

# INSIGHTS

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 Institute for Inclusive Finance and Development (InM)

[www.inm.org.bd](http://www.inm.org.bd)

## One Year of Covid-19 and Microfinance: Reasons for Future Optimism

In Bangladesh, the immediate consequences that the microfinance institutions (MFIs) faced after the Covid-19 pandemic were an increase in portfolio at risk and a reduction in operational portfolio. Obviously, these operational crises did not lead to a failure of the microfinance sector as feared at the beginning of the pandemic. In fact, what we have seen is a story of resilience--the MFIs proactively adapting to the new situations, taking innovative management measures while maintaining context-specific and responsible approaches in dealing with their poor clients.

Only a small proportion of the MFIs had to adopt extreme adjustment measures while the most have successfully transitioned to remote systems. Most MFIs implemented loan restructuring to relieve the affected clients. Some provided customers with emergency kits (food, health and sanitary equipment, etc.). Many even explored new opportunities such as digital channels for loan repayment to adapt to the situation. In general, the MFIs have been showing deep confidence in their ability to overcome the crisis and are optimistic about the future, along with a good understanding of the current challenges and ways to move forward. While the Covid-19 pandemic is not yet over and more challenges remain ahead, the MFIs are confident about their capacity to deal with the adversities.

No doubt, the situation is very unpredictable at present. Many MFIs may have to face significant operational constraints in the coming days which, if not faced boldly, may seriously curtail their core activities. An InM survey in

August 2020 shows that the Covid-19 crisis has significantly disrupted the regular activities of the MFIs. Most of the MFIs (85 per cent) face difficulties in staff-customer interactions and in delivering non-financial services (88 per cent), while 83 per cent face difficulties in collection of repayments and 73 per cent encounter difficulties in new loan disbursements. These operational difficulties have intensified other financial challenges for the MFIs. Around 93 per cent of the MFIs face rising portfolio at risk.

Irrespective of the size category, most MFIs face similar financial difficulties due to the pandemic. About 85 per cent of the MFIs face deterioration in outstanding loan portfolio and 80 per cent face the problem of high rates of savings withdrawal by the borrowers. Around 78 per cent of the MFIs face difficulties in repaying their borrowed fund to the banks and/or other borrowing agencies. More than 73 per cent of the MFIs have inadequate equity capital to cope with the Covid-19 crisis.

The MFIs strongly recognise that they are probably passing through one of the most difficult times in their long history of existence in the country. They will have to find a balance between carefully managing the risk while continuing to disburse new loans to their clients. It is clear that the Covid-19 crisis has disrupted the microfinance sector, operational structure of the MFIs and their ways of doing business. The MFIs will have to adjust to these major changes in their strategy for the coming years.

To recover from the crisis, most MFIs have initiated some policy action. Although around 25 per cent of the MFIs have utilised mobile financial services as a business model to disburse loan and emergency grants during the pandemic situation, medium and small MFIs find it difficult to adopt the mobile business model as they consider their personal acquaintance and interactions with their clients as important for success and their client-base is also not very adaptable to technology. The need is to adopt a set of comprehensive strategies that include both behavioural changes within the MFIs and sector-wide transformations covering organisational and regulatory perspectives. Moreover, an effective response framework for the MFIs should not be a compartmentalised one; rather it should be well-coordinated across all stakeholders linking the macro and micro-developments within the microfinance sector and the overall economy.

Throughout the year of the Covid-19 pandemic, the MFIs have shown their full commitment to their social mission. They have proven their resilience and capacity to adapt during this unprecedented crisis showing that the mission of microfinance is more relevant than ever during a crisis when poverty levels show rising tendencies. For the microfinance sector, 2020 has been a historic year that has demonstrated the resilience of microfinance. However, as credit risks of the last one year may gradually translate into losses in 2021, the responsiveness of the MFIs and the regulators will be fundamental and is likely to emerge as a major upcoming challenge for the MFIs.

However, the above and many other crises may be there in the coming months as the Covid-19 pandemic persists, but there also exist enough reasons to remain optimistic for the future of the microfinance sector. Innovative technologies and new business models, digital transformation, closer coordination among all stakeholders, and innovations will be the driving forces to strengthen the resilience and impact of microfinance during the period of post Covid-19 'new normal'.

# Research & Knowledge Management

## InM New Project

### InM and Water.Org sign MoU on WaterCredit Adoption (WCAD) Programme

InM and Water.Org has signed a Memorandum of Understanding (MoU) on 01 June 2021 to provide technical support to WaterCredit programme-MFIs that will cover capacity building and performance-based incentives as well as exchange visits and other support for implementing the WaterCredit Adoption (WCAD) model by the partner MFIs. The overall objective of the programme is to implement the WCAD model by the partner MFIs through providing the vulnerable people with affordable loans for developing quality water and sanitation facilities.



The programme will help develop organisational capacity of the MFIs through technical support provided by InM. In addition, it will build the implementation capacity of WCAD partner-MFIs to reach more low income customers through the WCAD model. The programme will improve hygiene behaviours of the beneficiaries by educating them to avail improved water and sanitation products. Dr. Mustafa K. Mujeri, Executive Director, InM and Mr. Rachel Brumbaugh Overton, Director, Global Operations, Water.Org signed the MoU on behalf of their respective organisations.

As a part of programme, InM is identifying potential partners based on specific criteria and work experience for implementing the WCAD model. It is expected that the WCAD partner MFIs will implement and mainstream WaterCredit under their core microfinance programmes. The purpose will be to improve the access to water and sanitation facilities of the people living in poverty and low-income households, especially those at the base of the pyramid.

## InM 57th Governing Body Meeting held

The 57th meeting of the InM Governing Body was held virtually on 28 June 2021. The Chairman of the InM Governing Body, Dr. Qazi Kholiquzzaman Ahmad presided over the meeting. 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. Besides, Mr. Md. Fazlul Kader, Deputy Managing Director-1, PKSF, was present at this meeting as a special guest.

## Newspaper Publications

- FY22 budget: Is it really pro-poor? The Financial Express, 21 June 2021

## InM FIN-B Publication

- Women's Economic Empowerment and Digital Finance

Vol: 04, Issue: 01  
Date: June 2021



- FINIMILE

Vol: 03, Issue: 02  
Date: May 2021



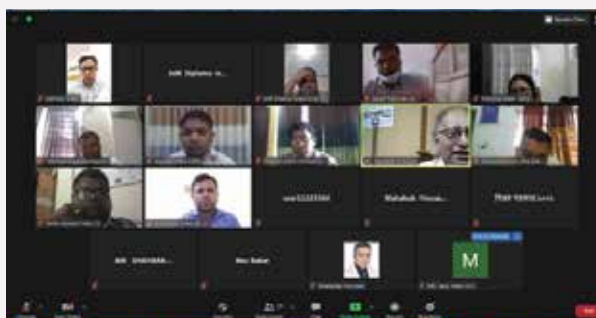
## Training & Education

### Training Needs Assessment (TNA) and Training Module Development

InM, in collaboration with Water.org, is implementing the WaterCredit Adoption (WCAD) programme through partner MFIs to make water and sanitation safe, accessible, and cost-effective for the vulnerable people of Bangladesh. InM is providing technical support to the Implementing MFIs through capacity building activities and training. For designing the training modules, InM will be conducting TNA of the partner MFIs prior to developing the modules on 'Training of Trainers (ToT) for the master trainers' and 'Basic Training Course on Safe Water, Sanitation and Hygiene' for the managerial staff of partner MFIs.

### InM Diploma in Microfinance Programme

The 11th batch of the InM Diploma in Microfinance Programme has been progressing since 07 March 2021. Due to the Covid-19 pandemic, the Programme is being conducted online in which six courses have been offered covering Poverty, Development and Microfinance; Microfinance Operations and Management; Financial Planning and Analysis for MFIs; MIS of Microfinance Programme; Governance and Regulations of MFIs; and Human Resources Development of MFIs. The final examination has been completed on 24 June 2021 and currently, the participants are involved in the internship programme.



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