

Microfinance and COVID-19 in Pakistan

What Happens After Lockdown?



08 July 2020

9:30-10:30 AM ET



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 **FinDev
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FINANCIAL INCLUSION
FOR DEVELOPMENT
A PROGRAM OF CGAP

WEBINAR

LOGISTICS

- 1 Attendee microphones will remain muted during the entire webinar session.
- 2 To ask questions during the webinar, please use the Chat box on the right-hand side of the Webex session. You may submit your question at any time during the webinar presentation.
- 3 To ensure your question is seen by the moderator, select “**All Participants**” from the drop-down menu when sending the question.
- 4 The webinar recording will be emailed to all attendees and registrants.

Speakers and Agenda



Muhammad Meki
University of Oxford



Farah Said
Lahore School of Economics



Tim Ogden
Financial Access Initiative



Rebecca Rouse
Innovations for Poverty Action



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INNOVATIONS FOR
POVERTY ACTION

Discovering and
advancing what works
to
reduce poverty





Rebecca Rouse

IPA at a Glance



22 Country Offices



8 Program Areas



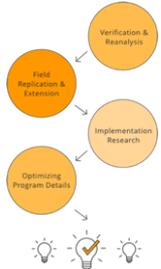
700+ Partners



600+ Researchers in our network



850+ Evaluations to date in 51 countries



17 Years of generating evidence and moving evidence to policy



IPA's Research for Effective COVID-19 Responses (RECOVR)



Rebecca Rouse



Rapid Response Surveys to Answer Critical Policy Questions (8+ countries)



Portfolio of IPA Studies to Generate Rigorous Evidence on COVID-19 (80+ studies)



Global Hub that Centralizes Research and Policy Lessons (100+ projects)



Advising Governments on Evidence-Based Approaches



Research-on-Research to Strengthen the Quality of Remote Data Collection

IPA's Financial Services for the Poor Research Fund



Rebecca Rouse



- Currently supporting six active projects in Ghana, India, Morocco, Nicaragua, Pakistan, and Peru
- Adapting fieldwork to COVID-19 realities, shifting to phone surveys when possible
- Opportunity to collect timely data on COVID-19 impact

Asset-Based Finance for Microenterprises in Pakistan



Rebecca Rouse

- Muhammad Meki, Simon Quinn, Kashif Malik, and Faisal Bari
- Graduated microfinance borrowers to a much larger loan to purchase a fixed business asset
- Impact on microenterprise performance, household consumption
- Results forthcoming



Tim Ogden

An Existential Crisis for Microfinance?

- Some historical perspective
- What's unique about the modern microfinance movement
- Why this time is different
- What's happening so far

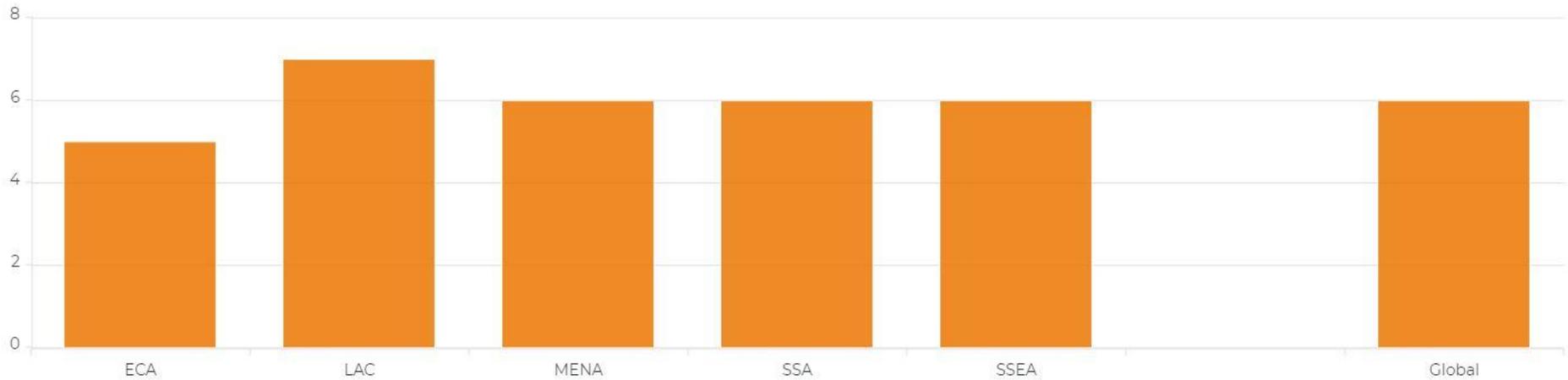
CGAP Pulse Survey



Tim Ogden



How is the MF sector in your country doing? 0=Business as usual: 5=Real stress: 10=Looming disaster



Group by

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POLL



Tim Ogden

Please take a moment to respond to the poll questions on the right-hand side of your screen.

- What regions of the world do you focus on?
- How worried are you about the survival of MFIs in your region of concern?
- Are you more or less worried than you were 60 days ago?

Study design



Muhammad Meki

- We documented the immediate consequence of the lockdown in April 2020, using rapid-response phone surveys with:
 - 1,000 **microenterprises**.
 - 200 **loan officers**.
- We also conducted semi-structured interviews with around 20 microfinance **CEOs** -- covering all the largest Non-bank Financial Companies (**NBFCs**) and Microfinance Banks (**MFBs**) – as well as the State Bank of Pakistan (**SBP**) and the Securities and Exchange Commission (**SECP**).

Impact of COVID-19 on Pakistani microfinance sector



Muhammad Meki

- Microenterprises experienced a ~90% drop in weekly **household income**, and their immediate concern became **food security**. This was corroborated by loan officer surveys, which had predicted a very similar drop, and is consistent with similar surveys conducted by PMN and Kashf.
- This income collapse meant that 70% of clients we interviewed could not meet the required payments on their loans, which was very consistent with MFIs' reports of expected **repayment rates** falling to around 34%.
- Despite the official MFI policy allowing debt restructuring, we found that most clients had **not been contacted** by the MFI to offer repayment flexibility; a similar result was found in PMN's survey.

Insights from MFI CEOs and regulators



Muhammad Meki

- A striking theme was that of MFI heterogeneity, both in terms of:
 - (i) **'Purpose'**: from charitable / social institutions to pure for-profits;
 - (ii) **Regulation**: NBFCs (many formerly NGOs, catering to poorer customers) vs MFBs (deposit-taking).

Clearly, this heterogeneity is important when it comes to policy response and consumer protection.

- **Loan officer incentivization** may need to change during a crisis, and MFIs should closely monitor the interactions between loan officers and clients.
- Many MFIs are still reliant on **face-to-face transactions** and were reluctant to use digital communication and payment methods during the crisis. PMN surveys also confirm significant client reluctance to switch.

Timeline and Regulatory Response



Farah Said

March 2020

20 March: first death.

23 March: country-wide lockdown.

SBP and SECP allow MFBs and NBFCs to **defer principal payment for one year** upon written request from the borrower before 30 June 2020.

SBP waives online transaction charges and directs MFBs to facilitate use of digital financial services; SECP allows some flexibility in reporting standards.

April 2020

Lockdown continues.

SBP, SECP, allow request for deferment or rescheduling via SMS/email/phone.

SBP and Ministry of Finance announce **Refinance Scheme (loans) to Support Employment and Prevent Layoff of Workers** to facilitate payment of wages to employees of small and medium enterprise (SME) borrowers of banks and MFBs.

May 2020

9 May: Country-wide lockdown ends.

Microfinance loans worth PKR 37 billion (\$ 0.23 billion) had been restructured or deferred.

1,700 businesses applied for refinance loans of PKR 120 billion (\$ 0.25 billion) covering 1.1 million employees.

Ministry of Finance allocates PKR 30 billion (\$ billion) to a **credit-sharing facility, bearing 40% of first loss to banks on loans given to SMEs.**

June 2020

Smart lockdown (500 “hot spots” identified).

Deadline of refinance and loan deferment schemes extended to 30 September 2020.

Recent survey data confirms that borrowers and microenterprises continue to suffer dramatic falls in income.



Tim Ogden

A Path Forward

- Rethinking the purposes of microcredit and microfinance
- Rethinking the regulatory trade-off
- Rethinking the business model
- Taking the DFS challenge seriously
- Preserving the modern microfinance movement's most important assets: Knowledge and Trust

Q&A

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POLL

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WHAT'S NEXT?

1

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2

Question unanswered?

Contact IPA at: financialinclusion@poverty-action.org

3

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