NRB Working Paper No. 51

October 2020

Impact of Covid-19 on Microfinance Institutions of Nepal

Prakash Kumar Shrestha, PhD[*]

ABSTRACT

Nepal has also been impacted by the spread of Covid-19 which was originated in China in late December 2019. The spread of pandemic has both health and economic effect in any country. This paper aims to assess the impact of Covid-19 pandemic on microfinance institutions in Nepal based on the data reported by them as per the regulatory requirement. Assessment is done by evaluating the changes in some major financial indicator such as saving, loans, non-performing loans, profitability, change in the number of employees and borrowers among others after the imposition of lockdown measures by the Government to contain the spread of coronavirus. Review of data for the period of mid-March 2020 to mid-July 2020 shows that microfinance institutions have severely been hit by the lockdown measures. However, with the help of NRB policy provisions and some degree of resiliency, they managed to survive during the review period. Since the spread of Covid-19 is yet to over, downside risks still exist as shown by the growing number of overdue borrowers. Concrete, collaborative and innovative approaches are needed to navigate through this troubled times.

JEL Classification: G21

Key Words: Covid-19, Microfinance Institutions

[*] Executive Director, Nepal Rastra Bank. Usual disclaimer applies.

I would like to thank colleagues at Microfinance Institution Supervision Department, Nepal Rastra Bank for compiling the data of MFIs on a monthly basis for analysis in this paper.

Email: shresthap@nrb.org.np

I. INTRODUCTION

Novel Corona virus (also called Covid-19) outbreak occurred in Wuhan, China in late December 2019, which has transmitted to across the globe. Transmission of corona virus has had not only health impact through infection all over the world, but also serious economic impact because of lockdown measures adopted to contain its spread in the community and increasing health expenses. Closure of almost all economic activities following the lockdown measure has seriously affected people and various institutions. Among others, microfinance financial institutions (MFI) have also been adversely impacted.

MFIs perform the micro banking with the poor- bottom of the pyramid, who are normally considered unbankable by traditional banking institutions. Majority of their portfolio belong to group lending, without collateral. They lend to and collect from members in group meeting. Lockdown measures and prohibition of gathering of people in mass because of fear of transmission of the disease hampered the operation of MFIs' activities in the field. Moreover, closure of many economic activities, except a few essential businesses, damaged the earnings of borrowers of MFIs, thereby loan recovery.

Although almost all countries get affected from Covid-19, actual impact may differ; similarly actual burden within any country may also differ among different sectors. Hence, it necessitates the close study on the degree of impact on different sectors from different perspectives. While almost every sector of the economy has felt the brunt of Covid-19, low-income households and small businesses are disproportionately affected because of having little savings/assets to help them cope with shock created by the current pandemic. In this context, this paper attempts to analyses the impact of Covid-19 on MFIs by looking at some major financial indicators in their financial statements. These microfinance institutions are also essential for recovery of the economy in the post Covid-19 era.

In response to contain the transmission of Covid-19, the government of Nepal imposed nationwide lockdown on 24 March 2020, restricting vehicular movement and shutting down economic activities except very essential ones. Full lockdown measures were continued until June 15 after which the government opened partially, which continued until 21 July 2020. The government further relaxed for a month before imposing prohibition in different areas by local administration, though not national wide. Although the spread of corona virus has not come to the end as of the writing of this paper, the situation of MFIs until mid-July 2020 only has been reviewed. This will provide reference for future review in this area.

Despite the severe impact of Covid-19 and lockdown measures imposed to curtail it, MFIs showed some resilient capacity, which was also supported by some regulatory relaxations provided by Nepal Rastra Bank (NRB). Severe challenges, however, seem to remain in the days to come because of increasing overdue borrowers and loan amount.

The paper is structured as follow. After this introductory section, section 2 briefly reviews a few studies and section 3 presents data and methodology. Landscape of microfinance institutions is highlighted in section 4 followed by policy response by NRB in section 5. Situational analysis based on some selected variables of MFIs in aggregate level is done in section 6. Finally, section 7 presents conclusions and the way forward for MFIs to navigate through trouble time of Covid-19.

II. LITERATURE REVIEW

The world witnesses the Covid-19 like pandemic occasionally. In 1918, Spanish Flu had affected the whole world, remaining in effect for about two years until 1920. There are various studies examining the impact of Spanish flu on the economy such as Meltzer et, al. (1999), Brainerd and Siegler (2003), Garette (2007), Madhav et, al. (2018). Now people are researching on the impact of Covid-19 from different perspectives. Madhav et, al. (2018) review the economic impact of different pandemic and argue that pandemics can have a longer term damage to economic growth.

Although not in same scale, but the world witnessed pandemic type outbreaks in some part of the world time and again such as SARS in 2003, Swine flu in 2009, Ebola in 2014 and Zika Virus in 2015 (Madhav, et. al., 2018). Chakma et. al. (2017) documented the experience of BRAC's microfinance institutions (MFIs) in Liberia and Sierra Leone, where they faced impact of Ebola outbreak in 2014. BRAC suspended the microfinance activities for seven months. Despite long pause, within the first few weeks of restarting microfinance operation by BRAC, the repayment rates stood at well over 90 percent in Liberia and nearly 70 percent in Sierra Leone, reflecting resiliency nature of microfinance activities. Similarly, SLAMFI and Ayani (2015) analyzed the impact of Ebola crisis on the microfinance sector in Sierra Leone through the field survey of 84 clients of 9 microfinance institutions. They found that the Ebola crisis clearly had a sharp negative impact on the businesses of many microfinance clients as reflected by delayed loan repayments. Interestingly, clients, however, displayed remarkable risk management strategies that enabled them and their microenterprises to survive the crisis period.

Some studies have been come out on the impact of Covid-19 on various economic sectors including MFIs. Malik et. al., (2020) have researched the implications of Covid-19 for microfinance institutions in Pakistan through rapid response' phone surveys of about 1,000 microenterprise owners, a survey of about 200 microfinance loan officers, and interviews with regulators and senior representatives of microfinance institutions. They found that, on average, week-on-week sales and household income both fell by about 90%., as a result, 70% of the sample of current microfinance borrowers reported that they could not repay their loans.

In Nepal, NRB conducted online survey to examine the impact of Covid-19 on economic activities during 8 to 24 June 2020 in which 674 industries and enterprises responded the situation of their business. On average, 61 percent of entities were found not in operation, but more than 90 percent of hotel and restaurants, and educational institutions were closed. Comparatively less affected sector is agriculture, forestry and fishing having 31.6 percent of establishments were in full operation. About two-third of manufacturing units were in partial operation. In terms of size of firms, about two-thirds of MSMS were closed during the survey period. As a result of not being in operation, firms on average cut their employment by 22 percent, of which about 70 percent of them were temporary and contract staff. Because of Covid-19, majority of firms (77.1 percent) faced the problem of meeting operating expense, followed by problem in sales (61.1 percent).

Regarding the impact on microfinance sector, Nepal Microfinance Bankers' Association (2020) conducted the survey with Chief Executive Officers of 54 MFIs during 8 May to 28 May 2020. The report states that all sectors of MFIs' loan portfolio are affected due to lockdown and the portfolio quality has decreased, expecting non-performing loans to go up with fall in operating self sufficiency and profitability. The report also mentions that growing anxiety in staff because of uncertainty of future fate of institutions and MFIs believe that clients have lost income and need more time for reviving their business.

Instead of survey data, this paper attempts to analyze the impact on MFIs through the data they have to report to NRB as per the regulatory requirement. This paper presents monthly dynamics of microfinance institutions during the period of Covid-19, particularly between mid-March 2020 and mid-July 2020.

III. DATA AND METHODOLOGY

Impact of Covid-19 on MFIs has been analyzed in a simple way by following the methodology of event analysis which has been highly used in analyzing the impact events on stock return. Major financial performance indicators of MFIs as reported to NRB have been compared before and after the lockdown measures adopted to contain the spread of coronavirus. Indicators as of mid-March 2020 are taken as benchmark before starting lockdown. The government introduced lockdown measures on 24 March 2020 and partially lifted on 15 June 2020. How MFIs' performances have changed during the month ended in mid-April through mid-July 2020 has been analyzed in this paper. The first three months passed through tight lockdown measures. With partly lifting the lockdown in the month beginning of mid-June 2020, economic activities started slowly recovering because of allowing movement of vehicles and people to some extent. This analysis shows the resilience nature of MFIs after partially opening up the economy.

Impact of Covid-19 on MFIs has examined by selecting a few important variables such as saving mobilization, lending, borrowing, capital adequacy, non-performing loans, liquidity situation, profitability and number of borrowers and staff of microfinance institutions for this study.

IV. LANDSCAPE OF MICROFINANCE INSTITUTIONS

Nepal has witnessed a tremendous expansion of microfinance institutions in recent years. In 1993, there were only two MFIs in the name of Rural Development Banks, which were later established in all the then five development regions by 1997. These rural development banks were established by the Government of Nepal and NRB to expand the microfinance activities in rural areas of Nepal based on the modality of Grameen Bank in Bangladesh.

In line with the financial liberalization policy, NRB started allowing the private sector to open the microfinance institutions similar to rural development bank. Hence, the first microfinance institution from the private sector was opened in 1998. NRB granted a license in 1999 to undertake microfinance activities. Since then, the private sector has started taking initiation on establishing for- profit microfinance institutions gradually. As a result, including 5 state-owned rural development banks and two wholesale MFIs, the number of microfinance institutions reached a dozen by mid-July 2007.

In mid-July 2009, there were 15 MFIs were in operation, which increased to 24 by mid-July 2012 with three wholesale MFIs. Another two years registered a growth of 7 and 6 new MFIs respectively, reaching the total number of MFIs to 37 by mid-July 2014 including four wholesale MFIs. Five rural development banks were merged into one along with partial sale of share of government and NRB in 2014/15. The year 2016/18 saw the further surge in number of MFIs with the establishment of 11 new MFIs and another 12 new MFIs were established in 2017/18, so that total number of MFIs reached 65 as of mid-July 2018. Because of conversion of 24 financial NGOs into MFIs during 2018/19, and establishment of one new MFI, total number of MFIs became 90 by mid-July 2019.

Since 2018/19, merger process among MFIs started, two MFIs merged to become one in this fiscal year. Merger process further moved so that the year 2019/20 registered a merger of 19 institutions to become 9 institutions. Some new MFIs have also been established in 2019/20, resulting in total 84 MFIs as of mid-July 2020.

Until 2019, there were four different types of retail MFIs based on their coverage such as national, regional, 4 - 10 districts and 1-3 districts. Paid-up capital requirement for them was Rs. 100 million, Rs. 60 million, Rs. 20 million and Rs. 10 million respectively. In 2019, classification was changed into two types national and provincial as per the new federal structure. MFIs which were not national were directed to be either national level or confine to province level by selling or closing or transferring the existing operations outside the province of their selection by mid-July 2020, but which is now extended recently to mid-July 2021 considering the unusual situation created by Covid-19. Of 84 MFIs in operation in mid-July 2020, 80 were retail MFIs, of them 40 were national level, 15 provincial level and remaining operating in different numbers of districts which have to be transformed either provincial level or national level by mid-July 2021.

As per the new regulations, paid up capital needed for national level MFI is Rs.100 million and for province level is Rs. 20 million. However, large diversities exit in existing paid up capital of MFIs. Those who are new have just minimal requirement of paid-up capital while there are 5 MFIs (including one wholesale) with more than Rs. 1 billion paid up capital as of mid-July 2020. On average, paid up capital of MFIs is Rs. 255.9 million, ranging from minimum of Rs. 11.4 million to maximum of Rs. 1500.0 million (Table 1).

MFIs lend to low income people on group guarantee by forming a group of about 5 members. NRB has allowed them to lend one-third of loan portfolio against collateral to individuals within the prescribed limit of maximum Rs. 0.7 million, which is recently increased to maximum Rs. 1.5 million effective 2020/21. Only in rural municipality where the branch offices exit, MFIs used to lend up to Rs. 1.0 million against collateral to carry out micro enterprises.

As of mid-July 2020, out of 84 retail MFIs, 23 MFIs had number of borrowers less than 10000, four of them even had less than 1000 borrowers. Number of borrowers ranged from 45 at new MFI to as high as 248036, averaging 33132 per institution (Table 1). Average loan size per borrower is about Rs 78500 (minimum of Rs. 32100 to maximum of Rs. 238400) and average loan size per employee remains minimum of Rs. 0.3 million to maximum of Rs. 23.3 million, with average size of Rs. 9.2 million. MFIs were employing staff -minimum 11 to maximum 1182 as in mid-July 2020.

Table 1: Some Indicators of MFIs (as of mid-July 2020)

Indicators	Min	Max	Average
Paid up capital (Rs. in million)	11.4	1500.0	255.9
Number of branches	2	189	46.98
Number of staff	11	1182	226
Number of members	242	374535	55793
Number of borrowers	45	248036	33132
Loan size per borrower (Rs. in 000)	32.1	238.4	78.5
Loan size per employee (Rs. in million)	0.3	23.3	9.2
Deposit per employee (Rs. in 000)	21.7	16725.8	3706.7

Source: Nepal Rastra Bank

V. POLICY RESPONSE TO COVID-19

With the imposition of lockdown measure by the government, many economic activities were halted because of closures of markets, institutions and transports except very few essential activities. Anticipating the lockdown measures, many people left the urban areas and went to villages before the beginning of lockdown. After two or three weeks of lockdown extended by the government, people expected the continuation of lockdown for a long time. Hence, many people, particularly workers started to move out of the city and traveled to their home villages even by walking several days. Likewise, thousands of migrant people working in India also returned to Nepal in mass, creating difficult situation to put them in quarantine and its management.

Complete lockdown measures adopted initially brought the livelihood of the people standstill. In this context, MFIs obviously could not carry out their business as usual. Earning of many people suffered. In order to provide some relief to borrowers and BFIs, NRB came up with some policy and regulatory provisions.

On 29 March 2020, NRB issued the notice with changes in regulatory provisions such as reduction of cash reserve ratio to 3 percent, bank rate to 5 percent, repo rate to 3.5 percent and deposit collection rate to 2.0 percent from 4 percent, 6 percent, 4.5 percent and 3.0 percent respectively. Moreover, effective from the same date, NRB announced to increase the limit of refinance fund to Rs. 60 billion, any installment due fall on mid-April 2020 to be postponed until mid-July 2020 and no penal charge or interest could be levied on that installment. Provision was made that loans not paying on that time need not to be classified into lower bucket for loan loss provisioning purpose.

If borrowers come to make any payment of due interest to be paid within mid-April 2020, they should receive 10 percent deduction on interest amount. Such a discount is not needed if interest rate levied is already at base rate. Watch list classification is made not mandatory in case of non-renewal of any loans which need to be renewed by mid-April 2020. Payment period fixed for mid-April 2020 for all working capital types of loans can be extended to next 60 days. Moreover, no penalty would be imposed in the case of non-complying regulatory and supervisory ratios in the month of mid-March to Mid April 2020.

On 28 April 2020, NRB again issued notice to provide further reliefs to borrowers and BFIs including MFIs. NRB directed retail MFIs to lower interest rate by 3 percentage points for the period of mid-April to mid-July 2020 and wholesale MFIs to reduce interest rate by 2 percentage points. MFIs were directed to postpone the payment schedules of installment fall in mid-April to mid-May 2020 and mid-May to mid-June 2020 to mid-July 2020, without charging any additional penal charges and interests. MFIs did not need to downgrade classification of loans, not repaid until mid-July 2020.

NRB announced the monetary policy statement for 2020/21 on 17 July 2020. In line with the provisions in monetary policy, NRB issued directives on 28 July 2020, which provided MFIs with some concession on loan loss provisioning for 2019/20. They did not need to downgrade the classification of loans which were good in mid-January 2020, although not recovered because of the impact of Covid 19. Otherwise, MFIs would have to classify these loans as sub-standard with loan loss provisioning of 25 percent. However, despite classifying as a good class, MFIs are directed to make provisioning of 5 percent to those loans. If they receive interest payment from these loans, they can just make provision of 2 percent on these loans.

VI. SITUATIONAL ANALYSIS

This section presents the performance of MFIs with the spread of Covid-19 and imposition of lockdown measures on some selected indicators over the four months period (mid-March 2020 to mid-July 2020).

6.1 Saving mobilization, Lending and Borrowing

Retail MFIs are allowed to collect saving from their members; two old MFIs can even collect deposits from ordinary people from the selected branches. About 47 percent of lending was from saving as of mid-July 2020. With the impact of Covid-19, the first month[1] after the lockdown witnessed a rise of saving by 1.9 percent but the second month registered a fall in outstanding saving amount reflecting the withdrawal of savings by members to meet contingency need emerged from pandemic. The third month, in contrast to widespread belief and expectation, recorded the saving mobilization marginally increased by 0.23 percent. It shows that members started coping with the impact of pandemic and might have searched

[1] There were 20 days lockdown in the first month.

alternative ways of earnings and survival. With the partial opening up the economy in the last month of 2019/20, saving mobilization revived to a growth of 2.3 percent.

Table 2: Saving Mobilization and Lending

Rs. in billion

Indicators	mid-March 2020	mid-April 2020	mid-May 2020	mid-June 2020	mid-July 2020
Saving	102.08	104.04	103.79	104.03	106.15
monthly % change		1.9	-0.24	0.23	2.03
Lending	266.63	266.98	265.41	262.34	262.73
monthly % change		0.13	-0.59	-1.16	0.15
Borrowing	142.17	145.07	139.32	132.71	142.09
monthly % change		2.04	-3.96	-4.74	7.07

Source: Nepal Rastra Bank

MFIs lend both group based and against collateral (upto one-third of total loan portfolio). Immediately after the lockdown, lending volume of MFIs increased marginally by 0.13 percent. However, after that, lending declined continuously which showed that borrowers did not take out loan from the MFIs since they could not utilize it because of lockdown. Instead, it seems that some borrowers having some savings with them repaid their loans. In contrast to saving mobilization, lending from MFIs did not pick up much in the month ending mid-July 2020 despite partially opening up the economy.

Since there is no credit demand from the borrowers, MFIs' borrowing from banks and financial institution also declined after the first month2. MFIs seem to make early repayment to BFIs to reduce their liability and interest burden during the pandemic. Rate of repayment declined more than the decline of lending, which may be by lowering the available liquid assets. Despite slow credit up take, MFIs borrowing from other banking institutions increased by 7.07 percent in the last month of fiscal year with the hope of increasing loan demand in near future. Fall in borrowing rate because of ample liquidity in the banking system may also encourage them to borrow. It also seems that bank and financial institutions lent to MFIs just to meet the provision of deprived sector lending requirement at the end of fiscal year.

6.2 Capital Adequacy Ratio and Non Performing Loans

As per the regulatory provision, MFIs report capital adequacy ratio and non-performing loan (NPL) ratio on a quarterly basis. Hence, data are available for mid-January, Mid-April and Mid-July 2020. MFIs need to maintain 4 percent core capital and 8 percent minimum capital fund of total risk weighted assets as per the regulatory requirement. As a whole, though declining in the quarter ending in mid-April 2020, both core capital and total capital fund as percentage of risk weighted assets remained higher than the requirement. However, though overall capital adequacy ratio of MFIs improved in the quarter ending in mid-July 2020, four

[2] BFIs lend to MFIs as part of mandatory deprived sector lending regulatory provision, which is 5 percent of their loan portfolio.

MFIs could not maintain the required minimum capital fund by that time, but all of them maintained the required core capital ratio.

Table 3 : Capital Adequacy Ratio and Non-Performing Loans (%)

Indicators	mid-July 2019	mid-January 2020	mid-April 2020	mid-July 2020
Core Capital /RWA (%)	12.14	12.16	11.65	12.23
Capital Fund / RWA (%)	13.04	13.02	12.51	13.30
NPL (%)				
Wholesale	0.04	0.38	0.38	0.40
Retail	1.18	1.70	2.23	2.34

Source: Nepal Rastra Bank

Regarding the non-performing loans (NPL), there is slight upward trend observed. NPL of retail MFIs increased upto 2.34 percent as of mid-July 2020. Regulatory provision of maintaining loans classified as good in mid-January 2020 also to be considered good in mid-July 2020 helped MFIs to lower down the NPL ratio. Otherwise, it would have gone more than that. It is also seen from the increasing number of overdue borrowers in Table 3, which have increased from just about 167 thousands in mid-March 2020 to almost 1 million in mid-July 2020. Likewise, overdue loans increased by 6.6 folds in four months period though some decline observed in months ending mid-June and mid-July 2020.

Table 4: Overdue Borrowers and Loan Amount

Indicators	mid-March 2020	mid-April 2020	mid-May 2020	mid-June 2020	mid-July 2020
Overdue borrowers	167964	594565	784306	760490	981248
monthly % change		254.0	31.9	-3.0	29.0
Overdue loans (Rs. in billion)	6.85	33.30	46.92	46.15	45.04
monthly % change		385.9	40.9	-1.6	-2.4

6.3 Profitability and Sustainability

Because of hefty return in MFIs, private investors have attracted towards MFIs in recent years. Share prices of MFIs listed in the stock exchange have been remaining comparatively high because of prospective profit. Accumulated profit of MFIs (unaudited) was Rs. 5.52 billion as of mid-March 2020 before starting lockdown, but in subsequent months, accumulated profit continuously declined as low as to Rs 3.19 billion in mid-June 2020. With the partial opening up economic activities, MFIs became successful to collect interest payments resulting in increase in accumulated profit to Rs. 5.35 billion in mid-July 2020. This figure is still less than that of in mid-March 2020. In this way, MFIs showed some degree of resiliencies during the pandemic period. The number of institutions in loss was increasing until mid-June 2020 reaching as high as 27 MFIs. But, many of them improved their situation in the last month of fiscal year so that only 9 MFIs were in loss finally. Four MFIs which were loss as in March 2020 entered into the merger process.

Table 5 : Profitability and Sustainability

Indicators	mid-March 2020	mid-April 2020	mid-May 2020	mid-June 2020	mid-July 2020
Accumulated Profit (Rs. in billion)	5.52	4.82	3.45	3.19	5.35
monthly % change		-12.68	-28.42	-7.54	67.65
Number of MFIs in Loss	11	15	26	27	9
General Reserves and Retained Earning(Rs. in billion)	7.60	7.58	7.58	7.55	7.59
Number of MFIs whose Loss not covered by General Reserve and Retained earning	8	13	18	20	12
Accrued Interest (Rs. in billion)	2.63	4.37	7.16	8.68	4.04
monthly % change		66.16	63.84	21.23	-53.46

Source: Nepal Rastra Bank

Though the number of MFIs in loss reduced to 9, some of them have negative balance in general reserves. As result, institutions in loss are in fact about a dozen. Because of no repayment due to pandemic, MFIs' accrued interest went up to Rs. 8.68 billion as in mid-June 2020 from Rs. 2.63 billion in mid-March 2020. However, they managed to recover about half of accrued interest in the last month of 2019/20. Since the adverse situation has not come to normal, risk on profitability and sustainability is still high because of increasing numbers of overdue borrowers.

6.4 No. of Employees, and Borrowers

As impact of Covid-19, MFIs have cut employees by 346 because of the reduction of business activities. Although the number of members are stable, the number of borrowers declined by 66 thousand over the period of 4 months (Mid- March - Mid- July 2020). Such a decline in borrowers is continuously observed in all sample months. Even in the last month during which MFIs became successful in collecting due interest, decline in borrowers continued and further increased. It seems that given the gloomy outlook of economy due to impact of Covid 19, they repaid the loans early and did not take out new loan. Another reason could be due to movement of people from urban areas to rural areas because of fear of pandemic, borrowers might have broken the link with MFIs. This is not good sign for financial inclusion and post Covid-19 recovery. More importantly, it seems such a decline is also due to removal of duplicated borrowers with the improvement of credit information system by MFIs, as required by the regulatory provision.

Table 6 : Number of Employees, and Borrowers

Indicators	mid-March 2020	mid-April 2020	mid-May 2020	mid-June 2020	mid-July 2020
Number of Employees	19511	19672	19529	19363	19017
monthly change in number		161	-143	-166	-346
Number of Members	4683068	4691988	4691988	4683740	4686609
monthly change in number		8920	-	-8248	2869
Number of Borrowers	2849144	2848755	2844705	2818553	2783129
monthly change in number		-389	-4050	-26152	-35424

Source: Nepal Rastra Bank

6.5 Liquidity

Cash balance held by MFI remained mostly stable. Bank balance, however, declined during lockdown period but increased substantially in the month ending mid-July 2020; almost same trend is with money at call. Some recovery of interest payment, increase saving from members and borrowing from BFIs contributed to rise in bank balance and money at call. Investment in fixed deposit in mid-July 2020 remained lower than that of mid-March 2020. Overall, liquidity of MFIs declined in mid-May and mid- June, but bounced back in mid-July 2020.

Table 7: Situation of Liquidity

Rs. in billion

Indicators	mid-March 2020	mid-April 2020	mid-May 2020	mid-June 2020	mid-July 2020
Cash balance	0.32	0.38	0.34	0.41	0.38
Bank Balance	12.93	13.15	11.95	11.58	16.87
Money at Call	8.64	10.78	8.00	6.94	13.13
Investment in Fixed Deposit	11.08	10.49	9.87	8.98	9.49
Total	**32.97**	**34.8**	**30.16**	**27.91**	**39.87**
monthly % change		5.55	-13.33	-7.46	42.85

Source: Nepal Rastra Bank

VII. CONCLUSIONS AND THE WAY FORWARD

Because of Covid-19, like whole economy, MFIs have also been affected in many ways. Lending to borrowers has broadly declined due to lack of demand for loans. People, instead of borrowing and investing, prefer to save resulting in increase saving in MFIs. There was no observation of panic withdrawal of deposits from MFIs, however. In line with decline in lending, MFIs' borrowing from banks and financial institutions declined except in the last of month of fiscal year. Such a rise in the borrowing in the last month of the fiscal year seems to fulfill the deprived sector lending requirement by banks and financial institutions.

Because of weak repayment of loans, NPL ratio slightly went up but still far below the tolerable standard limit of 5 percent. NRB's soft policy on loan loss classification helped keeping NPL ratio at a reasonable rate. Impact of corona virus is yet to over, maintaining NPL ratio at a lower rate would be challenging task in the months to come. Increasing number of overdue borrowers and overdue loan amounts heralds the challenging time ahead to maintain the reasonable NPL ratio and survival of MFIs.

In the last month of fiscal year, MFIs successfully managed to recover about half of accrued interest accumulated until mid-June 2020. As a result, profit level bounced back to slightly less than the level of mid-March 2020; 16 MFIs which turned into loss during lockdown measures, finally managed to cover loss by the end of the fiscal year. Some MFIs in loss before lockdown have merged with others. Hence, the number of MFIs in loss declined by two at the end of fiscal year. This shows some degree of resilience capacity of MFIs and their borrowers.

MFIs cut their employment by 1.8 percent during the last quarter of 2019/20. More serious impact is found to fell on decline in number of borrowers by 66 thousands during the four months period, which is due to screening off the duplicate borrowers while strengthening the credit information system for MFIs. However, MFIs did not feel stress on liquidity though some decline observed in May and June 2020.

Despite bearing serious impact from lockdown measures adopted to contain Covid-19, MFIs showed some degree of resilience up to mid-July 2020. Since the spread of Corona virus still continues and we don't know when it will over, sustaining the adverse impact for a long time seems to be very challenging for them. Close contact with borrowers and focus on the areas and places which are not much affected by the pandemic need to be identified. Moreover, searching of alternative business areas and approach is required to survive through the crisis of pandemic. Collectively, MFIs can develop digital platform and new model for conducting microfinance business by lowering operational costs. They should be ready to bear some losses from their general reserves and capital with the hope of better future ahead. For small MFIs, the best option is to merge with other MFIs to sustain this type of big shock in their business.

The proposed availability of refinance facility to MFIs from NRB will obviously be supportive to get liquid fund at a very concessional rate to revive the business activities in the economy. But, the final revival is based on the response of the borrowers and their re-engagement in productive business activities. In this context, different innovative approaches are needed to find out collectively from all stakeholders engaged in MFIs to navigate this trouble time for reenergizing the business activities of people living in low income strata. Moreover, the impact of Covid-19 can further be researched through surveying clients of MFIs to find out the ways of coping the crisis period and recovering thereafter.

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