Microcredit crucial to deal with Covid blow

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SUSHAM SAHIN

We are confronted with unprecedented challenges and uncertainty posed by the Covid-19 pandemic and its impact on our lives — or deaths, for many. Besides the public health emergency, this is the economic tsunami of the highest order, with no end in sight yet. Surely, demands from large and visible sectors would be most vociferous, impact more quantifiable and remedial relatively easier to deliver. However, it is the invisible low-income households (LHs), who would be hardest hit and deserve most support. Given the demands on the already stretched resources, our immediate policy response should be to prioritise the needs of LHs.

Over 90 per cent LHs are self-employed or employed in the informal sector, earn less in absolute terms, have volatile cash flows and lack the safety nets to deal with adversity. Majority seek income outside the traditional agriculture — in farms, livestock, services, construction, manufacturing, trade and depend of daily-weekly earnings to meet the basic needs. Like us, confronted with requirement of lumpsum amount, typically in the range of ₹30,000 to ₹1 lakh, they access credit. For over a decade, micro-credit has been a key channel for LHs and today nearly 5.6 crore LHs have micro-credit worth ₹2.11 trillion.

These are still early days, but undoubtedly Covid-19 is going to shock the demand (customers) and the supply (lenders and funders/investors) of micro-credit. Absorbing and reversing the shock would require coordinated approach in the ecosystem amongst governments, regulator and the business. Let's begin with the demand. Cash-flows of LHs across sectors would be affected due to loss of work, restriction on mobility, delays in payments, demand-supply shocks, price distortions and so on. Duration of impact would determine its severity. Even those, who may not be adversely impacted, would find it hard to repay their loans or access fresh loans as cash transactions got restricted, mobility restricted, and financial services disrupted. LHs use micro-credit for multiple financial needs — credit, liquidity, emergency funds, investment and so on. If suitable micro-credit is unable to pitch at this critical juncture, it would have very serious ramifications on their ability to meet the exigencies arising out of Covid-19 and recovery.

Cash transfers by the government for illness coverage or basic consumption are necessary but can only support as much. LHs would need adaptive micro-credit.

On the supply side, micro-credit lenders face colossal challenges. The micro-credit model relies in meeting customers in groups at their doorstep for sourcing, disbursing and repayment. Business has come to a halt in the times of “social distancing” and “lockdowns”. Forthcoming disruption in repayments would put enormous pressure on the cashflows, impairing lenders ability to manage liquidity and honour their commitments to funders and employees. While industry has been swift to take proactive measures, not all functions can be instantly moved remotely and not without loss of productivity. Given the history, no one can guarantee that miscreants would not exploit the situation to misappropriate customers not to pay, spoiling credit culture. While the impact would fully manifest in the coming days, it is important to take a few urgent steps.

First, the Reserve Bank of India is rightly allowed back to back moratorium on loans to customers and lenders, which would give immediate relief to customers who are unable to repay now and maintain liquidity at household level. However, interest cost of deferment to three-months moratorium is not insignificant for LHs and would further strain their finances. The government should consider absorbing this additional debt burden for the LHs. This would give direct and targeted cash benefit to customers and provide immediate liquidity to lenders.

In the situation of deep financial constraints, where customers are not affected and can repay on time even prepay, they should be incentivised to do so through discounts. This is also important to maintain the credit discipline now and in future.

Second, LHs would need short-term loans to tide over the disruptive cash-flows as well larger loans to restart their livelihoods as they recover from this onslaught. Due to uncertainty and increasing delinquencies, lenders ability and confidence to lend would be shaken, in order to ensure that lenders can resume lending, government agencies such as SIDBI, NABARD, MUDRA would need to be inventive and supportive through guarantees, refinancing, low-cost financing, subsidies, interventions etc. Lenders would also need support with equity to maintain capital adequacy.

Thirdly, micro-credit industry with a network of 40,000 branches and workforce of 300,000 people have enormous connect with over 5.6 million LHs, that is 0.36 million people across India. They are closest to the LHs to understand what the impact is, how are they coping and what they need most! The government must use this infrastructure to efficiently target their support.

As of now, there is no clarity as to how worse the situation can get and how long it would last. It is equally unclear what would it take to recover the situation and how long. Everyone — customers, lenders, regulators/government, investors/funders must constantly review the situation and make decisions and adjustment as it evolves. In addition to whole-hearted actions, there is need for utmost trust, solidarity and risk-sharing between all to avert backsliding of LHs to destitution. The choice is ours.
Microcredit crucial for low income households dealing with Covid-19 blow

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Sugandh Saxena
Last Updated at April 4, 2020 20:53 IST
We are confronted with unprecedented challenges and uncertainty posed by the Covid-19 pandemic and its impact on our lives — or deaths, for many. Besides the public health emergency, this is the economic tsunami of the highest order, with no end-date in sight yet. Surely, demands from large and visible sectors would be most vociferous, impact more quantifiable and redressal relatively easier to deliver. However, it is the invisible low-income households (LIH), who would be hardest hit and deserve most support. Given the demands on the already stretched resources, our immediate policy response should be to prioritise the needs of LIHs.

Over 90 per cent LIHs are self-employed or employed in the informal sector, earn less in absolute terms, have volatile cash-flows and lack the safety nets to deal with adversity. Majority seek income outside the traditional agriculture — in farms, livestock, services, construction, manufacturing, trade and depend of daily-weekly earnings to meet the basic needs. Like us, confronted with requirement of lumpsum amount, typically in the range of Rs 30,000 to Rs 1 lakh, they access credit. For over a decade, micro-credit has been a key channel for LIHs and today nearly 5.6 crore LIHs have micro-credit worth Rs 2.11 trillion.

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Let’s begin with the demand. Cash-flows of LIH, across sectors would be affected due to loss of work, restriction on mobility, delays in payments, demand-supply shocks, pricing distortions and so on. Duration of impact would determine its severity. Even those, who may not be adversely impacted, would find it hard to repay their loans or access fresh loans as cash transactions get restricted, mobility restrained, and financial services disrupted. LIHs use micro-credit for multiple financial needs — credit, liquidity, emergency funds, investment and so on. If suitable micro-credit is unable to pitch at this critical juncture, it would have very serious ramifications on their ability to meet the exigencies arising out of Covid-19 and recovery.

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First, the Reserve Bank of India is rightly allowed back to back moratorium on loans to customers and lender, which would give immediate relief to customer who are unable to repay now and maintain liquidity at household level. However, interest cost of deferment to three-months moratorium is not insignificant for LIHs and would put further strain their finances. The government should consider absorbing this additional debt burden for the LIHs. This would give direct and targeted cash benefit to customers and provide immediate liquidity to lenders. In the situation of deep financial constraints, where customers are not affected and can repay on time or even prepay, they should be incentivised to do so through discounts. This is also important to maintain the credit discipline now and in future.

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*Views are personal. The writer is head, SRO of MFIN, industry organisation and RBI recognised self-regulatory organisation (SRO) of the NBFC-MFI sector*