

## Microfinance in Nepal – Present Situation and Future Prospects: A Webinar

NMBA organized a webinar on "Microfinance in Nepal – Present Situation and Future Prospects" on 19 June 2020. The chief guest of the program was Mr. Shiva Raj Shrestha, Deputy Governor of Nepal Rastra Bank and 4 invited panelists were Dr. Atiur Rahman, Bangabandhu Chair Professor, Dhaka University and Former Governor, Bangladesh Bank; Mr. Nathanael Bevan, Deputy Head, Department for International Development-Nepal and Economic Development Team Leader; Dr. Biswo Poudel, Associate Professor, Kathmandu University; and Mr. Basanta Raj Lamsal, NMBA President. Mr. Bhesh Raj Panthi, NMBA Vice-President welcomed all and Mr. Ram Bahadur Yadav, NMBA Secretary General delivered vote of thanks. The panel was formed to understand the perspectives of the practitioners, regulators, donors, academia and international expert. The webinar - witnessed by 180 participants, mostly microfinance practitioners - was moderated by Mr. Bharat Singh Thapa, Assistant Professor, Tribhuvan University.

The webinar was organized with a view to understanding the major challenges and opportunities in the context of the findings of NMBA survey on the immediate effects of COVID-19 on the microfinance sector. The panel reviewed current situation and future prospects of microfinance sector from their perspectives. This report summarizes the panel presentation, questions from the participants and future prospects.

### Opening remarks

**Mr. Shrestha** launched the NMBA "Survey Report on Microfinance – Present Situation and Future Priorities" and delivered opening remarks highlighting on the important role of MFIs, impact of COVID-19 in the sector concurring with the NMBA survey findings, and future prospects of the sector. The prospects in the post-COVID included consolidation for those hit hard, especially new and small-sized, increased business with returnee migrants and fund availability with planned injection of funds including refinancing, and opportunity in proving prominence working with local governments.

### Panel presentations

**Mr. Lamsal** presented the NMBA survey findings that compared data between mid-January and mid-April 2020 as made available by 54 out of 89 MFIs (61% response). The study found that MFI sustainability has weakened with decreased portfolio quality where smaller MFIs suffered the most. They differed on business scenario post lockdown period yet agreed on business recovery strategies. The clients lost income for various reasons and felt a need of more time in repaying their installments and in reviving their businesses. For member relief, multiple policy provisions were thought as needed. The presentation concluded with briefing on the key recommendations.

**Dr. Rahman** presented on the role of MFIs in economic recovery illustrating the present context of the microfinance sector in Bangladesh, how microfinance in Bangladesh are playing crucial role in poverty reduction through providing quality and innovative financial services, and policy response to mitigate the effect of COVID-19 on MFIs and their clients.

He highlighted on use of technology and collaborative efforts in Bangladesh and suggested MFIs to advance as frontline soldiers using digital technology in providing more funds in the rural areas. He also suggested NRB to think on a robust and guaranteed scheme for micro and small entrepreneurs so that banks could come forward in a better way to their support. He also mentioned on the support mechanism, how Bangladesh Bank provided subsidized loan to MFIs through commercial banks and suggested to follow similar model in Nepal too.

**Mr. Bevan** presented on microfinance challenges and opportunities. He highlighted on the need for all stakeholders to engage positively towards developing evidence base on microfinance and opportunities for the sector in providing critical support to the SMEs in the post lockdown period. He also informed on upcoming changes in DFID, reaffirmed UK support and outlined several opportunities that included digitization of operations, design/reengineering of new products, schemes to allow clients to return to IG activities, supporting returnee migrants with financial products, and ensuring client protection principles.

**Dr. Poudel** presented on the role of MFIs in mitigating COVID-19 impact on small firms. He complimented the NMBA survey and touched on four parts – things known and unknown, impact on various sectors, exit strategy, and recovery process. He noted absence of disaggregated data on second level of indicators and on MFI investments in different sectors and heterogeneous impact across economic class, community and gender. He suggested MFIs to target the right group and also think of sustainability during exit process of the lockdown and argued that they still have important roles in stopping the fragility around the poverty line.

### Participants' questions

Several questions were raised by the participants, of which selected ones were posed to the panelists by the moderator for response. On possible role of technology in delivering microfinance services after the pandemic, it was responded that the technological advancement is the way forward and MFIs should establish small technological groups (like, mobile / WhatsApp). On possibility of DFID funding for development of digital platform, the answer was Yes through ongoing Sakcham Program. Likewise, on policy measures taken by Bangladesh in supporting MFIs and their use of refinancing facility, it was responded that the central bank brought out several stimulus packages in providing liquidity to the banks to on-lend to MFIs. Several refinance lines were created for MFIs and targeting SMEs that they could apply to the Microfinance Regulatory Authority, which instruct banks to release the refinancing fund.

Another question asked was on the way Nepalese MFIs are addressing the need of graduating small firms. On this, NMBA looks forward to an operational strategy developed soon together with the CEOs. Finally, on the type of relief package for micro- or small firms and on possibility of cash transfer to poor households through MFIs, it was responded that individual cash transfer leads to better outcomes compared to distribution of grocery items. Both banks and MFIs can facilitate cash transfer and relief for micro- and small enterprises should be on project basis.

## Future prospects

Key prospects emerging from the presentation and discussion are as follows:

- **Consolidating for effectiveness:** MFIs have responsibility of navigating through uncertain situation for survival of client, staff and institution. They are expected to be more innovative and proactive and to work-out recovery plan in detail including consolidation options. MFIs, specifically the small-sized and new ones are hit hard by the pandemic. They may explore merger options with existing and likely incentives, if they envision inability in continuing independent operation in the long-run.
- **Expanding business opportunities:** With large number of returnee migrants, microfinance business is expected to grow with more demand for loan. Again, there would be increased availability of funds for business as injection of additional liquidity is planned including refinancing. MFIs have opportunity to cater to the needs of the newer clients with new financial products.
- **Broadening partnership opportunities:** The pandemic has provided the right time for MFIs to show that they care and work for the deprived people in improving their living standard. They are expected to play active role in the society working closely with local and provincial governments in uplifting the rural economy.
- **Optimizing digital transaction:** The limitations of the centre/group-based operation model have highlighted increased need for going digital. MFIs may move forward using digital technology (like mobile financial services) optimally, which could bring down the cost of service delivery and save staff time. There was a suggestion that NMBA could initiate MFI digitalization process via the IT Company that it promoted to achieve cost efficiency and viability. Moreover, DFID has affirmed potential support through their ongoing program in establishing the digital platform.
- **Strengthening evidence base:** The role of microfinance on poverty reduction is contested and the second level of indicators, e.g., impact on women; education, nutrition, and violence at household level etc. are unknown. There is absence of disaggregated data on MFI investments in various sectors. This suggests the need for building and strengthening the evidence base where stronger and constructive engagement of all stakeholders including policy makers and development partners is needed. The MFIs and their network are expected to take initiative and invest more on research so as to prove and improve their credibility.
- **Targeting small and medium enterprises:** It is argued that the economic recovery over medium-term requires focusing on SMEs and credit availability to this sector. MFIs' focus hitherto has been to microenterprises mostly in rural agriculture. They are suggested in supporting these microenterprises to graduate towards small firms enabling them in doing business in peri-urban areas ensuring job creation.

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