

The feasibility of establishing NGO-MFI
resourced pooled fund in Bangladesh
for Loss & Damage





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Background

The frequent and severe climate-induced disasters in Bangladesh underscore an urgent need for resilient financial structures to support vulnerable communities. Microfinance institutions (MFIs) - non-governmental organizations (NGOs) have played a pivotal role in providing emergency financial services, which are essential for immediate relief, recovery, and long-term resilience-building. However, the magnitude and frequency of climate risks necessitate a more systematic, proactive and collaborative approach/management, such as an NGO-MFI pooled fund dedicated to addressing loss and damage (L&D) caused by disasters. This initiative could leverage the extensive network and operational expertise of NGOs and MFIs, which have historically played a pivotal role in the socioeconomic development of vulnerable households and populations in the country. The feasibility of such a pooled fund hinges on several critical factors, including the existing landscape of NGOs and MFIs, the financial mechanisms available, and the socio-political context in which these entities operate.

Social Service and Climate Change Programs of MFIs

The microfinance sector has grown significantly, with MFIs reaching millions of borrowers and providing substantial financial resources to underserved populations. Microfinance has traditionally empowered economically marginalized groups in Bangladesh, providing critical support during disasters through mechanisms like temporary loans, loan rescheduling, and asset-replacement. In Bangladesh the MFIs are practically committed to the overall socio-economic development for the communities they serve. For this reason, alongside microfinance activities, the microfinance institutions (MFIs) have engaged themselves in various social development services for the poor, very poor, near poor, the low-income people and the disadvantaged people. They have not only included their MFI members in such development programs but have also covered many other community members who are not their members but live in the same community. These people have been equality benefited from these development programs being carried out by the MFIs. This shows that the MFIs complementing the government effort for poverty alleviation.

In the past, most of the current NGO-MFIs used to provide social development services with foreign donor fund. The establishment and institutionalisation of micro-finance programmes among NGOs supported the organisational sustainability of these NGOs, currently termed as NGO-MFIs, and hugely contributed towards self-sufficiency while the foreign donor funding is shrinking day to day. MFIs carry out this task with their own money received from service charge against loans. Besides social activities, MFIs have also engaged in implementing climate change programs for the benefit and well-being of the community people and improvement of the situation of the locality. Yet, current MFI resources alone may not suffice to address the uncertainty and frequency of climate change induced disasters, which require innovative financing solutions incorporating substantial liquidity and flexibility. The integration of a pooled fund could be a potential solution towards the sustainability of these initiatives, allowing for more extensive outreach and impact.

A positive trend is also observed. In 2022-23, a total of 350 MFIs provided social services compared to 336 MFIs in 2021-22 resulting in 4.17% increase. During the year, the number of social service receivers was 101,766,295 compared to 35,756,157 receivers in 2021-22 showing an increase of 184.61%. In 2022-23, an amount USD 166.92 million was spent compared to USD 125.24 million in 2021-22 showing an increase of 33.29%.

Table: Progress of Social Service Programs of MFIs

Particulars	Position during				Change Over (in %)		
	2022-23	2021-22	2020-21	2019-20	2022-23	2020-21	2019-20
Number of Social Service Providing MFIs	350	336	321	336	4.17	4.67	-4.46
Number of Social Service Receivers	101,766,295	35,756,157	69,740,681	91,083,307	184.61	-48.73	-23.43
Total Amount Spent in Social Service (USD In million)	166.92	125.24	131.48	122.60	33.29	-4.75	7.24

Source: Reporting MFIs Data 2022-23 and CDF Statistics Book 2021-22,2019-20

Progress of MFIs Climate Change Programs

During the year 2022-23, 55 MFIs had climate change program compared to 53 MFIs in 2021-22 resulting little change though number of beneficiaries increased to 3,311,969 in 2022-23 from 2,969,289 in 2021-22, showing an increase of 11.54%. Money spent included USD 43.76 million 2022-23 compared to USD 35.11 million in 2021-22 resulting in an increase of 24.63%.

Table: Progress of Climate Change Programs of MFIs

Particulars	Position during				Change Over (in %)		
	2022-23	2021-22	2020-21	2019-20	2022-23	2021-22	2019-20
Number of Reporting MFIs have Climate Change Programs during the year	55	53	53	44	3.77	0.00	20.45
Number of Beneficiaries of the Program up to June	3,311,969	2,969,289	3,900,826	2,839,755	11.54	-23.88	37.36
Amount Spent for the Purpose up to June (USD In million)	43.76	35.11	46.07	33.59	24.63	-23.79	37.18

Source: Reporting MFIs Data 2022-23 and CDF Statistics Book 2021-22

The strategies followed by microfinance institutions (MFIs) in Bangladesh to respond to disasters

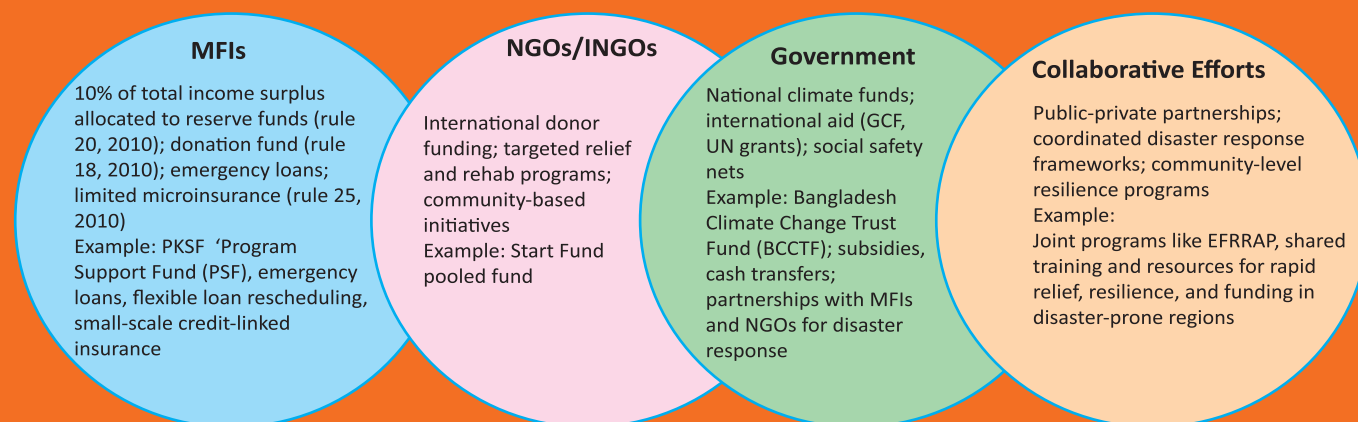
Strategy	Description
Pre-Disaster Planning and Mitigation	Develop contingency plans, modify loans, support resilient housing and equipment. Some MFIs, such as PKSF partners, provide technical and financial assistance for climate-resilient activities like rainwater harvesting and water filtration systems
Disaster Management Funds: (DMF)	Dedicated disaster management funds for liquidity and emergency support. Palli Karma-Shahayak Foundation (PKSF)-the apex body of Government for wholesale funding to the MFIs. As part of its multifaceted programs, PKSF formed the 'Program Support Fund (PSF)' out of its own fund on 30 June 2011. The objective of the Fund is to provide financial assistance including flexible loans as well as other necessary support for education, health, disaster management and different social development activities that contribute to upgrading the quality of the lives of families having membership of PKSF programs and projects. (https://pkfsf.org.bd/our-activities/special-programmes/programme-support-fund/).
Emergency Response During Disasters	MFIs distribute relief goods such as food, water, and medical supplies, especially during major disasters like cyclones and floods from Reserve fund (according to MRA rules) Reschedule loans, provide emergency loans, distribute relief goods.
Post-Disaster Rehabilitation and Asset Replacement	MFIs provide loans specifically aimed at asset replacement and livelihood restoration. For example, offers in-kind loans for agricultural recovery, such as seeds and livestock. rebuilding homes, restarting businesses, and investing in sustainable practices that enhance resilience to future disasters.
Micro-Insurance and Savings Products	Introduce credit-linked insurance and flexible savings for immediate needs.
Awareness and Training Programs	Disaster awareness training for staff and clients on preparedness.

The Compliance issues of MRA: A salient opportunity to strengthen the foundation of a NGO-MFI powered Pooled Fund

The Microcredit Regulatory Authority (MRA) in Bangladesh plays a crucial role in ensuring the stability, transparency, and financial accountability of microfinance institutions (MFIs) through a robust regulatory framework. However, the compliance landscape for NGOs working in microfinance under MRA oversight reveals both achievements and ongoing challenges. Below is a comparative analysis of MRA compliance issues and the operational realities of working NGOs.

According to MRA Rules, MFIs must develop internal disaster preparedness plans, including financial reserves for crisis periods client.

The existing practices of Loss & Damage pooled fund mechanism in Bangladesh



The Pooled fund mechanisms of Start Network in Bangladesh

Start Network has two different pooled fund mechanisms in Bangladesh - Start Fund and Start Ready. Start Fund Bangladesh (SFB) is a rapid-response pooled funding mechanism established in 2017 to address small to medium-scale crises in Bangladesh. Modelled after the global Start Fund, SFB aims to provide swift financial support to underfunded emergencies, ensuring timely humanitarian assistance by releasing funds within 72 hours of a crisis alert. This fast response time allows local, national, and international NGOs to initiate relief activities promptly, minimizing the impact on affected populations and enhancing resilience in crisis situations (Start Network, n.d.-a). Start Ready provides flexible funding to seasonal readiness and early actions based on prediction of a looming disaster so to help communities and vulnerable households to take proactive measures to reduce the anticipated impact of a disaster. These two mechanisms are complementary and can be applied in different phases of a single crisis event depending on the extent of a disaster. For example, in May 2024, SFB activated funding mechanisms to provide close to £1 million in rapid financing to areas affected by Cyclone Remal, demonstrating its proactive approach to disaster mitigation (Start Network, n.d.-c).

The feasibility of establishing NGO-MFI resourced pooled fund in Bangladesh for Loss & Damage

The feasibility of establishing an NGO-MFI resourced pooled fund in Bangladesh for addressing Loss and Damage (L&D) requires a detailed analysis of the nation's socio-economic context, climate vulnerability, and existing financial landscape. The increasing severity of climate-induced disasters such as floods, cyclones, and landslides create both a demand for and a unique opportunity to develop an adaptive financial mechanism that can provide rapid, targeted support to affected communities.

The integration of NGOs and MFIs into a pooled fund framework can leverage existing networks and resources to address the pressing needs of communities affected by climate change. For instance, the experience of NGOs in Bangladesh, such as the some of the MFIs, as members of Start fund Bangladesh, demonstrates the effectiveness of collaborative approaches in mobilizing resources and delivering services efficiently.

SFB's successful pooled fund mechanism showcases how pooled resources can lead to significant reductions in loss and damage in disasters. This model can be adapted to create a similar framework for L&D to using MFIs mandatory disaster funds where pooled funds are utilized to support resilience-building initiatives including DRR, emergency response and post-disaster recovery.

The potential for a pooled fund to facilitate better governance and accountability in resource allocation is also significant. Studies have shown that decentralized approaches to financial management can lead to improved cooperation between NGOs and government entities, fostering a more integrated response to climate-related challenges (Sanadgol et al., 2021). In Bangladesh, where governance structures can be fragmented, a pooled fund could serve as a mechanism to streamline efforts and enhance the effectiveness of disaster risk reduction strategies (Uddin et al., 2020). This would not only improve the delivery of services but also build trust among stakeholders, which is crucial for long-term sustainability.

Rationale for a Pooled Fund	Key Benefits of a Pooled Fund	Financial Sustainability and Scaling Potential	Regulatory and Compliance Framework	Operational and Structural Challenges	Case for Pilot Testing
Climate Vulnerability and Economic Loss	Resource Optimization and Economies of Scale	Capitalization through Diverse Funding Sources	Support from Microcredit Regulatory Authority (MRA)	Coordination among Diverse Stakeholders	Implementing a Pilot Program
Gaps in Current Financial Support	Efficiency and Rapid Response	Blended Finance Models	Alignment with National Strategies	Fund Disbursement and Accountability	Learning from International Precedents

Financial viability of the proposed mechanism: Is it realistically attainable?

In 2022-23 Financial Year, the overall estimated surplus amount of MFIs in Bangladesh is around USD 790 Million. According to the MRA rules, MFIs are allowed to invest up to 15% of the surplus amount in the social sector with prior permission of the MRA. Based on this estimation, around USD 116 million is an eligible amount to invest in the social sector. If we consider at least 40% of the said amount, around USD 47 million can be pooled annually to establish a Loss and Damage Fund in Bangladesh.

It can help the growth and sustainability of L&D Fund through wider engagement and accountability of CSOs in the fund management, while attracting institutional & corporate donors and leveraging local leadership in promoting the localisation agenda. Studies have shown that decentralized approaches to financial management can lead to improved cooperation between NGOs and government entities, fostering a more integrated response to climate-related challenges (Sanadgol et al., 2021). In Bangladesh, where governance structures can be fragmented, a pooled fund could serve as a mechanism to streamline efforts and enhance the effectiveness of disaster risk reduction strategies (Uddin et al., 2020). This would not only improve the delivery of services but also build trust among stakeholders, which is crucial for long-term sustainability.

Strategic Recommendations

Establishing an NGO-MFI resourced pooled fund for Loss and Damage in Bangladesh appears feasible and advantageous, given the urgent need for adaptive financial solutions to address climate risks and uncertainties. The combination of NGOs' community engagement capabilities and MFIs' financial expertise provides a solid foundation for this fund. However, a successful pooled fund will require:

- Sustainable Funding Models
- Clear Governance Framework
- Capacity-Building for Smaller NGOs and MFIs
- Data-Driven Decision-Making

Recommendations to the Global Actors

Recommendation	Objective	Actions	Expected Impact
Provide Initial Seed Funding and Technical Assistance	Establish a strong financial foundation and operational support.	Contribute initial funding and technical expertise for fund structuring and governance.	Ensures fund credibility, attracts additional investments, and enables effective crisis response from the start.
Promote Blended Finance and Risk Sharing Mechanisms	Encourage sustainable financing that combines public, private, and philanthropic resources.	Develop blended finance models, incorporate risk-sharing tools like catastrophe bonds and insurance.	Attracts diverse funding sources, reduces donor dependency, and increases resilience to financial shocks.
Support Capacity-Building for Local NGOs and MFIs	Strengthen local NGOs' - MFIs' ability to participate and comply with standards.	Provide training and resources on financial management and disaster response capabilities.	Empowers local actors, improving fund reach and operational efficiency in vulnerable areas.
Facilitate Knowledge Sharing and Best Practices	Enable fund operations to benefit from global expertise and successful models.	Organize forums, exchange programs, and share lessons from initiatives like CCRIF and ARC.	Adopts best practices, mitigates risks, and optimizes fund management based on proven models.
Develop Digital Solutions for Fund Management	Improve fund transparency, accessibility, and disbursement speed through technology.	Support digital platforms for fund management, real-time monitoring, and direct cash transfers.	Increases efficiency, transparency, and speeds up fund deployment during crises.
Advocate for Policy Alignment and Regulatory Support	Foster a favourable policy and regulatory environment for the pooled fund.	Engage with government for policy alignment; facilitate dialogues with national policymakers.	Enhances fund legitimacy, streamlines regulatory compliance, and promotes institutional support.
Leverage Global Climate Finance Commitments	Secure ongoing financial commitments aligned with global climate finance objectives.	Position the fund within frameworks of Loss and Damage Fund	Ensures a steady flow of resources, aligning with international climate finance goals.
Promote Impact Evaluation and Accountability	Ensure fund effectiveness through rigorous monitoring and accountability.	Establish independent M&E frameworks, periodic impact assessments, and public reporting.	Builds donor trust, demonstrates fund impact, and attracts sustained support from global actors.
Enhance Community Engagement and Inclusion	Ensure interventions are community-centered and responsive to local needs.	Establish participatory budgeting and community feedback mechanisms.	Improves fund relevance, fosters local acceptance, and tailors interventions to vulnerable populations.
Advocate for Regional Replication and Scaling	Promote the pooled fund model as a scalable strategy for other climate-vulnerable regions.	Showcase Bangladesh's fund as a model for other regions in South Asia, Africa, and Southeast Asia.	Catalyses a movement toward localized disaster financing solutions, building resilience in similar contexts.

Recommendations to the Government of Bangladesh

Recommendation	Objective	Actions	Expected Impact
Provide Initial Funding and Financial Incentives	Facilitate fund launch with foundational capital.	Allocate national budget for initial funding; tax incentives for private contributions.	Attracts further funding, establishing a stable capital base for effective disaster response.
Strengthen Regulatory and Compliance Frameworks	Ensure transparency and safeguard communities.	Collaborate with MRA on fund-specific regulations, simplify requirements for smaller NGOs/MFIs.	Attracts credible partners, ensures transparent fund operation.
Facilitate Partnerships and Coordination	Foster collaboration among stakeholders.	Form a government-led coordination committee for NGOs, MFIs, private, and public sectors.	Enhances alignment, streamlines resource use.
Integrate Fund into National Disaster Plans	Align fund with national disaster strategies.	Include in NDRFS, SOD, and broader disaster preparedness policies.	Ensures coordinated disaster response, aligned with national resilience goals.
Leverage Digital Technologies	Improve fund disbursement efficiency and transparency.	Support mobile banking, digital payments, and real-time monitoring.	Enables rapid response, transparency, and accountability.
Support Capacity Building for NGOs/MFIs	Strengthen local NGOs' and MFIs' disaster response abilities.	Provide training in disaster response, fund management, and financial reporting.	Enables effective fund management and rapid community reach.
Enhance Community Engagement	Ensure interventions align with community needs.	Use participatory planning and establish feedback loops.	Increases relevance and effectiveness of fund interventions.
Promote Localized Risk Management	Encourage preparedness to reduce emergency aid reliance.	Support micro-insurance, resilience-building programs, and incentivize local initiatives.	Reduces vulnerability, fosters long-term resilience.
Ensure Accountability and Transparency	Build trust with effective monitoring and public reporting.	Implement audits, independent oversight, and publish performance reports.	Enhances credibility, attracts donor and community support.
Encourage Private Sector Engagement	Broaden financial base and encourage innovative solutions.	Offer tax incentives, support development of catastrophe bonds and other financial products.	Attracts private sector, diversifies funding, and encourages sustainable financing solutions.

Recommendations to the Microcredit Regulatory Authority (MRA), Bangladesh

Recommendation	Objective	Actions	Expected Impact
Develop Disaster-Specific Guidelines	Enable MFIs to operate effectively in crises.	Create specific compliance guidelines for MFIs in disaster response.	Enhances flexibility and accountability for MFIs in disaster contexts.
Risk-Based Monitoring System	Mitigate risks and ensure accountability.	Implement a monitoring system with audits and spot checks for disaster-specific funds.	Reduces misuse risk, builds credibility among stakeholders.
Capacity-Building for MFIs	Improve MFI response capabilities.	Partner with Start Network to offer training in disaster finance and fund management.	Strengthens MFI capacity, ensuring responsible fund usage.
Crisis Response Unit	Enhance MRA's crisis readiness.	Establish a dedicated team for managing MRA's crisis response oversight.	Enables efficient disaster response and improved MFI support.
Streamline Reporting Mechanisms	Improve data flow for timely decisions.	Standardize reporting templates and digital data-sharing for MFIs.	Enhances fund transparency, reduces administrative burden.
Joint M&E with Start Fund	Strengthen accountability and impact tracking.	Set up joint M&E framework, including beneficiary feedback and public reporting.	Builds confidence in fund impact, enables continuous improvement.
Policy Advocacy for Sustainable Financing	Encourage private sector and long-term funding.	Advocate for incentives, impact investments, and blended finance models for fund sustainability.	Diversifies funding sources, reduces dependency on donor aid.
Community Engagement and Protection	Prioritize community needs and client protection.	Require MFIs to adopt client protection standards and engage communities in planning.	Increases community trust and fund effectiveness, enhancing local relevance.
Digital Transformation	Improve fund disbursement efficiency.	Develop a digital platform for fund management and incentivize digital financial services adoption.	Enables rapid, transparent fund distribution, especially in remote areas.
Integration into National Disaster Plans	Align fund with national disaster response frameworks.	Work with government to include the pooled fund in NDRFS and SOD.	Enhances coordination and amplifies impact on national resilience goals.

Proposed Coordination Mechanism in between MRA, MFIs, Start Network and International development Partners

Objective: The coordination mechanisms among the Microfinance Regulatory Authority (MRA), Microfinance Institutions (MFIs), and the Start Fund in Bangladesh are critical for fostering an effective financial ecosystem that supports economic development, particularly for marginalized communities.

- Summary of the Coordination Mechanism

Coordination Area	MRA's Role	MFI's Role	Start Fund's Role
Regulatory Compliance	Ensure MFIs meet disaster-specific compliance requirements.	Comply with MRA and Start Fund's standards/protocols.	Set accountability benchmarks and align with MRA regulations.
Crisis Alert and Activation	Establish data-sharing protocol with MFIs.	Provide real-time local data on crises.	Activate fund within 72 hours of alert, based on MFI data.
Funding Disbursement	Develop pooled fund and define disbursement criteria.	Disburse funds quickly and transparently to affected clients.	Facilitate timely decision-making around fund allocation and rapid disbursement to awarded agencies
Capacity Building	Support training in disaster finance and fund management.	Enhance organisational readiness and preparations for disaster risk management.	Offer orientation, learning exchanges and post-project reviews.
Fund Management	Oversee fund sustainability and monitor financial practices.	Mobilise resources and implement on-ground projects effectively	Support resource mobilisation and provide technical support for quality management.
Monitoring and Feedback	Lead independent M&E process.	Collect beneficiary feedback and adjust services accordingly.	Ensure continuous assessment and reporting standards.
Community Engagement	Promote local resilience initiatives through MFIs.	Engage communities in disaster planning and response.	Advocate for beneficiary inclusion in fund design.
Policy Integration and Advocacy	Integrate fund within national disaster policies.	Ensure operational alignments with national strategies.	Advocate for supportive policies for private sector engagement.

Conclusion

Promoting the pooled fund model as a scalable strategy for other climate-vulnerable regions can catalyse a movement toward localized disaster financing solutions. Showcasing successful initiatives, such as Bangladesh's fund, can serve as a model for other regions in South Asia, Africa, and Southeast Asia. This advocacy effort can enhance the overall resilience of communities facing similar climate challenges.

By adopting proven models and strategies, stakeholders can mitigate risks and improve fund management practices. The expected impact of this recommendation includes the more strengthening Start network / Bangladesh Hub of localized disaster financing solutions that can effectively address the unique challenges faced by vulnerable regions. By promoting regional replication and scaling, stakeholders can enhance the overall effectiveness of disaster response initiatives and build resilience in similar contexts.

The recommendations outlined above provide a comprehensive framework for global actors to enhance their responses to climate change and disaster resilience. By adopting a multi-faceted approach that incorporates a collectively managed financial mechanism, capacity building, and community engagement, stakeholders can establish robust pooled funding initiatives that effectively address the challenges posed by climate vulnerabilities.

This enhanced coordination framework enables MRA, MFIs, and the Start Network to jointly respond to disasters in a structured, efficient, and transparent manner. Each organization's strengths are utilized to create a resilient disaster response and recovery ecosystem, aligning with Bangladesh's broader climate resilience and financial inclusion goals.

By following these recommendations, Bangladesh can create a resilient, scalable pooled fund that addresses loss and damage effectively, reinforcing the country's broader development and climate resilience goals. The fund's establishment would not only provide critical financial support but would also strengthen Bangladesh's position as a regional leader in climate resilience and adaptive financial innovation.



About ESDO

Eco-Social Development Organization(ESDO) was established in 1988 with an aim of supporting poor and marginalized people affected by the devastating flood and gradually moving towards achieving a broader vision of achieving sustainable, secured and resilient livelihood of these poor and marginalized people through improving their overall sustainable development. For the last more than three and half decades of development journey, ESDO has set an outstanding example on sustainable development model for the underprivileged communities of Bangladesh. ESDO has been working in the mostly unserved and underserved locations of the country, nurturing a community focused participatory approach and people's ownership.

ESDO firmly believes that sustainable development will never be possible without ownership of the grassroots people. Ownership comes from effective participation and effective participation only possible through addressing the common problem of the community. We believe that systemic and enduring change is possible when communities are able to initiate and drive their own development agenda. If their capacity is built they can bring changes in systems to access basic rights and services through working with government and other actors as well as harness and grow their own resources.

Most of our experiences guide that lack of community ownership and applying the traditional top-down approach, albeit initially were more effective, ultimately produce insignificant outcomes. Also, the deep-rooted socio-cultural stigma and formal power structures also play a crucial role in the success of the development agenda. As a holistic development organization, ESDO emphasized the blending of Human Rights-based Approach and Service Delivery Approach to trigger its initiative for the optimum benefit of the target groups. At the same time, We therefore, invest in capacity building to enhance community-led initiatives to create a firm basis for sustainable development and social justice.

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