Shoqata Mikrofinanca Shqiptare

Albanian Microfinance Association

# SURVEY ON COVID 19

## Impact on Albanian Microfinance Institutions

Tirana, July 2020

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# 1. Introduction

Albanian Microfinance Association (AMA), has conducted a Survey on COVID-19 impact on microfinance institutions operating in Albania. The Survey was carried out during end June beginning of July 2020, and included 8 AMA members, namely: Agro & Social Fund, Crimson Finance Fund Albania, FedInvest SHKK, Fondi BESA, IuteCredit Albania, Kredo Finance, NOA and UniFin SHKK.

The interviews were carried out by AMA Secretary General, Ms. Brunilda Isaj, and aimed at drawing a more detailed and material picture of the microfinance industry during the period of COVID-19 lockdown, by entailing the common challenges, but also various differences within the sector, depending on the organization, business model, business size and market approach employed by each MFI.

The survey combines qualitative and quantitative information, and is, so far, the closest reference document that reflects the situation of the sector during the pandemic. More accurate findings and conclusions are expected to be drawn after the H1 financial statement reporting, and even a more accurate situation will be envisioned moving forward, as the loan moratorium effect, impacting the portfolio quality, and liquidity ratios enabling returning to normal financing activity will reflect the real situation of MFI-s in Albania.

# 2. Impact of the pandemic on MFIs

**Asked about the way and the degree of intensity that COVID-19 impacted the MFI-s, rating it on a scale on a scale from 1 to 10, where 1 is not affected to 10 - strongly affected, the MFI-s provided the following answers:**

Microfinance sector in Albania was the most affected among all players of the financial system. In comparison with banking system, insurance companies or capital market actors, the microfinance sector was hit by the pandemic mostly as a consequence of the hit received by small businesses, micro enterprises and employed individuals. The sudden interruption of business activity in the country and the massive lockdown that lasted almost three months froze the income of thousands and thousands of businesses and individuals, with demand seeing a historic low and loan repayments under an imposed moratorium.

Based on the issues reported by our member MFI-s, the sector initially interrupted operations, with all staff working from home for almost three weeks, and later on with 50% of the branches and Head Office staff remaining closed. The inability to move as a result of lockdown caused the physical contact with customers to be interrupted and only after the Government announced a massive loan moratorium the situation started to precipitate.

As a result of the loan moratorium, as of **31.05.2020, a total of 39,274 loans were rescheduled or delayed, with a total volume of 75.79 million EURO, or around 31% of the active portfolio** as of that date (figures concern AMA members only).

Member MFI-s have rated this situation with an average score of **6.4 on a scale of 10,** wherein 1 is not affected at all and 10 is the most affected. Members have provided answers from 5 (the lowest, two institutions), 6 (three institutions), 7 (two institutions) and 10 (one institution).

## Portfolio quality

**Asked how did PAR>30 of AMA members change in Q1 and Q2 compared to 2019,** overall members report an increase in their PAR>30 indicator, compared with both Q1 and Q2 of last year, but the remark is that the figures are still preliminary, as they do not reflect the impact of postponed installments and rescheduled loans. As a result, this indicator is expected to increase in the coming months for almost all indicators. Also, the lack of access in urban areas has affected repayments for the rural customers.
This being said, we notice an indirect correlation between the number and volume of rescheduled loans and the PAR>30, wherein low level of restructuring reflects a higher PAR>30. The average increase compared to the same period last year is reported to be 24% up for Q1 2020 and 37% up for Q2 2020 (YOY), whereas for some institutions the indicator has remained stable YOY but increased compared to the end of year (NOA, UniFin).

## Loan moratorium

All members have been involved with the loan moratorium (first wave), and as per the above-mentioned results, the share of portfolio that was rescheduled consists of an important part of their active portfolio.

Based on their reporting, AMA members have rescheduled an average of 31% of their portfolio volume (in number this figure is 34%). Amongst the members, **the lowest restructuring benchmark is 15% and the highest 48% of each member portfolio volume.**

### Liquidity issues

Asked if they experienced liquidity problems during the period of lockdown and as a result of the loan moratorium mandated by the Government and Bank of Albania, the answers provided divide the impact on MFI-s liquidity in two groups:

**A-** The first group that no impact or a slight impact on liquidity (62.5% of members). This is the group of members that operate for many years in the market, enjoy a consolidated financial position and maintain cash reserves for any unexpected event that might require additional liquidity means. Some members report that they maintain around 5% liquidity reserves as a buffer in their daily operations, which during the pandemic increased to 10% - 15%. 5 (five) out of 8 members (62.5%) do not report liquidity problems or report only slight ones.

The second group, on the other hand, reports sharp liquidity problems (37.5% of members) that mainly came as a result of delayed installment cash-ins, which created bottlenecks in their daily operations and affected the ability to provide new loans or renew the existing ones. This group of members have a shorter period of activity, their business model does not allow for reserves, or they are smaller in terms of capital and total assets, therefore no buffers are available. This group was highly affected in terms of liquidity available during the lockdown, and some of their issues still prevail.

Overall, members report an average reduction of **60% - 70%** of their cash-in volumes during the lockdown, but stabilizing during June and forward **(90% - 100% for July).**

# Measures taken to mitigate the liquidity risk

**There was a list of measures taken by the member institutions in order to face the lack of liquidity, among which the below are considered as the most important:**

**Freezing of new disbursements.** Some institutions report that they were calculating the new disbursements based on the cash received during the previous week, so the situation was literally cash-in / cash – out. Some others report that their disbursements were also affected by a paralyzing of demand, therefore this helped not engage large amounts of cash in the disbursements.

**Reduction of overheads and administrative expenses.** The mostly affected here were the rental costs, with some institutions cutting up to 30% of their branches network permanently, or cutting of rental fees to that extent, for that matter. Personnel costs were also cut: temporarily by monthly reductions of salaries by 30%, and more for the managerial staff, and permanently by reducing workforce for some member institutions up to 38% of their pre-pandemic staff.

**Discussion of covenants and efforts to find new financing.** Unfortunately, only a few members state that they have found the understanding of investors and sources of financing to overcome the difficulties caused by COVID-19, most of them state that there was no material tolerance regards the obligations they have towards investors and/or lenders.

**Capital injections.** Faced with an unprecedent situation, AMA members were forced to call into their shareholders, and some capital injections are expected during the second semester, in order to assure on-going operations and respect the existing obligations. However, these are once only measures and in case of pandemic prolongation, their long-term effect is still to be analyzed.

# 3. Demand for microcredit

- **Comparison of loan demand during Q2 compared to the same period in 2019**

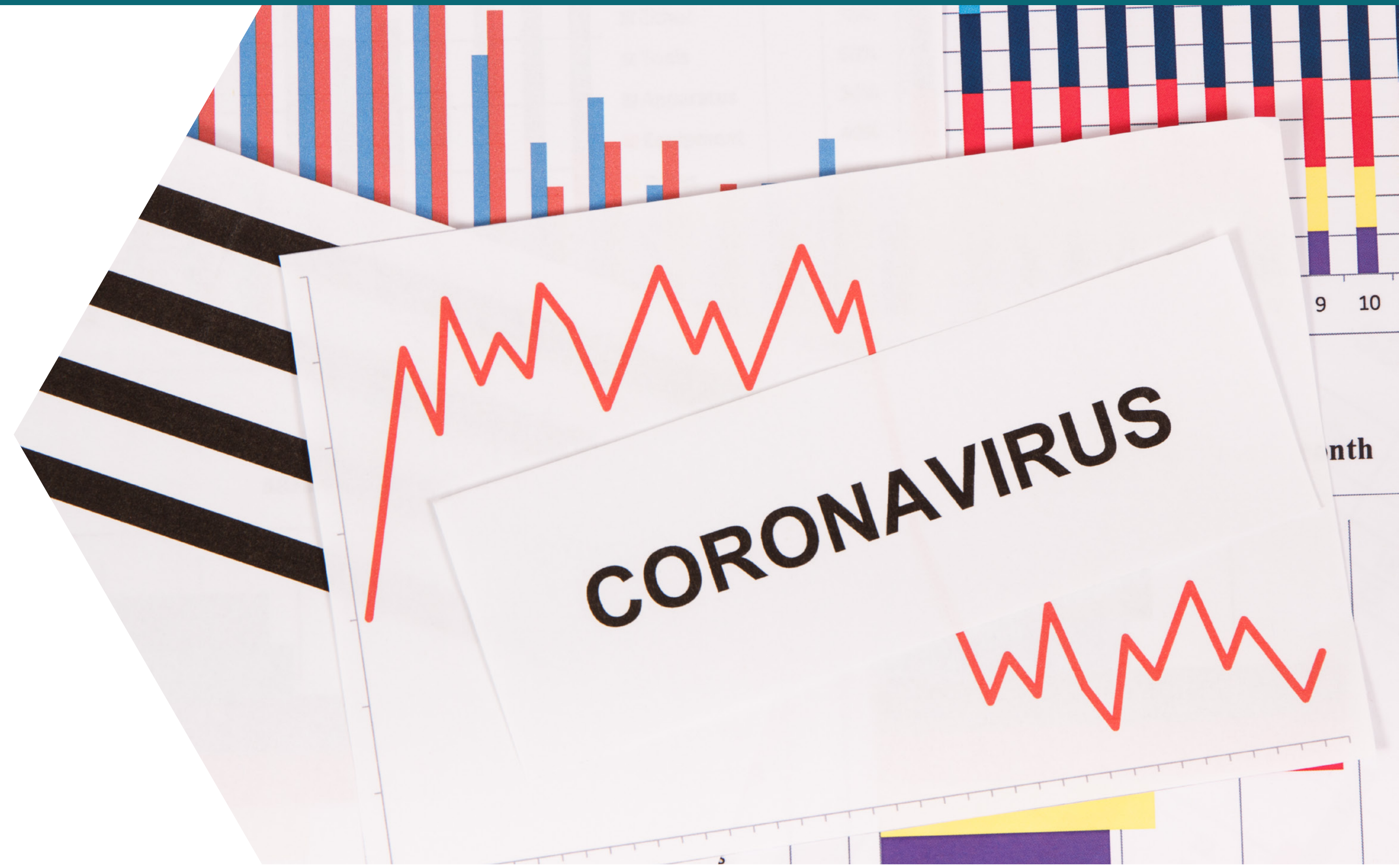
  There is no doubt that the demand for financing, either coming from individuals or businesses, was impacted by such an unprecedented situation like that of COVID-19. Especially during the lockdown (March – May 2020), all member institutions report a sharp decline in demand for lending, not only YoY, but also versus end of 2019 and the beginning of 2020.

  Although the data are not that structured in terms of incoming applications, the average reduction of new businesses for MFI-s during March – May is at minus 56% or more than half of incoming business same period last year, with a massive reduction in March – April (almost 90%), and then recovering slowly towards June to minus 10% YoY. For some members, June was a good month also as a result of accrued demand of March and April that could not be materialized due to lockdown. Slow and gradual increase of incoming applications is expected during the next months.

- **MFI-s expectations for Q3 2020 and moving forward**

  Most of the members state that they expect a gradual increase in demand, but this will be closely related with two factors: a) prolongation of the infection and development of pandemic locally and internationally, and b) the recovery of businesses, especially microbusinesses and self-employed, but also the big ones which are employing potential consumer lending customers.

  Members are hopeful that by the end of Q3 the situation might be back on track for individuals but it will take another year to bring normality to businesses. For the current quarter, the demand is expected to be to the level of 80% compared to the same period last year.




# 4. LOAN PRODUCTS

### Change in existing products or introduction of any new loan types

In terms of products offered to the market, 3 out of 8 members (37.5%) introduced new products, in order to respond to the COVID-19 situation and adopted customer situation. NOA introduced a new product with incremental instalments, in order to provide their customers with the ability to better manage their liquidity. Fondi BESA also issued a new working capital financing product, to help businesses face their cash bottlenecks.

The rest of MFI-s reduced their fees and interest rates, in order to help customers, and also waived the rescheduling and restructuring costs and delay penalties. Some of the members reported that they are selectively reviewing applications, with higher scoring benchmarks and a more conservative approach, in order to better use the liquidity and support primarily the existing customers.

### Digital solutions

Although the situation did not allow for investments or major changes in infrastructure, digital channels were reported to increase usage in significant levels. Digital communication, improvement of existing platforms and other measures are under development, since this situation reflected the need to make digital channels not only more customer friendly and approachable, but also more useful for undisrupted business activity. NOA, FedInvest and Fondi BESA have reported that new developments are under way. Kredo Finance reports an increase of 300% in usage of their digital channels.


# 5. STAFF AND WORK ARRANGEMENTS

### Office and branch operations

Remote work for some staff, new work organization in the office, e.g. work on shifts, fewer face-to-face meetings, partitions in the back office, all these are measures that have been totally or partially adopted by member MFI-s. Strict health security protocols have been adopted, not only as a result of official regulatory norms, but primarily to assure the health and safety of their employees. Most of the MFI-s have returned to the new normal way of working, with physical distance, masks and sanitizers and partitions in all their branches and physical locations where employees sit.

### Communication with clients

Asked how they will they change the way of working with clients, AMA members reported that the new reality of co-exiting with COVID-19 will dictate somehow the way of interacting with clients. Thus, for some members, visits are restricted to those customers wherein other forms of communication are not helping the process. Microfinance cannot be imagined without the physical contact and on-site visit, but strict security measures are applied in site visits.

Some institutions, though, do have a different model, and their communication with customers is either desk based, or digital.

The same approach will be followed during sales efforts and the relevant process, and also while monitoring existing customers, wherein the contact will be physical whenever necessary, but under strict protocols of health security.

# 6. SUPPORT FOR MICROFINANCE INSTITUTIONS

## Government support to the microfinance sector

Despite the continuous and intense efforts of Albanian Microfinance Association and its members, the Government has not done much to support the microfinance sector. The only Institution that has really supported the sector has been the Central Bank. Due to our difficult situation with facing the pandemic and trying to assure the needed liquidity, Bank of Albania decided to exclude the MFI-s from the second wave of loan moratorium, ending on August 31st. It was left to the means and the situation of each institution to analyze the situation of each customer, and decide whether rescheduling or restructuring would be offered to those customers directly affected by the pandemic.

The other relief was the possibility provided to MFI-s to temporarily, on a case by case basis and under material evidence, not to calculate provisions on the restructured portfolio, regardless if this portfolio was under the first or second wave of the moratorium. This has helped the financial position of members and has not deteriorated their capital adequacy ratios for the time being.

The Government, on the other hand, has not included microfinance sector in neither of its Guarantee Schemes (there were two sovereign guarantees signed with second level banks to support the business). Under the situation as we speak, MFI-s are neither partners, nor beneficiaries in these schemes.

## Government instruments or schemes for supporting the MFI-s

**A)** Most of the members report that they would be happy to receive help of any kind from the Government, but their proposals are focused in two instruments:

**B)** Access to immediate liquidity through financing or soft term loans. This implies either direct financing, subordinated debt or other liquidity instruments that provide extra cash that goes directly to the economy through MFI-s risk undertaking policy.

**C)** Sovereign Guarantee and risk sharing schemes, that despite of the fact that they do not provide immediate liquidity, they reduce cost of financing, and the benefits are transmitted to the end customer, therefore to the economy.

A more understanding approach versus regulatory benchmarks towards financial indicators, which need time to be restored, especially in the conditions of a long-lasting pandemic situation.

## Impact of the lockdown on MFI clients

According to a survey carried out in June 2020 by Kredo Finance, one of our members, with the employing entities of their existing borrowers (43 businesses of various industry fields). The study has resulted in the following findings:

### QUOTE

79% of the businesses asked stated that they are being faced with loss during the month of June that is a direct effect of the lockdown measures during the months of March, April and May. 26% see their business reduced more than 50%, 32% see their business has been reduced between 20-50% and 21% see their business has been reduced only by about 20%. Only 5% did not have any difficulties and this refers only to call centers. The companies that have not opened yet refer to travel agencies which are expected to open only in July and many of them are still questioning their reopening.

The main reason that contributed to the business shrinking is the reduced demand for products and services with a straight correlation to the decreased hours during the day of general activity and also to delays or decrease in salaries and job positions during the months of March-May. Only 22% said that their business shrunk due to the inability to supply as usual with raw materials and products.

46% of all asked businesses are uncertain as to what the future will bring in the post quarantine months and 16% see their businesses decline during the summer. That makes 62% of the business do not see a green light for the moment economically. 10% of the business consider the summer months with hope and that business will have an increase from 20-50% (Fascon, Call Center, Travel Agency, Telecommunication) and 28% consider the summer months to have the same pace.

### UNQUOTE

For microenterprises, the impact was even stronger, as they were totally affected by the lockdown with the exception of food supply chain (small groceries, bakeries, fruit and vegetable kiosks). The rest of services were paralyzed, and this summer, small tourism enterprises will see the lowest possible traffic, which will question their income for about a year. Tourism is the industry sector that is expected to suffer the most from the pandemic situation this year.

Agriculture, although not directly affected in production, is heavily affected in revenue generation, as the supply chain is reduced and not properly working, while production is being rotten or thrown away not able to be collected on due time.

Members report that the share of their rescheduled or restructured portfolio is an indicator of the directly affected clients. Therefore, almost 40 thousand customers are affected directly out of a total of around 210 thousand, affected indirectly. Hardly any sector did not experience a kind of impact, big or small.

# 7. GOVERNMENT SUPPORT FOR MICROBUSINESSES

**• Effectiveness of government schemes to support the business**

Asked on how effective is the government support for microenterprises according to their subjective opinion or perception, the members stated that During the lockdown, government support for microenterprises has been scarce and almost inexistent, with the exclusion of a small assistance for self-employed, which was also delayed and not efficient during the lockdown. Difficult and costly health security protocols are making the life difficult for the self employed and family businesses. The Government should intensify efforts into drafting material support packages for micro and small businesses, who are not also eligible under the current sovereign guarantee schemes, due to their low bankability and lack of fulfillment of set criteria for benefiting under such schemes.

**• Expectations on new governmental support projects to stimulate the recovery of microbusinesses**

The government declared that they are reviewing the fiscal policy in terms of preferential treatment of microbusinesses (turnover up to 14 million Lek). It is said that they will be excluded from tax on profit and VAT. If this will be the case, microbusinesses will benefit in terms of more liquidity to inject for supply reasons, as well as simplified accounting books, hence cost reduction.

But nothing is final yet. So far, all microenterprises are under the threat of a long-lasting pandemic situation, lack of liquidity and scarce access to finance. All MFI-s have expressed their hope that the micro-business market, the majority of Albanian business entities, will finally be part of a sound ongoing strategy and business continuity approach on the side of the Albanian Government.

**• MFI-s support to facilitate access to government support schemes**

It is within the nature of our offered services and the mission of our member institutions, that technical assistance to customers is provided without questioning it (sharing information on how to access, support in completing the forms, intermediation between the client and state institutions).
This being said, with customers is discussed on a daily bases with regard of measures taken by the government and how they are affected by these measures. If protective and support schemes will come into place, MFI-s will be the lead of institutions to provide help and assistance for their customers to benefit out of these schemes by pointing out the eligibility criteria and supporting the customers to prove them.

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