

# InM Covid-19 Research

**Microfinance Institutions: Front Line Players during Covid-19 Pandemic**



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## Microfinance Institutions: Front Line Players during Covid-19 Pandemic

The impact of the Covid-19 pandemic is felt not just by the national economy, but also 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. The average household in Bangladesh has around five members, and usually includes three generations. It is hardly possible to separate the old and the young; in other words, to separate the productive adults from those whose age makes them more vulnerable to Covid-19.

Practicing the social distancing norms to reduce transmission is also proving to be culturally unacceptable in most cases. Therefore, ways have to be worked out to keep people safe, which at the same time, protect their livelihoods as well. If they must stay home, they need to be given food and/or emergency cash transfers.

As the Covid-19 crisis continues to unfold in Bangladesh, it is apparent that the informal workers remain exceptionally vulnerable to the economic and labour market shocks of the pandemic. Many of these workers have lost their jobs and face extreme poverty and food insecurity as the disease intensifies in the country. The absence of regulatory, policy, and legislative structure to reach informal workers also makes it more challenging for the government to provide assistance and take measures to restore their basic livelihoods at this time of emergency.

While the coronavirus pandemic is especially weakening the Bangladesh economy, the microfinance institutions (MFIs) are working to support the activities of their customers, who belong to the most vulnerable segments in society.

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 microfinance sector, 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.

Further, the overall burden of any illness, accident, or disability tends to be high for the informal workers, given the nature of their work and where it takes place. Those who could continue to work during the current pandemic face high exposure to the virus itself. They often live in slums or congested housing compounds without access to adequate sanitation or clean drinking water. Informal workers are often unable to access social safety nets and labour rights as they are not officially acknowledged as workers. They seldom have secure employment contracts in place and are therefore excluded from the protection of conventional labour laws.

Bangladesh has already adopted stimulus packages to provide support to the most economically vulnerable, including emergency funding/relief for businesses and individuals. These packages are relatively modest and reflect the country's limited financial resources. However, they do include some form of relief to the needy, mostly in the form of rations and/or cash transfers.

Although these economic support packages may be well-designed, but these are not large enough to address the urgent challenges of the informal workers, as the government is fiscally constrained. Options for creating additional fiscal space will have to cover multiple areas – ranging from the restructuring of debt, to official assistance, to altering domestic fiscal policy.

However, recognising the contribution of informal workers to the national economy, the government will have to work with what already exists along with working out new and better options. The key will be to devise mechanisms to extend the coverage of existing social protection programmes to informal workers to enable them to survive the immediate impact of the pandemic. Where existing registries or databases exist, quick assessments can be made on their relevance for the scale-up of social protection interventions. The government also needs to introduce reforms to stabilise the long-term impacts of the economic shock on informal workers and find innovative and sustainable ways to identify and reach those who need assistance.

The microfinance sector in Bangladesh has travelled a long way since the country's independence in 1971 along with significant transformations from group-based limited-scale microcredit operations to individual microenterprise operations in order to create more widespread and sustainable development impacts. Throughout these years, microcredit has graduated from its mainstream activity of supporting basic needs of the poor people to nurturing broader farm and nonfarm activities and microenterprises of the graduating microcredit borrowers and microentrepreneurs.

The focus on 'appropriate' finance—along with working in the remote areas; mobilising the poor for promoting social development; creating awareness on health, education and women empowerment; providing access to technologies and income earning opportunities—has provided the MFIs a unique opportunity to emerge as important partners of development in Bangladesh, especially during difficult times such as the present pandemic.

In Bangladesh, many poor people and micro-entrepreneurs rely on various financial services offered by the MFIs including credit, savings, remittance transfer, loan insurance etc. There are about 30 million microfinance recipients across the country; most of whom were financially excluded prior to their involvement in the microfinance sector.

During any crisis (e.g. natural or other disasters), the MFIs also offer the borrowers a margin of flexibility to deal with predicaments in the form of loan repayment flexibility or access to emergency loans. As a matter of fact, the Covid-19 pandemic has exposed how much the microfinance programmes have reshaped the rural economy and how desperately the rural people need financial services to sustain their livelihoods.

However, as the vast majority of the MFI borrowers have become vulnerable due to the pandemic, this has also created a serious threat to the day to day activities of the MFIs and also on their sustainability. The pandemic has affected the workplace and earnings of their borrowers which have seriously weakened their repayment capacity. As a result, loan default possibilities



have become higher, administrative costs have risen and the MFIs' own debt obligations (e.g. loans taken from the commercial banks or other sources) and liquidity have been facing increasing challenges creating heightened concerns for the sustainability of their operations.

This is a huge challenge for the MFIs. Indeed, given the nature of their portfolios and the activities of their members, MFIs in general have been seriously affected by the ongoing crisis. The portfolios of MFIs usually have a significant share of the informal sector, a predominance of trading activities and vulnerable borrowers who have few resources to cushion the impacts of the crisis. These population groups generally save little and invest all their resources in their economic activity. Many of these microentrepreneurs rely on this daily source of income for their basic needs. The lockdown can therefore actually mean that they cannot afford to pay for food, housing, healthcare, etc.

Now, more than ever before, it is essential to support and assist front line players such as the MFIs during the present pandemic. These institutions provide savings and credit services to more than 30 million low income people in the country. Further, around 80 per cent of these customers are women, and more than 65 per cent live in the rural areas. They are among the poorest and most vulnerable segments in society. Microfinance allows these people excluded from the traditional banking sector to access financial services tailored to their needs (microcredit, microinsurance, microsavings, means of payment and transfer etc.).

These institutions in particular finance the income-generating activities of the microentrepreneurs. Yet, the response to the health crisis has meant that many of these microentrepreneurs are forced to temporarily close their businesses or reduce their activity and the supply chain has been affected for others. Some MFIs had to close their branches, change the way they work and reduce their contact with the customers. The MFIs, like their customers, are thus directly affected by the crisis. The large MFIs have taken measures to avoid a liquidity crisis, but the smaller ones face difficult challenges.

The MFIs in Bangladesh have already shown extra-ordinary resilience and commitment to support their customers and ensure the stability of their income-generating activities through all available means at their disposal such as deferring the repayment of loan maturities, credit refinancing and setting up specific support mechanisms. Many MFIs have set up awareness-raising campaigns on the basic protective measures for employees and customers. They are also promoting digital transfer systems which limit contacts and allowing teleworking to enable the staff to continue their essential operations.

The MFIs have their presence at the grassroots level with a good track record of working closely with the government during natural calamities and other difficult times. These institutions can be effectively involved, along with local government institutions (LGIs), to monitor and provide assistance and in implementing activities at the grassroots to tackle the Covid-19 impacts along with ensuring a stronger health system in the rural areas. Already NGOs like BRAC are working with several big businesses to assist in relief and rehabilitation operations in combating the Covid-19 crisis and

its fallout. But the sector has a huge still-unused collective capacity across the entire country--particularly in places where the reach of other organisations is limited--to work for the poor who are the hardest hit by Covid-19.

Covid-19 is no doubt an eye opener for Bangladesh since it shows how fragile can be the country's hard earned success in poverty reduction over the past decades to external and internal shocks. The need is to put further emphasis on developing the resilience and inherent capacity of the people to withstand shocks and put in place well-designed social protection measures to help them in times of crisis.

In the above context, the awareness and understanding of the local communities by the MFIs make them probably an important channel for serving various highly affected population groups with financial and other services including relief payments, government to person transfers and other assistance packages.

In practice, the MFIs are already on the front line in the response to the impacts of the pandemic. The great virtue of the MFIs is that they demonstrate that it is not only possible for them to implement services tailored to the poorest, they also has the ability to ensure sustainable operations. Today, faced with the devastating impacts of Covid-19, microfinance players are taking action to safeguard the survival and financial empowerment of these populations excluded from the traditional financial system. And they need all out support necessary for successfully meeting the challenges of this pandemic.



# 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/1FAIpQLSe6QGQIMMUtYrYqFhaGAmCfpfdCnBLT2\\_OQD-sSnM6nFlheUg/viewform?usp=sf\\_link](https://docs.google.com/forms/d/e/1FAIpQLSe6QGQIMMUtYrYqFhaGAmCfpfdCnBLT2_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/1FAIpQLSf0SEG6Xcv5w2rIOOojTRUjEDyafnNLOvrO6nVhcE20RmqF\\_g/viewform?usp=sf\\_link](https://docs.google.com/forms/d/e/1FAIpQLSf0SEG6Xcv5w2rIOOojTRUjEDyafnNLOvrO6nVhcE20RmqF_g/viewform?usp=sf_link)



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