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Can microfinance bail out the poor from COVID-19 devastation?

The crisis

THE COVID-19 pandemic has created chaos with the socio-economic, political, religious, and financial structures of the entire world as never before. The world's top economies such as the US, China, UK, Germany, France, Italy, Japan are on the verge of collapse. Stock markets around the world have been pounded and oil prices have fallen off a cliff. In the current situation, most of the investors are removing its funding from multiple businesses and in this regard $ 83 billion has already removed from emerging markets since the outbreak of COVID-19.

The jobs of common people are running a real threat of loss due to business shutting down and companies will be unable to pay to workers, resulting in lay off of employees. So, the impact of Covid-19 is severe on the economic structure of the world. According to the Organization for Economic Cooperation and Development (OECD), global growth could go down to 1.5% in 2020 which is half of the previously forecasted rate if the virus continues to spread.

Economic activity in the South Asian region is projected to contract by 2.7% in 2020 while the global economy is expected to shrink by 5.2% according to the World Bank as pandemic mitigation measures hinder consumption and services activity and as uncertainty about the course of the pandemic chills private investment. Foreign Direct Investment flows could fall from 5 to 15%. The most affected and vulnerable sectors would be tourism and

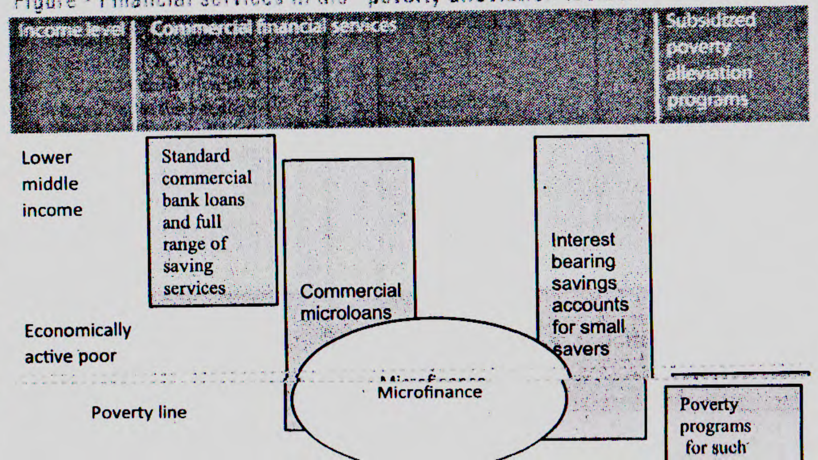
The women in Sri Lanka are faced with many challenges resulting in the poor well-being of themselves and their children. Hence, their achieving entrepreneurial success is important for them, their families, and the economy in general – Pic by Shehan Gunasekara

Guest Column

to those among the poor who have some form of employment who are not starving nor destitute.

By addressing this gap in the market sustainably, MFIs have become part of the formal financial system of developing countries. According to this definition, microfinance encompasses the provision of other financial services such as

Figure - Financial services in the "poverty alleviation toolbox"



loans by formal lending institutions such as banks.

Joint Liability Lending (JLL) could be considered as one new approach to lending by MFIs. The economists in analysing JLL, focus on either the effects of joint liability on the behaviour of borrowers or on the fact that lending to groups is a way to reduce the cost of transactions as opposed to lending to individuals. This could be considered the "microfinance revolution".

The demand for microfinance

According to the available literature, microfinance is conceptually unique everywhere in the world. However, it is also clear that practices and implementation programs that have been successful in a certain country should not necessarily be equally successful in another country. In this respect, the application of the "Grameen" concept introduced by Prof. Yunus in 1976 in Bangladesh may not necessarily be effective in Sri Lanka or any other country for that matter. This may be due to differences among these countries in their socio-economic conditions and ground situation.

The Asian Development Outlook (2019) reports that only in the Asian and Pacific region, approximately 1.2 billion people in about 240 million households are below the poverty line. More than 890 million of these poor people live in rural areas and most of them rely on secondary occupations, as agriculture alone is not enough to provide for their growing needs. This includes a whole range of paid employment, from micro-enterprises over services such as carpenters and weavers to self-employed businesses such as food stalls, tailoring, and shoe repair to mention a few. Again the operators of many of these micro-enterprises are women, who suffer disproportionately from poverty

of institutions and does not fall under the purview of a single authority and there is currently no single and up-to-date database on these institutions. In this respect, the countrywide survey of MFIs in Sri Lanka commissioned by Thrift and Credit Co-operative Societies (TCCS) through a program titled 'Promotion of Microfinance Sector' (GTZ-ProMiS) during the programming phase September 2005 to November 2009, is worth mentioning.

The survey studied microfinance providers of various institutional types, from the village banks, cooperative rural banks, and thrift and credit cooperatives to the regional development banks and other institutions from the 'formal' growing financial sector who have ventured into microfinance. The survey also covered the rapidly growing NGO-MFIs some of which have grown very rapidly in the past decade.

The results of the survey indicate that the outreach of microfinance services in Sri Lanka is considerable, especially so concerning savings and deposit products. However, it reveals that access to credit remains below its potential and barriers still exist for the lower-income groups. Further, the market seems to be characterised by traditional financial products (savings, loans) with few products and services beyond these (e.g. insurance, money transfer services).

The challenges and opportunities

The growth of the sector is hampered by the lack of a coherent regulatory and supervisory framework, governance issues, lack of technology, and issues related to the availability of suitable human resources.

Small and Medium Enterprises (SMEs) play a key role in generating employment facilitating growth in