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These developments will result in many adverse impacts for the microfinance industry for that lead to business continuity problems:

- Safety and health of the employees, customers and their families
- Loss of productivity due to illness of staff, limited mobility and remote working of the employees
- Operational challenges due to restriction on traveling, curfews, and possible lock downs
- Loss of business by the clients as well as income losses (including other sources of revenues such as remittances) for customers leading to repayment problems / higher PAR
- Fraud by clients / staff due to a lack of controls
- Liquidity and solvency problems
- Breach of covenants / regulatory requirements.

Given the fact that the virus spreads at an exponential speed it is important **to act immediately** and not to wait, because it takes time to take measures and it takes time before the effect of the measures can be seen.

A very important source of information is the website of the WHO: World Health Organization. Consult the website regularly to be updated with the latest information. Where applicable reference is made to parts of this website³.

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³ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

PART I – DIAGNOSTIC



DIAGNOSTIC

1. SETTING A CRISIS MANAGEMENT COMMITTEE
2. ANALYSIS OF CRITICAL ACTIVITIES
3. STAKEHOLDER ANALYSIS
4. ANALYSIS OF NON-FINANCIALS AND FINANCIALS
5. SCENARIO ANALYSIS
6. LIQUIDITY ASSESSMENT
7. SUMMARY OF KEY RECOMMENDATIONS

1. SETTING UP A CRISIS MANAGEMENT COMMITTEE

It is important to install a committee that manages the crisis situation and that focuses on the business continuity of the institution. Appoint a crisis manager for the overall coordination of the crisis and a communications manager in order to coordinate and streamline the internal and external communication

Only include relevant functions in the committee and aim for it to be as cross functional as possible; separate working groups can be formed for more detailed actions.

Possible members (as far as applicable):

- CEO / MD
- Board member
- Head of Finance
- Head of Credit
- Head of Savings
- Head of ICT / MIS
- Head of HR
- Head of Communications / PR
- Head of Internal Control / Internal Audit.

3. STAKEHOLDER ANALYSIS

Stakeholders are very important; they can create a risk and / or they can have a positive influence. Make stakeholder analysis: first identify all stakeholders.

Name stakeholder	Influence (High/ Medium/ Low)	Current level of support	What do you want from the stakeholder?	What is important for the stakeholder?	What kind of risk can they create?	How can you improve their support?	Action
Clients							
Staff							
Funders							
Regulators							
NMA*							
Etc.							

*National Microfinance Association

The column "What kind of risk can they create?" can be filled in by making a scenario analysis, see below.

Third-party dependency (outsourcing, suppliers)

Make an analysis of all activities that are outsourced and define the level of criticality. Which activities are not critical or could be postponed or handled by the staff of the institution? For the critical outsourced activities, it is important to know the robustness and reliability of the third party. Think of internet connections, communications, IT, mobile network operators, alternative delivery channels, etc. Is it possible to move to another third party if deemed necessary? A similar reasoning for suppliers.

4. ANALYSIS OF NON-FINANCIALS AND FINANCIALS

4.1. Non-financials

The COVID-19 outbreak is an external risk, there are very limited possibilities to take preventive measures; only the measures as described already before (health and safety) can be taken. Next to this it is important to focus on measures that limit the impact.

Daily monitoring of the situation is key, get information about / from:

- Health of staff; illness / working from home / limited availability of staff
- Health of clients
- Macro-economic developments
- Guidelines of the microfinance association
- Regulations of government and health authorities
- Being alert for rumours / hoax messages, inform staff and clients (see appendix 2)
- Fear of the outbreak of COVID-19, some staff might be called back home by family, this might result in higher turnover
- Be alert of returning family members from abroad

4.2. Financials

- *Credit risk – transaction risk*

Although the PAR is much known as indicator for credit risk, it is a lagging indicator; it takes a while before changes are visible in the quality of the loan portfolio. A far better solution to monitor the development of the portfolio is the so-called vintage⁴ curve. Based on the development of the curve an estimation can be made of the developments in the next months by means of extrapolation.

- *Credit risk – portfolio risk*

Make an analysis of the more vulnerable parts of the loan portfolio:

- Geographic: e.g. urban area might face a higher risk of spreading the virus than rural areas; there might be areas that are prone to natural disaster
 - Type of business: tourism, entertainment, restaurants, bars, markets; business that is dependent on export and / or dependent on import. This type of business is more vulnerable due to the disruptions in the value chain
- *Foreign exchange (FX) risk and interest rate risk*

Due to the developments there will be an exit from foreign investors from the countries in the developing world. This weakens the local currency; further when government decides to lower the interest rate of the local (weak) currency, this will trigger a further weakening of the local currency.

The developments of the non-financials and financial will result in effects for the **liquidity** ([see chapter 6](#)).

⁴ In credit risk the term vintage means the production of one month of new credits. If you follow the individual vintages of the various months a far quicker insight is achieved in deterioration of the credit portfolio.

5. SCENARIO ANALYSIS

What..... if (Examples).

In a “what...if” scenario, certain possible risk events are described that result in various kinds of other risks e.g. financial risk (like credit risk, liquidity risk, solvency risk) or nonfinancial risk (like non-availability of staff of Information- and communication technology (ICT), reputation risk).

The scenario analysis is based on events caused by:

- Stakeholders
- Third parties / suppliers
- Macro-economic events
- Political events / reactions of the public

See below for some examples:

Stakeholders:

- Clients / staff members get ill and are not available for a considerable time
- Clients cannot repay, the PAR goes up by x %
- Mass withdrawals of savings and deposits
- Staff members don't want to enter a certain crowded or infected area, this creates a need for clients to visit the branch
- A funder does not renew the loan or withdraws the loan
- Government decides for a lock down (like in China, some European countries, as well as in developing countries like The Philippines, El Salvador, some African countries, India, etc.)
- Deposit at the bank(s): are they liquid enough, or can they freeze the deposit?
- Withdrawal at the bank(s): whether banks set a cap on cash withdrawals?

Third parties:

- The mobile network is not available for x hours / days
- The internet network is not available for x hours / days
- The power not available for x hours / days
- The IT provider reduces the service level or stops business
- Breakdown of infrastructure / vital facilities (power, transport, etc.)

Macro-economic events:

- Interest goes up / down
- FX risk: depreciation of the local currency
- Slowdown of commodities / raw material affecting the institutions / affecting the business of the clients
- Slowdown of remittances
- Breakdown of critical outsourced activities (e.g. IT)

Political events / reactions of the public:

- Fraud, scams
- Political unrest / protests / rioting / blockades
- Robbery, plundering
- Famine
- Politicians promote a “non-payment” movement.

6. LIQUIDITY ASSESSMENT

Maintaining a sufficient level of liquidity is THE key factor for business continuity.

Without doing the full analysis as described and the scenario analysis as described in the previous chapter, there will be important financial consequences of the present situation:

1. Rising PAR resulting in
2. Liquidity problems, resulting in
3. Solvency problems resulting in
4. Breaching covenants / regulatory requirements resulting in
5. Bankruptcy

It is important to manage the liquidity before it is too late. Liquidity problems will automatically alert all stakeholders and that will result in actions from their side to try to prevent problems at their end, this will invoke the rest of the chain of events ending in bankruptcy.

All scenarios as mentioned above end up in negative effects on the financials, they will negatively effect on the income, the expenditures and its consequential effect on the liquidity (indirect effect). But the liquidity is also affected directly when for example the clients default more and/or withdraw massively their savings or by lack of funding.

This means that the results of the scenario analysis must be translated in its consequences for the liquidity, meaning stress testing.

Stress testing is used to test the resilience of the FSP against the different adverse financial scenarios. The cumulative effect of the various scenarios can be reflected in the liquidity position over time.

So for example if the PAR goes up to x%, the fraud goes up by y% and the local currency depreciated by z% what does that mean to the liquidity over time.

The liquidity gap report is a tool to simulate the various scenarios and to see the effect on the liquidity and the liquidity gap over time.

By changing the variables in the gap report based on the (scenario) analyses, the effect of liquidity and the liquidity gap can be analysed. Measures must be taken to reduce the gap to an acceptable level by reducing the expenses and postponing investments and increasing the inflow, e.g. by getting support / grants / loans from international lenders and NGO's. There is a very good CGAP publication that describes the methodology / tool of liquidity gap reporting and about liquidity ratios. Also, the methodology / tool for interest rate risk (and gap reporting) and FX risk is explained⁵.

⁵<https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Asset-and-Liability-Management-for-Deposit-Taking-Microfinance-Institutions-Jun-2009.pdf>

7. SUMMARY OF KEY ASSESSMENT RECOMMENDATIONS

Organisation	<ul style="list-style-type: none"> • Install a crisis committee, appoint a crisis manager and a communications manager (see before). • Identify key staff. • Develop a plan for the continuity of leadership in the event of absence of key decision makers and executives. • Make sure that you have the contact details (phone number(s), home address) of all staff updated; update telephone contacts of group leaders. • Gather contact information of all stakeholders and of the health services • Issue wallet cards with important contact details to member of the crisis team
Analysis	<ul style="list-style-type: none"> • Make analysis of critical activities and critical resources (see before) • Make a stakeholder analysis including an analysis of third-party dependencies (see before) • Do a scenario analysis, take the necessary measures (see before) • KEY for business continuity: do liquidity analysis and stress testing. Take appropriate action (see measures)
BCP plan	<ul style="list-style-type: none"> • Make a business continuity plan and a communications plan based on: <ul style="list-style-type: none"> ○ Actions as shown below ○ Additional actions based on the analyses as shown above ○ Communicate timely and openly, internally and externally to the various stakeholders

Speed in the most important in crisis situations, every day counts!

Pick and choose what is applicable for you at a certain stage. Start with the plan and don't try to be complete now, it takes too much time, adjustments can be made later.

PART II – MEASURES FOR THE CRISIS MANAGEMENT AND BUSINESS CONTINUITY PLAN



MEASURES FOR THE CRISIS MANAGEMENT AND BUSINESS CONTINUITY PLAN

- Staff
- Business
- Access to the office
- Resources (IT, premises, facilities)
- Policies
- Clients
- Funders/regulator/associations

STAFF

- Continued awareness training: use electronic media as much as possible.
- Instruct staff to apply the right hygiene measures (see appendix 1 for details).
- Encourage staff to avoid big groups, social gatherings, mass gatherings/crowded places (markets, cinema, religious places, stations, bus-stands, public places) and public transport.
- Employees with pre-existing vulnerable health conditions are asked to work from home. Employees that have fever and/or other Covid-19 related symptoms must stay at home, reporting to HR.
- Consider techniques to maintain or improve staff morale (see the WHO note on *Coping with stress during the 2019-nCoV outbreak*⁶) and establish an internal communications plan to manage fear and panic.
- Take care of backup of key staff, knowledge sharing between the primary and secondary responsible person; not sharing the same physical space.
- Consider keeping and even paying extra to employees in view of the difficult circumstances and in order to maintain their loyalty (if possible).
- Reconsider the HR capacity, adjust where necessary. For staff who have leave to take and whose absence will not impact on business continuity, place them on administrative leave as soon as possible.
- Consider working in shifts (team A, team B crew) for those that need to be present in the office building; who can be deployed at different work schedules.
- Establish or revise a “working from home” policy. To be decided by management. Be prepared to apply to all employees in case of partial or full lockdown.
- Monitor closely the number of staff working from home and staff that is reported to be ill.
- In the event that an employee is infected, the premises of his or her work unit will be disinfected. All employees and clients who have had contact with him or her will be confined, and a minimum service will be organised.

⁶https://www.who.int/docs/default-source/coronaviruse/coping-with-stress.pdf?sfvrsn=9845bc3a_2

BUSINESS

- Stop prospecting activities
- Stop client acquisition activities
- Set priorities and exclusion (clients, types of business, regions, branches, etc.) If the MFI has capacity and wishes to continue credit disbursements, specific attention will have to be paid to the financing of the agricultural cycle that starts now in most developing countries.
- Based on liquidity stress: reduce non-urgent expenses and investments, ask for financial assistance / additional funding (see below)
- Keep close contact with the bank and make an assessment of their own liquidity position to assess whether the deposits as kept by the bank are still liquid enough
- Promote the use of mobile payments.
- Identify new initiatives or IT solutions that could be used for customers and staff.
- Stop noncritical activities like training, team building etc. Promote e-learning where possible.
- Meetings to be done only by means of video conferencing.
- Abandon travel

ACCESS TO THE OFFICE

- Entry of visitors restricted to HO office unless absolutely necessary.
- Ask clients to use mobile transactions as much as possible (and applicable)
- All physical meetings with visitors (if urgent) restricted to ground floor meeting rooms; deny access for unsolicited visitors in the building. Record visitors.
- Stop with on boarding international support including volunteers
- In case clients can still visit the branch:
 - Allow only a limited number of clients inside; keep a proper distance between them (including the waiting line)
 - Establish temperature testing at entrance of HO and branch offices. Entry to building to be refused if positive fever.⁷
 - Provide a system for washing hands with soap and water or with alcohol-based rub at the entrance to the agencies
 - Ask clients to clean the hands thoroughly with soap or with alcohol-based hand rub

⁷ According to the advice of WHO it is not fully reliable as symptoms of fever only show up after a couple of days after being infected, see appendix 2

**RESOURCES
(IT,
PREMISES,
FACILITIES)**

- Increase hygiene measures (Cleaning / disinfecting the offices on a regular base more frequent cleaning).
- Arrange an alternate office to work from in case the Head office is not available anymore.
- Arrange and test (!) ICT / MIS continuity measures (backups, UPS*, generators with enough fuel).
- Arrange facilities to work from home (company laptops, VPN connections, mobile phones) and test (!) with the respective staff.
- Test video conferencing facilities.
- Create mobile payments facilities. Establish partnerships.
- Buy enough stock health and safety facilities like hand sanitizers, medical gloves, soap and/or alcohol-based rub. Disposable tissues for cleaning purposes.
- Ensure availability of critical office supplies (stationaries).
- Arrange protection for teller staff like plastic foil or Perspex screen to separate the teller from the clients.
- Reduce the number of people in the same room, keeping at least the 1.5-meter distance at all times.
- Adjust agency opening hours.
- Close branches in an affected area – staff is prohibited to go to the affected area.
- Increase security measures to protect staff and assets. Assign security 24/7.

* UPS: Uninterruptible power supply: protects against the loss of data in case of a short power dip

POLICIES

- Check insurance for the clients, staff and the institution itself. Check the insurance of the institution; monitor the insurance claims from clients.
- Check client's health/life insurance contracts if any (coverage, claims processes, etc.) and inform accordingly.
- Check the HR regulations and make adjustments where necessary.

CLIENTS

- Continue awareness training, use electronic media as much as possible (sms, USSD messages / radio / TV). Consult the WHO website for examples.
- Use communication aids (poster, audio visuals) at workplace to inform, in local languages.
- Prepare for closing access to clients to the branches if required.
- Consider educating customers to use their e-wallets to avoid touching the cash.
- Consider issuing emergency loans for clients in need (if possible).
- Allow withdrawals of savings and deposits, make it easy; consider loyalty premium for fund savings / deposits that are kept.
- Ease or suspend repayments / interest payments (if possible).
- Restructure loans where necessary (if possible).
- Make an inventory of clients that are ill, monitor the situation.
- Establish a help desk for clients: open a hotline.
- Focus on the existing clients with a client-centric approach.
- Consider free principal payment “holiday” or payment moratoriums and late-payment fee waivers.
- Consider recovery/emergency loans or extensions of working capital facilities.
- Consider special rates applied to loans in main affected economic sectors.
- Offer other value-added services (safety measures, etc.). Be aware that most of the clients are cash based. Try to organise access to digital channels in order to facilitate social distance.
- Communicate pro-actively with clients, explain the measures that are taken and actions that are planned. Listen to their worries.
- Warn clients against upcoming fraud and scams.
- Warn against rumours / hoax messages ([see appendix 2](#)).

**FUNDERS /
REGULATOR /
MICROFINANCE
ASSOCIATION**

- Inform stakeholders of the new situation and measures that are taken.
- Based on the liquidity analysis and liquidity stress testing, it is important to ask timely for financial assistance from funders, investors, NGO's, government etc. National Microfinance Associations can play an important role in coordinating the request for financial assistance.
- Expect the regulatory landscape and national-level measures taken by governments to evolve quickly. Ongoing monitoring is required and should be facilitated by National Microfinance Associations. MFIs should use their associations leverage to:
 - Proactively discuss and negotiate with regulators coping measures, potential waivers for clients and the MFIs etc.
 - Find potential credit line facilities, emergency liquidity funds, etc.
 - Setting up collective actions to reduce costs.
 - Facilitate or assist government or international donors in distributing disaster relief cash to most vulnerable clients.
 - Start negotiating on potential waivers of covenants and regulatory requirements.

APPENDIX 1.

Hygiene measures⁸

Although the virus probably started by a transmission between animals and human beings, the virus spreads now between human beings. According to research, one infected person can infect 2.5 people on an average. That means that it is of utmost importance to take preventive hygiene and other measures:

- ✓ To wash the hands thoroughly and frequently with soap and water or alcohol-based hand rub; make sure that there is enough stock; make them available throughout the buildings; dispose tissues in closed garbage bins
- ✓ Maintain at least 1.5 meter (“two arm’s length”) between people (social distancing) inside and outside the office
- ✓ For tellers, security guards and loan officers: wear medical gloves; make sure that there is enough stock. Tellers: because physical cash (notes and coins) can be contaminated with the virus
- ✓ Avoid touching mouth, nose and eyes
- ✓ Avoid any biometric device usage for the time being
- ✓ Do not shake hands
- ✓ Sneeze or cough in the elbow (sneezing or coughing in the hands will increase the risk of further infection as the hands touch other objects)
- ✓ Clean frequently touched surfaces of pin pads, keyboards, doorknobs, tables, countertops, light switches, phones, desks, toilets, taps, sinks etc. daily
- ✓ Ventilate the building
- ✓ Do not share cups, pens, cutlery etc.
- ✓ Staff that feel ill must remain at home till they are symptom free
- ✓ Employees who are well but who have a sick family member at home with COVID-19 should stay at home as well for at least 14 days.

Restrict the use of masks⁹

Only wear a mask if you are ill with COVID-19 symptoms (especially coughing) or looking after someone who may have COVID-19. Disposable face mask can only be used once. If you are not ill or looking after someone who is ill, then you are wasting a mask. There is a world-wide shortage of masks, so WHO urges people to use masks wisely.

Note: in some Asian countries it is a cultural custom to wear masks. That was originally to protect against pollution, but now of course against the virus. So not wearing a mask in Asia might cause problems.

A certain category of people is extra vulnerable: older people (> 60 years) and people with underlying health problems like asthma, diabetes, cardiovascular disease, serious kidney problems, diminished resistance to disease, HIV patients.

⁸ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/advice-for-public>

⁹ <https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>

APPENDIX 2.

Hoax / rumours spread around¹⁰

“The risk of transmission of Covid-19 in hot climate countries is very low.”

→ The virus spreads everywhere regardless of the climate.

“Cold weather will kill the virus.”

→ The virus spreads everywhere regardless of the climate.

“Taking a hot bath will kill the virus.”

→ The body temperature remains within certain bandwidth, the virus will not be killed.

“The virus is transmitted via mosquito bites.”

→ The virus is spread via droplets generated by an infected person (coughing or sneezing).

“Hand dryers are effective against the virus.”

→ Not effective, only by cleaning the hands as indicated can lower the risk.

“Ultraviolet disinfection lamp will kill the virus.”

→ Not effective, only by cleaning the hands as indicated can lower the risk.

“Thermal scanners are effective to detect infected people.”

→ Not fully reliable as it takes 2 to 10 days before people who are infected become sick and develop a fever.

“Spraying alcohol or chlorine over the body will kill the virus.”

→ It will not kill the virus that is already in the body; only by cleaning the hands as indicated can lower the risk.

“Vaccines against pneumonia or antibiotics protect against the virus.”

→ No, it is a new virus, so a new vaccine must be developed. To date, there is no specific medicine recommended to prevent or treat the new virus.

“Regular rinsing the nose with salty water will prevent infection.”

→ No, it might help to reduce the swelling but does not prevent respiratory infections.

“Eating garlic or regularly drinking water helps to prevent infection with the virus.”

→ In general, living a healthy life helps to boost the immune system: eating healthy food, being physical active, refrain from unhealthy practices like smoking, using alcohol, drugs etc.

¹⁰ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/advice-for-public/myth-busters>