers and providing new debt.

Lenders provided new debt to some MFIs still able to repay and receive new debt thanks to good risk profiles.

In some cases, lenders provided new debt to MFIs with significantly deteriorated credit risk (especially Covid-19 moratoria) but strong enough solvency. In several cases, such new funding was conditioned to the repayment of old debt, aiming at least at a stabilization of the MFI's debt. New business never stopped completely, lenders have still reached out even to new clients throughout the crisis, albeit on a considerably lower level of activity. This was supported e.g. by the use of virtual due diligences or through recourse to local consultants.

The topic of additional debt funding besides the financial relief already given by the lenders through agreeing to a rollover of existing debt is basically two-fold and comes down very much to the nature of lenders as well as MFIs:

Depending on the financial flexibility of the said lenders, some might be restrained by their setup to give additional funding. Open-ended funds generally tend to be in a more relaxed position when it comes to agreeing to any kind of rollover activity in the first place plus any potential new funding granted to the MFI in a later stage. In contrast, international lenders acting through closed ended funds usually face more constraints when it comes to approving a rollover of existing debt. Furthermore, due to the concept of a closed ended fund as such, they usually are not the primary source of additional debt funding for any MFI after any kind of rollover exercise. The ongoing

crisis underlines once more that MFIs need to diversify their sources of funding in order to stabilize their funding base thanks to access to various types of investors.

The need for additional debt funding as a consequence of the Covid-crisis surely depended mostly on individual parameters for every MFI (e.g. collection rate in the relevant region) as well as on national specifics (e.g. national moratorium). But the nature of the MFI tended also to be a main driver for funding requirements, especially the question whether an MFI is in a position to accept deposits or not. It was observable across the board that mostly in times of local or national lockdowns, the stock of deposits was shrinking, thereby



putting pressure on the funding situation of the MFI. The cash flow arithmetic is simple but hard to generalize in the heterogeneous space of MFIs globally: Reduced collections on loans to final borrowers plus potential deposit outflows weigh on the liquidity situation of MFIs. Emergency funding from the state or e.g. development banks (if available) plus rolling over of existing loans preferably with international lenders are mitigating factors, stabilizing the funding situation. In this environment, the one parameter with the largest leeway of decision-making for the MFI has probably been the volume of new business. We suggest this topic be analyzed more in depth at a later stage, but it is obvious that the treatment of customers throughout the crisis - either by changing conditions on deposits or by changing loan standards or collateral requirements- is of great importance to the impact investing community in general.

## CONCLUSION

**We conclude to a very good coordination between international lenders** who have agreed on terms of handshake agreements, avoiding lengthy restructuring discussions in the majority of cases. This prompt reaction has proved instrumental to avoid a liquidity crunch in the sector as most investees have maintained sufficient levels of liquidity. In rare cases when individual non-coordinated behaviors threatened the fair burden sharing amongst international debt providers, peer pressure has been effective.

**We have also seen an unprecedented coordination on**

<sup>12</sup> Combined effect of i) stagnation of senior debt for most MFIs, ii) decreasing proportion of MFIs receiving new debt until only 5% in May 2020; and iii) less MFIs with a decrease in their senior debt than before the crisis.

<sup>13</sup> <https://www.cgap.org/pulse>

**technical assistance** that already resulted in some collaboration between technical assistance providers, such as the organization of a common webinar on liquidity management, the provision of tools on business continuity and the implementation of field surveys on final clients. Coordination was however not up to our initial objective notably due to need to prioritise issues that were more pressing. Given the important challenges that microfinance institutions will face on the field, we believe that we should pursue our efforts on this front to avoid duplication and steer efficiency.

**Our pledge to client and staff protection lives on.** We have encouraged initiatives to promote continued client and staff protection in these times of crisis and need to pursue such efforts to make sure that they remain at the center of the table of discussions. Many microfinance institutions will have to turnaround a business intimately linked to the financial health of clients, staff behaviors on the field and staff treatment. For that purpose, we encourage coordinated collection of information on staff treatment and client outcome throughout the crisis and beyond. We also encourage deepening sector initiatives that contribute to efficient reporting under these exceptional circumstances.

New debt funding has drastically slowed down during the crisis but has not completely stopped. As some economies begin to restart, many of our investees have shown promising signs of regrowth since July 2020, with significant differences among countries and sectors of activities. Acknowledging the opening of this new chapter, we commit to accompany and consolidate the economic recovery in a timely and responsible manner.

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#### **Pledge's signatories :**

1. ABC FUND
2. ADA ASBL
3. ALTERFIN
4. AZERBAIJAN MICRO-FINANCE ASSOCIATION
5. BAMBOO CAPITAL PARTNERS
6. CERISE
7. CIDR PAMIGA
8. CORDAID INVESTMENT MANAGEMENT
9. CREDIT AGRICOLE CIB INDE
10. CA INDOSUEZ WEALTH (ASSET MANAGEMENT)
11. CREDIT AGRICOLE S.A.
12. EUROPEAN MICROFINANCE NETWORK
13. FS IMPACT FINANCE
14. GAWA CAPITAL
15. GRAMEEN CREDIT AGRICOLE FOUNDATION
16. INFINE.LU\*
17. INJARO
18. INPULSE
19. KIVA
20. LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND
21. MCE SOCIAL CAPITAL
22. MICROFINANCE AFRICAN INSTITUTIONS NETWORK
23. MICROFINANCE CENTRE
24. MICROFINANCE SOLIDAIRE
25. RABO FOUNDATION
26. SOCIAL INVESTMENT MANAGERS & ADVISORS
27. SOLIDARITE INTERNATIONALE POUR LE DEVELOPPEMENT ET L'INVESTISSEMENT
28. SOCIAL PERFORMANCE TASK FORCE
29. VERDANT CAPITAL
30. WHOLE PLANET FOUNDATION

\*Agreement in principle