



The Financial Express

MFIs striving to get back on feet

Md. Ziauddin Iqbal | Saturday, 11 December 2021



Bangladesh's Microfinance Institutions (MFIs) demonstrated proven and outstanding capabilities in the past in dealing with natural disasters and other emergencies at the local and national levels. The global outbreak of Covid-19 and its long lasting severity in last one year damaged the economy of Bangladesh. This is certain to state that the hardest hit by Covid-19 are day labourers and small business groups, who largely depend on daily income for their livelihood. Barriers caused by Covid-19 to economic activity have reduced the income of most

households in the country, especially poor families who are reliant on informal non-agricultural activities (such as construction and non-agricultural workers).

There are 746 registered MFIs in Bangladesh who are operating microfinance programmes throughout the country. The total number of members in the microfinance sector is now 31.22 million living in poverty or under the poverty line. Amongst these members, total outstanding loans and total savings are about BDT 6,73,900 million and about BDT 2,62,960 million respectively according to Microcredit Regulatory Authority (MRA), Dhaka. Most microfinance borrowers are small traders and wage labourers who have been victims to the economic shocks from the Covid-19. Consequently, regardless of large, medium and small in size, all types of MFIs have been affected more or less by this ongoing unprecedented pandemic.

The microfinance sector had been hit hard by the Covid-19 for the first time in March 2020 and then for the second time in April 2021. This resulted in a complete shutdown of the loans programme for almost six months. The officials of some microfinance institutions remark that their loan recovery rate remains stuck at 60-65 per cent since the second phase of Covid-19-induced lockdown this year. The rate usually stands at 96-97% during normal times of the years. If the situation recurs, they will not be able to survive. Many of their sustainable borrowers have already been forced to downsize or shut down their businesses. As the regular loan repayment trend is yet to be back, this loans are likely to turn into bad debts at some point. This will, however, lead to a critical state in the microfinance sector in the long run.

According to industry reviewers, small MFIs are barely surviving, while big ones are somehow to manage the catastrophe for the time being. Large MFIs have been able to handle the situation temporarily due to their strong financial position. MFIs further mentioned that the government's dual policy of suspending collection of loans from microfinance clients, but making it mandatory for MFIs to repay loans to the funding organisations/banks at the same time has further worsened the situation.

Many MFIs incurred huge losses last year due to the pandemic-induced lockdown and failure to collect instalments from borrowers. Another bleak situation is awaiting them when MFIs will have to account for a huge bad debts against default loans according to MRA's rule binding upon them. As a result, they might have major capital losses for keeping the loan-loss provisions from their surplus eventually. Therefore, the Covid-19 has posed some critical challenges for the MFIs and they will have to draw up a comprehensive operational plan with prudence to combat the unusual situation ever experienced.

Refinancing the clients whose earlier loans have not yet been fully paid may be one of the effective ways to reach the pre-COVID level. BRAC and other MFIs have introduced refinancing their clients on a case to case basis considering their previous loan repayment track record. In fact, this refinancing approach will help the clients restart or reorganised their ongoing business and enable them to repay the new loan as well as the previous overdue loan. This will be effective while the fund influx from the development partners/donors will remain uninterrupted as it was in the normal period.

Some borrowers, however, may need extra time to repay the loans. It may require a reasonable extension of the repayment period declaring the Covid time as public holiday. Therefore, the unpaid loans by the clients during the Covid-19 period will not be reported as overdue. The instalments of the borrowers can be made somewhat flexible by the MFIs. However, the past experience shows that most of the overdue loan outstanding will be returned to the MFIs as the clients know without repaying the overdue loans, they will not get the chance to get fresh loans again required for their businesses. MFIs have already gained much experience in dealing with clients' financial liquidity pressure, which will undoubtedly help them determine their strategy in the current situation.

The coping strategy during the devastating flood or cyclone of the country should be reviewed and some of the mechanisms can be adopted, specially those which brought effective results in recovering overdue loans. It can help get the normal loan operations back to the pre-COVID level. One of the strategies might be the categorisation of defaulters that led to devise time-bound action plans for recovery of dues from them based on their financial capacity, after meeting emergency needs for livelihood and capital needs for running businesses. Motivation may be another approach to sensitising the clients to pay off all dues. While talking to the field staff, it is known that this approach works better and the quality of loan portfolio like portfolio at risk (PAR) and on-time realisation rate are improving gradually with the time.

The government has already given incentive packages for the MFIs to meet their fund crisis immediately after recovery from the Covid situation so that they can restore their loan operations and rehabilitation of the poor people. Bangladesh Bank has disbursed BDT 30 thousand million in loans via a number of commercial banks at a nominal rate of interest to MFIs. This has given some space for the MFIs to meet short-term financial need. But they need a long-term sustainable plan to build a strong financial base again.

MFIs in Bangladesh faced many critical challenges and crises in the past. The MFIs did well in implementing their activities. There is no doubt that the COVID-19 is a serious crisis for the microfinance sector. However, past experience has showed that the sector has successfully acquired the capacity and skills to deal with a crisis. We believe MFIs will be able to more efficiently deliver their services to millions of poor and disadvantaged people across the country in the post COVID era.

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