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Pakistan Microfinance Investment Company Limited

An Account of Sound Crisis Management in Microfinance during Covid-19

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Background

In December 2019, several cases of an unknown form of pneumonia were reported in Hubei Province, China. The virus responsible for this disease had high rates of mortality and spread rapidly throughout China and eventually the rest of the world. The WHO named the disease caused by this virus COVID-19 and declared it a global pandemic on the 11th of March 2020.

The global response included instituting nation-wide lockdowns and social distancing measures. Pakistan followed suit with the virus infiltrating and spreading in the country over the February-March 2020 period. Commentators across the globe predicted severe economic repercussions of such measures which raised fears in developing economies with high poverty levels – Pakistan included. IMF projected Pakistan's economy to contract by 1.5% in FY2020. High inflationary environment through 2019 had already adversely impacted low-income groups and post-1Q2020 scenario was set to amplify economic hardships. It was rightly feared that COVID-19's economic disruption might double the number of people under the poverty line in Pakistan.

Implications for Microfinance Industry

Much like traditional economic shocks, COVID-19-imposed hit to the individual mobility and income generating activities carried a contagion effect throughout the economy. Lockdowns and mobility restrictions gave way to value chain disruptions which was particularly hard on the informal and low-income sectors. Microfinance, which caters to these groups for income generation and sustenance against – or graduation out of – poverty, had a critical role to play in this context. At the same time, global microfinance had its own sustainability at stake. Economics Observatory noted that there were serious concerns about the long-term effect on the 'high-touch' business model Microfinance Providers (MFPs) rely on to achieve high repayment rates.[1] The Economist observed that most Indian microfinance institutions had a cushion of a couple of months' cash; however, when reserves exhaust, their future would be in jeopardy. [2]

Pakistan's microfinance sector, which serves over 7 million borrowers, was also in a precarious situation. The entire sector's portfolio of more than PKR 300 billion could be devastated if immediate, intelligent and actionable measures were not introduced by all stakeholders including the government and market players. Several studies and surveys were conducted to ascertain and comprehend the situation at the client level. A sector-wide risk assessment characterized credit risk as the most prominent threat to the MF industry of Pakistan.[3] Another study showed that clients experienced 88% drop in average weekly household income.[4] In this environment, clients incapacitated to repay due to COVID-19 could pose unmanageable liquidity and existential challenges to MFPs. Risks could become more pressing if lockdown was enforced by the government. This would deprive MFPs of access to field and force them to lose 'touch' with their clients, in turn rendering them operationally ineffective.

At end-March 2020, there were 46 MFPs operational in Pakistan with 12 deposit-taking

[1] How will coronavirus change the global microfinance industry?

[2] For microfinance lenders, COVID-19 is an existential threat

[3] Risks to Microfinance In Pakistan 2020: Findings From A Risk Assessment Survey, Ali Basharat, Zeenoor S. Sheikh and Tehreem Fatima

[4] COVID-19 and the Future of Microfinance: Evidence and Insights from Pakistan, Malik, Kashif and Meki, Muhammad and Morduch, Jonathan and Ogden, Timothy and Quinn, Simon R. and Said, Farah, Oxford Review of Economic Policy

banks (MFBs) and the rest non-bank MFIs (NBMFIs). The latter include MFPs providing specialized microfinance services, rural support programs (RSPs) and other entities providing microfinance not as a core offering. Few entities came out of 2020 with heads held high while others could not perform as well. Although sustainability of large MFPs with strong liquidity positions was less questionable than smaller ones from the outset, innovative and proactive strategies and implementations thereof became critical for every player to secure its portfolio. Although most of the borrowers of PMIC fared the storm effectively, relatively better performers from PMIC's portfolio were ASA, NRSP, CEIP, Agahe and JWSP based on their liquidity and PAR management, loss absorption, and deferments. Both common and varying elements explain the relative efficacy of each of these at managing the crisis. This paper assesses the factors behind JWSP's performance till date, although the pandemic is not over yet. In future, PMIC may bring forth similar assessments of other entities to extend its coverage of strategies found effective in tackling pandemic-associated challenges.

Managing the Crisis

About JWSP

JWSP, a nonprofit NBMFI established in 1992, works to uplift people out of poverty through micro-credit, community mobilization, training, capacity building etc. In terms of urban-rural split the portfolio is skewed towards rural areas at almost 65% of its OLP. Its clientele has 96% females with a portfolio size at PKR 2.4 billion at March 2020. 76% of its portfolio was deployed in enterprises comprising services, trade and manufacturing/production sectors.

Fig 1

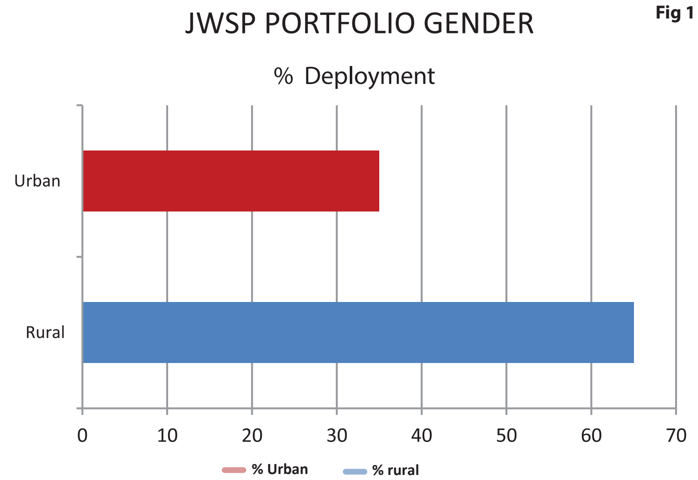


Fig 2

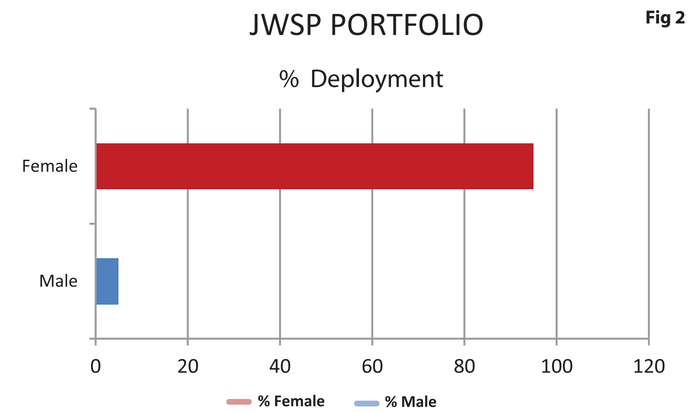
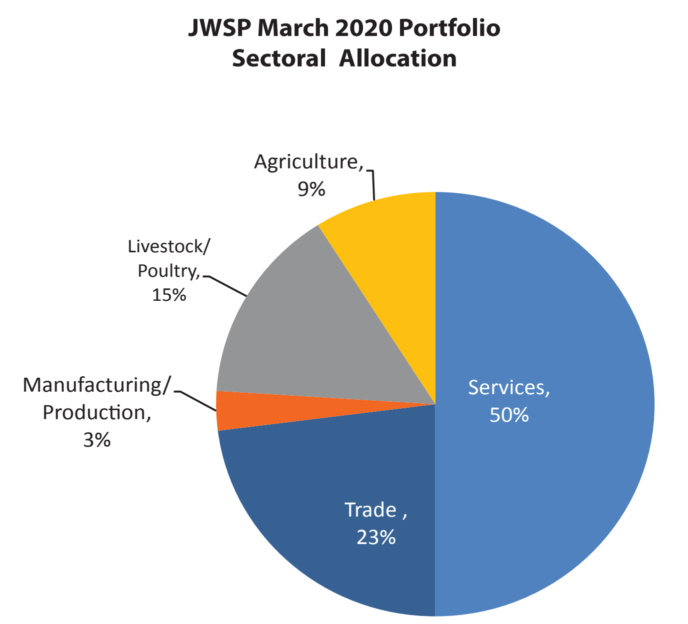


Fig 3



JWSP Chronology

March-20	Lockdown
March-April20	Regulator permits loan deferments
April-20	Lock Downs- Operations and local economy halt
End-April-20	Rumors/misinformation start spreading
May-20	Lockdown relaxations with SOPs
June-20	Full field deployment
July-20	Disbursement resumption
September-20	Economic normalization
October-20	Deferments stop

Initial Management Reaction

From the outset of COVID-19, the whole sector was in a state of panic and uncertainty; JWSP was in no way an exception to this. In early March, JWSP's senior leadership led by CEO started devising a framework after the lockdown was announced in Punjab. Without the provision of reliable and prompt date on how different sectors of the economy were performing during COVID-19, the management had to rely on its intuition and experience in predicting how its clientele would behave amidst economic hardships and restricted mobility. The management decided to form a core team to rollout a plan that would hold weekly meetings to ensure:

- Prompt action in the field and interacting with clients
- Monitor regulatory developments.
- Follow local administrative instructions.
- Liaise with the creditors and sector networks.

They also developed a COVID-19 Risk Response Matrix involving 122 actionable agenda items covering crisis management team, liquidity guidelines, ensuring critical services, compliance with SECP, staff health, portfolio risk analysis, community engagement guidelines, stakeholders dependency analysis and HR risks.

In addition, the management foresaw imminent liquidity pressures on the institution. Based on this, the management was quick to devise a contingency plan, with guidance from its main lender, PMIC under a liquidity stress testing model. This would prove critical in the coming months in managing any asset-liability mismatch. JWSP also timely developed a comprehensive communication strategy for all stakeholders: Board, creditors, senior management, branch and field staff, and beneficiaries.

Regulatory Relief

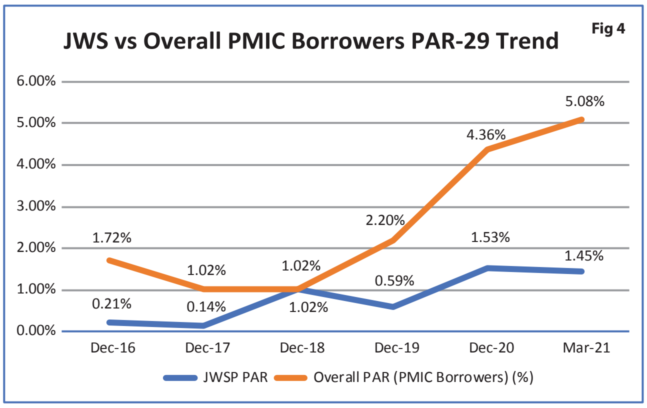
On April 4, 2020, the SECP allowed all lending Non-Bank Finance Companies (NBFCs), which include NBMFIs, to defer repayment of principal loans by their borrowers for up to one year. However, these entities could entertain loan deferral applications no later than June-end 2020 initially; this deadline was later extended by the regulator up till September-end. Such measures were directed to ease pressure on microfinance clients. However, they also put some pressure on liquidity of JWSP with potential future loan losses. An important and critical development came in the form of steady decrease in policy rate by the SBP. This substantially relieved JWSP and other borrowers to absorb loan losses in the future. Moreover, regulators and government did utilize the tool of moral persuasion on commercial lenders to provide relief to different sectors and especially those working in the microfinance sector in the form of deferments.

The Role of PMIC

PMIC received rescheduling of loan requests from majority of its 24 borrowers including JWSP in April. As an apex-wholesale lender to Pakistan's microfinance sector, it was considerate in providing relief to struggling MFPs. PMIC's exposure represented more than 80% of JWSP's portfolio at the time; the institution was heavily reliant on PMIC to provide it with breathing space amidst virtually zero recoveries for the short term and liabilities, including operational expenses, becoming due fast. PMIC promptly processed JWSP's application and deferred PKR 1.6 billion for four quarters in the month of April 2020. This provided JWSP with sufficient room to timely manage its portfolio and liquidity position. PMIC was also closely monitoring its portfolio and time-to-time sharing its own suggestions regarding risk management.

JWS Pakistan – PAR-29 History

Intuitively borrowers who have developed and internalized strong internal control systems and procedures are expected to perform better than others especially during crises. In case of JWSP the case is different. The historical trend of PAR-29 is also low as depicted in the 5 years graph below as compared to average of the PMIC borrowers. Even during the COVID-19 pandemic it has maintained PAR-29 well below 2%. As of March 2021, its PAR-29 stood at 1.45% whereas average of the same across all PMIC borrowers was 5.08%.



Lockdown Implications and Communication Strategy

Much of JWSP's operations were concentrated in Central Punjab with 48% of its portfolio deployed in the districts of Faisalabad and Gujranwala – highly urbanized, industrial and densely populated districts. A significant portion of its lending was deployed to enterprises (76%) which engender value chains highly dependent on intra-and inter-city mobility. Given the social-distancing regime promoted by WHO and implemented by the government, urban areas were more likely to be placed in lockdowns, and with greater enforcement. Business activity came to a near-halt in April with JWSP's own human resource confined to their houses. Branches and head offices were closed with much of the field staff unable to commute in the field.

In order to cope with this predicament, wherever needed, staff were trained for holding online meetings on Zoom. The requirement to adhere to e-mails for passing on operational directions was made laxer; alternatively, WhatsApp groups were formed for seamless communication. These groups were also utilized for issuing and sharing effective strategies for client handling among field and branch staff, and department heads, based on the challenges in the field. Junior staff were sharing with seniors the strategies and methods they found effective for recoveries. Seniors in turn gave serious recognition to this feedback, refined it, and shared with others. Video tutorials and trainings were also prepared and shared both online and in-person with staff members to improve their client handling and management, although this measure was taken around August-September when initial disruptions caused by COVID-19 had subsided.

Countering Misinformation

To make matters worse, introduction of the deferral of loans risked spreading of misinformation and misinterpretation among clients. News started surfacing towards end-April indicating that clients were mistaking deferment as loan write-offs. The situation was exacerbated by competing MFPs operating in the area. In some cases their lack of proactive communication with their own end-clients gave way to spreading and persistence of such rumors, which were also spilling over to JWSP's client base. In some pockets this led to severe client resistance to repay the loan, which risked a contagion into JWSP's client base.

To counter this, field staff were directed to compensate for their physical absence in the field by remaining in contact with end-clients over the phone. Extra mobile allowance was approved by the management to achieve this. From the outset, it was clearly communicated to the client base that the new regulations implied loan rescheduling which did not entail loans being forgiven; only deferment of principal loan amount was allowed. Such prompt and clear communication coupled with disincentives to make late repayments drove voluntary repayments up to 35% over March – April 2020 period and much higher subsequently. The team remained in constant contact with their clients subsequently as well.

Strategizing Based On Client Interaction

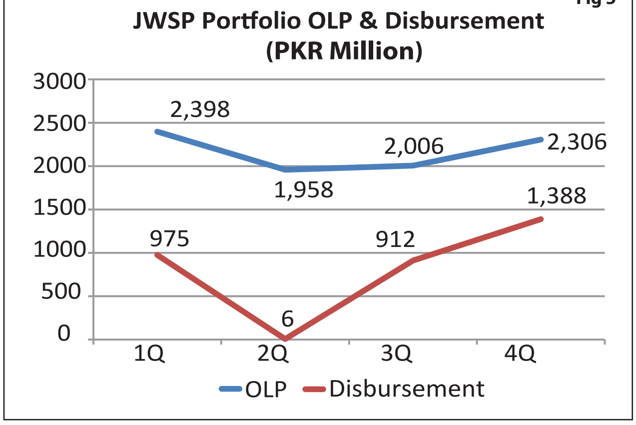
As the market began adapting to the new realities of COVID-19, JWSP team decided to survey their clients telephonically to gauge their willingness and ability to repay. Insights from this exercise were used to determine which sectors required more efforts for recoveries than the others and which business sectors required support. Staff were directed and dedicated accordingly to recovery efforts for optimal human resource allocation.

The NBMFI was also proactive in clarifying to their client base that principal deferments were not free. This led to deferment applications by clients who genuinely needed it; applications were also approved in line with their expectations of monthly income resumption. This not only saved clients from the extra burden but also proved vital in resuming targeted monthly recoveries.

Operational Adaptability

Up till May 2020 JWSP's presence in the field was virtually restricted. However, lockdown enforcement started easing during the month. As soon as the government issued guidelines for resuming organizational activities, JWSP developed and institutionalized its own SOPs in line with the guidelines and accordingly, vigorously resumed field activities. Even the top management did not shy away from going into the field with the CEO, CFO and other senior business heads making it a point to participate and buoy employee enthusiasm. Safety measures and guidelines were also implemented which included mandating use of sanitizers and masks. Adequate inventory of these items was procured and given to the field teams as well. Prompt movement into the field and dedicated interactions with clients by JWSP's senior management nourished relations with community as well.

Fig 5



As loan repayments started coming in, JWSP resumed disbursements in July (Fig. 5) while encouraging severely affected clients to set up alternative businesses so that they could cope with the losses and restart livelihoods.

Building Client Goodwill

In June when there was full deployment in the field, the management recognized that it was also important to be humane to their clients which would further strengthen relationship with them during these times and show that they cared about them. In Gujranwala, the NBMFI started a food distribution program where it identified more severely impacted clients and non-clients and provided them with essential food items. JWSP subsequently expanded this programme to other districts. It built client goodwill not only among the beneficiaries but also in the market. It also helped shape the perception that JWSP's relationship with the clients was not entirely transactional and instead had an element of empathy and concern for their wellbeing also.

Building Team Loyalty

In addition to showing compassion for beneficiaries, JWSP was also mindful to show the same for its employees. The economic turbulence created by COVID-19 had led to nation-wide loss of jobs. In microfinance sector, even institutions with some of the strongest financial fundamentals let many of their personnel go in order to rationalize their cost structures and to prepare for the liquidity crunch should their portfolio quality take a nosedive. However, JWSP's approach was completely antithetical. Its senior management took the view that its portfolio security and quality ultimately depended on employee loyalty, commitment and motivation and these elements could not be compromised on. Ultimately, JWSP's HR team, made zero layoffs or pay-cuts – even when it was becoming a norm in the sector. Employees serving in contractual positions were also retained. All employees were given Eidi bonuses in the month of May 2020 in addition to the annual bonus. They also ensured due appreciation and recognition for high performing field staff. During the months of June and July 2020, senior management started visiting branch offices and meeting with clients. This really boosted the morale of the staff also.

All these efforts collectively played an integral role in JWSP's relative success in managing the crises imposed by COVID-19. October 2020 onwards, it experienced zero loan deferment of their portfolio as per data reported by the institution. The bounce back in JWSP's sustainability and superior portfolio performance are attested to by its maintenance of PAR-29 below 5% (Fig. 6) and OSS above 100% (Fig. 7) throughout 2020.

Fig 6

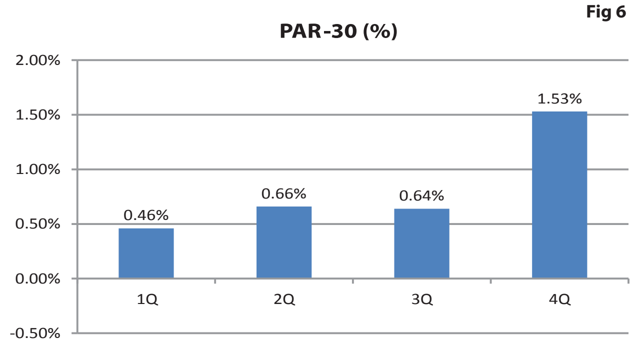
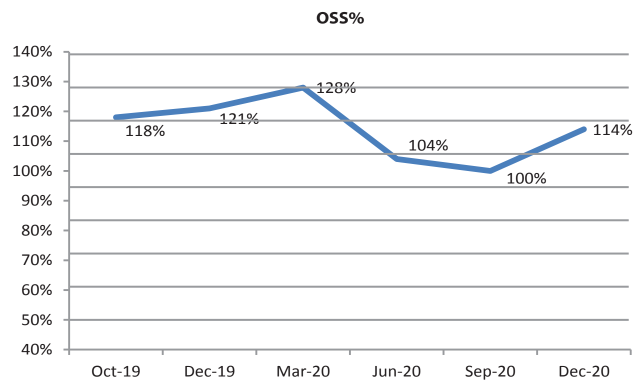


Fig 7



Key Takeaways:

Much can be learned from JWSP and its proactive, adaptive and innovative approach to the unprecedented pandemic and its socio-economic effects. However, we have observed that three strategic measures proved the most critical in pulling JWSP out of this crisis and serve as key learnings for other MFPs as well.

Close Client Contact and Active Fieldwork:

Always maintain close contact with the clients not only to sustain the relationship but also to remain in touch with market dynamics. If in-person interaction is not possible, leverage technology. However, resume fieldwork as soon as possible, although with adequate SOPs.

Clear, Updated, Effective and Continued Communication:

Devise mechanisms for seamless information flow across the board i.e., within the organization and outside it with all stakeholders. It should pre-empt the spread of misinformation in the market on one hand and ensure close alignment between senior management's strategies and implementing personnel's modus operandi on the other. Technology can be leveraged to achieve this.

Compassion for Both Team and Beneficiaries:

Compassion may be shown in the form of ensuring job security, taking up tough tasks shoulder-to-shoulder by the senior leadership, relaxing credit terms, and even launching charity drives for the most vulnerable. This will go a long way in building the team's and beneficiaries' loyalty with the institution – even in testing times.

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