SPTF COVID-19 Client Survey and Roundtables
Executive Summary and Recommendations

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Executive Summary

Even as businesses re-open and lenders resume lending, data collected with the SPTF COVID-19 Client Interview Tool from the customers of more than 35 financial institutions around the world suggests that the biggest test for the sector may be yet to come. The survey results show that the majority of clients around the world are emerging from lockdowns and the first wave of COVID-19 in a vulnerable or highly vulnerable state, with reduced income, depleted savings and in some cases having sold off assets. Some—particularly the poorest—were already vulnerable and their vulnerability was exacerbated by COVID-19 and its economic aftershocks. Others find themselves newly vulnerable.

It is hardly a surprise that lockdowns had a profound effect on micro and small enterprises, small-scale agriculture, and informal sector workers with few to no social protections. True to what we expected, clients across many sectors reported a sharp reduction in income and a corresponding rapid deterioration of the financial situation and living conditions of their households. Food insecurity—a highly sensitive indicator of economic stress—shot up after the lockdowns were imposed, especially in parts of Africa and Latin America where transportation shut downs and movement restrictions interrupted food supply chains and social safety nets and emergency subsidies did not reach all of the vulnerable population.

What is perhaps more surprising is that many of these effects are lingering well into the re-opening of those economies. As of November, 84% of clients interviewed were still reporting being in a worse financial situation than before the pandemic—a decline of only 8% from the peak. There has been some softening of the severity of the impact between September and November with the percentage of clients stating they are in a "much worse" financial situation than before declining by 21 percentage points. Overall, however, it is clear that a large majority of clients have not financially recovered and may not do so for some time due to the overall weakening of most economies due to COVID-19 and the measures used to control it. Data from the surveys suggest that the crisis has led to increased vulnerability of clients and longer-term changes in the viability of some livelihoods that will require financial service providers to rethink what products and services they offer and how.

Knowing what happened in the lockdown period is important because it tells us the depths of impact on the populations our industry serves. One of the most revealing questions explored in the survey deals with coping strategies. Across most contexts, we see people drawing down on their savings as a primary coping mechanism, suggesting that savings are fulfilling the important purpose of consumption smoothing for those people with access to them. The survey also revealed significant informal borrowing as well as some sale of assets with clients in certain country contexts increasingly turning to these mechanisms with greater downsides as the crisis has prolonged. Additionally, among rural and peri-urban populations, significant numbers of clients reported consuming crops, seeds, and livestock, rather than selling them. Most clients employed multiple strategies to cope with the crisis. Over time, the percentage of clients who are using 3 or more coping strategies has tripled from 7% to 21%

suggesting that financial resilience may be decreasing as coping mechanisms such as savings and loans from family members have been tapped out.

Many of these coping mechanisms, while helpful in mitigating the immediate impact of the lockdown on families, have the potential for long-term repercussions for clients. As economies re-open, many clients are more capital-constrained and less resilient to future shocks. Businesses were decapitalized, loan proceeds used for emergency rather than investment purposes, and savings and in some cases assets were depleted during the lockdown. A priority for both investors and financial service providers must be helping clients rebuild both their income streams and their savings and asset cushions. In some cases, that will mean helping them shift into less precarious and more resilient lines of work that can better withstand future shocks.

This rebuilding will require financial service providers to offer flexible products and services with repayment and withdrawal terms tailored to clients' specific needs. Key to the recovery will be tracking changes over time for different client segments. With the initial lockdowns, we saw a nearly universal decrease in income in the MSME sector and worsening financial situation for families. With the re-opening, we are seeing greater divergence in the recovery path and progress for different segments in different contexts. Both the crisis and recovery are playing out differently with different types of enterprise, different sectors, genders, poverty levels. Likewise, they are significant differences between urban and rural contexts and among countries. Ongoing monitoring is essential to track progress and setbacks in different segments and to adapt our response to clients' changing needs.

Recovery will also require a nuanced and collaborative approach to risk management. There is risk at every level of the investment chain. Clients, who have already drawn heavily on their coping mechanisms to weather the storm, have the fewest resources available to mitigate risks. If we wish to maintain our gains in financial inclusion during this crisis, our approach to risk management cannot focus on the exclusion of clients or institutions who find themselves in difficult and risky situations. Instead, we must design an approach that acknowledges that client vulnerability in the face on-going economic uncertainty and disruption is at the heart of risk felt all the way up the chain. If we put client recovery at the center, it is possible to build a stronger and more resilient sector coming out of this crisis.

Next Steps on the Road to Recovery

The recovery of the sector hinges on the recovery of the clients. While clients remain highly vulnerable to future shocks, so, too, does the entire sector. If clients collapse under the burden of accumulated interest and unrealistic payment schedules, so, too, will the sector. If clients become ex-clients, losing access to the financial services they need to rebuild their businesses, smooth consumption, and cushion against future shocks, the ripples will hurt the entire economy. Therefore, the recovery strategy must be squarely centered on supporting client recovery.

In this section, we share some of the reflections and recommendations that arose from the 4-part roundtable series with financial service providers and investors as well as from the qualitative feedback shared by clients during their interviews.

Financial Solutions

Clients need financial flexibility and patient terms as they rebuild.
Client vulnerability remains high. The shock, in many cases, was severe and prolonged. The rebound is uneven with some segments and geographies coming back more quickly and others even worsening. There has been massive economic disruption, and the economies of many places may have been fundamentally altered in ways we do not yet fully appreciate. Clients need loans with repayment terms that give them the flexibility to navigate this uncertain environment. Clients also need flexible savings products that give them the opportunity to build back a cushion and the flexibility to use them when a future crisis hits. In the surveys, many clients emphasized the importance of empathetic communication from their lender. Most were determined to pay but felt that they needed more time and flexibility to do so.

Some clients running businesses will need relief in order to start over
Although signs are that most clients have restarted their businesses and are beginning to earn again, some will need relief to recover. In many markets, payment moratoria were extended to clients for several months. Some are still on-going. These moratoria provided much needed short-term relief for clients who were unable to work and therefore unable to earn during lockdowns. However, in many cases, regulators were silent on the question of how accumulated interest and penalties should be handled, leaving it to clients and institutions to negotiate over who would bear these costs, which clients sometimes getting a shock that they would owe penalty interest on the period of payment suspension. Very few governments created incentives to support and encourage institutions to forgive this accumulated burden. As moratoria end, many clients who barely survived weeks and even months of business closure are faced with the daunting prospect of paying off accumulated interest on principal that couldn't be put to work during the lockdowns. Some will never catch up without some payment relief.

There is a need for patience and flexibility at all levels of the investment chain
Because clients need flexibility and patient terms as they rebuild, financial service providers themselves need flexibility and patient capital as they provide flexible and patient terms to their clients. Social investment funds need patience from their investors as returns are smaller and longer term. We need to explore ways to inject some patient capital into the entire chain to keep funds flowing without putting too much pressure on short-term repayments.

There is an opportunity to build on the success of digital financial services during the pandemic and expand access even further.
Many governments turned to electronic and digital payments to quickly disburse emergency subsidies to vulnerable populations. This led to an increase in digital accounts. At the same time, clients were searching for options that allowed them to access services closer to home, motivating them to explore digital options that earlier they may have resisted. This has prepared the ground for digital financial services to flourish if financial institutions invest in them. However, it is has also revealed the need to ensure adequate oversight and consumer protection for these new users of new services. It is further worth noting that the infrastructure to support digital financial services is not available and accessible to all clients, so pursuing an "all-digital" strategy during the pandemic and beyond may lead to the exclusion of some clients.

Non-financial Support

Clients need non-financial support in adapting and rebuilding their livelihoods

Where it is permitted, clients are out there working, but the majority of them are bringing in less money than they did before. Demand is down. Supply chains have been interrupted. Prices are less predictable. Some businesses are simply not viable under these conditions, and clients will need help shifting into something else. Others need to be completely rethought and adapted. Even many of those clients who are able to continue their businesses as before may need additional capital to invest in inventory.

Financial service providers have realized that in addition to loans, many clients will need training, mentoring and capital to rebuild. Many are providing this support either directly or in partnership with others. For example, institutions in the Philippines and South America reported providing training and coaching on moving sales on-line—setting up e-commerce and social media marketing. This is cutting into margins in the short term, but is necessary for a healthy and sustainable recovery. Providing grant funding or special low-interest or no-interest lines of credit can help financial service providers expand these programs.

Managing Risks

Increasing financial exclusion is a risk we must actively guard against
If we wish to maintain our gains in financial inclusion during this crisis, our approach to risk management cannot focus primarily on the exclusion of risky clients or institutions. Focusing lending only on those clients operating in sectors that have been less severely impacted, or on stronger clients, will inevitably lead to a loss of access for many who are poorer or more vulnerable. We need new ways of assessing creditworthiness and risk in this situation. During the lockdowns and initial phases of the crisis, we saw that women and older clients **continued to pay back loans at a higher rate** than men and younger clients **in spite of being harder hit by nearly every aspect of the crisis**. Traditional credit and risk assessment methods might look at these people's low income, low inventory and sector challenges and conclude that they are a poor credit risk, but their behavior says otherwise. By taking a client-centered approach to risk management—focusing our efforts on providing the products, services and support that clients need to navigate this risky *situation* that we are all living through is our best chance to preserve both financial access and the financial health of institutions and people.

Recovery will require a nuanced and collaborative approach to risk management
There is risk at every level of the investment chain. Clients, who have already drawn heavily on their coping mechanisms to weather the storm, have the fewest resources available to mitigate risks. If we wish to maintain our gains in financial inclusion during this crisis, our approach to risk management cannot focus primarily on the exclusion of risky clients or institutions serving clients or markets perceived to be riskier. Instead, we need to re-invent our risk and credit assessment processes (and train staff on them!) to make sure that we are not excluding good clients fallen on hard times while still taking care to avoid overburdening them. We must continue to support good institutions that are doing their best to support their clients in navigating these difficult circumstances. We must design an approach that acknowledges that client vulnerability in the face of on-going economic uncertainty and disruption is at the heart of risk felt all the way up the chain.

Closing Reflections

With high levels of client vulnerability, the recovery is still fragile. Given the depths of economic harm in many contexts, we can expect the road to recovery to be slow and bumpy. On-going data collection and monitoring will be important for understanding how the situation of different segments is evolving over time and to serve as a warning system to identify when client stress is increasing. Among roundtable participants there was widespread support for on-going data collection and more data pooling. Data needs to be pooled and shared widely with social investors, governments, donors, development finance institutions, investors in social investors, financial service providers and networks. We must work together collaboratively across stakeholder types and regions to put client recovery at the center and build a stronger and more resilient sector coming out of this crisis. Each stakeholder has an important role to play in supporting a sustainable recovery. In closing, we'd like to highlight a few key actions different stakeholders can take.

Financial Service Providers

- Develop mechanisms for on-going data collection on what's happening with specific groups and segments of clients
- Segment and analyze operational and portfolio data on a regular basis to detect shifts in well-being and stress in different sub-segments of clients that might be obscured in aggregate portfolio statistics.
- Offer flexible and customizable products that can be adjusted to match the specific needs of clients.
- Support clients' business adaptation by offering training, business planning/projections support, and coaching either directly or through partnerships
- Undertake savings campaigns and incentivize savings to assist clients in building back their resiliency
- Take the long view: give clients as much flexibility on payments and as much debt relief as is feasible and necessary to help good clients recover.
- Be as open as possible with your investors about what your clients are experiencing and how you are responding to the situation.
- Invest in digitalization of services and/or additional agents and points of sale to make accessing services easier for clients in future waves or crises.

Investors and Donors

- Talk with investees about what is happening with their clients and how they are responding.
- Fund data collection initiatives and share data with other actors in the same markets.
- Fund—either through grants or concessional interest rates--initiatives by investees to support client recovery.
- Support investees in developing and expanding digital financial services
- Take the long view: give financial institutions flexibility to respond to changing client needs and support their sustainable recovery—even if it impacts the bottom line in the short term.

Regulators

- Support client data collection and data pooling in your market.
- Use client level data to guide regulatory actions
- Grant flexibility to both clients and financial institutions to restructure loans without penalty
- Ensure adequate and transparent communication around changes in terms and conditions of loans and the impact on cost and credit history