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## MICROFINANCE INSTITUTIONS DURING AND AFTER COVID 19 PANDEMIC IN KOLHAPUR DISTRICT

**Dr. Nilima Rajaram Mirajkar**

Assistant Professor Department of Economics,

Doshi Vakil Arts College & G.C.U.B.Science And Commerce College

Goregaon- Raigad

**Abstract:** The first COVID 19 positive incidence was reported on 9th March 2020 in the Indian State of Maharashtra. At present, the Maharashtra state became an epicenter of the COVID 19. So far, more than 11 lakh people were affected, and out of which, 7.75 lakh were recovered in the Maharashtra State. The COVID 19 situation in the Kolhapur district is also worst; it has reported 34482 cases, 1036 casualties, and 23785 recovered patients. Initially, the cases were reported in urban areas of the district, later on, it started spreading rapidly in the rural area. The district administrations strictly took up the lockdown, Janta curfew, and other measures, and they humbly attempted to control the rapid spreading of COVID 19. During this peak phase of COVID 19, all the economic activities of the district have been shrinking which resulted in an increasing rate of unemployment on one hand and reducing the income on the other hand. Especially, small, medium and village cottage industries are major sufferers of this pandemic. The village economy of the district has disrupted adversely. The farmers, agricultural laborers, daily wage workers, small storekeepers, street vendors, and women workers are affected very badly. The village economy of the district especially the rural household sector highly depends on microfinance. Self-help groups and farmer's clubs mainly depend on the supply of microfinance. Microfinance institutions in the Kolhapur district are playing a very significant role in poverty eradication, employment generation, women's economic empowerment and overall improving the socio-economic conditions of the deprived segment of the society through offering easy credit access. The overall activities of the microfinance institutions i.e recovery mechanism, sources of finance, monitoring and inspections, etc. are almost stopped in the district since March 2020. The pandemic ending point is still unpredictable which will further affect the working of microfinance institutions in the district. Under this backdrop, the very first aim of the present investigation is to study the issues faced by the microfinance institutions in the district during this pandemic and secondly to study prospects of microfinance in the district. The study was carried out in August 2020 and 19 financial institutions were selected for precise study. The entire study was based on primary data collected from the questionnaire. The study found that all the sample 19 financial institutions are badly suffered and experienced heavy financial loss during this pandemic.

**Index Terms – COVID 19, Microfinance Institutions, Recovery Mechanism, KPI.**

## 1. Introduction

One of the earlier and easy accesses of credit sources to the new entrepreneurs in Kolhapur district is microfinance institutions. Especially, women entrepreneurship has much more depends on the credit flow of the microfinance in the district. There were a total of 60659 SHGs in the district in 2010-11 out of which 11391 were operated below the poverty line. However, only 2006 SHGs have started the business, and 11740 were linked with bank<sup>1</sup>. Up to 1997, there were only 12 SHGs in the district which go up to 78416 in 2020. Banks and microfinance institutions are providing credit to these groups for productive purposes. More than 100 microfinance institutions are operating in the district. These institutions are playing a very significant role in the socio-economic development of both the rural and the urban areas of the district. The Kolhapur district is one of the forwarded districts in western Maharashtra and the economy of the district is highly dependent on agriculture, allied activities, small industries, and tiny cottage industries. The women's linked with microfinance institutions are started capital formation and trying to assists their families through income-generating activities. The performance of all MFI, SHGs, and farmers clubs in the context of recovery, NPA, and profitability was satisfactory up to March 2020. But after the COVID 19 pandemic, it has almost distorted. Overall economic activities have shrunk; it has resulted in increasing pressure of unemployment and low income. The low income of the people leads to reducing the effective demand for goods and services which will further lead to depression. The macro-level economic scenario will be worst after the COVID 19 pandemic. If we look at the key indicators of the Indian economy then the annual GDP growth rate has -23.9 percent recorded in June 2020; the GDP growth recorded to just 0.7 percent in March 2020; the inflation rate has gone up to 6.69 percent in August 2020. The unemployment rate was recorded at 11 percent in June 2020 that indicates the alarming economic condition of the country. It is a universal phenomenon or we may call it global economic depression. It may be termed as world stagflation in which unemployment and inflation go side by side. As per the MFI in India, Maharashtra, and Kolhapur district is a concern, we come to know that there is a huge potential of growth since a vast segment of the society is derived from the mainstream of economic development. Though India has realized the dream of financial inclusion, it is disappointing to note that majority of the bank accounts are dormant. The poor people are having low access to resources due to which bankers deny a loan to them. It is Laureate Milton Friedman who stated that "The Poor stay poor, not because they are lazy but because they have no access to capital." The government has emphasized women empowerment through micro-finance after the Independence in general and 1970 onwards in particulars. In shorts, there is much more scope for microfinance development in India.

As per the study region, is a concern, the total population of the district is around 38.76 lakh out of which 31.73 percent live in the urban area and the remaining 68.27 percent live in a rural area. More than 65 percent of the total population of the district is, directly and indirectly, dependent on the agriculture sector. Almost, 45 percent of rural households are engaged in small, tiny, and rural agro-industries. The rural women mainly depend on agriculture and allied activities and microfinance is the major source of capital formation for them. Under these circumstances, it has attempted to study the issues faced by the microfinance institutions in the district during this pandemic and prospects of microfinance in the district. The 19 sample microfinance institutions are covered in the present investigation and the study is carried out based on fieldwork in August 2020.

## 2. Review of Literature

Akash Saha(2020)<sup>2</sup> highlighted the problems and prospects of the MFI in his study. He pointed out that microfinance delivery models are not entirely focusing on the needs of the poor and very poor families. The bottom population has been not entirely covered under the umbrella of MFI. He also pointed out that there are regional disparities in the development of MFI. The MFIs are mostly developed in the areas where there is a tremendous growth of the organized financial institutions. Tygi S. (2020)<sup>3</sup>, in his article focused on the emerging issues of microfinance in Madhya Pradesh State due to lockdown. He stated that the microfinance institutions will not be survived in the future without the package of the government. Kalpana M (2020)<sup>4</sup>, assessed the performance of the MFI during the COVID 19 pandemic in Gujarat. She found that MFIs of the Gujrat are not performed well and the majority of them are suffering from heavy losses. Khalid M.K(2018)<sup>5</sup>, has assessed the changing business environment of the microfinance due to the COVID 19. He has pointed out that microfinance institutions are having a profit motive and they charge a high-interest rate. According to the author economic exploitation is more than economic assistance to the poor. Further, he pointed out that the work culture and business motive has changed in MFI in India.

## 3. Statement of the Problem

All the economic sectors are adversely affecting due to the COVID 19 pandemic. Lots of people are losing their jobs. India's unemployment rate rises to 27.11 percent in the last week of May 2020<sup>6</sup>. The microfinance sector has also been badly hit by this pandemic and it has faced another big issue after 2016's demonetization. The lockdown has adversely affected the financial cycle of the MFI. These MFIs play a key role between commercial lending institutions and clients who are in the need of non-collateralized loans. The recovery from the SHGs and farmer's clubs has stopped during the last three-four months which adversely hits the financial base and soundness of the MFI. The latest report of MFIN mentioned that the industry received Rs. 42140 crore as debt and Rs. 16140 crore as equity which nearly 33 percent higher than the previous year<sup>7</sup>. The complete lockdown period has halted all the sectors but more adversely affected on MFI. Thus the main intention of the present investigation is to find out the issues the MFI faced during the COVID 19 pandemic and their prospects.

## 4. Objectives of the Study

The major objectives of the present study are as below.

1. To study the major issues faced by the MFI during the COVID 19 pandemic in the study region.
2. To study the prospects of MFI in Kolhapur District.
3. To suggest appropriate policy implications.

## 5. Methodology

To present a more scientific and unbiased approach, the following methodological framework was followed in the study.

### 5.1 Data Collection and Processing

The entire study was based on primary data collected from the 19 microfinance institutions located in Kolhapur city and operating all over the district and questionnaires were filled up from the concerned authorities. The collected facts are processed in Excel, SPSS, and R-software.

## 5.2 Research Method and Sample Design

The present research is an analytical type of research. It has gathered data from the grassroots level and attempted to answer the research problem. The purposive sampling technique was used and 19 out of a total of 134 operational MFIs in the rural area are selected randomly.

## 5.3 Statistical Tools and Techniques.

The responses of the managers were obtained in 0 to 100 scale techniques. Where 0 scale implies no changes in concern indicator and 100 scale indicates the perfect change in concern indices. The cumulative index was prepared based on the average score and it has attempted to identify the intensity of the problems. The prospects of the MFI have been presented based on the opinion of the managers of MFI. The financial ratios are computed based on obtained data, and the average ratio has been taken into account.

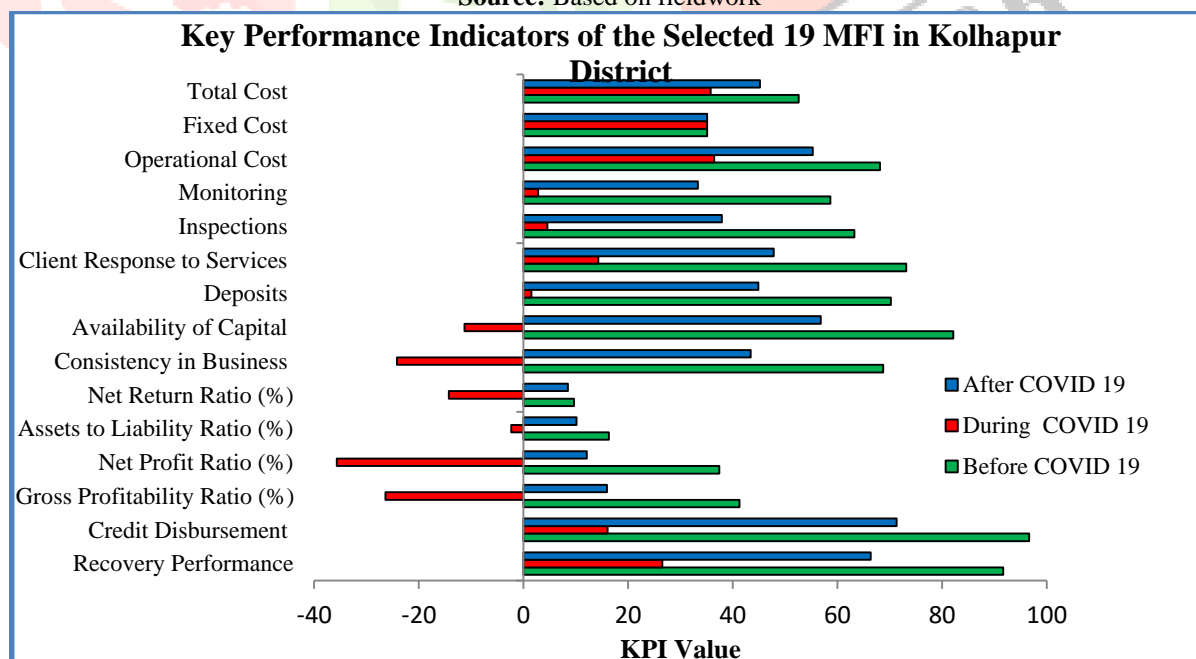
## 6. Result and Discussion

Table 1 and figure 1 indicate the key performance indicators of the MFI in the Kolhapur district. It has been revealed from the data that before the COVID 19 scenario of all the 15 indicators under consideration are better off than those during the COVID 19 pandemic. According to the expertise of the MFIs (managers) after COVID 19 pandemic situation will start to improve but it will be slower than that of before condition. As per the guidelines of the government and RBI, microfinance institutions were stopped recovery of loans during the last three months. However, the expenses are not reduced which puts a financial burden on the MFI. The salaries of the employees and other operational expenses have disturbed the financial soundness of these MFI during the pandemic. MFI of Kolhapur district is suffering from the dilemma of increasing cost on the one hand and shrinking income on other hand.

**Table 1. Key Performance Indicators of the Selected 19 MFI in Kolhapur District**

Sr. No	Key Performance Indicators	Before COVID 19	During COVID 19	After COVID 19	%change during Covid 19 over before Covid 19
1	Recovery Performance	91.68	26.52	66.35	-71.07
2	Credit Disbursement	96.63	16.1	71.3	-83.34
3	Gross Profitability Ratio (%)	41.31	-26.38	15.98	-163.86
4	Net Profit Ratio (%)	37.4	-35.66	12.07	-195.35
5	Assets to Liability Ratio (%)	16.32	-2.36	10.16	-114.46
6	Net Return Ratio (%)	9.64	-14.25	8.5	-247.82
7	Consistency in Business	68.73	-24.18	43.4	-135.18
8	Availability of Capital	82.14	-11.3	56.81	-113.76
9	Deposits	70.23	1.5	44.9	-97.86
10	Client Response to Services	73.16	14.31	47.83	-80.44
11	Inspections	63.26	4.6	37.93	-92.73
12	Monitoring	58.64	2.8	33.31	-95.23
13	Operational Cost	68.14	36.45	55.31	-46.51
14	Fixed Cost	35.1	35.1	35.1	0.00
15	Total Cost	52.62	35.77	45.2	-32.02

Source: Based on fieldwork



**Figure 1.**

It has been revealed from the data that the recovery rate of the MFIs was 91.68 percent before the COVID 19 which reduced up to 26.52 %. It implies that the recovery rate of the MFI has reduced by -71.07 percent during COVID 19 over before the pandemic. Likewise, the credit disbursement has also reduced from 96.63 percent to 16.1 percent. It means that the credit disbursement of the MFI in the Kolhapur district has decreased by -83.34 percent. It is shocking to note that the entire financial profitability ratios are declined during the pandemic. The gross profitability ratio, net profit ratio, asset-liability ratio, and net return ratio where 41.31 percent, 37.4 percent, 16.32 percent, and 9.64 percent respectively before the COVID 19, which reduced by -163.86 percent, -195.35 percent, -114.46 percent, and -247.82 percent correspondingly during the COVID 19 pandemic. The

consistency in business has declined by -135.18 percent during the COVID 19 over the before condition. Furthermore, the availability of capital has also recorded negative growth of -113.76 percent. Deposits, client response to services, inspection, monitoring, operational cost, and total cost have also declined. In short, overall MFIs of the Kolhapur district are adversely affected during the COVID 19 period and still, these institutions are suffering from financial losses.

## 7. Conclusions

No doubt, that it is universal there is a downswing in the overall economic activities across the globe, but it is a time of pushing the economy towards the upswing. The central government has pushed money in the economy for the revival but these financial sectors are deprived of the benefits of the package. The issues such as no recovery of loan, delay in deposits, high operational cost, risk of NPA, and increasing losses are the major hurdles in the smooth working of the MFI in Kolhapur district. It is challenging for the MFI to operate at a low cost and try to achieve economic efficiency with a low capital base and low fund, after the COVID 19 phase. The flow of funds will be reduced in the future due to a lack of income and low saving by the household sector. The rate of capital formation by the industrial sector will be reduced due to a lack of effective demand that will further push the economy towards the lowest trough point. Under this type of situation, public expenditure should have to increase as much as possible through undertaking public works and a progressive taxation policy is inevitable.

## 8. Suggestions

The following major suggestions are given based on the present investigation for the revival of MFI in Kolhapur district.

1. A special stimulant package has to be introduced for the revival of MFI.
2. The Government has to take keen efforts for the upswing of the monetary sector.
3. RBI has to work more progressively and needs to take the necessary steps to the revival of the monetary sector.
4. The good market has also a falling trend which hampers the smooth working of the money market. Hence necessary steps are needed to overcome the COVID 19 depressing shocks.
5. The unemployment rate and inflation are rising more rapidly and created a situation of stagflation. Hence it is recommended to the government that provides incentives to the industrial sector and agriculture sector to start up the business.
6. The flow of FDI and portfolio investment has shrunk during this pandemic. It will be one of the challenges to the government in the future to attract FDI.

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