

A photograph of a woman wearing a purple headscarf and a purple patterned shawl, looking through a chain-link fence. The background is a blurred outdoor scene with greenery and a blue sky.

# Debt Moratoria in the Pandemic: Experiences & Lessons\*

Hesham Fahmy, Hoping to Get Out into the Future (Sudan). 2018 CGAP  
Photo Contest

CGAP Staging Presentation – Alleviating Distress  
Dvara Conference on Making Credit Work For The Poor

February 15, 2023



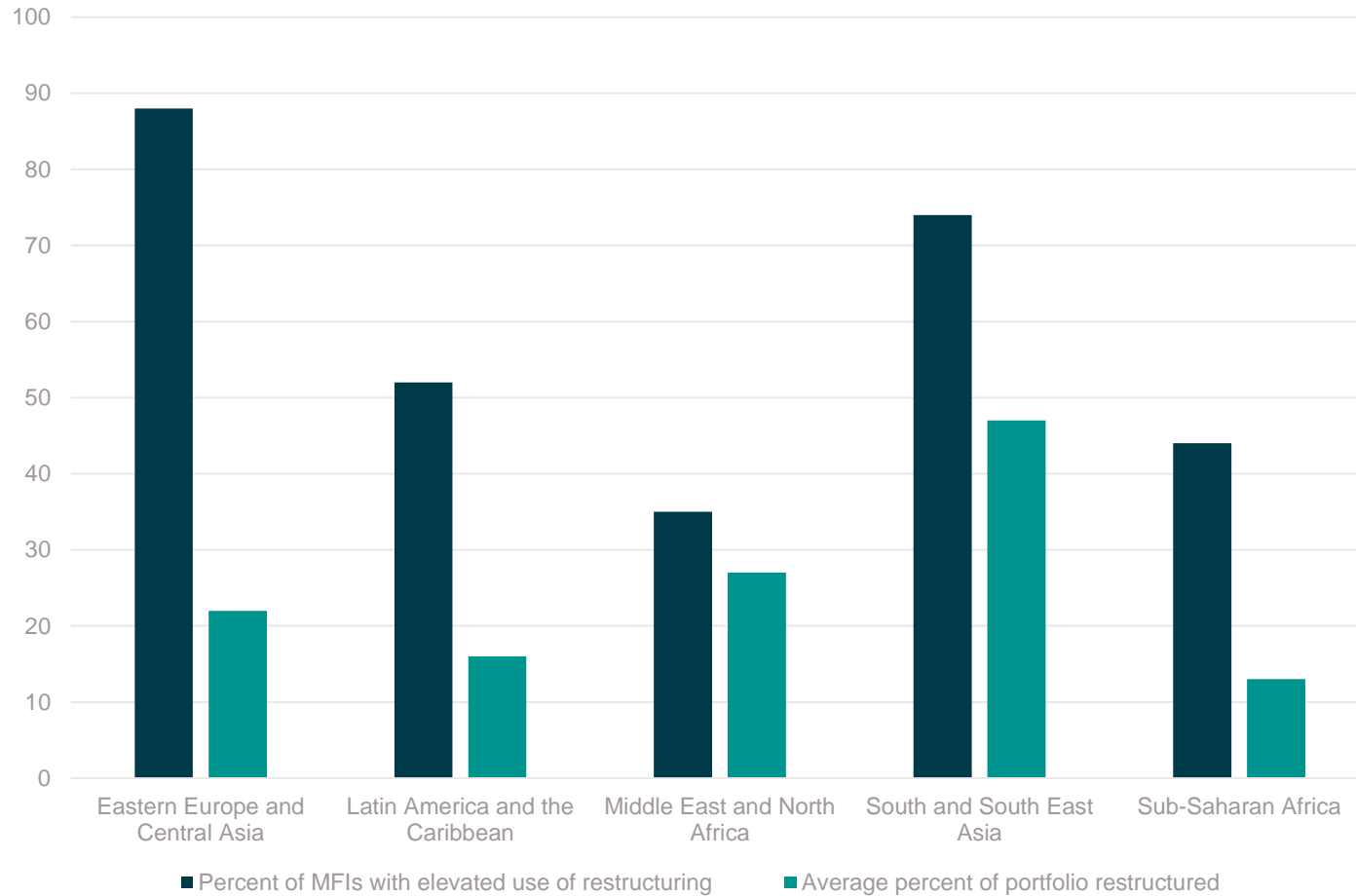
\*Rhyne & Duflos, Feb. 2021 (revised, Meagher 2023)

# Overview

- COVID: borrower distress and effects of moratoria
  - CGAP research in Peru, India and Uganda
- Challenges posed by debt moratoria
  - For consumers
  - For FSPs
  - For regulators
- COVID (and earlier crises): lessons and suggestions for FSPs and regulators

# Unprecedented Scale of Moratoria across the Globe

MFI Use of Moratoria and Other Rescheduling,  
as of April 30, 2020



# Moratoria in India, Peru, and Uganda\*

	India	Peru	Uganda
<b>Moratorium Period</b>	3 months (March-May); extended to 6 months (June-August)	6 months, extended to 12 months	Up to two reschedulings of unspecified length anytime from April 1, 2020 to March 30, 2021
<b>Interest &amp; Fees</b>	Interest accrued and capitalized; revised to allow interest to be converted to 6 month loan; revised again by Supreme Court.	Interest may be accrued or suspended, at FSP discretion	Interest accrued and capitalized; fees must be “reasonable”
<b>Case-by-Case vs. Blanket</b>	FSPs to set own policies; interpreted as encouraging blanket applicability	Unilateral reprogramming on blanket basis; later revised to allow reversals	Case-by-case
<b>% of portfolios rescheduled</b>	About 40% of bank loans; 70-90% for small finance banks and MFI-NBFCs	36% of all loans; 50-65% of consumer and MSME loans	About 30% of all loans

\*Debt Relief in the Pandemic: Lessons from India, Peru, and Uganda :

<https://www.cgap.org/research/covid-19-briefing/debt-relief-pandemic-lessons-india-peru-and-uganda>

# Policy Objectives and Dilemmas

- Moratoria one of several measures, e.g., liquidity support, directed credit, cash transfers, regulatory forbearance.
- Main objectives:
  - FSP solvency and financial system stability
  - Also borrower relief (not the primary objective)
- How to relieve distress without undermining repayment discipline, accurate measures of portfolio quality, or FSP solvency?
- Policy makers expected pandemic to end quickly
  - Subsequent COVID waves, evolution of policy responses
  - Unwinding of moratoria, restart normal operations, address the fallout
- Need for structures in place for the long term to deal with arrears, resolutions, future crises

# Challenges for Financial Service Providers (FSPs)

- Lockdowns made Urgent communication with borrowers hard.
- FSP field staff could not reach customers.
- Vulnerable & less connected customers may have been missed (especially group borrowers).
- Borrowers & staff didn't understand difficult concepts and math=>errors
- Processing massive numbers of moratoria was technically and operationally challenging
- IT systems ill-equipped to handle so many reprogrammed loans

*FINCA Uganda pulled in staff from all areas to process moratoria.*

*BRAC Uganda purchased airtime for customers so they could talk with them.*

# Challenges for borrowers

*Many consumer risks appeared such as:*

- Lack of **transparency** on terms of moratoria.
- **High price** of moratoria for borrowers.
- May not have the **option to repay voluntarily** (clear debt and access new loans)
- Partial payments provide room for **frauds** (e.g. India)
- Credit tightening led consumers to **less-regulated lenders**
- **Abusive collection** pressure (e.g. digital lenders in India)
- Opportunities for **predatory lenders** (e.g. Peru and India)

# Challenges for policymakers and regulators-1

## Initiating the moratorium

- Whom to help: borrowers with loans current as of cutoff date? Those with ability to repay? Opt-in (how to apply?) or opt-out (repay)?
- Ensuring everyone knows about, understands, and can access relief.

## Protecting borrowers

- Suspended loans: status “frozen,” not treated as reprogrammed on credit record
- Interest: continues to accrue, capitalized, suspended?
- Prohibit increased interest, fees, collateral for reprogramming?

## Safeguarding lender solvency and systemic stability

- Protect borrower credit but do not hide true status of loans: special “flags,” tracking measures, off-balance sheet entries
- Target creditors of microfinance FSPs: loan moratorium, credit lines, relax risk-weights, reserves, buffers



# Challenges for policymakers and regulators-2

## Ending the moratorium:

- Rapid withdrawal of relief could be destabilizing but keeping it for too long may lead to build-up of risks.
- Advance communication about resumption of repayment
- Accrued interest: how repaid when moratorium ends? Lump sum imposes hardship, installments raise other issues.
- How to interpret credit records that do not accurately reflect loan status?
- Early opt-out and repayment: microfinance FSPs and customers preferred restructuring, repayment, and new credit over extension of moratoria.
- Resolution of defaulted loans, insolvent borrowers, failed institutions:
  - India: resolution framework 1.0 and 2.0. Bankruptcy law amendment 2021: “prepackaged” restructuring for SMEs. “Fresh Start” framework for personal insolvency not yet in effect.

# Suggestions for FSPs

**Provide choice** for consumers: opt-out

Improve **digital capabilities** at four levels

- Communications – essential to pro-actively communicate with clients
- Digital transactions
- Internal systems
- Staff working from home

Ensure that borrower's **credit records** are not damaged by participating in a moratorium



# Suggestions for regulators and supervisors

- **Communicate** – communicate – communicate
- Consider how to **allocate cost burden** imposed by crisis
- Give a **right for consumers to accept** or reject new terms
- **Monitor the market** in real time
- Suspend supervisory activities that burden FSPs (e.g., returns)
- Watch out for “**zombie**” loans and “**evergreening**”
- Beware of **predatory** (digital) lending
- Support consumer education

# Be prepared for the next crisis

- Don't let a crisis “go to waste”:
  - Many countries and FSPs accelerated digitization during COVID
  - In Peru, protocol for moratoria during natural disasters facilitated quick SBS action
- Test multiple **communication channels** to get out the message next time.
- Design/pre-position emergency measures (moratoria, regulatory steps) that **comprehensively** cover lenders to vulnerable clients – and their (wholesale) lenders.
- Build flexible means of relieving financial hardship into consumer protection framework.
- Develop appropriate **resolution mechanisms**: bankruptcy, alternative dispute resolution, loan forgiveness, FSP insolvency regime, market for distressed assets.
  - Personal bankruptcy regime needed to protect household subsistence and livelihood assets.

Now we really  
understand what being  
agile means!”

*Microfinance bank CEO*

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# CGAP work on COVID-19 & Financial inclusion



## 1. Lessons from past crises:

This section of the Collection is a [repository](#) of previous CGAP papers on financial inclusion in times of crisis.

## 2. Data and analysis on the [state of microfinance institutions](#) globally

This consists of data and analysis of data on microfinance institutions during COVID-19 based on the CGAP pulse survey.

## 3. Research on customer segments and social assistance programs

- [Brief on challenges of relief measures for informal workers, and suggested improvements for medium and long term](#)
- [Research on Social Assistance Payments and the role of donors](#)
- [Publication on the disruption of vulnerable rural livelihoods in the Sahel](#)



# CGAP work on COVID-19 & Financial inclusion

## 4. Blog series on effects for providers, agents and consumers

[Blog post on COVID-19's impact on low-income borrowers, especially when economies reopen](#)

[Debt Relief in the Pandemic: Lessons from India, Peru and Uganda](#)



Tony Karumba, CGAP Photo via Communication for Development Ltd.  
A vendor receives money from a customer from a safe distance in Nairobi, Kenya.

Photo credit: Tony Karumba, CGAP Photo via Communication for Development Ltd.

## 5. Resources for regulators

- [5 Guiding principles](#), eg ***Pro-poor**. Poor customers benefit from effective relief and continued access to services, and are protected*
  - Details on the different types of moratoria observed in EMDEs and their respective pros and cons
- [Country examples of regulatory responses affecting microfinance providers](#) (including on moratoria)
- [Borrower risks and challenges as economies reopen](#)
- [Debt Relief in the Pandemic: Lessons from India, Peru and Uganda](#)