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Will microfinance survive the Covid-19 crisis? Yes, it will thrive

Synopsis
The Indian microfinance sector can and will play a major role in ensuring confidence and credit at the grassroots when it is needed the most to rebuild our country.

Financial provisions will be taken, but eventual credit losses will be much lesser given the ecosystem today.

By Manoj Kumar Nambiar

It was almost 1130 hrs and Rekha Devi (name changed for privacy), in a village in Madhya Pradesh was getting worried as it was her repayment date/time to the microfinance company that she had taken a loan from, and the scheduled meeting did not happen that day. She had taken a small Rs 20,000 loan from the company, a few months back to run her small grocery shop and support her family of four. Being very particular about paying her installments back regularly, she walked alone to the branch office to pay the money to the surprise of the branch staff. The day was 25th March, 2020, the first day of the national lockdown announced in India!

Customers like her form the backbone of the microfinance sector in India, which today through various forms covers over 100 million women with a credit portfolio outstanding of over Rs 3 lakh crore. With a collection efficiency of an outstanding 99% plus it can put retail, MSME & corporate clients to shame.

Microfinance institutions (MFIs), with their field network, use the Grameen methodology, CB and residence checks, and financial literacy sessions, to provide unsecured loans to meet the credit needs of these clients, within a week of the initial application, to be paid back weekly/fortnightly or monthly as per the client's preference. So how does this sector, which caters to the Bottom of the Pyramid clients, not only survive but evolves stronger after every crisis?

- Various studies done in India show that while 40% plus people from the underserved strata avail loans, only 8% subscribe to **RBI** regulated institutions, the rest coming from informal sources (**Findex** and **NABARD** studies 2018). In a country of over 1.3 billion people, one can imagine the extent of financial exclusion, especially in the semi-urban and rural geographies. Estimates show that even with this reach of credit supply, just about a third of the market is being served through formal institutions.
- The microfinance client has an almost zero gestation period business model and one which could give a 10- 20% return in a single day allowing it to be up and running immediately. Since it caters to basic necessities, demand is also not an issue.
- High level of customer connect, smaller ticket sizes and frequent repayments ensure high collection efficiency. Loans come at very reasonable Rs 1000 - 1200 interest charge for an Rs 10,000 loan for 12 months – the rate charged by