

COVID-19 : Lessons for Financial Inclusion

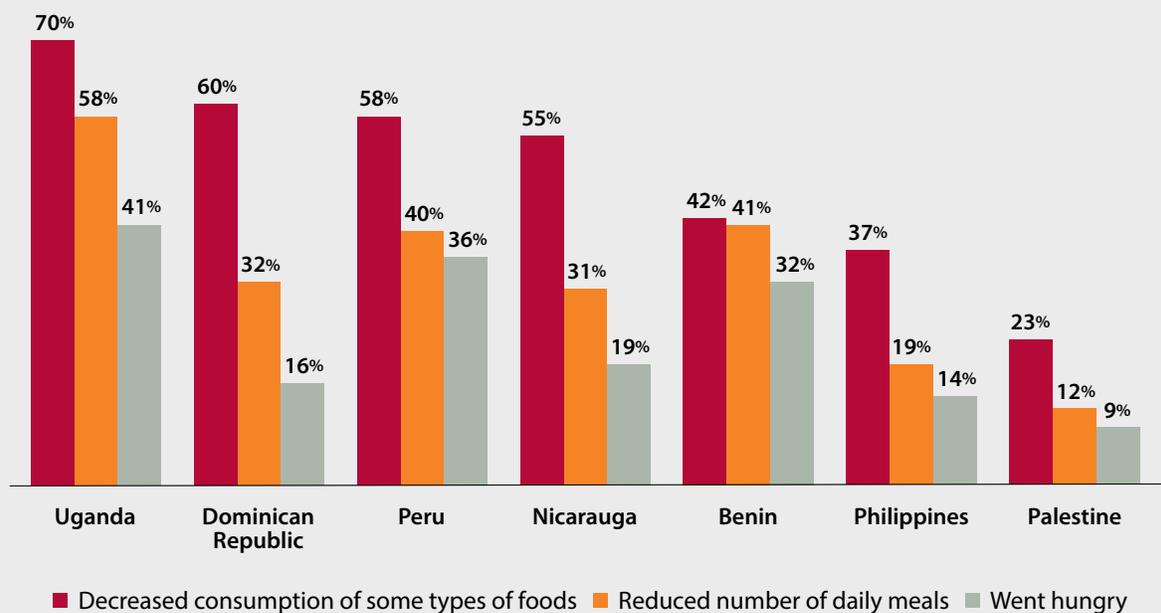
By Scott Graham, Anahit Tevosyan and Nathaniel Mayende



Between May and October 2020, a group of Financial Service Providers (FSP) and FSP networks affiliated with SPTF implemented a customer survey reaching more than ten thousand borrowers to assess the impact of COVID-19 on their lives and livelihoods. This summary highlights some findings from eight of the participating organizations. The clients of these organizations are not homogeneous, but they do represent a typical cross-section of FSP borrowers from around the world.



Vulnerability. Most FSP customers, like other low-income people, survive on daily earnings from small, informal livelihoods. Such businesses are an important source of subsistence for people without access to formal jobs, and they can even grow to support a decent quality of life. But the COVID-19 crisis showed the limitations of informal employment as a survival strategy, in particular its extreme vulnerability to any kind of disruption.



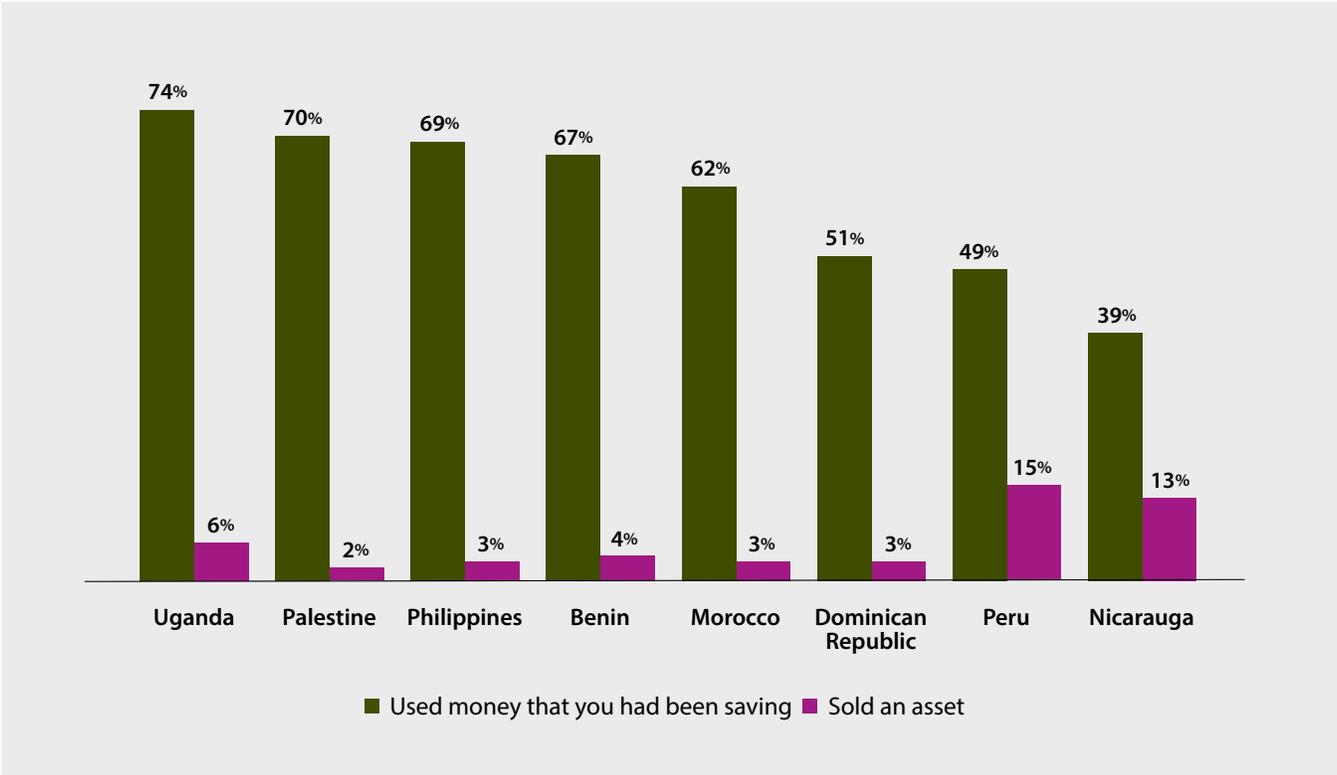
"We try to find something to eat during the day, sometimes ending up with no food at all!"

"I feed my family but sometimes there is no food left for me to eat."

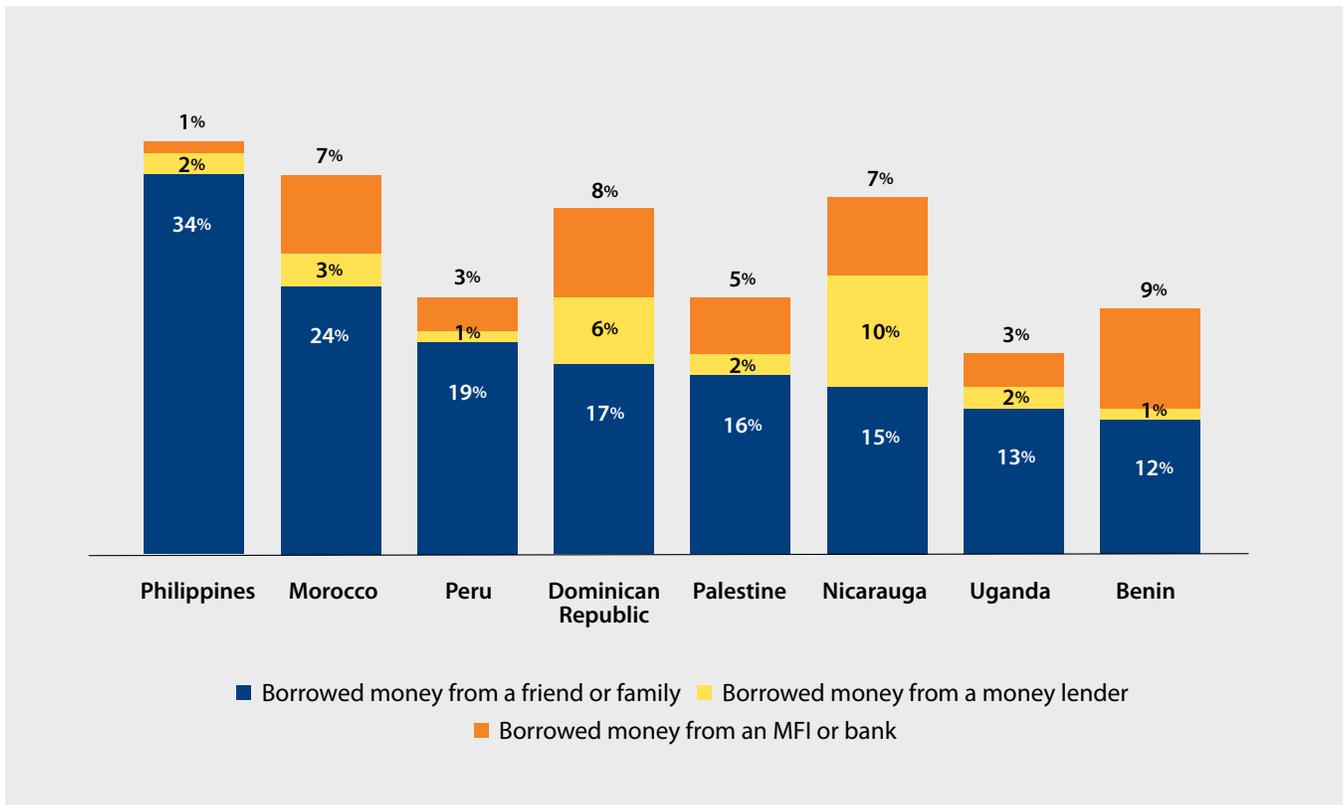
"I eat leftovers, I know that the supplies will not last, so I cook smaller portions just to feed the children."

In a striking instance of this vulnerability, FSP customers started reporting food insecurity within the first weeks and months of the lockdowns. Roughly half of FSP customers around the world either had to cut back on certain food items or went so far as to reduce the number of daily meals. These effects were most pronounced in Africa and Latin America, where the standard of living is generally lower than the Philippines or Palestinian territories. In the worst cases, 30 to 40 percent of customers reported that they were going hungry on a daily basis. While this experience no doubt reflects the uniquely difficult circumstances of a pandemic, it also serves as a stark reminder that informal livelihoods draw a very tenuous line between survival and crisis.

Use of Savings and Credit. If anyone doubts that poor people need access to liquid savings, consider the fact that, even in Uganda, the poorest country of the group, three fourths of respondents were able to at least mitigate the suffering of their families through savings. Other assets were not much use in the lockdown. In the most extreme cases, Peru and Nicaragua, only about 15% of FSP customers sold assets to obtain resources. (Who would have purchased such assets anyway, when everyone was scrambling to meet basic needs?) This finding should give renewed energy across the sector to help FSP customers gain greater resilience by building up cash savings, with an emphasis on the features of liquidity and immediate access.



COVID-19 also cast a light on the important role that social networks continue to play in the lives of FSP customers. Roughly 20 percent of respondents went to friends and family for loans, which might seem surprisingly high considering that these same community members were themselves likely experiencing similar problems. After savings and help from social networks, banks and MFIs were the next most important source for emergency cash. The use of formal loans varied widely by country, barely registering in places like the Philippines, Peru and Uganda, to highs of 8 and 9 percent in the Dominican Republic and Benin.



People turn to money lenders only when other options have been exhausted. Nicaragua is the only country where these informal creditors were a more important source of emergency funding than MFIs and banks. Government policies and an enduring financial crisis have weakened the formal financial sector in recent years, creating a gap that is being filled by moneylenders and their high-interest loans.

Averting the Next Crisis. The survey also captured open-ended responses to a simple question: how can we serve you better? Across a wide range of answers, it’s clear that the COVID crisis has strengthened the growing demand for more flexible, accessible services. In the “new normal,” convenience is a requirement, not a luxury. The elevated standards for accessibility apply both to savings and credit, and they go beyond mobile and agency banking channels; customers are looking for extended branch operations and call-center services. They are also looking for greater liquidity in both savings and credit products, in terms of flexible credit limits and savings withdrawals.

Having stretched the limits of their safety nets, COVID-19 has also left customers with an intensified feeling of their own vulnerability, and a strong desire for services that are relational rather than transactional. Empathy and helpfulness are in high demand. In terms of service, customers are looking beyond savings and credit, even going so far as to request linkages to public assistance and health information. One of the most common refrains is the need for business advice that will help them achieve better, more stable incomes. FSP customers know very well that their small, informal endeavors provide only a very limited buffer against misfortune, but they have little notion of the alternatives. They are turning to their microfinance provider, whom they regard as a reliable partner, as a source of guidance so they can build livelihoods that are better equipped to withstand the next crisis.

Qualitative Feedback from Customers



SAVINGS

Allow access to my savings

Allow **more flexible** withdrawals

Provide **more convenient channels** to cash-out

Expand branch working hours for cash-out

Offer **more mechanisms** to save

Provide **mobile saving** channels

Offer **more flexible saving products**

Expand branch **network/terminals** to reduce contamination



STAFF

Trust us

Listen to our requests

Guide us through our issues

Help us overcome our problems

Be **more patient**

Be **more understanding**

Call/check on us frequently

Let us speak about our problems



LOANS

Disburse **at our homes**

Offer **more flexible** terms

Create new loan products according to current economic circumstances

Approve loans **via phone**

Revise and **simplify** requirements



NEW PRODUCTS/SERVICES

Provide **monetary aid**

Offer **business consultation**

Offer trainings on how to **manage stress and overcome difficulties**

Offer **COVID insurance**

Provide **ongoing information about COVID** (in my neighborhood)

Provide **food and medication**

Partner with us in our business

Offer **trainings** on how to do successful business

Offer other insurance services (weather insurance, etc.)

