The Economist INTELLIGENCE UNIT

COVID-19 AND FINANCIAL SERVICE PROVISION TO VULNERABLE POPULATIONS IN THE DEMOCRATIC REPUBLIC OF THE CONGO

A research programme for the Fonds Pour l'Inclusion Financière (FPM ASBL) and ELAN RDC

Supported by

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ÉLAN RDC DYNAMISER L'INITIATIVE PRIVÉE

FPM Pour l'inclusion financière en RD Congo

EXECUTIVE SUMMARY

Covid-19 has had a severe adverse impact on the DRC's economy, with the most vulnerable (low-income and financially excluded households) the hardest hit.

2/3 of households in the DRC reported their monthly income had fallen compared to before the pandemic.
(Source: Household Survey, August 2020)

Financial service providers (FSPs) have had to adapt to meet these households' needs in challenging circumstances, which will continue in 2021.

9 in 10 financial service providers had brought in new products or services to help clients cope with the impact of the pandemic.
(Source: Executive Survey, November 2020)

In order to minimise the long-term negative effects – both for themselves and their communities – FSPs now need to turn crisis measures introduced at the start of the pandemic into sustainable and comprehensive support systems.

This is a substantial task that will require internal changes, such as greater digitalisation and help from the government and international organisations.

In the long term, this transition presents FSPs with an opportunity to serve their communities better, build operational capacity, and create new revenue streams.

9 in 10 households felt that covid-19 would have some degree of long-term negative impact on their financial situation.
(Source: Household Survey, November 2020)

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PREFACE

This project is jointly supported by Fonds pour l'Inclusion Financière (FPM ASBL) and ELAN RDC – a private sector support project fully funded by UKAID. Additional primary research support was provided by Fédération des Entreprises du Congo (FEC) and Kinshasa Digital. The Economist Intelligence Unit (EIU) bears sole responsibility for the content of this report. The findings and views expressed do not necessarily reflect the views of the partners and experts.

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Fred Fenwick, Co-founder and CEO, Eshango. Eshango is a business and financial inclusion app designed for use by people with no or low literacy. Fred also worked as Project Lead for a financial inclusion programme for Peace Child International during 2016 Ebola outbreak, in West Africa.

Monica Ballesteros, Project Director, The Microscope Programme and Senior Manager at The Economist Intelligence Unit. The EIU's Global Microscope assesses the enabling environment for financial inclusion across five categories and 55 countries.

Survey data quoted in this paper, unless otherwise stated, is from the following sources:

For Households: A monthly household survey conducted by Kinshasa Digital and ELAN RDC, a private sector support programme fully funded by UKAID, with technical support from The Economist Intelligence Unit. The survey asked a random sample of 2,200 respondents every month about their experiences and the experiences of their household during the pandemic. The sample of both men and women was drawn from Kinshasa, Nord and Sud Kivu, Kasai, and other DRC provinces about the impact of covid-19 on their financial situations. Five iterations were run from August 2020 to January 2021. For more information on this data, please see the study site here.

For Businesses: A monthly survey of business leaders conducted by Fédération des Entreprises du Congo (FEC) and ELAN RDC, with technical support from The Economist Intelligence Unit and funded by UKAID. The survey asked a panel of ~200 formal businesses from around the country about the impact covid-19 has had on their operations. Eight iterations were run from July 2020 to February 2021. For more information on this data, please see the study site here.

For Financial Service Providers (FSPs): A one-off Executive Survey of FSP leaders conducted by Fonds pour l'Inclusion Financière (FPM ASBL) and ELAN RDC, with technical support from the Economist Intelligence Unit, funded by FPM ASBL. The survey asked ~20 FSP executives from around the country about covid-19's impact on their portfolios. The data was collected in November 2020.

Section 1:
What impact has covid-19 had on vulnerable populations in the DRC?

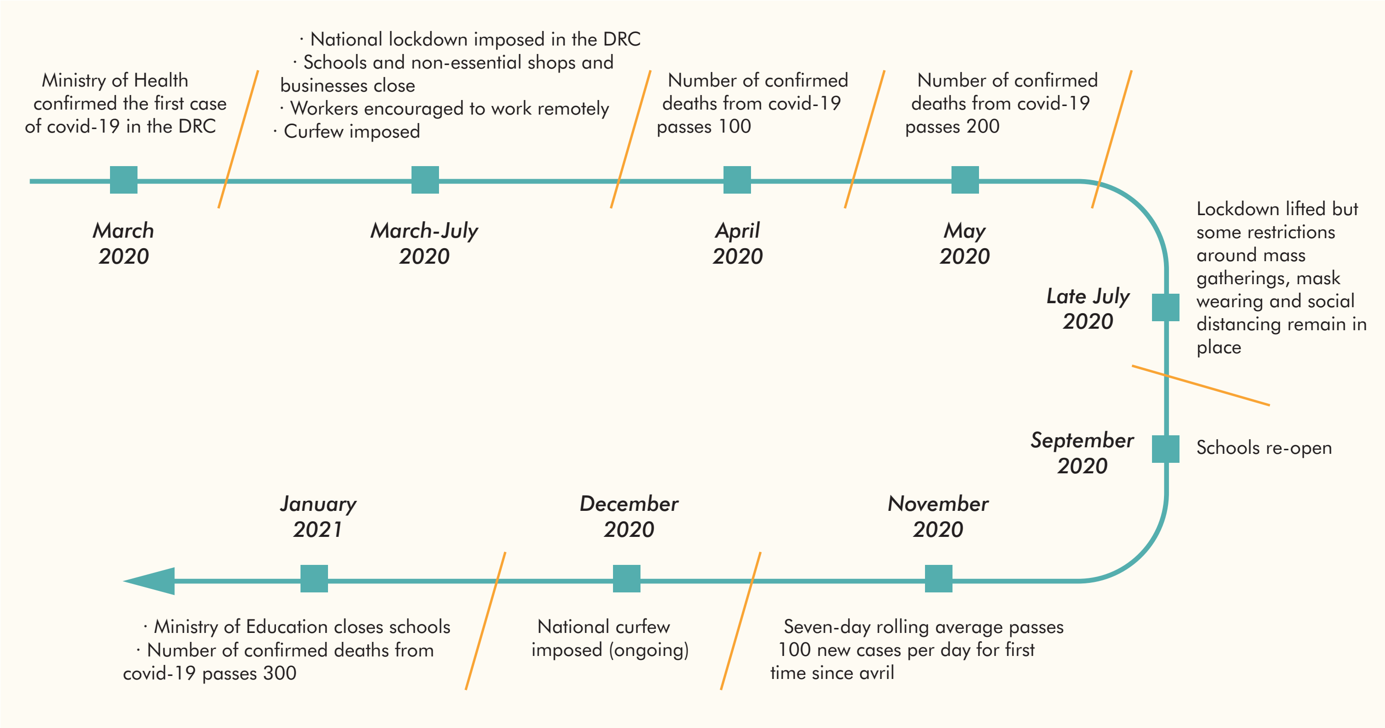
1.1. ECONOMIC IMPACTS OF COVID-19

The outbreak of the covid-19 pandemic triggered a large negative shock to the global economy. In 2020, the world's Gross Domestic Produce (GDP) was estimated to have contracted by 4.4% – the most significant decline since The Economist Intelligence Unit (EIU) started keeping records of growth in 1980.[1] This fall fuelled a sharp drop in demand for the Democratic Republic of Congo (DRC)'s major exports, such as cobalt and copper.[2] This disruption, combined with the impacts of domestic and international restrictions such as a national lockdown and border closures imposed to help contain the virus, meant the DRC also experienced negative growth in 2020 (-2.8%).[3] This economic contraction brings with it major implications for the financial security and livelihoods of people across the country.

Figure 1

Key covid-19-related events in the DRC

Please note testing for covid-19 in the DRC is limited and that registered/confirmed cases of the virus may exceed the official numbers.



Source: Ministère de la Santé, World Meters, World Health Organisation

The effects of this recession have hit businesses in the DRC hard. In July 2020, just as national restrictions were being lifted (see Figure 1: the timeline of covid-19-related events in the DRC), 94% of firms surveyed in an ELAN RDC and Fédération des Entreprises du Congo study – now referred to as the business survey[4] – reported that their revenues had fallen compared to the same period the year before. And, though there have been modest improvements over the past six months, 65% of firms still reported lower revenues in December 2020 than in December 2019. In each monthly survey iteration, business leaders have reported that one of the significant drivers of disruption is issues in the supply chain. At the end of 2020, six-in-ten firms were still experiencing problems accessing necessary inputs. These issues seem to come mostly from international border restrictions and transport challenges.

Note: the business survey focussed only on formal companies, the majority of whom are members of FEC. The effect on informal businesses can be considered by looking at income data collected in the household survey.

[1] The Economist Intelligence Unit Market Data (January, 2021).

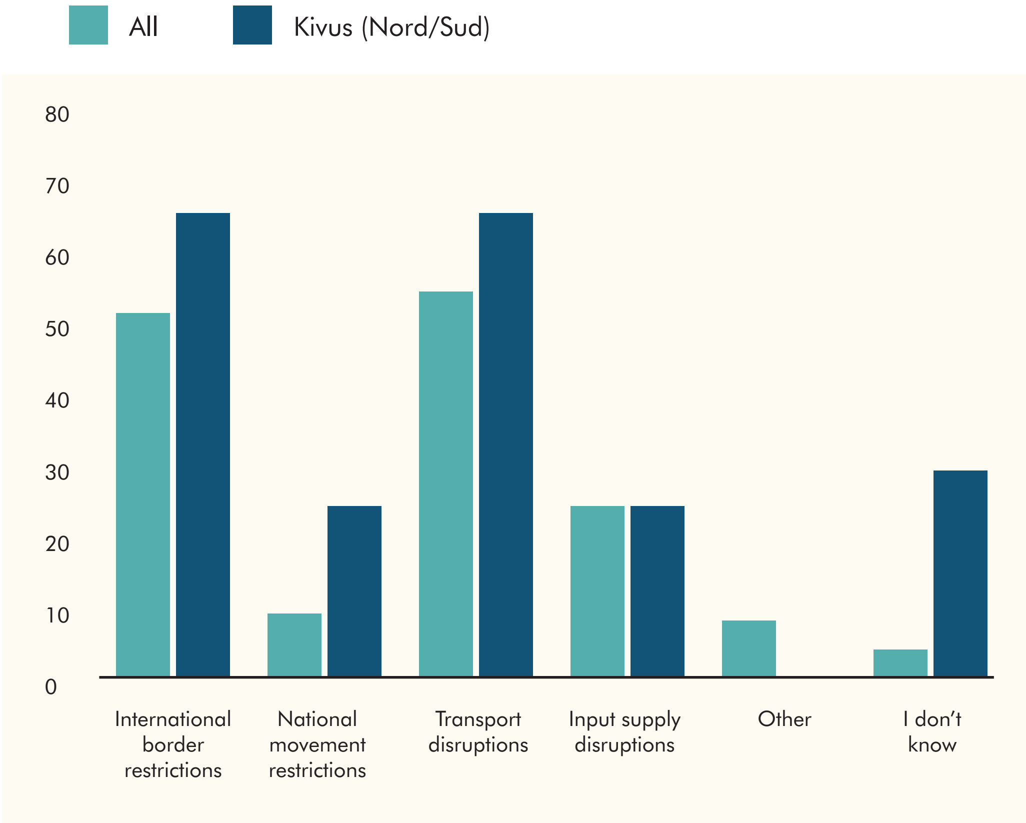
[2] Trading Economics, Daily Cobalt Price October 2019 to March 2020 (January, 2021).

[3] The Economist Intelligence Unit Market Data (January, 2021).

[4] A monthly survey of business leaders conducted by Fédération des Entreprises du Congo (FEC) and ELAN RDC, with technical support from the Economist Intelligence Unit and funded by UKAID. The survey asked ~200 businesses from around the country about the impact covid-19 has had on their operations. Eight iterations were run from July 2020 to February 2021. For more information on this data please see the study site here.

Figure 2

Causes of supply chain disruptions as reported by firms in the DRC, November 2020



Source: Business Survey (November 2020)
Q: What are the most important reasons your supply chain was disrupted? (% of firms who answered - multiple selection)

A concerning side-effect of poor business performance is lower employment. In December 2020, four-in-ten firms reported having fewer people on permanent contracts than before the pandemic. Fewer than one-in-ten business leaders said they were employing more people. In North and South Kivus (two provinces in the Eastern DRC that have suffered from often violent insecurity in 2020), the number of firms reporting a drop in employment is even higher, at six-in-ten. Reduced hiring not only increases unemployment but is also indicative of a decline in private sector investment as business leaders draw back from the capital commitment needed to pay staff.

This decline raises a medium-term concern around how the pandemic may reduce domestic investment in the economy. In December, four-in-ten medium-size enterprises (5-100 employees) and one-fifth of large firms (100+ employees) reported a reduction in capital spending as a result of the pandemic. In countries like the DRC, which lack a domestic ecosystem where firms can access long-term capital external to their own company, reduced capital spending from businesses is often a large hit in funding for initiatives that could support future growth. Lower employment and reduced investment mean that covid-19 will continue to have a negative economic legacy, even once the public health crisis has passed.

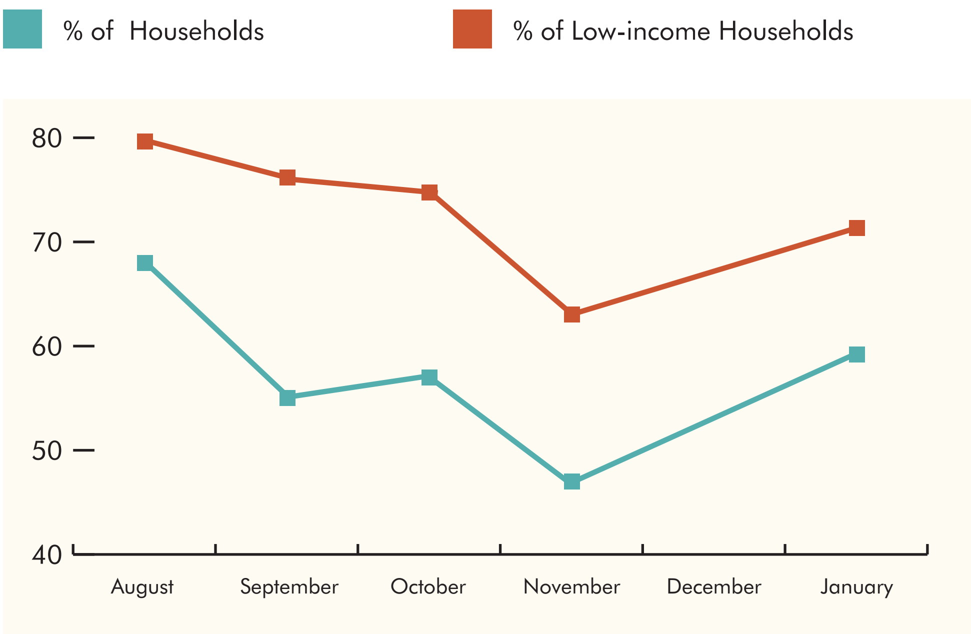
1.2. SOCIO-ECONOMIC EFFECT ON THE POPULATION

The economic shock for businesses has, in turn, led to negative financial and wellbeing effects on households across the DRC, especially for those earning less than CDF400,000 per month (roughly US$200, subsequently referred to as "low-income households" in this study). In August 2020, an ELAN RDC and Kinshasa Digital study – now referred to as the household survey – found that two-thirds of the 2,200 households surveyed had experienced a fall in monthly income compared to before the pandemic.[5] In December 2020, almost half (48%) were still earning less than they had pre-covid-19. Eight-in-ten low-income households reported their monthly earnings had dropped in August 2020 and, at the end of the year, over two-thirds were yet to see a recovery to pre-pandemic levels.

In January, as the government imposed a curfew and other movement restrictions to cope with the emerging second-wave of covid-19, data from the household survey shows wages fell again. 59% of all households reported their incomes had decreased – similar levels to September and October 2020.

Figure 3

Percentage of households experiencing a fall in income, August 2020 to January 2021



Source: Household Survey, August 2020 -January 2021
Q: Has your household's current, cumulative (including all money made by any household member) income increased or decreased as a result of the Coronavirus pandemic, or has there been no change? (Single response – all households)
Note: No data collected in December.

The causes of household economic disruption have shifted throughout the pandemic. In August 2020, most households attributed their fall in earnings to not being able to go out to work. By December, the most commonly cited reason was a decline in demand for goods and services in the markets they worked in. As inflation rose in the third quarter of 2020, the number of households experiencing higher costs for basic necessities such as food and water also increased, putting additional strain on household finances.[6] In October 2020, more than half (57%) of households said the prices of these items had risen since the start of the pandemic.

[5] A monthly household survey conducted by Kinshasa Digital and ELAN RDC, with technical support from the Economist Intelligence Unit and funded by UKAID. The survey asked 2200 respondents about their experiences and the experiences of their household during the pandemic. The sample was drawn from Kinshasa, Nord and Sud Kivu, Kasai and other regions in the DRC on the impact of covid-19 on their financial situations. Five iterations were run from August 2020 to January 2021. For more information on this data please see the study site here.

[6] Central Bank of the Congo, Data Release October 2020, ELAN RDC Household Survey.

One particular area of concern is food prices, which appear to be a major driver of this overall increase in costs: 85% of the households that experienced price rises said that food and water costs were at least partly responsible. Food producers in the DRC blame the inability to access their crops or inputs during the first lockdown for the increase in local prices;[7] but local products are only part of the problem. Prices of key imported goods have also risen.[8] Such increases mean many vulnerable people in the DRC can no longer afford the food they need. Since 2019, the number of people who are food insecure has increased by more than 5 million.[9] In December 2020, the World Food Programme declared that the DRC now has the world's second largest food crisis after Yemen: 21.8 million people in the country are acutely food insecure.[10] The situation is particularly bad in the eastern DRC, where the security situation and political crisis continues to affect the ability of farmers and food suppliers to operate.[11]

For many households, the combined impact of rising costs and falling incomes means tough choices when it comes to coping with this economic crisis. In November 2020, four-in-ten households in general and over half of low-income households reported reducing their food and water consumption in response to the economic crisis. One-in-five households are unsure whether they will be able to pay their next debt installment. As well as the humanitarian impact of this economic hardship, financial service providers should be aware of how this shock to households is likely to translate into problems for micro-enterprises. Falls in income and increased prices for low-income households are likely to be highly correlated with declining revenues and rising costs for businesses in the informal economy.[12]

1.3. IMPACT OF THE CRISIS ON THE FINANCIALLY EXCLUDED

Across low-income countries, the covid-19 crisis has disproportionately impacted those who are disconnected from the formal financial system (now referred to as the 'financially excluded').[13] This disproportionate impact is, in part, because those who are financially excluded are more likely to be working in the informal economy, where, in Q2 2020, wages in Asia and Africa fell by 81% on average.[14] Further, lack of access to financial services means many have struggled to access the tools available to help mitigate the economic effects of the crisis, such as government grants.[15]

This disproportionate impact on the financially excluded is evident in the DRC, as highlighted in the data collected from the November 2020 household survey. Though this data was collected nine months after the start of the crisis, it shows how adverse impacts on the financially excluded persist – hampering this vulnerable group's economic recovery.

The data highlights that people without access to formal financial services have more trouble keeping track of their economic situation. Financially excluded respondents were more likely than their financially included counterparts to choose the "do not know" answer to survey questions about the pandemic's economic impacts on their household. For example, almost one-third of respondents who were financially excluded said they did not know how many weeks their household could remain self-sufficient if its income was suddenly cut-off. According to Monica Ballesteros, Project Director for the EIU's Microscope programme, a global benchmark of financial inclusion, "the ability to plan and administer finances is one of the main advantages of financial services, which allow people to build financial resilience. Without this, people have greater difficulties accumulating any savings and face considerable stress caused by this permanent state of financial uncertainty."

[7] ELAN RDC and FEC Business Briefing 3: Impact on Agriculture and Mining (September 2020).

[8] EIU Country Report on the DRC (Retrieved January 2020), Food and Agricultural Organisation Food Price Data (2020).

[9] Food and Agricultural Organisation, DRC Country Report (December 2020).

[10] World Food Programme, Emergency Dashboard (December 2020).

[11] World Food Programme DRC Dashboard (November 2020).

[12] UNDP, impacts sanitaires et socio-économiques de la covid-19 (May 2020).

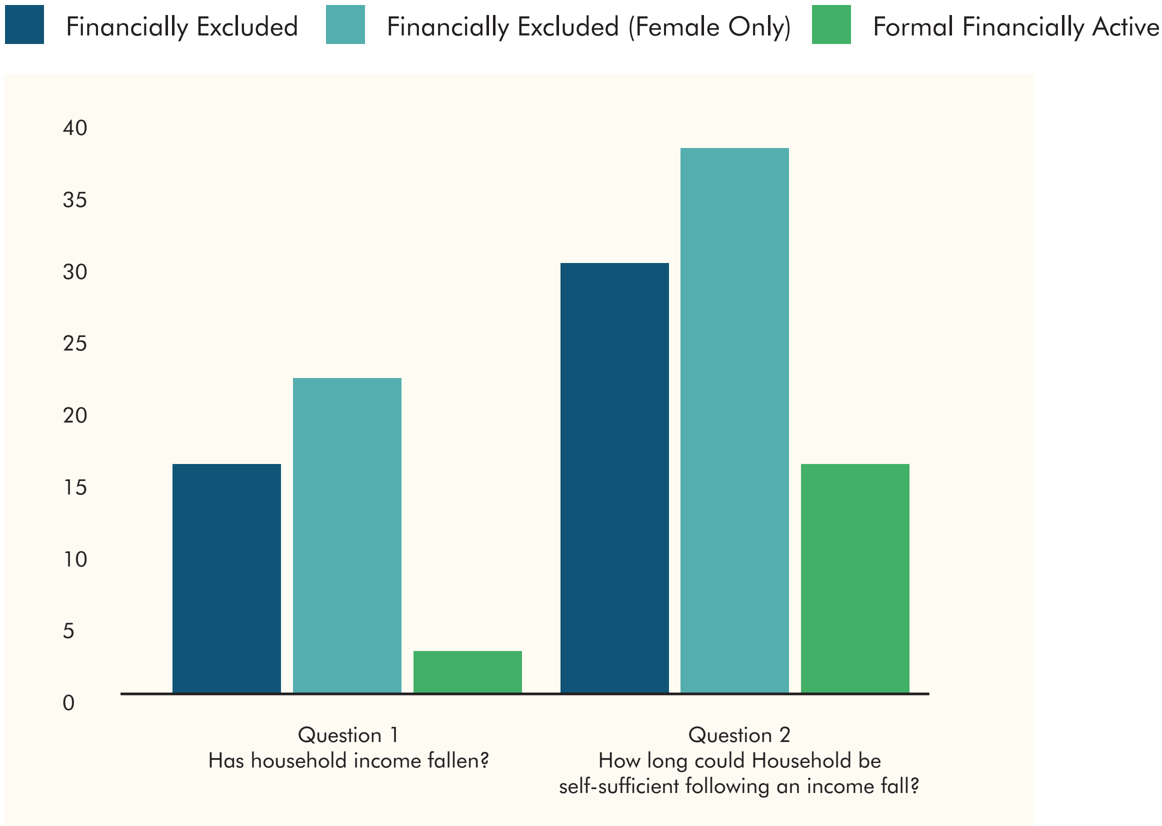
[13] The Economist Intelligence Unit, Microscope 2020.

[14] International Labour Organisation, covid-19: Stimulating the economy and employment (April 2020).

[15] The Economist Intelligence Unit, Microscope 2020.

Figure 4

Percentage of respondents who answered "I don't know" when asked about their financial situation, November 2020



Source: Household Survey, November 2020

Q1: Has your household's current, cumulative (including all money made by any household member) income increased or decreased as a result of the Coronavirus pandemic, or has there been no change? (Single response - all households)
Q2: If you - or your household - lost all your income, how many weeks would you be able to pay for essentials, such as food, clothing, housing, transportation and children's education from available savings? (Single response - all households)

One consequence of this lack of knowledge may be that financially excluded households are at risk of taking on informal debt they will be unable to pay. In the survey, financially excluded households were more likely to be confident than financially included households about their ability to repay their debts (63% versus 51%). In most cases, this confidence could reflect that financially excluded households tend to have lower debt overall – and, therefore, are more likely to be able to pay-off the debt they do have.[16] However, their belief in their ability to repay could also indicate that financially excluded households are less aware of their financial situation and unable to assess whether they are able to take on debt.[17] Fanta and Makina highlighted such a risk in their 2018 meta-analysis of surveys on over-indebtedness in 15 sub-Saharan countries. Their study found that adults with low credit literacy (i.e., those who did not consider multiple criteria when getting a loan) were at increased risk of over-indebtedness compared to their credit literate counterparts.[18]

For those who are aware of their economic situation, responses suggest that the financially excluded are still experiencing greater negative economic effects than the financially included, although the difference is modest. In November, more financially excluded households reported lower income than prior to the pandemic (51%) than financially included households (48%). Financially excluded women were particularly vulnerable: 66% reported lower incomes than prior to the pandemic compared to 57% for women overall.

[16] Jacob and Smit, Materialism and indebtedness of low-income consumers: Evidence from South Africa's largest credit granting catalogue retailer (2010), Schicks (2010) Microfinance Over-Indebtedness: Understanding its drivers and challenging the common myths.

[17] Fanta and Makina, Unintended Consequences of Financial Inclusion (2019).

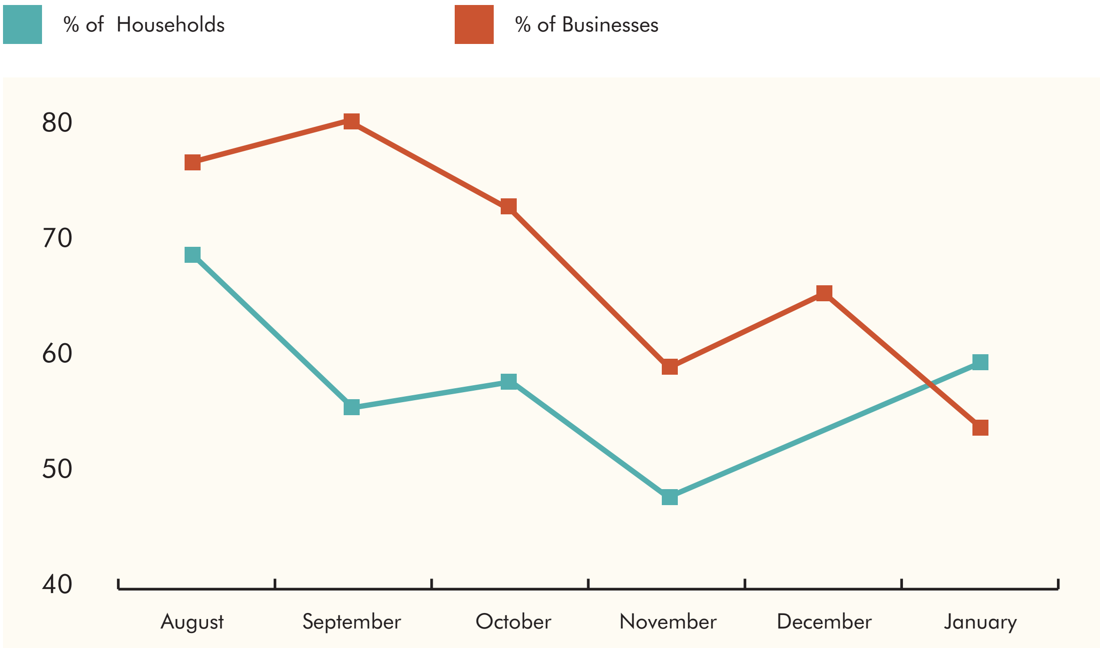
[18] Fanta and Makina, Unintended Consequences of Financial Inclusion (2019).

1.4. PERCEPTIONS OF RECOVERY IN 2021

In order to minimise the social, health and wellbeing risks associated with this economic decline, a clear priority for both government and private sector stakeholders in 2021 should be supporting the recovery of businesses and households across the DRC.

Figure 5

Percentage of households and businesses that have seen a decline in revenue or income, August 2020 to January 2021



Note: No data collected in December
Source: Household and Business Survey, August 2020-January 2021
Q1: Has your household's current, cumulative (including all money made by any household member) income increased or decreased as a result of the Coronavirus pandemic, or has there been no change? (Single response - all households)
Q2: Consider the last month compared to the same period in 2019 (i.e. June 2020 vs. June 2019), has the revenue generated by your business changed? (Single selection - all firms)

While both businesses and households showed improvements in the latter months of 2020, both still report there is a long way to go before pre-pandemic levels of economic activity are reached. For households in particular, the modest recovery made in the last few months of 2020 appears to have disappeared with the emergence of the second-wave of the virus. Even before this additional shock, confidence in the medium term recovery was low. When asked in November about the prospects for growth in the medium term, only 17% of business leaders said their outlook was good or very good. Households were also not optimistic: nine-in-ten households felt that covid-19 would have some degree of long-term negative impact on their financial situation in November, a greater percentage of people than in August (79%). This rise suggests that the economic challenges initially triggered by the covid-19 outbreak are now fuelling people's concerns rather than the public health crisis itself. Low-income and financially excluded households are feeling the effects most: in November, 65% of low-income households and 70% of financially excluded individuals felt they will be severely affected by the pandemic, compared to 58% of the general population.

Section 2: **How have financial service providers been impacted?**

These negative economic shocks have caused severe and ongoing challenges for FSPs as they try to support at-risk populations.[19] This section examines the broad impacts of covid-19 on the financial sector, how institutions have adapted, and how the situation is likely to evolve over the coming months.

2.1. IMPACT ON FINANCIAL SERVICE PROVIDERS

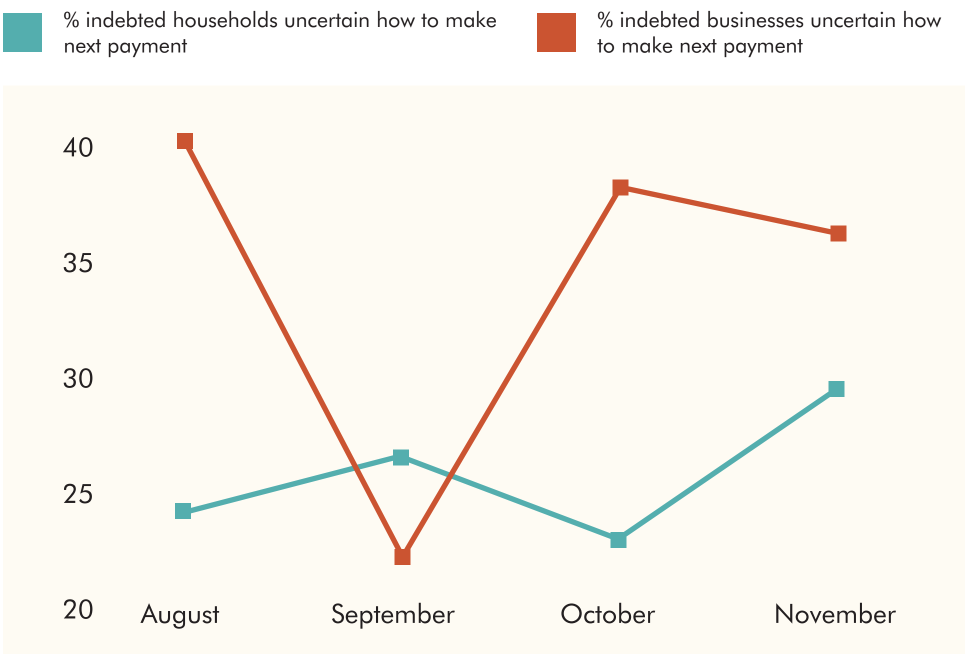
Any major downturn that impacts households and business will also negatively affect the FSPs that support them. When clients – companies or private citizens – face falls in revenue and rising costs, they often struggle to pay back loans, reduce deposits and make fewer transactions on which FSPs can charge fees.[20] Across the sector, from banks to savings cooperatives and microfinance lenders, many FSPs are struggling to cope under these new economic pressures. Every institution in an executive survey of FSP leaders in November 2020 said that the pandemic had had an adverse impact on their performance.

Increased Non-performing Loans

One of the most significant challenges is the rise in non-performing loans (when an individual or business has stopped making payments on a debt). Nine-in-ten FSP leaders reported a rise in loan defaults, with half saying both businesses and households have struggled to pay. Information collected from the population throughout the crisis supports this data. In the period between July and August 2020, 40% of indebted businesses and a quarter of indebted households were worried about making their next repayment. Though this percentage for businesses fell slightly in November (36%), a slightly higher proportion of households reported debt problems at the end of 2020 than over the summer (29% vs 24%).

Figure 6

Percentage of households and businesses unsure if they can make their next payment, August to November 2020



Source: Household and Business Survey, August-November 2020
Q1: If your household has debt, do you anticipate not being able to make payments on your debts on time as a result of the Coronavirus pandemic? (% of households who answered yes - single selection)
Q2: If your business has debt, are you uncertain about whether you will be able to make payments in time to pay down your debt as a result of the Coronavirus pandemic? (% of firms who answered yes - single selection)

[19] In December 2020 the government in the DRC announced the reintroduction of a curfew to try and stop a rise in the number of cases of covid-19, in particular in Kinshasa. In January, the government decided to close schools in a further effort to contain the virus.
[20] OECD, The impact of the coronavirus (covid-19) crisis on development finance (June 2020).

In response to this rise in non-performing loans, eight-in-ten FSP leaders reported their institutions were giving clients more time to make payments. Though a necessary support mechanism in the short term, this is only a temporary solution and will increasingly add strain to FSP balance sheets. Across the board, the data presents a picture of rising indebtedness in the DRC – a legacy of the pandemic that will need to be addressed if there is to be a swift recovery from the crisis.

Declining Revenues

The covid-19 pandemic has also caused disruption in many of the areas where FSPs raise revenues, including fees for their services, charging interest on loans and income from their own invested capital.[21] As of November 2020, seven-in-ten financial institutions surveyed were experiencing lower revenues compared to the same period in 2019. This is a higher proportion than the 59% reported by the business community in general in the same month, which suggests the financial sector may have been more adversely impacted than the economy in general. Henry Muzaliwa, Managing Director of Coopec Akiba Yetu: "The impact of the public health crisis has been very negative. We were experiencing enormous difficulties in physically serving our customers, especially as our IT infrastructure cannot move all our services online. Most of our operations have been operating with serious difficulties. All revenues from deposits, new loans and/or other sources of income have declined significantly. The only operation that was performing well was the savings withdrawal (hence the serious risk of a liquidity crisis)". This experience was shared by many institutions: half of FSP leaders reported that this drop in income was wholly or principally a result of the pandemic, and only one said the decrease happened independent of any effect of the crisis.

Macroeconomic Instability

In addition to domestic economic headwinds, FSPs in the DRC have had to contend with broader macroeconomic instability. According to Trupti Agarawal, the Economist Intelligence Unit's DRC analyst, a fall in demand for key exports of copper and cobalt in Q2 2020 caused a rapid depreciation in the currency between May and August. This decline in the Congolese Franc contributed to rising inflation, which peaked at over 20% month-on-month in August 2020.[22] According to Henry Muzaliwa, Managing Director of Coopec Akiba Yetu, a savings and loan cooperative based in Goma, these exchange rate problems have caused major issues for FSPs. "Volatility in prices led to our clients experiencing problems trying to access US dollars. For many, whose business operations extend across the border, this presented a significant disruption that meant they were unable to repay their loans on time. As a co-op we therefore had to offer them more time to make repayments."

2.2. ADAPTATION

Beyond the impact on FSP balance sheets, financial institutions have also had to adapt to new ways of working to keep customers and clients safe and help them deal with new economic pressures. Over half of FSP leaders said new operational conditions were a major challenge for their company during the pandemic. In November 2020, eight-in-ten of the organisations surveyed still had significant measures in place to help them cope with the pandemic, such as respecting social distancing and wearing masks. These measures are likely to remain in place as the second wave of the pandemic continues to emerge. This section examines these adaptation measures as well as other ways FSPs have supported their clients during the pandemic.

[21] Financial Service Provider Survey (FPM ASBL, ELAN RDC and EIU, November 2020).

[22] Banque Centrale du Congo – Statistics Release (November 2020).

New Products and Services

The majority of FSPs (nine-in-ten of those surveyed) are offering new products and services to help their business and household clients deal with the economic effects of covid-19. While these measures mostly focus on giving clients more time to pay loans and fees or offering lower rates to borrow money,[23] many FSPs are also offering new digital services. SMICO, a microcredit company based in Goma, developed a new mobile application that allows customers to access traditionally in-person services online. "A client monitors [his/her] account and accesses basic services in complete security (e.g., balance checks, account statements, transfers between accounts, contacting the branch, settling invoices). The application means they no longer have to visit us in person," said Pacifique Ndagano, the Managing Director of SMICO. The success of the application has led SMICO to think about reinventing their overall business model and continuing to develop their digitalisation even after the pandemic. This development will include accelerating the process to integrate Mobile Money products into all their operations.

MOBILE MONEY IN THE DRC

Increased use of Mobile Money is likely to be one of the positive legacies of the covid-19 pandemic. Data collected in November suggests that people are using the service more than ever,[24] but FSPs need to be aware of the risks of excluding people with limited access to telecommunications technology when expanding this service.

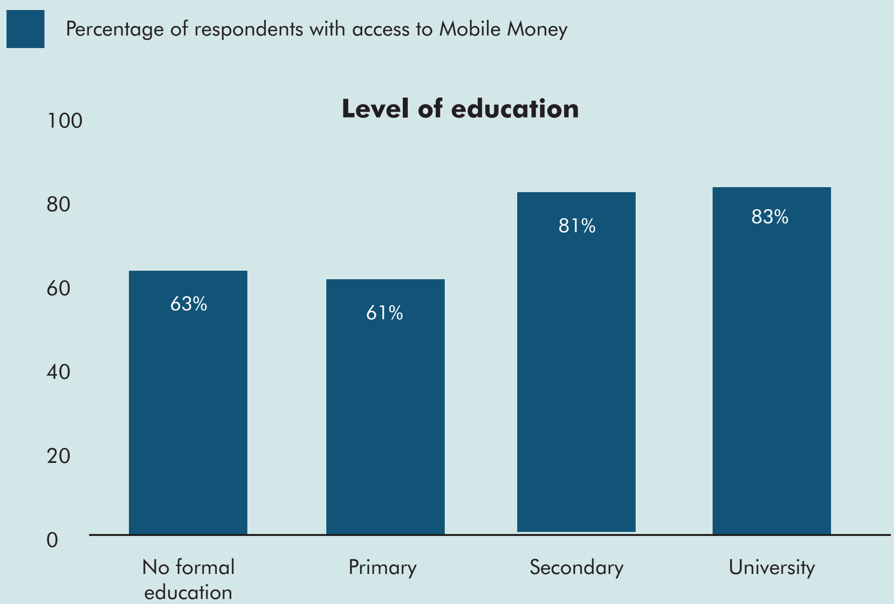
> **"A pay-as-you-go digital medium of exchange and store of value facilitated by a network of Mobile Money agents – independent of the traditional banking network."**
>
> Source: International Monetary Fund's Financial Access Survey

Who has access to Mobile Money in the DRC?

Access to Mobile Money is relatively widespread in the DRC, although usage is less prevalent across vulnerable groups. Overall, eight-in-ten people who responded to the ELAN RDC and Kinshasa Digital household survey in November 2020 had access to the services prior to the pandemic. There was little variation in terms of access when considering income groups: 83% of low-income respondents reported using the service, compared to 90% of medium and high-income households. However, access was lower for people without formal education; over one-third of people in this group reported not using the service. Financially excluded respondents also used the service less than those with access to formal banking services (75% compared to over 90% of the financially included).

Figure 7

Percentage of respondents who have used Mobile Money prior to the pandemic



Source: Household Survey, November 2020
Q: Do you have access to Mobile Money? (single response - all respondents)

[23] FSP Executive Survey, November 2020

[24] ELAN RDC and Kinshasa Digital Household Survey

Use of Mobile Money during the pandemic

During the pandemic, people with access to formal banking services used Mobile Money more than they did prior to covid-19. 44% of people who regularly used formal banking services reported that they used this digital service more between March and November 2020 than they did in the same period in 2019. Only a quarter of financially excluded respondents, and less than one-in-ten people with no formal education, increased their use of Mobile Money. This difference could be explained by decreased activity in the informal sector, where wages have fallen considerably during the pandemic and more financially excluded people are employed. One of the most common use-cases for Mobile Money is providing an account where wages can be deposited. Reduced use during the pandemic may reflect a general decline in economic activity for vulnerable groups.[25]

There is also a risk, however, that financially excluded households could not increase their use of the service during the pandemic because of broader accessibility issues. According to the World Bank, covid-19 has exacerbated Africa's digital divide – increasing penetration and usage amongst the well-off while more vulnerable communities struggle to access the service.[26] In their provisional figures for 2020, the Internet Telecommunications Union reported that the number of people with a mobile phone subscription has actually fallen for the first time in its history.[27] In the DRC, where 85% of low-income households have seen their consumption of basic necessities fall compared to pre-pandemic levels, it is likely that many have cut spending on credit or data top-ups. This suggests that decreased usage could also be linked to less access to the digital infrastructure needed to support a Mobile Money account.

2.3. OUTLOOK FOR 2021

In December 2020, as a result of rising numbers of cases, the government announced new covid-19 restrictions, including a national curfew. In January 2021, measures were tightened again with the closure of all schools in the country. As the pandemic persists, FSPs will need to continue to support their communities. This section focuses on trends FSPs and other stakeholders in the industry should be ready for in 2021.

[25] Aron and Muellbauer, The Economics of Mobile Money: harnessing the transformative power of technology to benefit the global poor (2019).

[26] World Bank, Coronavirus has exposed the digital divide like never before (April 2020).

[27] Internet Telecommunications Union, Facts and Figures 2020 (2020).

Continued Public Health Emergencies

The second wave of the virus in the DRC is already emerging, particularly in Kinshasa where cases have been rising steadily since late 2020.[28] Though the number of concermed cases remains relatively low (to date in January the seven-day rolling average for new cases has not exceeded 200 a day), the emergence of more virulent strains in the United Kingdom and South Africa has made authorities wary of how quickly covid-19 could spread.[29] Further, a lack of testing means rates in the community may be substantially higher than suggested by the official number. The decision to close schools in January 2021 is an early indication that the government is concerned about the number of cases. Though current measures may be enough to keep cases low, FSPs need to be ready for a potential second spike in the number of cases, as well as the risk of a second national lockdown. Further, as is the case across many countries in Africa, the DRC is not expected to see a widespread role out of the vaccine until October 2021.[30]

Unfortunately, covid-19 is unlikely to be the only public health emergency the DRC faces in 2021. Food insecurity is increasing across the country.[31] This year, the situation is set to be compounded by higher-than-expected temperatures across the region and increased rainfall, which could reduce capacity for food production.[32] Set against the persistent threat of Ebola in the country, it is clear that FSPs are likely to face renewed calls to support communities throughout 2021.[33]

Rising Indebtedness

As well as public health emergencies, FSPs will also need to be aware of financial risks, namely rising debt levels in both the formal and informal economy. Prior to the outbreak of the second wave in late 2020, data collected by ELAN RDC and its partners over the course of the crisis showed a modest recovery in household incomes and business revenues. This improvement, however, translated into just marginal improvements in self-reported levels of distressed debt (see Figure 6). As a result, most businesses and households are in a precarious economic situation heading into this next phase of the pandemic and many may have to continue to borrow money to support their activities.

FSPs' experiences in West Africa after the 2015-2016 Ebola epidemic suggest rising indebtedness might disproportionately impact smaller businesses. According to Fred Fenwick, co-founder of the business and financial inclusion app Eshango in Liberia, persistent indebtedness in the informal economy has been one of the longest lasting hangovers from that public health emergency: "[The epidemic] squeezed micro, small and informal businesses, as much as, if not more than, other companies. However, these enterprises were not able to access formal finance in the same way as other businesses. Leaders of smaller companies were forced to invest their personal and family savings, the effect of which was to destroy any financial safety net these individuals had. In the medium term, ongoing Ebola restrictions meant many of these businesses failed – entrenching the people who ran them in poverty when they couldn't pay back these debts."

As the number of non-performing loans continues to rise, 2021 is also likely to see a knock-on effect for both FSPs and businesses when it comes to access to capital. According to Trupti Agrawal, the EIU's DRC analyst, limited access to funding was already a major brake on domestic growth outside of the metals and mining sector. During the first wave of the pandemic the situation worsened. In August, nine-in-ten firms reported not having access to any funds to help them deal with the effects of the pandemic and three-in-ten reported decreased capital expenditure as a result of covid-19. Further, interest rates in 2021 are expected to remain high (13.5% money market rate) making the cost of accessing capital prohibitive for many.[34]

[28] RFI, RDC: la rentrée scolaire annulée en raison de la pandémie de coronavirus (January 2020).

[29] Actualities CD, RDC-EPST: il faut absolument préserver la santé de nos enfants de la deuxième vague de Covid-19 (January 2020). World Meter: covid-19 Statistics, DRC Country Profile (Retrieved 12 January 2020).

[30] The Economist Intelligence Unit, Africa Faces Major Obstacles to Accessing the Covid-19 Vaccine (January 2021).

[31] World Food Programme DRC Dashboard (November 2020).

[32] EIU Country Report on the DRC (Retrieved January 2020).

[33] World Health Organisation, Ebola health update - North Kivu/Ituri, DRC, 2018-2020 (December 2020).

[34] EIU Country Report on the DRC (Retrieved January 2020), Money Market Rate in the DRC is 7-day treasury bills (%; end-period) issued in Congolese Francs.

Section 3:

What can financial service providers do to help communities recover?

FSPs will be central actors in helping communities remain resilient in the face of the next wave of the virus and in supporting the recovery in the medium term. This section explores the initiatives FSPs are already taking in this space and then deep dives on one particular emerging trend: digitalisation.

Initiatives to Support Resilience and Recovery

FSPs will need to implement new support systems to help the most vulnerable overcome both the second wave and the legacy of the covid-19 crisis.

In the short term, this will mean focusing on ensuring measures taken during the first wave of the pandemic are still in place or re-instigated to keep customers and clients safe during the second wave. Further, FSPs should reflect on any lessons that could be learnt from the initial outbreak to help communities cope better this time. In particular, FSP leaders should:

- Make sure staff and clients are aware cases are rising in the DRC and the renewed importance of social distancing measures
- Where possible, create mobile versions of in-person services for people to access remotely. When considering online/digital options only, be aware that smartphone penetration in the country remains extremely low
- Verify with branch managers that measures within facilities are in place to keep people safe
- Consider what products and services are on offer to users/clients to help them deal with economic disruption, in particular those related to debt-relief, such as loan payment deferrals
- Ensure the information on how to access these tools is easy to find, especially online. Where information is being distributed virtually, help lower-income clients get connected with digital financial literacy sessions.

When cases start to fall, FSP leaders need to consider what measures they have in place to support those struggling with debt and/or those who need access to capital. This may include close communication and monitoring of clients' situations (even remotely), further extending deadlines on debts and new interest rates for struggling customers later into 2021; but, according to Henry Muzaliwa, Managing Director of Coopec Akiba Yetu, institutions need to keep track of both what customers need and what institutions can afford. "We have to run continuous analytics to make sure we can remain profitable while offering these support services. So far we have been able to and this gives us time while the situation gradually improves." FSPs that continue to offer services that are not commercially sustainable risk having to close – creating an even bigger gap in the financial service system in the DRC.

Re-examining what products clients are accessing could also help FSPs support businesses whose operations have been hit by the crisis, says Christophe Birindwa Mishizi, the Managing Director of Coopec Bagira. "For companies that span rural and urban areas, we saw one part of the business impacted very differently to another – changing how their loans and services were spread across the company helped take pressure off areas that were more badly affected."

Government help could make a big difference. For example, in Rwanda, the government's relief efforts have included offering subsidised loans and credit guarantees to both commercial banks and FSPs serving communities that are typically excluded, such as microfinance institutions and savings cooperatives.[35] Governments in other countries, such as South Africa, have tried to limit the number of vulnerable people who have to take on debt to deal with covid-19 by offering grants distributed through current FSP networks.[36] Similar support in the DRC has not yet been forthcoming: less than one-in-twenty firms reported receiving state aid at any point during 2020.[37]

[35] Country Profile, Rwanda - Microscope 2020.

[36] Country Profile, South Africa - MicroScope 2020.

[37] ELAN RDC and FEC Business Survey.

In the longer term, the crisis has also highlighted the need again for better financial education. One of the major takeaways from the survey programme was how many households are unaware of their economic situation, and how this has limited their ability to respond effectively. At the height of the crisis in August, 10% of households did not know if their income had risen or fallen and 24% did not know how many weeks they could be self-sufficient if incomes did drop. According to Fred Fenwick, for organisations working with MSMEs, this may mean designing initiatives that focus on financial literacy and business education at the same time, rather than considering them as two separate topics. "[For MSMEs] there's no real difference between financial and business literacy. A person running their small business and accepting loans from financial service providers needs to be able to understand their business and its operations in order to know how much they can afford to borrow. Often this is where many small businesses fall down – especially during times of crisis – taking on loans to support business operations that are actually making a loss."

Leveraging Digitalisation

Apart from crisis-response initiatives, a further focus area for FSPs should be how they leverage the gains from digitalisation introduced during the crisis. Though not a silver bullet, technology can help address some of the challenges FSPs face in the DRC.

Covid-19 has helped demonstrate how Mobile Money can open access to financial services to communities without requiring in-person touchpoints. While more people than ever have used the service during the pandemic and it has become more mainstream, the focus needs to be on keeping digital/Mobile Money inclusive. According to Monica Ballesteros, Project Director for the EIU's Microscope programme, "in order to remain inclusive, FSPs should not wholly digitalise their operations, as many people still do not have access to the required technology. A potential way to digitalise operations while protecting communities is to target the agents on the ground delivering services to their communities. Financial institutions can equip and train these people with digital tools that are useful in running their operations, but the point of contact remains in the community to assist those who cannot access digital services directly."

Expanding access to Mobile Money will also require greater partnerships between FSPs and networks offering the service; companies who often are not financial institutions themselves. Such collaboration could allow new mobile and digital operations to integrate with existing Mobile Money networks, as was seen with partnership between FINCA and Vodacom which operates M-pesa.[38] Here FINCA customers can link their micro-finance products directly with their mobile wallet – allowing people remote access to their banking services using a service with which they are already familiar. Such cooperation will also ensure Mobile Money becomes a system for the safe and efficient transfers, rather than just a service offered by siloed suppliers. Currently, most networks in the DRC are not connected, meaning to pass money to an individual or business using a different operator a person has to physically withdraw the funds in cash to pay them.[39] This lack of interoperability severely reduces the efficiency of the entire system.[40] New players, such as the FinTech Infoset and Maxicash are making progress to deploy interoperable payment solutions and greater cooperation between FSPs and such initiatives will be central to tackling this issue in the future.[41]

[38] FINCA, Expanding Access to Finance through Mobile Payments, Case Study 2015.

[39] Centre for Financial Regulation and Inclusion - Democratic Republic of the Congo: Financial Inclusion Country Report - 2017.

[40] Country Profile, DRC - Microscope 2020 - "The current state of interoperability in the Democratic Republic of Congo (DRC) serves as a major barrier to the development of an inclusive retail payments market. The payment system is unreliable and does not serve user needs."

[41] Radio Okapi, Interview with Albert Kabeya, Director of Marketing at InfoSet - December 2020. Retrieved Jan 2021.

FSPs also need to be aware of how the data they are collecting through mobile and digital operations can be used responsibly to design programmes better tailored to their clients' needs. For example, one of biggest challenges with financial services in the DRC, especially at the community level, is adequately pricing in the risk of lending. According to Fred Fenwick, one of the most promising areas of digitalisation is the opportunity it presents to create more accurate credit histories for those people without access to formal banking services looking to borrow money. Use of Mobile Money can help create digital records of a person's financial history, which will help them and their FSP understand their capacity to repay debts. However, in order to offer such services, FSPs need to ensure they have adequate data protections, permissions and privacy procedures in place.[42] Currently the DRC has very few policies in place to protect consumers using Mobile Money, something that will have to be addressed now the service is being more widely used.[43]

[42] Microscope 2020.

[43] Country Profile, DRC - Microscope 2020.

Conclusion

Covid-19 will remain a threat to lives and livelihoods in the DRC in 2021. Political paralysis will limit the likely effectiveness of any government response meaning other stakeholders, including FSPs, will have to do more to support a population still recovering from the effects of the first wave. Such a mandate will undoubtedly place a strain on financial institutions, especially on smaller players with less reserves to help deal with falls in revenues and a rise in non-performing loans.

This report has so far focussed on the practical steps FSPs working with vulnerable communities can take, but with the difficult political, economic and health context, a coordinated response across the financial sector is also crucial. Larger banks and established players are likely to recover considerable ground in 2021, as the currency and inflation stabilize, and international debt relief supports the government balance sheet. Leaders of these institutions need to consider how they can pass on any gains to smaller players to provide them with some of the breathing space needed to support more heavily impacted parts of the economy. Such assistance should not be considered an act of charity, but a long-term investment in the financial service industry in the DRC – and the growing and innovative private sector it supports.

The pandemic has been a shock to the economy, but it has also highlighted the ability of FSPs and companies to adapt, most noticeably through digitalisation. In this way, the pandemic should act as a catalyst for positive change, capitalising on changes in consumer sentiment to make progress that can underpin faster, medium-term growth.

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in the report.

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