

INSIGHTS

InM Newsletter

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Cover Story

Covid-19 and Inclusive Finance Challenges in Bangladesh

The Covid-19 pandemic has created unprecedented health and economic crises all around the world. In Bangladesh, the twin crises—health and economic lockdown—have severely harmed the livelihoods of all people, especially those working in the informal economy and belonging to the low-income groups. Many parts of the inclusive finance ecosystem which were installed to support the excluded vulnerable people are also at risk at present.

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



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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.

The NGO-MFIs and other financial institutions are fighting to weather through the economic storm and move forward to fulfill their missions. The policymakers are looking for more effective ways to support inclusive institutions especially to reach the distressed populations; fintechs are fighting to transfer remittances into the hands of the needy against challenges that cash distribution during the present crisis costs more money; bank agents need to remain open during the lockdown to provide financial services to the clients; micro-merchants must have sufficient liquidity to support their core businesses; and so on.

In the present Covid-19 affected economy, several important aspects of the financial inclusion ecosystem especially relevant to the low income populations are important to meet the unfolding challenges.

In face of these challenges, InM is focusing its Covid-19 related research on several priority areas that would play a vital role in furthering sustained financial inclusion for the excluded poor and disadvantaged groups. Further, as the coronavirus crisis is unprecedented, InM is working to provide a collective space to share insights, experiences and lessons learned.

For the MFIs, it is important to explore: how is Covid-19 impacting their portfolio quality while serving the low-income customers? Are the MFIs facing any liquidity crisis? Is their solvency at risk? What is the future outlook for the MFIs during the post Covid-19 period? While InM is trying to answer such questions by collecting data from the MFIs with which the Institute works, a more structured survey that aims to capture the full picture across different categories at the national level is necessary to design medium and long term measures.

Further, information is required about actions taken by the government to provide relief to the low income borrowers and lenders, including their impact on the MFIs and low-income customers. We need to ensure that regulatory responses incorporate best practices. The framework for assessing crisis responses for the microfinance sector should also take into account its

special characteristics.

In the past, the MFIs in Bangladesh have 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 during the present crisis. They are also promoting digital transfer systems which limit contacts and allowing teleworking to enable the staff to continue their essential operations.

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 current 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.

No doubt, the coronavirus crisis is first and foremost a public health crisis, but it is increasingly threatening livelihoods and financial security of most of the people across Bangladesh. This is especially true for the low-income households. The informal enterprises and CMSMEs and the financial institutions (e.g. NGO-MFIs) that serve them are also widely affected and, during the present crisis, Bangladesh's financial inclusion agenda has a vital role to play in supporting financial services ecosystems as an important component of the response to the pandemic. InM is working towards generating credible information on the pandemic's impact on the poor and informal sector participants, as well as on the MFIs and other financial services providers, to support informed responses to the financial inclusion challenges arising from the Covid-19 pandemic.

55th InM Governing Body Meeting

The 55th meeting of the InM Governing Body was held on 25 June 2020 at 11.00 am. Due to the present pandemic, the meeting was arranged virtually. The Chairman of the Governing Body and InM, Dr. Qazi Kholiquzzaman Ahmad presided over the meeting. The members of the Governing Body – Mr. Mohammad Moinuddin Abdullah, Managing Director, PKSF; Dr. Toufic Ahmad Choudhury, Former Director General, BIBM; Dr. Jahangir Alam Khan, Agricultural Economist and Former Director General, Bangladesh Livestock Research Institute; Ms. Nazneen Sultana, Former Deputy Governor, Bangladesh Bank; Dr. Nilufar Banu, Executive Director, Bangladesh Unnayan Parishad (BUP); and Dr. Mustafa K Mujeri, Executive Director, InM attended the meeting. Among others, the meeting approved the budget of InM for the fiscal year 2020-21 for placing it to the InM General Body.

12th EGM of InM

The 12th Extraordinary General Meeting (EGM) of InM was held virtually on 25 June 2020 at 12 pm with Dr. Qazi Kholiquzzaman Ahmad, Chairman, InM in the chair.

The members of the General Body, Mr. Mohammad Moinuddin Abdullah, Managing Director, PKSF; Dr. Toufic Ahmad Choudhury, Former Director General, BIBM; Dr. Jahangir Alam Khan, Agricultural Economist and Former Director General, Bangladesh Livestock Research Institute; Dr. Nilufar Banu, Executive Director, Bangladesh Unnayan Parishad (BUP); Mr. R.M Debnath, Economic Columnist and Former Director, Janata Bank; Dr. Anowara Begum, Senior Research Fellow, BIDS; Dr. Akhter Hussain, Professor & Chairman, Department of Public Administration, University of Dhaka; Dr. Niaz Ahmed Khan, Professor, Department of Development Studies, University of Dhaka; Mr. Md. Fazlul Kader, Deputy Managing Director, PKSF, Dr. Nazma Begum, Professor, Department of Economics, University of Dhaka; Dr. Mustafa K Mujeri, Executive Director, InM; and Mr. Sabbir Ahmed Chowdhury, Director (Education), InM were present at the meeting. Ms. Nazneen Sultana, Former Deputy Governor, Bangladesh Bank, was granted leave and could not attend the meeting due to unavoidable reasons. Among others, the meeting approved the InM budget for FY2020-21.

Research Highlights

InM Covid-19 Research

■ Liquidity Risk Management: How to Build an Immune System for MFIs in Response to Covid-19

Since early 2020, the Covid-19 pandemic has seriously affected the lives and livelihoods across all countries in the world. These countries, including Bangladesh, are now fighting to contain the spread of the virus by testing and treating patients, carrying out contact tracing, limiting travel, quarantining citizens, imposing lockdowns and physical distancing, and cancelling large gatherings. Moreover, Covid-19 is more than a health crisis; it has created devastating social, economic and other crises that are leaving deep scars in society and the economy of all countries. Every day, jobs and incomes are being lost, along with grave uncertainties regarding the time when normality would return.

In Bangladesh, since the outbreak of the pandemic, the MFIs and their customers have been facing enormous challenges to cope up with the situation. The crisis threatens health and economic prospects of the poor MFI borrowers as well as the microfinance sector itself.

As the vast majority of the MFI borrowers become vulnerable, it also creates a serious threat to the day-to-day activities of MFIs and on their sustainability. In response to the Covid-19 pandemic, InM is conducting a quick survey among the MFIs to gather their responses on key challenges and analyse how the microfinance sector is being affected by the pandemic including the impact of the pandemic on MFIs' institutional sustainability and identify required policy responses. The research report is expected to be published in September 2020.

■ Covid-19 and Financial Management of the Urban Middle Class

For capturing the impact of Covid-19 pandemic on the financial behaviour of the urban middle class, InM is currently conducting a quick online survey. The prime objective is to analyse how the economic behaviour and the choice of financial instruments by the urban middle class have been affected by the pandemic. The study will also focus on how the

patterns of income, expenditure and savings have changed over the past three months, whether the pandemic has an impact on digital financial inclusion and whether there are any changes in the preference pattern of financial products due to Covid-19. These will help to suggest appropriate policy responses for the post Covid-19 period.

■ Opportunities and Challenges for MFIs during Covid-19

The MFIs in Bangladesh have 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. The pandemic has seriously affected the workplace and earnings of the MFI borrowers to substantially weaken their repayment capacity. Most of the MFIs, especially the smaller and mid-sized ones, are facing hardships and difficulties in paying full salaries to their staff with no available avenues to continue their activities in the coming months.

Under the InM research on 'Opportunities and Challenges for MFIs during Covid-19', a quick survey is currently ongoing to gather information on operational and crisis management measures taken by the MFIs, crisis response measures for the borrowers adopted by MFIs and the design of new products/services/markets that the MFIs plan to develop in the medium term.

Working Paper No. 61

Financial Exclusion Status and Barriers to Financial Inclusion among Vulnerable Populations in Bangladesh

Farhana Nargis, Research Fellow, InM, Dhaka and Shah Md. Ahsan Habib, Professor, Bangladesh Institute of Bank Management (BIBM), Dhaka

Published in July 2020

In spite of considerable progress in financial inclusion over the years, many low income population groups remain un- or under-served by the formal financial institutions in Bangladesh. It is recognised that for an inclusive and well-functioning financial system, it is essential to expand convenient, cost-effective, and secure financial products to all financially excluded people in the country. But the reality is that the diverse features of these vulnerable sections and their specific demands for financial products are yet to be addressed adequately. The study examines the present financial inclusion scenario of vulnerable excluded groups in terms of their characteristics, needs, choices and constraints, which are not met by the current financial services. The analysis also identifies the key responsible factors for the exclusion and related barriers. Based on some primary information on specific groups of vulnerable sections of the population, and consultations with the market participants and regulatory agencies, the study puts forward certain generic policy and market intervention measures.

Training Highlights

Designing Online Training Courses

In view of the suspension of regular training programmes due to the Covid-19 pandemic, Training Division has designed several online courses for interested organisations:

Course 1: Addressing Post Covid-19 Microfinance Operations and Management

Course 2: Prevention of Financial Crime in the Financial Sector

Course 3: Risk Management and Monitoring

Course 4: Microfinance Sustainability Management in the Post Covid-19 Scenario

Course 5: Handling Post Covid-19 Challenges in Microenterprise Management

Education Highlights

2nd Semester of Diploma in Microfinance Programme Ends

The 2nd semester of the 10th batch of InM Diploma in Microfinance programme has ended with the final examination during June-July 2020. The courses and examinations of the 2nd semester were conducted online due to the Covid-19 pandemic. A total of 25 participants from 12 MFIs attended the programme. The results are expected to be published in September 2020.

Knowledge Management Highlights

Publications Highlights

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- Training Workshop: Mental Health and Professional Productivity
- InM Flagship Publication: FIN-Biz Issue 5, June 2020



InM Covid-19 Research

- No. 01, Microfinance Institutions: Front Line Players during Covid-19 Pandemic, August 2020
- No. 02, Covid-19 Pandemic: Time for MFIs to Prove Resilience Once Again, August 2020



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InM Covid-19 Media Publications

- Saving informal sector workers from pandemic shock, The Financial Express, 20 August, 2020
- Helping MFIs to serve pandemic-hit poor, The Financial Express, 7 August, 2020
- Monetary policy geared to post-pandemic financial stability, The Financial Express, 10 July 2020
- Covid-19 pandemic in Bangladesh: Are we the next Italy? , The Dhaka Tribune, 18 April 2020
- কৃষি খাতে রূপান্তর ও আমাদের ভাবনা, বঙ্গবন্ধু বার্তা, ২৭ ফেব্রুয়ারী ২০২০



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