Editorial

Covid-19 Pandemic: A Tail Off Event for Global Microfinance Industry

The microfinance industry except for covid-19 has successfully weathered many previous crises. The global pandemic has created consequential challenges on both the supply-side and the demand side. Providers of the fund are facing the funding issues at the same time borrowers from low-income strata are struggling to repay their microloans. Lockdown for Micro Financial institutions meant an immediate interruption in the normal operations, especially in the recollection of payments and for the low income households it meant sudden closing of their micro-businesses and day labour activities, which was the only source of their wages for the daily consumption as well as the income to repay the microloans.

It might be that the average impact of the microfinance industry to make a fundamental indentation in the poverty rate, is quite small but altogether the success of microfinance could not be banished. The efforts to promote financial inclusion and the present microfinance movement have been extremely successful in putting forward low-income households into the formal system of financial services. Around the world, the substantial feature of poverty is highly unstable income and expenses, which makes affordable financial services very essential besides hard to get. The business model of microfinance industry has given access to credit along with saving and insurance to a limited extent, at a notable scale to the unbanked customers not served by the traditional banking industry.

Despite notable previous financial crisis such as the Asian financial crisis and the global economic meltdown and the local crisis like that in Andhra Pradesh, Bosnia and Nicaragua, the microfinance industry has managed to come out smoothly without much damage. But it seems that covid-19 pandemic is very much different and MFIs can no longer proclaim the historical '99 per cent repayment rates' which is so vital to their marketing pitch.

The covid-19 pandemic and the subsequent lockdown had a paramount impact on low-income group microcredit borrowers as most of the microcredit contracts demand weekly repayments from the borrowers. The prompt interruption in the economic activities has resulted in almost immediate default in the repayment of loans, as such borrowers have very little in the form of savings. Many countries including Nigeria, Bangladesh, Pakistan, Kenya and India have allowed a deferred in loan payment facilities, in response to the critical situation. Lockdown has caused some decline in income for microcredit customers and a subsequent inability to make loan repayments. Several surveys conducted worldwide has confirmed the repayment moratoria policies as there is reported 90 per cent fall in the income of such borrowers. The repayment moratorium is the need of the hour as it could have harmed the borrowers significantly to scrape the cash together to make repayments. But this solace comes at a cost. As evident, no lender can survive for very long if repayments stop. But the issues of lockdown, social distancing and payment moratoria are much more grave for micro-financial institutions than just an interim stoppage to payments. The 'high-touch' business model of microfinance is based on several features that have been disrupted and it is quite unclear how this system shall work under present pressures.

One of the prominent features of microfinance model is 'group liability' which in the present situation is been dropped off by most lenders but they continue with the groups, which is an essential part that reduces the customer services cost. On the potentially negative side, groups can go ahead with 'contagion of default', if they feel others are not making repayments.'Portfolio at risk' is crawling up above 5 per cent. Such loans are the loan, on which a payment has not been made for four repayment cycles or 30 days. That might not appear very high, but gives the reflection that the moratoria i.e the loans which have no scheduled payment details are not being included. As such, it will be very difficult to predict how many of such loans will be repaid on the lifting of moratoria. A default rate of even 10 per cent, in case of a loan portfolio requiring swift repayment and relending would rapidly bankrupt a micro-financial institution.

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