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Covid-19 Effects on Microfinance in India

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Abstract: The corona virus pandemic has episodic procedures in every sector across the globe. The repercussions of the Corona Virus are categorized as harsh ranging from the unprecedented transformation of organizational functioning to a complete shutdown of significant numbers of businesses. It is worth noting that complete lockdown has a negative impact on businesses as the Corona Virus pandemic brought to a halt almost every business. Businesses with small or no reserves and those that operate in high liquid model have been the worst affected. It is very evident that the COVID-19 pandemic continues to threatens lives and livelihoods of people and with that, the pandemic has created immediate challenges for institutions that focuses in working with and service that serve the vulnerable and affected communities. According to Investment Information and Credit Rating Agency of India (ICRA), COVID-19 will affect the liquidity and asset quality profiles of microfinance institutions (MFI), and will consequently negatively impact their ability to meet their interest obligations on borrowings. As the COVID-19 outbreak has hit the world hard, business continuity is the biggest challenge for every organization. The Corona virus pandemic has thrown economy and life out of gear. The micro lenders are the ones who face more challenges during such crisis, though the Reserve Bank of India's three-month moratorium would provide them relief till 31st May 2020, the threats of non-repayment of loans emerge large when they continue business.
Keywords: Microfinance, Covid-19, Economy, Credit, Business **Introduction**

Microfinance sector in India

The PWC-SIDBI report that was released in November 2019, stated that the global microfinance industry is estimated at over Rs. 8.90 trillion and therefore the reported also stated that the loan disbursed amount has been increasing at a mean annual rate of 11.5 percent over the last five years.

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The report highlights that South Asia remains one of the leading and significant markets in the global microfinance industry as it had the largest number of borrowers in 2018 (85.6 million) thus representing a growth rate of 13.8 percent. It is worth noting that majority of these borrowers are in India.

There is a wide range of diversity in the microfinance sector in India with different players including banks, MFIs, SFBs, NBFCs and not-for-profit MFIs enabling micro lending in India. Overall the MFIs hold the largest share of the loan portfolio which stands at Rs 681 billion and consequently accounting for 38 percent of the overall industry portfolio. It is therefore not surprising that, NBFC-MFIs were the worst and severely affected amongst the financial institutions, as nearly 98% of accounts were being held under moratorium by May 2020.

Apart from the customers affected by the pandemic , the following also posed as huge impediments to NBFC-MFIs' : heavy reliance on cash for recoveries (for their customers' livelihood are still rooted in cash economy), need for physical proximity to customers that facilitates for door-step collections, the disbursements and its associated unique liquidity-match framework that depended on steady cash flows of repayment recoveries coming from customers for upstream payments on borrowings, posed huge impediments under the new circumstances. It is very proof that COVID - 19 epidemic has greatly interrupted the normality; the microfinance segment has been pushed to prove once again its pliability. The crisis was much bigger and has great impacts as compared to demonetization.

The nationwide lockdown that was imposed and affected from March 25, 2020, meant that everything came to a standstill. It is evident that majority of the microfinance clients who had outstanding loans lost their employment. In the environment of complete uncertainty, the country was exposed to a very painful trend of reverse migration. The migrant workers, who earlier used to send remittances for family support, ended up becoming unproductive and needing further support all of a sudden. This was also learning for the field staff, not to draw too much comfort from the remittance money while doing credit assessment of the client.

Now it is time for the Microfinance institutions (MFIs) to stay to the old practice of only considering currency be due the proposed activity for credit assessment. For MFIs too, there are a plethora of problems.At one side they were suffering from non-payment of loans by their borrowers, on the other hand, that that they had to satisfy their obligations of repaying to their lenders (Banks/NBFCs/FI).

The USP for the microfinance sector has been its high level of connect with the purchasers. During the lock down thus connection was greatly affected unlike the case in demonetization.

The only way to be in touch and follow up with the clients due to the COVID 19 restrictions was through telephonic calls. The staff members were not spared either as they were too under panic as the number of COVID -19 cases was increasing at an alarming rate each passing day. At some locations, the house owners even reached the extent of asking the MFIs to vacate their premises. The rural pockets were, however, better off as compared to urban as agriculture, dairy and other activities were permitted. The response from the MFI players to the COVID pandemic was largely matured and pragmatic. They had to change from physical meeting to Virtual meetings through phone calls and during these sessions the borrowers also received about their safety and hygiene. Many of the MFIs in addition distributed masks and sanitizers as part of the COVID response to their clients. In addition to these measures, most of the MFIs tried to resort into the digital mode of collections.

The acceptance of technology and digital payment has increased significantly amongst the clients and MFI players. Many MFIs have innovated customized products for the clients that are aimed at meeting their present liquidity requirements. They have provided moratoriums to the borrowers, this is often noticeable as many of their lenders haven't provided moratorium to them. Will the Microfinance sector bounce back? This question can be effectively answered by looking in the study of the past trends only, how this sector bettered and remained resilience after every crisis. Therefore it is evident that this sector will continue to survive after this mega-crisis

The moratorium given to the clients as a response to the COVID-19 pandemic will change the client's repayment schedule and consequently the loan tenure will be extended. However, it is worth noting that the clients will continue to pay as being done earlier once the situation improves. . The main reason why clients have largely supported this sector is because there is a genuine need for credit and there is still is a huge gap between demand and supply that needs to be covered. Even the critics of this sector agrees that MFIs are better placed to provide hassle-free small ticket sized loans that needs minimal documentation and gestation.

The resilience of rock bottom of the pyramid has been phenomenal during this country, so is that the case with the MFI sector. Every crisis has contributed to the general improvement within the ecosystem.

Now after COVID, MFIs are exploring other innovative and effective options that will increase their cashless collection through digital mode. Multiple Tools like Debit cards, App-based payment, wallet payment, UPI, AEPS (Aadhaar Enabled Payment System), and payment through QR codes are being used. Once this digital collection is successfully implemented across the sector, it is evident that it will would bring a major shift and consequently reduce operational costs, while also checking incidents of frauds & snatching.

How COVID-19 may change the implication and effectiveness of women group

Three ways have been through which the implementation and effectiveness of women groups may be affected by COVID-19 and response measures.

Social distancing: Social distancing means that groups need to change their ways of functioning—for example, by limiting physical meetings and possibly introducing virtual meetings and technology.

Economic shocks and social protection: Economic shocks are likely to reduce income and the viability of market linkages for groups linked to livelihood promotion, and this will ultimately result in group dissolution due to a lack of capital or investments. Women groups may increase the resilience of their members through existing savings and group support which will function insurance and social protection.

Partners in community responses: Coverage and existing governance structures of groups may provide incentives to governments and nongovernmental organizations to provide social safety nets and venture into the manufacturing of personal protection equipment through groups, and this may consequently increase income opportunities for women's group members. Social networks can also be used by groups for effective health communication and sensitization about COVID-19.

There are several contextual characteristics through which the likelihood and strength in which these three factors affect groups depends on, and these are: the severity of the lockdown and local epidemics. For an instance, women groups should have opportunities to satisfy in contexts where lockdowns are comparatively mild or not strictly enforced. Furthermore, it is very clear that the ability of groups to meet using electronic platforms depends on the women's access to mobile phones and digital literacy. Finally, governments are only likely to use women's groups to supply social safety nets or implement other interventions where they operate at an outsized scale.

Government, RBI Offer Relief to Microfinance Lenders

India expanded its list to permit non-bank lenders to resume operations from April 2020, getting to kick-start the economy whilst it extended the lockdown to contain the new corona virus pandemic. In addition the nation's financial institution also stepped in to spice up liquidity and support the battered sector. In continuation of the revised guidelines issued on April 15, non-bank lenders, including housing finance companies and micro-finance institutions, are now allowed to resume operations with bare minimum staff, and this is often consistent with an order by the Ministry of Home Affairs. Furthermore, all agricultural and horticultural activities, plantations, cooperative credit societies and construction activities in rural areas are allowed to work.

The Ministry also had allowed select sectors to repo operations of Rs 50,000 crore to maintain ample liquidity among various segments of microfinance and non-bank financial companies. Furthermore all Indian financial Institutions like NABARD, SIDBI and therefore the National Housing Bank are going to be given special refinance facility of Rs 50,000 crore at the repo rate. Of this, the NABARD has been allotted Rs 25,000 crore to assist refinancing of Regional Rural Banks, Cooperative Banks and Microfinance Institutions.

The Small Industries Development Bank of India (SIDBI) has been given Rs. 15,000 crore for on-lending and refinancing to scheduled Commercial Banks, Non-banks and Microfinance Institutions. The National Housing Bank will also receive Rs. 10,000 crore to support housing finance companies. Besides, the central financial institution cut the reverse repo rate by 25 basis points to 3 .75 percent.

According to Keki Mistry, vice-chairman and chief executive officer at HDFC Ltd these initiatives should encourage banks to lend money. In contrary to expectations, however, there was no announcement to hide NBFCs under a moratorium. “In a scenario where MFIs don't receive moratorium on their bank loans, the liquidity levels they maintain are going to be a crucial determinant of their immediate term debt repayment ability,” CRISIL Ratings Ltd, had said during a note dated April 15.

The outbreak of the highly contagious pathogen stalled economic activities and India went into the world's biggest lockdown to curb its spread. Microfinance institutions faced disruptions as their operations are highly field intensive, including home visits and physical collection of cash. A cash shortfall for 29 microfinance institutions—accounting for 70 percent of the industry's loan portfolio—collectively stands at about Rs 2,600 crore within the absence of any external funding support by way of equity, additional debt or extension of moratorium, ICRA Ltd, had said in a prior report. These lenders have Rs 8,000 crore worth of repayment obligations and operational expenditure within the quarter ending June compared with on-balance liquidity buffer of around Rs. 5,400 crore, the rating agency said during a note.

CRISIL, too, had said overdue were expected to rise once billings recommence because borrowers won't clear them immediately. “Collection efficiency is perhaps getting to require time to create up to pre-pandemic levels. Consequently, risk of larger credit losses and their impact on capitalization metrics will be a key rating sensitivity factor in the road ahead.”

Methodology

The contemporary study entitled on covid-19 effects on microfinance in India is a descriptive nature by observation and the data from various secondary sources like, Journals, Government reports, websites and related sites.

The impact / Results

Due to the rising delinquencies caused by protests against CAA (Citizenship Amendment Act), the microfinance sector in India has already been going through tough times since the last few months. The Reserve Bank of India (RBI) recently directed that all financial institutions should extend a moratorium on term loans due between March 1, 2020 and May 31, 2020 to their borrowers.

However, there has been no formal communication regarding the moratorium to MFIs from their lenders and this delay could severely impact the MFIs ability to pay interest on their borrowings. Reserve Bank of India, being a regulator of financial sector has put in place various steps to limit the macro effect of pandemic on overall financial system of the country, and these includes: increase of moratorium period for loans, part rebate of interest rate and special package etc; However majority of these announcements from RBI are targeted towards commercial banks and remained vague for MFIs and its customers in particular.

In the light of RBI directions, Investment information and Credit rating Agency of India limited (ICRA) studied a sample size of 29 MFIs which together form around 70 percent of the segment in terms of portfolio. The study acknowledged that these MFIs had around Rs 8,000 crore of total repayment obligations and operational expenditure for the June quarter. However, their combined on-balance sheet liquidity buffer is around Rs 5,400 crore only, a shortfall of Rs 2,600 crore and yet there's no scope of any external funding by way of additional debt, equity, or extension of the moratorium. As a result, ICRA projects the credit costs for MFIs will rise from current levels of 1.0-1.5 percent to 2.5-3.0 percent for several players.

Discussion

Though the world that caters to rock bottom of the pyramid clients has been adversely impacted by the crisis, it'll recover. Repayments might get delayed and tenures of loans might get extended, but microfinance sector which is exclusive in being a double bottom line of monetary and social objectives, has the potential to survive such crisis, mirror their cash flows especially in such difficult times and evolve stronger whenever Though there are multiple players within the microfinance landscape, India still represents an enormous opportunity for the microfinance sector as a big portion of its population falls within the low income band and also, an outsized a part of its population still lacks access to credit from the formal sector forcing them to borrow from informal channels. This indicates the scope of micro lending in achieving financial inclusion. However, in the present scenario, it is important for the sector to realize this growth opportunity, identify and assess the emerging needs within the sector and address the same through relevant initiatives. . Though the formal economy could take time to normalize, the industry is upbeat a few faster revival within the rural economy with the lifting of the lockdown restrictions.

Conclusion

The Corona virus pandemic has thrown economy and life out of gear. It is worth noting that complete lockdown has a negative impact on businesses as the Corona Virus pandemic almost broken every business and has affected every sector across the world. COVID-19 pandemic continues to threaten lives and livelihoods of people. There is a wide range of diversity in the microfinance sector in India with different players including banks, MFIs, SFBs, NBFCs and not-for-profit MFIs enabling micro lending in India. The crisis was much bigger and has great impacts as compared to demonetization. The acceptance of technology and digital payment has increased amongst the clients and MFI players. However, Reserve Bank of India, has to put in place various steps to limit the macro effect of pandemic on overall financial system of the country, and these includes: increase of moratorium period for loans, part rebate of interest rate and special package etc … towards all financial institutions and its customers in particular.

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