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### RESEARCH ARTICLE

#### COVID-19 AND RESILIENCE OF MICROFINANCE PROGRAM IN BANGLADESH

Md. Ziauddin Iqbal

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#### Abstract

Bangladesh is the pioneer of microfinance in the globe. Last few decades, the microfinance programs of Bangladesh took a strong institutional shape and it also diversified with changing demand of poverty-stricken people over the time. As Bangladesh has achieved remarkable success in microfinance with sustainability, a few of models of poverty elimination have been replicated in different countries of the world. On the other hand, as a disaster-prone country Bangladesh's Microfinance Institutes (MFIs) have demonstrated proven and outstanding capabilities in dealing with natural disasters and other emergencies at the local and national levels. The worldwide outbreak of COVID-19, still fresh and prevailing, has severely damaged the economy of Bangladesh. The objective of this study is to understand how the MFIs of Bangladesh are tackling the shock created by the pandemic Covid-19 and finding the way out. Relevant literatures were surveyed as this is certain to state that the hardest hit by COVID-19 are day laborers and small business groups who belong to below poverty line. However, the MFIs could be able to manage the first shock caused by COVID-19. But the second shock within a year made them vulnerable and the impact of third shock, if appears, may raise the question of survival that may be unmanageable. This article makes efforts to unfold some ways out of the dire situation and bring some lights of hope for better revivification for both MFIs and their clients.

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#### Introduction:-

From the immemorial, Bangladesh's Microfinance Institutes (MFIs) have 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 has damaged the economy of Bangladesh. This is certain to state that the hardest hit by COVID-19 are day laborers 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). [1]

There are 746 registered MFIs in Bangladesh who are operating microfinance programs throughout the country. Total number of members of microfinance sector is now 31.22 million of people living in or under poverty line. Amongst these members, total loan outstanding and total savings are about BDT 6,73,900 million and about BDT 2,62,960 million respectively. Most microfinance borrowers are small traders and wage laborers who have been

**Corresponding Author:- Md. Ziauddin Iqbal**

Address:- Senior General Manager, Palli Karma-Sahayak Foundation (PKSF).

Email: [ziauddinpkfs@gmail.com](mailto:ziauddinpkfs@gmail.com)

<https://www.linkedin.com/in/md.ziauddin-iqbal-4b23b462>

victims to the economic shocks of COVID-19. Consequently, regardless large, medium, and small in size, all types of MFIs have been affected more or less by this ongoing unprecedented pandemic situation caused by COVID-19.[2]

The microfinance sector has been hit hard by COVID 19 for the first time in the month of March 2020 and then for the second time in April 2021. This resulted in a complete shutdown of the loans program for almost 6-month. The officials of some microfinance institutions remark that their loan recovery rate remains stuck at 60-65% since the second attack of COVID-19 led fresh lockdown this year, which is 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 shutdown their businesses. As the regular loan repayment trend is yet to back, these loans are likely to turn into bad debts at some point. This will, however, make a critical state in the microfinance sector in the long run.[3]

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 loan from microfinance clients but making it mandatory for MFIs to repay loan to the funding organizations/banks at the same time has further worsened the situation.[3] Many MFIs incurred a huge loss last year due to pandemic led lockdown and failure to collect instalments from borrowers. Another bleak situation is waiting for 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, COVID has posed some critical challenges ahead for the MFIs and they will have to make 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 restore the status of pre COVID situation. BRAC and other MFIs have introduced refinancing their clients on case-to-case basis considering their previous loans repayment track record. In fact, this refinancing approach will help the clients to restart or reorganized their ongoing businesses and enable them to repay the new loan as well as the previous overdue loan. This will be effective while fund influx from the development partners/donors will remain uninterrupted as it was in normal period.

Some borrowers, however, may need extra time to repay the loan. It may require a reasonable extension of the repayment period declaring the COVID hit time as government leave. Therefore, the unpaid loans by the clients during COVID period will not be reported as overdue. The instalments of the borrowers can be made somewhat flexible by the MFIs. However, it reveals from the past experience 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 avail fresh loans again to be required for their businesses. MFIs have already gained wide experience in dealing with clients' financial liquidity pressure, which will undoubtedly help them determine their strategy in the current situation.

Reviewed previous successful disaster coping strategy during devastating flood or cyclone of the country, some of the mechanisms can be adopted that brought effective results in recovering overdue loans and help get the normal loan operations back that prevails before COVID-19 period. One of the strategies might be the categorization of defaulters that led to device time bound action plans for recovery of dues from them based on their financial capacity, meeting emergency needs for livelihood and capital needs for running businesses. Motivation may be another approach to sensitize 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 realization rate are improving gradually with the time. [4]

The government has already provided incentive packages with the MFIs to meet their fund crisis immediate after improving COVID situation for restoration loan operations and rehabilitation of the poor people. Bangladesh Bank has disbursed BDT 30 thousand million of loans via a number of commercial banks at nominal rate of interest to MFIs.[5] This has given some space of breathing to the MFIs to meet short term financial need. But they need a long-term sustainable plan to build a strong financial base again.

**Conclusion:-**

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

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