# COVID-19 BRIEFING

CGAP

symbiotics

## Snapshot: MFIs During the Crisis

FEBRUARY 2021

# Microfinance institutions maintain rebound, but solvency questions loom

**The latest Symbiotics indicators show that, as of October 2020, microfinance institutions (MFIs) remain resilient and have managed to stop the negative trends reported in the first half of 2020. However, profitability levels could weaken further, depending on the ability of MFIs to recover their restructured portfolios and manage potential solvency challenges.**

**As presented in the previous snapshot (November 2020), microfinance institutions (MFIs) have experienced a steady rebound in monthly disbursements and repayments since May, with both measures growing back at a pace nearly comparable to the initial decline in every region. However, the recovery is fragile.** October data show both disbursements and repayments declining after an uptick in September.

FIGURE 1. **Monthly disbursements (year over year)**

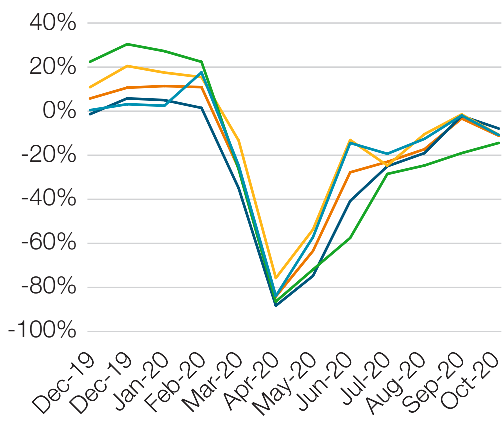
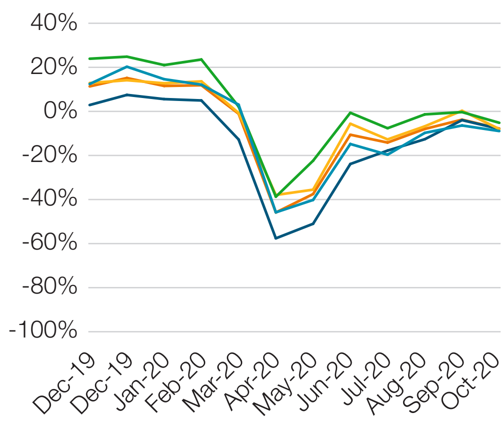



FIGURE 2. **Monthly repayments (year over year)**




Africa and MENA — Asia — Latin America — Europe and Central Asia — All MFIs in Symbiotics' portfolio

## The ratio of loans under moratorium continues to fall across all regions, with October data showing the lowest levels since the start of the crisis.

**This decrease is especially pronounced in Africa, where moratoria levels are half of what we are seeing in most other regions.** The high levels of loan restructuring still present across regions make it difficult to understand whether there is any deterioration of portfolio quality. As more moratoria are lifted, it should become clearer whether borrowers are able to repay their loans. Our data show a marginal portfolio at risk (PAR) 30 increase in September and October 2020, except in Africa, where the expiration of moratoria has led to an evident increase in PAR.

FIGURE 3. **Moratorium ratio**

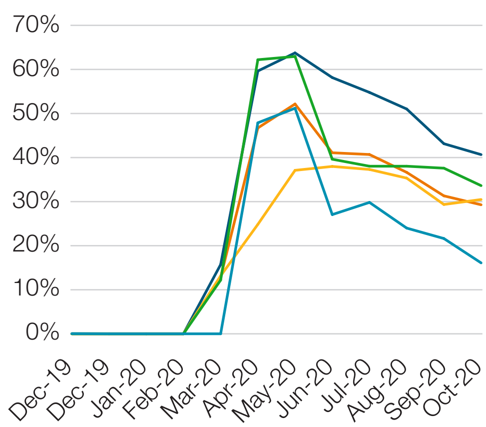
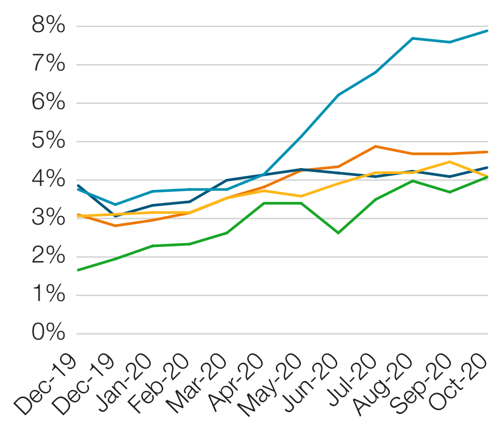



FIGURE 4. **Portfolio at risk**

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**About this snapshot**

This snapshot is part of a series published by CGAP and Symbiotics, offering regular updates on how COVID-19 is affecting the microfinance sector's portfolio quality, financial health, and ability to serve excluded clients. All or most of the data shown and referenced come from the Symbiotics portfolio of over 300 MFIs worldwide. For more information about this partnership, visit www.cgap.org/MFI-snapshots.

**Portfolios continue to grow, especially in Latin America and Asia, but borrowers decline.** While portfolio levels in Africa continue to improve, they are still in negative growth territory. However, the overall number of borrowers continues to decline, except in Latin America and Africa. While lower demand and prudent lending practices are likely causing this muted trend in borrower growth, these dynamics underscore the risk of excluding poorer clients. And, at least in some markets, we are starting to see COVID-19 cases ticking up, which could lead to lockdowns that exacerbate the situation.

FIGURE 5. **Portfolio growth**

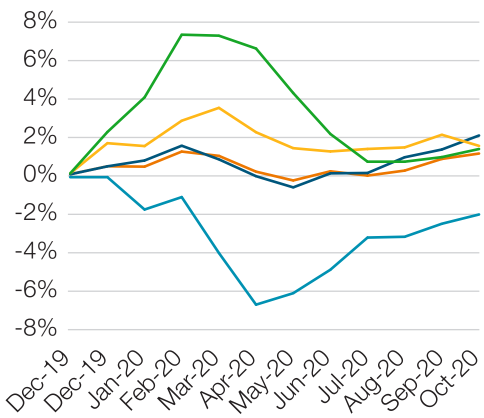
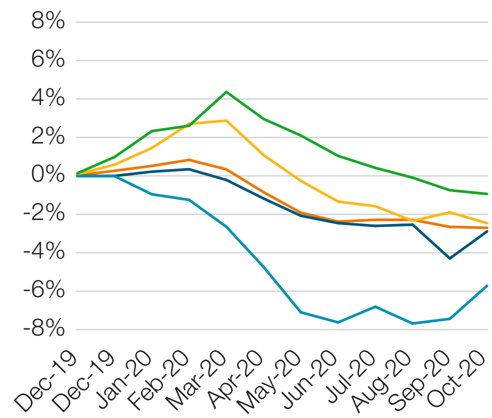
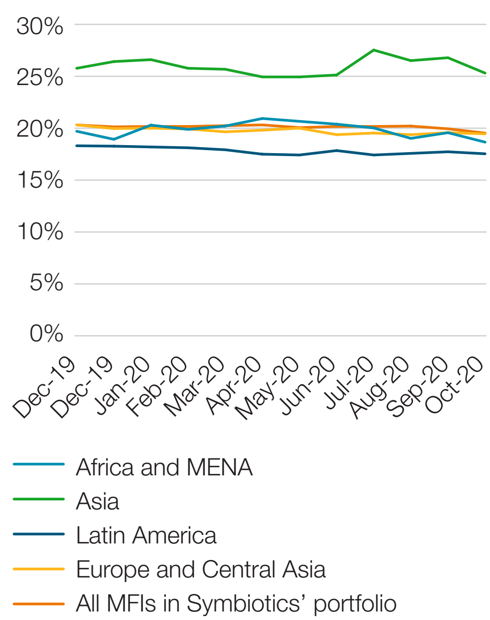



FIGURE 6. **Borrowers growth**




**For the moment, solvency remains stable.** However, current data do not fully reflect the potential medium-term deterioration for some institutions. It is still too early to predict the full impact of the COVID-19 crisis on the microfinance industry and its clients.

FIGURE 7. **Solvency**



## As a major liquidity crisis has not yet materialized, the focus shifts now to solvency and a key question is around how to size the problem.

**A year into the COVID-19 pandemic, liquidity concerns in the microfinance sector have not materialized as expected.** Many microfinance institutions entered the crisis with equity cushions, and others have provisioned well for potential write-offs. While the industry is not currently facing the structural threat many had feared, signs of distress are emerging in certain less developed microfinance markets and smaller institutions.

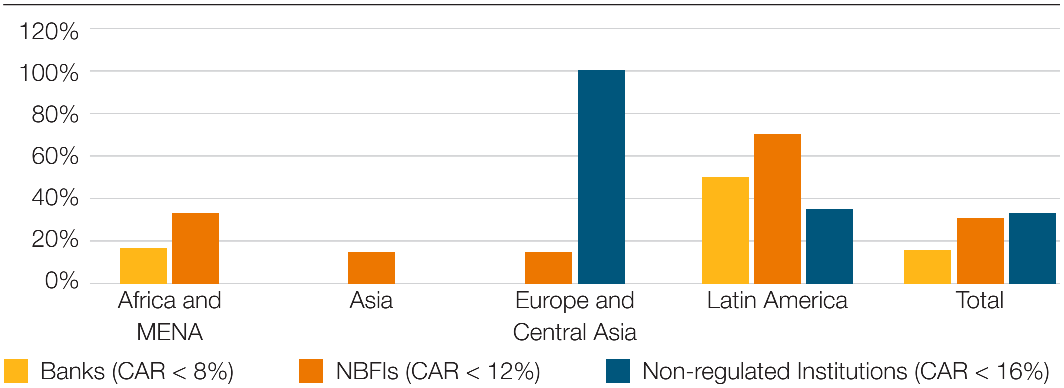
Data show elevated levels of restructured portfolios, but it is difficult to predict how restructured loans will perform given the complexity of moratoria across MFIs globally. MFIs' solvency will depend on the extent of their losses from troubled portfolios.

Since we currently lack visibility to fully assess the potential impact of losses, CGAP and Symbiotics ran a simple stress test assuming that 20 percent of the troubled portfolio resulted in losses. In such a scenario, the impact on the global loan portfolio of the MFIs in our sample would be the following:

- Total loss of equity would reach $4 billion.
- 4 percent of MFIs in the sample would have an equity value below zero, 50 percent of which would be located in Latin America and 38 percent in Africa.
- Capacity to absorb a reasonable amount of losses before becoming insolvent varies by type of institution and region:
    i. Assuming a minimum **capital adequacy ratio (CAR) of 8 percent for banks, 16 percent of such institutions in the portfolio would fall below** this percentage. The effects would be strongest in Latin America, especially in Central America. There would be no major issues for Asia.
    ii. In the case of regulated **non-banking financial institutions (NBFIs), a minimum CAR of 12 percent** would mean that **30 percent of the institutions** in the portfolio would be impacted, with as many as 70 percent of the Latin American NBFIs falling below this prudent ratio.
    iii. 33 percent of **non-regulated institutions would reach a CAR below 16 percent,** with over one third of them located in Latin America.

In the forthcoming issues, we will fine-tune this stress test exercise to better assess the real impact of the crisis.

**Percentage of institutions below minimum Capital Adequacy Rations (CAR)**



## The pandemic has underscored the heterogeneity of the microfinance industry. In the past year, we have seen marked differences in the response to the crisis by type and size of institution.

**The solvency stress test presented above confirms that Tier 1 institutions are much better positioned to ride out the crisis.** They tend to be larger, regulated, diversified, and have decisive management responses. In contrast, Tiers 2 and 3 institutions may face severe stress and challenging negotiations with shareholders and lenders as they attempt to replenish their capital. Latin America would be the most exposed region across all type of institutions, followed by Africa.

**The capital positions of Tier 2 and 3 MFIs could severely erode this year as the crisis continues and the sector faces the dual challenge of restructured portfolios and concentration of maturities due to the many extensions granted in 2020.** Shareholder support for additional capital is likely to be limited. As a result, funders may need to create new solvency facilities or repurpose existing ones to support otherwise viable institutions at risk and the broader microfinance sector.

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Over the coming months, CGAP and Symbiotics will continually monitor the data and publish additional snapshots covering issues such as liquidity, solvency, and portfolio restructuring.

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## Latest Indicators

FEBRUARY 2021

FIGURE 1. **Monthly disbursements (year over year)**

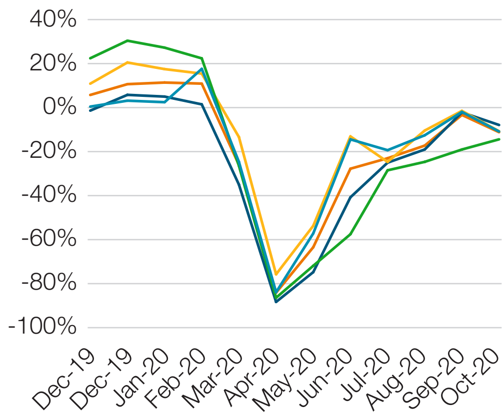
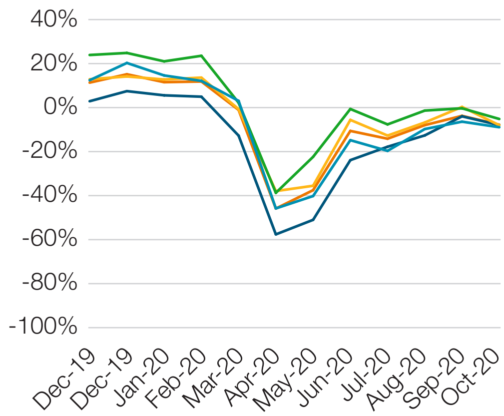
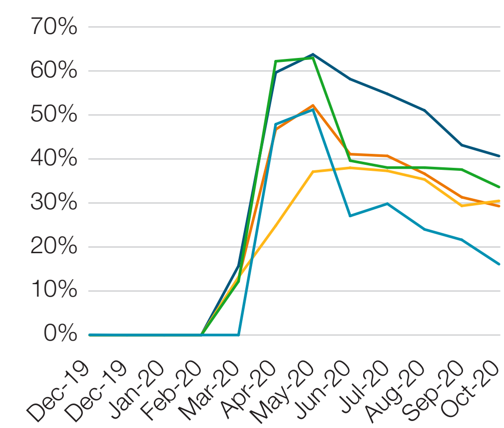



FIGURE 2. **Monthly repayments (year over year)**




Africa and MENA | Asia | Latin America | Europe and Central Asia | All MFIs in Symbiotics' portfolio

FIGURE 3. **Moratorium ratio**

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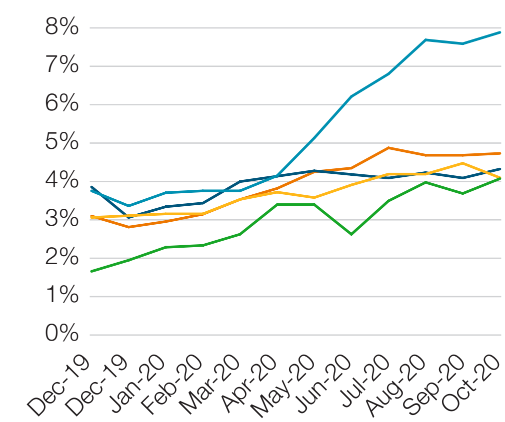


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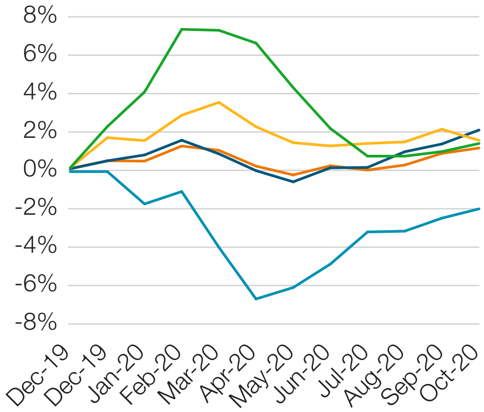


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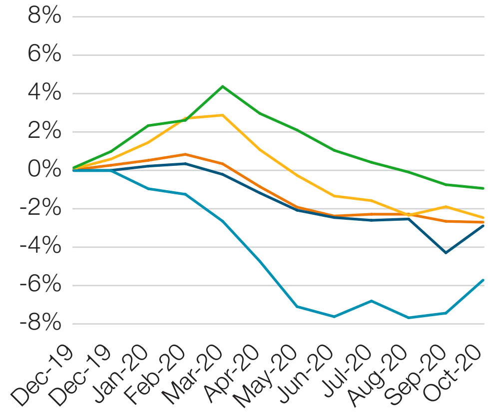


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FIGURE 7. **Solvency**

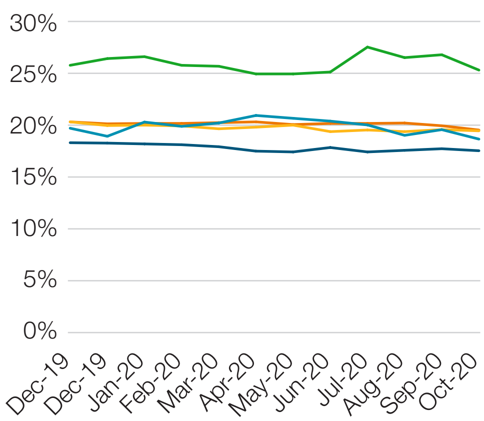


FIGURE 8. **Liquidity**

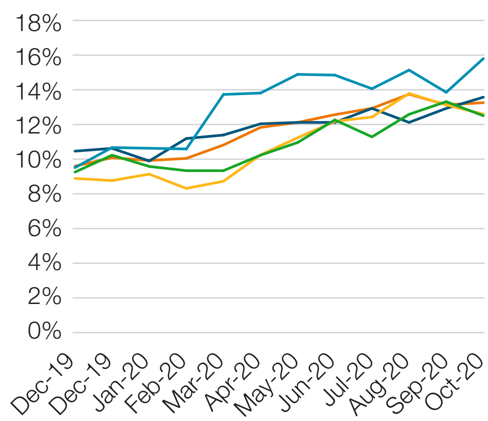


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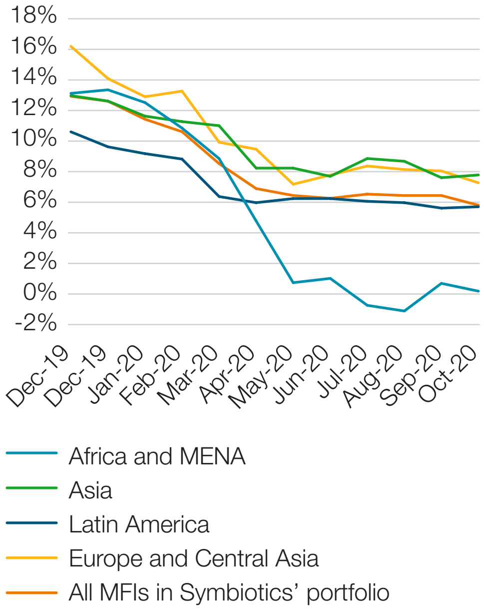
FIGURE 9. **Return on equity**



## Indicator definitions

For the following ratios, we always use the median value of a given regional or sub-regional group of MFIs, SME finance institutions and SME banks. All ratios are calculated in local currency.

### MONTHLY DISBURSEMENTS (YEAR OVER YEAR)

Growth (respectively decline) of monthly loan disbursements to borrowers, compared to the same month in 2019.

### MONTHLY REPAYMENTS (YEAR OVER YEAR)

Growth (respectively decline) of monthly repayments from borrowers, compared to the same month in 2019.

### MORATORIUM RATIO

Loans subject to general payment moratorium recommended by local regulator divided by the total outstanding loan portfolio.

### PORTFOLIO AT RISK

Portfolio at risk over 90 days + entire restructured portfolio, divided by the total outstanding loan portfolio.

### PORTFOLIO GROWTH

Growth (respectively decline) of the total outstanding loan portfolio on the last 12 months.

### BORROWERS GROWTH

Growth (respectively decline) of the number of active borrowers on the last 12 months.

### SOLVENCY

Proxy of Basel III capital adequacy ratio.

### LIQUIDITY

Unrestricted cash and short-term liquid investments divided by total assets.

### RETURN ON EQUITY

Annualized net income divided by the average of current month equity and last fiscal year-end equity.