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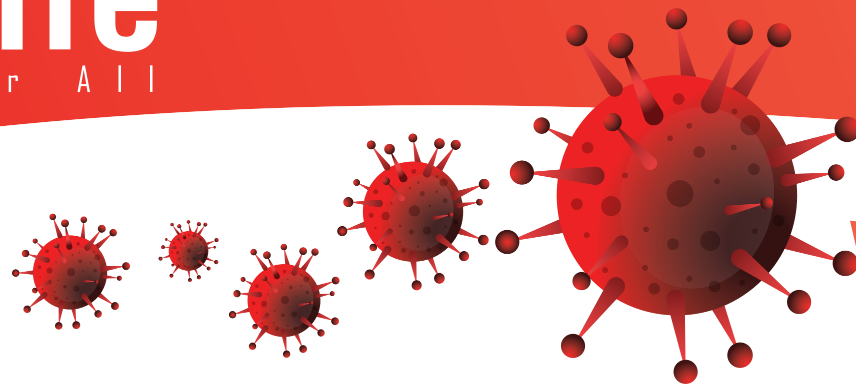
Finance for All



Cover Story

Covid-19 and MFIs in Bangladesh

In the past, the microfinance institutions (MFIs) have shown surprising resilience in Bangladesh especially during challenging times like natural disasters and other emergencies. These institutions have developed capacity to weather through all types of upheavals; and have bounced back every time with renewed commitment to their vision of serving the poor and disadvantaged. Nevertheless, the present Covid-19 pandemic and the lockdown enforced to control its spread seems to be the most severe crisis to hit the sector. The key challenge for the MFIs is to resume their normal operations at the earliest opportunity, which have now been disrupted for nearly five months and the recovery time is yet uncertain. The recovery process also appears to be complex and protracted.

The impact of the Covid-19 pandemic has been felt disproportionately by the low income members of the MFIs including poor women and other distressed populations. Daily wage earners have 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 pandemic.

The most widespread impact of the economic slowdown has been a loss of income for most MFI households in the country. In particular, since these poor households are mostly engaged in non-farm informal 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 has created devastating consequences for these households 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 some inflows, their sale volumes have declined and hence income as well. In contrast, the income of sellers of non-essential products has shrunk drastically.

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.

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 have proven their high degree of resilience during any 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 with 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 for the MFIs.

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 in the MFIs 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 as more resilient and willing once again to provide multiple services to the millions of poor and disadvantaged MFI members across Bangladesh.

Helping MFIs to serve the Covid-19 hit poor

The impact of the Covid-19 pandemic is felt not just by the national economy, but also by the household economy of millions in Bangladesh, especially the low income ones. 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 particular, since 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.

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.

Training Workshop

Mental Health and Professional Productivity

InM organised a training workshop for FIN-B members on 'Mental Health and Professional Productivity' in collaboration with LifeSpring Consultancy Limited and K.K. Foundation in February 2020 at the InM Training Centre in Dhaka. Available evidence suggests that there is a close relationship between the status of mental health and professional productivity in organisations. The links between mental health and two alternative workplace productivity measures – absenteeism and presenteeism (i.e. lower productivity while present in work) – are relatively strong. While absenteeism is higher among the staff who report being in poor mental health, mental health status is important in understanding reduced productivity of staff at work.

For the development sector institutions such as the MFIs, mental health reflects cognitive, behavioural, and emotional wellbeing; that is, all about how the organisation's staffs think, feel, and behave. Although the status of mental health affects daily life, relationships, and even physical health, the importance of mental healthcare is almost unrecognised and non-existent in Bangladesh. Most people, even in formal and professional institutions, are not aware of the importance of mental health. This causes a huge loss in staff productivity due to depression, anxiety, posttraumatic stress disorder (PTSD), drug addiction, and other mental illnesses.

Mental health problems have an impact on the performance of the MFIs directly through increased absenteeism, negative impact on productivity, as well as an increase in costs to deal with the institutional issues. In addition, they impact employee morale adversely. Work-related stress is a major cause of occupational ill health, poor productivity and human error. This means increased sickness absence, high staff turnover and poor performance in the organisation and a possible increase in human error. Work-related stress could also manifest as various illnesses; as well as psychological effects such as anxiety and depression, loss of concentration and poor decision making.

The most common reason for workplace stress is dealing with difficult supervisors. But this is easy to solve by improving communication skills. Having a sincere conversation may make a difference. Sometimes, the supervisor may set unreal targets, where an honest discussion can bring out what deadlines can be met. Tasks that are not part of an employee's responsibility can also cause stress. Often, institutions want to create multitask employees, but without frank discussions with the concerned employees, this could potentially affect their ability to deliver.

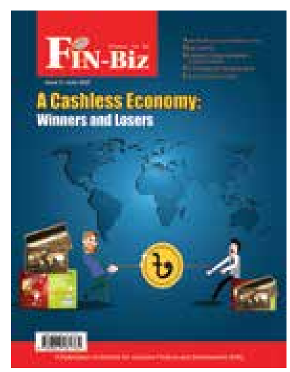
Another major reason could be 'difficult' colleagues or co-workers in the organisation. Dealing with a difficult colleague can be difficult as their performance is often bumpy against oneself. This has to be resolved by an amicable discussion, resulting in a mutual agreement. One can explain to the colleague as how a team can have far more benefits than indulging in rivalry. Further, in an increasingly complex world, families are no doubt struggling to cope with challenges and to find the right balance between work and family responsibilities.

In view of the reality, MFIs would do well to address mental wellbeing at the workplace through a clearly articulated workplace policy on mental health. This should cover the vision, values and principles, and objectives of mental health policy for the employees. The development and implementation of a workplace mental health policy and programme will benefit the health of employees, increase the productivity of the organisation and will contribute to the wellbeing of the community at large. Psychosocial intervention along with stress management training and health promotion interventions have a positive impact on mental well-being of all.

A mentally healthy staff is an economically productive employee and it is in the benefit of the MFIs to safeguard mental health. Given the multifaceted contributions of the MFIs to pro-poor development in Bangladesh, staff mental wellness programmes are not only a strategic priority for the country but also an economic imperative for the MFIs.

InM Flagship Publication

FIN-Biz Issue 5, June 2020



We all are familiar with the phrase: 'Cash is King'. But things are changing rapidly in this era of digitisation of financial services. Digital payments, once considered as a convenience, are now rapidly emerging as a necessity. During this Covid-19 pandemic, things have started to change faster. Although payment volumes are down across the board in this crisis, the number of digital transactions relative to physical cash transactions is soaring with lockdown.

But the transition from cash to cashless is not straightforward. Online payments may seem easy, but there remains a lack of standardisation in the system that delays payments and creates bottlenecks. Liquidity is essential for people to remain confident in the financial system for which the banks' financial buffers have to become much more robust. The paradox right now is: while Covid-19 pandemic is conducive to establishing cashless societies, the pressure on the banks works differently.

The fifth issue of FIN-Biz highlights, among other issues, the question: who would win and who would lose if cash disappears? The issue is becoming more pertinent now, since the disappearance of cash no doubt was a social fantasy in the past; but that doesn't mean it couldn't occur. While the supporters of cashless economy hold that it would bring nothing but benefits for all involved, others warn that many may emerge as losers as well.

The issue covers several aspects of finance for all, including G-20 principles for financial inclusion and financial inclusion in action. It also highlights success stories from several countries and lessons from China's financial inclusion. For Bangladesh, the time now is to avail the opportunities with an 'eye for innovation'. It is high time for Bangladesh to broaden the scope of the mandatory corporate social responsibility (CSR) to cover corporate innovation responsibility (CIR) as well to support research and innovation. It also provides feature stories on how agritech startups are changing the face of India's agriculture and s-commerce is acting as a catalyst for women's financial inclusion in Bangladesh. The regular interview highlights crowdfunding and financial inclusion and the challenges to developing crowdfunding in developing countries.

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Interested individuals may also join the Network as associate members.

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