

InM Covid-19 Research

Covid-19 Pandemic: Time for MFIs to Prove Resilience Once Again



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Introduction

The microfinance institutions (MFIs) in Bangladesh have shown surprising resilience in the past especially during challenging times like natural disasters and other emergencies, both local and national. These institutions have weathered through all types of upheavals; and have bounced back every time with renewed commitment to their vision of serving the poor and disadvantaged. However, the present Covid-19 pandemic and the lockdown enforced to control its spread seems to be the most severe crisis to hit the sector. All stakeholders associated with Bangladesh's development hope that the MFIs will once again come out successfully and resiliently and will continue to provide their services more diligently to the poor who are the hardest hit during the present crisis.

The key issue for the MFIs is to resume their normal operations at the earliest opportunity. The coronavirus crisis has disrupted most parts of the Bangladesh economy including the activities of the MFIs for nearly five months till now and the recovery time is yet uncertain and the process seems to be complex and protracted. Within a period of about five months of the outbreak of Covid-19 pandemic in Bangladesh, the country's economy has been seriously affected by a sharp decline in external demand, shocks in supply due to bottlenecks in global and domestic value chains, impact of lockdown on domestic demand and large scale job losses, stress on consumer and business environments, deepening inequality and high incidence of economic and social uncertainties.

The impact of the Covid-19 pandemic is felt not just by the national economy, but by the household economy of millions of Bangladeshis, especially the low income ones. Daily wage earners have already been badly hit; many have nothing to live on now and are unable to buy food for their families. Hunger, malnutrition, and other problems that have always plagued Bangladesh in the past are poised to intensify as a result of the lockdown.

The most widespread impact of the economic slowdown has been a loss of income for most households in the country. In particular, since most of the poor households are engaged in non-farm informal activity, such as construction work and rural nonfarm activities supported by the MFIs, this type of work has been significantly affected by the lockdown. For many, the loss of livelihood could be long-term. Even a temporary loss in income can have devastating consequences for those whose livelihoods are based on subsistence, without any savings or assets to fall back on.

No doubt, the most adverse impact has been on the daily labourers and small traders, whose incomes have drastically fallen during the crisis, as they depend on daily cash incomes. Although the sellers who offer essential products such as food items continue to receive inflows, their sale volumes have declined and hence income as well. In contrast, the income of sellers of non-essential products has shrunk drastically.

Amid this uncertainty, the salaried employees, especially the lower middle income ones, have decreased their consumption of discretionary items, while the low income households have restricted their purchases of even essential items. Yet, in many

ways, the impact of Covid-19 crisis is probably lower on the agriculture sector than on the nonfarm informal sector, the activities of which mostly depend on the microfinance sector.

The worst part of the story is that a great uncertainty surrounds how long, how hard, and how frequent the Covid-19 crisis lockdowns will continue in the coming months. This uncertainty makes any predictions extremely difficult, especially for the MFIs. In order to weather the current crisis, the MFIs need to consider a few aspects of the Covid-19 impact.

How to Ensure Resilience: Strategic Considerations

For the MFIs, repayment of credit is the largest component of cash inflow followed by savings of the borrowers, borrowings from the banks and financial institutions, and other incomes. On the other hand, the largest cash outflow is loan disbursement, followed by repayment to lenders, payment of staff salaries, and office and other expenses.

For these institutions, loan repayment has traditionally been a consistent and reliable source of cash inflow. But during the present crisis, this important component of inflow has mostly been dried up. Banks are also on a 'wait and watch mode' – fresh loans are unlikely to be forthcoming in the present situation to the required extent, at least in the short run.

On the other hand, MFIs need to maintain several regular cash outflows including staff salaries, payment of office expenses, loan installments to lenders, and incur other regular expenses. Although, for the large MFIs, this may not be a big problem; the struggle is for survival for the small and mid-sized MFIs. The overall impact, however, will vary with many other institutional characteristics but, no doubt, the smaller MFIs face major challenges, while large MFIs may weather the storm in a relatively easy way.

In the past, the MFIs in Bangladesh have proven their high degree of resilience during crisis. In times of natural disasters, repayment rates recovered relatively fast (within a few months), and one may expect that this might also happen during the present crisis. This usually happens as the microfinance loans are well supervised and the gestation period of loan-financed production activities are of relatively short duration. Therefore, slowing down fresh loan disbursements for a few months may be a good strategy for the fund-constrained MFIs, particularly for undertaking new activities, which would provide these MFIs some space to manage the cash flows.

The greatest challenge for the MFIs is to ensure sustainability of their operations after the pandemic. During the past, all MFIs could revive their operations within a short period after the occurrence of crises. But for the present coronavirus crisis, it may take 12-18 months for a full rebound, depending on the extent and duration of the crisis, which is highly uncertain. Full normalcy can only be possible after the lockdown is over and the field staff of MFIs can move freely again. Yet, given the nature of the Covid-19, there is a real risk of repeated spikes and possibly repeated and localised lockdowns. These have the potential to disrupt the recovery process repeatedly.

Further, the past experience suggests that the microfinance borrowers usually bounce back quite fast in reviving their

economic activities. This means that although the portfolio at risk (PAR) of the MFIs may shoot up initially, it is likely to gradually decline over 2-3 quarters once full-fledged activities and operations of the MFIs resume. Although some MFIs may have to write-off some bad loans, increased demand for credit (as customers will need liquidity to re-establish their businesses) could compensate for the losses.

Some borrowers may, however, need additional time to repay their current loans for which moratorium could be extended and installments staggered. But, if the past experience is any guide, most of the credit outstanding will flow back to the MFIs. The MFIs have already gathered useful experience of dealing with stresses in customer liquidity, which will no doubt guide them in managing the current situation.

For the MFIs, operational staff—particularly the branch managers and the field staff—will play the key role in managing their field operations once the lockdown is lifted. No doubt, the post-lockdown period will present additional challenges for the MFIs. The fear of infection from the coronavirus will continue to affect the morale and work efficiency of the operational staff. The MFIs will have to address this psychological fear upfront and offer safety nets to the staff, such as health insurance and/or other support, or both.

The field staff also needs to be aware of the status of the pandemic in their respective operational areas and act accordingly. They will have to be ready to deal with the customers who have been highly traumatised by the pandemic and the loss of incomes/assets. For the staff, the key will be to understand their psychology and deal appropriately.

The seniors will have to guide the field staff and ensure constant communication with them. Feedback from the field level should be communicated to the relevant authorities quickly for designing appropriate strategies for the organisational activities. The field staff should also act as effective communicators on health and hygiene during the post Covid-19 period and act as role models for their members. The staff should demonstrate best practices to protect themselves as well as educate their customers.

In the past, the MFIs in Bangladesh have weathered many challenges and crises. At all times, the MFIs have bounced back with more strength and renewed vigour. No doubt, Covid-19 is a very different and more severe crisis to hit the microfinance sector. But, the past evidence shows that the sector has the capacity and the ability to face the crisis boldly and emerge once again as more resilient and willing to provide multiple services to the millions of poor and disadvantaged members across Bangladesh.

Request to Participate in InM Covid-19 Research

1. Research on Financial Management of Urban Middle Class

InM Research Division is conducting a research on 'Covid-19 and Financial Management of Middle Class Families in Urban Areas' for which a quick online opinion survey is currently ongoing. The study would analyse how financial choices have been affected by the pandemic including household income, expenditure and savings decisions of the urban middle class households. We request you to participate in the survey by filling up the Google form link. This will not take more than 10 minutes to fill in the survey.

Survey Link:

https://docs.google.com/forms/d/e/1FAIpQLSe6QGQIMMUTYrYqFhaGAMCfpdCnBLT2_OQD-sSnM6nFlheUg/viewform?usp=sf_link

2. Research on Opportunities and Challenges for MFIs

InM's research on 'Opportunities and Challenges for MFIs during Covid-19' seeks participation from the MFIs in its quick survey to gather information on key challenges and opportunities of the microfinance sector. All MFIs are requested to participate in this research by filling in the Google form link which will take only about five minutes of your time. We have requested all MFIs directly through email communication as well.

Survey Link:

https://docs.google.com/forms/d/e/1FAIpQLSf0SEG6Xcv5w2rIOOjTRUjEDyafnNLOvrO6nVhcE20RmqF_g/viewform?usp=sf_link



Institute for Inclusive Finance and Development (InM)

PKSF Bhaban, E-4/B, Agargaon, Sher-e-Bangla Nagar, Dhaka - 1207, Bangladesh

InM Training Centre, House# 30, Road# 03, Block: C, Monsurabad R/A, Adabor, Dhaka - 1207.

PABX: +88-02-8181066, 8190224, Fax: +88-02-5815526

E-mail: info@inm.org.bd, Web: www.inm.org.bd