TAKING THE FLOOR

Advocacy for a more inclusive and sustainable économy

2018-2020

FONDATION GRAMEEN
CRÉDIT AGRICOLE
Microfinance & Social Business

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For 12 years, the **Grameen Crédit Agricole Foundation** has positioned itself as a player committed to the fight against poverty by promoting financial inclusion and social impact entrepreneurship. With more than 200 million euros in funding and over 100 organisations supported in some forty countries since inception, the Foundation has been able to build a solid history in the field of inclusive finance, particularly microfinance, financial engineering, financing of family agriculture and support for social entrepreneurship.

To promote good practices and contribute to the advocacy of the sector, the Foundation shares its experience through various publications, organises events and exchanges with other key players in the field of inclusive finance. This is why the Foundation has decided to share its main leading articles published since 2018 in this new publication "Taking the floor: Advocacy for a more inclusive and sustainable economy".

For this first edition, this document is organised around four chapters with topics that marked our sector:

- The first chapter contains general reflections on the need to shape a more inclusive economy.
- The second one shares our various experiences on the development of rural areas, in particular, by supporting impact entrepreneurship
- The third chapter presents more specifically the work of the Foundation on the programme for the financial inclusion of refugees launched with the UN Refugee Agency and the Swedish Cooperation.
- The last chapter focuses on the impact of the global economic crisis generated by the Covid-19 pandemic on microfinance institutions and their clients and the action of the Foundation to coordinate a concerted approach by donors, investors and others microfinance players to support the sector.

The "Raison d'Être" of Crédit Agricole is **Working every day in the interest of our customers and society.** With this publication, the Foundation fully plays its advocacy role to support microfinance, impact entrepreneurship and to shed light, alongside other key stakeholders, on good practices for a more inclusive, responsible and sustainable economy.

Éric Campos
Managing Director

TOWARDS A MORE INCLUSIVE ECONOMY

CHAMROEUN (CAMBODGE) @Philippe Lissac

KOSSAM SDE: REINSPIRING YOUTH, INVESTING IN DEVELOPMENT

By Grameen Credit Agricole Foundation

After a mission as a Solidarity Banker for La Laiterie du Berger, Jonathan Michaud is now Director of Kossam SDE, a project led by La Laiterie, which aims to structure the dairy sector in northern Senegal. Spotlight on our discussions with this agricultural engineer from Crédit Agricole Franche-Comté, who has been seconded for two years to support the development of this project with a strong social impact.

STRUCTURING THE DAIRY SECTOR IN SENEGAL

To be the driving force behind the territorial development of Richard Toll's dairy basin in northern Senegal: this is the shared ambition of Laiterie du Berger and its subsidiary Kossam SDE. Since its creation in 2005, La Laiterie du Berger has established itself as a pioneering social enterprise in the country. Today, it has become the second largest player in the Senegalese yoghurt market and the main national company processing local milk. It works with the Coopérative des éleveurs de Dagana, which groups 800 Peul farmers, employs 300 people and produces 6000 tonnes of yoghurt each year. In early 2019, in order to consolidate the activity and the dairy sector, La Laiterie du Berger and the Coopérative des éleveurs de Dagana co-founded the social enterprise Kossam - Société de Développement de l'Elevage (Kossam SDE).

LDB, SENEGAL
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Kossam SDE aims to structure and strengthen the dairy sector by providing local services (livestock feed, fodder,...) and training and advice to local farmers. The company is developing a model of "mini-farms" currently in the pilot phase (15 units in operation) and aims to set up 100 mini-farms by 2022 (more information on the project here).

YOUNG PEOPLE AS ACTORS OF DEVELOPMENT

At the heart of this development plan, youth occupies an important place. In a context where youth employment is a challenge in Senegal, Kossam is setting up an ambitious system to support young people in a process of professionalization in dairy production.

Thus, the training offered to breeders are also open to their families. Indeed, the breeders of La Laiterie are mainly families, or rather family organizations, consisting of a "canister manager", man or woman, behind whom works a whole family structure. "There is a real will of the breeders trained by Kossam to involve and empower their children in the work of the farm. Kossam SDE has planned to intensify the training and support for the and local youth, on the aspects of technical and economic management of the farm and family," says the Director of Kossam SDE, Jonathan Michaud, Credit Agricultural Engineer Agricole Franche Comté, detached for 2 years to develop the project.

Moreover, young people are not only involved as breeders, but in others links in the dairy chain. Indeed, from many young people are elected as managers of the dairy divisions (which are of the local chapters of the cooperative). Whereas these positions were once reserved for senior managers, today the involvement of young people in agricultural and local responsibility functions is one of the bases of the sector's model in structuring.

Finally, youth employment is promoted at the level of milk collection. Kossam SDE has thus made it possible to create the profession of "collector", now exercised by local young people. Jonathan Michaud says that the development of milk collection and the generation of increasing incomes through dairy activity contribute greatly to the stabilization of young populations in Richard Toll's dairy basin. In addition, the project has changed the image of the dairy industry towards young people: dairy production has become a rewarding, remunerative and attractive activity for local populations, especially for new generations.

With the increase in productivity of farms, the creation of new professions around breeding will become essential (by for example, the creation of livestock advisors, technicians of breeding). As pointed out by Jonathan Michaud, it is the logical continuation of the movement already initiated by La Laiterie du Berger for more than 10 years around professionalization dairy, which requires support, supervision, structures and thus creates employment by and around the milk production.

With Kossam, the movement is growing stronger, based on training, entrepreneurship and the involvement of young people, innovators and key development actors in Senegal.

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COOPERATIVE CAPITAL COMPANY: A MODEL FOR THE "WORLD AFTER"

By Éric Campos and Bagoré Bathily[1]

"The cooperative capital company would make it possible to reintegratecapitalism in a resilient entrepreneurial approach by promoting the alignmentof employee and shareholder interests"

The year 2020 and the shock of the global lockdown shed harsh light on new kinds of systemic risks that threaten our economies. The globalization that has governed growth in recent decades is being exposed to new forms of risk that it has probably created. In a context that is socially affected by rising inequalities, it seems urgent to question our models of value creation and distribution in order to make them more open and more humane with more promising prospects, so that the civic society can envisage a future where can we can withstand such threats that are longer avoidable.

Green growth and the social contract must be combined more closely. We will not go over these observations again, as they are commented on every day and as current events reveal an oppressive reality: social and political tensions, blows against our democracies, the precariousness of populations, environmental risks and climate challenges, inertia in the transition towards carbon-free economies. We share this observation, but rather than joining in the mantras, which are scandalous for some and virtuous for others, **we are tabling a proposal for a business model and new perspectives based on collective reflection and discussion.**

AFK, KOSOVO
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We are convinced that the great challenge of our generation is to build a true people's capitalism that will promote entrepreneurship, an inclusive economy and access to the resources of knowledge, creation and innovation. Even though some are predicting the end, we do not believe in the disappearance of capitalism, nor in a sort of providential evolution left in the care of the invisible hand: its mechanics are not bothered by the moral question or that of the common good. Conversely, we do believe in the will to work towards rebalancing the value generated by companies among the stakeholders. To do so, we must put into perspective the question of the return on capital, labour and the externalities produced by the company against the background of the climate emergency.

The legislation entitled "Plan d'Action pour la Croissance et la Transformation des Entreprises" [action plan for growth and the transformation of companies] (known as the PACTE law) was enacted a little over a year ago. The result of extensive consultation with the civil society, it proposes positive developments to share the value created better with employees. It enables companies to take better account of social and environmental issues in their strategy. The spirit of this law invites us to continue and bolster the process by opening up new perspectives. This is the purpose of this article.

Our thinking is rooted in the rich history of cooperatives, in particular mutual cooperative banks. In France, these banks came into being at the end of the 19th century with a common goal: to facilitate access to credit for people from occupational categories that had difficulties in borrowing. Unlike other companies, the capital of these institutions is made up of shares held by their customers and their remuneration, which is not speculative, is regulated. These institutions now account for more than 60% of the retail banking market in France. Their managers have always demonstrated a remarkable ability to create entrepreneurial value without making the effectiveness of their actions contingent upon capital ownership. The history of these banks proves unequivocally that entrepreneurial value and utility have developed harmoniously in the service of the common good.

Over the last twelve years, we have through successes and failures **accumulated experience in managing what are known as social businesses** around the world, particularly in sub-Saharan Africa. **This is a second source of lessons drawn to guide our thinking**. These companies are very conventional in their search for profitability but also very unique because their primary goal is social impact. Their way of creating sustainable value lies not so much in their capacity to respond to a market need (which they achieve with a competitive advantage where possible), as in the collective utility that determines their creation and then their activity. Their raison d'être is social or environmental impact to such a degree that this mission is part of the cornerstone of their articles of incorporation. This primary intent defines them as social businesses. They must also undertake to measure or estimate their externalities. The intent and measurement of effects are therefore their fundamental criteria.

In practice, **we see that the search for a positive impact is far more than a goal.** It is an agent of change. It penetrates and permeates the company at the deepest level of its operations to the point of transforming its genetic heritage. Like an additional gene, this research augments the company's capacity to act not only in its own interest but in the interest of society as a whole. This translates into a kind of cooperation contract that it enters into with its ecosystem - a starting point for the construction of a common future. The search for a more equitable redistribution of value among stakeholders becomes a rule of operation. The company sets up a governance and performance model that includes other temporalities than its own and modifies the evaluation of its results, where quantifiable social performance is added to financial performance. At the same time, the ecosystem will through reciprocal porosity, also influence the company which, as it monitors and measures the externalities it generates, it will in turn transform the way it operates.

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Bagoré Bathily is the founder and CEO of the Laiterie du Berger, a social business set up to promote the dairy sector in Senegal.

This understanding of social business has led us **to question the nature of the link that might exist between the employees, stakeholders in the company's value creation, on the one hand, and the percentage of ownership of the capital thereof**, on the other. In reality, this link is very rarely if ever there: for one, the shareholders own the capital, while the employees provide the operating return on that capital. Our first conviction is that, on the contrary, **we believe that a direct relationship should be cultivated between employees and capital,** not only through profit-sharing and investment mechanisms, which are indirect links, **but through direct links for employees at the same level as shareholders.** The idea is there. It may seem iconoclastic but it is, in fact, realistic, i.e. that of a company whose dividends would henceforth be shared between shareholders and employees according to different rules. The former provide the funds, the latter deliver the added value, everyone deserves their share in the end.

Without pretending to try to solve all the problems, here is a solution that we have devised to reconcile capital and citizens in a collective approach to progress through a structural dynamic that could actually be organized in companies themselves. We call this solution "cooperative capitalism." It seeks to rethink our social models by defining **a fairer, more complementary and balanced relationship between the two fundamental economic agents of the stakeholders, i.e. the shareholder and the employee, who today are brought together by far too few things**. And to show that there is nothing irrational about this solution, we will try to describe here its key operating principles that we have considered. They beckon discussion, of course.

LDB, SÉNÉGAL
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WHAT IS THE COOPERATIVE CAPITAL COMPANY AND HOW DOES IT WORK?

The concept of the cooperative capital company consists of allocating a share of the capital for use by employees. The company concerned is a capitalized company, which may but need not be incorporated under private law, such as a Société Anonyme (SA) [public limited company] , a Société à responsabilité limitée (Sarl) [private limited liability company] , a Société par actions simplifiée (SAS) [simplified joint stock company] or any other form. In order to become a "cooperative capital" company, it includes a special provision in the articles of association for employees to receive a share of the value distributed, in the event of profit, when dividends are paid out. **The employee becomes a usufructuary shareholder.**

To that end, when it exists, the company decides to increase its capital by issuing securities and granting usufruct rather than ownership to employees. The latter then become the recipients, not of a share of the capital as such, but of a right to the return it generates thanks to their productive labour force. As such, they are eligible for a direct redistribution of wealth induced by these new rules of capital value sharing, when the company so decides because its results allow it.

It should be easy to include such a provision by amending articles of association that exist or from the outset when they are drawn for companies under formation. For it to be effective, however, we think that it must be truly significant. It must also come about with no counterpart, so as not to confuse work and investment, and must be established on an equal basis between employees. As for the shareholders, they remain the holders of capital and owners of the securities, with the difference that they have decided to become bare owners for the increased part of the capital, so that the employees can receive their share of the company's profits. Idealist? Surprising? Bizarre? No, far from it.

Of course, in the short term, this means that the investing shareholder has to accept a considerable cost. Assuming a 10% increase in capital, the nominal value of his €100 share would be only €91, the €9 difference being - not confiscated! - but invested in another form of value: human value, in this case the employees, in the form of a distribution of the right of use, without loss of ownership.

As this kind of operation may not be familiar to everyone, let us take a look at the example above. This company has a capital of 100,000 euros divided into 1000 shares of €100. Its shareholders decide to increase the capital to 1,100 shares, an increase of 10%: the capital is still worth €100,000, but each of the shares will now be worth €91 (100,000/1100, rounded off). In this company with cooperative capital, the 100 newly created shares, representing 9% of the capital, are allocated to the employees by way of usufruct. If the company pays out dividends, they will therefore receive the proportion due to them.

For his part, the shareholder-owner accepts a reduction in the nominal value of his share (of €9 in our example), or in the yield value of his share to be more precise, since part of the dividends will now be distributed to the employees. He thus pays a sort of "admission ticket" to the productive capital by granting a partial usufruct to the employee group. He is betting that the company, buoyed by a reinforced collective mobilization, will thus be able to develop better and grow, and that in a few years he will increase the value of his share to the point that its original value will be restored and then exceeded.

We believe that this proposal is nothing other than the fruit of an entrepreneurial reasoning for reconciliation, in phase with the "world after " that we need to build. Let us take a closer look at the benefits that each of the parties involved could derive from it.

For employees, there is clearly direct access to a new channel for redistributed value. In fact, the wealth trickle theory that traditionally presided over financial capitalism has proven to be inaccurate: the gap between the richest and the poorest has only widened in recent decades, with the working classes paying a high price for unbridled global growth that has held little if any benefit in store for them, especially in developed countries where the middle classes are experiencing a worrying stagnation -- not to say decline -- in purchasing power. Opening up access to the fruits of capital to employees[SM1] can only contribute to rebalancing economies by restoring the company's legitimacy as a corporate citizen, giving greater consideration to each and every one, a renewed sense of commitment to work and improving the economic capacities of populations -- all as part of a dynamic of social justice.

For shareholders, this is a new role: that of making it possible to include employees in the creation of capital value. There is responsibility to be assumed here, namely that of considering that capital investment makes sense only when seen from a truly entrepreneurial and not speculative perspective, as financial value is created in the medium or long term by the positive effect of a newfound cohesion in the company, taking into account the collective of employees as well as the societal impacts and contributions generated by the activity. Investments that are better oriented in environmental, societal and governance terms (ESG criteria) have in recent years been shown to have the potential for performance and, above all, a future.

Finally, for companies, there is the matter of restoring a form of harmony that will benefit the resilience and sustainability of

their business model -- perhaps not for all of them, but at least for those whose project is strongly rooted in a mission of social responsibility. Like biodiversity, these companies actually develop all the better as they are integrated into an ecosystem, an environment rich in interaction and cooperation by and between stakeholders. They thrive by contributing to as much as they benefit from it, and they feed shared biomimetic dynamics. For them, the classic divergence between capital and labour, the supposedly insurmountable divide between shareholders and employees, will prove unfounded. In this entrepreneurial rationale, value can only be a reward for risk, not only the risk weighing on the investment, but for all risks, especially internally the risk that could potentially affect employment, and therefore employees, in the event of adverse economic conditions. By recreating links between employees and capital, we assume that the company will be more resilient in the face of risks and that its links with its stakeholders will moreover be closer and more balanced. Better "reconciled" in its structuring, the company will improve its integration into a global system which will be more resilient itself.

ENSURING THAT THE COOPERATIVE CAPITAL COMPANY BENEFITS EVERYONE

Shareholder and salary reconciliation model we describe is not intended to reform the company universally. It is one means among others, a key component, which we hope will be as structuring as possible. For it to be an attractive and efficient solution in a resilient economy, however, we need to clarify some of the rules and conditions underlying its model:

- **Governance and representations**

The cooperative-capital company we are outlining makes the division of roles between shareholders and employees less divisive, as the boundaries become porous in order to foster interactions and dynamics. However, if the former become partly bare owners of the capital and the latter become usufructuaries, who will govern the company? The convergence of their interests should be able to remedy this thorny question. Indeed, shareholders do not cede ownership of their shares but a right of use. They will therefore sit in meetings, be represented by a board of directors or its equivalent depending on the legal form of the company, and will contribute to the company's orientations. However, they will have to include seats for enhanced employee representation on the board of directors as well as in the executive governance bodies.

- **Status and taxation**

By making his capital available to the cooperative capital company, the shareholder takes a higher risk. Indeed, in order to hope for a capital gain, he must first reach the equilibrium threshold of the nominal value of his share. If he pays 100 euros for a share that is now worth only 91 (according to our example) because 9 euros are allocated by dilution to the salary collective, then the path to a valuation at 100 euros the share will necessarily tend to lengthen and become more uncertain. An incentive through an appropriate tax on the company's result is a measure that the State should be able to consider, for example through a reduced taxation of the profits received, which is all the more justified since by sharing the operating value of its capital, the investor is part of a corporate citizenship approach. In this respect, the latter could also benefit from an adapted regulatory base without modifying its statutes, similar to what mission-oriented companies obtain with the "Entreprise solidaire d'utilité sociale" (ESUS) approval.

- **Transparency and environmental and social contribution**

In addition to defining the internal modalities and functioning, it is essential to question the cooperative capital company conditions of existence and the impact of its activity in our society. Transparency in this area cannot be an option but must be a broader imperative: the measurement and monitoring of so-called extra-financial performance (environmental, societal and governance impacts - ESG) as well as their publication will be the instrument for this. At a time when nations such as France are embarking on economic, energy, environmental and social transition policies, there is fertile ground for an entrepreneurial approach of this type, aligned with long-term paths, particularly those of the Paris Agreement.

Facing particularly acute contemporary challenges, the capital-intensive company could find a path of renewal through the solution we propose in many situations. History teaches us that the cooperative economy has long been able to respond to the excesses and imbalances of the times it has lived through. It owes its longevity to its constantly renewed capacity for hybridization and adaptation.

The cooperative capital enterprise model we are presenting is a current translation of this. It is in itself nothing complex, nothing less than a common sense approach, a "step aside" sketched out through observations and reflections that have constantly placed the human being at the core of the entrepreneurial project.

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Both social enterprise practitioners, we see every day the positive effects and impact that our organizations have, their accomplishments of course, but also the tremendous synergies they manage to generate internally and externally, intelligently connected to the world around them, convergent, mobilized in their action to solve problems. In many parts of the world, particularly in sub-Saharan Africa, especially in Senegal, where we are involved in direct contact with the populations of livestock farmers and agri-food chains, experience shows us that economic inclusion is a key factor of resilience, a path to be pursued with enthusiasm to give human societies the enlightened paths, the hope, that they need. This is probably a source to draw on without further delay because, having been running at full speed for decades, the economic machine has certainly managed to create growth, but at the cost of a future with little respect for the environment and a society that is fracturing.

The unprecedented and probably historic aspect that the year 2020 represents in the world confronts us with this decisive turning point: will we succeed in modifying the cogs and mechanics that structure our societies to collectively shape a better-shared future? Will it finally be within our reach to work towards more harmonious systems of societies? We cannot individually change everything, yet we can act. Because it is our most accessible framework for action, the company remains the ideal tool for our societal progress. Thanks to capital-intensive rules rethought with a view to a better redistribution of the value created, economic reconciliation and socially just cooperation, it will be able to contribute its share of the solution. There is no extremism, madness or utopia in conceiving this; but the liberal, civic and reasoned conviction that the world cannot be built other than with and for each other.

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LETTER TO MY CHILDREN IN PRAISE OF THE "ODE TO SIDESTEPPING"

By Éric Campos [1]

I was born on May 11, 1964. At the age when one becomes aware of death, around the age of 7 or 8, I told myself that the risk of disappearance of the human species was linked to the extinction of the sun. So we had a few million years to live. Enough to reassure the child that I was.

From the post-war world, we had inherited legitimate multilateral mechanisms for the maintenance of international peace and security. Strengthened by the creation of institutions to combat them, global challenges (hunger, lack of training, disappearance of cultural specificities, etc.) were evils that the human community was going to eradicate. In addition to the maintenance of peace and security in the world, the United Nations was developing friendly relations among nations by cultivating international cooperation on all useful subjects, with respect for human rights. Of course there were wars, atrocities and horrors, the 20th century was the monstrous theatre of the dark side of humanity, but our grandparents' generation had been able to create institutions whose raison d'être was based on the planetary organization of living together.

Born into a family marked by exile, I was saddened, as a child, by the disappearance of democracy in Chile and the suicide of Salvador Allende at the Palacio de la Moneda. My first political joy came in 1974, with the carnation revolution in Portugal and then in Greece with the return of democracy. It was familial, powerful and festive in 1975 when the Franco dictatorship was buried with its author. That was 45 years ago. The luminous Europe was being built on the rubble of its darkness. I was still a child then, but Ifelt these popular victories, without explaining it to me yet, as an elevation. A

deep breath after a long apnoea. A natural step towards the light.

I was born in a cosmopolitan, open, welcoming and beautiful Oran. I loved the festivals and perfumes of my childhood, the summer visits of a Spain whose history I was learning, I loved the Movida, the fall of the wall, my grandfather's unshakeable democratic conviction, his tales of a rough but fraternal maquis, the flag of the Spanish Republic that he kept in the drawer of his dresser, I liked "I would go and spit on your graves", the poetry of Idir and the magnificent writing of Luis Sepulveda in his delicate and mischievous novel "The story of a seagull and the cat that taught it to fly".

I grew up in France in a democratic country, respectful of the freedom to think, to demonstrate, to act. In a world where political debate was healthy and liberating. In a world where reflections were neither anonymous nor erudite, but constructed, embodied and debated by women and men of courage and daring who committed us to follow them in different ways, but all these alternatives were expressed or put in place in the open space of our democracy. I have not known, other than in history books, the venom of populism, which seeks to reduce and divide the world into two artificial and opposed parts: the "profit-making" elites and the proud but oppressed "one people". J'ai connu une Europe qui était le refuge et la voix des intellectuels,I knew a Europe that was the refuge and voice of intellectuals, free thinkers, exiles, agnostics, artists and was simmering, sometimes with a bang, the recipes for a better world.

These are the chapters and punctuations of my personal story.

I wonder which chapters will be yours, when you are in front of your own blank sheet of paper, and what you will say about us. I'm afraid you can't say anything other than what we don't want to hear: we haven't been able to make our legacy flourish.

The lockdown we have just experienced will upset many of our certainties. For a few weeks we have lived with our own people, watched the world struggle and contradict each other, watched scientists apostrophe, feared the worst, avoided each other on the sidewalks, greeted from afar. We have played with our children and taken the time to discover them, we have strengthened or experienced the bonds with our parents, our loved ones, felt their distress, shared our fears and anxieties, reassured, displayed our unshakeable optimism and shared our bursts of laughter through interposed screens. We also weighed our solitudes and exasperations. We applauded from our windows those who were working in the resuscitation rooms. We worked in our kitchens, our bedrooms, our bathrooms, we organized ourselves in the pleasure of autonomy.

We continued to exercise our business with caution in our shops, hospitals, bank branches, protected by an approximate distance, masks, plexiglass windows. Farmers, stockbreeders, industrialists, transporters, distributors have done great things to keep feeding the country. We felt we were exposing ourselves to save our jobs, in the uncertainty of this crisis. We have strengthened our ties with our colleagues, customers and suppliers, whom we may not have known much about until now. We wanted to tell them that they could count on us and that we knew we could count on them. Lockdown alloed us to rediscover the flavour of solidarity.

This crisis has kept us apart. But it has allowed us to embark on an extraordinary journey, inviting us to take the time to observe the world and to observe ourselves in this relationship to what surrounds us. Today we are going to come out of our burrows masked. With the fear of going back if we are not careful. Turning our heads on all sides, we still feel threatened by this virus that has just locked up half the planet. We're like squirrels after hibernation. But outside, it's not quite spring that we'll find again.

This lockdown has also helped us take a big step aside and no doubt enriched our perception from a new angle. A little as if we too had entered the circle of the lost poets, perched upright on our desks. Our relationship with the powers that be will no doubt be altered as a result. Our relationship to equality, to fairness... We are going to question our consumer habits, the hierarchy of indispensable things, authoritarian injunctions, question false evidence and reflect on possible alternatives. We have all aged a little. A little changed. Our hair has grown and we have taken on some of the patina that this story has kindly deposited on us.

You will be able to tell your children and grandchildren about this experience, which will now become part of your personal pantheon.

Yet this metamorphosis will take place in a world that must reinvent its horizons.

As we emerge from our forced hibernation, we will find again this paradoxical equation: on the one hand, rapid and promising technological progress; on the other, global warming, social inequalities, the impoverishment of once prosperous territories and the fear of social downgrading. We are at the end of a remarkably homogeneous cycle that has lasted some 40 years. It has reshaped the planet, presiding over globalization, conducted under a very

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determined ideological and political sign. It is now coming to an end, and that is a wake-up call for us to move on. Fundamental trends are upsetting the foundations of social cohesion and mark the probable end of the cycle of an economic model. What if this health crisis had been its inflection point?

The finiteness of our civilization is now written in the reports of scientists. The extinction of the sun is no longer the infinite horizon of the questions of the child that I was. A study recently published in the Proceedings of the British Academy of Sciences simulated the evolution of the population and the rise in temperatures. Most of us live in areas of the world where average annual temperatures range from 11 to 15°C. But as temperatures rise, the geographic distribution of these places where people live and work may change. In the worst-case scenario, nearly 3.5 billion people are likely to migrate from these regions where temperatures will be unbearable within the next 50 years. Today, only 20 million people live in these semi-desert areas clustered around the Sahara or in the Persian Gulf. This represents less than 1% of the world's land area. These uninhabitable territories will cause large-scale population displacements. I dare not see the effects in social terms.

The democratic foundation that has surrounded our generation is also shaken. The political scene is being transformed on a global scale. A reversal of the cycle may be taking place in this field: while inequalities are being reduced globally, they are increasing within countries and this crisis will exacerbate this trend. Will the poverty that was declining globally and in the so-called "emerging" countries increase again? In any case, it is advancing in developed countries, altering the purchasing power of the middle classes and creating new forgotten territories in the countryside but also in the urban peripheries. Geopolitical developments are gradually moving away from the multilateral principlesof consultation organised by the United Nations, which were established as guarantors of peace in the aftermath of the Second World War, and are undermining the balance of global governance.

That is why, as we emerge from our forced hibernation, I encourage you to take the time to reflect and read "Le siècle du populisme", a remarkable work by Pierre Rosanvallon that points out the first of the risks we will have to face. Populism , the rising ideology of our century, feeds on designated culprits and simplistic and falsely intuitive shortcuts, but it echoes the dismay, anger and impatience of a rowing number of the world's inhabitants. Yet it is not by defending the established order that we can provide a credible alternative, but by changing the structures of our democracies, by promoting economic inclusion, by challenging the inequitable dynamics that lead to social determinism and feelings of hopelessness.

If today the world hears the voices of protest being raised, we are still helpless in the face of the need to reinvent new models. I believe that we must humbly admit that there is no technological miracle or "turnkey" solution. Only a sincere commitment to experimenting with a new cycle, based on a reinvented and better shared expression of capitalism, will be able to respond. We find ourselves in an economic and political model which, in its fundamentals, works without us knowing exactly what principles it is based on. The Western world, but not only, is suffering the full force of the decomposing effects of economic globalization on societies. This globalisation - this is especially true in our countries - creates winners and losers, creates archipelagos of communities that crack the idea of nationhood and reinforces the sense of injustice among citizens of a society that has become divided.

In a context where international competition between brands, countries and tax authorities will continue to be fierce, we will have to face the need for profound, global and long-term change. This change, which it is up to us to initiate and support (?), will call into question all aspects of our societies: economic models, industrial fabrics, lifestyles, employment, social organisation, and probably also political governance systems. The prevailing pattern today is that of an infigurable future that affects the way society looks at its collective destiny and the representations that individuals make of the direction of their existence. It is a vital requirement for a society to think about its orientation, but this does not imply that it is drawn in advance. Rising uncertainties call for new ways of looking at things, new ways of thinking and acting. **It is our generation that has this responsibility and that will have to assume it, that of rebuilding a future territory where the question of prosperity and equitable, reasoned and sustainable growth must be combined.**

While we had been burying the place of planning in French society for many years, we are going to need a strategic and planning State to accompany the reindustrialisation of the country. This crisis has demonstrated the importance of State intervention to cushion its effects and to anticipate the conditions for economic recovery. Yet, unlike the economic crisis of 1929, we are in a globalized world that trades, imports and exports. Massive investments cannot only irrigate our economy, which is open to the world out of necessity. The State will have to democratically define strategic priorities, plan and organize production chains, including agricultural production chains to rebuild our food sovereignty. We must prepare ourselves to face the next pandemics that are sure to strike again. In this context, the European scale is conducive to setting up nationalisation plans. This strategic takeover would allow us to place this industrial dynamic in the context of ecological transition and in a concern for territorial balance.

Will this crisis provide us with the courage and legitimacy to adjust our economic model? The probability is high that in a few months' time yesterday's recipes will continue to apply tomorrow, as if nothing had existed. However, there is no fatalism. And what if the micro-traumas that each of us developed during this lockdown allowed us to gradually question our uses, our modes of consumption, our mode of transport and our investments. And if we all began to be activist consumers, limiting out-of-season fruit purchases, purchases packaged in tons of plastic, adopting the principles of the circular economy, favouring the products of responsible companies and short circuits. The buyer will be carefully observed in the coming months and we can give strong signals to economic actors by taking more account of the environmental and social impacts of the resources used, especially those associated with their extraction and exploitation. This is our responsibility as citizens. We should also be able to favour use over possession.

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Finally, I believe that the great challenge of our generation will be the construction of a **true "popular capitalism"** promoting entrepreneurship, an inclusive economy and access to the resources of knowledge, creation and innovation. I do not believe in the disappearance or natural evolution of capitalism, whose mechanics are not bothered by moral issues or the common good. On the other hand, I do believe in the willingness to work towards rebalancing the value generated by companies among the stakeholders. We need to put the question of the return on capital, labour and the externalities produced by the company back into perspective. But we must be equally careful not to forget the climate clock, the threat of which is growing. Scientists are encouraging companies to adopt **a plan of climate change mitigation measures with immediate local impact** (water management, coastal management, waste management, biodiversity, etc.). This is what we need to do. Too often, we tend to favour measures with medium-term scopes by moving away from measures with immediate scope. Many systems of influence only work in the long term and if we were to abandon this reminder of voluntary action, the industrialisation of the territory would be carried out by insulting our future. Then this popular capitalism that could enthuse our generation, save its heritage and the blank sheet of your judgment will have to be a **"green and popular capitalism".** The equation is complex, but we did go to the moon.

On the Place du Bouffay, in Nantes, Philippe Ramette created a bronze sculpture called "Ode to Sidestepping". This sculpture represents, under the features of the artist, a male figure in costume, looking towards the horizon. Only one foot rests on the base, the other remains in balance. This allegory of the side step pays homage to the city's audacity, its commitment and its close relationship to culture. I wish us to succeed in this side step, to find a new balance and to dream again of the infinite horizon of the extinction of the sun.

*

Published by Eric Campos on Linkedin


PROXIMITY (BIRMANIE) @Didier Gentilhomme

DEVELOPMENT OF RURAL AREAS

KWFT (KENYA) @Philippe Lissac

"IN THE FACE OF CLIMATE CHANGE, ACCESS TO FINANCIAL SERVICES IS ESSENTIAL"

By Eric Campos [1]

The African Microfinance Week (SAM) will be held in Ouagadougou, Burkina Faso, from 21 to 25 October, and will be dedicated to the theme: "Pathways towards Impact: African inclusive Finance for the Sustainable Development Goals." The objective of this biennial conference is to bring together stakeholders in the microfinance and social inclusion sector in Africa. On this occasion, the FinDev portal asked a number of questions to Eric Campos,[1] Managing Director of the Grameen Crédit Agricole Foundation and CSR Manager of Crédit Agricole SA on the adaptation of MFIs to climate change.

HOW CAN INCLUSIVE FINANCE HELP TO ACHIEVE THE SDGS IN AFRICA?

Inclusive finance is a voluntary initiative of the financial sector to create positive social impact while creating financial value so as to make this undertaking sustainable. When socially effective, microfinance is an instrument of inclusive finance. But this can hold true also for the conventional financial sector which can seek to combine the financial return of the means and resources deployed with social impact.

Inclusive microfinance makes it possible to foster access to financing for segments of the population which have been traditionally excluded from the banking sector. In this respect, it supports the consumption by segments of the population with low income, often from informal sources, who are at times relatively more vulnerable (rural communities, women, young job seekers) and enables them to build a little capital. When such financing supports the development of small businesses, the latter in turn create growth, boost employment and stimulate the local economy.

NUMBER 13 OF THE SDGS DEALS WITH CLIMATE ACTION. WHAT IS THE ROLE OF MFIS IN THE FACE OF CLIMATE CHANGE, IN PARTICULAR IN AFRICA, A CONTINENT PARTICULARLY VULNERABLE TO THESE UPHEAVALS?

The Food and Agricultural Organization of the United Nations has stressed that urgent action is needed to support small concerns in their efforts to adapt to climate change. Farmers, nomadic herders, fishermen and small forest owners all depend on activities which are closely and inextricably linked to the climate. The negative effects on the food supply are getting worse, and may even deteriorate into disaster in certain particularly vulnerable areas. It is therefore urgent to bolster the resilience of the small family farm faced with an upheaval in operating conditions. The African continent is more exposed in this respect, because only 0.25% of the 178 million insured farmers in the world are African.

In the face of climate change, access to financial services is essential because it contributes to supporting the stability of farming activities when MFIs manage to reach farmers in rural areas. Nevertheless, there is no denying that enormous challenges still lie ahead. Heavy investments are needed to improve agricultural productivity, develop rural

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infrastructures, and foster the establishment of companies processing agricultural products and engaging in agri-industrial activities. Microfinance continues to be an overly isolated tool which is not yet matched up to the continent's challenges because there is no ecosystem to support the modernization of agriculture.

IN PARTICULAR, HOW CAN MFIS SUPPORT RURAL POPULATIONS AND SMALL PRODUCERS?

Whereas these farmers should ideally have adequate financial security and good livelihoods, they actually lead a life of daily struggles. They are faced with limited access to agricultural inputs (seeds, fertilizers, water, agrichemical products, agricultural tools and machinery) and to markets. They are henceforth regularly exposed to unexpected meteorological events that affect their production and therefore their income, without any insurance coverage. Farmers are often helpless against the ravaging effects of climate change.

The MFIs are often the only recourse a farmer has to finance his working capital requirements. They provide a variety of financial products that seek to adapt to the activities of the rural world. When MFIs are socially committed, they also provide "on-site support" which bolsters their effectiveness (workshops, on-site visits and risk assessment, advice on the purchase of raw materials, etc.). The sector of microfinance therefore remains the only alternative to usurers in very many rural areas. These institutions can also provide agricultural insurance products, which however are still prohibitively expensive for village agriculture which continues to be mostly at the subsistence level.

1 Éric Campos est Délégué général de la Fondation Grameen Crédit Agricole, fondation spécialisée dans la microfinance et l'entrepreneuriat social, et Directeur de la RSE de Crédit Agricole S.A.

WHAT CONCRETE ACTIONS DOES THE GRAMEEN CRÉDIT AGRICOLE FOUNDATION TAKE ON THIS SUBJECT IN AFRICA?

Rural life is the cornerstone of growth in developing countries. Rural areas have high growth potential but because of lack of means and resources, they are being deserted by their inhabitants who migrate to areas of potential employment and go to live on the fringes of cities. This development issue of rural economies is also linked to the necessary bolstering of subsistence agriculture to address malnutrition against the background of exponential population growth, and the promotion of the entrenchment of populations around jobs in the agricultural sector.

The Foundation is a contributor to rural development. 40% of the loans granted are earmarked for Sub-Saharan Africa. We are effectively present in some fifteen countries, and the Foundation's financing policy is geared primarily to rural areas and women. The principles of action are marked by the need for the management of the social and economic performance of our partners. We promote responsible finance through strict eligibility criteria and a systematic economic and social performance analysis. As the fight against poverty cannot be waged alone, however, we take action alongside other committed stakeholders. With openness, determination and ability to listen, we call for the convergence of actions and agendas.


MEC FADEC, SENEGAL
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WHAT DO YOU EXPECT FROM SAM 2019?

The battle against climate change is a global challenge for which we call on all parties to face up to their responsibilities. But the resilience of populations and economies is a local challenge which requires public and private stakeholders who are capable to contribute, in their respective area of responsibility, to the modernization of their regions. The SAM is a place for exchange, learning, information and sharing. It is also a place where a coalition of the willing is being built. We hope that the 2019 edition will bring us the optimism of determination and the energy of inspiration.

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INSURANCE AND FINANCIAL PROTECTION FOR AGRICULTURE

By Didier Folus, Pierre Casal Ribeiro, Bruno Lepoivre and Antoine Roumiguié [1]

Agricultural production is subject to hazards relating to crop prices, yield and health. While price risk management is largely based on the use of appropriate financial instruments or public aid, yield risk management relies on subsidized insurance and public funds. The various crop insurance contracts - multi-risk climate, grassland, and turnover - offer farmers coverage options governed by the rules of the Common Agricultural Policy, particularly in terms of premium subsidies. However, their penetration rate remains low compared to the economic stakes of French agriculture. In light of this observation, and in the face of supposed climatic changes, insurance companies, professional farmers' associations and public authorities are seeking to increase the degree of risk pooling in order to offer the agricultural world high-performance financial protection solutions. Various techniques such as satellite remote sensing, insurance index models, micro insurance, and risk transfer to financial markets are being mobilized to address the various idiosyncratic or systemic components of risk. The research work associated with this approach brings together insurance companies, the space and meteorological sectors, as well as universities and research laboratories. Under the aegis of public authorities, the fruits of this research promote the emergence of a balance between private and public coverage, for better financial protection of agriculture.

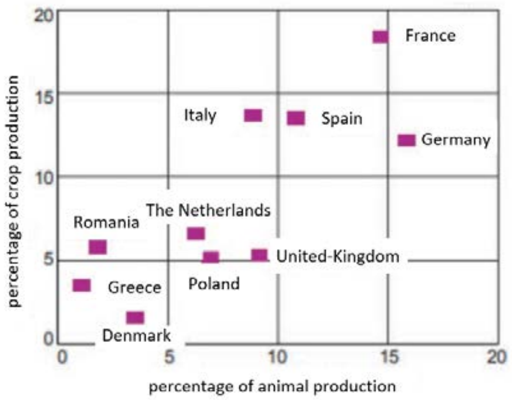
INTRODUCTION

Insurance accompanies economic development in its various components, protecting investments in agricultural, industrial or commercial activities. Crop insurance is, however, a fairly recent string in the bow of instruments for the financial protection of agriculture, unlike futures markets, which are much older and more developed. Introduced in France in 2004, crop insurance guarantees production yield risk against the effect of weather events. Underpinned by academic and industrial research, the extension of agricultural insurance to new risks is now a major challenge for farmers, insurance companies and their partners, as well as public authorities, at a time when the frequency and intensity of weather events is increasing, making farms more vulnerable. After a brief overview of agricultural production in France and the associated risks (section 1), this article describes the main guarantees offered by crop insurance and highlights the economic and institutional stakes (section 2). The research approaches initiated by stakeholders in the sector are then presented, in particular index insurance and satellite remote sensing for grassland insurance (section 3) and agricultural micro insurance (section 4). Finally, the last section proposes a perspective for the deployment of financial protection actions aimed at farmers.

AGRICULTURAL PRODUCTION AND RISKS

In France, agricultural activities are divided between crop production -wine, cereals-, market garden and horticultural products, fodder, potatoes, industrial plants, fruit, and animal production; risks of various kinds (price fluctuations, weather events, etc.) weigh on these productions.

Figure 1: The ten European Union countries with the highest agricultural production in value (source: Eurostat, in Graphagri 2018, Agreste 2019).



Recent data on French agriculture

The productions

Agriculture used 52.2% of the metropolitan territory's surface area in 2017, mainly divided between field crops (cereals, oilseeds, protein crops, beets and plants for industrial use, potatoes), or 45.8%; forage crops (meadows), or 49%; and permanent crops (vineyards, orchards), or 3.5%.

French agricultural production was worth 65.5 billion euros in 2017 (source: Eurostat, 2019). The weight of French agriculture is very important in Europe, as illustrated in Graph 1 below: it represented 18.3% of crop production and 14.9% of the value of animal production in the European Union in 2017.

Producers and farming practices

Agreste (2018) had 437,400 agricultural businesses at the end of 2016, of which about two-thirds were individual farms and one-third were corporations. Farm size is trending upwards over time, driven by agricultural demographics and pressure to expand to meet declining margins.

Cultivation practices -irrigation, nitrogen inputs, phytosanitary treatments, ploughing- vary according to the type of farm cultures (and thus regions) and over time. It should be noted that a growing number of farmers are seeking to limit phytosanitary inputs or treatments, and to use biological substitutes for biocides and chemical pesticides.

[1] Didier FOLUS (CEROS, Paris Nanterre University), Pierre CASAL RIBEIRO (CEROS, Paris Nanterre University et Grameen Crédit Agricole Foundation), Bruno LEPOIVRE (Pacifica, Crédit Agricole Assurances et Antoine ROUMIGUIÉ (Airbus Defence & Space)

Agricultural risks

Like any business, a farm faces a range of risks and opportunities in its production, marketing and management processes: damage to property (buildings, equipment), changes in yield or prices, or the possible downgrading of a product. Some of these risks are characteristic of the agricultural production activity, which is similar to an "open-air factory".

Price risks

Fluctuations in the selling price of an output (or the purchase price of an input) constitute the most significant risk, which has three characteristics:

- it is a market risk, which depends on the conditions of supply and demand for consumable products, themselves influenced by factors such as the intensity of competition (atomicity of firms or, on the contrary, oligopoly, oligopsony), the seasons, or consumer tastes;
- it is a risk linked to the supply-demand-stockpiling balance for agricultural products considered as commodities subject to import-export; this balance is notably influenced by large-scale climatic events ;
- it is a comonotonous or systemic risk, which occurs simultaneously and in the same direction for all producers in a sector, making it difficult to share: for example, the price of a cereal may drop suddenly in France, following the announcement of forecasts of abundant harvests in the United States or Ukraine.

The forward sale of the harvest is a traditional way of hedging the risk of a drop in the selling price. Futures markets, which have been emerging for centuries,[2] make it possible to initiate price risk hedging strategies (Simon and Marteau, 2017). More broadly, short-term price risk management is based on :

- the use of financial hedging instruments, available through cooperatives and traders or financial institutions: these include forwards or futures contracts, and put or call option contracts ;
- Contractualization within the commodity chains, with prices guaranteed to producers by manufacturers;
- the possibilities of (private) storage of production, so as to adjust the quantities offered in response to demand and thus smooth the evolution of prices;[3]
- as a last resort, on European community mechanisms such as the intervention of the Crisis Reserve (an allocation of €430 million in Europe, but whose political trigger mechanism makes it almost inoperative), or public intervention on the markets (repurchase of surpluses, storage), common before 1992, but whose effect is now very limited on markets with global prices.In the medium term, producer organizations are seeking to increase their bargaining power in dealing with buyers, to limit the sensitivity of their results to price fluctuations, thereby improving their competitive position. This includes strategies to integrate agricultural value chains, often through industrial tools created by cooperatives, or through differentiation strategies ("organic" products, on-farm processing, direct sales to consumers). In the same spirit, inter-professions help to structure collective actions in the longer term, to adapt supply to consumer demand and market developments.

Meteorological or climatic risks

All agricultural production is subject to meteorological or climatic hazards, such as drought, floods, storms, frost, hail, etc.

The impact on production is both quantitative (lower yield per hectare) and qualitative (lower value of wheat if the protein content is too low, lower price of a downgraded fruit, for example), resulting in a drop in income for the farmer. While some weather events have anidiosyncratic or localized character (e.g. hail), others have a systemic component (e.g. drought). Their intensity and extent are highly variable, as is their frequency.


SENEGAL
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The farm enterprise can then "retain" some of these risks, assuming their financing in equity, :

- using prevention and protection tools (drainage, irrigation, phytosanitary treatments, anti-freeze or anti-hail devices, etc.) ;
- mobilizing a precautionary cash position to deal with the consequences of a possible disaster.

The other solution is to transfer the climate risk to the insurance industry (for example, by taking out hail or crop insurance) or to rely, for those productions that are still eligible (arboriculture, grasslands), on State intervention through the National Fund for Risk Management in Agriculture (this public mechanism is known as the "fonds des calamités agricoles").

Health or environmental risks

An outbreak of an animal disease or plant pest, or an environmental incident (e.g., accidental pollution), are risk factors that involve either a decrease in the farmer's production yield (fewer units per hectare) or a decrease in the number of hectares of land used. sold), or a drop in its income (downgrading of production leading to a drop in the selling price).

Health or environmental risks are generally managed through public support mechanisms (for example, a public compensation fund).

In this article, we focus mainly on crop insurance and on research contributions to develop an innovative offer of agricultural risk management mechanisms or products.

2 Examples include the rice futures market that appeared in Japan in 1730 or the Chicago Board of Trade created in 1848.
3 Storage is costly in terms of equity capital and limited in terms of efficiency, on the one hand, because the crops are perishable and, on the other hand, because the resulting price smoothing is very temporary and limited in scope.

CROP INSURANCE

Insurance companies offer contractual guarantees covering various farm risks.

Insurance products for agricultural production

An overview of products on the French market

In addition to traditional property insurance policies, agricultural businesses can insure themselves against risks that directly affect their production, sales or margins. Table 1 on the following page summarizes the various products available on the French market.

The climatic or meteorological phenomena officially considered as harmful to agriculture are listed by ministerial decree (decree n°2016-2009 of December 30, 2016), their application criteria are then specified by order.

Each category of contract provides for a warranty period (which depends on the type of production), a choice of deductible level, exclusions, and options for additional coverage.

A simplified example of crop insurance

A wheat farmer farms an area of 50 hectares (ha), whose average yield over the last five years ("Olympic average", the arithmetic average over five years excluding the highest and lowest values) was 6.5 tonnes per hectare (t/ha). Prior to the start of the season, he insures this yield and chooses a 20% deductible. He will therefore be compensated for losses below 5.2 t/ha (= 6.5 - (6.5 x 20%)), at the contractual compensation price set according to a scale of 173 €/t. During the campaign, an excess of water leads to a low yield, confirmed by an expert assessment in the field, of 4 t/ha.

The insurer then indemnifies the operator up to the amount of the loss suffered minus the deductible. The indemnity paid is therefore equal to the difference between the guaranteed yield after application of the deductible, i.e. 5.2 t, and the yield achieved, i.e. 4 t, multiplied by the contract price and by the surface area farmed, i.e. a total of 1.2 t/ha x 173 €/t x 50 ha = 10,380 €.[4]

Table 1: Agricultural production insurance products offered on the French market. (next part)

		radiation, flood, excess water, thunderstorm rain, whirlwind, excess moisture, excess snow	caused by a climatic event or several guaranteed climatic events.
Turnover insurance	Wheat, corn, rapeseed, barley	Heatstroke, cold stroke, sunstroke, excess water, excess temperature, frost, hail, excessive humidity, lack of solar radiation, torrential rain, heavy rain, weight of snow or frost, drought, low temperatures, storm, whirlwind, sandstorm and/or a drop in the average futures market price of the reference production	Natural event that would result in any combination of yield x price below the guaranteed level.
Insurance for animal mortality	Animal or livestock	Accident or illness (possible extension to the decisions of public authorities in case of contagious disease)	Compensation in the event of death of an animal insured in isolation for an expert value or a herd of homogeneous animals. Possible supplement "business interruption".

The premium corresponding to this multi-risk climate insurance (MRC) benefits from a right to public subsidy, depending on the level of the guarantee chosen (see below). The MRC insurance has a compensatory character based on the evaluation of the amount of damage by an expert. However, it is not suitable for all crops, particularly in the case of grassland production, where it is difficult to assess the accidental loss of yield, due to the lack of turnover on forage production. In the latter case, index insurance has a relevant field of application (see the section on "Grassland insurance").

The regulatory context Agricultural

Insurance is governed by rules on public aid and is articulated with public coverage schemes (Cordier and Santeramo, 2018).

Table 1: Agricultural production insurance products offered on the French market.

	Subject	Guaranteed event	Warranty
Hail insurance	Standing, hanging or swath culture	Hail Storm	Coverage of quantitative losses (decrease in yields) and qualitative losses (depreciation of the commercial value on the day of the loss) of the crop
Multi-risk climate insurance (MRC) (excluding the grasslands)	Cereals, Oleo-proteaginous, Vineyards, Fruits, Open field vegetable crops	Hail Frost / Cold snap Wind (storm, whirlwind, cold snap, sand wind) Water (flooding, excess water, storm rain, excess snow, excess humidity) Drought / Heat stroke Sunburn Lack of radiation	Hedging of loss of yield Supplementary coverage : • loss of quality (wheat, barley, potato) • reseeding or replanting costs • additional costs (labor, material)
Grasslands Insurance	Protection of the fodder needs of a herd	Hail, frost/cold snap, storm, sunburn, sandstorm, drought/heat stroke, lack of radiation, flood, excess water, thunderstorm rain, whirlwind, excess moisture, excess snow	The guarantee applies in the event of a drop in the fodder production index caused by a climatic event or several guaranteed climatic events.
Turnover insurance	Wheat, corn, rapeseed, barley	Heatstroke, cold stroke, sunstroke, excess water, excess temperature, frost, hail, excessive humidity, lack	Natural event that would result in any combination of yield x price below the guaranteed level.

Aid for agricultural insurance

The Insurance Code sets out the general characteristics of the multi-risk climate insurance policy, including deductible levels climate insurance policy, including deductible levels (30% or 25%), indemnity trigger thresholds and a national scale for the insured capital. Since 2016, this insurance contract has been organized according to coverage levels, the latter being a condition for the granting of direct aid for the payment of the premium:

- a first level or "base" level, offering the basic guarantees of the production cycle for the main surface area of the farm (field crops, industrial crops, vegetables and horticulture, viticulture, arboriculture, meadows) ;
- a second level, which offers optional additional guarantees adapted to the risks specific to the farm;
- an additional third level, allowing fine tuning of coverage.

For the 2016-2020 period, the maximum subsidy rate is 65% for "base" contracts and a maximum of 45% for optional additional guarantees.

Public schemes

Within the framework of the Common Agricultural Policy, the public authorities are supporting the development of agricultural risk management tools, aids and income stabilization tools, through the national risk management and technical assistance program (PNGRAT). Co-

4 The regulations and rules of the World Trade Organization (WTO) set the threshold for triggering the payment of premium subsidies at 30%. Similarly, a revisable scale sets the contractual compensation price for the various agricultural products.

financed by the European Agricultural Fund for Rural Development (EAFRD), it provides two types of support:

- support for multi-risk climatic crop insurance ;
- and support for the National Agricultural Fund for Mutualization of Health and Environmental Risks (FMHE).

Approved by the public authorities and financed by a fixed contribution from all affiliated farmers ('20 in 2019), the FMSE compensates (after expert appraisal) any affiliated farmer whose production facilities are affected by a predefined health or environmental event. Public aid then reimburses the FMSE for up to 65% of the compensation paid.

COMUBA, BÉNIN
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Finally, in the event of an exceptional climatic event affecting an uninsurable crop (agricultural calamity), the National Fund for Risk Management in Agriculture (NFRMA) manages the compensation payments. Financed by a premium surcharge at a uniform rate of 5.5% (in 2019) on agricultural property damage insurance policies, it compensates for crop losses in arboriculture and horticulture not covered by MRC insurance, losses on grasslands and losses of funds (soil, vine stocks, nurseries, etc.).[5]

The major challenges of crop insurance

Crop insurance was launched in France in 2005, following the severe drought of 2003. Fifteen years later, the assessment shared by players in the sector is mixed. The penetration rate is still modest, but is steadily increasing: around 2% of the surface area in grassland and arboriculture, but more than 30% in field crops and vineyards. Insurance companies have been able to integrate these new products into their offerings and have demonstrated their ability to manage claims, such as the complex processes induced by public subsidy mechanisms. However, the financial results are not up to expectations, with a claims to premium ratio of 105% over the period. The low penetration rate suggests that anti-selection is taking place and that the level of mutualization achieved is insufficient to guarantee the technical balance of the product.

Other national experiences exist, for example, the Spanish system of risk management in agriculture, often cited as a model, because it covers more than 70% of cultivated land and has demonstrated its robustness after forty years of operation. It is based on the pooling of data and services, common pricing, pooled reinsurance and the involvement of professional representatives in defining and distributing offers; these are just some of the areas for reflection and improvement in the overhaul of the French system. It will be particularly important to improve the link between private coverage and the public risk management system, to limit the effect of eviction and, beyond that, anti-selection, which would be detrimental to the technical balance of the sector.

More broadly, the resilience of private and public crop coverage systems will also depend on the inclusion of future climate changes in insurance contracts. Based on simulations of weather situations and crop exposure, Prospective studies help to develop projections: the study conducted under the aegis of the French Insurance Federation (2016) suggests a doubling of the impact of climatic events on crops by 2040, both in frequency and intensity.[6] Kapphan et al (2012) thus recommend adapting insurance contracts to the expected changes, in order to significantly increase the benefits of coverage, for both policyholders and insurers.

Finally, the possibilities of using institutional investors to increase the capacity of insurance schemes to guarantee risks should be further explored. While traditional insurance and reinsurance have a good ability to manage risks relatively easily, the potential for institutional investors to be used to increase the capacity of insurance schemes to insure risks needs to be further explored.

The same is not true for "small" risks that are independent of each other, but for large risks or positively correlated risks that require a massive injection of capital (Cummins and Trainar, 2009). An insurer exposed to such risks would then have an interest in transferring part of it to the financial markets (Folus and Collin, 2016), by offering investors the opportunity to acquire financial securities indexed to these risks; the advantage for investors would be to improve the diversification of their portfolio, thus improving the Sharpe ratio. Why not consider that a public hedge fund could, in turn, issue such securities to increase its capacity?

The challenges, both technical and economic, of crop insurance are steadily advancing, underpinned by the development and subsequent launch of hedging, indemnity or index products.

GRASSLAND INSURANCE

Grasslands cover a large part of the world's agricultural areas; they produce fodder for livestock feed and play an important role in the preservation of natural ecosystems. As the productivity of a grassland is dependent on the hazards of nature (Smit et al., 2008), herders thus face a significant supply risk.

The principle of grassland insurance

The production of a meadow is very sensitive to climatic hazards: according to the Livestock Institute (2018), a 30% drop in forage production can lead to an 18% decrease in the farmer's gross margin and a 50% decrease in his income. The

5 TCrop losses on field crops and vines, as well as the risk of hail on all crops are no longer eligible for the agricultural disaster scheme. Grasslands and arboriculture remain eligible for the NGFAR, as long as their coverage by private insurance is deemed insufficient.

6 A complete presentation and assessment of the system was made on the occasion of the 40th anniversary of the Spanish risk management system. A French version can be consulted on the ENESA website at the following address: https://www.mapa.gob.es/es/enesa/publicaciones/40anosenesa_frances_tcm30-513820.pdf

prairie insurance, which is a case of climate multi-risk insurance, is intended to compensate for the drop in prairie production due to a climatic event, drought in particular.

This example of index insurance convinces us that research is needed in order to design an index that is technically efficient and accepted by all stakeholders, including farmers, insurers and public authorities.

The contribution of satellite remote sensing

Earth observation data is a valuable source of data for insurance purposes. They can be used at different key stages in the life of a policy:

- at the time of underwriting, by exploiting the historical depth of available data to qualify the risk;
- during the guarantee period, in order to qualify the origin of the claim and eligibility for possible compensation;
- at the time of loss estimation, by using these data as an absolute measure of the loss or as an aid to traditional human expertise.

Each of these use cases implies having data with different characteristics (spectral and spatial resolution of the sensors, available historical depth, post-processing of the data). For example, the use of remote sensing data for an expertise on a crop requires an image with adequate spatial and spectral resolution to allow observation or measurement of the phenomenon. To respond to these multiple uses, three main categories of optical sensors for Earth observation have been identified:

- UAVs, with decimetric resolution, which are particularly suitable for monitoring high value-added crops in restricted areas;
- commercial satellites with spatial resolutions of less than six meters. They are programmable and offer the user the ability to observe any point on Earth at any time ;
- free sensors (resolution greater than ten meters) that allow the implementation of services at reduced costs. Today, images from the latest satellites launched offer new fields of application thanks to improved spatial and temporal resolution. Indeed, ESA's Sentinel-2 sensors now allow observation of any point on Earth every five days at a resolution of ten meters (pixel size).

Applications based on satellite data are already operational. In France, since 2016, the grassland insurance offered to farmers has been based on an index characterizing biomass production. This index is constructed from the analysis of satellite images acquired throughout the growth of grasslands, which are combined with meteorological data (Vroege et al., 2019). Comparison of the annual production estimate with a historical reference allows local variations in production to be observed.

The validation of this index was an important step in providing the necessary guarantees to each stakeholder: insurers, farmers and public authorities (Roumiguié et al., 2015). The development of the index made it possible to meet the challenge of quantifying grassland production on the scale of France, despite the different practices and growing periods. The reduction of basic risk, i.e. the difference between the indication of the extent of damage provided by the index and the actual damage suffered by the farmer, is part of the continuous improvement of the index, for both technical and commercial reasons: tomorrow's solutions in agricultural insurance will be the result of combining Earth observation and meteorological data, with agro-meteorological models and/or artificial intelligence (machine learning).

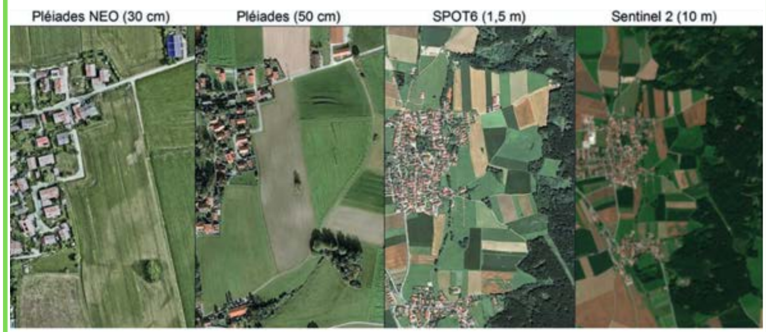
AGRICULTURAL MICROINSURANCE

In an emerging economy, agriculture faces not only the risks of fluctuating prices or crop yields, but also development difficulties due to the exclusion of poor farmers from financing systems.

The roles of insurance in a developing agricultural economy

Agricultural insurance is of great interest to small farmers in developing countries. Insurance can act as a social safety net for these farmers. There is evidence that external shocks force poor households to put in place costly response strategies, such as the use of savings, credit, or the sale of productive assets. These mechanisms affect farmers' livelihoods and can trap vulnerable households in long-term "poverty traps" (Barnett et al., 2008). For example, it has been observed that after the 2009-2010 winter disaster in Mongolia, which resulted in the worst livestock losses ever recorded, households with insurance and compensation had significantly larger herds in 2011, 2012 and 2013 than those without (Bertram-Huemmer and Kraenert, 2015). This case shows that a shock can have a lasting impact on affected households and that the difference between indemnified and uninsured households can be observed even several years after the event.

Figure 2: Illustration of inter- and/or intra-parcel variability as a function of spatialresolution (source: Airbus Defence & Space).



In addition to its protective role, insurance also has an effect on agricultural production, even in the absence of an external shock. This is particularly related to the fact that agricultural insurance can facilitate access to credit for poor farmers, who are traditionally excluded from the financial system. Indeed, even microfinance institutions that provide credit to low-income households are reluctant to lend to farmers because of the existence of production risks, particularly climate risks. By enabling lenders to deal with large covariant shocks, insurance gives financial institutions the ability to grow their agricultural loan portfolio for larger amounts and for more farmers. It should be noted, however, that the existence of credit-linked agricultural insurance has so far not been shown to change ex ante lending practices (larger volumes, wider preach, lower rates, or longer maturities) or to protect ex post loan ortfolios (Hazell et al., 2017).

The Contribution of Microinsurance Research

However, research has shown that insurance has an impact on farmers' behaviour. Randomized controlled trials have shown that insured farmers in Ghana increased their agricultural expenditures, the amount of land they cultivate and their use of fertilizers (Karlan et al., 2014). In India, farmers who were offered weather index insurance adopted new high-yield seeds (Cole et al., 2017; Mobarak and Rosenzweig, 2013). Indeed, investment decisions are influenced by exposure to climate risk. Although climate risk does not have the greatest impact on farm profitability, it is the most difficult risk to diversify, and therefore has the greatest influence on consumption and investment decisions (Rosenzweig and Binswanger, 1993). This mechanism reinforces inequalities, as the most vulnerable and poorest farmers are the most likely to adopt low-risk and low-productivity strategies. Better access to risk management tools such as crop insurance is likely to change farmers' investments, increasing the profitability of their investments while reducing income inequalities. Carter et al (2014) developed a theoretical model to assess under what conditions index insurance can promote the adoption of new agricultural technologies. They show that index insurance is most relevant when the risk is high and highly covariant, and the collateral requirements are high. In unsecured environments, the lender assumes a substantial portion of the production risk. Index-linked insurance will be most effective if it is credit-linked, as it reduces risk rationing by financial institutions and increases the volume of credit available to farmers.

Experiments with index-based microinsurance in Africa (e.g. Kenya) are thus likely to guide development programs and increase the level of knowledge of expected benefits; the resulting credible impact assessments then have the character of public goods and are useful to supranational organizations or governments (Duflo, 2005).

FROM INSURANCE TO FINANCIAL PROTECTION FOR FARMERS

The insurance of agricultural risks, particularly those affecting crops, is based on private and public schemes. The current articulation of these systems is not optimal, leading to dissatisfaction among a part of the insured, anti-selection and a technical deficit in the sector.

Progress is possible, first by improving the attractiveness of coverage products. To achieve this, the accuracy of the damage measurements taken by the operator must be improved, while limiting the cost of expert appraisals, and therefore the cost of the insurance premium: index models, satellite remote sensing and artificial intelligence (machine learning) can help in this respect.

In addition, large-scale pooling should be encouraged - by creating a genuine public-private partnership - based on a voluntary basis and supported by a pool of insurers, with the State subsidising the insurance premium paid by the farmer. The relaxation of the conditions for subsidizing the premium is in line with this (European Omnibus regulation of 2017), favouring the expected public benefit (Gohin, 2017), compared to (now old) direct aids. In the long term, it is expected to reduce the insurance industry's need for capital, thus making the commercial rate more attractive for farmers.

Second, the mobilization of European funds to co-finance protection programs by member states could be complemented by public reinsurance as a last resort, relying itself on the possibilities of risk securitization, in the face of financial markets offering great capacity.

Finally, the State can promote scientific research that contributes to the creation of new insurance products in the agricultural field. Under the aegis of institutes or foundations, research initiatives and partnerships have emerged, bringing together industrial or insurance companies and the academic world. In addition to experimentation, this has led to technical or economic advances that improve the financial protection of farmers.

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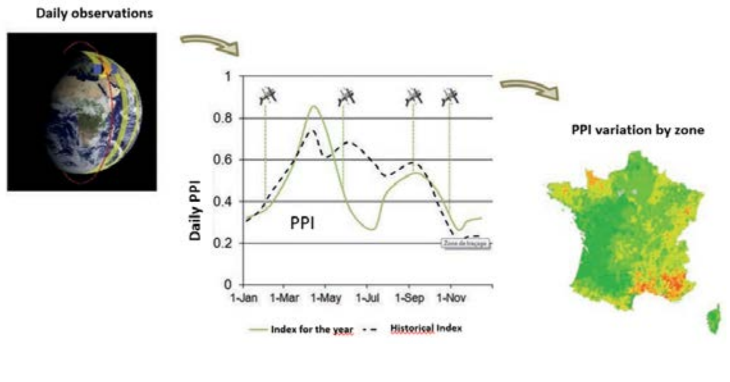
Figure 3: Satellite information processing in the framework of grassland insurance (source: Airbus Defence & Space).



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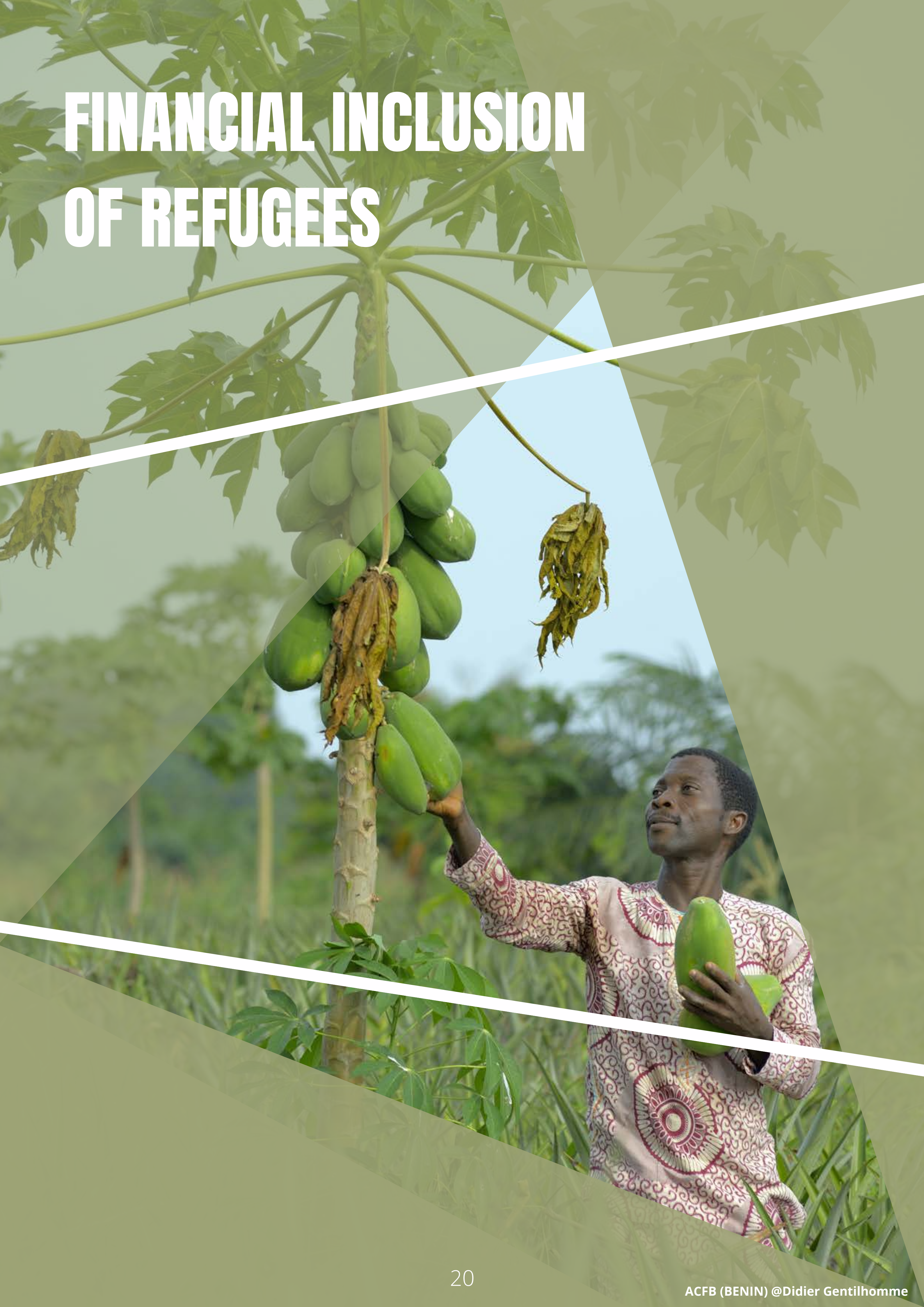
KRK (KOSOVO) @Philippe Lissac

FINANCIAL INCLUSION OF REFUGEES



ACFB (BENIN) @Didier Gentilhomme

MICROFINANCE AND REFUGEES: A PROMISING COLLABORATION

By Alexia Van Rij and Philippe Guichandut

WHAT IF MICROFINANCE WAS THE KEY TO INTEGRATING REFUGEES?

Often perceived as risky and instable customers, refugees are generally not or poorly assisted by financial service providers, despite blatant needs. Yet, the few instances of loans granted to refugees seem to present successful outcomes.[1]

In light of this observation, the UNHCR (United Nations High Commission for Refugees) and the Sida (Swedish International Development Cooperation Agency) launched a programme promoting access to financial and non-financial services for refugees in Uganda and in Jordan. Thus, the Grameen Crédit Agricole Foundation was selected to support its partner microfinance institutions to reconsider the issue of refugees in their strategy.

Microfinanza[2] was in charge of the first study on the needs to access financial and non-financial services. In this context, we spent three days in the Nakivale camp, in the South of Uganda, experiencing fascinating exchanges and encounters with Burundian, Rwandan, and Congolese refugees.

AT THE HEART OF NAKIVALE IN UGANDA: A STRONG NEED TO ACCESS FINANCIAL SERVICES

Uganda is the third most important host country in the world in number of refugees, with more than 1.4 million refugees by the end of March 2018. Following the crisis in South Soudan in 2013, an increasing number of refugees entered Uganda: the UNHCR estimates around 1,800 per day. The country has one of the most favourable refugee policies in the world, allowing them to receive a piece of land to cultivate, to work, to gain free access to Ugandan social services (education, health), to enjoy freedom of movement and to receive identity papers. In this remarkable context, the Foundation joined the Microfinanza team in Nakivale, one of the oldest refugee camps in Uganda, to assist them in their study with the refugees.

Nakivale now hosts more than 100,000 people, mostly from Rwanda, Burundi and Democratic Republic of Congo, divided in small localities over 185 km2. Most of residents in Nakivale have benefited from pieces of land granted by the government, used for agriculture and farming. Others manage a small restaurant, a hair salon or a clothing store. In sum: classic activities for microfinance institutions. However, no microfinance institution is involved in the camp and refugees must rely solely on solidarity within the camp.

Moban Sacco, a credit savings organisation with no less than 1,449 members, arose from mutual aid in the face of a lack of capital. Thanks to Moban Sacco, refugees can save up small amounts and can receive some credits, but this is unanimously considered as not enough to enable them to really develop their businesses.

DISMISSED PREJUDICES

One of fears that microfinance institutions have towards refugees is that the latter will return to their country of origin without paying their debts. It must be noted that in Nakivale, none of the refugees interviewed project to go back to their country of origin because of the level of insecurity in those regions, some of them being settled in the camp for more than 15 years (7-8 years on average) with the firm intention of developing their micro-enterprise on the spot.

Moreover, all the refugees we met maintained that they had a concrete idea of how they would use a loan if it were granted to them. In other words, ideas are not lacking but the capital is! How could we forget this woman's story, from the region of Kivu, Congo, who was the sole provider of her three children, hairdresser and whose 11-year old son was translating her words because she strove her whole life for him to learn English? After she left her country without any money, she did not have the means to start up her hair salon and she was dependent on food rations provided by the UNHCR to

1 See : New issues in refugee research, Michelle Azorbo, Research paper N.199, UNHCR; Microfinance for Refugees, Thimothy H. Nourse, American Refugee Committee.

2 Company selected through call for bids.

survive with her three children. Or, what about our encounter with a Rwandan head of company, who created, six years ago, with his few economies, a company to grind seeds. He succeeded in employing three people to develop his activity, but his small savings did not allow him to expand his business and buy new high-performance equipment.

These examples, amongst many others, highlight how diverse circumstances can be, and how women and men with great talents, experiences and will to take control of their own destiny, often see their potential wasted, although they could have done it in their country of origin before the situation got out of their control.

At the Foundation, we are convinced that microfinance institutions, while adapting their products and services, have an active role to play in promoting the financial inclusion of refugees. Opportunities for digital finance, an in-depth knowledge of each group's characteristics and a regular follow-up should stimulate such an involvement. Meetings with partner microfinance institutions of the Foundation lead to believe that they will be involved and will take on the challenge of offering inclusive financial services to refugees and their host communities.

The ongoing study alongside with Microfinanza that will be made public this year should provide concrete guidelines for our partners to get actively involved. With our support and the joint work with UNHCR and Sida, that can be a reality.

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Published on the website of the Grameen Crédit Agricole Foundation

GETTING IT RIGHT: PROVIDING FINANCIAL SERVICES TO REFUGEES

FIVE KEY RECOMMENDATIONS BASED ON MARKET STUDIES IN JORDAN AND UGANDA

By Micol Pistelli and Philippe Guichandut

"I attended six vocational trainings including cooking, make-up, how to make soap and hairdressing. But in the end I couldn't work as I couldn't buy the necessary equipment. Not even scissors for cutting my son's hair."

This testimony came from a Syrian woman at Zaatari Camp in Jordan. She is one of over 200 refugees interviewed in Jordan and Uganda as part of a market study commissioned by Grameen Credit Agricole Foundation and conducted by the consulting firm Microfinanza. The studies, funded by the Swedish International Development Cooperation Agency (Sida), are the first step in the implementation of a joint program between Sida, UNHCR and Grameen Crédit Agricole Foundation designed to expand access to financial and non-financial services for refugees and host communities in Jordan and Uganda.

The research aimed to assess refugees' demand for and access to financial and non-financial services. While their landscapes differ in terms of market opportunities and regulatory environments, both Jordan and Uganda have protracted refugee populations with similar needs for financial services.

Drawing on the findings from these studies, here we share our top five recommendations for financial service providers (FSPs) willing to contribute to the financial inclusion of refugees.

1. DO NOT DEVELOP SPECIFIC FINANCIAL PRODUCTS FOR REFUGEES.

This recommendation may seem surprising, but findings from the study demonstrate that there are already products on the market that meet the demands identified among refugee clients. You may need to adjust your internal policies and procedures for ID and collateral requirements but there is no need for exclusive "refugee products" to match demand. Just reach out more to the refugees in your area to include them in the products you offer.

2. FIND OUT WHAT TYPE OF CREDIT REFUGEES IN YOUR AREA NEED, AND HOW MUCH.

In Uganda and Jordan, we found that while refugees were borrowing regularly from Savings Groups, friends and family, they were not able to borrow enough to cover their business needs. They wanted access to formal credit, they would prefer individual loans, and most were willing to pay interest. The survey also revealed a need for financing green energy products in settlements, as well as the potential to leverage digital financial services, which are already used by refugees in both countries. In Uganda, where land is reasonably available for refugees, there is also demand for agricultural products, both for individuals and for companies looking for raw agricultural products.

3. SCREEN THEIR BUSINESS IDEAS. REFUGEES MANIFEST A REMARKABLE SPIRIT OF ENTREPRENEURSHIP..

In Uganda, 78 percent of refugee respondents have plans to start or develop their own businesses, and 60 percent have already taken the first steps - using savings, borrowing informally

and enrolling in vocational trainings. In Jordan, most refugees prefer to start their own business over seeking employment in the limited available sectors for non-Jordanians. In terms of gender segmentation, about one every four women interviewed in Jordan have strong plans to start or develop their own, mostly home-based, businesses, a proportion which increases to one every three women in Uganda.

4. OVERCOME THE FEAR OF FLIGHT RISK, AS DATA SHOWS THAT REFUGEES RARELY RESETTLE.

Flight risk is an oft-mentioned concern for FSPs when it comes to considering refugees as a potential target market. However, our studies found that the vast majority of respondents do not have any plans, not even vague ones, to return to their countries or to relocate to another country. Resettlements are also rare within countries. Refugees' aspirations were much more related to gaining economic independency than to moving on to a new location. Between 2014 and the end of April 2018, only 5 percent of the registered refugee population in Jordan and 1 percent in Uganda have resettled.

5. CONSIDER ADDING ON NON-FINANCIAL SERVICES TO COMPLEMENT THE CREDIT OFFER.

In both countries, non-financial services – primarily financial education and business management support – are particularly relevant for refugees with limited or no prior experience with credit or running a business. FSPs should apply their client segmentation procedures to assess which refugees may need non-financial service provision. Then, consider partnering with existing specialized NGOs which offer these services, or developing your own curriculum.

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Published on the FinDev Gateway

SIDA, UNHCR AND GRAMEEN CRÉDIT AGRICOLE FOUNDATION JOIN HANDS FOR FINANCIAL INCLUSION OF REFUGEES IN UGANDA

By Grameen Credit Agricole Foundation

The Swedish International Development Cooperation Agency (Sida), United Nations High Commissioner for Refugees (UNHCR), and the Grameen Crédit Agricole Foundation (GCAF) today launched a four-year programme to promote access to financial and non-financial services for refugees and host communities in Uganda.

The programme is an innovative blended financial approach with public and private funds coming together to facilitate finance for refugees and host communities. Access to affordable credit services is essential for refugees to start, build and expand enterprises, to meet their daily needs and to be more resilient to emergencies. In addition, access to other types of financial services such as savings, payments and insurance is key to ensure the inclusion of refugees in the formal financial sector and promote their self-reliance and resilience.

AN INNOVATIOVE APPROACH

This is a first-of-its-kind programme designed to incentivize both microfinance investors and financial service providers (FSPs) to extend their financial services to refugee and host populations. The project is currently piloted in Palorinya refugee settlement, in northern Uganda and in Kampala and will be gradually expanded to other targeted refugee-hosting districts.

"It is an effective way of using development aid, where we mobilize capital from other investors and thus ensure that scarce humanitarian funds can be released to go to refugees with the greatest need," says Director General, SIDA, Carin Jämtin.

GCAF will provide debt funding to three FSPs with a guarantee from SIDA, which will also fund the technical assistance of the programme through its humanitarian allocation. The Foundation will coordinate, together with UNHCR, the technical assistance component in order to support the three FSPs to develop an offer of products and services, including financial literacy and business development trainings, for both refugees and members of the host communities.

SUPPORTING ENTREPRENEURSHIP

For UNHCR, the project is in line with the Comprehensive Refugee Response Framework (CRRF) and respond to the call to work with development agencies and the private sector to find lasting solutions for refugees. Many refugees are entrepreneurs, having been business owners in their country of origin or having entrepreneurial skills to start or expand a business activity in their host country. UNHCR Representative in Uganda, Mahoua Parums hailed the initiative and said, that, "Financial inclusion is a key component of achieving long-term solutions for refugees, as it helps them rebuild sustainable livelihoods. Many refugees decide to start a business once they settle in the country of asylum and microfinance can help them make their business grow, avoid aid-dependency and contribute economically and socially to the host communities."

Through this programme, refugees will receive entrepreneurial training, equipping them with essential skills such as business plan development, financial literacy (including working with the banks), pricing and marketing.

"At the Foundation, we are convinced that microfinance institutions, while adapting their products and services, have


©HCR

an active role to play in promoting the financial inclusion of refugees. Opportunities for digital finance, an in-depth knowledge of each group's characteristics, regular follow-up and appropriate non-financial services should stimulate such an involvement." Says GCAF's Managing Director, Eric Campos.

In total, some 100,000 refugees and hosting Ugandans would be able to access financial services (credit and savings) 70 percent being women. The project will support the creation and development of small businesses such as farming, handicrafts, catering, and trading.

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UGAFODE (OUGANDA) @Didier Gentilhomme

ECONOMIC IMPACT OF COVID-19

LDB (SENEGAL) @Philippe Lissac

HOW CORONAVIRUS AFFECTS MICROFINANCE SECTOR ?

By Grameen Credit Agricole Foundation

Created in 2008, at the joint initiative of Crédit Agricole SA and Professor Yunus, founder of the Grameen Bank and 2006 Nobel Peace Prize, the Grameen Credit Agricole Foundation is a cross-business actor committed to promoting a better-shared economy.

Investor, funder, technical assistance provider and fund advisor, **the Foundation has more than 80 partners (microfinances institutions and social business) and operates in around 40 countries with nearly 100 million euros in outstanding.** The Foundation focuses on microfinance institutions that serve women and rural people. These institutions support approximately 4 million clients.

THE MICROFINANCE SECTOR IS EXPOSED AND CONCERNED

On March 19th, according to the latest figures from Santé Publique France, the Coronavirus has reached 213,254 people worldwide. 8 843 deaths are to be deplored. After following announcements of the closings of many institutions and companies, confinement measures continue to be taken around the world. Africa and South America were not officially affected for a long time by the virus, but they now face the crisis with hundreds of cases.

The global sanitary crisis also became an economic crisis. Economic activities are extremely limited in all countries and stock exchanges have lost almost a third of their value in less than a month. Quite logically, the worldwide microfinance sector is also not immune.

For this reason, **the Grameen Credit Agricole Foundation's team launched a survey among its partners** on March 11th in order to gather their first impressions and analysis, the impact on their clients' activity, on their institution and their potential needs. We also took advantage of our regular interactions with our partners to obtain as much information as possible. All further information in this document come from these resources. 56 Micro Finance Institutions (MFIs) responded to our survey, out of 75 reached partners (75% participation rate) with the last answers received on March 19.

All our partners are expressing in their responses a real concern about the expected effects of this global health crisis.

LOCAL GOVERNMENT DECISIONS ARE ALREADY IMPACTING SMALL INCOME-GENERATING ACTIVITIES

48% of surveyed MFIs felt their clients are impacted by the coronavirus at the time of the survey, and 68% of them think they will be in a near future. Thanks to a quick feedback, we learn that governments have decided to close schools, to close down non-essential activities, to restrict movement or to prohibit gatherings in Sri Lanka, Cambodia, Romania, Myanmar, Sierra Leone, Jordan, Mali and other operating countries. These changes are taking place everywhere today and very day new countries are added in that list.

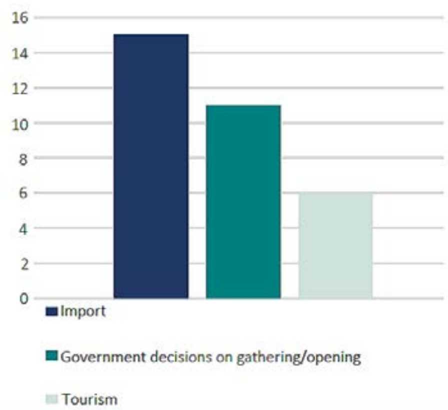
Such decisions have a direct impact on our partners' customers. First, **many customers rely on imports for their business.** Border closures and travel bans affect trading activities.

It should also be noted that concerns about the travel ban in China is affecting not only Asian countries but also African countries.

"As the border to China has been closed, some agricultural product prices are decreasing so our farmer clients aren't getting good prices for their harvest." - Partner from Myanmar

"We have customers who travel for purchases (China, Ivory Coast, Togo, Benin,..). Informal sector traders are afraid and this can affect their activities." - Partner from Burkina Faso

Most quoted reasons for impact on clients



The impossibility of gathering will also have an impact on all the operations that take place in markets and fairs. Merchants will not be able to carry out their activities. The travel ban will strongly affect global tourism. All activities relying on tourism will face many problems (stocks, lack of customers, refunds) as well as countries depending on remittances.

"If travel bans will continue due to increased coronavirus cases in Gulf region and Europe aseconomy of Jordan is dependent on tourism income and money remittances from the Gulf" - Partner from Jordan

Finally, we had no feedback yet on the plans of local authorities regarding the adjustments to be made by the financial institutions in particular. The only compelling example we were provided is that of Palestine. Through 8 guidelines, the Palestine Monetary Authority urges financial companies to continue provide lending services to people to ensure the continuation of the commercial and economic cycle and also postpone the periodic monthly payments of all borrowers for the next 4 months' period (6 months for tourism and hotel sector).

Also, no any additional fees, commissions, or interest on delayed instalments can be collected during the period.

MFIS ACTIVITY COULD BE REDUCED

59% (33 MFIs) of the surveyed MFIs mentioned that their activity was still not affected by the epidemic at the time. 23 MFIs (37%) were feeling concerned at the time of this survey, giving several explanations such as risk for field staffs, restricted movement, working from home.

One of the main concern is the prohibition of group meetings, which will affect all MFIs whose microfinance methodology is based on a group approach. Few partners are already adapting.

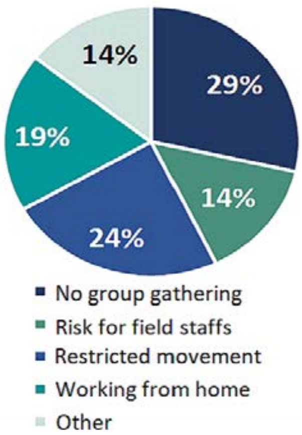
In some countries with no clear decisions yet, MFIs will have to postpone disbursements if their loan officers are unable to travel or will have to temporarily adapt their processes.

"During the emergency period until 29 May 2020 above, client centre meetings will not take place as usual. Instead, the 'Pay and Go' method has been put in place as follows: only group leaders, two to four persons per centre of some 15-20 clients usually, are requested to come to the usual centre meeting at the usual location. The group leaders are requested to collect the instalment of their respective group members". - Partner from Indonesia

"We have set up a special procedure to meet members of the solidarity groups individually. We provide advice to clients on how best to deal with the situation" - Partner from Senegal

Our partners must also adapt to the situation for their own staff. The risks of virus transmission is an important factor to take into account for the activity of credit agents. Likewise, the confinement rules prevent the smooth running of the activity for all departments and operations. Some staff are already working from home in some MFIs.

Reasons for current difficulties due to coronavirus



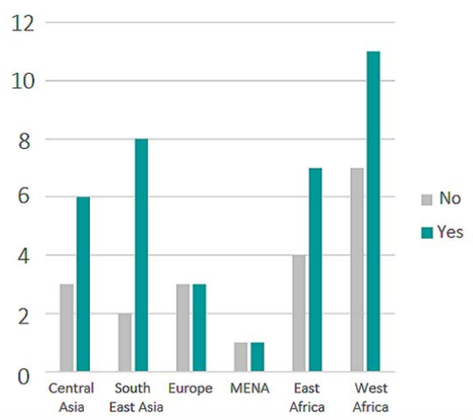
"Almaty where HQ is located will be on quarantine from 19 March, employees will be working on distance" - Partner from Kazakhstan

"Field staff are at high risk of contracting, so they are hesitant to work on clients, a quarantine will hit and polarize the whole MFI market" - Partner from Uganda

PORTFOLIO RISK AND LIQUIDITY NEEDS ARE UNDER SCRUTINY

Many concerns are raised about portfolio risk. According to our survey, at the time of answering, only 11 MFIs were noticing an increase n the portfolio at risk. African partners raised more concerns. However, when asked if they anticipate an increase in the portfolioat risk, 36 of the MFIs answer "yes" (64%). In this case, anticipation of a risk increase comes from all over our regions of activity.

Do you anticipate an increase in your portofolo at risk?



"Yes, potential increase in PAR30 and reduced credit demand. Estimate an increase of PAR30 not to go beyond 2% and portfolio growth to potentially slow down by around 20%" –Partner from Cambodia

However, some partners consider that they are no more at risk than usual. In most cases, these MFIs are those with a particularly rural customer base.

"In general, since our customers are rural residents (70%), we predict that they will not have a strong deterioration due to rising prices for their agricultural products. But we think that a clearer situation will appear in the second half of April." - Partner from Kyrgyzstan

"As of 16 March 2020, our business continue as usual. We have not seen impact on loan payment yet across Cambodia include Siem Reap and Phnom Penh. However, we would expect some increase in Siem Reap from end of this month onward. Please note that our client are mainly living in rural areas. The exposure has on Tourist, hotel, services industry is minimal." - Partner from Cambodia

Coronavirus is going to have an impact on liquidity needs. According to our survey, 29 MFIs (52%) forecast a change in their needs. Most Tiers 3 MFIs do not forecast changes as the time, as a majority of Tiers 2 MFIs (17 MFIs) ok do forecast such changes. MFIs expect problems on the funding side. In particular, hedging issues are expected, and discussions with all the different lenders are initiated.

"Mainly, the exchange rate has been very volatile, indirectly due to the epidemic, and this causes new disbursements in USD to exchange to less local currency which has affected the number of loans we can disburse" - Partner from Myanmar

Liquidity problems are also anticipated. **Indeed, non-repayment could be a barrier to the possibility of disbursing new loans.** Rising provisions for risk and potential losses is also a cause of the drought in liquidity.

"If the situation continues up to mid-year, we will need liquidity as most of the liquid assets will have been suppressed by high provisioning for impaired assets (Expected losses) due to increased non-repayment" - Partner from Uganda

"The non-repayment of loans leads to a decrease in liquidity. Yes, we have taken steps to limit a potential situation" - Partner from Mali

MICROFINANCE SECTOR NEEDS SPECIFIC MEASURES

Some MFIs already asked the Foundation if there was a possibility of helping their institutions through the epidemic crisis.

"We would like further advice on how to avoid the disease and what treatments are available and effective for treatment in the event of infection" –Partner from Benin

"We would prefer that Grameen Credit Agricole Foundation compile information about corona virus coup up measures especially in regards to MFIs around the world on how to deal with the challenges " –Partner from Uganda

One partner recalled their approaches during natural disaster, in which based on their (very counter-intuitive) approach, clients to recover from shocks actually need "**MORE money, not less**".

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Linked by the Microfinance Centre website
Linked by the Rural Finance and Investment Learning Centre
Linked by Banking with the poor (BWTP)

THE MICROFINANCE SECTOR PREPARES TO FACE HEALTH CRISIS' EFFECTS

By Grameen Credit Agricole Foundation

The COVID-19 virus continues to spread around the world with over 450,000 confirmed cases as of March 26, 2020. Governments, even those who deny it, are taking more and more stringent steps to contain the epidemic. As the situation evolves more quickly every day, **microfinance players are preparing themselves to face this crisis by taking the first salutary steps.**

Following its enquiry launched two weeks ago, the **Grameen Crédit Agricole Foundation has established an observatory** to constantly update the information collected through daily exchanges with its partner microfinance Institutions (MFIs). The goal is to better understand how to support them, but also to share its analysis with other financial players in the inclusive finance and development aid sector.

MFIs quickly realised the health issue of the crisis. They immediately sought to adjust their operating methods to the contamination risks by adopting recommended barrier actions and launched awareness campaigns among customers and employees.

"Hand washing is mandatory in all branches, with the provision of buckets and soap for everyone entering the office. Hand sanitizers are provided over the counter for all ustomers who transact with cashiers. [...] The process of acquiring protective masksfor cashiers is underway. It is strongly recommended that all staff members experiencing symptoms stay at home during the follow-up. We strongly recommended all staff to avoid going to the branches in the light of developments, unless it is absolutely necessary. "-Partner in Sierra Leone

MFIs also had to adapt to decisions taken by local authorities to curb the spread of the virus. Organisations in the most risky areas were therefore forced to partially or completely cease their operations and to close some of their local agencies.

"All operations will be closed as of 12:00 noon on March 26, 2020, in accordance with the announcement made by the President on Monday, March 23 and to allow personnel to return home for the period of confinement. [...] Disbursements to customers have been postponed until the end of the period of containment." -Partner in South Africa

The vast majority of our partners have rapidly implemented **teleworking or staff rotation systems**. Faced with the numerous prohibitions on groupings, institutions are now working with a representative of solidarity-based credit groups and remain in contact with their customers through instant messaging services.

Digital solutions are particularly adapted to this context. They allow the continuation of microcredit disbursement activities and remote recovery. In a dairy in Senegal, for example, the payment for milk collection to breeders has not experienced any disruption because it has been done for a few weeks via a mobile phone payment device.

"We encourage by SMS our customers to use mobile payment platforms for refunds because it is the safest method of paymentat this point in time." -Partner in Uganda

If MFIs have been able to adapt quickly their operating methods, **it is also the time to prepare for the looming economic slowdown**. Crisis meetings are increasing in head offices, or through video conferences from managers' homes, in order to set up continuity plans
.

A growing number of countries are introducing new credit regulations to cushion the economic shock and the likely insolvency risk of vulnerable customers. Regulators are urging financial institutions to grant deferred payments to their crisis-affected customers, as well asto restructure loans. Such decisions are already beginning to be implemented.

"The government is also implementing measures to help local businesses, such as reducing interest rates. For example, the borrowing rate for secured loans has been lowered by 1%" -Partner in Myanmar

"The Central Bank of Kyrgyzstan has taken the following support measures: 1) cancel the accumulation of penalties for all borrowers; 2) review the conditions for repayment of loans and provide for a delay in payment of at least 3 months upon the borrowers request; 3) when restructuring loans related to changes in borrowers' cash flows due to coronavirus, institutions should not consider them as bad debts if the cause is health crisis " - Partner in Kyrgyzstan

"The Centra lBank has announced that financial institutions must accept all requests for deferrals until April 30." - Partner in Kosovo

The microfinance sector shows a high degree of responsibility and maturity to face this global crisis. The partner institutions of the Grameen Crédit Agricole Foundation produce regular financial statements and forecast analysis of their financing needs in the coming months. Although we have not yet observed any particular increase, the evolution of portfolio at risk (PAR) levels is systematically subject to a very high degree of vigilance. Multiple exchanges between lenders, specialised non-governmental organisations and microfinance institutions are now organised daily.

The Grameen Crédit AgricoleFoundation is in regular contact with its partners and colleagues in a reciprocal effort to pool ideas and resources. We share with our partners, with responsible investment players and with our peers our analysis and best practices implemented by microfinance institutions.

The pooling of available information, analysis and anticipations, and then the concerted implementation of shared decisions are principles that are vital today for our sector. At the cost of this transparency, this concertation and a necessary adaptation of our intervention principles, we should be able to overcome the effects of this exceptional health crisis, which could knock down many microfinance institutions, leaving fragile populations in desperate situations. Because we know the crisis will hit the most vulnerable populations in the first place. Harshly. Let's work together to live up to the issues of this humanitarian challenge.

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Published on the Grameen Crédit Agricole website
Linked by the FinDev Gateway
Linked by the e-MFP
Linked by the Microfinance Centre website

INTERNATIONAL MICROFINANCE INSTITUTIONS ANTICIPATE THE FIRST EFFECTS OF A RECESSION

By Grameen Credit Agricole Foundation

THE CRISIS BEGINS TO PRODUCE ITS ECONOMIC EFFECTS

A few days after our last publication, the impact of the coronavirus continues to expand and intensify. The milestone of one million infected people worldwide has been surpassed and new outbreaks of the epidemic are confirmed.

The Grameen Crédit Agricole Foundation, in permanent contact with its network of nearly 80 partner microfinance institutions (MFIs) present in 40 countries, continues its work of collecting information, analysing and sharing its observations. Over the past few days, we have focused our follow-up on the consequences of the crisis and the work of the MFIs to deal with it. These informations are very important. They allow us, at our level, to take the most relevant decisions for the management of the Foundation, for the support of our partners and the effectiveness of our action as close as possible to their difficulties and anticipations. They also contribute to the sharing of information between the actors of this sector who organise themselves collectively, in these moments of crisis.

The results we have obtained confirm the trends predicted in the information reported during the first weeks: the crisis is very hard, undoubtedly beyond our first forecasts in early March, but resistance is organising. The effect of the health crisis is systemic. No stress model had anticipated it. The answer must therefore be systemic, too, if we want to avoid a major failure in this sector.

SMALL OUTREACH ACTIVITIES ARE SHRINKING INTO RECESSION

78% of our partners see the first effects of the economic recession on their areas of activity.

In the first answers we received, rural areas seemed to be escaping the first effects of the crisis, especially in areas of food production. Now, whatever the size of the institutions (the smallest have a financing portfolio of less than $ 10 million, and over $ 100 million for the largest ones) and their geographic location, they are all, more or less, faced with similar problems: the inability to travel (74%), the drop in disbursements to borrowers (77%), the ban on group meetings (63%) are the reasons most cited by our partners concerning the main factors behind the slowdown of their activity.

"As indicated during the first analysis, the expected direct impact (up to 6 months) is the possible deterioration of the quality of the portfolio in the tourism, transport and hotel sectors, as well as that of the loans financed by transfers of funds from abroad. A medium-term impact is also expected due to the general slowdown in the economy and the reduction of solvent customers." - Partner in Georgia

Over a third of our partners undergo almost total containment (36%) and the rest adapt to restrictive pre-containment measures.

"[Our] activities have been greatly affected so far, with client businesses primarily affected by general public fears and more directly by the strict guidelines implemented by the government to try to control the spread of the virus. An increase in the cost of living has also been anticipated [...]. Imports decrease, production costs increase. Kenya's GDP is likely to fall and inflation will rise, which will affect the country's economy." - Partner in Kenya

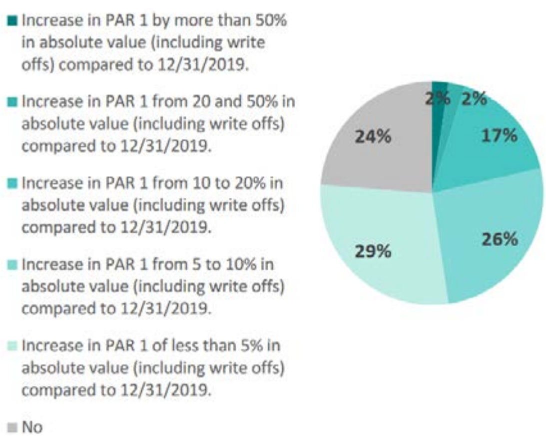
How have your activities been impacted ?

"We see that the government is taking increasing measures to limit travel and commercial activities. For example, a regional government has specified that all microfinance activities in the region should be suspended in April. We receive similar requests from village authorities in other regions." - Partner in Burma

EFFECTS THAT NOW IMPACT THE ACCOUNTS OF INSTITUTIONS

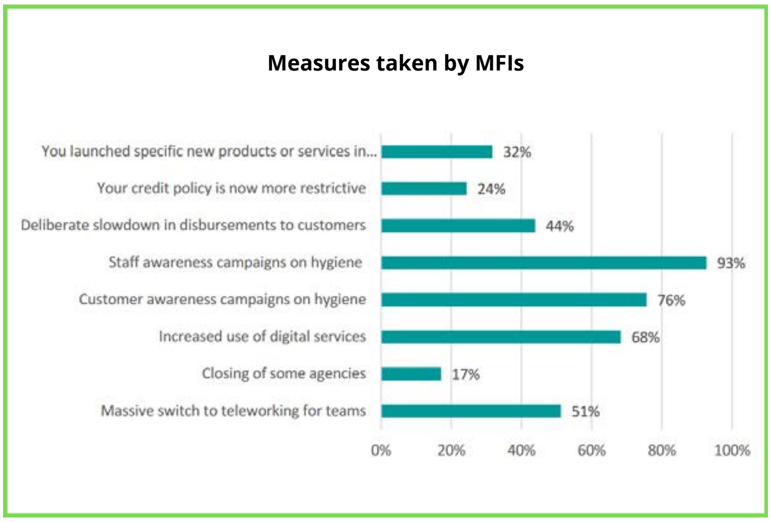
These difficulties are starting to be reflected in the figures of MFIs. In that respect, 74% of institutions explain they have noted an increase in their portfolio at risk (PAR 1) compared to the end of 2019. This increase is currently contained at less than 10% in absolute value for 8 institutions out of 10.

Impact on PAR 1



The institutions are clearly accelerating and intensifying the use of digital in order to compensate for the impossibility of the sales teams to travel and organise out-of-pocket payments. Consequently, 68% of respondents say they use more digital services to carry out their activities remotely.

Loan restructuring operations have already started for almost one in two MFIs (43%). The intervention announced by regulators and legislators in the financial sector is confirmed: almost half of the respondents (44%) are encouraged to proactively propose moratoriums and restructuring for the benefit of their borrowers (the countries which have imposed these measures are, notably, Kazakhstan, Kyrgyzstan, Sri Lanka, Cambodia, India, Uganda, Burkina Faso, Rwanda, Senegal, DRC, Egypt, Morocco and many countries of Eastern Europe). **New initiatives are also being considered such as the introduction of emergency products (such as vital minimum) in the coming months.**



INSTITUTIONS ARE IMPLEMENTING CRISIS PLANS

This systemic crisis calls for an in-depth review of MFI activity planning and financing needs. On examination, the increase in extensions granted to borrowers does not yet translate significantly into additional financial resource requirements for the MFIs surveyed. At the time of the survey, 48% of them did not yet see any change in their liquidity needs compared to the projections made for the year, and a third even envisaged a reduction in their needs due to a significant decrease in their activity.

At this stage, only one in five MFIs (19%) anticipates an increase in its financial needs, linked to the increase in the price of inputs (seeds, fertilizers, raw materials ...) which will trigger an increase in the financial needs of the share of borrowers, mainly in rural areas of intervention territories. Large international microfinance networks are at the origin of this prospective analysis.

"In addition to the Covid-19 crisis, Kazakhstan has been affected by the sharp drop in oil prices which weakened the national currency by 380 tenges to 445 per dollar" -Partner in Kazakhstan

Answers from our partners reveal now other factors of concern, in particular in their ability to finance their activity: a quarter of them predict a loss of value of their local currency against the dollar (26%) and **a substantial increase in currency hedges** in their future funding (23%). One in five MFIs is already finding funding difficulties encountered with their usual donors.

In order to be able to control the rise in risks and funding developments as closely as possible, **more than half of the MFIs** (55%) **declare having finalised**, or being in the process of doing so, **a Business Continuity Plan** including precise monitoring liquidity. This responsiveness is remarkable and such plans are an essential element in helping MFIs to face and manage the consequences of the crisis.

Our analysis leads us to note **an apparent correlation in the quality of the Business Continuity Plans following the Coronavirus crisis and the past experience of a strong crisis having already affected the MFI.** The lessons learned from past crises thus seem to play a very large role in the institutions' resilience in the face of a crisis, be it financial, political, health, etc. However, a large number of less experienced institutions also show a remarkable desire for innovation and capacity for anticipation.

Donors also reacted very quickly. They have also learned from past crises and, for the past few weeks, have shown remarkable capacity for intervention and anticipation in a still young sector of activity. Thus, worldwide, international lenders, foundations, investment funds, local banks, are working on joint action plans. A number of meetings are being organised around the world to anticipate the crisis and make sure to absorb the effects that would be absolutely devastating without this awareness and this rapid and determined commitment; all agree on the need for effective information sharing and coordination between the different actors. **Donors organise their action around responses adapted to the funding needs of MFIs impacted by the crisis, but also by offering monitoring tools, technical assistance plans or training to strengthen the capacities of MFIs teams in the face of a situation as sudden as exceptional.**

All of these elements remind us to which extent this crisis is a shared concern for all microfinance players. The involvement and rigour of local institutions, the coordination of international networks, the support of public and private donors and the confidence of investors will be the key values of our collective capacity to overcome the challenge of this health tsunami.

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Published on the Grameen Crédit Agricole website
Linked by the e-MFP
Linked by the Microfinance Centre website

DIGITAL AND MICROFINANCE SECTOR IN THE FACE OF THE HEALTH CRISIS

By Grameen Credit Agricole Foundation

The deployment of an ad hoc observatory to monitor the effects of the health crisis in relation to 80 microfinance institutions (MFIs) and social business partners in some forty emerging countries enables us to collect information regularly so as to share it and draw the best lessons from it.

This week we have monitored more specifically how microfinance institutions used their digital channels to overcome their difficulty of direct contact with borrowers which traditionally takes place either in the MFI branch or in group meetings or even during the disbursement of funds (microfinance uses mostly cash when disbursing the borrowed sums) or the monitoring of the projects financed.

According to the survey we conducted in the beginning of April, **68% of partner microfinance institutions indicated that they have made greater use of digital channels to overcome contact difficulties**, as a result of lockdown or group gathering prohibition measures. This strong growth in use observed in the traditional finance sector can be seen also in the microfinance sector which has had no alternative but to adapt.

The technological means and processes, including digital tools, are being developed rapidly by institutions of all sizes (the smallest with client portfolios of up to $10 million, and the largest well over $100 million). Since the beginning of the crisis, institutions have been producing business continuity plans, as the basis of new discussions and exchanges for their funding backers, in which they frequently include new digital applications.

For most institutions, **the first step entails raising awareness among clients about the possibility of using remote payment methods.** This step is implemented through SMSs (which are particularly suitable for 2G network coverage) but also through the social media –the telephone network permitting.

"[We] encourage clients through SMSs to utilize mobile money platforms for repayments as it is the safest mode at the moment." –Partner in Uganda

"[We] start informing our clients by social media and SMS on possibility of repayment via terminals, mobile wallets, plastic cards and Internet banking" –Partner in Tajikistan

For many MFIs which did not yet have it in their range of services, **the first process developed rapidly at the beginning of this health crisis was that of electronic money payments.** This practice of remote payments is encouraged by many regulators, such as the Bank of Central African States (BEAC) for the countries under its authority or the Central Bank of West African States (BCEAO), which decided to reduce transfer and use fees for this form of currency. This implementation of remote payment is accompanied by mass mailings of information to clients to explain the new procedures.

"Sending bulky texts to customers to remind them how to use the mobile money code to make their loan repayments and also the hotline they can call for help or complaint." – Partner in Uganda

These remote services enable customers to pay their instalments without having to travel (and therefore to use public transport) by using the pay station network of

telephone operators which is generally dense and available even in rural areas.

The implementation of these means of payment also makes it possible **to disburse loans to the electronic portfolios of clients**, as the latter go to said pay stations not to pay their instalments but to obtain cash disbursements of their microcredits. The use of mobile money therefore makes it possible to continue the financing activity during a lockdown period.

"The Palestine Monetary Authority is urging all MFIs to start disbursing loans to income generating projects through digital channels with lower interest rate." – Partner in Palestine

Yet, as astonishing as it may sound, **this crisis is seen by some institutions as a real opportunity to accelerate the deployment of digital platforms and to launch new services** in order to make headway in operational optimisation and even excellence in customer relations. For the managers of these partner institutions, having to invest in digital tools for reasons that are "vital" for their institutions at this time seems to be a mean of accelerating investment plans that they had been thinking about before the crisis broke out. It thus enables them to embark on modernizing their distribution mode and their processes, which has come as a pleasant surprise to us, even though we are well aware of the vitality and capacity for innovation of our partners.

"This was contemplated prior to the COVID issue [...]. However, discussions are ongoing with regard to the possibility of [the mobile payment solution] being launched to all clients." – Partner in Sri Lanka

"In times like this when anything can be a source of transmission for the deadly virus, it is prudent that less physical cash is handled. [We] used the opportunity to pilot [our platform] in order to look out for the shortfalls and the loopholes in the system." – Partner in Ghana

The economies of certain countries that were already highly digitized, as is the case in East Africa, for instance, seem to be more resilient to the effects of the crisis. Microfinance institutions operating in these areas have shown remarkable adaptability. By way of example, the Kenyan economy, which is particularly open to payment, financing and investment operations using digital wallets, is running according to remote uses that minimize the risk of spreading the virus.

"Kenya is better prepared than others because of the high penetration of mobile money. The concept is accepted widely by the public" – Partner in Kenya

Many institutions tell us that they will be more structured and more effective in the aftermath of this crisis. These experiences, which are sometimes vital to the continuation of their activities, seem to be very useful to them for operational performance gains in the future.

"Our team will tailor mobile app to add a feature enabling to apply for loan restructuring remotely. [...] We introduced a new criterium in our monitoring tool -"emergency (coronavirus)" meaning the loan officers will have to monitor their customers remotely, and get information and enter monitoring data into the software" – Partner in Kazakhstan

"The new strategy will focus on transforming [our] current mode of operations to embrace more digital solutions, decreasing the need for physical interactions between employees and customers, and replacing cash transactions with mobile payment functionalities." –Partner in Georgia

These positive effects of digitization, which have been achieved by microfinance institutions thanks to forcibly imposed developments can also be found **in social enterprises** in our equity portfolio. **The digitization of the operational processes is a very effective means for combatting the constraints of the lockdown** for companies that have to deal directly with the public or with suppliers of raw materials. This is the case, for instance, of a Senegalese company which, thanks to digital payments, has managed to continue its milk collection and sale of dairy products and to generate growth that has exceeded the forecasts.

For another social enterprise specializing in drinking water treatment, the health crisis has also led to the development of home water delivery following an order placed online.

Our partners are aware that the use of digital technologies is not a global solution to all the issues raised by this systemic crisis. They expect their customers and their operations to run into economic recovery problems in fact, where the digital dimension can only be of an altogether relative help. **Despite the more and more intensive use of digital channels, the commercial activity of microfinance institutions is slowing down.** They are all focusing on providing guidance and support to their customers by taking care to cope with the increasing number of requests for maturity extensions, while maintaining risk control and a good operational quality.

In some areas, the supervisory authorities have issued directives or strong recommendations for MFIs to grant moratoria to their clients that could last for several months, which entails a very high level of activity for the institutions.

In the majority of the testimonials we have collected, however, the health crisis is seen as a sequence that requires the different Management Committees of our partners to give serious thought to the operational performance under constraint. **Our partners are convinced that the experiences they have gone through and the solutionsfound to deal with the health crisis will prove very useful "the day after."**

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Linked by the Microfinance Centre
Linked by ADA

MAY 11, 2020

AN INTERNATIONAL COALITION TO PROTECT MICROFINANCE INSTITUTIONS AND THEIR CLIENTS IN THE COVID-19 CRISIS

By Grameen Credit Agricole Foundation

At the initiative of Grameen Crédit Agricole Foundation, a group of microfinance lenders and key players in inclusive finance worked on a set of principles to better support the microfinance sector in the health and economic crisis caused by the Covid-19. Grameen Crédit Agricole Foundation, ADA, Alterfin, Cerise, CIDR Pamiga, Cordaid Investment Management, Crédit Agricole CIB India, CA Indosuez Wealth (Asset Management), Crédit Agricole S.A., European Microfinance Network, FS Impact Finance, InFiNe.lu, Inpulse, Luxembourg Microfinance And Development Fund, MCE Social Capital, Microfinance Centre, Rabo Foundation, SIDI, SIMA and Social Performance Task Force are the first signatories of a common pledge that aims to support microfinance institutions and fragile clientele during this crisis.

Worldwide, microfinance institutions provide financial and non-financial products and services to over 140 million low-income clients [1]. Microfinance is key to finance income-generating activities, not only in the formal but also in the informal sector. In the Covid-19 crisis, both micro-enterprises in the informal economy and small businesses overall form an essential basis for social and economic recovery. Supporting microfinance institutions in this context is therefore of vital importance to protect the most vulnerable borrowers.

In response, this group took on the challenge and established a common pledge: "Key principles to protect microfinance institutions and their clients in the Covid-19 crisis". It aims to guide lenders and other stakeholders to better support microfinance institutions and fragile clientele during this crisis. It is inspired by best practices and tools of the microfinance sector, such as the work done by the Social Performance Task Force [2] and the IAMFI Microfinance Voluntary Debt Workout Principles [3].

In this pledge, the pooling of available information, analyses and anticipations, as well as the concerted implementation of shared decisions are the fundamental principles. The signatories agree to coordinate policies, technical assistance and resources to help microfinance institutions face the crisis. The objective is to protect both the microfinance institutions and their clients to ensure the continued access to funding in the best possible conditions and to look out for clients' and staff well-being.

As individual obligations and mandates may influence the way the provisions of the pledge are implemented, it is not intended as a legally binding agreement. This is not a frozen document; it could be improved if necessary to better respond to the evolution of the crisis. The pledge's signatories will maintain open communication with their peers, to share their decisions and to comply with these principles.

The signatories welcome additional stakeholders to join this common and engaged initiative. The involvement of private, public and solidarity players is key in the global assessment and support to the microfinance institutions' actions. It is essential to reinforce the impact of financial inclusion to fight poverty in this unprecedented context.

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MICROFINANCE LENDERS AND PLATFORMS ENDORSE PRINCIPLES IN COVID-19 CRISIS

July 2020. Two groups of lenders and microfinance stakeholders published a set of principles to support the microfinance sector and fragile clienteles in Covid-19 crisis. Both groups have coordinated their efforts for complementarity and consistency.

Microfinance institutions (MFIs) have an important role in the fight against poverty. They offer financial and non-financial products and services to support income- generating activities for low-income populations. In Covid-19 crisis, supporting the microfinance sector is then essential to protect the most vulnerable populations. This calls for a collective approach within the sector.

That is why, we, Leading microfinance lenders, impact funds, platforms and networks covering markets in Africa, Asia, Central Asia, the Middle East, Eastern Europe and Latin America, have established two complementary agreements. They frame a series of principles to support MFIs in order to avoid credit crunch, which would be extremely harmful for microfinance's fragile clientele. We published both documents as guides for the investment teams, investors, investees, and other stakeholders.

- “Key principles to protect microfinance institutions and their clients in Covid-19 crisis”: In this agreement, the pooling of available information, analyses and anticipations, as well as the concerted implementation of shared decisions are the fundamental principles. The signatories, including lenders, impact funds, platforms and networks, agree to coordinate policies, technical assistance and resources to help microfinance institutions face the crisis. The objective is to protect the microfinance institutions and their clients to ensure the continued access to funding in the best possible conditions and to look out for clients’ and staff well-being.

- “Coordination among microfinance MIVs in response to Covid-19 crisis”: This Memorandum of Understanding (MOU) addresses the impact on the liquidity flows within financial institutions as a result of Covid 19 and related actions to prevent spreading. The MoU among MIVs further acknowledges the importance of timeliness and cooperation among lenders and other stakeholders and presents a framework for managing Covid related debt rescheduling.

Subscribers to the Pledge and MoU acknowledge and express support for both documents as they are considered complementary serving a similar purpose. Other public and private actors in the financial inclusion sector are invited to support, endorse and act in line with the principles presented. In particular, the signatories believe that it is essential that the public sector aligns with private sector practices to strengthen the impact-investing sector and its social impact on low-income households and small businesses.

The participation of all stakeholders is vital to enhance the impact of microfinance. We are committed to continue to support our partners’ action to promote financial inclusion all around the world.

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1st article published on the Grameen Crédit Agricole website
2nd article published on the Grameen Crédit Agricole website

PLEDGE'S SIGNATORIES

ABC fund Agri-business Capital | ada | alterfin Investing in sustainable development
AMFA Azərbaycan Mikromaliyyə Assosiasiyası Azerbaijan Micro-finance Association | BAMBOO CAPITAL PARTNERS | Cerise POUR UNE FINANCE ÉTHIQUE
CIDR Pamiga | Cordaid investment management | CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
INDOSUEZ WEALTH MANAGEMENT | CRÉDIT AGRICOLE S.A. | EUROPEAN MICROFINANCE NETWORK
FS Impact Finance | GAWA CAPITAL Life changing investments | FONDATION GRAMEEN CRÉDIT AGRICOLE Microfinance & Social Business
InFiNe* Inclusive Finance Network Luxembourg | Injaro | Inpulse
kiva | Luxembourg Microfinance and Development Fund | mce Impact. Guaranteed.
African Microfinance Institutions MAIN Network Transparency & Capacity Building | MICROFINANCE CENTRE | micro FINANCE solidaire
Rabo Foundation | SIMA SOCIAL INVESTMENT MANAGERS & ADVISORS | SIDI SOLIDARITÉ INTERNATIONALE POUR LE DÉVELOPPEMENT ET L'INVESTISSEMENT
SPTF Promoting standards & practices for responsible inclusive finance | VERDANT CAPITAL | WHOLE PLANET FOUNDATION

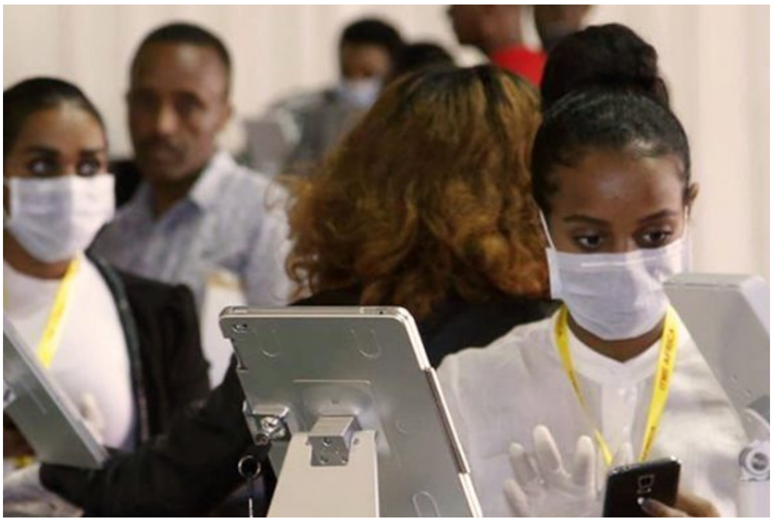
*Agreement in principle

MICROFINANCE INSTITUTIONS' RESPONSIBLE APPROACH TO THE EFFECTS OF COVID-19

By Grameen Credit Agricole Foundation

Last April, Africa's Pulse, an analysis published by the World Bank Group, estimated that economic growth in sub-Saharan Africa would fall from +2.4% to a level between -2.1% and -5.1%, which would constitute the first recession in the region in 25 years. This recession is expected to hit countries dependent on mining and oil exports, while countries without natural resources are expected to post slower but positive growth.

In permanent contact with its network of 80 partner microfinance institutions (MFIs) and social enterprises in 40 countries, the Grameen Crédit Agricole Foundation is continuing its work of collecting information, analysing and sharing its observations. The privileged testimonials of our partners enable us to continue our monitoring of the crisis and its consequences. In the latest questionnaire we focused on two particular aspects: the operational adaptations of MFIs and the role of loan officers during this crisis.



IN A NUTSHELL

The economic crisis has become a reality for the vast majority of microfinance institutions supported by the Grameen Crédit Agricole Foundation. Almost all of them have implemented massive moratoria programmes to facilitate the economic recovery of their borrowers.

The loan officers of these institutions are the privileged point of contact between clients and microfinance institutions. They spend almost half of their working time studying requests for loan rollovers and implementing such extensions.

The institutions were quick to adopt programmes intended to reduce their costs while ensuring the social protection of their employees and safeguarding jobs. Only 12% of them have resorted to economic redundancies, which is relatively low compared to national averages. On the other hand, the institutions are postponing their recruitment programmes as well as a large part of their investments. They also seem to be seeking to direct their funding towards sectors that are now considered less risky. This is particularly the case in agriculture, in what is a recent phenomenon. It remains to be confirmed and will be followed up closely in our next news items.

By looking proactively for bulwarks against the crisis and by adopting responsible approaches, MFIs are on the right track: today's innovative solutions can be tomorrow's successes as well.

INSTITUTIONS ARE HENCEFORTH FOCUSING ON RISK MANAGEMENT

Whereas the health crisis seems to be slowing down in the countries that have adopted the most effective measures, the plans for exiting from lockdowns point to a very gradual recovery in economic activity. Our latest results confirm what we have been observing for several weeks: a remarkable adaptability on the part of microfinance institutions in the face of an unprecedented crisis.

Nearly 90% of the institutions have set up a crisis committee, chaired by the Chief Executive Officer and bringing together the management committee, to steer the various decisions and deal with the effects of the crisis. This committee usually meets every week.

"[We created] a "Crisis Management Team" composed of the Executive Committee members and supported by the Chairperson of the Board whenever required. [We have] weekly meeting with the Board of Directors to update on the situation and validate the main decisions"– Partner in Myanmar

The effects of the crisis are now being felt by 81% of the partners surveyed, who report an increase in risks on their customer portfolio. The efforts of microfinance institutions are now focused mainly on responding to this challenge, to the detriment of other activities that are currently considered less essential (nearly one out of two were providing non financial services at the beginning of April, compared to one in three today). By reducing their non-financial services (awareness ...), MFIs are able to dedicate more time and resources to credit restructuring.

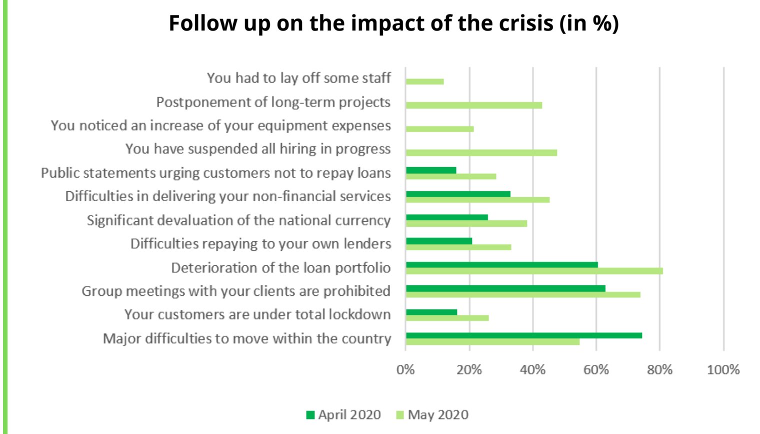
"To support our clients during the coming months, offer moratoria on principal and interest payments to all customers that were not in PAR as of March 1st. To date, 75% of the customers called have accepted. The process will continue." – Partner in Ivory Coast

INSTITUTIONS ARE ADAPTING ON THE FINANCIAL AND ECONOMIC ACTIVITY FRONTS

The table below shows the progression of the difficulties encountered and the mitigation measures implemented to address them.

On the financial front

Against this background, the volatility of currencies is weighing heavily on institutions' cash positions: 64% of respondents outside the CFA Franc zone are indeed faced with a strong devaluation of their local currency against the US dollar. This devaluation has a direct impact on institutions that have taken on debt in hard currency since the vast majority of them receive microcredit interest in local currency.



"The situation is becoming even worse with significant KGS devaluation over the last months, contributing to increase the hedging cost" – Partner in Kirgizstan

The information provided by our partners in this survey also confirms the measures MFIs have been compelled to take during the crisis: 67% of the MFIs surveyed have reduced or stopped microcredit disbursements. In the same proportion, institutions have started to restructure loans to small borrowers on a massive scale by granting maturity extensions of 3 months on average. These moratorium periods constitute a truly essential element of crisis management at all levels. Whether mandated by local regulators or proposed spontaneously by the MFIs, they allow borrowers to benefit from a reduction in charges before resuming their activities. Similarly, the numerous rollovers granted by investors enable the MFIs to retain valuable liquidity in a period of uncertainty. The Grameen Crédit Agricole Foundation consequently granted many rollovers in April, in total and effective coordination with other lenders.

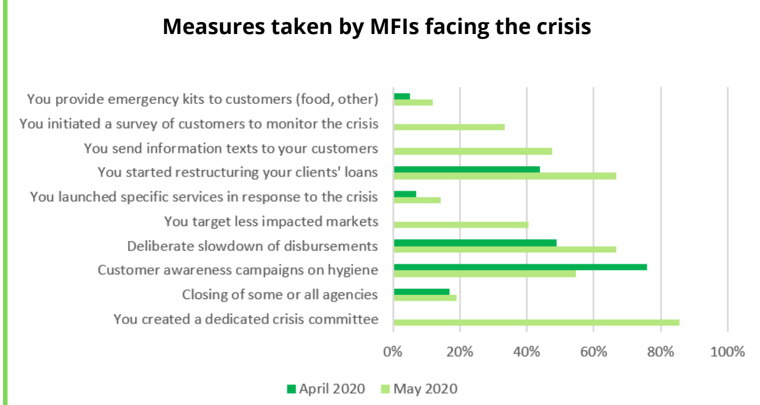
For all that, the crisis has not affected MFIs' proactivity, but is encouraging them to adapt. To do so, some are looking for more resilient sectors in the current economic crisis. For example, we have noted that 40% of institutions are considering turning to the agricultural sector -- a sector that has been rather neglected because it was considered riskier before the crisis. This point will be followed up more specifically in the next questionnaires as this percentage seems to us to mark a notable change in attitude. This new direction is being considered by more than half of the MFIs whose agricultural loans do not exceed one third of their portfolio, but also by very rural and agricultural MFIs. It is still too early to say, but the current crisis could encourage institutions to discover traditionally neglected sectors.

"[We] move ahead with plans on Rural & Agriculture Finance" – Partner in Sierra Leone

On the economic activity front

As to economic activity, the difficulties in moving teams around are diminishing somewhat: 55% had difficulties in May, compared with nearly 80% in April. Conversely, group meetings are still banned, and such prohibitions are on the increase, which penalizes the relationship processes of the institutions, especially with clients who have no alternative but solidarity loans.

"Group meetings were weekly or bi-weekly for repayments and social networking. Without group meetings you cannot enforce loan repayments any more". - Partner in Kenya



In terms of human resources, only 12% of those surveyed have had to part with employees since the beginning of the crisis, which is quite low, however, compared to the national average growth in unemployment figures. Our partners seem to follow the first principle set up by SPTF, [1] "Keep staff employed" according to which "today's employees will be tomorrow's assets". For a large number of our partners, parting with employees in critical times seems to be more of a loss than a slight short-term economic gain. On the other hand, expectations are already weighing on the growth and development projects of our partners since almost one institution in two has put current recruitment projects on hold. This uncertainty weighs also on organisational projects, with 41% of the MFIs surveyed having decided to postpone this type of internal project.

1 SSTPF is a non-profit association that engages with stakeholders from the inclusive finance sector to develop and promote standards and good practices in social performance management.

Staff protection remains a point for attention with 90% of the MFIs continuing to provide staff with significant means and remind them of protective measures. Since the beginning of the crisis, our partners have taken quick decisions to reduce the weight of their fixed costs and limit the risk of exposure to the health crisis: mandatory paid holidays (52%), teleworking (62%), team rotation, reduced working hours (57%) and reduced branch opening hours (52%). The level of progress in internal digitization in some institutions has favoured these organizational changes. This is particularly the case for our partners in Europe and Central Asia, who benefit from numerous electronic and online tools.

"Most of us from the head office have been working remotely, thanks to our own remote IT system which enables all the departments to continue working smoothly." – Partner in Georgia

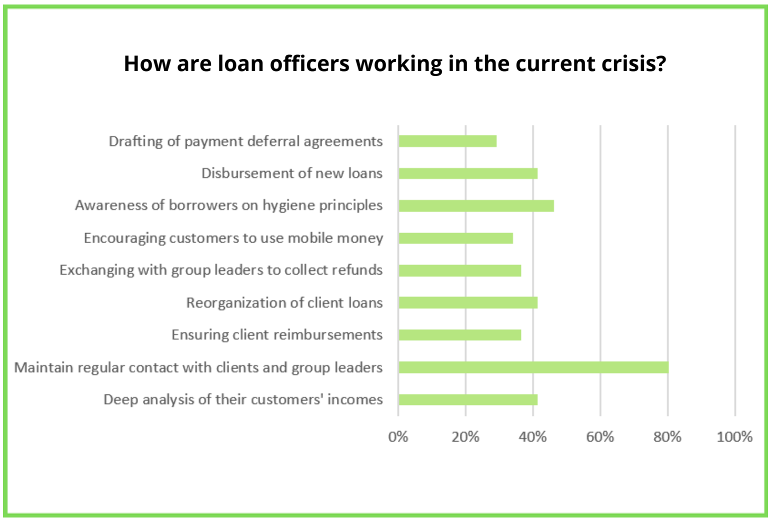
The current crisis, which, as we have seen, limits the "business as usual" capacities of MFIs, has led us to explore how the loan officer's job, which is at the heart of the microfinance business, is adapting.

Certain tasks remain the same, particularly for MFIs in the least affected countries: loan disbursement (43%), repayment monitoring (38%) or client file analysis (43%).

The restructuring of loans in progress is taking an increasingly important place in the daily life of loan officers (43%), with the encouragement to use mobile payments (36%) and the drafting of amendments relating to maturity extensions (31%).

Just as in the retail banking sector, where the client officer has clearly demonstrated its importance in times of crisis, the loan officers of microfinance institutions are the privileged link for clients. 81% of respondents say that the key role of loan officers is to maintain contact with clients and/or credit group leaders.

"[We] maintain contact with all individual clients, group leaders and Village Bank Presidents through digital and phone channels." – Partner in Zambia



"Strengthening client interaction by (smart) phone or other digital devices and collecting through group leader where possible." – International MFI network

This essential and massive approach is to be favoured all the more as it is recognized by the Social Performance Task Force (SPTF) in its crisis management principles as being essential in times of client fragility. It is also worth noting that 33% of the MFIs have initiated surveys of their clients to gain a better understanding of their needs and propose adapted offers and services. For nearly half of the MFIs (43%), the advisors also play the role of "health advisor" by reminding them of good hygiene measures, which is the case in West Africa and Europe in particular.

"One of the best investments you can make right now is to maintain close contact with your customers. Many can't make payments, but they are valuable assets just the same." – SPTF

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COVID-19 CRISIS: NEW OPPORTUNITIES ARE EMERGING FOR MICROFINANCE INSTITUTIONS

By Grameen Credit Agricole Foundation, ADA and Inpulse

ADA,[1] Inpulse[2] and the Grameen Crédit Agricole Foundation[3] have joined forces to closely monitor and analyse the effects of the COVID-19 crisis among our partners around the world. This monitoring will be carried out periodically throughout the year 2020 with the purpose of evaluating the evolution and trend of both the effects of the crisis and the financial needs and adaptation measures implemented by our partners. We hope with this constant and close analysis to contribute, at our level, to the structuring of strategies and solutions according to the needs of our stakeholders, as well as the dissemination and exchange of information between the different actors in the sector for the joint construction of comprehensive and systematic solutions.

This article is based on the responses provided between May 18 and May 27, 2020 by 110 partners, present in 47 countries distributed between Europe, Africa, Asia and Latin America, 5 Regions[4] and 13 sub-regions of the world.[5] In our analysis, we include 46% of very small MFIs, with less than 5 million assets (Tier 3), 47% of medium size, with assets ranging from 5 to 50 USD million (Tier 2) and 7% with a size greater than 50 USD million assets (Tier 1).[6]

IN A NUTSHELL

The current period leaves no MFI or region of the world indifferent. **The crisis related to COVID-19 has struck at the heart of most microfinance activities. All of the institutions surveyed have faced common problems because of the crisis: difficulties in disbursements, collection of reimbursements and meeting with clients, among others.** These deeply operational activities, which are closely linked to client contact and meeting with customers, have financial consequences for MFIs. Portfolio and risk management are among the first short-term challenges raised by the crisis according to more than 80% of our partners.

However, pronounced regional differences emerge from this research. **The health crisis, which is constantly evolving, does not have the same impact on all regions of the world, and not with the same intensity.** On the operations side, for instance, the difficulty or impossibility to collect savings is not an issue for all. This concerns 56% of the surveyed MFIs in Sub-Saharan Africa and 60% of those in South Asia, whereas the matter is hardly mentioned in other regions, if not even mentioned. This depends on the constitution of the local market, and on the capacity for institutions to offer this product to their customers, according to the legislation in force. On the restrictions caused by the crisis, we note that a high proportion of MFIs in LAC, Central Asia and the MENA region witness that it is difficult for employees to move around or to meet clients in branches, contrary to MFIs in South East Asia or Sub-Saharan Africa.

The increase in the portfolio at risk is also having diverse impacts depending on the region. For instance, only 17% of MFIs in Central Asia, Europe and LAC record a PAR 30 + R that has more than doubled, while this is the case for 41% of MFIs in Sub-Saharan Africa, 27% of those in South Asia and 33% of those in MENA. However, none of the MFIs in the regions analysed are spared from the negative impact on their portfolios. This can be seen as globally 80% of respondents indicated a deterioration in portfolio quality, this impact represents a challenge for the entire sector in the short and medium term.

To address these issues, the financial needs of MFIs also vary. While 58% of the surveyed MFIs express additional funding needs, this is not as true for the EAC region. Indeed, 57% of the MFIs in this region report having no additional needs, and 22% consider that their funding needs have decreased. On the other hand, about 30% of the institutions in the MENA, SSA and LAC regions have funding needs that are between 20% and 50% higher than they had expected.

On the other hand, the information collected demonstrates the proactivity of MFIs facing the crisis. All around the world, MFIs have multiplied adjustment measures to adapt to the crisis. The institutions have chosen not to remain passive when facing the consequences of the global economic downturn, for which they have constituted crisis management and monitoring committees, elaborated continuity plans and connected with all their stakeholders. Finally, beyond the conjunctural difficulties, the reflections led by most of our partners are also directed towards new opportunities for the future, with for example the targeting of new markets or the development of new products. This could contribute in the future to greater flexibility for our partners, although this remains to be confirmed.

1 https://www.ada-microfinance.org/fr
2 https://www.inpulse.coop/
3 http://www.gca-foundation.org/
4 The regions and subregions addressed are: Asia (South Asia and South East Asia), EAC (Eastern & Southern Europe and Western and Central Asia), LAC (Caribbean, Central America and South America), MENA (Middle East and North Africa), SSA (Central Africa, East Africa, Southern Africa and West Africa).
5 The total number of MFIs that responded to the survey for each region are Asia:15, EAC: 23, LAC: 36, MENA: 9, SSA: 27. For a total of number of 110 institutions.
6 This classification corresponds to the one traditionally used in the microfinance sector. Further information here.okokok

THE IMPACT OF THE COVID-19 CRISIS ON THE MICROFINANCE SECTOR: THE VIEW OF DIFFERENT MFIS AROUND THE WORLD

The rigor of the containment measures is still variable between the different countries. 44% indicated that they experience total lockdown and total restrictions of movements in their countries. **46% of our partners, mainly those located in the SSA and LAC region, reported limited lockdown and partial movement restrictions.** In contrast, 10% of the partners, mainly those located in LAC, stated that there are no or very few containment measures (no lockdown and no travel restrictions). The context of each region is different and largely, or totally, determined by the actions established by government authorities. While in the EAC region there seems to be greater uniformity in containment measures, it is not the same in Latin America where restrictive containment measures have been established in some countries while in others this type of measure has not yet been contemplated.

Another important aspect to consider is that the process of spreading the pandemic has been gradual between the different regions of the world. The COVID-19 crisis did not affect all regions at the same time. At the end of 2019, the virus was widely spread in China, in March it had been controlled in Asia, however, at the same time, Europe was becoming the new epicenter of the pandemic and the World Health Organization (WHO) declared the virus as "global pandemic".[7] Currently, America and Africa are being strongly affected. The evolution of the pandemic in the different regions of the world also determines to a large extent the type of responses provided by our partners, the degree to which they are affected and surely the evolution of some their key indicators. Trends on which we will be paying attention in our next surveys and analyses.

THE COVID-19 CRISIS CAUSED A SHARP DROP - OR EVEN FULL STOP - OF THE ESSENTIAL ACTIVITES OF OUR PARTNERS

82% of our partners reported having difficulty/impossibility to collect loan repayments as usual. This difficulty seems to impact partners from all regions but more significantly those located in MENA (100%), SSA (85%) and LAC (81%). **The second most relevant difficulty, pointed out by 80% of our partners, is the impossibility of meeting clients in the field.** Partners in the MENA region continue to be the most affected (100%), followed by those located in the EAC region (91%) and LAC (81%).

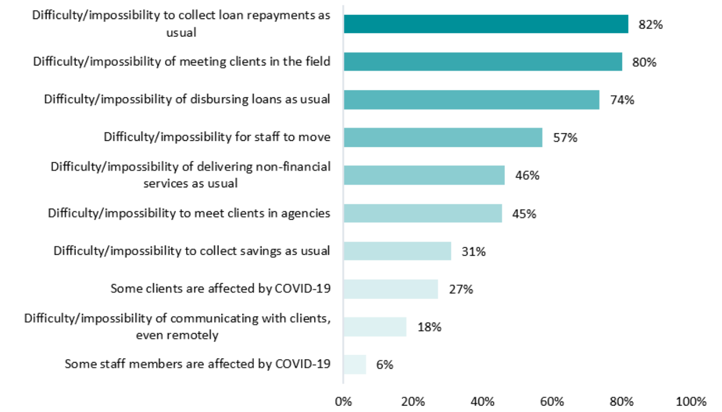
The third most relevant difficulty, expressed by 74% of our partners, relates to the disbursement of loans. This difficulty is a little more relevant among partners located in the MENA (89%), LAC (81%) and SSA (78%) regions.

On the other hand, **for 94% of our partners, communication with clients does not seem to be a significant difficulty**. This may be due, as detailed below, to the significant use of digital systems and technology for remote communication. Likewise, **94% of MFIs reported that their employees are not contaminated with COVID-19.** This represents a very satisfactory result of the measures taken at the beginning of the crisis by our partners for the protection of their staff.[8]

MFIS HAVE FACED DIFFERENT FINANCIAL DIFFICULTIES DUE TO COVID-19

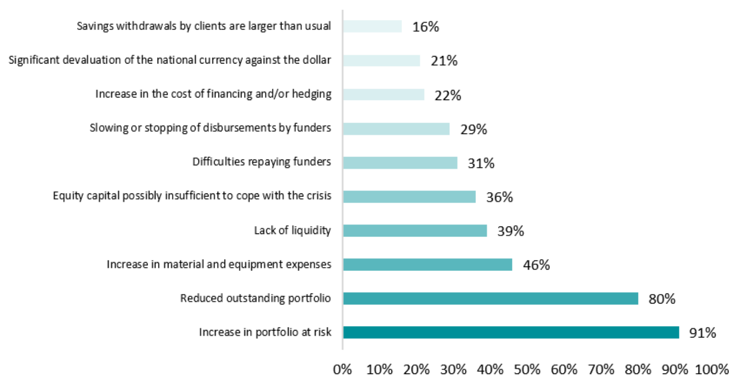
For 91% of our partners, the increasing portfolio at risk is the most significant financial difficulty they have had to face due to the pandemic. This is a difficulty faced in all regions and by all sizes of MFIs, however, it concerns 100% of the respondents located in the MENA region, 93% of those present in SSA and Asia, 91% and 86% of those located in the EAC and LAC regions respectively.

Impacts of the COVID-19 crisis on our partners



The exceptional reduction of the outstanding portfolio is also a relevant difficulty for 80% of our partners. This is mainly the case for 93% of those located in the SSA region and 86% of those present in LAC.

Financial difficulties faced by our partners



7 "Propagation analysis and prediction of the COVID-19" here.

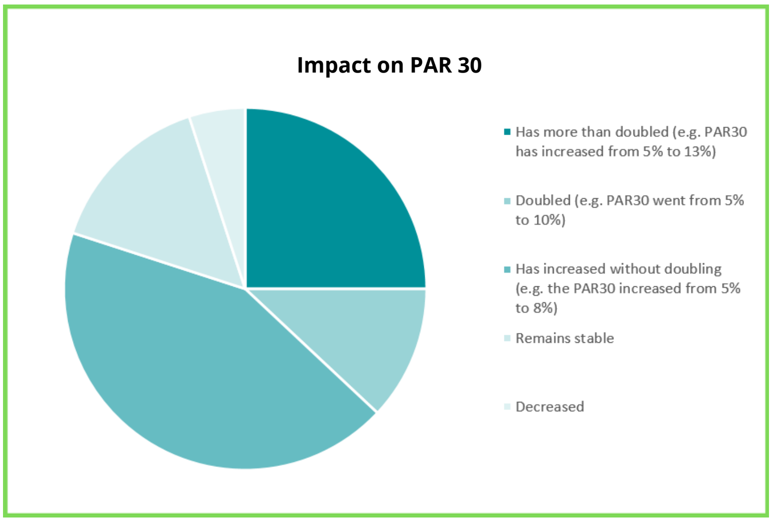
8 These measures according to the Inpulse and the Foundation articles were mainly focused on hygiene awareness campaigns as well as teleworking:

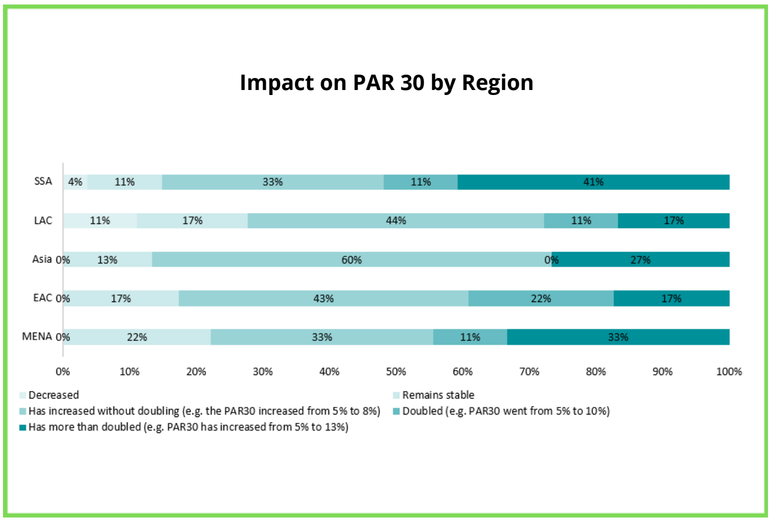
The increase in the costs of materials and equipment and the lack of liquidity were difficulties faced by 46% and 39% of partners respectively.

"We think we may not have adequate funds for disbursements end of June if the situation improves in the field" - Partner in South Asia

PAR 30 IS ALREADY AT THIS STAGE A MAJOR CONCERN

80% of our partners indicated that their PAR 30 has increased due to the COVID-19 crisis. In details, for 12% of the partners it has increased twice and for 25% of partners the PAR 30 has more than doubled. For 43% of the partners it has increased without doubling. The partners mainly located in **Asia, LAC and EAC are those who consider that their PAR 30 has increased without actually doubling,** while most of the **SSA partners reported an increase in PAR 30 of more than double, followed by partners in the MENA region.**





STRATEGIES USED TO MITIGATE THE CRISIS: FROM CREDIT RESTRUCTURING TO THE USE OF TECHNOLOGY

Our partners implement different financial measures and operations to mitigate and adapt to the crisis. 75% of them, mainly those located in Asia (87%), have carried out the credit restructuring with their clients. 65% of partners have slowed down or stopped the disbursement of credits. This measure has been mainly implemented by partners located in the LAC region (78%) and less used by those located in the MENA region (44%).

"Analysis of rescheduling requests in order to be able to accompany them with emergency loans but this is really on a case-by-case basis"- Partner in West Africa

Another relevant strategy is the orientation of loans to clients in sectors less impacted by the crisis (for example, agriculture). This is a measure carried out by 51% of the partners, mainly those located in the SSA and EAC region. In addition, 50% give priority to repayment of credits.

Likewise, communication with customers is a priority strategy among our partners. 73% have increased communication with clients and 50% have hygiene awareness campaign for clients (by SMS, video, etc.).

Technology is used as an important tool to face the crisis. Partners use existing digital solutions (by 48% of partners) or new solutions (by 31% of partners) for communication with customers as well as the management of financial products and services.

"We plan to improve the use of digital approaches to deliver our services, help clients for product marketing and business diversifications (…)"- Partner in South Asia

STRATEGIES FOR THE MANAGEMENT OF HUMAN TALENT: FROM HYGIENE MEASURES TO THE USE OF TECHNOLOGY

90% of the partners have provided sanitary equipment to staff. Office hygiene and disinfection measures are carried out by 82% and 70% of partners, respectively.

The organisation of work times and travels to the field is indicated as another measure of great importance. 71% of the partners, mainly those located in the MENA, LAC and Asia region, implemented telework as much as possible. 66% of partners restricted or prohibited movement in the field. 54% of the partners, mainly located in the MENA and LAC region, have reduced working hours and 52% of them have reduced customer service hours in the branches.

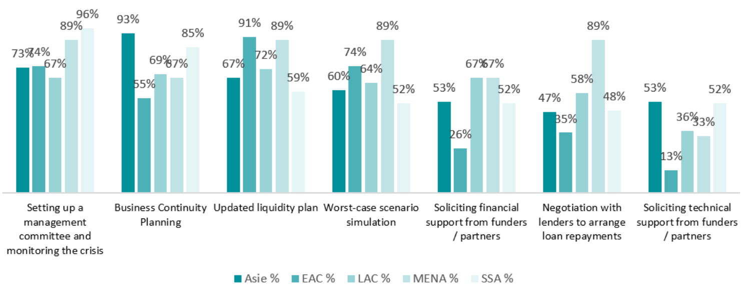
The use of digital to maintain communication and work activities with employees is also relevant. 82% use online meeting solutions and 57% use an online document sharing solution (mainly MENA and LAC partners). In addition, 46% provided their employees with work laptops or tablets (mainly those located in the MENA region, 78%).

"We established 2 WhatsApp communication groups with the staff (one for Singhala speaking and one for Tamil speaking). Then we had regular communications with them during the lock down" - Partner in South Asia

CRISIS MANAGEMENT MEASURES

It can be considered that our partners carried out two main types of measures to manage the crisis COVID-19 in a relevant way. The first group of measures are internal actions to analyse, monitor and track the effects of the crisis: **78% of the partners established an ad hoc management committee to monitor the crisis.** These measures were a priority mostly for partners in the SSA and MENA regions. **75% of the partners, mainly those located in Asia and the SSA region, prepared a Business Continuity Plan.** 74% of the partners, primarily those located in the EAC and MENA regions, updated their Liquidity Plan. Furthermore, 65% carried out worst-case scenario simulation, this action being carried out more in the MENA region than in the SSA region.

Crisis management measures by Region



In the graph we observe, for example, that 96% of the partners in the SSA region reported having implemented the measure "setting up management committee and monitoring the crisis", while only 13% of the EAC region had requested "technical support from funders / partners"

The second group of measures entails requesting support from third parties. **53% of partners, mainly those located in MENA and LAC, requested financial support from funders / partners. 52%, notably those located in the MENA region, negotiated with Lenders to adapt the repayment schedule of their loans.** Additionally, 37% of partners, particularly those located in Asia and SSA, requested technical support from funders / partners. These three actions have been less developed by partners located in the EAC region, where request for technical assistance seems to be the least relevant.

ADDITIONAL FUNDING NEEDS FROM LENDERS: WHAT IS EXPECTED IN THE COMING MONTHS?

30% of our partners stated that they had no additional financing needs and 12% indicated that their needs have decreased. These responses come mainly from partners located in the EAC region.

In contrast, 58% of the partners indicated that they would need financing for amounts greater than expected. Of these, 28%, mainly those located in the Asia and MENA region, reported that they would need between> 0% and 20% more funds than expected. 24%, mainly those present at MENA, stated that they would need between 20% and 50%. And 6% of partners, particularly those located in Asia, reported that they would need> 50% more funds than expected.

LOOKING AHEAD TO THE NEAR FUTURE: NEW MARKETS OR PRODUCTS

At this stage, the majority of our partners, 57%, expressed interest in focusing their activities more on the Agricultural sector. This purpose seems to be particularly more relevant among partners in the SSA, Asia and EAC regions. This may be due to the increase in the needs of customers in this sector or to its identification as one of the production sectors least affected by the COVID-19 crisis (aspects already envisioned in the articles elaborated by Inpulse and the Grameen Credit Agricole Foundation).

This assumption will be important to investigate in the following survey since the Agricultural sector is at the crossroads of economic, social and environmental stakes, such as the allocation of an important part of the portfolio of our partners; the generation of significant amounts of jobs in some countries and the potential negative effects of climate change.

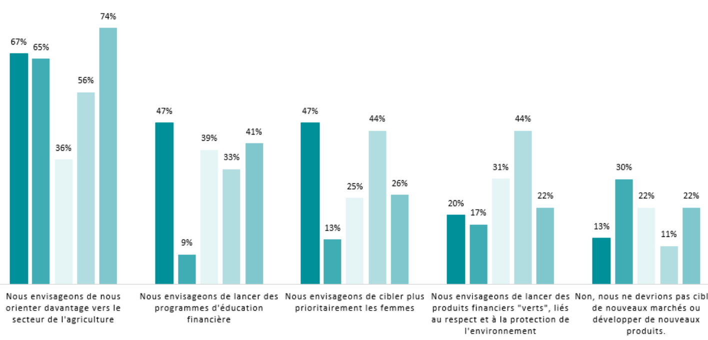
On the other hand, 37% of our partners plan to launch financial education programs and 27% plan to focus more on women clients.

"We plan to promote digital education for women clients (digital culture)" - Partner in South America

These are sectors that are traditionally supported by the microfinance sector, however, **25% of our partners also mentioned an interest in launching "green" financial products related to environmental protection.** Could this interest demonstrate the increased awareness of our partners about the environmental problems linked to their actions? Does this represent the boost of green microfinance on the back of the COVID crisis? What type of green products would our partners be targeting? These are questions that could also be relevant to investigate in our next surveys.

In contrast, the launch microinsurance related to hygiene, life, health or environmental risks does not seem relevant among our partners. Finally, 22% of our partners do not plan at the moment to focus on new markets or develop new products.

New markets / develop new products and services by region



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Published on the Grameen Crédit Agricole website
Published by ADA
Linked by Findev Gateway
Linked by the Rural Finance and Investment Learning Centre
Linked by the Microfinance Centre

COVID-19 AFFECTS MFIS OF DIFFERENT SIZES IN DIFFERENT WAYS

By Grameen Credit Agricole Foundation and ADA

ADA, Inpulse and the Grameen Crédit Agricole Foundation have joined forces to closely monitor and analyse the effects of the COVID-19 crisis among their partners around the world. This monitoring will be carried out periodically throughout the year 2020 with the purpose of evaluating the evolution of the crisis. Through this constant and close analysis, we hope to contribute, in our own way, to the structuring of strategies and solutions tailored to the needs of our partners, as well as the dissemination and exchange of information among the different actors in the sector.

The results presented in this article come from the second wave of a joint [1] survey by ADA and Grameen Crédit Agricole Foundation, Inpulse having decided to join the initiative for odd-numbered waves. The responses were collected **from 18 June to 1 July from 108 microfinance institutions (MFIs)** based mainly in Latin America and the Caribbean (LAC, 46%), Sub-Saharan Africa (SSA, 29%), Asia (14%) and Eastern Europe and Central Asia (EECA, 10%), with a single MFI from the Middle East and North Africa (MENA) region. This panel of respondents spans a relatively diverse range of MFI sizes, with 49% of Tier 2 MFIs,[2] 35% of Tier 3 MFIs and 16% of Tier 1 MFIs. Figure 1 shows their regional distribution.

Figure 1. Respondents by region and tier

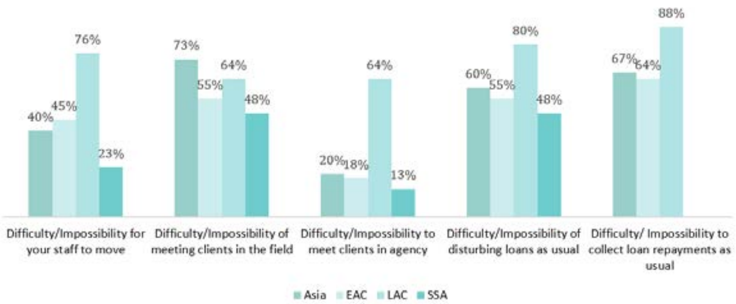
IN A NUTSHELL

The latest wave of the survey reveals that the crisis faced by MFIs has laid bare the structural strengths and weaknesses specific to their sizes: the biggest MFIs (Tier 1) appear better equipped to overcome the financial difficulties resulting from the health crisis and epidemic containment measures, as well as to take crisis management measures and make use of the specific measures put in place by local authorities. Smaller MFIs (Tiers 2 and 3), on the other hand, are more likely to offer their clients non-financial services to help them cope with the situation and are eager to continue developing non-financial services in the future. More generally, if they are considering launching new products or services, it is mainly to meet the needs of their clients rather than following their strategy or reducing risks. While big MFIs appear to be more resilient in times of crisis, small ones are also rising to the challenge and staying true to their powerful social mission. This is a real strength for these institutions, which should not be neglected in favour of more autonomous structures during the current crisis.

THE BIGGEST MFIS ARE LESS EXPOSED TO FINANCIAL DIFFICULTIES...

Since June, epidemic containment measures have been relaxed in certain regions, particularly Eastern Europe, Central Asia and Sub-Saharan Africa. As a result, the operational difficulties faced by microfinance institutions have ebbed in these regions since May,[3] but they are still very much present in Latin America and the Caribbean, where containment measures are still in place and a higher percentage of MFIs still find it difficult to move around, meet clients in agencies and, therefore, to disburse loans and collect loan repayments, as can be seen in Figure 2.

Figure 2. Operational difficulties faced by MFIs by region



For example: 76% of MFIs in the Latin America and the Caribbean region report that their staff is finding it difficult to move around, compared to 23% in Sub-Saharan Africa.

As explained in our previous article, these operational difficulties are having an impact on the portfolio and its quality in all MFIs. However, the resulting financial difficulties vary by MFI size. Overall, the biggest MFIs are less likely to face these types of problems, with lower percentages of Tier 1 MFIs reporting difficulties in repaying funders (12% versus 22.5% of Tier 2 and 3 MFIs), insufficient equity capital to cope with the crisis (6% versu 29% of Tier 2 and 3 MFIs) or lack of liquidity (2% versus an

[1] The results of the first wave of the survey of ADA, Inpulse and the Grameen Crédit Agricole Foundation's partners can be found https://www.findevgateway.org/paper/2020/06/beyond-difficulties-posed-covid-19-crisis-new-opportunities-are-emerging-microfinanc

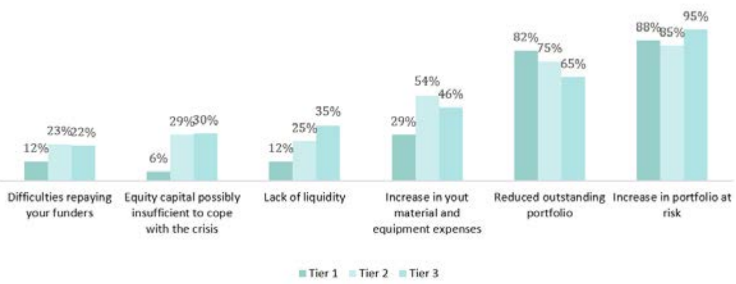
[2] Tiers are defined according to the value of their total assets: over USD 50 million for Tier 1, USD 5 to 50 million for Tier 2 and under USD 5 million for Tier 3.

[3] See the results of the first wave of the survey, available via the above link.

average of 29% of Tier 2 and 3 MFIs), as can be seen in Figure 3. Tier 1 MFIs appear better equipped to absorb the impact of the crisis on their financial situation.

Although an increase in the portfolio at risk is the main difficulty faced by all MFIs, this increase varies by MFI size.

Figure 3. Financial difficulties faced by MFIs by size

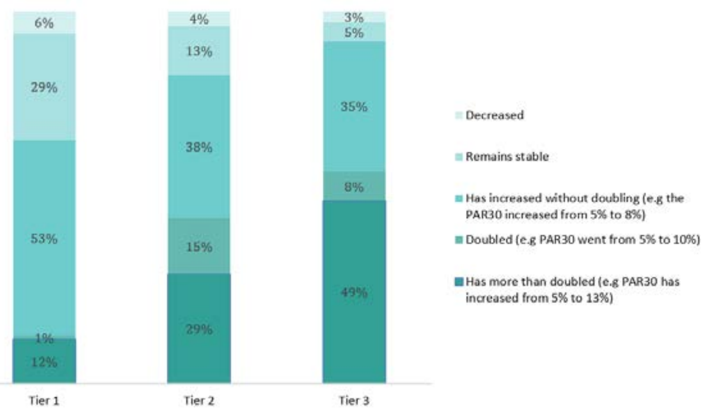


Tier 1 MFIs have experienced smaller increases than other MFIs, as can be seen in Figure 4: only 12% of Tier 1 MFIs report that their portfolio at risk at 30 days has doubled or more than doubled compared to end 2019, versus 44% of Tier 2 MFIs and 57% of Tier 3 MFIs. In contrast, 35% of Tier 1 MFIs report a stabilisation or decrease in this indicator, versus 17% of Tier 2 MFIs and 8% of Tier 3 MFI.

...AND MORE LIKELY TO IMPLEMENT CRISIS MANAGEMENT SOLUTIONS...

The governments of most countries have taken measures to help microfinance institutions to weather the crisis. However, not all MFIs are benefiting from these measures. While the exact percentages vary from one region to the next, probably due to differences in the communication

Figure 4. Changes in the PAR30 of MFIs compared to end 2019 by MFI size

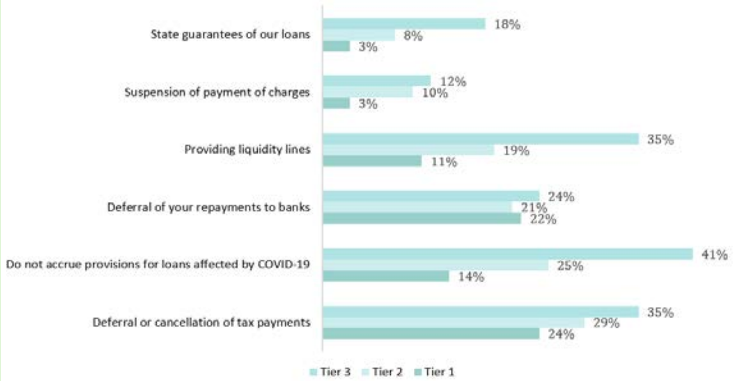


and implementation of these measures (e.g. MFIs in Asia are more likely to report making use of a certain number of measures), geographic location does not appear to be the sole determining factor for making use of certain government measures: bigger MFIs are also more likely to benefit from them, as can be seen in Figure 5.

This size effect is real because it cannot be explained by a specific distribution of MFIs by region. For example, when it comes to rescheduling or cancelling the payment of taxes and the non-provision of loans affected by COVID-19, a regional analysis shows that MFIs in Asia are more likely to benefit from these measures despite Tier 1 MFIs being in the minority in this region. Similarly, when it comes to liquidity lines, MFIs in Sub-Saharan Africa are among the most likely to benefit from them despite Tier 1 MFIs being few and far between in this region.

As for the operational and crisis management measures implemented, the types of measures again vary by MFI size: For example, 100% of Tier 1 MFIs in the sample restructured client loans, versus an average of 69% of other MFIs. They are also more likely to engage with supervisory authorities to explore the possibility of suspending prudential regulations during the crisis. In contrast, Tier 3 MFIs are less likely to

Figure 5. Government measures from which MFIs have benefited by MFI size



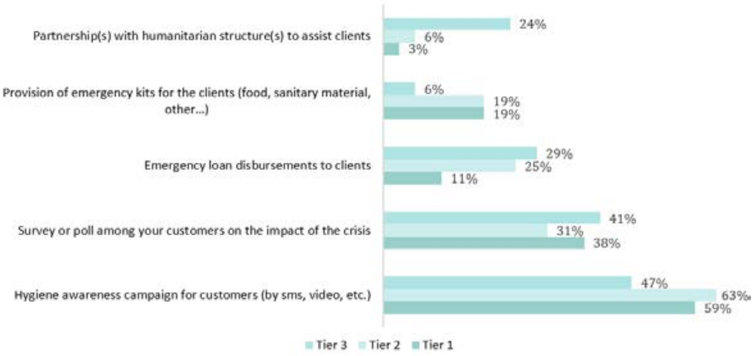
use their liquidity plans or implement new digital solutions.

...WHILE SMALL MFIS CONTINUE TO FOCUS ON THEIR CLIENTS' NEEDS

In contrast, despite facing significant challenges, the smallest MFIs continue to focus on their clients' needs: for example, they are more likely than Tier 1 MFIs to have surveyed their clients to better understand the impact of the crisis (Figure 6). On the other hand, although they were less likely to disburse emergency loans to their clients, they were more likely to implement measures that went beyond their core business to better meet the needs of their clients during the health crisis. For example, more of these MFIs launched hygiene awareness campaigns on hygiene or provided clients with emergency kits. Bigger MFIs were less likely to offer these types of direct services to clients, instead forging partnerships with specialised organisations.

More Tier 1 MFIs reported interest in launching new products or services in the medium term; as shown above, these MFIs have fewer financial constraints and, therefore, more room for manoeuvre in this regard (Figure 7). More specifically, while few MFIs overall are planning to launch microinsurance products in the future, Tier 1 MFIs are the most likely to do so. They are also more likely to want to increase their focus on agriculture or launch new digital products and services. The smallest MFIs, on the other hand, also want to start offering non-financial services such as financial literacy and business development services.

Figure 6. Crisis response measures for clients by MFI size



The motivations for MFIs to focus on new markets or develop new products or services also vary by size (Figure 8): Among those that reported wanting to launch at least one new product or service and stated their motivations (76 out of 108 respondents), the desire to meet the new needs of clients and/or follow new market trends was more frequent among Tier 3 MFIs than among MFIs in other tiers. In contrast, there are fewer that base this choice on following their strategic plan or striving to reduce risks.

Figure 8. Main motivations for MFIs to focus on new markets, products or services by size

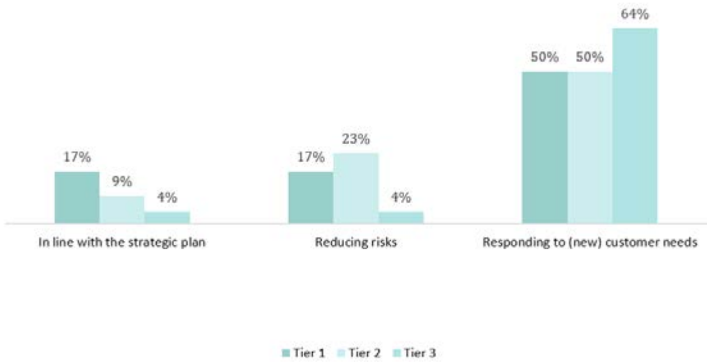
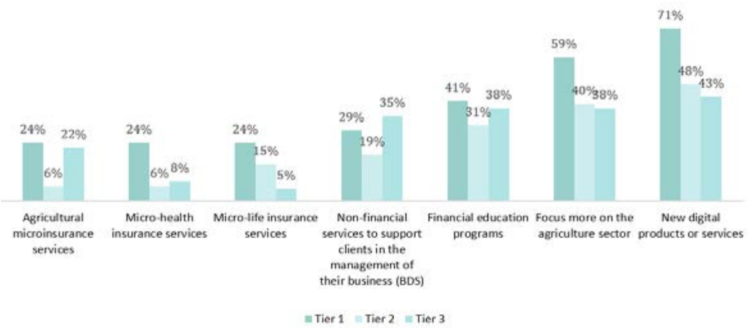


Figure 7. New products, services or markets that MFIs wish to develop in the medium term, by size



The focus of the smallest MFIs on their clients' needs will probably become one of their strong points during this crisis.

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A RESUMPTION OF ACTIVITIES UNDER OPERATIONAL AND FINANCIAL CONSTRAINTS

By the Grameen Crédit Agricole Foundation, ADA and Inpulse

ADA, Inpulse and the Grameen Crédit Agricole Foundation have joined forces to closely monitor and analyze the effects of the COVID-19 crisis among their partners around the world. This monitoring will be carried out periodically throughout the year 2020 with the purpose of evaluating the evolution of the crisis. lThrough this regular and close analysis, we hope to contribute, in our own way, to the structuring of strategies and solutions tailored to the needs of our partners, as well as the dissemination and exchange of information among the different actors in the sector.[1]

IN A NUTSHELL

This article is based on the answers provided between July 23rd and August 6th 2020 by 91 partners located in 42 countries, split between Europe, Africa, Asia and Latin America. Feedback from these microfinance institutions (MFIs)[2] allows us to observe the continuous evolution of the sanitary crisis linked to the COVID-19 virus. While the measures to reopen borders and to revive the economy have multiplied during the month of July, **our partners mention significantly that the virus now directly affects their customers and employees.**

In such an uncertain and evolving context, MFIs have been braving the challenges they face for more than a quarter now. **With operational difficulties still ongoing, institutions remain vigilant about their portfolios and the risk they carry, which seems to have stabilized overall, albeit at a much higher level than before the crisis.** Nevertheless, some signals are encouraging on other issues. For example, the vast majority of MFIs believe that they can survive the crisis without major strategic changes. **In addition, it appears that the issue of liquidity has been rather well managed since the beginning of the crisis.**

However, the battle against the virus is not won, and its repercussions are particularly strong on the informal sector of the economy. **It appears that clients in the informal economy are more affected, particularly as they do not ultimately benefit from the aid measures that states can provide.** Nonetheless, MFIs are sensitive to these needs and some of our partners are considering providing specific services to help their clients cope with the crisis.

OPERATIONAL CONSTRAINTS REMAIN RELEVANT FOR MFIS

In general, our partners are reporting progress regarding the easing of containment measures in their countries, following the first relaxations that took place in some regions of the world in June (notably in Eastern Europe, Central Asia and Sub-Saharan Africa). Comparing the responses of our partners who answered to our July and June surveys[3] (graph below) reflects the improvement of operational difficulties. Moreover, these figures are in line with the general results obtained for the month of July.

Evolution of operational constraints encountered by MFIs

MFIs in each region report an improvement in travel opportunities for their staff. However, this remains a major constraint in Latin America and the Caribbean, while less than 20% of MFIs in other areas are affected by this issue. Moreover, even if mobility is improving, meeting clients in the field remains an important issue for more than 30% of MFIs. Finally, with the exception of Latin America, **meeting clients in branches seems to be the least problematic solution today.**

In fact, while there has been an overall enhancement in interaction with clients in all regions, **collecting loan repayments or disbursing new loans at standard pre-crisis levels remains very difficult,** with such challenges being encountered by more than 50% of the MFIs surveyed in each region (70% and 66% respectively overall). Such difficulties are ultimately linked to national or local regulatory constraints.

"Though other MFIs start operating their process, we still wait for full release by the regional government" – Partner in Myanmar

Especially as MFIs are still busy restructuring client loans in July (80% of respondents).

"Communication on the postponement of instalments is a barrier to the repayment of loans" – Partner in Senegal

Although we have been observing the singularity of the

[1] The results of the previous surveys are available in this folder.

[2] The total number of MFIs that responded to the survey for each region is as follows: South Asia ("Asia") 14, Latin America and the Caribbean ("LAC"): 24, Europe and Central Asia ("ECA"): 18, MENA: 6, and Sub-Saharan Africa ("SSA") 29 (total: 91 institutions). The small sample from the MENA region does not allow for the monitoring of the figures for the zone.

[3] This comparison is based on a sample of 54 MFIs: 12 in Asia, 7 in EAC, 13 in LAC, 22 in SSA.

Latin American zone in the responses collected over the last few months due to a particularly difficult COVID-19 sanitary context, the information we gathered shows that the situation is not settled yet in the other regions.

In fact, doubts about a potential normalization of MFIs' activities have not been dispelled for now, as the health crisis remains the central issue of the current period and as it persists. The news in July were notably highlighted by the punctual resurgence of a number of cases in some countries. For the first time in our surveys, **this is significantly demonstrated by a sharp increase in the proportion of partners who are affected by the health crisis**, both among their staff and their clients (see graph below).[1]

Thus, at the global level of the survey, 51% of our partners told us that among their customers, some have contracted COVID-19. Almost a third indicate that this also concerns their employees. Although we do not have data to know the respective proportions of customers and employees concerned, this trend is still meaningful. More specifically, more than three out of four MFIs in Central Asia and Latin America reported having clients infected with the virus (one out of two in June). **While Latin America is largely affected on both the client and staff sides, the figures are also slightly higher for the staff of MFIs in Europe and Central Asia**. South Asia and Sub-Saharan Africa seem to be generally less affected on this point, but figures encourage us to remain vigilant.

"More than 10 clients have died from Covid-19"– Partner in Honduras

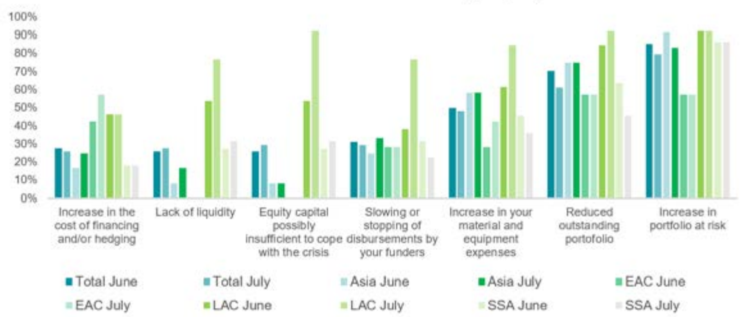
MFIS CONTINUE TO FACE MAJOR FINANCIAL ISSUES

As we witnessed since the beginning of our surveys, **the increase in portfolio at risk and the reduction in outstanding portfolio are the two main direct consequences of the crisis for a microfinance institution.** Other financial difficulties are to a lesser extent and are stable from June to July (figure below). This is the case in all regions except Central America, where our partners who responded to all of our surveys indicate problems and growing fears regarding equity, lack of liquidity or increased expenses.

The details of the analysis show that the contraction of the credit portfolio is a heterogeneous phenomenon. Among all respondents, 39% of Central Asian MFIs indicate that they are suffering from a reduction in their portfolio, compared to 55% in Sub-Saharan Africa, 71% in South Asia and 88% in Latin America during the same period.

On the other hand, **it appears that the increase in portfolio at risk is a common problem for all MFIs,** regardless of their region or size, and concerns more than 80% of our partners. However, if the PAR 30 of microfinance institutions has deteriorated since the beginning of the crisis, **it is no longer undergoing major changes between June and July, although it remains at a much higher level than before the crisis**. As shown in the graph below, the PAR30 structure of the partners in the sample of 54 MFIs is stable from one month to the other. Moreover, we observe this trend across all of the surveyed MFIs: between 15 and 20% of the MFIs see their PAR30 decreasing or remaining stable, while around 40% have seen their PAR30 increase without doubling since the end of 2019. Finally, the riskiest cases represent between 30 and 40% of the respondents.

Financial difficulties encountered (by region)



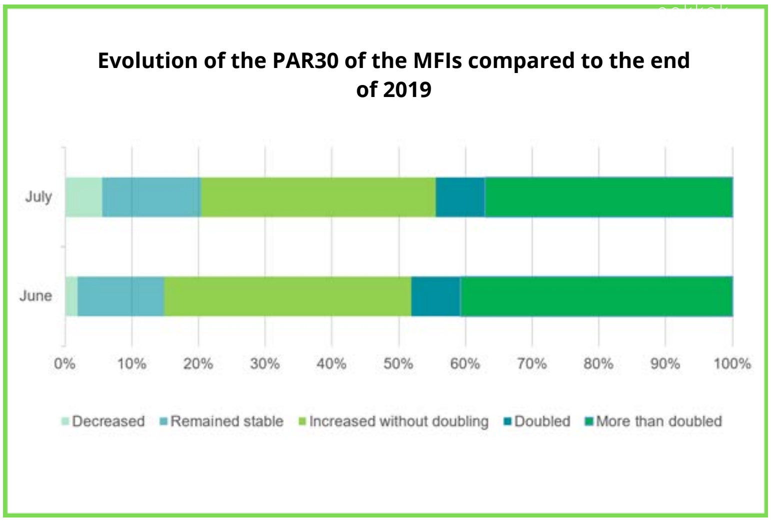
"[It is difficult] to cover the expenses of provisions for doubtful debts" - Partner in the Democratic Republic of Congo

Luckily, all these difficulties should not be too harsh for our partners. When asked about possible strategic changes because of the crisis, 93% of respondents do not anticipate any changes in the short or medium term. Therefore, our partners do not feel concerned by potential sales of a part of their assets, being placed under administrative supervision or being liquidated, which is a sign of a certain confidence in the future.

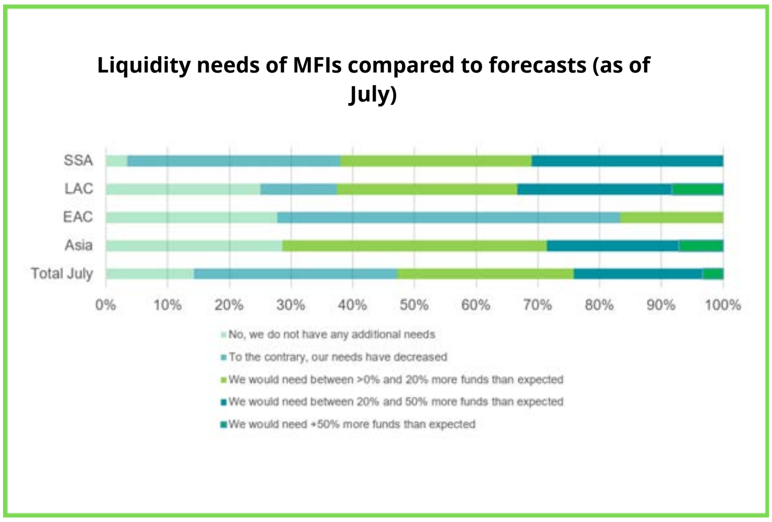
Contamination of COVID-19 in MFIs environment

[1] This comparison is also based on the sample of 54 MFIs.

Finally, the latest information from our partners indicates that **a liquidity crisis seems to have been avoided,** with 24% of respondents highlighting this problem (compared to almost 40% in our May survey). In details, the proportion of MFIs raising this point in each region does not exceed one third.



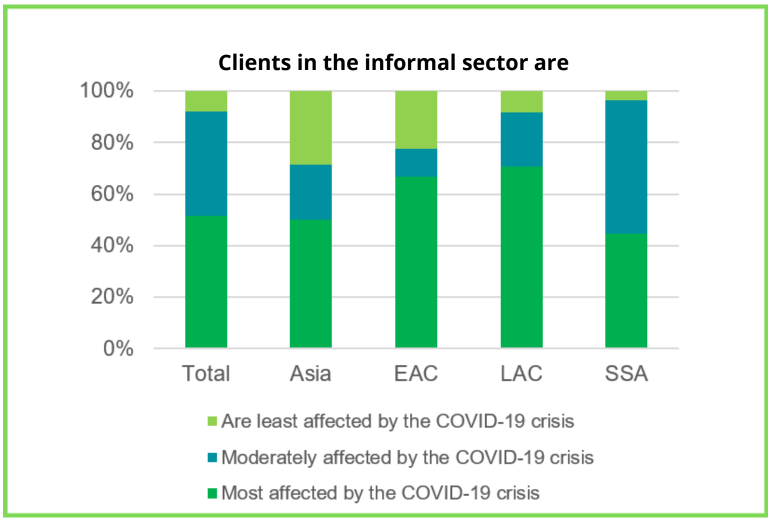
The first explanations lead us to the many extensions of maturities granted to MFIs by their foreign and local investors, but also to the reduced levels of disbursements since the beginning of the crisis. We also note the low proportion of MFIs that have suffered from significant withdrawals of savings, which has helped cash management. Among the MFIs reporting this difficulty, most are from Sub-Saharan Africa and Asia and do not show significant additional liquidity needs compared to other MFIs. These different factors influence the liquidity needs of MFIs. Thus, **on a global scale, 47% of the respondents have no additional funding needs for 2020.** For almost a quarter of the MFIs outside Sub-Saharan Africa, these needs even decreased. Last, only 25% of those surveyed report significant additional needs.



IN JULY, THE INFORMAL SECTOR IS EXPOSED

Microfinance institutions are still exposed to the crisis, and so are their clients. In fact, 92% of our partners indicate that clients in the informal economy are either moderately affected by the crisis or are the most affected ones. Like all other entrepreneurs and clients of MFIs, they face reduced activity, but also suffer from the consequences of the major international and national measures to manage the pandemic, for instance in the tourism, textile or cultural sectors... With limited means of relief and a reduced activity that cannot generate sufficient income, they would be more vulnerable. This point is raised overwhelmingly in Central Asia and Latin America (two thirds of respondents from these regions) while in Sub-Saharan Africa, the feedbacks indicate that clients in the informal economy are affected in the same way than those in the formal economy.

"Due to prevailing market and economic conditions, it is hard for the small businesses to revive their usual economic activities to the level they were before COVID-19 crisis" – Partner in Sri Lanka

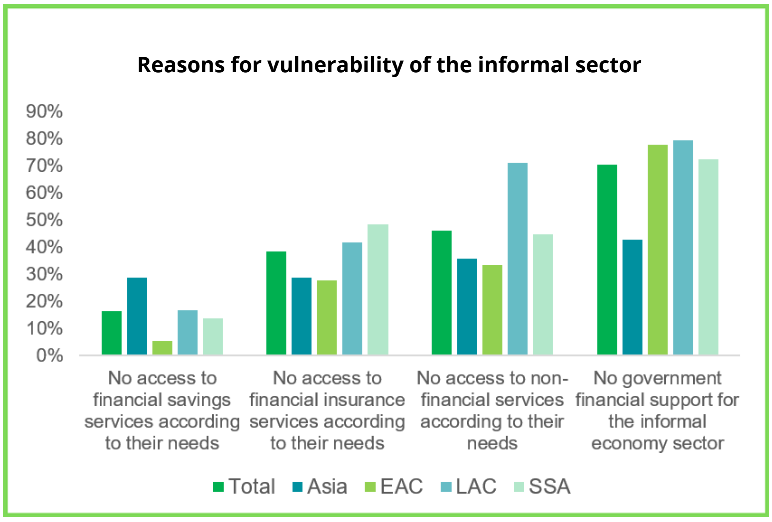


The reasons given by our partners are mostly about financial matters: the vulnerability of workers in the informal sector would come from the lack of financial support from governments to the sector. This explanation is given by a vast majority of surveyed MFIs (78%), which also note (57%) that clients in this sector do not have access to adapted non-financial services (business development, financial education, health education, etc.). The lack of insurance services is also underlined by 50% of MFIs. In contrast, the lack of access to savings services is hardly mentioned.

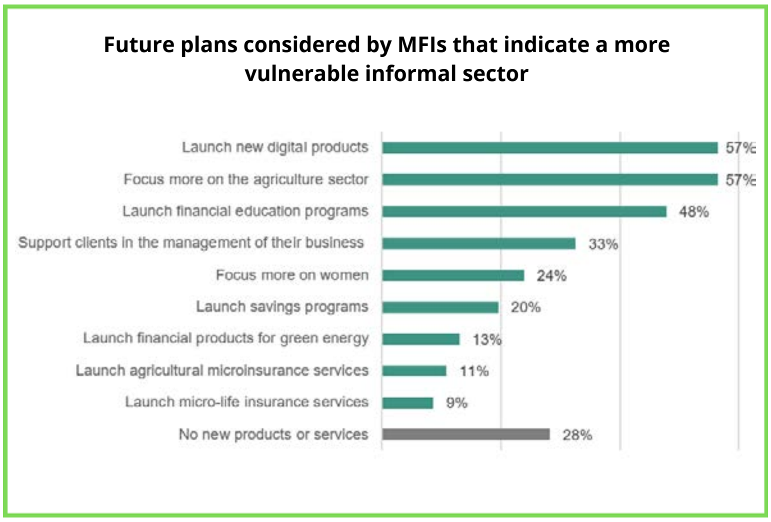
MFIs are already thinking about how to meet the needs of their clients. Thus, 48% of MFIs reporting a vulnerable informal sector say they plan to launch financial education programs, and 33% imagine supporting clients in the management of their activity. However, only a small proportion of them forecasts launching micro insurance products (maximum 11%). MFIs justify such motivations with two main reasons: getting closer and focusing on under-served populations, but also to respond to a demand for adapted offers during a particular period. For some MFIs, **this could translate into other initiatives, such as the development of the**

agricultural segment (still strongly mentioned by MFIs) or by the development of digital solutions for clients. As a partner in Latin America tells us:

"The financial education and business management program is being planned by digital means to introduce customers to the use of social networks to sell their products, since the main problem they have had is that their places of sale have been closed down or customers are not arriving because of the risk of contagion" économiques courantes au niveau où elles se trouvaient avant la crise COVID-19 » - Partenaire au Sri Lanka



The results of this article highlight the operational and financial difficulties encountered by MFIs during this first semester, but also their first steps in understanding the problems and finding solutions. In this context, the future challenges us to continue questioning ourselves about the best recovery actions for each region, how they can be implemented and how the various actors in the microfinance sector can directly and indirectly contribute to its revival.



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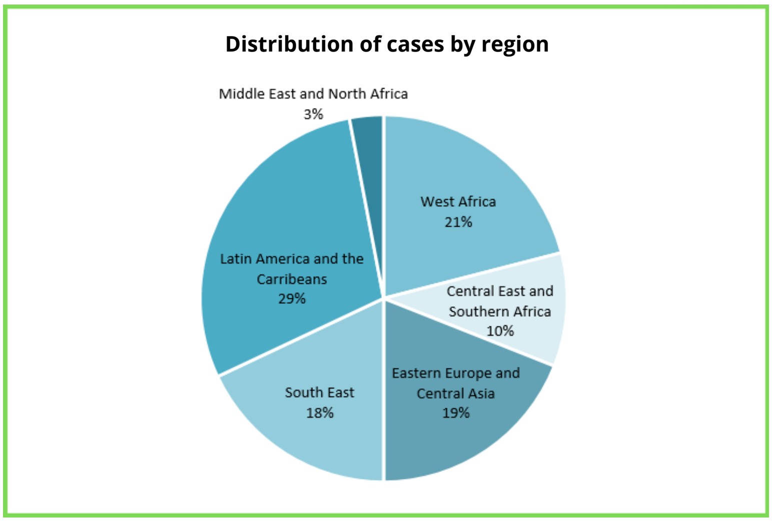
Published on the Grameen Crédit Agricole website
Published by ADA
Linked by Findev Gateway (FR)
Linked by the e-MFP
Linked by the Microfinance Centre (FR)

SIGNATORY ORGANISATIONS REPORT ON COVID-19 PLEDGE IMPLEMENTATION AND LESSONS LEARNED

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.[1] They have also formed a global coalition to make their voice heard. Debt providers, investors, support organisations and technical assistance providers had to adapt their intervention principles and coordinate their actions.[2] 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 draws lessons[3] 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?

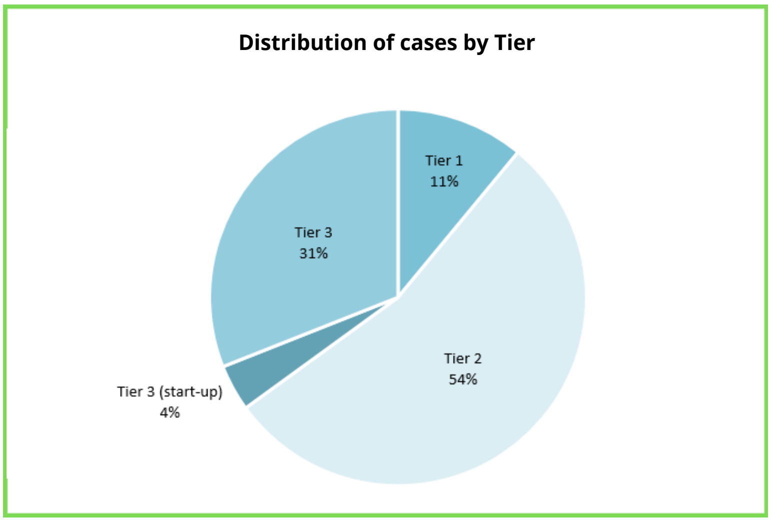
Our working group includes five debt providers, as well as the Social Performance Task Force and ADA as technical assistance coordinator. We have analyzed 70 cases of debt rollover requests and checked to what extent we implemented the Pledge principles. The article focuses on 10 principles mostly related 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[4] 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 providing a rollover. Handshake agreements[5] 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[6] 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.

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

2 https://www.covid-finclusion.org/investors

3 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.

4 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.

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 local banks or played the role of guarantor of a local bank.

2. ROLLOVERS ALLOWED MFIS TO MAINTAIN ENOUGH LIQUIDITY

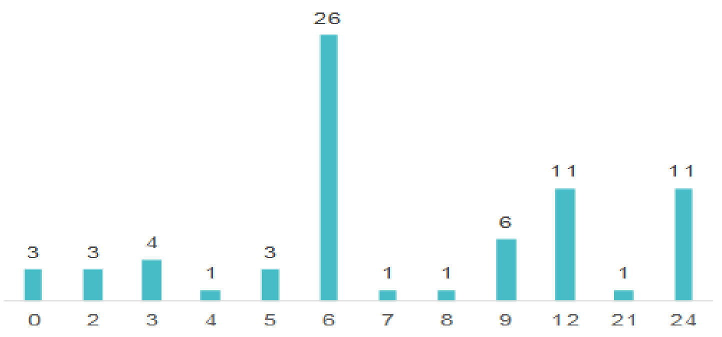
Extracts from the pledge - Signatories pledged to provide a reasonable period of relief and moratorium

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.[7]

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 major run on deposits. At the same time, there have also been a couple of cases where the initial extension term was

Number of rollover cases by rollover duration



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).

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5 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.

6 https://www.covid-finclusion.org/investors

7 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).

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. [8]

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.

Several signatories, including the Social Performance Task Force and several investors (signatories and endorsers)[9] 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,[10] "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.

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

9 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.

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

Signatories agreed that additionnal 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 suchas 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.[11] 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 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

[11] The document can be downloaded at that address: https://sptf.info/working-groups/investors

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. 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 ADDITIONNAL 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 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 rollovers in Q2 2020 followed by the disbursement of funding committed before the crisis. Interestingly, a limited but continued increase in senior debt[12] has been more prevalent in West Africa throughout the period (from March to July 2020), a region less directly 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.[13]

[12] 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.

[13] https://www.cgap.org/pulse

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. 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 conditionned 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 dilligences 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 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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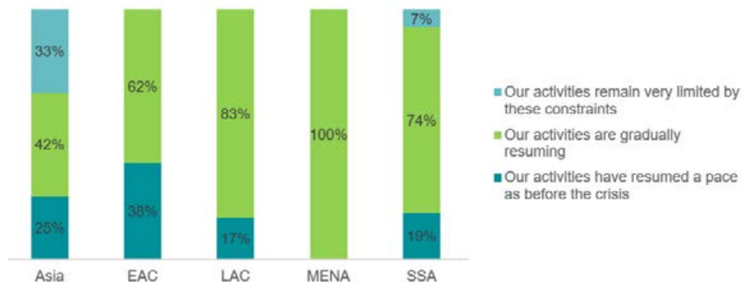
Published on the Grameen Crédit Agricole website

A GRADUAL RECOVERY OF MFIS IN SYNC WITH THEIR CLIENTS' RECOVERY

By the Grameen Crédit Agricole Foundation, ADA and Inpulse

Fig.1 : Resumption of activities by MFIs

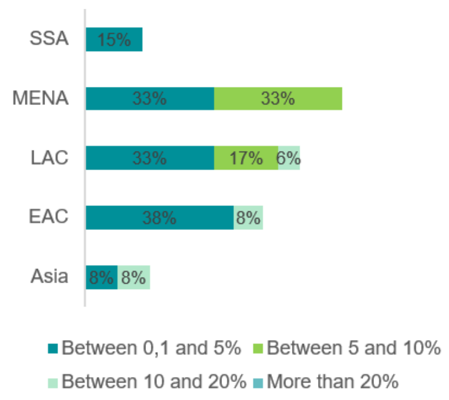


ADA, Inpulse and the Grameen Crédit Agricole Foundation have joined forces to monitor and analyze the effects of the Covid-19 crisis on their partner microfinance institutions around the world. This monitoring is done on a regular basis and will be carried out throughout 2020 in order to obtain better insights of developments. We hope this regular and in-depth analysis will contribute to building strategies and solutions adapted to the needs of our partners, and also to the dissemination and sharing of information among the various players in the industry.

IN A NUTSHELL

The results presented in this article are drawn from the fourth survey [1] in a joint series by ADA and the Grameen Credit Agricole Foundation, Inpulse having chosen to join the initiative one time out of two. Responses were collected between October 1st and October 20th from 73 microfinance institutions (MFIs) in 38 countries in Sub-Saharan Africa (SSA-37%), Latin America and the Caribbean (LAC-25%), Eastern Europe and Central Asia (ECA-18%), Asia (15%) and Middle East North Africa (MENA-4%).[2]

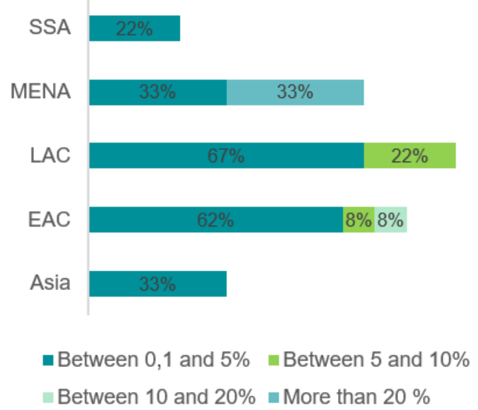
Fig.2 : Percentage of MFI staff affected by the virus



Given that previous surveys had revealed that the main financial difficulty for MFIs was the increase in their Portfolio at Risk (PAR), the new survey took a closer look at how MFI clients and their businesses were doing as this is what MFIs mainly depend on. Above all, the results of this survey confirm the gradual resumption of MFI activity, along with a reduction in most of the operational constraints initially encountered. The major remaining constraint has to do with loan recovery which explains the increase in PAR as the main financial difficulty for MFIs.

This difficulty in loan recovery may be due to external constraints, such as mobility or moratoria imposed by authorities, or to difficulties encountered by the clients themselves whose activities have not yet restarted or are slowed down by the impact of the crisis. Indeed, even if the peak of the health crisis has passed and it has affected to a lesser extent regions such as sub-Saharan Africa or South-East Asia, thus allowing a number of business sectors to restart, it is all too soon to expect a return to normal. Especially, the restrictive measures and the overall economic situation have negatively impacted — and still do — activities in a certain number of industries, thus restricting the sources of income of the populations. Consequently, this affects MFIs and their financial situation which is why it seems crucial to monitor closely how the crisis is experienced by their clients in order to be responsive in adapting to their needs by offering solutions allowing everyone — clients and MFIs alike — to survive this crisis.

Fig.3 : Percentage of MFI clients affected by the virus



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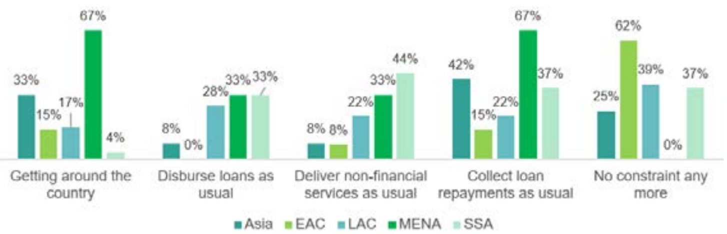
[1] The results of the first three surveys of ADA partners, Inpulse and the Grameen Agricole Foundation are available here: https://www.ada-microfinance.org/fr/crise-du-covid-19 and https://www.gca-foundation.org/en/covid-19-observatory/

[2] The number of MFIs responding by region is as follows: SSA: 27 MFIs; LAKE: 18 MFIs; EAC: 13 MFIs, Asia: 12 MFIs; MENA: 3 MFIs. In spite of the small number of MFIs participating in the MENA region, we considered useful to share the inputs of MFIs that took the time to respond to these surveys. However, we urge caution in interpreting the results in this region, which might have limited representability.

1. THE RECOVERY OF MFIS IS STILL CONSTRAINED BY THE DIFFICULTY IN COLLECTING LOANS

The responses collected during the month of October show that most MFIs are gradually resuming their activities (Fig. 1).

Fig. 4 : Constraints encountered by MFIs



Only those of some MFIs in Myanmar remain very limited by the constraints represented by containment measures currently in place in the country, as are the activities of a minority of MFIs in sub-Saharan Africa (one MFI in Mali and one in Malawi). In Europe and Central Asia, the share of MFIs having achieved their normal activity level is most significant.

One of the constraints being encountered by MFIs that previous surveys have revealed was that part of their staff and client base were affected by Covid-19. Hence, we focused on the prevalence of the Covid-19 disease among staff and clients. Fig. 2 and 3).

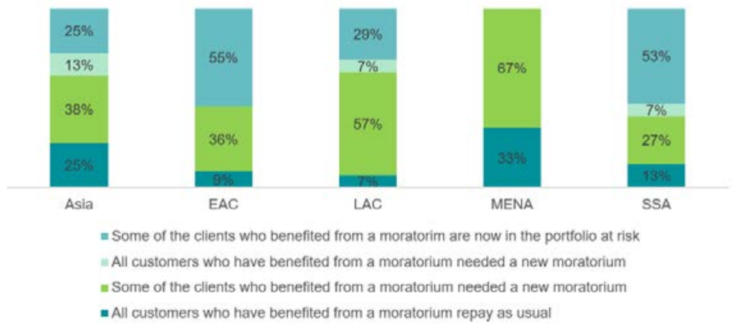
The situation is mixed in this respect: The Sub-Saharan Africa region appears as the least affected with just a small proportion of MFIs reporting that their staff (15%) or their clients (22%) are affected. Moreover, this proportion remains very small (between 0.1 and 5%) with 70% of the region's MFIs reporting that neither their clients nor their staff have been affected by the virus. On the other hand, the Latin America and the Caribbean region is the most affected, followed by Europe and Central Asia with a larger share of MFIs concerned by the virus (just 11% of MFIs in the LAC region reporting that neither their staff or clients were affected), and it shows a larger prevalence rate for some of those MFIs[3]. Nevertheless, even if the health situation is more problematic in those regions, it still remains for the time being a relatively minor constraint for MFIs.

Moreover, on a global scale a relatively important proportion of MFIs report that they do not encounter any constraints. (Fig.4), mainly in the Europe and Central Asia regions (62%), while those facing some constraints are fewer with every survey, thus showing a gradual recovery.

The major remaining constraint (32% of MFIs in the sample) is about the difficulty in collecting loan repayments. This implies an increase in the portfolio at risk which is the main financial difficulty encountered by MFIs everywhere. It is reported as such by 77% of MFIs while other difficulties show a diminishing pattern in every survey.

Fig. 5 : Establishment of moratoria

Fig. 6 : Resumption of repayments by MFI clients having benefited from a moratorium



This difficulty or impossibility of collecting loan repayments can be explained by mobility constraints, mainly in countries or internal regions where containment measures are still in place, but also by the implementation of moratoriums – be they initiated by authorities or by the MFIs themselves if the clients needed them. Indeed, these moratoriums concerned the majority (84%) of MFIs surveyed in the sample (Fig. 5), and they are still in place for almost a half of MFI clients (48%) in total. Asia is the region where this situation is more frequent (83% of MFIs included in the sample).

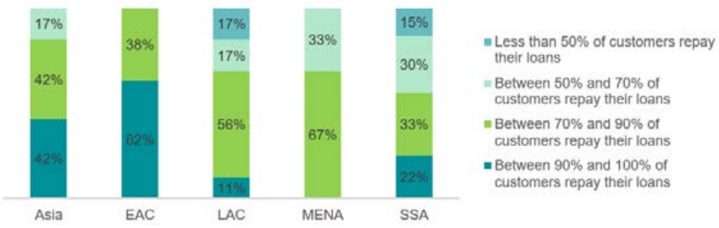
Among clients having benefited from a moratorium, those repaying normally their loans once it ended are a minority (Fig. 6). The majority of MFIs (86% of the sample) report that some or all of the clients needed a new moratorium, or even ended up in the portfolio at risk with 39% of MFIs in the sample affected by the latter

3 La région MENA n'étant représentée que par 3 IMF dans l'échantillon enquêté, les chiffres élevés dans cette région doivent être considérés avec précaution.

situation. In Europe and Central Asia, and in Sub-Saharan Africa, more than half of MFIs report a move to their portfolio at risk of part of their clients having benefited from moratoria.

Nevertheless, globally speaking, the majority of MFIs in every region report that at least 70% of clients repay their loans. (Fig. 7). In South and Central Asia and Europe, more than 80% of respondents show repayment levels above 70%. On the other hand, the situation is not as good in Latin America and Caribbean and Sub-Saharan Africa regions: 34% and 45% of MFIs respectively with less than 70% of clients repaying their loans, and 17% and 15% where this proportion is less than 50%.

Fig. 7 : Loan repayment by MFI clients



2. THE RECOVERY OF MFI CLIENTS IS FACING CONSTRAINTS

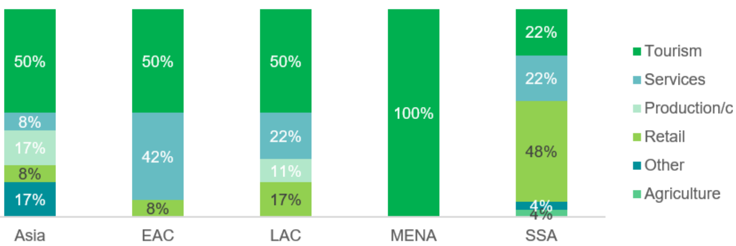
These repayment levels, being both volatile and lower than the pre-crisis normal, can be explained partially by the fact that not all customers are still able to resume their activities: Once again, excepting the Europe and Central Asia regions, only a minority of MFIs report that 90% or more of their clients have resumed their activity. However, for a majority of MFIs in the sample (54% in total), between 50 and 90% of clients have resumed their activity. The overall trend therefore points towards gradual recovery.

Fig. 8 : Resumption of activity by MFI clients

However, even if customers do resume their activities, some sectors are more affected by the crisis than others. The business activity most often mentioned as being most affected is tourism in regions other than sub-Saharan Africa, where it is retail (reported by 48% of MFIs in the region). The services sector is second in most regions except in Asia where the production and crafts sector is more affected. On the other hand, agriculture is reported only once. Overall, the agriculture sector appears to have been less affected than others by the Covid-19 crisis, as our previous work already showed, where a number of MFIs stated that they wanted to focus more on agriculture as it was less affected by the crisis.

When looking at the constraints faced by customers, by sector, it appears that these constraints are specific to each of them (Fig. 10). Regarding the tourism industry, it is the decrease in the number of clients of entrepreneurs working in it that is the main source of difficulty, followed closely by the loss of employment, mentioned by 60% of MFIs who identified tourism as the most affected sector. On the other hand, in other sectors, the loss of jobs by clients does not appear to be among the main constraints identified. The decrease in the number of customers remains one of the major constraints, for the retail sector as well as for services or production and crafts. The same result is found in other surveys directly targeting MFI customers, such as those using the tool developed by SPTF where the reduction in demand is identified as the main reason for the decline in revenues.[4] Finally, the lack of business opportunities is the first constraint for the retail sector (reported by 72% of MFIs identifying this sector as being the most affected), while the difficulty in producing or offering products is typical of the production and crafts sector.

Fig. 9 : Most affected business sectors



By focusing on the specific constraints faced by their clients

[4] The results of these surveys are available here: https://app.60decibels.com/covid-19/financial-inclusion#explore

depending on their industry, but probably too on other factors, MFIs would thus be able to better anticipate their financial situation in the short term, and respond appropriately to the needs of their different customer segments: This would allow them all to better navigate this crisis. This responsiveness seems to have already been adopted by some MFIs, given that,

Fig.10 : Constraints encountered by MFI clients by business sector

and beyond the priority given to the repayment of credits or their restructuring, some of them have introduced not only new channels of digital communication and distribution, but also new credit policies or new products (Fig. 11).

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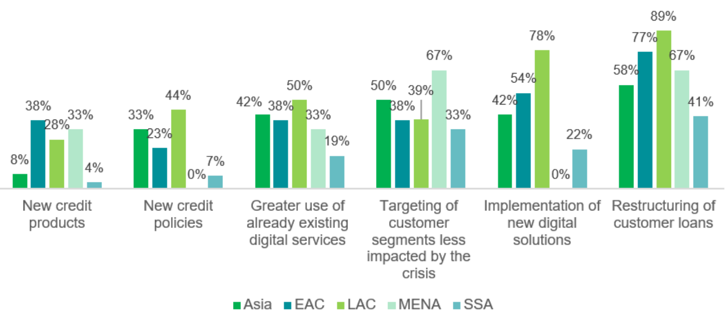
Fig. 11 : Operational measures taken by MFIs



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