

Liquidity Risk Management During COVID-19

22 May 2020



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Promoting standards & practices
for responsible inclusive finance



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Before we get started

Muting yourself

- All participants have been muted upon joining.
- To unmute, click the red microphone icon to the right of your name.
- When you're not speaking, please keep yourself on mute to minimize background noise.

Chat your questions

- The chat box is located on the bottom right side of your screen.
- You can send **your comments and questions** to everyone or send them directly to Social Performance Task Force.

What will we be discussing

1. COVID-19 and Risks

2. Scenario Planning to
Ensure Business
Continuity

3. Liquidity Assessment:
Key for Business
Continuity

4. Contingency
Planning

COVID-19 and Risks: Impacting Business Continuity



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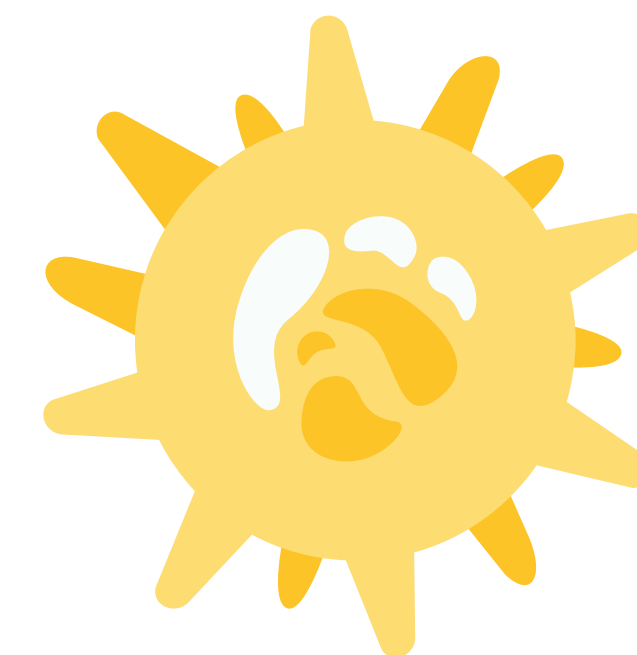
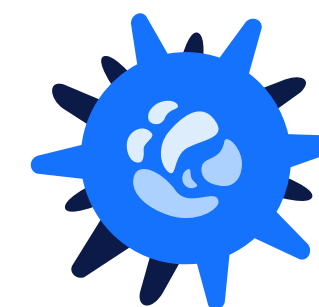
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We have seen epidemics before...why is this one different?

- Global crisis, not limited to one country
- Big difference with SARS outbreak in 2003:
 - SARS: 8,500 cases, 900 deaths, 32 countries
 - COVID-19: >5 million cases, >300,000 deaths, cases nearly in all countries (17/May/2020)
- Differences in terms of infectious period, transmissibility, clinical severity and extent of community spread
- Economy very different now:
 - International travel increased
 - Economy of China much bigger
 - Much more international trade
 - Interdependency in the value chain –the weakest link



A light gray world map is visible in the background of the slide, showing the continents and oceans.

Worldwide impact

- Lower demand: garment, tourism / travel
- Stagnation of transport: flights, public transport
- Stagnation of imported goods and raw material
- Low commodity prices due to lower demand
- Low aid inflow, lower / stagnated remittances
- Closures of factories, bankruptcies
- Rising unemployment
- Lower consumption especially non-food
- Lowering interest rates, deflation
- Weaker local currency
- Lock down in some countries.

Other aggravating factors - oil price war, natural disasters (grasshoppers, floods, typhoons, etc), terrorism

Impact on microfinance

- 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.

Leading to business continuity problems

Scenario Planning to Ensure Business Continuity



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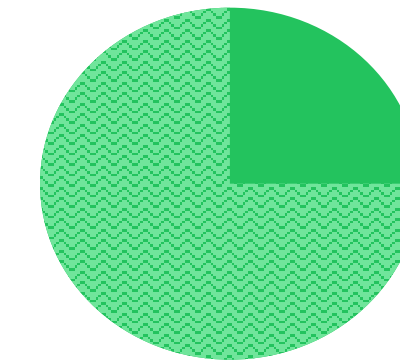
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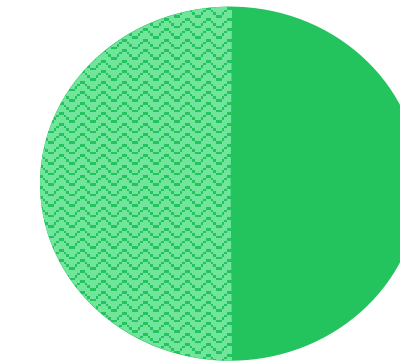
Set-up a Crisis Management Committee



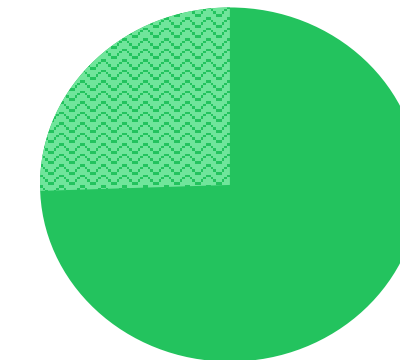
Roles and Responsibilities



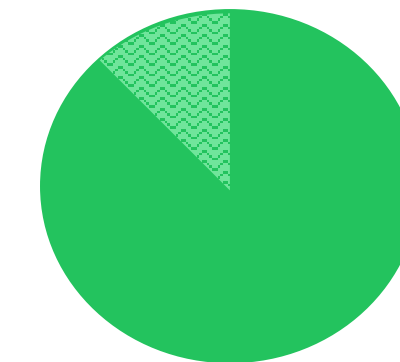
Monitor the situation directly affecting the business



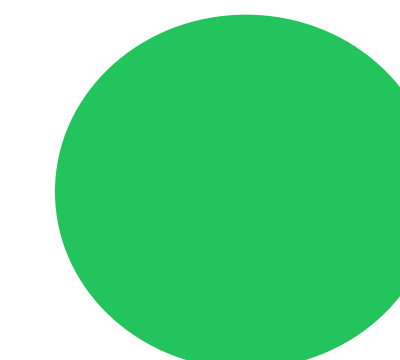
Monitor the situation externally



Execute various pro-active analysis



Ensure proper and timely communications to all stakeholders

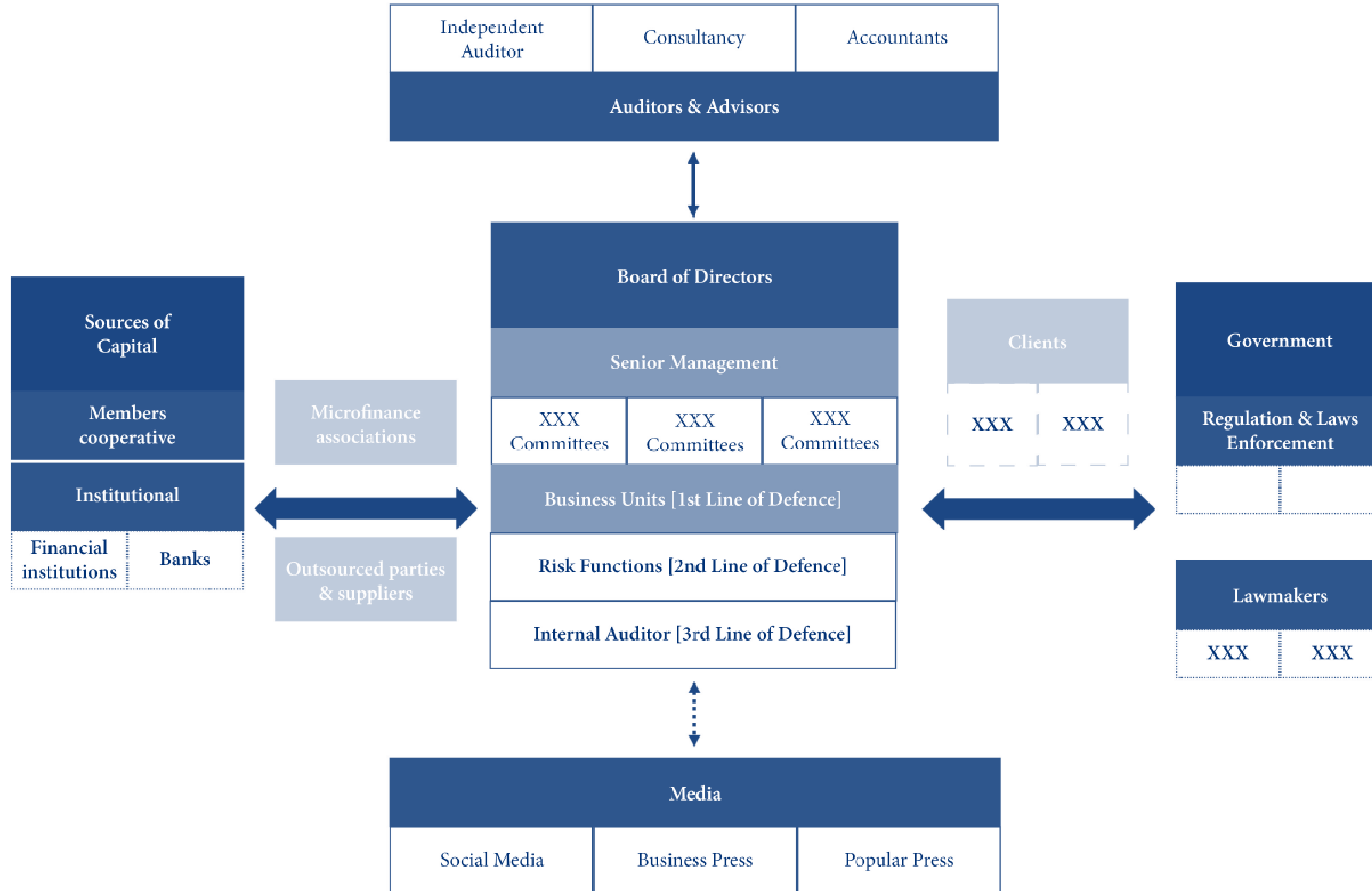


Ensure that staff is following the instructions

Do you have a 'Crisis Management Committee' ?

Go to www.menti.com and use the code **37 17 00**

Stakeholders



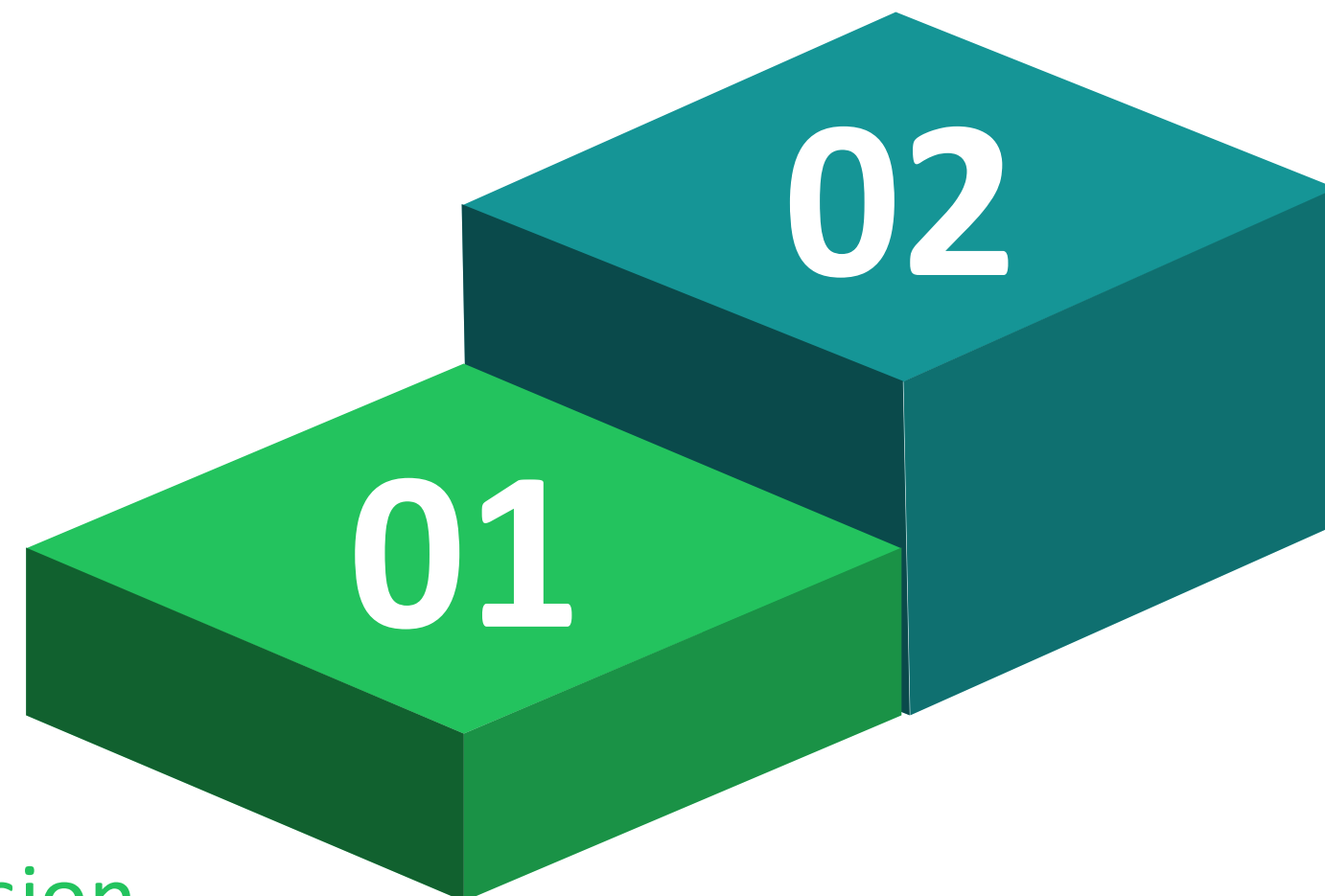
Stakeholder Analysis

- Can be done for business as usual – but we are focusing here on stakeholders in view of COVID-19
- Internal and external stakeholders – institution is dependent on them
- There is mutual dependency, though not always equal

Activity 1. Carry out a Stakeholder analysis for your organisation

STEP 1

- Identify the stakeholders
- Table gives a first impression
- There may be various categories of stakeholders (e.g. group loan clients, individual loan clients, co-operative clients)



STEP 2

For each stakeholder review:

- What is important for the stakeholder?
- What kind of risk can they create?
- What kind of support can they give?
- How can you improve their support/action?
- Communication frequency/channel
- Person to Act (PTA)
- Due Date

Table for Review of Stakeholder

Stakeholder Group/Review	What is important for the stakeholder	What kind of risk can they created	What kind of support can they give	How can you improve their support / action	Communication: frequency, channel	Person to act	Due Date
Clients							
Board							
Staff							
Outsourcers							
Third Parties							
Funders / Investors/ Shareholders							
Banks							
NGO's							
Regulators							
Tax authority							
Local authorities							
National Microfinance Association							
Other							

This analysis also helps to make a BCP as it focuses:

- On the risks that stakeholders can create but also
- What support the institution might ask from stakeholders

Scenario Analysis

- “what...if” analysis
- Proactive approach to risk management – being prepared
- Workout multiple scenarios – E.g. minor disruption, major disruption, worst-case

What is a scenario:

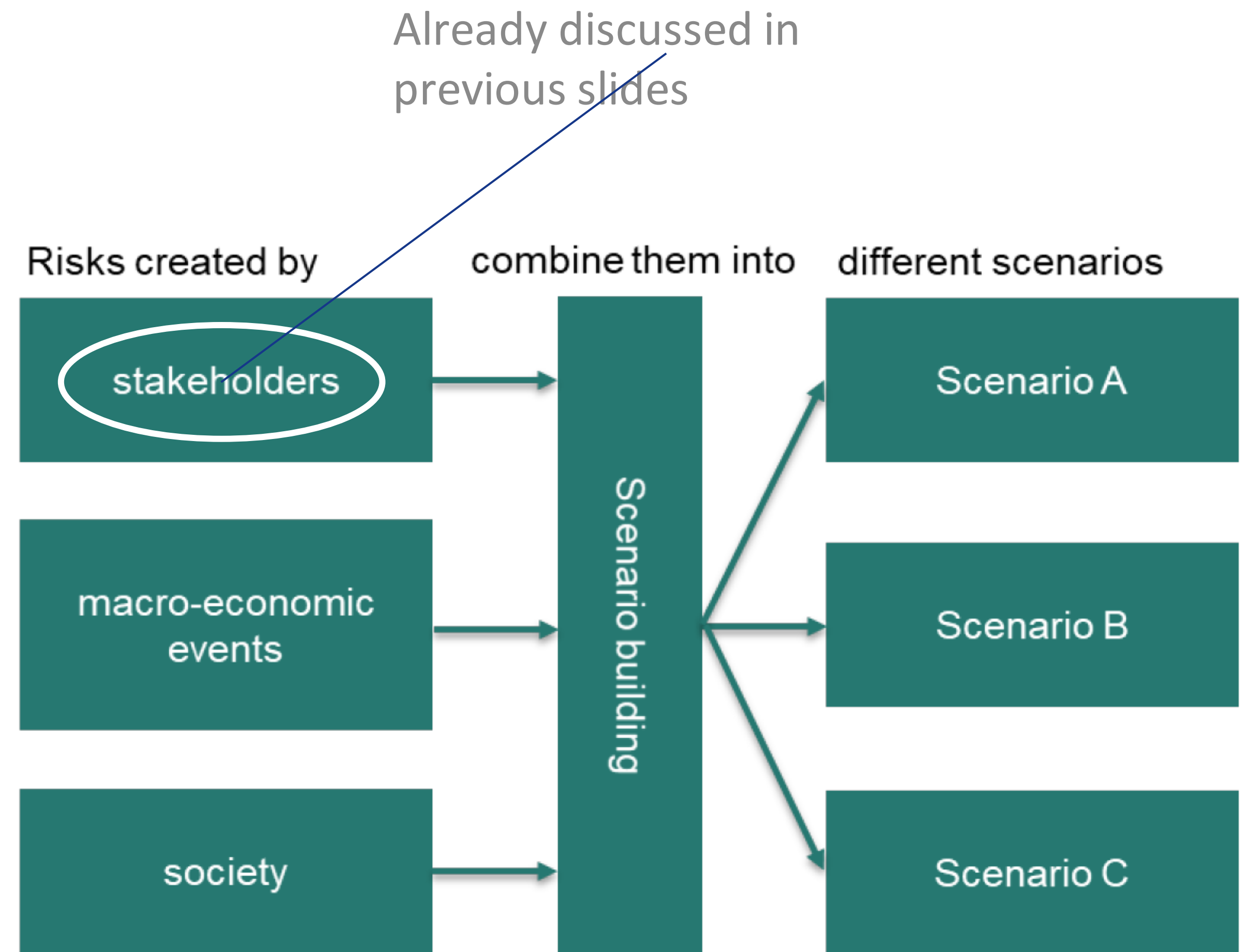
Describes a combination on possible risk events resulting in financial and non-financial impact

Example:

- Financial – Impact on PaR, liquidity, solvency
- Non-financial – non-availability of staff, lack of IT/MIS, reputation risk

Analysis of scenario is based on events caused by one or a combination of:

- Stakeholders including third parties/suppliers
- Macro-economic events
- Society: political events/reaction of the public



...Scenario Analysis



Macro-economic

- Interest goes up / down
- Inflation
- Stagnation in the value chain
- Slowdown of remittances
- Breakdown of critical outsourced activities (e.g. IT)
- Banks close or limit access to funds



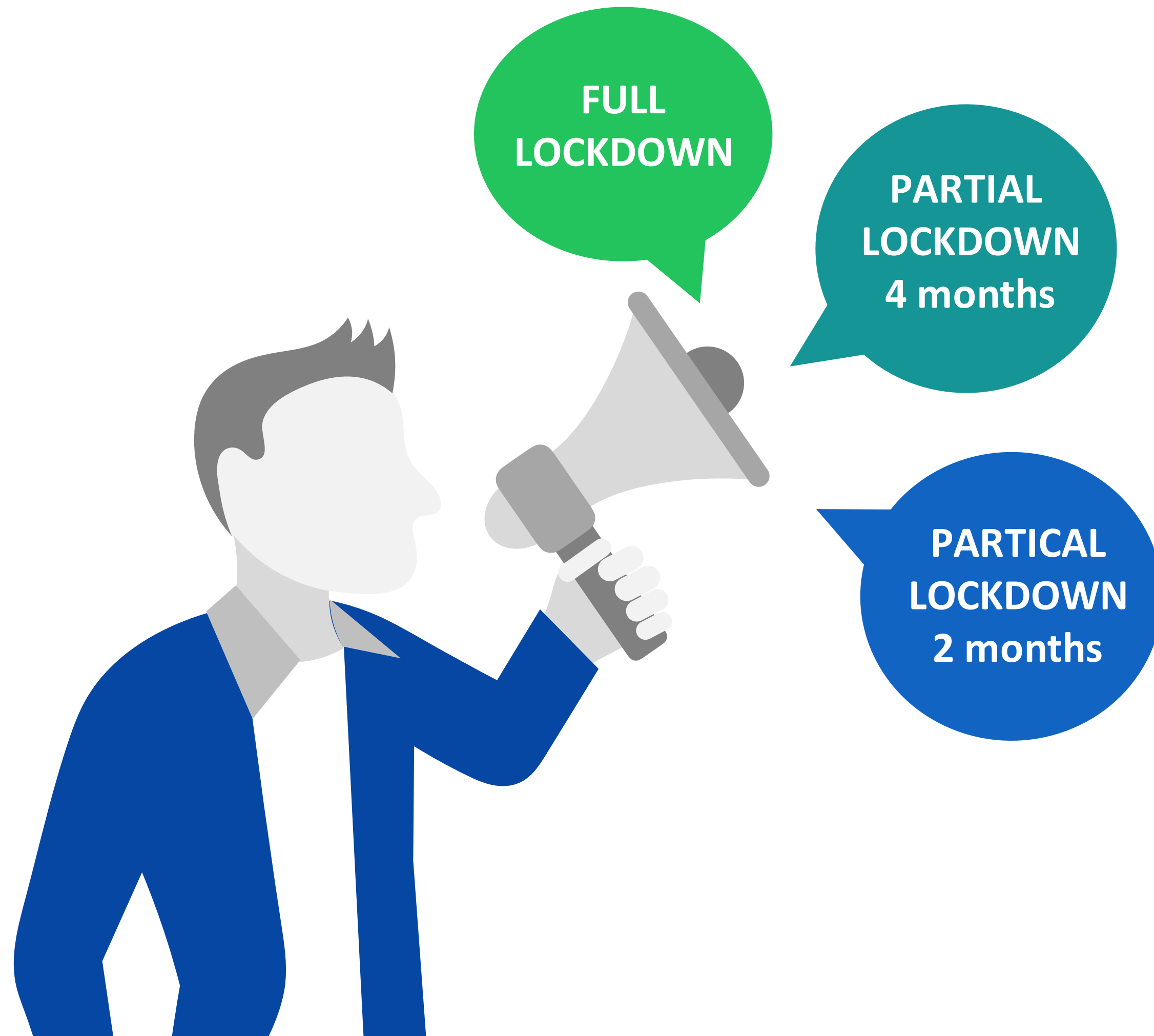
Society

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

Scenario Building

Activity 2. Build the scenario you must prepare for

Based on the scenario analysis, you can build your own 2 -3 scenarios



Why are we doing this?

- Attempt to stop or slow down the chain of events
- It all leads to deterioration in the liquidity (**Liquidity = Survival**)
- Scenario building is input for stress testing

Client Segmentation

- Helps to assess the possible scenarios of clients' repayment behaviour.
- **Bottom up approach: involve the loan officers to make a judgement of their clients and aggregate the results**

For Scenario Analysis:

- Local and country circumstances and economy are drivers for this assessment for the ability to pay
- Based on the sector of client
- **For example,**
 - Business as usual e.g. food shop
 - Increased business e.g. cleaning (soap), protection facilities (masks, gloves, screens, online)
 - Decreased business (non food shops, barbers..)
 - Business stopped (tourism, import / export dependent, restaurants....)
 - Business in a lock down area / situation
 - Availability and access to government support for particular businesses
 - Availability of emergency relief from government for income stabilisation and household consumption (avoids client using up business capital for family consumption)
 - Availability of other income (e.g. remittances)

What does this mean for the payment behaviour?

How have you conducted client segmentation?

Go to www.menti.com and use the code **20 95 11**

...Client Segmentation

For each client segment, estimate:

- Total number of clients
- Amount of portfolio outstanding associated with that segment

Use the table below to categorise clients in the different segments

	yes	Restructuring Total amount outstanding loans: Number of clients:	Great! Total amount outstanding loans: Number of clients:
willing to pay	no	Write off / restructuring Total amount outstanding loans: Number of clients:	Collection / zero tolerance Total amount outstanding loans: Number of clients:
		no	yes
		able to pay	

Scenario 1

Partial lock down

- Improvement of the situation after 3 months, gradual increase in business over another 3 months
- Based on the portfolio analysis of the clients:
 - 30% of the clients have business as usual
 - 20% have increased business
 - 30% have decreased business by on an average 50%, but given their buffer expectation is 15% down
 - 20% have no business anymore, 80% down, 10% go bankrupt

Scenario 2

Partly and later full lock down/curfew

- Improvement of the situation after 6 months, gradual increase in business over another 3 months
- Based on the portfolio analysis of the clients:
 - 20% of the clients have business as usual
 - 10% have increased business
 - 50% have decreased business by on an average 50%, buffer to be ignored
 - 20% have no business anymore, go bankrupt
- No renewal of loan
- Overdraft facility has to be repaid
- Excess saving will be withdrawn to the full extent

Liquidity Assessment: Key for Business Continuity



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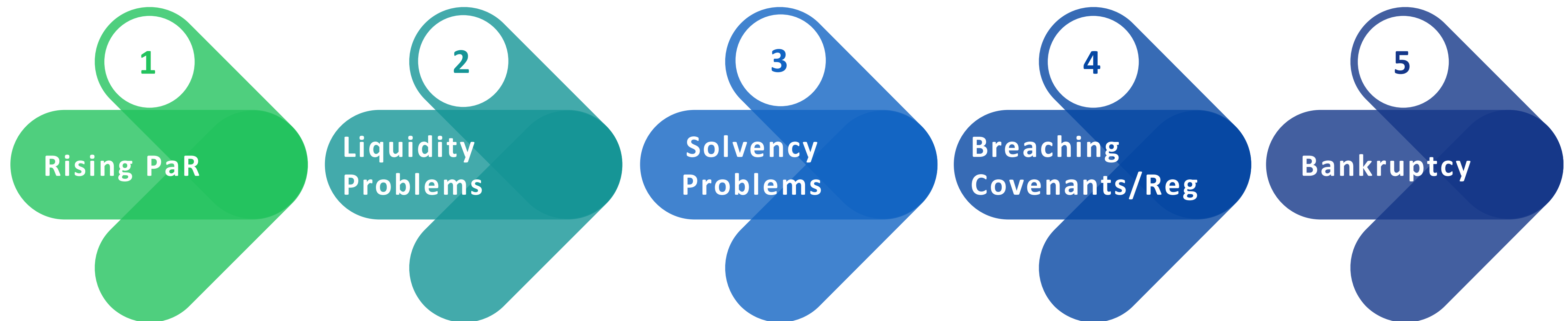
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Liquidity Assessment

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

The three scenarios analysis described earlier will have financial consequences:

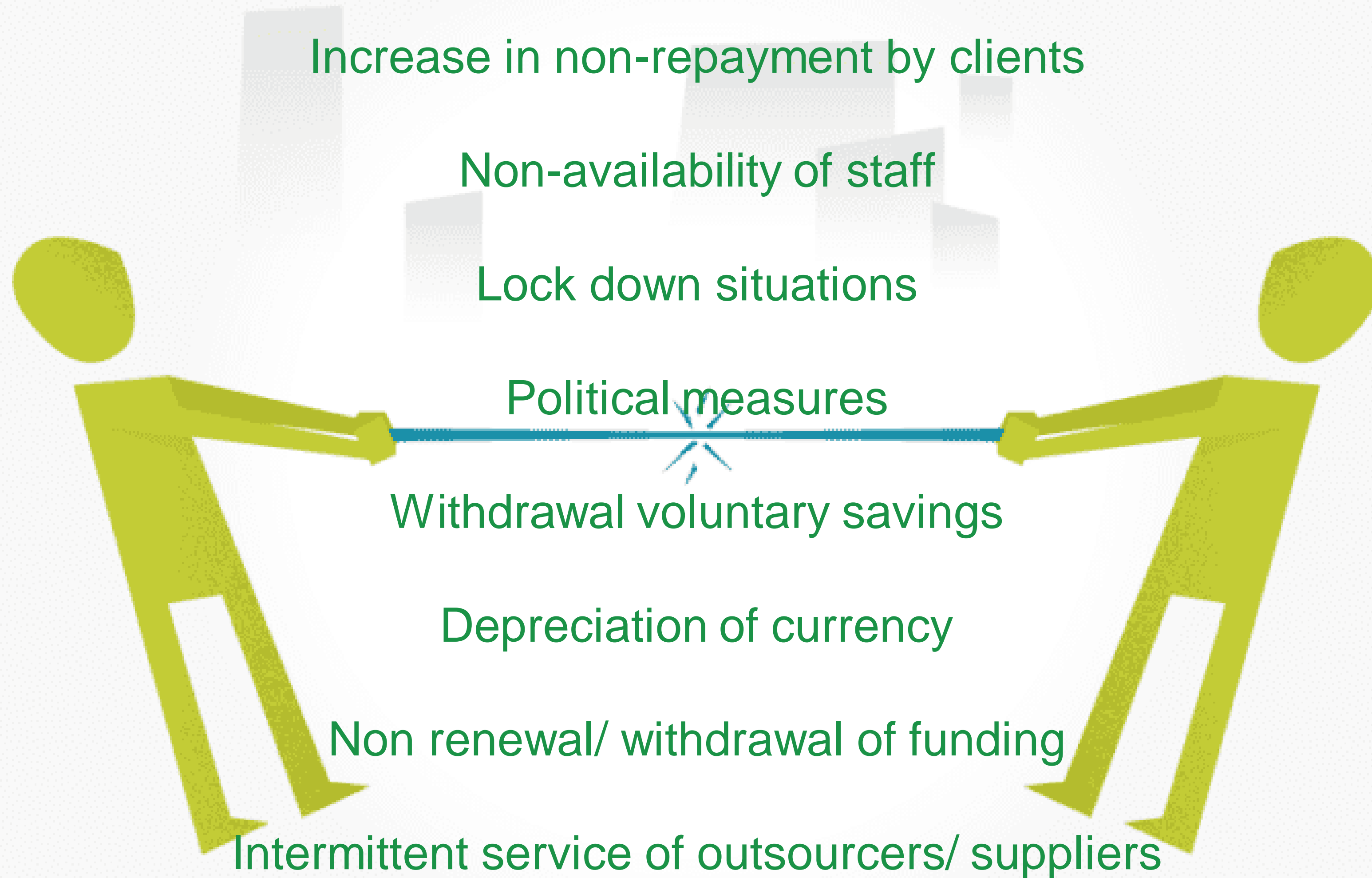


Scenario analysis must help us understand the impact on liquidity ----- meaning stress testing

Stress Testing

- Used to test the resilience of the FI against the different adverse financial scenarios
- E.g. PAR goes up to x% --- fraud goes up by y% --- what does that mean to the liquidity over time
- **For this, we use the Liquidity Gap Report**
- Report is a tool
 - To simulate the various scenarios
 - To see the effect on the liquidity, and
 - The liquidity gap over time
- By changing 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
- Measures may include, for example:
 - Reducing the expenses
 - Postponing investments
 - Increasing inflow, e.g. by getting support / grants / loans from international lenders and NGO's

Possible Ingredients for Stress Testing



Three Simplified Stress Testing Scenarios

1. Normal

2. Scenario 1:

- Repayment down 5% 1st month, 10% down the next months
- Overdraft facilities are partly drawn down in the 2nd and 3rd month
- Voluntary savings are withdrawn in the 1st month

3. Scenario 2, but with measures taken:

- Slow down of disbursements
- Tax deferral - 6 months
- Capital injection from the government/ funder

Contingency Planning



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Contingency Planning: Financial

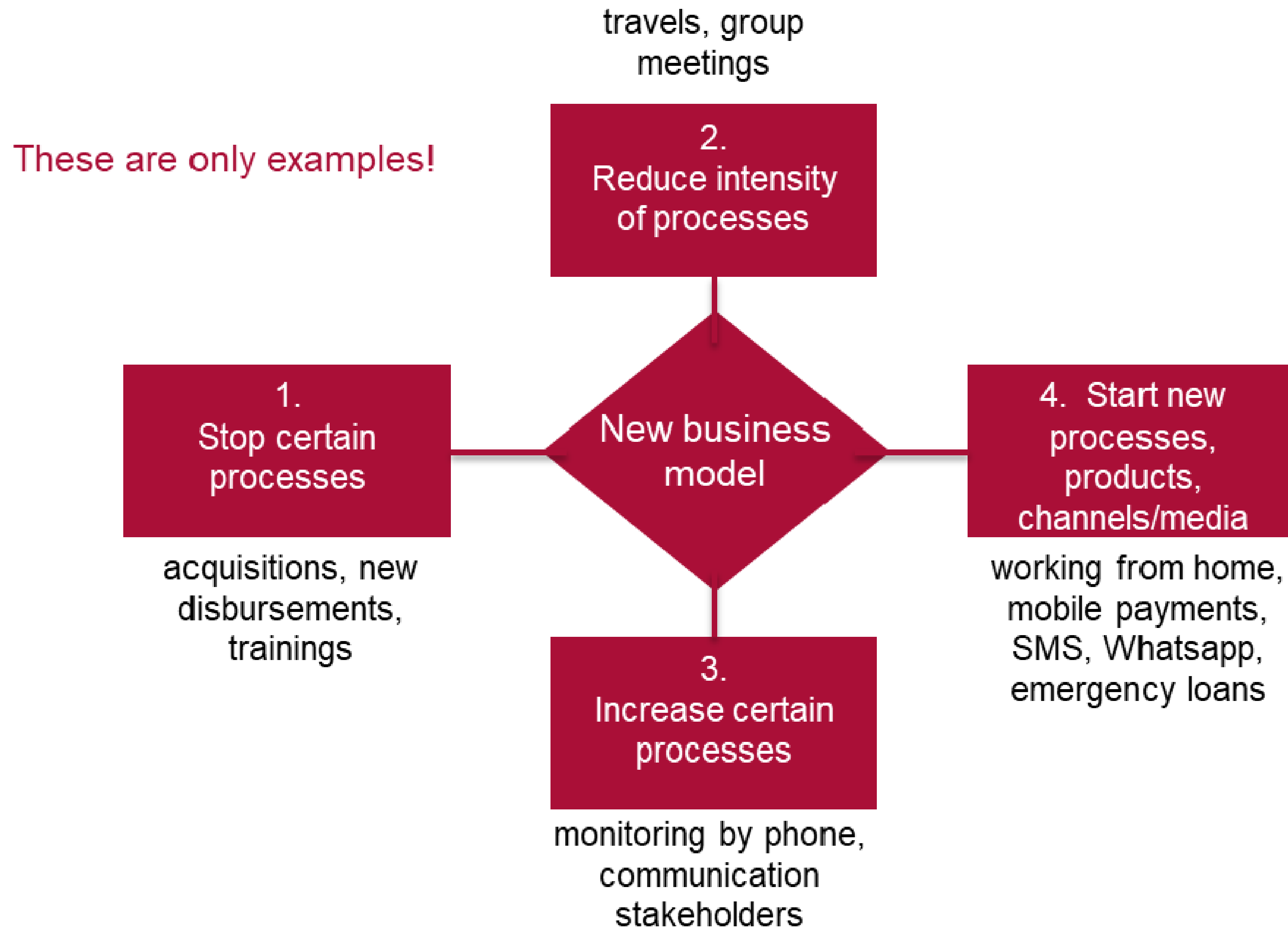
Expenses down, investments down, inflows up

- Stopping new disbursements...? But...Agri!
- Delaying payments – asking for changing timelines
- Consider lowering salaries for a short duration
- Capital spending is postponed
- Vacancies are not filled
- Sale of illiquid assets, but...may take time
- Don't forget to allow for any (permitted) savings withdrawals (voluntary savings)

Contingency Planning: Non-Financial

- Clear communication to all stakeholders is key, use different channels (SMS, USSD, WhatsApp)
- Lobby together in a joint effort with National Microfinance Associations towards
 - Government
 - Donor agencies
 - Investors / funders
- Health measures / A-B teams / working home
- Think out of the box

Changes to Processes



Remember also...

Clients in need:

- Restructuring
- Emergency loans
- Agricultural sector and value chain effects

Staff:

- Extra payment to keep them motivated

You need them, but they need you too!
Same with funders!



About RIFF-SEA

Responsible Inclusive Finance Facility for Southeast Asia (RIFF-SEA)

The RIFF-SEA offers the following trainings:

- Responsible Inclusive Finance Training
- Smart Assessor Training
- SPI4 Auditor Training
- Training TA providers on client protection or SPM

The RIFF-SEA provides co-financing to financial institutions for the following activities:

- SPI4 assessment plus additional support
- Client protection assessment
- Digital readiness assessment
- Upgrade project
- Specialized training on an aspect of SPM of the MFI's choosing
- Smart certification and/or social rating



...About RIFF-SEA

During the COVID-19 crisis, RIFF-SEA has modified its protocols to better assist financial service providers:

- A simplified application form is online
- Applications can be reviewed biweekly instead of quarterly.
- Up to 80% of the project costs can be co-financed up to a maximum of \$18,000.
- Topics that can be covered have been expanded to include more COVID-related issues.

<http://sptf.info/resources/riff-sea>



Thank
You

A blue paper cutout with the words "Thank You" in white, hanging from a string. The cutout has a scalloped, cloud-like border. The word "Thank" is on the top line and "You" is on the bottom line. The letters are in a bold, rounded, sans-serif font. A small metal ring is attached to the top center of the cutout, and a thin brown string is threaded through it.