

SCENARIO BUILDING TOOLS IN VIEW OF COVID-19

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This memo describes some of the tools that can be used in the process of making a business continuity plan. This memo discusses:

1. Stakeholder analysis
2. Scenario analysis
3. Client segmentation (willingness / able to pay)
4. Analysis of critical activities & critical roles (key staff).

Please refer also to the Guidance Note ["Attention points business continuity for MFIs in view of the COVID-19 outbreak"](#).

As a complement to this memo, we propose a template for an "Action Plan for business continuity - COVID-19" pre-filled with the proposals made in the Guidance Note. Please note that this action plan is not exhaustive and must be completed according to your particular situation.

This memo refers to the Excel file "Scenario_maturity_liquidity_gap_BCM" in which you will be able to carry out the proposed activities.

1. STAKEHOLDER ANALYSIS

Stakeholder analysis can be done for business as usual, but this stakeholder analysis focuses on stakeholders in view of the COVID-19 outbreak.

There are internal and external stakeholders. A stakeholder has an important interest ("a stake") in the institution.

Stakeholders are important because the institution is dependent on them. But most of the time there is a mutual dependency. E.g. clients are stakeholders, having clients is the core part of your business, but they are also dependent on your institution.

But the dependency is not always fully in balance, in some cases the stakeholders are more dependent on the institution (e.g. some clients) and in other cases the institution is more dependent on the stakeholder (e.g. funders / investors).

Activity 1. Carry out a Stakeholder analysis for your organisation.

Step 1.

Identify your stakeholders; the table below gives a first impression. However, in your case there might be other / additional stakeholders. Furthermore, it might be necessary to make a distinction in subcategories:

e.g. most probably there are different categories of clients, e.g. cooperative clients who are fully supportive and will continue to repay and will also be able to help the organisation to reach out to other clients, opportunistic clients who can pay but will not; struggling clients – willing to pay but cannot – or you may have other categories). Please refer also to the paragraph [client segmentation below](#).

Step 2.

The elements of the stakeholder analysis are shown in the column headings. For each of the stakeholders these topics must be addressed:

- **What is important for the stakeholder?** As said the stakeholder is also dependent on your institution, e.g. clients want to be able to borrow money at a reasonable price, they want a better remuneration for their deposits, they want to be treated well especially now in times of crisis if they cannot repay for example. Or they want to be able to access funds for recovery and restarting their business when the crisis is over.
- **What kind of risk can they create?** This is the other side of the coin: the institution is dependent on the stakeholder, to stick to the example of the client: that the clients are able and willing to repay the instalments / interest, so default is a risk for the institution.

The (in)balance between these two points is important to consider in the communication with the specific stakeholder, it defines the negotiating power. This (in)balance is therefor also important for the next point:

- **What kind of support can they give?** Basically, what counts here is that the stakeholders continue to apply “business as usual”. But in some situations, stakeholders might offer additional support (e.g. funders, investors, NGO’s).
- **How can you improve their support / action?** See the former point: what are the methods to increase the probability that these categories of stakeholders will give you additional support. This is of course not easy in a crisis, especially in this case of a pandemic where every institution needs extra support (e.g. funders can postpone repayments and/or give additional funding). Make sure that the actions are defined in a SMART way: specific, measurable, achievable, relevant and time bound.
- **Communication: frequency / channel:** By which communications channel is the institution going to communicate by phone, SMS, email, skype, ZOOM, WhatsApp.... And with what frequency.
- **Person to act (PTA):** who is responsible to execute the actions? Most probably there are more than one action to be executed per stakeholder, so there will most probably be more PTA’s. Please note: make one person responsible not group or committee. Accountability must be assigned per person.
- **Due date:** A due date must be defined for the complete finalisation of each action.

| Stakeholders groups | 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 or actions? | Communication: frequency + channels | Person to act | Due date |
|-----------------------------------|--|------------------------------------|-------------------------------------|---|-------------------------------------|---------------|----------|
| Clients | | | | | | | |
| Board | | | | | | | |
| Staff | | | | | | | |
| Outsourcers | | | | | | | |
| Third parties | | | | | | | |
| Investors | | | | | | | |
| Shareholders | | | | | | | |
| Donors | | | | | | | |
| NGOs | | | | | | | |
| Banks | | | | | | | |
| Competitors | | | | | | | |
| Regulators | | | | | | | |
| Tax authority | | | | | | | |
| Local authorities | | | | | | | |
| National Microfinance Association | | | | | | | |
| Etc. | | | | | | | |

This step is reflected in the “Stakeholder analysis” worksheet in the Excel file “Scenario_maturity_liquidity_gap_BCM”.

This stakeholder analysis helps to make a business continuity plan because it focuses on the risks that stakeholders can create but also what support the institution might ask from them.

To get an idea about the various risks / opportunities the stakeholder can create, [see appendix](#).

2. SCENARIO ANALYSIS

Scenario analysis (“what...if”) is an excellent method for pro-active risk management: being prepared for upcoming new risk events. Especially in this hectic time new events following one another in rapid pace.

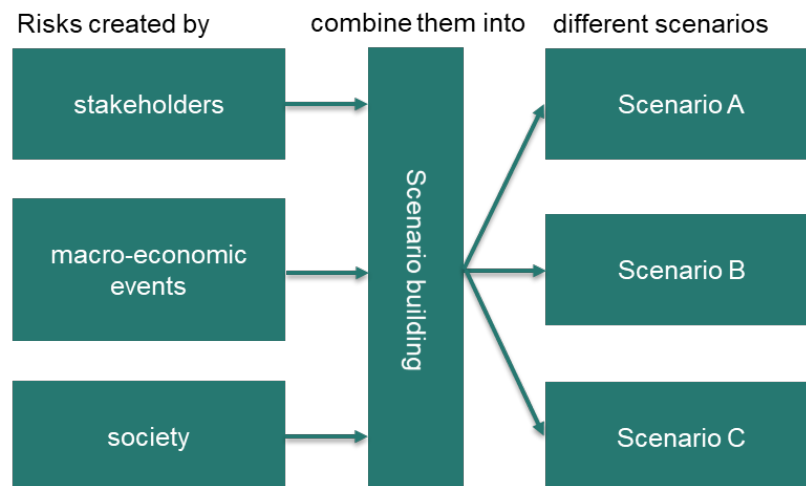
It is good management practise to develop several scenarios: some disruptions, more heavy disruptions and worst-case scenario.

A scenario describes a combination of possible risk events that result in various kinds impacts: financial and non-financial:

- Financial: e.g. impact on PAR, the liquidity and solvency, profitability, bankruptcy.
- Non-financial: e.g. non-availability of staff, lack of IT/ MIS, impact on the image (reputation), continuity.

Scenario analysis is mainly based on events caused by one or usually a combination of:

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



Stakeholders have been discussed in the earlier paragraph.

Macro-economic events, some examples:

- Interest goes up / down
- Inflation (because of shortages, speculation)
- FX risk: depreciation of the local currency
- Stagnation in the value chain: slowdown of commodities / raw material affecting the institutions / affecting the business of the clients (supply of goods needed by businesses are not available)
- Slowdown of remittances
- Breakdown of critical outsourced activities (e.g. IT)
- Banks close or limit access to funds

Society: political events / reactions of the public, some examples:

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

Activity 2. Build the scenario you must prepare for.

Based on this you can build your own 3 scenarios. You can also have a look at the following examples:

- Full lock down for 3 months, after that partial lock down for 2 months, repayment holiday for 3 months, withdrawal of a funder, several key staff members are ill, interruptions of an important outsourced activity (e.g. IT), a cap on withdrawals of your bank accounts, PAR goes up 10 times as much; mass withdrawal of savings and deposits (80%); branch and head offices are closed in 70% of the operational areas, essential staff work from home; travel restricted, all public events / gatherings are not allowed; government regulations provide tax breaks and holidays for the country's manufacturing, tourism, agriculture, and property industries for 4 months; quarantine measures include home quarantine, regional quarantine, and limits on social interactions; only essential services allowed, shortened banking hours; large-scale social distancing imposed.
- Partial lock down for 4 months (restaurants, schools, sport clubs, entertainment, all events with more than 3 people), withdrawal of a funder. One key staff member is ill, PAR goes up 5 times as much, social distancing; withdrawal of savings and deposits by clients of 40%; 50% branches operational; travel restricted to lockdown areas; government tax breaks and holidays for 3 months; shortened bank hours; large-scale social distancing imposed.
- Partial lock down for 2 months (restaurants, schools, sport clubs, entertainment, all events with more than 3 people). PAR goes up 3 times as much, social distancing; withdrawal of savings and deposits by client of 10%; 50% branches operational; travel restricted to lockdown areas; government tax breaks and holidays for 2 months; large-scale social distancing imposed.

This activity is done in the “Scenario non-fin assumptions” worksheet, and in the “Scenario Key Assumptions Sc-...” worksheet for each scenario defined in the “Scenario_maturity_liquidity_gap_BCM” Excel file.

3. CLIENT SEGMENTATION

The client segmentation helps to assess the possible scenarios of the clients' repayment behaviour. The best is to take a bottom up approach: involve the loan officers to make a judgement of their clients and aggregate the results.

Local and country circumstances and economy are drivers for this assessment for the ability to pay. Examples:

- Stopped activities for: tourism, restaurants, sport clubs, entertainment etc
- Heavily to lightly affected industries: non-food like clothing, electrical appliances, garment sector, local transport, tuk-tuks, small community-based shops selling basic commodities.
- Availability and access to government support for particular businesses
- Availability of emergency relief from government for household consumption (avoids client using up business capital for family consumption).

The assessment can be made, based on the sector of the client. Other factors play a role as well like a locked down area, closed markets, whether or not the client has other income or whether an important alternative source of income stopped like remittances.

For each client segment, estimate the total number of clients and the amount of the total outstanding portfolio associated with those clients. Use the data to fill in the box below by putting the total amount of outstanding loans and the number of clients into whichever repayment behaviour they will likely exhibit. We

can go further by taking into account the situation (performing portfolio) and the breakdown by sector of activity.

Important: Client repayment behaviour may change depending on the scenario. Be sure to assess and fill in the box below for each of the scenario that you develop. This is critical input for the liquidity gap analysis that you will be performing for each scenario.

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

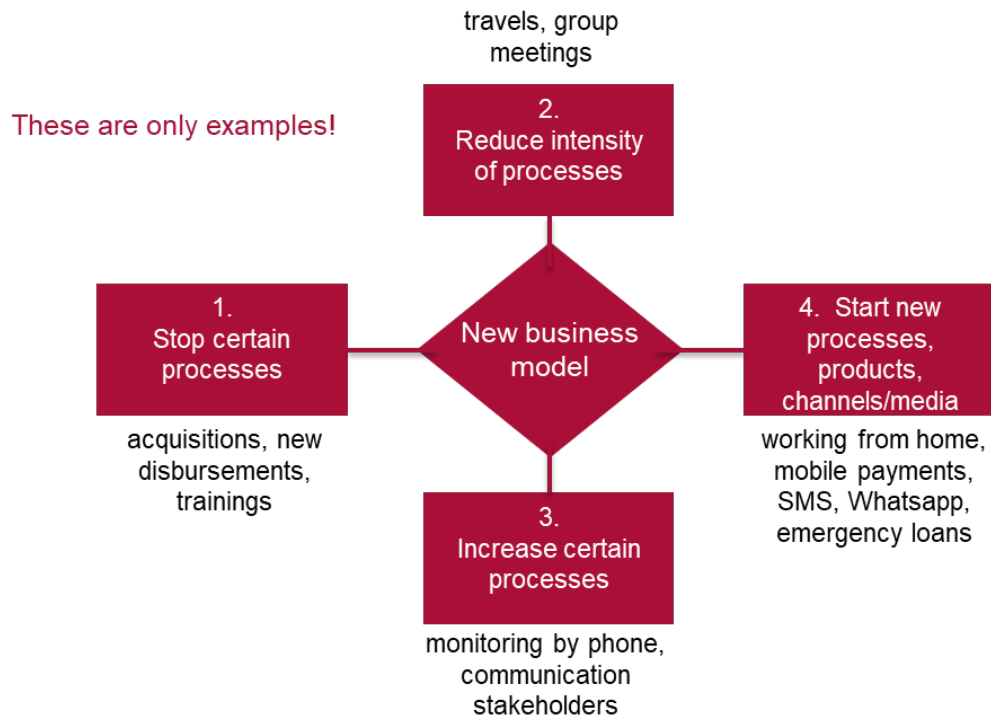
This activity is done in the “Client Segmentation” worksheet in the “Scenario_maturity_liquidity_gap_BCM Excel file.

4. ANALYSIS OF CRITICAL ACTIVITIES – NEW RESILIENT BUSINESS MODEL

To be able to survive - to continue business - priorities must be set. The picture below shows that decisions must be made:

- **Critical activities that need to continue** for the business to function (regardless of level of operations).
 - Can these activities continue as they are currently done? If not,
 - Are there alternative ways of doing these activities? Are there alternative activities that can achieve the same objectives that can be done instead of the original activities? Define the changes to be made in frequency or process.
- **Noncritical activities or activities** that even harm if they continue must be stopped.
- **Activities that are less important** or that might cause harm if they continue in the same way / frequency must be reduced.
- **For important activities that cannot continue in the same way** alternative activities must be found to continue business in these specific circumstances, the frequency or form in which the activity is executed must change.
- Then there is room for **new activities**: new distribution channels, new products, new services.

Basically, it means moving to a new, more resilient business model:



5. ANALYSIS OF KEY STAFF

The analysis of critical activities will give you insight regarding staff workload. Some staff involved in processes which are discontinued or re-designed may be re-assigned to other areas of work. Some staff is highly critical: e.g. management, IT staff, loan officers, internal audit. Don't underestimate the importance of internal controls and internal audit. History shows that the risk of errors and fraud increases given the specific circumstances, so these functions are important. You may also need specialised staff to coordinate with government or regulatory bodies, donors and other agencies providing support or programs that may help your clients.

Part of your scenario planning should also be preparing a plan for staff. Are there any recruitments in progress (new hires)? Are these essential or can they be delayed? Do you have contractual staff performing non-essential functions? Can their workloads be decreased? At what point will you have to consider more drastic measures to cut costs and at what point will staff be affected?

APPENDIX

STAKEHOLDERS: RISKS AND OPPORTUNITIES.

These are just examples, so please feel free to add / modify for your specific circumstances.

| Stakeholder Groups | What kind of risk can they create | What kind of support can they give |
|----------------------------|--|--|
| Clients | Clients can withdraw their (voluntary) savings / not repay their instalments; commit fraud, face bankruptcy, spread false or amplified information. | Keep the savings intact or do not withdraw completely ; willing to repay their instalments in case they are able to do so; lobby for government support for small businesses and assist other clients to access this support. |
| Board | Indecisiveness, sickness, lack of reactivity. | Show strong leadership; assist in lobbying with government, regulators, funders and other potential sources of support |
| Staff | Getting ill, not being available for work, return home, be less productive / demotivated | Taking care of health instructions; actively maintain contact with their client base; proactive in suggesting new ways of reaching out to clients, engaged in maintaining staff morale |
| Outsourcers | Bankruptcy, interrupt their services / not adhering to service level agreements (SLA), raising their prices, commit fraud | Commit to their SLA; be transparent about capacity to deliver; provide suggestions on alternatives if unable to deliver as per SLA |
| Third parties | Bankruptcy, interrupt their services, raising their prices | Continue to deliver the right service |
| Funders / investors | Withdrawing their funds, non-renewal of loan; rising interest rates and/or fees | Continue to fund; granting additional loans / funding; restructuring of loans; suspension of repayments / interest; all funders/lenders to have a coordinated approach; support in advocacy and lobby with government or regulators |
| Shareholders | Violation of shareholders' agreements | Ability/willingness to increase capital if necessary, provide guarantees, etc. Position regarding possible mergers, ability to support such a process Ability to support negotiation processes with lenders |
| Competitors | Monitor the measures they take in terms of disbursement / recovery of credits, repayment of savings, opening of their branches Monitor their financial situation (bankruptcies can spread the idea that credits do not have to be repaid) | Identify merger opportunities if the situation so requires (takeover by a competitor, merger, acquisition, takeover of portfolio, personnel, etc.). |
| Banks | Bankruptcy; lack of liquidity; freezing accounts / deposits; putting a cap on withdrawals; being closed | Continue normal business, opening up term deposits |

| | | |
|---|--|--|
| NGO's | Withdrawing any existing financial and/or non-financial support | Grant technical assistance; grant funding / emergency loans for the institution or clients; provide emergency relief support to communities – ensure food supply |
| Regulators | Imposing repayment holidays for the institutions; central Bank regulations to businesses | Tax relief; extra funding |
| Tax authority | Penalty for late payment | Tax relief, suspension, tax credit |
| Local authorities | Installing lock down*) / curfew; promoting a non-payment movement | Supporting the institution to help in collection practises |
| National Microfinance associations | Indecisiveness, lack of reactivity | Pro-active in the coordination of actions and communication with banks, funders, NGO's, government, tax authorities |
| Others | ... | ... |

*) Government regulations related to Covid-19, including quarantine measures such as temporary closure of schools and places of work, limitations on activities in public places or facilities.