



## GROUNDVIEWS

### The Effect of COVID 19 on the Grassroots Financing Eco-System

#### About this report

A week into the COVID-19 lockdown, SELCO Foundation reached out to its financial partners, NGOs managing revolving funds and Sa-Dhan the representative body of MFIs to assess the immediate repercussions on their portfolios and the communities they serve. Around 17 financial partners were interviewed, via phone calls, in the last one week. The purpose of this report is to assess the near- and medium-term impact on their organization and the end-users. By creating this base line, SELCO Foundation wanted to come out with mitigation to prevent a potential collapse of the existing systems.

#### Context

The Covid-19 crisis came on the back of slow rural economy with climate change and market issues plaguing the agricultural sector. Further acute banking sector problems, with non-performing assets (NPAs) was not the ideal starting point in the first place. Added to these banking woes has been a generalized credit crunch in the financial system due to stresses in the non-bank financial sector. In response to the acute stress caused by the lockdown, critical steps are needed to secure livelihoods and calibrate policies in a manner that its injection and their sequencing is able to ease burdens of local enterprises and underserved populations.

As is widely observed the socio-economic collateral damage from the lockdown will have long term negative consequences. Huge swathe of India's population is in the informal sector: daily wage laborers, migrants, street vendors, construction workers- and the lockdown means immediate cessation of existing livelihoods for all members of the family. For agriculturists, dependent on seasonal harvests means an immediate loss with repercussions through the year or longer. A lockdown at home means they would require immediate access to financial support and essential services. The basic needs during the COVID crisis for poor are, in a small way, being met by grassroots NGOs who are on the front lines. They are able to effectively raise awareness, offer solutions in these critical times even to areas that are completely cut off. The government has also come with a number of measures to immediately cushion the impact but there still remains lots of uncertainty.

#### Observations and Insights

1. As livelihoods came to a complete halt, chances of timely repayments, if any, remains uncertain. The Reserve Bank of India has directed the Banks and NGOs to effectively implement a moratoriums of about 3 months. However, there is a recognition that once this period is over the burden will continue to remain and it will be difficult to retrieve repayments. There is also concern on FIs who are not participating in the moratorium extension and its implication on intermediary NGOs and their capacity to collect. Further, the collections methodologies have come to a standstill as agents cannot travel. Local Administration have issued directives to do online payments but this is not possible for people unaccustomed to this and who do not have access to data.

2. NGOs managing revolving funds and MFIs are also concerned about their ability to manage. They have been running on tight budgets and need immediate cash inflow to meet the overheads.
3. There have been Important announcements by Finance ministry and RBI but they will have a lag of 2 months.
4. Given the challenges of reaching internal areas, larger NGOs have got in contact with smaller grassroots who have better reach underlining the important role of community outreach of such grassroots NGOs and MFIs.
5. The major concern is in the agriculture sector. March is the month of harvesting and the crops are lying in the field and the farmers are not allowed to sell it. It would be a great loss for the farmers. Some organizations have discussed with respective local administration and they agreed to help the farmers in selling their produce: such examples need to be replicated
6. In Northeast areas distances to travel to nearby ATMs is 30-60kms and there is no guarantee of money availability. Require support to help people get liquid cash once the lockdown is slowly lifted.
7. Recent reforms in draft CSR guidelines have committed trusts and societies causing grave concern to local partners who struggle with FCRA regulations and are dependent on this domestic philanthropy. This is a lifeline for many grassroots organizations and at this time this money is needed for them to support the financial eco-system.
8. Hence, broader implications for the program in terms of restructuring. Ex. Interest rates for the next 6 months can be reduced to additionally provide some relief.
9. Due to the financial pressures, getting new loans for new livelihoods or mechanization of equipment or for consumptive purpose etc. will be delayed.

### **Action**

1. RBI announcement on moratorium period of three months - Still the loanee are supposed to pay after 3 months of relaxation. There will also need to considerations towards ensuring continuity of repayments and extending moratoriums. Most of them are working in unorganized sectors and how would they manage to pay. Efforts need to be made with networks like Sa-Dhan to the RBI to consider lowered interest rates during the 3 month moratorium and also in the subsequent months to ease the burden for the poor.
2. Important steps by ministries to front load outstanding payment can help inject much needed liquid cash at this time. For example, Ministry of Panchayati Raj has issued circular to liquidate outstanding wages and material dues under MGNREGA.
3. Revolving funds will need to be restructured to consider moratoriums and interest subsidies as opposed to increase loan term which will still pose a burden.
4. Engage with Ministries of Corporate Affairs (MCA) on the draft CSR policy to include trusts and societies particularly given the extensive reach that they have. Recent announcements by MCA and Amitabh Kant have also provided credibility to role of CSOs in light of COVID.
5. There needs to be encouragement and incentives for fresh loans such as crop loans, healthcare- even if earlier loan is pending to avoid desperation to go to money lenders. With MFIs in a difficult situation with meeting operational budgets, small loans will be scarce and therefore imperative for all financial institutions to step in.