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COVID-19 EFFECTS ON MICROFINANCE INSTITUTIONAL (MFIS) ACTIVITIES WITH REFERENCE TO NEPAL

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ABSTRACT

The outbreak of the COVID-19 pandemic is an unprecedented shock to the Nepalese economy. The economy was already in a parlous state before COVID-19 struck. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. In these contexts, MFIs are among the hardest heat and has major disruption for offering regular program. The potential risk of SMEs exits and loosing opportunity permanently increases treat to MFIs. In this paper we describe the effects of COVID-19 on Nepalese MFIs, assess the potential impact on various segment of MFIs, analyze the recent policies that have been announced so far by the central bank and government of Nepal to accelerate the economy and put forward a set of plan recommendation for these sectors.

Keywords: Pandemic, Nepalese Economy, Global Economic Downturn, MFIs

INTRODUCTION

The remarkable outreach of microfinance activities at rural since a decade now halted and small business activities shortfall of working capital resulted to exit. Nepal is under high risk country with COVID-19, shortage of agro resources highly depends on India and very few available so farmer untimed deliver of those resources force to close regular production and even feel more pressure with supply too. SMEs contributed highest on nations GDP and measured more importantly these contributions before. Government initiate industry segmentation of each SMEs and open access to finance program both small and large. Production, supply management, potential marketplace identification and volume storage still an urgent need with more specific plan however COVID-19 break each chain and market become impossible to all producer (Abdullah *et al.*, 2020; Oxford Analytica, 2020). Without of managing these, government declare 90 days' complete lockdown and almost SMEs terminate their venture as these has later relaxation announced by central bank. Initially, government declare countrywide lockdown in an urgent basis, but these has become destructive to each SMEs to reach at closedown their business.

Microfinance covers more than 4.5 million women with over 350 billion outstanding covering all 77 districts with 2400 more branches. More than 15 thousand people employed directly and contributing 1.5% to the nation's GDP. An average 60,000 of each borrower taken loan with an easy access to finance from MFIs. Currently 86 license microfinances operating their activities and each of them funded based on SHG and Grameen model based on group. Each member receiving 7 Lakhs at its highest with collateral, but without proper project analysis, each member has taken loan which didn't fulfill yet sustainable development goal of the nation. Central bank issue directives to increase capital adequacy only with merger and acquisition which may downsize the volume of present MFIs. Since most NGOs allow to register as MFIs later these institutions open new form of micro lending however with mushrooming duplication and multiplication within, force to leave member and has low interest in MFIs finance rather they choose co-operatives for small finance. The group guarantee and bound of each member less attracted with MFIs and more importantly carrying group fund at risk without utilization pave next way to rethink of present MFIs model. MFIs investor receiving highest profit attracts more people to invest on share, but at rural level it seems to oppose of its interest so each stakeholder now more seriously thinks for an alternative MFIs financing model which will provide large profit to rural borrower and even become free with group liabilities.

Self-employed seems low at number with MFIs fund and utilization of fund yet under less monitored category. Most of the SMEs looks for collateral fund at Bank so it observed women groups required fund to inject additional for maintaining household expenditure. Even record showed, women at large indecisive to open business so male become dominant factor and they look for an option more than MFIs. These all explain that MFIs widen coverage just counted without creating value and formation of capital, no record yet proven self-employment become stronger with MFIs fund. Again, MFIs reluctant to go beyond women's group, mixed group, age group, social entrepreneurs' group, youth and innovation group, project group, male group and all other people extensively looking for an opportunity to enhance their small business. Similarly, MFIs yet limit within industry no other enabling institution jointly develop model to access of finance more easily (Shu & Chang, 2015). Regulating agency step ahead making strongest in terms of capital adequacy by forceful merger however participation on this offer less attracted. So, now question with all of us about an opportunity of each MFIs access to finance at people in rural will go far beyond women's group and how MFIs must be guided to generate sustainable employment opportunity at rural.

DISCUSSION

Research Design

Sampling, group discussion, data from different sources and direct field report signify the value of research. 50 different MFIs women's group with 1000 each participate based on sampling, organizing group discussion program involves series of discussion on core model of MFIs effects on their livelihood. It identifies less women interest on utilizing fund and more fund need to start SMEs, similarly, very often MFIs practices via group liabilities which less attracted women to carry joint liabilities. Most of the women's borrowing MFIs fund for consumption and no other yet specializing on utilization of fund. An increasing trend of joint group formation sharing each liability to other who do not borrow try to left the group with risk of carrying joint liabilities risk to leave of member. Individual interest within group and avoidance of risk carrying by group still yet keep continue so central bank need to redesign the Grameen Model. Multiplication and duplication come under MFIs practices and more bargaining power of each member increases and this resulted to break each MFIs cycle of repayment. Though default within 2 percent, circulating funds to old MFIs put more risk at front to upcoming MFIs. Formation of group by each MFIs more similar and yet less need of Pre-Group Training (PGT) and Group Review Technique (GRT) so competition at neck which put under high risk of each MFIs loan. Data showed only a few 10 per cent group members start SMEs with fund whereas other looks for fund to consumption. The decision of utilizing borrowed fund highly depends on husband for any start or opening new business. Employee of each MFIs bound to push loan whether it is a utilization purpose or not, but they seem on recovery which less entertain flexible working model.

How COVID-19 effects on MFIs at present

More than 86 MFIs (after merger & acquisition) currently running under central bank monitoring and supervision. The total portfolio is about $3.5 billion with more than 4.5 million active members and have 2600 branch across. An initial lockdown from Nepal government effects less on each MFIs profitability but this has gradually affected rural areas to schedule meeting, collect repayment and for further expansion. During mid-March 2020, central bank circular explained MFIs branch must active with limited and necessary activities but later this has hardest heat to collection of EMI, group meeting, schedule repayment. The two-month continuing lockdown break schedule repayment rules and most of the loan need to provision for losses. The government budget declares refinancing with 3% interest do not includes MFIs demand and later declare no penal of each loan till June end 2020 and again showed more flexible repayment model till those days only. The central bank monitory policy and directive on July 2020 open merger as a compulsive tool to strengthen capital adequacy without declaring right share. It seems an overall MFIs comes together to accept merge or acquisition policy and plan for increasing capital adequacy by merger and acquisition. Now the questions with all MFIs industry about whether MFIs accept COVID-19 challenge and willing to redesign the model of fund utilization, group formation plan, SMEs innovation and entrepreneurship or simply continuing same old practices. MFIs is an important tool to keep alive economy by boosting rural resources and aware at large about an importance of MFIs on uplifting people at rural. For the first time in banking history, central bank circulates 15% lending interest cap to all MFIs with 1.5% service charge and effect of each base rate calculation. An average cost of fund in each MFIs an average 10.5% so profit will reduce if borrowing from bank as DSL maintain highest. An inclusiveness and bottom of pyramid less diversification resulted MFIs during COVID-19 will not maintain 'V' shape recovery (Adams & Walls, 2020). MFIs is among most attractive institution to investor, but it aims to less attracted people's participation on utilization, so this has explained false statement to regulating agency (Tetlock, 2007). When it compares with cooperatives society, borrowing cost for each member lowest among in MFIs but social inclusiveness less attracted each member to involve in group. COVID-19 is an upfront challenge and risk of transmission within community keep alter all to stay at home and maintain social distancing. Sources of fund for each member highly depends on agriculture and remittance, now both these cycles halted so MFIs looks for broad concept by redesigning its product and way of delivering services. Most of the MFIs adapt traditional banking, conduct joint meeting and no alternative ways followed. Since, infection rates hike and disease identified at each village, the local government declare strict guidelines and announce different social distancing measures (Anderson *et al.*, 2020; Wang, Yang & Chen, 2013). At this moment, questions with all of us about how MFIs keep continue their services and what alternatives measure adapted?

The authors have visited some of the most affected areas and collected important information from each employee and member associated with MFIs. Respondents provide mixed opinion, COVID-19 highly effect on supply side and those agro products hardly deliver to market, necessary resources yet hard to receive with halted on transportation (Shu & Chang, 2015). Other explained, remittance is the major sources which stopped since last six months with lockdown in Gulf and other country. Similarly, few respondents explained no effects yet on their regular activities (those who were living close to major cities). They have collected opinion with CEO's of MFIs about central bank possible relaxation on outstanding and with department head. They responded most hardly heated sector will be MFIs so the recent policy will not cover each aspect of MFIs, sustainability rather direct on forceful merger with capping on interest, restriction on right share issued after merger, opening of new branches, transfer CSR fund to COVID-19 relief fund and covering all expenses of each employee after COVID-19 effects direct heated profitability (Malik *et al.*, 2020).

Central Bank recent directives related with MFIs

- Provision of each loan passes into watchful, sub-standard, and bad after January 2020 must be provisioning 5% of total till fiscal year ended.
- Provision of each loan passes into watchful, sub-standard, and bad after January 2020 but collected either interest or installment on time must be provisioning 2% of total till fiscal year ended.
- Opening of each MFIs branch any region expect Kathmandu valley must be at different ward where no other MFIs branch yet register.
- Provision of collateral base loan exceed up to Rs. 7 Lakhs to up to 15 Lakhs.
- No right share issuance allowed even after merger but can distribute bonus without limiting slab.
- Deposit of all CSR amount into COVID-19 relief fund of government accounts.
- Accessing of each loan repayment time limit till mid-September (First Quarter of F/Y 2077/78) and can count as previous year recovery and can showed at previous year financial statement.
- Interest on loan outstanding limit 15% maximum with 1.5% service charge without adding previous loan.
- Capital adequacy must be increase only with possible merger and acquisition.

Effects on MFIs after central bank directives

Central bank allows NGOs to accept deposit and lend them fund upon need base identification later each NGOs register under Central Bank Regulation Act 2073 and mentioned them MFIs whereas some of register directly by fulfilling necessary measures. Later each MFIs categorized District, Provincial and national level MFIs so till year 2020, there are all 100 MFIs register and operating their activities in each village. Large number of participations at each areas mismatch demand and supply, increases customer bargaining power and mostly faced neck competition which resulted to increase duplication and multiplication. Similar product, less innovation, member demand, forceful plan, less product integration and small capital formation plan largely effect on MFIs fund at risk.

Central Bank Directives to merger and acquisition of MFIs during COVID-19

The central bank announces directives 2073, mostly revised four times of merger and acquisition laws to all Banking and financial institution. Strengthen of capital adequacy and for social inclusion, it allows all MFIs at one single platform. The directives have limited mostly on right share issuance, bonus plan, opening of branches and extension of services without merger and acquisition. Just a year back, there were 100 plus MFIs and now this has come to 86 and still more than dozen

MFIs are into process of merger and acquisition so this is new sign of hope for all MFIs to offer better services in coming days. Under extensive coverage plan, MFIs reaches almost 730 out of 753 local level. So, if central bank offers more plan in coming quarter to provide an additional facility the data will reach almost up to 40 and still many questions with all about how the scenario will be once two or more MFIs together. Problems are still there in adjustment of employee, board, central office, branch consolidation and cost management. But with more specific guidelines, it may be predicted that this will solve and will become more strengthen institution after merger and acquisition. However, may CEO's still have doubt on repayment of loan, limiting NPL, maintaining operation cost, booked profit and decreasing cost of fund. COVID 19 reaches almost 60 district and most of local government seal or announce lockdown upon each territory where cases increasing. With this, branches were not functioning properly and halted on schedule repayment and central bank yet looked for possible solution which is still not enough to cover those damages by COVID 19 to MFIs. They have asked some MFIs CEO's about plan forward, mostly yet wait and see the situation and expect some special package except refinancing on loan. Similarly, three different dimensional at front: one retention of client, two schedule repayment and loan disbursement and third possible merger/acquisition plan. Within first quarter of this Fiscal Year, loss increases with more fund put into provision and even at second quarter the hardly heated areas will occur at rural as well so this will increase unpredicted situation (Cheung *et al.*, 2020).

Researcher analysis about COVID-19 effects on MFIs

Meagher (2020) explained the six-key important element has to be taken from regulator and policy maker to cope up with present MFIs challenges:

1. Enable MFPs (Micro Finance Providers) to operate safely
2. Provide relief to microfinance clients
3. Make additional liquidity available to MFPs
4. Defer noncritical supervisory process
5. Restructure or liquidate troubled MFPs
6. Think ahead to the challenges of the recovery, balancing urgent rescue against long term value such as legal certainty, risk-based regulation, and sustainability.

Malik *et al.*, (2020) identified the COVID-19 pandemic threatens lives and livelihoods and has created immediate challenges for institutions that serve affected communities. 70% of the sample of current microfinance borrowers in Pakistan reported that they could not repay their loans; loan officer anticipated a repayment rate of just 34% in April 2020.

Brickell *et al.*, (2020) identified three important aspect of MFIs about promotion of microfinance as market based relied on and recovery from the pandemic.

- Health and economic impacts associated with COVID-19, credit-taking is likely to escalate further in terms of the number of borrowers and loan amounts.
- The growing reliance on MFIs will leave households undernourished and further vulnerable to its disciplining and extractive impulse.
- An interplay between over-indebtedness, pre-existing malnutrition challenges, and the global public health crisis of COVID-19 represent a major challenge to gender equality and sustainable development.

CONCLUSION

MFIs shared major investment portfolio in rural banking sector of Nepal and has potential outreach more on corner but with regulatory concern it has focused on strengthening MFIs potentials through possible merger & acquisition. COVID-19 directly heated SMEs and explained nominal measures on supply side even halted on transportation. Government still yet ignore an important area of GDP and suppress small entrepreneurs which brings potential risk of permanent exit from their SMEs. There is still has improvement possibilities if take these measures more seriously however risk of shutdown their business anytime obviously brings uncertain to change economic figure. MFIs are key tools to connect people with concept and business but with both sustainability & regulation guidance further has less possibilities of extension so manage risk of MFIs explained no further plan of expansion. Measure social distancing and conduct regular banking needs enabling environment which require extensive awareness of using technology at rural where no internet or smart phone user has so this will stop flow of funds. Similarly, MFIs product are still similar as earlier and not yet redesign innovative concept to deal with customer. With these all the researcher can have concluded that MFIs are able to mitigate regulation demand but won't able to solve rural eco-system if similar concept, product and program offer even during COVID-19 and at post COVID-19 phase.

Conflict of Interests

The authors declare that they have no conflict of interest.

ACKNOWLEDGEMENT

The authors are thankful to the institutional authority for completion of the work.

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