



Impact of COVID-19 to the microfinance sector in Rwanda

Rapid survey and assessment

May 2020

FOCUS NOTE

1. Context

Since early this year, the world is under a traumatic moment caused by the Covid-19 pandemic. To control and contain the epidemic; Rwanda implemented a range of containment measures including border closure, suspension of domestic travel, cancellation of public gatherings, institutions teleworking, and closure of schools, places of worship and non-essential businesses. These measures worked well for Rwanda to contain the pandemic, as of 30 May 2020, Rwanda reported 370 cases of COVID-19 infection. However, these measures have negatively affected the livelihoods of many Rwandans, especially those who earn their living on daily basis. Furthermore, the measures also considerably affected the Microfinance sector which serves the majority of the Micro, Small and Medium enterprises (MSME and SMEs). The Rwandan microfinance sector consists of 460 institutions, of which three are microfinance banks, 19 limited liability companies, 416 Umurenge SACCOs and 22 non-Umurenge SACCOs. It should be noted that the microfinance sector serves nearly four million micro, medium and small entrepreneurs (MSMEs and SMEs) in Rwanda, as per Association of Microfinance Rwanda (AMIR).

In a bid to understand the impact and challenges faced by Microfinance sector as entities during the COVID-19 pandemic, Access to finance Rwanda (AFR) in partnership with Association of Microfinance Rwanda (AMIR) conducted a rapid survey that aimed to assess the extent to which, microfinance banks (both national and international) as well as the SACCOs (both Umurenge and Non-Umurenge) have been affected by the Covid-19 lockdown.

Objective of the study

The study is expected to inform various stakeholders and policy makers on ways to provide support to the microfinance sector and for peer learning, so that they can continue their work, sustain their own business and extend financing to low-income households and microbusinesses. Post COVID-19, we anticipate that with well-designed interventions and support, the microfinance sector will re-bounce, normalise and build strong resilience to this kind of epidemic now and in future.

This focus note only highlights the critical findings and needs of the microfinance sector, a detailed survey findings are published along with this focus note and on AFR's website.

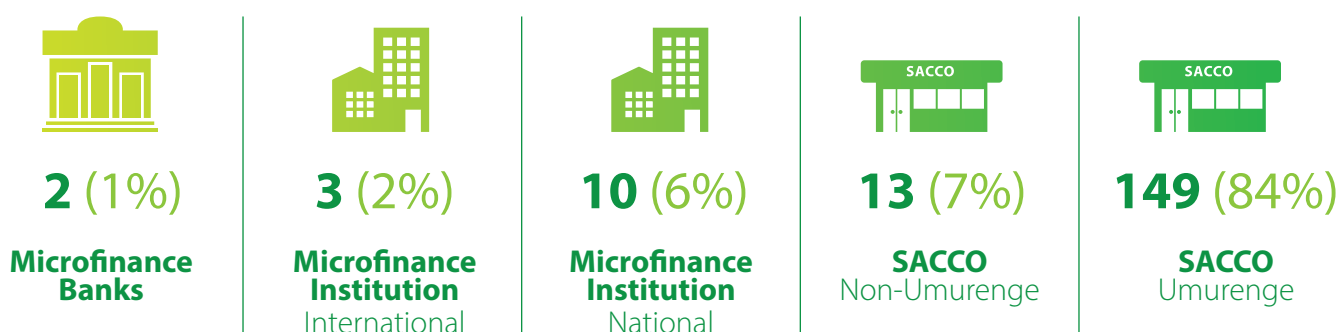


2. Methodology and response

The study was conducted during the lock-down period, limiting movement and physical interactions with potential respondents. Therefore, semi-structured interviews were held with selected microfinance institutions while the quantitative data was collected using a pre-designed questionnaire that was uploaded on “surveymonkey” between April 17 to 30 April 2020.

2.1 Respondents

The survey questionnaire was filled by 177 microfinance institutions, from the five distinct market segments as detailed below:



Summary of rapid survey

The need for an affordable refinancing/funding facility has been one of the main challenges from MFIs for over a decade in Rwanda. This had been amplified by the recent COVID-19 lockdown, where clients of the MFIs were withdrawing their savings to sustain their livelihoods and meeting fixed costs of their business with no revenue inflow.

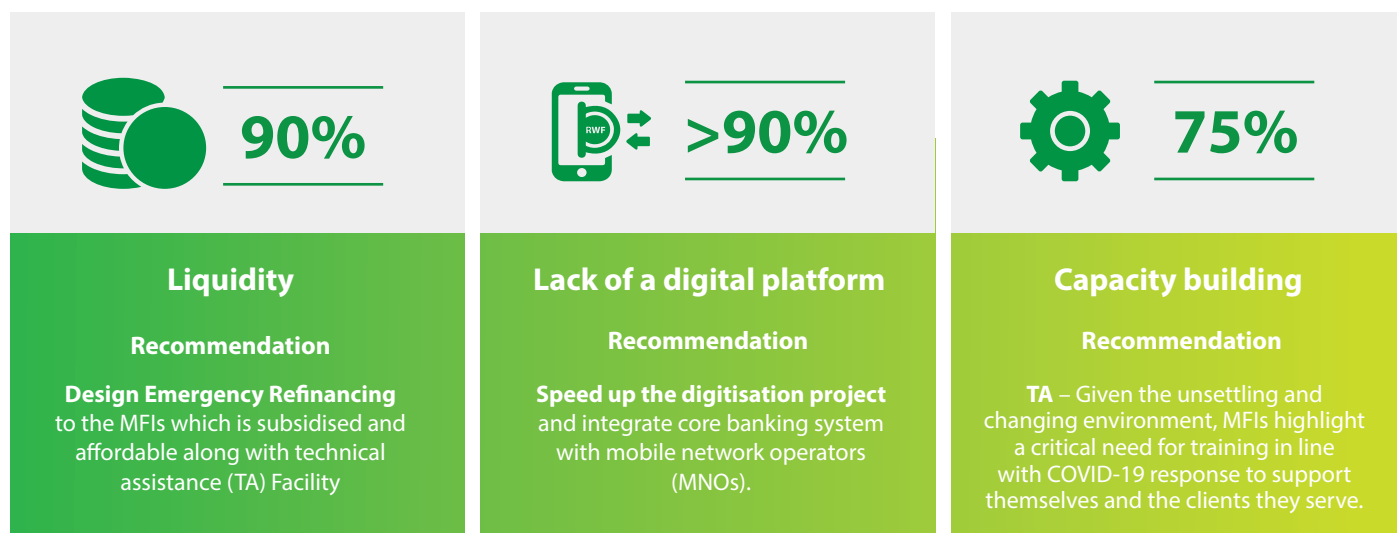
This also led to clients, who are mostly MSME clients not meeting their loan repayment obligations to the MFIs (some are taking advantage of the situation too). Withdrawal of savings and non-payment of loan repayments has put a huge stress on the liquidity positions of the Microfinance Sector and on the morale of the Management and staff of the sector. 95% of the microfinance banks and Limited liability Microfinance institutions reported emergency need for liquidity in the next three months.

Decreasing revenue, mounting losses, specialised capacity needs and supporting the clients in the changing environment are cited as the most important concerns among sector actors. This may further put the microfinance sector as going concern for a long time, if proper interventions are not provided to the Microfinance sector and needs to be addressed on war footing.

The sector also expects the stakeholders to provide timely updates and keep the managers of the institutions engaged in the decisions and measures put forth to support the sector.

3. Key findings

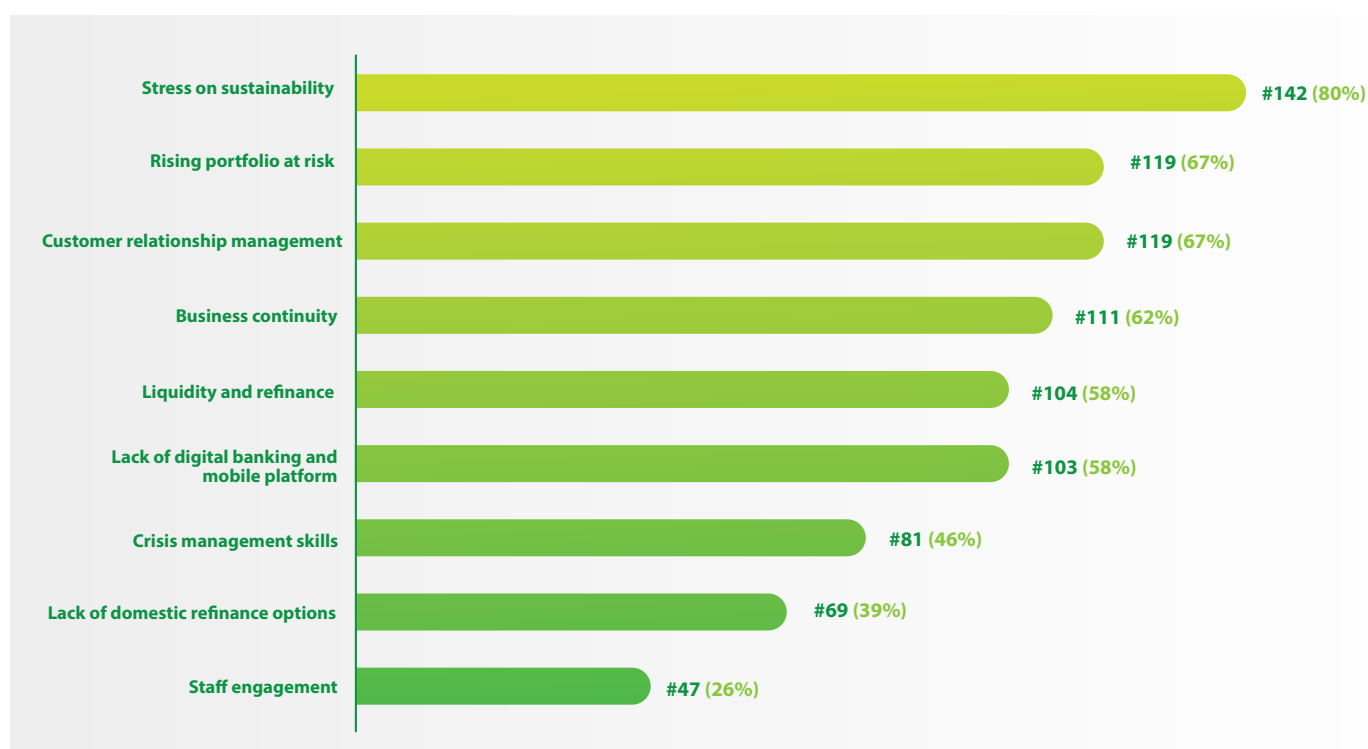
The survey findings highlight a fundamental threat to the microfinance sector, which needs to be addressed in war footing by the stakeholders by providing appropriate interventions as recommended. From interviews with CEOs of MFIs, we identified the three biggest concerns that has affected the microfinance sector:



3.1. Challenges faced by MFIs due to the Covid-19 situation

The survey findings revealed that COVID-19 has already inflicted several challenges to MFIs in Rwanda as illustrated on the figure below.

Figure 1: Biggest challenges in COVID-19 Situation of the microfinance sector



Nearly 80% of the MFIs expressed that stress on sustainability and expected mounting losses due to the clients not meeting their commitments, which is sure going to increase the loan loss provisions, in turn hitting the bottom-line. This situation is leading to Customer Relationship Management of many institutions, as this situation came unprepared and MFIs are in challenging mode to strike a balance with regulatory compliance and empathy.

Implication of the findings

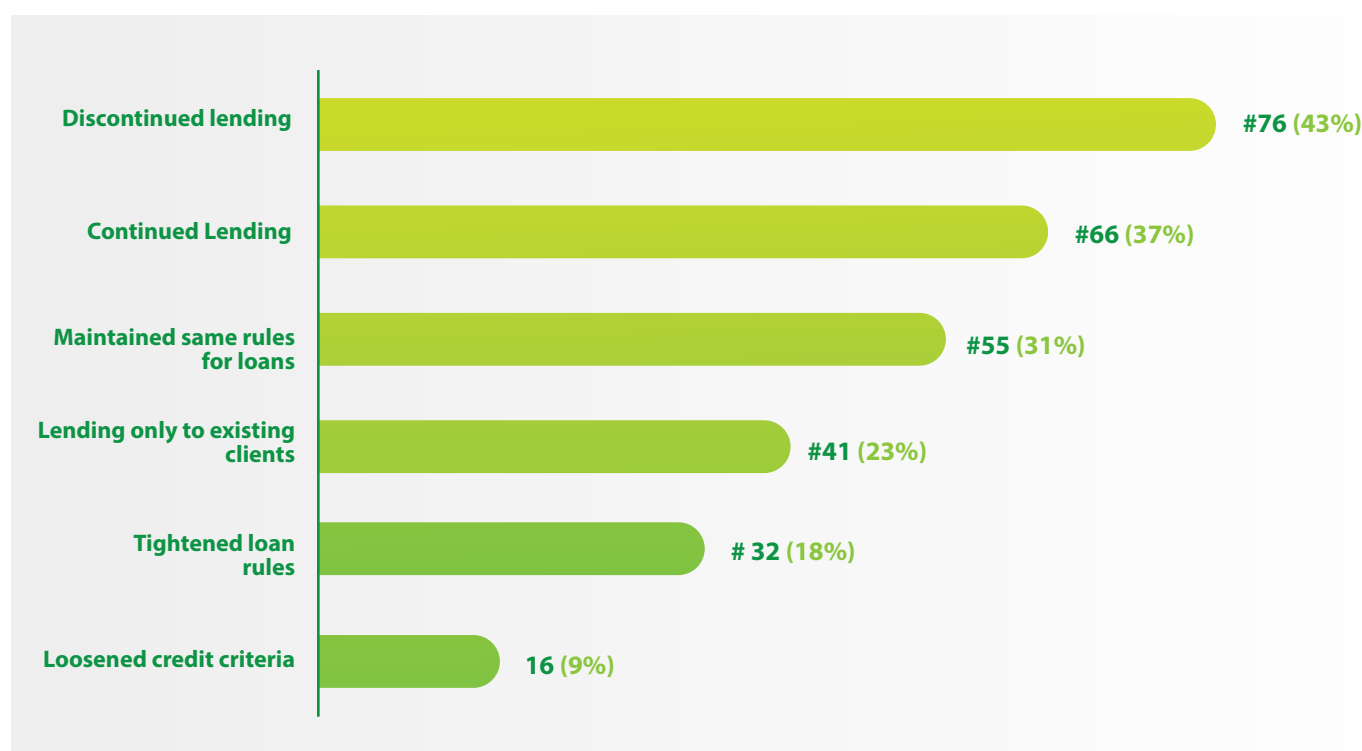
This may lead to low morale among staff and clients and will restrict the growth of the MF industry and affect the economy in general. It has to be noted that MFI industry was already in sustainability stress and this situation augmented this challenge double fold.

The regulators may think of relaxing few prudential norms for next six months, for eg. Not considering provisions to be made for loans which have gone into delinquency in the COVID -19 period. This can improve the suitability by reducing losses. The regulators and MFIs can demand for reports separating the period as good bank and bad bank

3.2. Adjustments of the Lending Approaches due COVID -19 effects

The negative effects of COVID-19 have made some MFIs adjust their lending approaches in order to deal with the situation. For instance, 43% of all the surveyed MFIs have discontinued lending to everyone. More specifically, measures for discontinued lending was adopted by 50% of microfinance banks, a third of international MFIs and non-Umurenge SACCOs as well as more than 40% of national MFIs and Umurenge SACCOs.

Figure 2: Adjusted lending Approach Responses



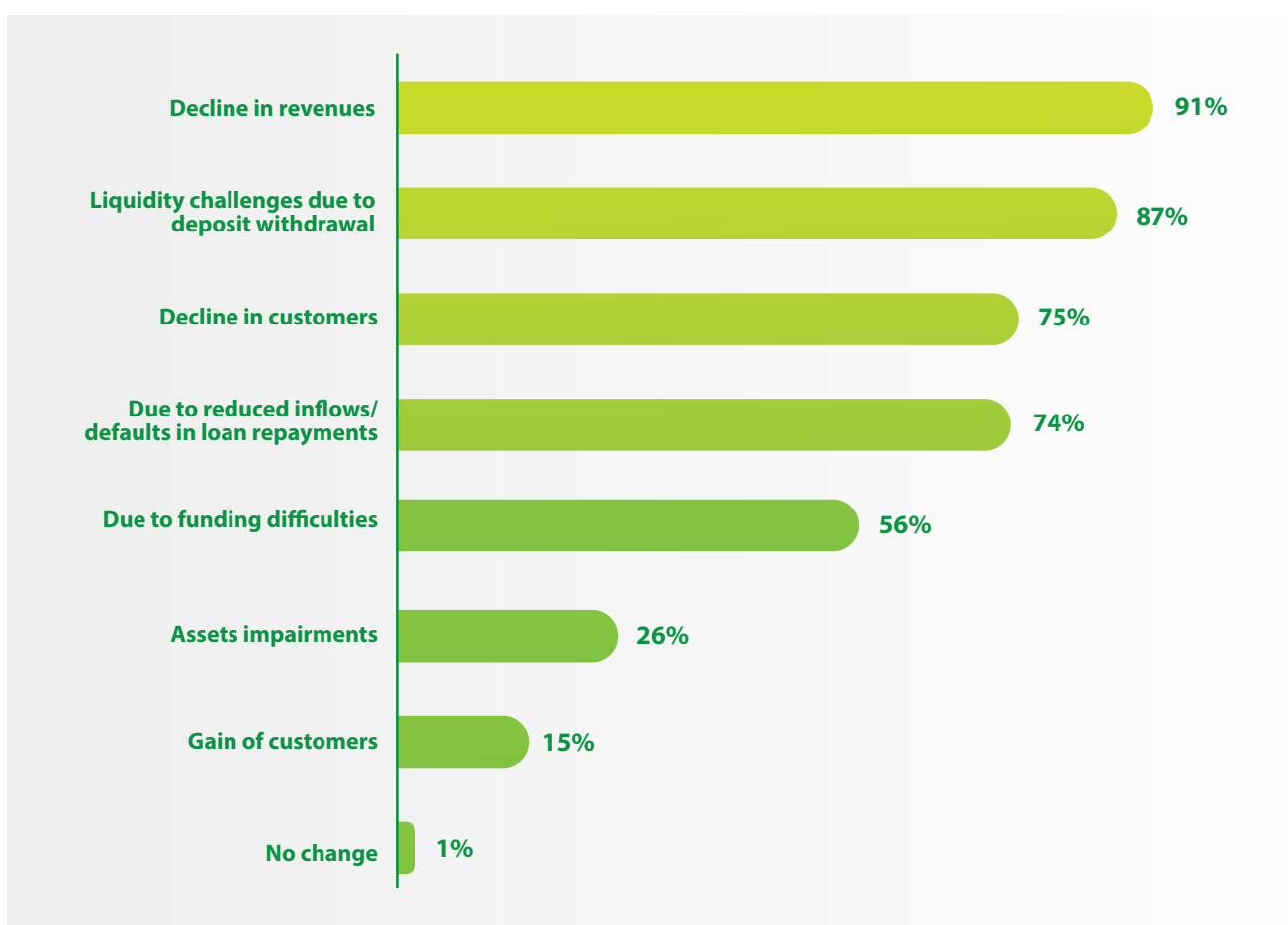
Implication of stopping lending to clients:

This reaction by the sector to stop lending is going to have adverse effect on the MSME clients, who are in real need of working capital to bounce back from the COVID 19 impact. Lack of sources of finance is going to affect not only their businesses and its ecosystem but the livelihood of the Rwandan population and economy in general.

3.3. Effects of Covid-19 on MFIs Businesses

COVID-19 has already revealed negative effects on MF businesses with 91% of MFIs reported decline in their revenues/profitability, 87% experienced liquidity challenges while 76.6% of them observed loss of customers. Only about 1% of the surveyed MFI experienced no COVID-19 effects on their businesses.

Figure 3: Effects of COVID-19 on MFIs



Implication of the findings:

The above survey findings highlight a fundamental threat to the microfinance sector, which needs to be addressed in war footing by the stakeholders by providing appropriate interventions as recommended in the findings.

3.4 Mitigation measures adopted by the microfinance sector to support clients as a response to Covid-19

The microfinance sector has been the biggest contributor to financial inclusion in Rwanda. According to the latest 2020 Finscope study, 93% of Rwandans are financially included, of which 78% are being served by informal financial services. COVID-19 measures put enormous restrictions on physical gathering and meetings, which is critical for these informal financial services to function.

The findings revealed that a number of measures have been put in place by MFIs as illustrated in the figure below.

Figure 4: Mitigation measures



Implication of the findings:

The microfinance sector tried to adapt to the situation needs and put in various alternate measures to support their staff and the informal financial sector. But lack of digital platforms and unplanned lockdown hindered and limited the outreach of this service especially among SACCOs. The sector, especially the SACCOs are looking forward to stakeholders to support them with digital platforms which can be integrated with mobile banking, as MNO linked platforms provided to be efficient in serving the clients during the lock down period.

4. Conclusions and recommendations



– Urgent need of liquidity

Microfinance clients are using their capital and/or withdrawing their savings more than ever to survive this Pandemic. The need of affordable refinancing/ funding facility has been one of the main challenges from MFI's for over a decade in Rwanda. This had been amplified by the recent COVID 19 lockdown. Assistance Facility.



– Extend COVID-19 relief measures to microfinance sector

BNR relief measure of emergency lending facilities extended for distressed commercial banks at Central Bank Rate (CBR) rate, suggested to extend to Microfinance Limited companies and SACCO's. Or set up a separate lending facility for Microfinance limited companies and eligible SACCO's.



– Digitise microfinance sector – on priority.

The COVID-19 lock-down has reiterated the need for speeding up automation and digitizing MFIs, especially Umurenge and non-Umurenge SACCOs and ensure they effectively offer digital banking services to their clients. This will help to counter any future lockdown situations and support the government vision of cash less economy.



– Setting up TA/capacity building interventions

The Covid-19 Pandemic has changed the environment of world order and brought in new dynamics to every business. The findings reported that the top three technical assistance needs expressed by the microfinance sector included:

75%

Staff capacity building

Online training
platform for field staff

71%

Business continuity

Planning and
assistance

69%

Crisis management training

Risk management



– Treat the COVID 19 impact as a fundamental threat to the microfinance sector,

If the microfinance sector is going to survive the pandemic, we need to treat COVID-19 as the fundamental threat to the microfinance sector and bring in emergency demand driven interventions to save this Sector and time is an essence in this situation.

For more information



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