



WORLD TRADE CENTER®
MUMBAI



Micro lenders can benefit by adopting digital platforms

Microfinance is a major source of credit for micro and small enterprises engaged in manufacturing, trading, agriculture, agro-processing and home-based income generating activities. In India, micro-credit is offered by NBFC-Microfinance Institutions (NBFC-MFIs), banks, small finance banks, NBFCs and others. The total outstanding loan extended by microfinance institutions (MFIs) stood at Rs. 2.32 lakh crore as of March 31, 2020. Microfinance is typically collateral free loans extended in small amounts, usually in cash, with short repayment period. Although microcredit also covers loans for buying homes, property, vehicles and other consumer durable goods, a large chunk of the loan is extended for income generating activity.

In a recent article, experts from Reserve Bank of India flagged risks of default on micro-credit because of stress faced by small enterprises amidst COVID crisis. The COVID crisis has strained the financial position of small traders, hawkers and daily wage labourers who account for a major part of microfinance borrowers.

NBFC-MFIs, that contribute 32% to the outstanding microfinance credit, are particularly vulnerable to defaults as they extend collateral free loans to low-income groups. As a result, small NBFC-MFIs may face the risk of credit rating downgrades, which may affect their ability to raise fresh capital and access liquidity, points out an article which appeared in the latest bulletin of RBI.

The authors of the article suggest a few measures that microfinance institutions need to adopt to navigate through the COVID crisis. The pandemic may prompt MFIs to digitize loan disbursement and collections. The authors recommend MFIs to shift to online disbursement of loans as it would improve operational efficiency and help in minimising event-based disruptions.

To facilitate prediction of default risk, the authors suggest use of data analytics, building risk models and designing customer centric products. It is also recommended that microfinance lenders increase engagement with borrowers through virtual or telephonic means and sensitise staff on fair practices code.

The authors caution MFIs against multiple or over-lending as it may increase the repayment burden on borrowers. Adoption of responsible lending practices will ensure that loan amounts are commensurate with borrower's ability to repay and that there are no instances of multiple or overlending. Microfinance lenders can diversify their loan portfolio across geographies to avoid risks associated with a concentrated portfolio. Further, NBFC-MFIs, especially smaller ones, need to diversify their sources of funds for sustaining healthy portfolio growth, the authors recommend.



Notifications

PIB

Violation of provisions of Company Law

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654106>

Measures to support indigenous manufacturing of defence equipments

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654092>

FDI in Defence sector

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654091>

Steps taken to revive MSME sector

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654138>

Ministry takes steps to ensure private firms clear dues of MSMEs

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1653944>

Modernisation of Major Ports

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654076>

Steel clusters

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1654013>

DGFT

Streamlining of unit quantity codes

<https://content.dgft.gov.in/Website/dgftprod/f7c915e3-80b4-46aa-8e40-d22da8517092/Trade%20Notice%2026.pdf>

Amendment in export policy of onions

<https://content.dgft.gov.in/Website/dgftprod/9f9785bf-e0e9-47a1-a0b4-0072c7152781/Noti%2031%20Eng.pdf>