



MFN Annual Meeting 2020
Disruption and recovery of Financial Inclusion:
The ultimate leadership challenge?

2020 Annual Virtual Meeting Summary



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Abstract

During the 1st and 2nd days of November, the annual meeting of the MFN was held virtually due to the limitations imposed by the pandemic. Thus, the members of the MFN came together to take advantage of the special opportunity that the network offers them: in an environment of trust, openness and learning about the strategies, reflections, implications and challenges of leading organizations in an unprecedented context for the financial inclusion industry. The agenda consisted of two days of work.

The first day aimed to assess the global disruption experienced by microfinance, both due to COVID19 and other relevant global and regional trends. The flow of the discussion began with the identification of the stage of the pandemic around the regions represented, to later analyze the level of disruption experienced, and the evaluation of the CEOs on the type of institutional risk. Being consistent with the contextual analysis that has been done for some years, we mapped the behavior of the most important variables (the macroeconomic condition and the degree of support for microfinance). Finally, we discussed and shared the recovery strategies undertaken by each MFI.

Many of the members emphasized the weakening of the business model as a consequence of the pandemic. However, institutions adapted swiftly to the crisis, focusing on the well being of the customer and employees, and realigning the organization.

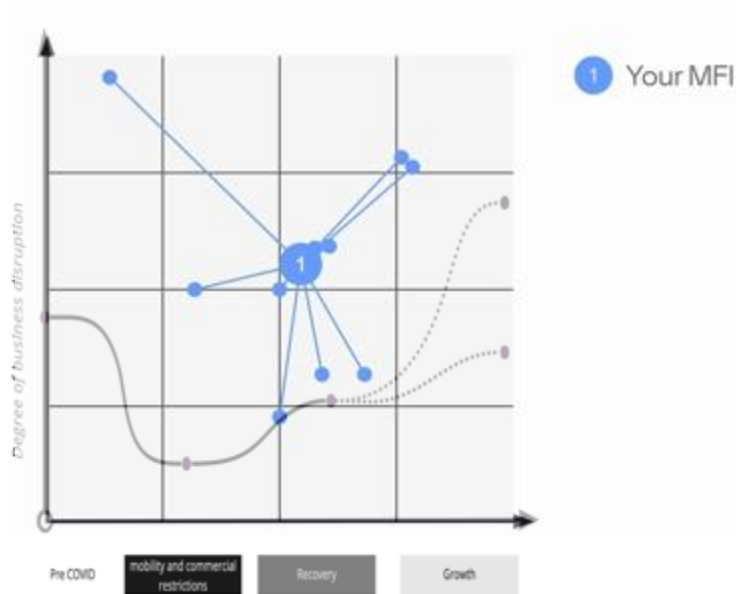
The second day delved into the leadership challenge that each of the members is facing as CEO. It is in these discussions that the MFN reveals its richness, both by the particular openness of the interventions and by its focus on the person with the highest institutional responsibility. We used as analysis framework the managerial process, with special detail in the sense-making stage. The discussion then turned to the uncertainties of the near future, and the digital opportunities for the “return to growth” stage. The final part of the session touched on a fundamental topic: the mission and potential that MFIs have as reactivators of the economy, promoters of development and agents of social construction.

By sharing their process of sense making and reaction, it was evident that the agility and effectiveness of adaptation, in a context that did not admit mistakes, have allowed MFIs to come out stronger institutionally.

Assessing the crisis: External Context Analysis and its effects on the MFIs

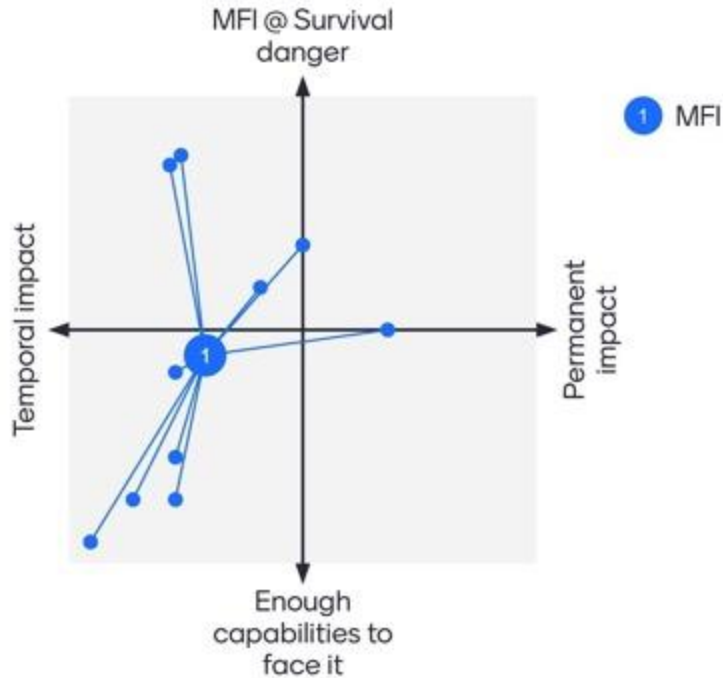
- 2020 has been a year where the whole world has suffered the effect of a Pandemic
 - In what stage of the Covid crisis are we?
 - What impact do we expect on your MFI from this crisis? Temporal or permanent? Do we have enough capabilities to overcome it?
 - Is this crisis only about COVID?
 - What are the effects on the MFIs business model?
 - How has your MFI adapted to this radical change in the environment?

Most MFIs assess that they are still in the Covid crisis



- The activity level have been generally below that of 2019.
- The main concern has been to support customers with refinancing alternatives to avoid delinquencies and desertion
- The main constraint has been keeping communication with customers
- Several MFI were preparing the re-growth stage, with incipient growth in credit placement

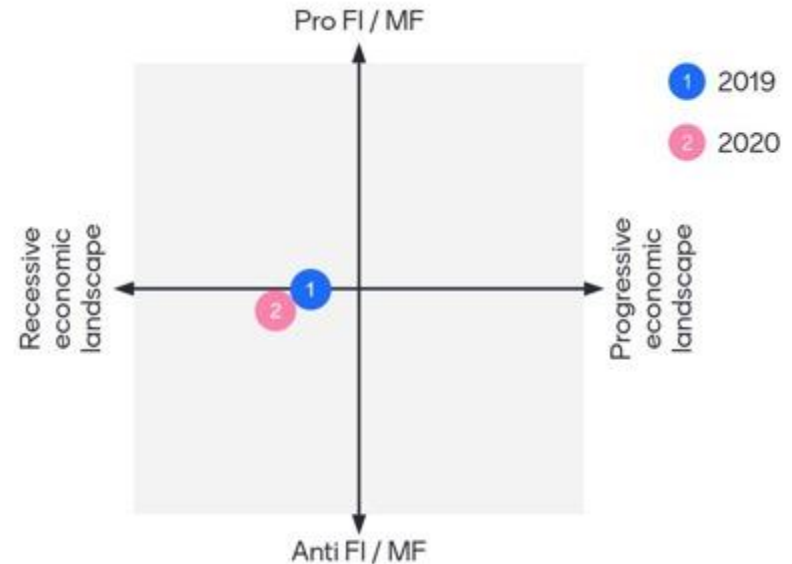
Most MFI leaders expect that the Covid crisis will largely have only a temporary impact on their organization



- The main risks identified were changes in economic dynamics and customer behavior
- The short life cycle of the loans has had a negative effect within a few months of the pandemic, but it would also allow a close return to the growth stage
- Regions that have suffered continuous disruption, believed that their experience would allow them to face the effects of the pandemic
- However, in some regions the pandemic has amplified other causes of social and economic degradation, which have caused the cancellation of national and international systemic support

The crisis causes are more than Covid

- The external context continues to be recessive and anti MFIs
 - Less trust on the MF model
 - More regulation
 - More intervention from the government
 - Lack of financial liquidity and lower availability of funding for MFI



The crisis has had many negative impacts to the MFIs



The effects have impacted many elements of the MFIs business model, triggering a strategic reprioritization towards clients and employees care, assurance of funding, operational efficiency and a digital adaptation to a remote work model

- *Customers*
 - Increased levels of loan delinquency
 - In some MFIs increased levels of savings
 - Increased rate of digital solutions
- *Digitization*
 - Increased rate of operational transformation
 - More digital training
- *Financial*
 - Drop in the interest rates
 - Weakened sources of funding
- *People and culture*
 - Teamwork challenges
 - New modes of communication and interaction
 - Challenges in maintaining the motivation and morale
- *MFIs perception*
 - More respected
 - More popular
 - Misunderstood

The crisis has weakened the MF model

- Regulations/laws in some countries declared a freeze on loan payments (capital and interest) causing a large impact on *working capital*
- The context has increased the *risk of loan collections* not only because of a lower capacity to pay of the customers but also a lower willingness to pay
- On the other side of the capabilities side of the business model, there seems to be, consequently, less willingness to fund MFIs
- Lack of person to person contact makes it more difficult to form new *lending groups* and increase lending portfolio

MFIs adapted swiftly to the crisis

- Customers are the core of the MFIs
 - Focus on taking care of the customer's well-being during the quarantine. No talk about loan repayment or pressuring for repayment (Bangladesh)
 - Developed digital tools to communicate with the clients: about facing the crisis, credit
 - Close partner to customers (Mexico, Peru)
 - Videos for how to take care of the family/business/health
 - Face to face touch is still critical. Continued contact even during Covid (Haiti)
- Organizational alignment
 - Strong increase in virtual learning (Bangladesh)
 - Now an open wider window to make things in different ways. New collection system
 - Communication technologies (zoom, teams...)
 - There was wide variance in the assessment of the capabilities required to face and overcome the crisis
- Support from Government:
 - Varied support from government

Lebanon

We dedicate an important moment of the meeting to understand the difficult situation in Lebanon. Both the economic-social conditions of the region, the situation of refugees from neighboring countries, the terrible explosion that occurred in August, and institutional fragility have caused a deterioration of the national financial sector and the subsequent withdrawal of international funding agencies. There is a great need for credit at the base of the pyramid, but MFIs face enormous constraints in fulfilling their mission. The visibility and relevance of the leading MFIs places them in a position of double fragility, being the focus of restrictive government actions and being unable to keep serving customers.

Unfortunately, the pandemic is not the only element of disruption, but its impact has tremendously amplified uncertainty and instability. The leadership challenge is thus enormous: maintaining unity and a sense of purpose, while not meeting the minimum conditions of security and business continuity.

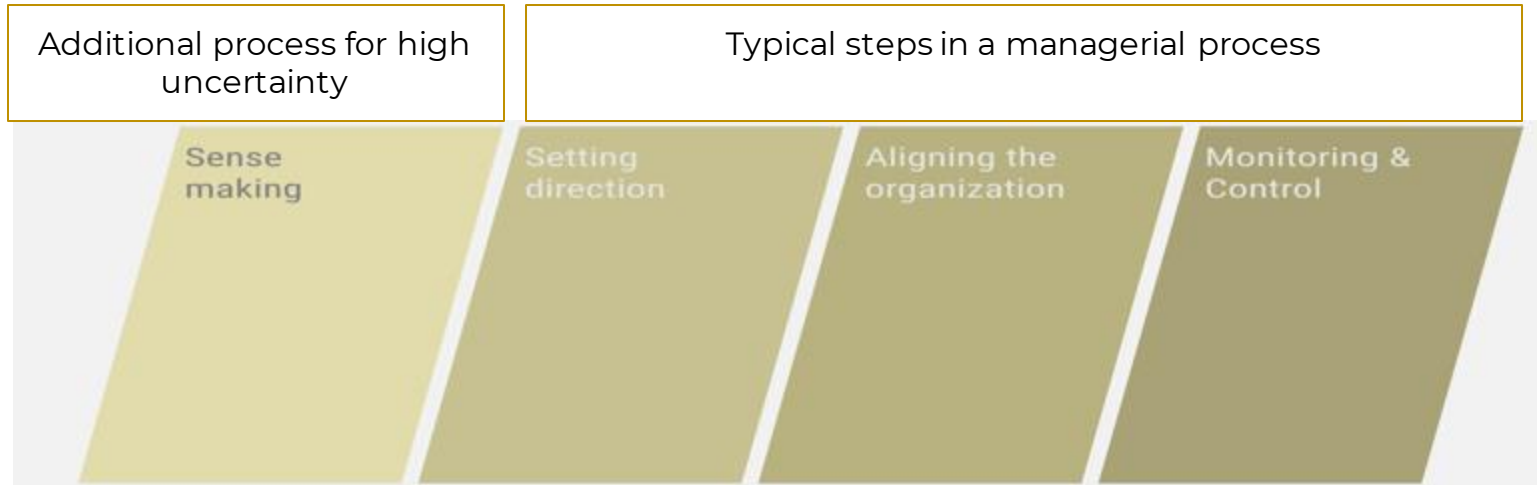
There are two important conclusions from this situation: on one hand, the very strong requirement of a favorable context for microfinance is endorsed, both in an economic sense and because of the need for an institutional framework that not only allows serving clients but also adapts to new disruption events. The second conclusion is the intrinsic relationship between the social objective of microfinance and personal vocation. The word service thus acquires its greatest height, by connecting the intention of dignity and development of the poorest, with the personal drive to serve through professional work and leadership.

Leading the MFIs during the crisis

- How have your managerial processes changed to deal with high uncertainty?
- What challenging uncertainties have you as the leader of your MFI faced?
- What leadership challenges have you faced or are you facing to assure the survival of your MFI?
- For the past few years, we have highlighted the importance of digitalization and being agile, how has the COVID crisis helped you or harmed you to pursue this long-term strategy?
- How has your role as leader changed?
- Are you being able to still pursue the purpose of your MFI?
- What can we reflect regarding the Purpose and values of your MFIs and the MFN?

The managerial processes are more complex during high uncertainty

Some characteristics of this crisis generate high uncertainty for the organization's leader. It occurs when the current situation is perceived differently from the expected state and there is no obvious way to engage the world. (Weick). The leader needs to engage then in *sensemaking*, turning circumstances into a situation that is comprehended explicitly in words and that serves as a springboard for action. High uncertainty involves lack of information about the probabilities of an event, unknown events, or uncertainty about consequences.



Managerial processes as a guideline for action

A Framework for Action		Organizational Processes		
		Work Processes	Behavioral Processes	Change Processes
Managerial Processes	Direction-Setting Processes	<ul style="list-style-type: none"> • Are there clear goals for operational and strategic performance? 	<ul style="list-style-type: none"> • Are there well-specified approaches to communication, decision making, and learning? 	<ul style="list-style-type: none"> • Is there a clear rationale, direction, and path of change?
	Negotiation and Selling Processes	<ul style="list-style-type: none"> • Have we obtained the necessary agreements and resources from upstream and downstream departments? 	<ul style="list-style-type: none"> • Is there widespread acceptance of the desired approaches to communication, decision making, and learning? 	<ul style="list-style-type: none"> • Are others in the organization convinced that change is needed and that the proposed changes are the right ones?
	Monitoring and Control Processes	<ul style="list-style-type: none"> • Do we know how well our performance matches plans? 	<ul style="list-style-type: none"> • Do we know how well our current behaviors match the desired approaches to communication, decision making, and learning? 	<ul style="list-style-type: none"> • Do we know whether critical milestones have been reached and planned changes have been implemented?



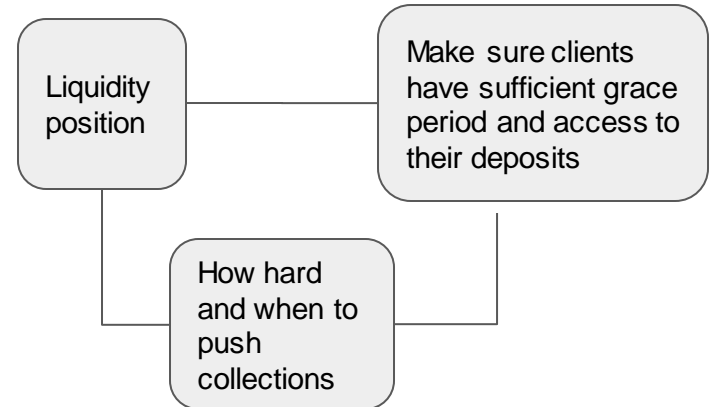
MFIs faced uncertainties around critical elements of the business model

The uncertainties were more internal than external. As the MFIs were able to re-engage the market the challenge became managing several critical interrelated variables:

Balancing grace period vs start collecting, giving access to deposits (savings) and managing the liquidity position.

Despite the fact that MFIs began rapid changes for the benefit of clients and staff, a high level of uncertainty is expected for the subsequent months

Topics will remain the same, both internally and externally



The MFIs business model was shaken and requires multiple adaptations

Investors/Funding changed

- Investors perception of higher risk and uncertainty about the return
- Investors taking a recessive position

Regulators

- Temporary changes in requirements

The organization changed

- Employees morale
- Mental health issues
- Working remotely

Leadership questions/decisions

- How to accelerate digital transformation?
- How to prioritize digital initiatives?
- How to maintain confidence and purpose with investors?

- Which customers will be viable and which won't?
- Customers profiles have changed, what is their new credit risk level? (lower quality portfolio)
- How to recover loans and preserve the relationship/brand recognition?
- How long to defer loan collection?

- How does leadership change?
- How do you manage teams?
- What HR rules and practices need to change?
- How to retain and attract talent?

Identify new market segments, what products will they need?

How will the competition landscape change?

Market/Clients changed

- Client's radical context change generate challenges to pay their loans
- Market will take years to recover
- Clients more interested in digital services

Large numbers of people affected will lead to more financial needs and new customers

MFIs in financial stress

“This is a more uncertain complex and ambiguous world and it is going to stay that way, this is a learning opportunity”

Sense making

Gather all possible perspectives: board, management team, field, government rules and directives, news...

Get ahead based on countries with more advanced stages of pandemic (Italy, Spain, England)

Daily and weekly top management meetings for understanding a VUCA environment. “No surprises”

Realizing & managing own energy, stress, emotions, even anxiety

Understand and value the unity, strength, dynamics and disposition of the Board and the first management team

Setting direction

Not only down the chain of command but aligning the board, help them connect a high level picture with the market realities.

Fast learning mode: assess the disruption, evaluate impacts, quick decision making process, analyze impacts, effective communication internally and externally

Make lenders understand local conditions, needs and trends

Agility became a real practice for team reaction and fast response to customers, instead of a theoretical framework

Assure enough liquidity
Quick evaluation of re-financing and similar solutions

Underline the role of top management as amplifiers of energy and consistency

Aligning the organization

Continuously making the team making the sure we are ONE team, unify.
If employees are motivated and happy they know what to do

Frequent and fast launch flexible products; staff retraining, due to new and emergent needs of customers
Government negotiations to define customer aid policies and rules

New protocols, tools & procedures to assure customer continuity and staff safety

Communication with staff as top priority: receive market feedback, keep motivation, changes in product portfolio...

More autonomous field operation, with increase trust on local decision making, increased empowerment and delegation

Monitoring and control

Pressure to decrease operating cost cause lower morale, that could result in a mistake prone operation. The monitor and support role of managers became essential

Continuous feedback and empathetic interpretation of the impact of the decisions

Continuous counseling to middle managers and field staff

Higher need to focus on staff wellness

Continuous re-assessing of customer 's business viability

“Never ending marathon”



Managing and serving people just took a different meaning

- Clients are experiencing unprecedented financial, emotional, health and stress conditions
- Employees, working in isolation, with uncertainty and anxiety, need to feel safe and capable of carrying out their responsibilities in the face of an unknown context
- Staff motivation plays a fundamental role, and the main motivators are the most essential needs (health, physical integrity, job security, etc.)
- In such extreme conditions, employees are mistake prone, which could damage customers and generate significant reputational costs.
- Unlike previous crises, uncertainty unfolds partially, sometimes taking steps forward and backward, thus maintaining the stress condition.
- There is great pressure to act, since decisions or omissions have amplifying effects on customer and employee relationships.
- The restrictions imposed by COVID hindered or invalidated internal and external relationship mechanisms.

The crisis has accelerated the digitalization of the MFIs

The crisis has made more clear digital priorities allowing accelerated digitization.

Re-prioritization of digital projects:

- Focus on business continuity
- Higher need for increased efficiencies
- Customer convenience as main factor
- Accelerate switch from standard massive products to a flexible portfolio of solutions
- Increased need to elevate organizational agility in order to adapt continuously to an uncertain context

“Before Covid *agile* was theoretical, now it is real, it has taken a whole new meaning”

“Digital initiatives now have to be dramatically efficient and extremely convenient”

Fast paced digitalization

Digitization strategies have undergone two fundamental changes:

- The rationalization of alternatives: the surviving ones were those intrinsically connected with operational efficiency and business continuity;
- A radical change in work and coordination models, starting with the dynamics of the management team

And a new character is also observed in the digital quest: While getting back to normal, we are experiencing an agile explorer mode. In a few months, customer contact processes, product launch, credit placement and the management agenda were digitized. Thus, decision processes have accelerated to take advantage of these opportunities.

MFIs need to work on new forms of customer resilience building; traditional mechanisms, such as savings, are not enough for a crisis like this.

Digital platforms have strengthened the MFIs ability to reach the front liners, and have made it possible to reinforce the commitment and sense of belonging of the staff.

There is a common perception that these opportunities and innovations are just taking off their potential for the growth and organizational transformation of MFIs.

Reflections on Purpose, Mission and Values

- The crisis demonstrates that the MFIs have a fundamental role in the economic reactivation of the regions in which they participate.
- However, MFIs also face greater obstacles to carry out their mission, mainly due to macroeconomic uncertainty and the social impacts of the pandemic.
- While external views (regulators and investors) were polarized between concerns about the survival of MFIs or their justification as economic agents for the base of the pyramid, the institutions maintained their focus on taking care of their clients and their collaborators. This highlights (1) the strength of its purpose and culture, as well as the strength of the institutions themselves, and (2) the importance of customer centricity as the strategic compass. From this perspective, portfolio innovation opportunities can be fine tuned, and improvement and transformation initiatives can be prioritized.
- The effects of the agile and focused reaction of MFIs towards their clients and collaborators can be a promise of future efficiency and speed of change, thus becoming a competitive strength acquired during the pandemic.
- The crisis' vastness caused an unprecedented challenge for all CEOs, because at the same time urgent decisions were made that would fundamentally affect regional industry, clients and collaborators, and due to the fact that all eyes were on them.
- The multidimensional commitment (emotional, personal, economic and institutional) has been enormous when considering the resources invested, the quality of the decision making process, and the unshakable determination.

