

IMPACT OF COVID-19 TO MFIs IN INDONESIA: A RAPID ASSESSMENT

As COVID-19 cases in Indonesia increased in mid-April 2020, and business activities were halted as a result of social distancing measures, microfinance institutions braced for impact. Government and non-government institutions who have partnered with MFIs for the development of financial service of millions of low-income households and their microbusinesses are searching for ways to provide support in the face of this unprecedented challenge.

To understand the challenges faced by MFIs as entities and their staff and management as individuals during the COVID-19 pandemic, the RISE Indonesia team took the initiative to conduct a rapid assessment. The study is expected to inform stakeholders on ways to provide support to MFIs so that they can continue their work, sustain their own business and extend financing to low-income households and microbusinesses.

The study was designed as a mixed survey (quantitative and qualitative) using a purposive sampling method. Data collection was done through self-assessment using a digital platform (KOBO Toolbox). As a microfinance specialist institution, RISE maintains networks with numerous MFIs in Indonesia. For this particular survey, the link to the questionnaire was sent to managers and staff of these institutions between April 21 and May 6, 2020.

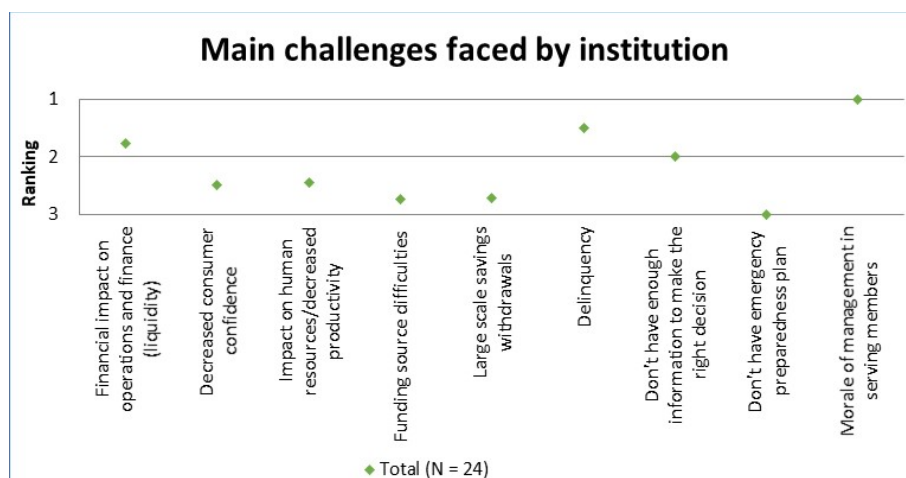
Fifty-two respondents from 24 MFIs participated in the study, i.e. from banking (seven institutions) and Non-Banking (17 institutions). Banking institutions represented in the study are Rural Banks (*Bank Perkreditan Rakyat* or BPR), whose operations are limited by regions (provinces). While Non-Bank institutions are mainly represented by conventional cooperatives and Syariah cooperatives, some of which are national cooperatives (operating in at least three provinces). The institutions are headquartered in ten provinces from the major islands of Sumatra, Java, and Nusa Tenggara, i.e. Aceh, Banten, Jakarta, West Java, East Java, Central Java, Yogyakarta, North Sumatra, West Sumatra and East Nusa Tenggara. Banking institutions are regulated by the Financial Service Authority (*Otoritas Jasa Keuangan* or OJK). Cooperatives are regulated by the Ministry of Cooperatives and Micro Small and Medium Enterprises (*Kementerian Koperasi, Usaha Mikro Kecil dan Menengah*).

The microfinance institutions in this survey well represent institutions providing services to the bottom of the economic pyramid. Ten of the participating MFIs provide non-collateral loans in group lending (i.e., seven of them provide both group and individual loans and the remaining three provide only non-collateral group loans).

Province	Total MFI
East Java	6
DI Yogyakarta	5
DKI Jakarta	4
DI Aceh	2
Central Java	2
West Sumatera	1
East Nusa Tenggara	1
North Sumatera	1
Banten	1
West Java	1
Grand Total	24

KEY FINDINGS

Institutional challenges. Financial impacts on operations and liquidity, arrears, and management morale are the most significant challenges faced by MFIs. With increased non-repayment among borrowers, MFIs become tight in cash to cover their operational expenses. This situation thereby affects the morale of the MFI management, and this scenario is more apparent among the Non-Banking institutions.

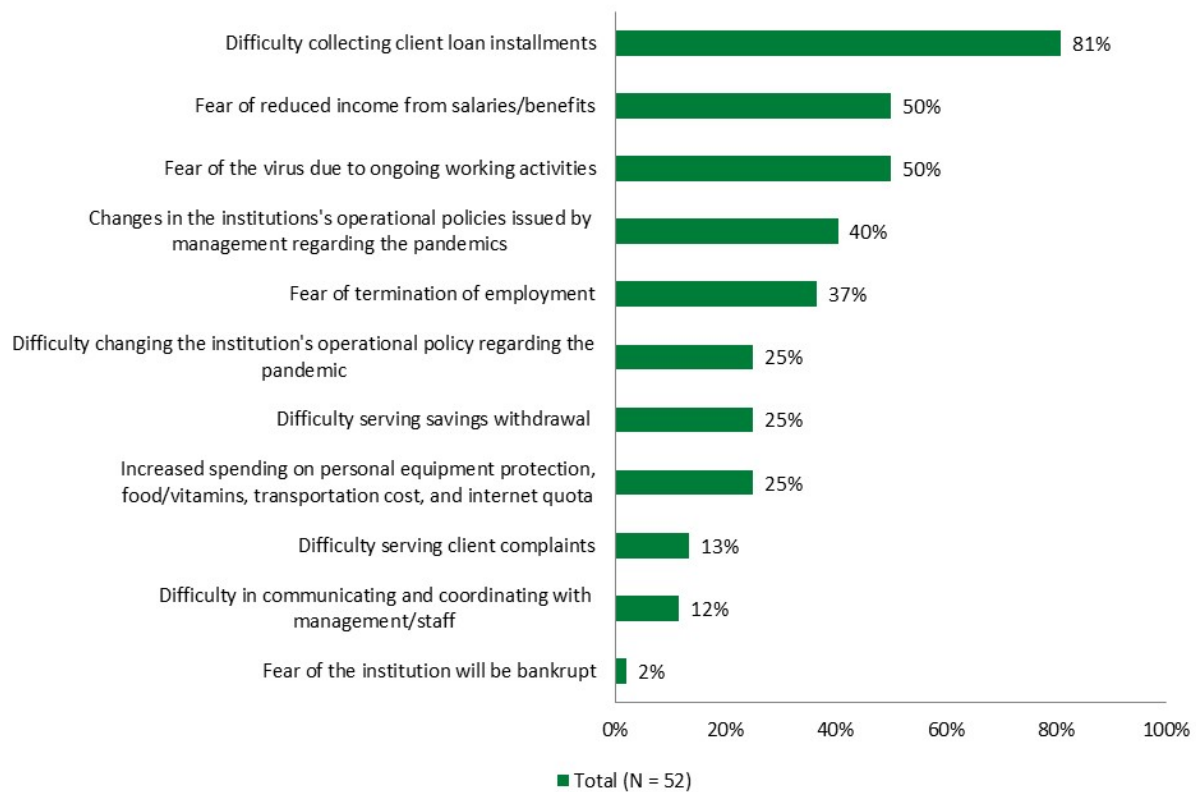


Personnel challenges. Aside from perceived challenges faced by the institutions, this study also seeks to understand the personnel challenges faced by the MFI management/staff. Difficulty in conducting collections is the most significant challenge faced by MFI personnel. The lockdown measures enforced by local governments has limited the collection activity, more so among cooperatives, due to the common practice of using an in-person pick-up service.

Concern over reduced income is the second most significant challenge. With many institutions applying performance-based incentives (usually based on loan disbursement and collection targets achieved), this forms a large component of the income received by MFI personnel. Therefore, missing targets due to inability to reach clients affects their total income. It is also to be noted that one-third of the respondents see potential lay-offs as a serious concern.

While financial institutions are identified by the Government as essential businesses and therefore have permission to remain operational during the lockdown, the worry of being infected by the virus has been identified as among the most important challenges faced by the MFI personnel. This seems to be more acute among cooperatives, many of which offer a pick-up service. Sudden changes in operational policy and difficulties which could result in its implementation process thus pose serious challenges to MFI personnel, both Bank and Non-Bank. A quarter of the respondents noted that they faced difficulties in managing the savings withdrawal among clients.

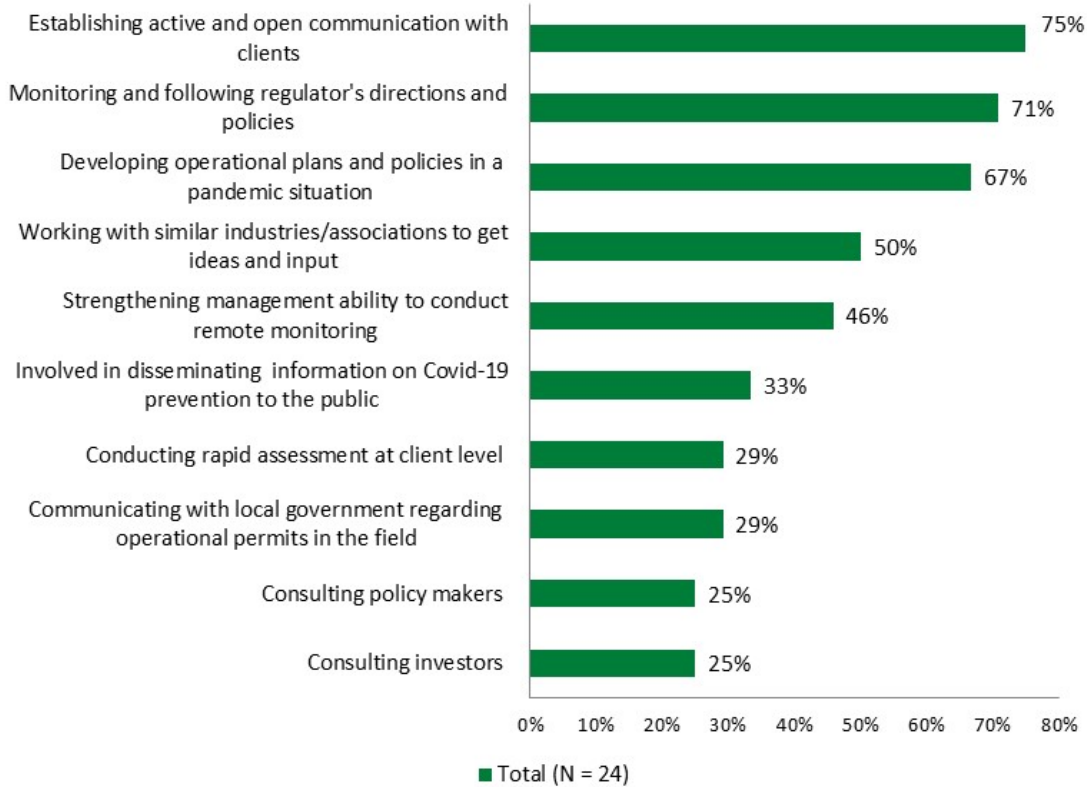
Challenges faced by staff/management



Actions taken by institutions due to the pandemic. Establishing active and open communication with the clients/members was the most important and immediate action taken by MFIs, while, monitoring the policy and guidance from regulators was the second most important action. These are followed by developing operational plans and policies as an adjustment to the situation brought about by the pandemic. Furthermore, enhancing the management capacity for remote/online monitoring is another key action taken by the MFIs.

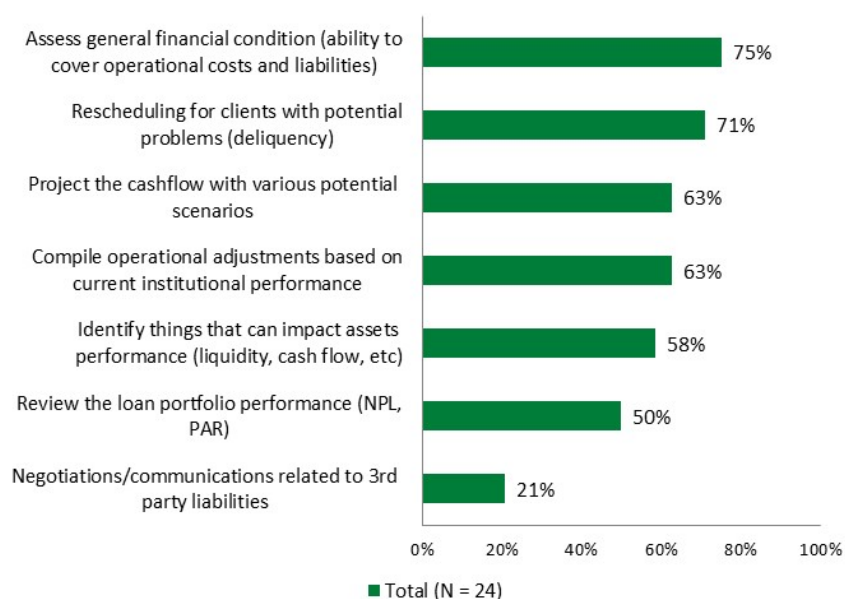
For the highly regulated banking institutions, monitoring the policy and guidance from regulators, and consulting with regulators, has been shown to be more important when compared to the Non-Banking institutions. Regulator information is the bench mark for actions taken by the banks. In contrast, performing the role as a humanizing agent in the dissemination of information to members seems to be given more importance among cooperatives.

Steps taken by institution



Actions to mitigate financial risks. The majority of the MFIs have taken prudent actions to mitigate financial risks. They have conducted a general review on their financial condition to determine their capacity to cover their operational expenses and liabilities; and done rescheduling for clients with potential problems. However, further prudent actions could be taken by some institutions to mitigate financial risks.

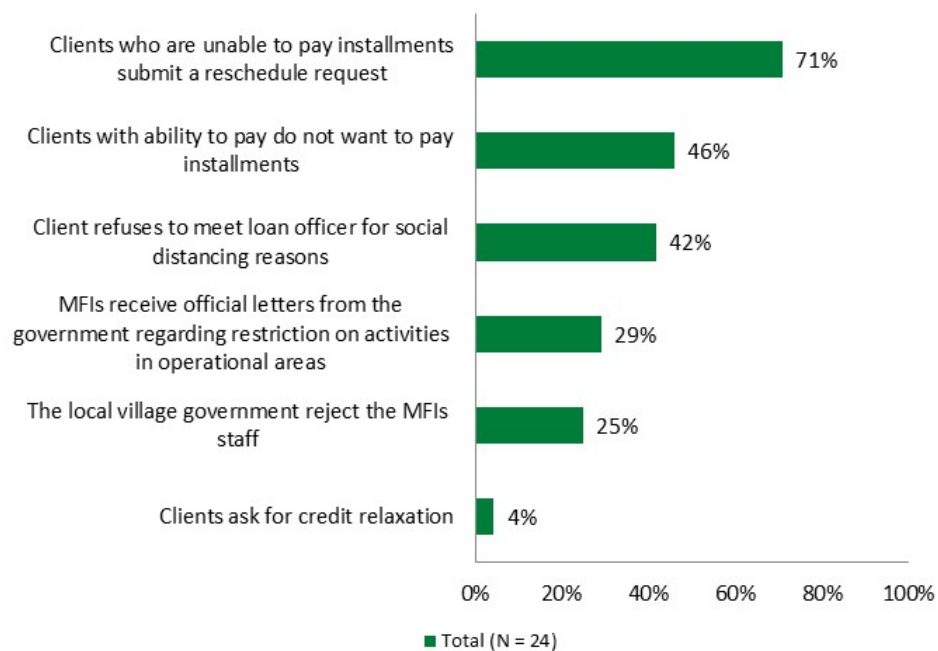
Financial risk mitigation actions



Impact of government regulations. As the impact of the pandemic escalated in late March, OJK immediately issued guidance to banks on credit relaxation measures to anticipate the difficulties to be faced by the microenterprises. In what seems to be the impact of this regulation, most institutions received rescheduling requests from their clients (including cooperatives not supervised by OJK).

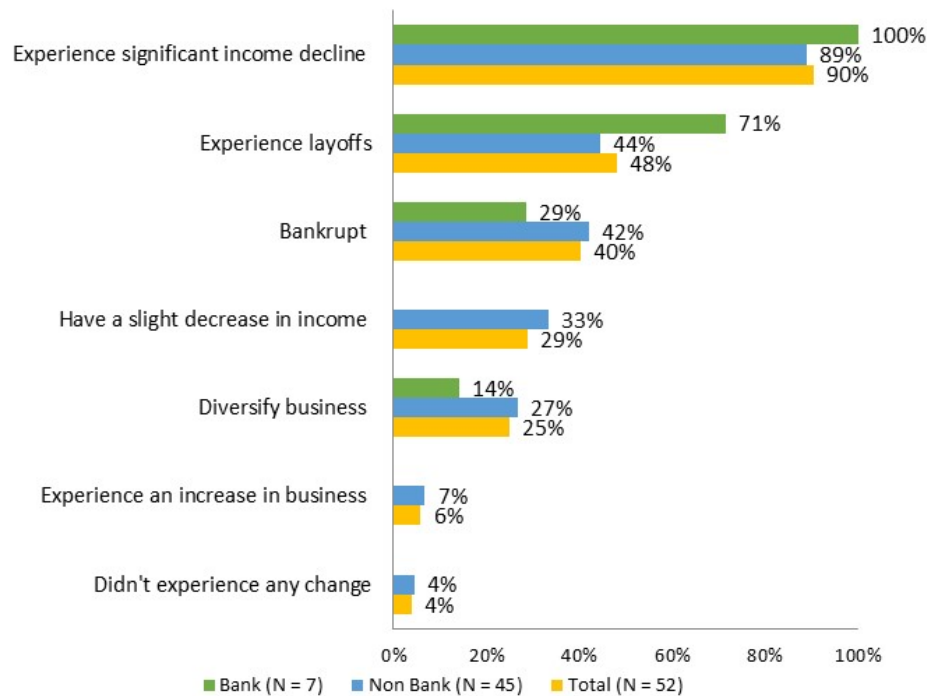
Unfortunately, the regulation seems to have increased the potential moral hazard wherein almost half of the institutions have customers who refused to pay their loan although they have the capacity to pay in full. The government also issued measures of social distancing and partial lockdown which seems to exacerbate customers refusal to meet credit officers. Local governments issued special letters of non-entry to MFIs who commonly practice offline service, i.e. pick up collection.

Experience of institution following government regulation on credit relaxation



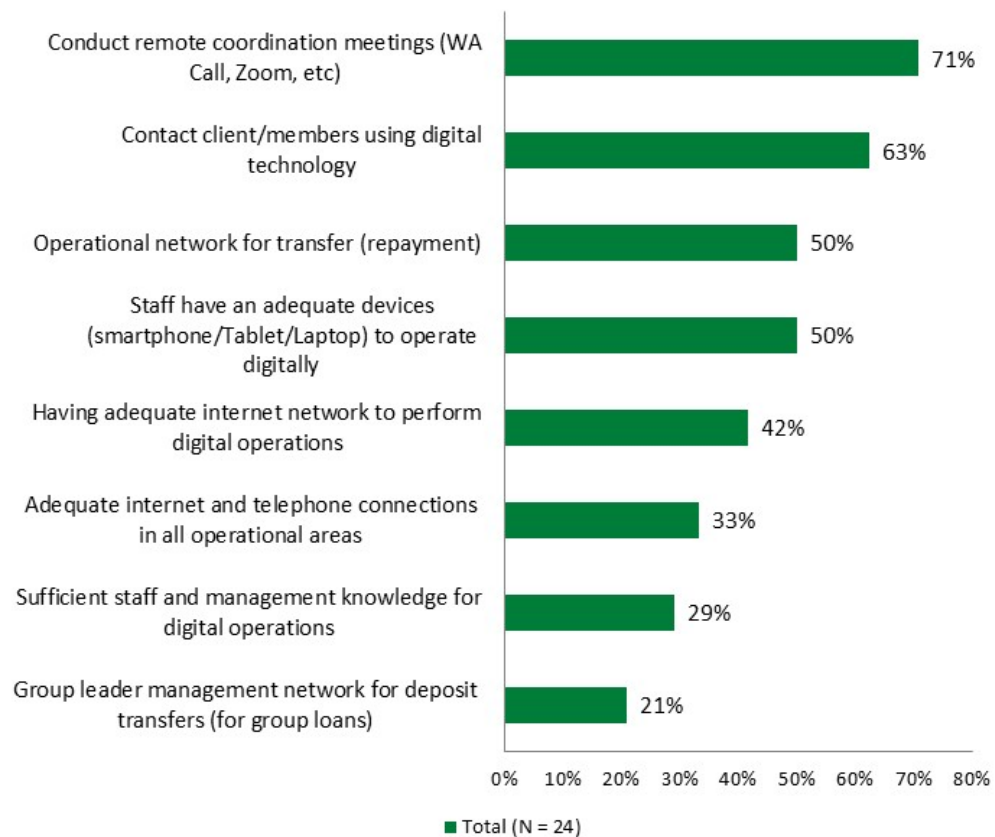
Impact of pandemic on customers' businesses. Significant reduction in customers income is felt by most institutions, most significantly among banks. Relevant to the type of customers they have (employees with fixed income), more banks see their customers experiencing termination of employment. On the other hand, more cooperatives (whose members are mainly owners of microbusiness) see business bankruptcy among their members. They also see diversification of businesses in their members, where some are able to get the same income as before and others even experiencing an increased income. The resilience of the customers at the bottom of the pyramid seems to be driven by their ability to diversify or adapt their business to the changes in the market during this pandemic.

Changes in business of clients/members

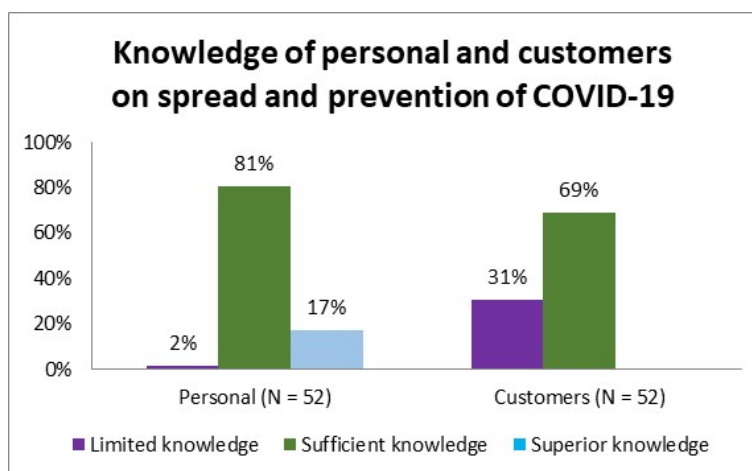


Managing social distancing, work from home. The capacity of an institution to manage remote operations is important during this pandemic. Most of the institutions conduct remote coordination meetings using a digital platform and customer contacts are conducted using digital technology. In general, technology support for remote operations still needs improvement. Payment by transfers is only conducted by half of the institutions and an equal number of them have their staff equipped with electronics and sufficient knowledge on digital operations. Field networks has become key in managing collections for group lending.

Capacity of institution for remote activities



Knowledge of transmission and prevention of COVID-19. Most respondents among staff/management perceive that they have sufficient knowledge on the transmission and prevention of COVID-19; in fact, almost one-fifth of them perceived to have superior knowledge. The majority of respondents perceived that their customers have ‘sufficient knowledge’ on the transmission and prevention of COVID-19; none perceived that their customers have ‘superior knowledge.’ More than one-third of the respondents think that their customers have ‘little knowledge,’ and this is higher among Non-Banks compared to Banks. This factor could be because Non-Banks cater to the bottom of the income-level pyramid thereby calling for the need of more support in information dissemination.

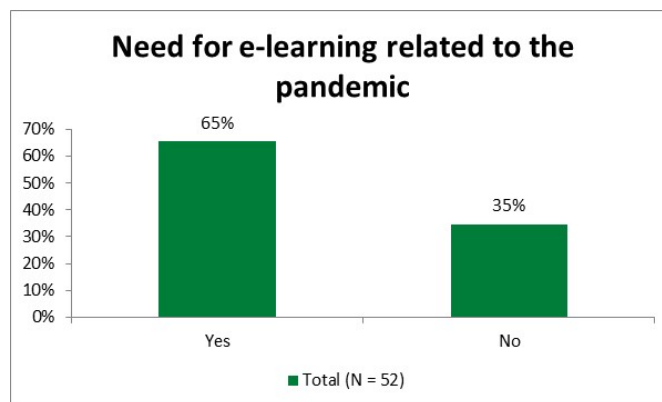


Support needed. Liquidity support is the most important need the MFIs expect from the government. The MFIs also expect the government to provide them with regulations that support financial institutions (not only the customers). Such regulations are on bank credit relaxation and liquidity challenges they are facing. Besides that, the MFIs also need quick information on the impact of the pandemic so that they can use the information to make their business projections.

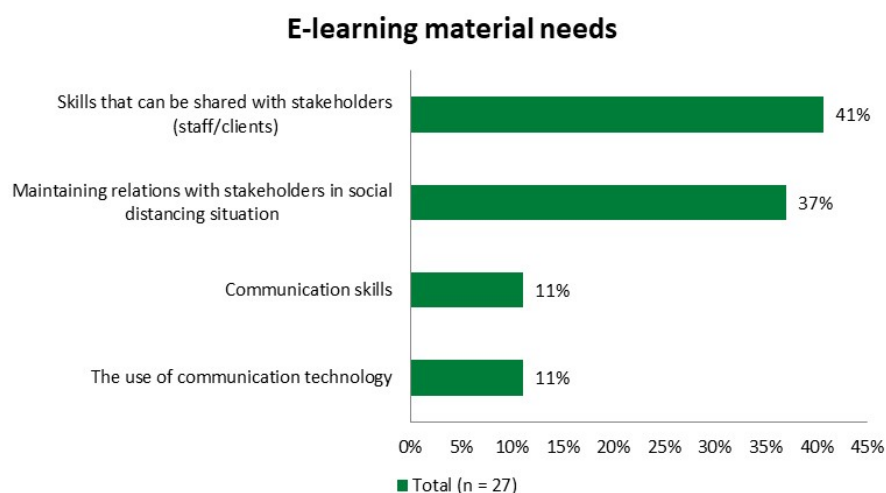
The most important support needed by the MFIs from the Non-Government Organizations (NGO) is in the area of capacity building for the MFI and members in terms of consultancy and training. Private organizations are also expected to collaborate in combating the pandemic. Financial support for liquidity is expected from both institutions.

Source of support	Support needed	Frequency	%
Government	Liquidity support	19	37%
	Policies that are supportive of MFI and Micro Small and Medium Enterprises (MSME)	6	12%
	Stricter policies to end the pandemic	5	10%
	Relaxation of institutional credit	5	10%
	Maintaining access during social distancing period	3	6%
	Provision of relevant and accurate information regarding the impact of COVID-19.	3	6%
NGO	Training for MFI and MSME	13	25%
	Liquidity support	12	23%
Private Organization	Collaboration to end the pandemic	12	23%
	Liquidity support	9	17%

The need for e-learning. While working from home, the need for e-learning for capacity building in response to the pandemic is seen as highly important by the MFIs.



The most important topics for e-learning are skills to be shared with staff and clients and relationship maintenance with stakeholders while observing the social distancing guidelines. While banks prefer topics related to development of communication skills, topics related to the use of communication technology are preferred by the cooperatives.



Summary

The MFIs in Indonesia are experiencing the serious impact of COVID-19. Arrears and insufficient liquidity, followed by the decreasing management morale are seen as the most critical challenges faced by these institutions. Both the management and staff are extremely concerned by the constraints on collecting instalments due to the prevailing requirement for social distancing. Other areas of concern include the decreasing income and the fear of being infected by the virus.

Thus, the MFIs are urgently in need of capital to support their liquidity, and also credit relaxation from the funders. They also expect the government to provide them with good information and guidance which will allow them to make quick and accurate decisions. Further, the MFIs emphasize the valuable need for training to equip them to support their clients during such a changing environment and challenging situation caused by this pandemic.

As a follow-up to the discussions with stakeholders, the research will be continued with larger samples which will allow deeper analysis relevant to the Banking and Non-Banking institutions.