



Scaling microfinance is a prime need



VISUAL:
SALMAN SAKIB
SHAHRIYAR

In the coming decades, the priority for MFIs will be to provide their services in more efficient and sustainable ways facilitated by a better understanding of local communities.

FROM PAGE 22

and mobile telephone infrastructure and the advent of agent banking. These factors have a direct link to increasing microentrepreneurs' income and wellbeing.

Designing MFI business models: Business models, to a large extent, determine the costs incurred to deliver financial products/services on one hand and the value generated on a sustainable basis, on the other. This in turn determines whether the provision of financial products and services will be sustainable. As such, designing efficient business models is a key determinant of the successful delivery of financial services by MFIs. It also needs to be recognised that business models are inspired and motivated by various factors. Usually, MFIs adopt diverse strategic approaches to product development, including roll out and scale-up. The key for MFIs is to adopt pragmatic approaches towards developing business models, recognising both operational, regulatory,

and policy challenges as well as practical difficulties in reaching customers.

One of the key concerns for developing business models of MFIs is the challenges that emerge from traditional small transactions, completing paperwork, and other complexities. For MFIs, the microfinance value chain involves multiple players, which allows several business model alternatives. In fact, MFIs can potentially emerge as intermediaries with a significant value proposition to their client base, extending financial products through their existing and innovative digital infrastructures in remote rural areas.

Innovation drivers for MFIs: The innovation drivers of MFIs need to encompass both push and pull factors. The push factors come from external sources outside the microfinance sector that motivate MFIs to develop innovative financial products and services to expand outreach to currently excluded and low-income groups. Internal factors act as

pull forces, coming from within MFIs, encouraging them to develop internal capacities for delivering better-suited and efficient services to these groups.

The most important push factor is the government's determination to rejuvenate the financial sector to overcome the deep scars of past mismanagement and corruption, and make the sector more inclusive. In this context, MFIs may follow a three-pronged approach: (i) expand capacity and enhance the confidence of potential customers regarding the efficient delivery of tailored financial products and services; (ii) provide information and education on access to and use of DFS by the microfinance sector; and (iii) encourage the delivery of a variety of financial products and services using digital and more efficient mechanisms in line with the needs and demands of different target groups. The MRA, as the key regulator, may design specific measures in these areas.

In the coming decades, the priority for MFIs will be to provide their services in more efficient and sustainable ways facilitated by a better understanding of local communities, adopting innovative service design and delivery models, and lending techniques. Furthermore, new innovations may also be explored in the existing MFI models.

MFIs may explore the feasibility of developing partnerships with other financial service providers for performing some of their activities, e.g., accepting repayment instalments and micro-savings, releasing micro-loans to microcredit/microenterprise borrowers, providing microinsurance, and other services by creating access points for financial services in locations where MFI branches are not available.

MFIs may also explore several options to enhance and sustain their activities to meet emerging challenges: (i) build long-term relationships with banks for the supply of funds for lending; (ii) design new and digital financial products/services, particularly long-term housing loans and multiple loans including emergency loans and risk-minimising microinsurance products; (iii) implement human resource development programmes, both through training existing staff and recruiting adequately skilled personnel,

especially in digital technologies; (iv) enhance security of funds, especially in relatively less accessible areas; (v) ensure access to information technology for complete documentation of members and borrowers using information from the credit information bureau for the microfinance sector; (vi) use the right skills and information for selecting borrowers/microenterprises and providing services; and (vii) explore options to mobilise voluntary and term deposits.

Repositioning microfinance: MFIs have already emerged as major players in providing financial services to the poor and disadvantaged in Bangladesh. More than 40 million individuals exist under the microfinance network, and about 2 million small businesses are lateral entrants into MFIs' credit network. Most of these clients are part of the "missing middle" in the formal bank credit market. Over time, the horizon of MFIs has also expanded; microloan products have diversified to include both financial and non-financial products.

Moreover, the regulations of MFIs have contributed to a structural shift in the microfinance market, signifying a move toward microenterprise-based higher loan sizes, creating intense competition for loans between microenterprises and traditional household-based activities. On the other hand, with an emphasis on sustainability, MFIs have also targeted their activities with a renewed focus on transaction costs and risk-minimising approaches. Coverage of poor members under the MFI financial network has been facilitated by the availability of subsidised funds, the institution of risk-minimising informal microinsurance (e.g., credit, livestock, and health insurance), and programme-induced and targeted lending activities. However, the shift towards microenterprise-based lending activities may have affected the loan portfolio of extreme and moderately vulnerable poor households, at least to some extent.

At present, there are three major targeted clientele groups for MFIs: (i) vulnerable poor, including extreme poor and moderate poor; (ii) graduating microcredit members; and (iii) lateral entrants of small businesses, e.g.,

CONTINUED ON PAGE 25



airstra.com

LET'S MAKE EVERY FLIGHT AN

Experience to Remember

NOW CONNECTING

CHATTOGRAM

FARE STARTS

৳4,699

ONE WAY

✈️ 8 TIMES DAILY

COX'S BAZAR

FARE STARTS

৳5,199

ONE WAY

✈️ 7 TIMES DAILY

SAIDPUR

FARE STARTS

৳4,799

ONE WAY

✈️ 9 TIMES DAILY



Book tickets now on Airstracom or through your nearest travel agent.



13607