# Transforming Economies Through Microfinance in Developing Nations

Yahaya Alhassan
*University of Sunderland in London, UK*

Uzoechi Nwagbara
*University of Sunderland in London, UK*

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E-Mail: cust@igi-global.com • www.igi-global.com

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**Satheesh Pandian Murugan**
*Arumugam Pillai Seethai Ammal College, India*

**Shivaprasad G.**
*CMS Business School, India*

**Dhanalakshmi A.**
*Acharya Bangalore Business School, India*

**Sriram V. P.**
https://orcid.org/0000-0002-7105-0713
*Acharya Bangalore Business School, India*

**Kanchan Rajput**
*ISBR Research Centre, Bengaluru, India*

**Mahesh B. N.**
*Surana College, Peenya, India*

**Chandan Chavadi**
https://orcid.org/0000-0002-7214-5888
*Presidency Business School, Presidency College, Bengaluru, India*

**Dhanabalan Thangam**
https://orcid.org/0000-0003-1253-3587
*Presidency Business School, Presidency College, Bengaluru, India*

**Shaila Kedla**
*Acharya Institute of Graduate Studies, India*

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## ABSTRACT

*The COVID-19 pandemic has interrupted operations throughout the world. It also forced all the industries towards unprecedented changes of their business operations, and in some cases, it pushes the businesses to shut down their operations either partially or fully. The microfinance industry is one of the sectors that was affected badly by the pandemic. As a result, microfinance institutions were forced to do some considerable changes to their domestic processes and make tricky decisions to decrease their loan issue process while the loan is required mostly by the borrowers or dropping employees' salaries. In the same way, microfinance customers were also affected. It forced business units to close their operations, and as a result, it condensed revenue generation. Customers also faced the tortuous brunt from the interrupted business support which were frequently incompatible and inadequate for public support. As a result, few customers have realized better income generation during the pandemic.*

## INTRODUCTION

The covid-19 pandemic crisis causes danger to all sectors, including health and economic sectors across the globe. As a result, it is a challenge for the weaker section of people in developing economies. This section includes farmers, artisans, Informal workers, and micro and agro entrepreneurs, and all of these people got affected by rigorous financial in connection with covid-19 related safety measures such as lock-down and social distancing taken to dissolve the occurrence. Meanwhile, the weaker section of people is resilient, and many of them depend on microfinance support for their survival. Microfinance services support clients with a margin of suppleness to manage the urgent situation when overtly funded security nets fall short. This Covid-19 pandemic collapsed all the sectors and industries, of which the microfinance sector is one. Especially its impact on the Indian microfinance industry is more. Further, this sector also faced a faced huge crisis after the demonetization process initiated by the Indian Government. As micro and small loans are serving a lot to large number of people who runs micro and small medium enterprises, predominantly in unorganized employment domains (Singh et al, 2021). Thus, Microfinance institutions playing key roles in business lending, have to be prepared to seize moderate risk for enhanced financial returns and customers who require non-securitized loans to carry out their livelihood activity. According to the MFIN report 2021-22, the microfinance sector has been serving 3.44 crore customers by providing Rs. 74,371 crores worth of loans and other products. It means, on average Rs 22,000 has been issued as a loan for all the microfinance accounts, further, it has the potential to increase the loan amount by 6 percent year on year. As far as the return on investment is concerned, this sector has a strong position in the social as well as economic returns. As a result, this industry has deployed a huge amount of money to a large number of customers, for prompting their livelihoods (MFIN, 2022). The MFIN report also reveals that the industry has received Rs. 42,250 crores as liability and Rs.16, 200 crores as equity, and it is 33% more than the preceding year. It also understands from the same that the requirement for the loans has been increasing every year along with higher lenders' trust. This industry is following the principle of 'secure contact, reliance, and financing sustainable livelihoods. On one side this sector supports micro and small medium enterprises and businesses; on the other side, it creates huge employment opportunities in the organized and unorganized sectors. It was also stated in the report that, even at the time of the pandemic this sector offers 2.5 lakhs employment opportunities to the individuals working in the field, it also conducts online meetings with customers to tenacity their doubts connected to business and personal sustainability, finance related, meeting of government rules and regulations about the pandemic, and other personal support related to Covid-19 health management. This sector also offers employment as well as business support to the customers who have taken the loan, other than their company employment. As a result, more than 3.5 crore customers have benefited from this process. In such a way that this sector has sanctioned income-generating loans to individuals for transforming personal as well as family members. Thus the microfinance industry has contributed a lot to personal, social, and economic ways, however, Covid-19 has collapsed drastically. The Covid controlling measures such as lockdown and social distance have killed almost all the businesses, but the worst case was those who are with smaller or no financial reserves and functioned highly cash oriented. It also buckled the micro and small medium enterprises worst. As a result, the pandemic has ultimately diminished the earning capacity of the business, and their impacts have been reflected on the microfinance customers, as they were not able to repay the loans (Singh, Brown, Chelekis, Apostolidis & Dey 2022).). This chain has also become a menace to the existence of the microfinance industry, even though the government is taking steps to regularise its business operations through deferment of loans. Though microfinance institutions have their requirement and credit needs, the post-Covid-19 period has put this industry under pressure with a sudden rise the income generating loans and more repayment periods. The situation has paved a way for the new way of mergers and acquisitions in the sector with the more financial restructuring. The pretentious income flow of businesses in turn pretentious their microfinance business entities and therefore the banking and financial institutions are at a high level of risks such as unemployment, business shutdown, and so on. As a result, the problems of unorganized sectors have existed at all levels of the industry to date; it has also affected the workers in various big cities, business proprietors in various cities and towns, and rural areas.

Due to this issue, Microfinance Company people are anticipated to face a somber financial crisis during Covid-19; as a result, space between income and functional expenditures is mounting with diminished financial reserves. Such adverse issues can minimize financial circulation; however it may not be a problem for long-standing microfinance institutions or the company with strong and steady financial backup, but is adequate to trouble micro and small size of microfinance institutions (Astawa, Astara, Mudana & Dwiatmadja 2021). Further, the microfinance institutions with constant financial flow, entrenched technology support, and brawny hold on the society have more potential to stay alive during and after the covid-19 pandemic. However, the operations of the microfinance industry are not only got affected, but it has affected gradually the other large financial institutions operating like the microfinance institutions such as private and public commercial banks, and other investors. Even in the year 2008, the entire world witnessed a financial crisis due to the financial disorder that happened in the United States real estate and financial sector. However its impact has moved only to the banking and real estate industry, and the rest of the industries were operating normally. But, the Covid-19 pandemic is not like that; it has collapsed all the industries more radically and caused sudden consequences, and stretched swiftly to all sectors (Zheng & Zhang, 2021). As a result, this pandemic halts the entire economic cycle immediately of the disgusting demand and supply of the market simultaneously. Ultimately, this effect has stopped the operations of Micro, Small, Medium, and even larger enterprises, and forced them to use substitute channels to disseminate information about the goods and services to the customers and clients. As a result, many micro and small enterprises including microfinance institutions have been unable to cope with this situation, and have suspended their business operations, shut down their financial activities, and made the workers and owners lead their life without jobs and income. The same kind of situation also stressed microfinance institutions to face the internal confronts to continue their mainstay business process during the government-initiated shutdowns, lockdowns, and social isolation rules (Sawada & Sumulong, 2021).

With this backdrop, the present chapter intended to disclose the impacts made by the covid-19 on the microfinance industry and its various stakeholders.

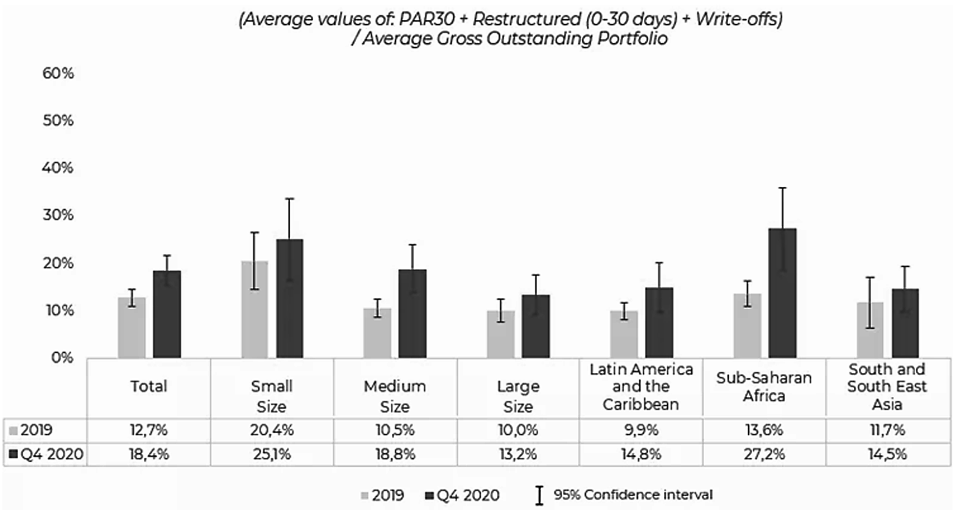
## MICROFINANCE INDUSTRY DURING COVID-19 – GLOBAL OUTLOOK

The covid-19 crisis has affected the microfinance industry badly throughout the world; however, the Indian microfinance industry has managed itself better than the microfinance industries functioning in the rest of the world. Though the performance of the Indian microfinance industry looks good during the pandemic, it was not free from numerous problems for the microfinance industry. The problems include credit disbursement, collection of loans and EMIs, repayment problems, the problem of contacting clients, and restructuring of internal operational systems and workflow. Ultimately its impact has reflected on the performance of microfinance institutions in different ways in different regions of the world. Even though the impacts are not depending on the locations of the microfinance industry in connection with the pandemic prevalence, however, it has been depending on the kinds of services provided, and the internal operations followed. For providing loans, microfinance institutions used to accumulate savings and depend on deposits. Many microfinance institutions in the Sub-Saharan African region depend on the deposits for making loans and such kinds of institutions were affected deeply, but such kinds of issues have not been witnessed in India, because the Indian microfinance institutions have not authorized to take deposits (Ufua et al, 2022).

Indian microfinance institutions are using digital technologies in their business operations capable to move forward with advanced ways of communication with the customers and carry out the business digitally without any kind of delay. However, there are countries in the world such as Central Asian countries, some African counties, Latin America, and Central American countries that were affected worst, as these countries have been following conventional business practices such as meeting the clients in person, material contract with clients were rigorously distressed by the movement restrictions due to the pandemic (Bisht, Trusson, Siwale & Ravishankar, 2021). Regarding this issue, the Consultative Group to Assist the Poor (CGAP) and the rating agency Micro Finanza Rating (MFR) joined together and conducted a study with 400 microfinance institutions from June to December 2020. The key findings of the study reveal that from 2019 to 2020, the credit risk of the microfinance institutions assesses the risk in the underlying credit portfolios by integrating the portfolio at risk after one month (30 days) (PAR30), the write-off and restructured ratio have been increased by 45% on an average. Microfinance institutions operating in Sub-Saharan Africa revealed that there was the highest credit risk point found in 2020 (Ampaw et al, 2022). The same has been presented in figure 1.

It is noted that not all the microfinance institutions indicated extra financial support during the pandemic crisis, around 55% of microfinance institutions in Central Asia (ECA) and Europe region reported no additional needs for credit, and 23% of microfinance institutions revealed that their financial needs have reduced. Where in the case of the Middle East and North Africa, Sub-Saharan Africa, Latin America, and the Caribbean regions about 31% of the microfinance institutions have revealed that there were funding needs that are between 25% and 50% more than what had been planned before the Covid-19 pandemic. Irrespective of the sternness and occurrence of the covid-19 pandemic, microfinance institutions have taken appropriate steps to solve the crisis. Thus microfinance institutions have made different modifications to

*Figure 1.*
*Source: www.cgap.org*




their business operations, risk management techniques, and customer relationship management practices. Thus, many microfinance institutions have executed their business process strategies, predicament management, scrutinizing committees, and consulted with shareholders and other stakeholders.

Even though various confronts and problems have happened due to the pandemic crisis, there are productive outcomes have also happened in the microfinance sector. Due to the pandemic crisis, microfinance institutions have been forced to go with digital transformations, and thus pandemic enables them to operate the business in the new digital environment (Benni, 2021). Through this transformation, microfinance institutions have realized the virtual business world and thereby it has promoted competitive advantages in their operations. On the other side, this pandemic also stimulated microfinance institutions to explore new opportunities in the markets and to develop and promote new financial products. In a manner, this pandemic will support a lot the resilience of the microfinance institutions in the days to come (Bai, Quayson & Sarkis, 2021).

## IMPACT OF THE COVID 19 PANDEMIC ON THE MICROFINANCE INSTITUTIONS

As the Covid-19 pandemic started to occupy the countries, it forced them to move towards lockdown. As a result irrespective of the size and nature, all the business units have stopped their operations, excluding vital and medical services. However, the micro, small, and medium enterprises were affected, as they highly depend upon finance for their day to operations. This, in turn, unfavorably affected their bankers and microfinance institutions: Before the announcement of lockdowns, microfinance institutions have largely depended on corporeal relations with clients and had been following the door-to-door business services and collections and loan disbursements. In such a situation, this lockdown and business shutdown harmed cash collections and loan disbursements, as the governments restricted the people and business movements during the early times of the pandemic. As a result, around 99% of the microfinance accounts come under moratorium in May 2020 (Vampa, 2021). Thus it has been confirmed that the repayment would not happen for the next three months. As the customers were already under financial pressure even to fulfill their basic obligations, ultimately this impact has affected microfinance institutions and put them under financial issues. However, at the beginning of 2021, Indian microfinance institutions received huge demand for financial needs from 62 million customers, located in 620 districts in 28 states and eight Union Territories. As a result, though the pandemic has prevailed, the industry has estimated a business portfolio worth Rs 2.35 trillion. Thus, the pandemic is impacted the microfinance industry in one way, it also has opened a positive door for microfinance institutions in another way. The detailed impacts of covid-9 on the microfinance industry have happened in two ways, one on the clients and the other on microfinance institutions (Kumar, Sahu & Kumar, 2021). They are explained as follows;

## BRUNT OF COVID-19 ON CLIENTS

It is easy to understand that almost 85% of microfinance customers or clients have been got affected directly or indirectly by the pandemic. Governments' covid-19 safety measures have affected the clients directly and forced them to shut down or close their business operations for the time being due to various personal causes such as physical condition or safety of the family. On the other side, this pandemic also created some indirect impact, by disrupting the business processes, and supply chains and diminishing the requirement for some of the goods and services produced by the microfinance customers (Onuka & Oroboghae, 2022). Apart from this it also has created so many issues on Business permanence, Business concert, Employees and Salaries, and Future Outlook.

### On Business Permanence

Covid-19 has changed the entire business operations differently and forces business organizations to change their working style like working from home. Even the business units are considered essential for the society forced to alter their business style along with social distancing procedures and augmented hygienic requirements. On the other side, many numbers of businesses such as street vendors, saloons, and beauty shops, have stopped their business operations, and consequently got affected worst. Petty shops, grocery shops, all sorts of markets, personal and common transports, the construction industry, and workers have been forced to close their operations or asked to reduce their business operations considerably (Abed, 2021). However, some of the sectors like agricultural sectors, have been free from such controlling activities, and their direct and instantaneous brunt was less marked, however, it is a provisional phenomenon due to the characteristics of agriculture and the period between production and sales. This pandemic also paved the way for business people in so many ways, such as conducting business activities through a new types of platforms such as digital and online (Boiral, Brotherton, Rivaud, & Guillaumie, 2021).

Thus the business people have practiced more domestic changes to do business in new ways. However, the businesses which are unable to accommodate the new ways of doing business due to their nature have continued the business with sanitized and social distancing. Business units that have manifold operations cost better than one process business enterprises because not every business line had to suspend or dawdling down at a similar time or a similar rate. Further, there are a considerable percentage of business people, for some microfinance institutions getting 22% of their client base, who pendant their business activities willingly out of fear of getting contaminated or due to their circumstances. However, it is exciting to note that even though the conditions may be hard, and in some cases, the probability of resuming the business or recurring to the pre-pandemic levels of performance may be little, the number of business closes among microfinance customers is very little. Because the majority of business owners are running the business hopefully, try to prolong though the way of doing is likely to be diverse (Alshater, Atayah, & Khan, 2022).

## On Business Concert

CGAP and MFR survey report reveals that, though many microfinance customers have got affected badly by this pandemic, a small number of customers mentioned that they have not experienced a reduction in sales, and in return, against this very few numbers customers affirmed that there is an augment in business. However, many of the micro, small, and medium enterprises have faced issues of reduction in revenue considerably, due to the decline in sales, even though customers are in different sectors such as hospital and medical industry, real estate, manufacturing industries, information, and communication technology, and home-based handmade businesses have realized a slighter decrease in income. To face this adverse situation and to continue to exist in the business, many numbers of microfinance customers start to use financial support steps implemented by the governments. However, these supportive steps have their limitations, conditions, and time, and thus supportive steps or measures are not suitable for many businesses such as micro-enterprises, and small-scale entrepreneurs because these measures were constructed to fit the medium and larger size businesses (Kurter, & Husseini, 2021). Further, in some cases, government assistance is available for such kinds of micro-entrepreneurs, but they are not able to furnish suitable and sufficient data, as there is no clarity in the existing programs.

## On Employees and Salaries

Many of the micro-enterprises do not have employees, as they have been utilized the family members for the same. Thereby they can save income from the business. On the other hand, well-established companies have provided holidays to their employees along with salaries. Some companies and organizations have transformed their working style to work from home, and some of the government units and their supported programs provided salaries even during the pandemic. However, the employees who have been working in private institutions such as school and college teachers were in the worst situation as their salary has been reduced to continue their employment. The worst part here is a one-third of microfinance customers have come under this category and they found it difficult to repay the loan even after the moratorium period (Zheng & Zhang, 2021).

## On the Future Outlook

Most microfinance customers have thought that once the pandemic-related safety measures have lifted, their financial situation will back to pre covid-19 situation, though this confidence is not absolute. Many customers also anticipated that the government will provide supportive measures to stabilize the financial system during the evolution period. However, there is also a conviction that the financial recovery may be extensive and sluggish. The more negative viewpoint on the prospected revival is more difficult among the entrepreneurs in the urban side than in the rural area. But still, more entrepreneurs are worried about their business sustainability. As a result, they are not able to measure their capacity to resume their business operations and they have also not been able to forecast what kind of support will be suited more (Yeboah, Antoh, & Kumi, 2022). However, the CGAP and MFR survey report reveals that around 25% of the customers mentioned that they won't borrow loans in the future due to financial uncertainty and the wounded incurred during the pandemic.

## INSTITUTIONAL BRUNT OF COVD-19 ON MICROFINANCE

The effect of the covid-19 pandemic on microfinance organizations has been sensible and most microfinance institutions altered themselves to change rapidly according to the new circumstance. It is also heard that none of the microfinance institutions has experienced significant financial losses that would compel them to leave the business or put them near the precarious edge of bankruptcy. This situation exhibits the status of microfinance institutions for managing an emergency and the flexibility of their functional and administration structures.

### Portfolio Performance

Not like microfinance institutions in different countries that experienced significant crumbling of portfolio value, the Indian microfinance institutions could maintain the risk levels and even develop them further corresponding to the pre-covid-19 time frame. Microfinance institutions in countries like Herzegovina, Bosnia, and Macedonia have remained constant and their portfolios demonstrated remarkable execution. Microfinance institutions in many countries experienced development in their business Standard, for some circumstances regardless, replicating the PAR30 during the pandemic yet this addition was from a low beginning Standard number, for example from 2.2% to 4.6% as definite by one microfinance institution (Bika, Subalova & Locke, 2022). However more PAR30 results have been recorded by some microfinance institutions in north India, but again, these greater numbers reflect crediting by these affiliations which base on new organizations and starting stage associations whose ability to get by during the crisis is a ton lower than that of extra spread out adventures. However, PAR30 estimations itemized by microfinance institutions are not upsetting and don't depict a huge rot in the idea of their portfolios. And these larger numbers mirror the idea of loaning by these microfinance institutions which center around new companies and beginning phase organizations whose capacity to make due during the emergency is a lot lower than that of additional laid out ventures. In précis, PAR30 measurements detailed by Microfinance institutions are not disturbing and don't illustrate a significant decay of the nature of their portfolios. Nonetheless, this underlying end should be qualified in some measure in two ways. In the first case, numerous controllers permitted the rescheduling of credits under the pandemic alleviation programs and permitted the incorporation of these rescheduled advances as a feature of the customary portfolio, successfully regarding them as performing credits. This anyway these credits may not be performing, hence the accessible measurements on PAR given by MFIs, albeit precise and accurately determined by the administrative prerequisites, may not mirror the genuine nature of their portfolios (Adhariani, 2022). The genuine nature of the portfolio may be realized after the moratoria terminate which will occur generally speaking before the year's over. Second, surveying the full effect of the pandemic on the monetary circumstance of the borrowers is still too soon. Numerous borrowers had the option to exploit different help estimates proposed by the legislatures and the Microfinance institutions themselves and had the option to meet their monetary responsibilities and continue to take care of their advances. This might change when such help measures are presently not accessible soon.

## Demand for Credit

To be expected, the interest for advances and loans has diminished, particularly toward the start of the pandemic when the circumstance was very muddled about the future and there was little craving concerning the clients to draw more credit. The circumstance anyway shifts from one microfinance institution to another, and nation to nation. Some Microfinance establishments have encountered a critical decline in credit applications during the pandemic time frame, and they don't see an inversion of that pattern. The credit payment of new advances diminished considerably by 62% and something else for a few Microfinance establishments in correlation with the pre-pandemic time frame and comparable period the earlier year. However, most Microfinance organizations see considerable expansion for new advances, particularly in the long stretch of June and July when the economies began to re-open and there was greater clearness about the market interest and business open doors. Be that as it may, this new interest is unique from the interest previously. Credits that are mentioned are for more modest sums and they are prevalently for working capital purposes to take care of the ongoing working expenses. Barely any credits are looked for venture and business extension, which is predictable with the proceeded vulnerability of the ongoing circumstance and the business viewpoint for the not-so-distant future. Notwithstanding, since banks have diminished loaning, Microfinance institutions might have the option to catch another section of independent ventures subsidized up to the point provided by banks (The Hindu,2022).

## Credit Rationing

Poor by clients for new advances is additionally coupled in certain occurrences with deliberate credit apportioning by Microfinance institutions due to three reasons. Some Microfinance organizations viewed themselves as liquidity obliged and needed to restrict the dispensing of credits mentioned to match their capacity to finance the new advances. Regardless of whether the Microfinance institutions had adequate liquidity to subsidize new advances, some have acquainted limits on payment to bring down the credit risk during questionable times. Furthermore, most Microfinance institutions have changed their financial risk evaluation strategies and methodology which prompted more tough credit appraisal and a rejection of specific business exercises that might be viewed as riskier according to the perspective of the covid-19effect (Kizza & Samali, 2022).

## Product Offer

In the overall understanding, Microfinance institutions didn't change their financial products offered by them, even though they might have changed a portion of their elements and qualification models, for instance by offering interest-free periods for the initial three months of the credit. Some of the Microfinance institutions presented new financial products that were explicitly intended for and persuaded by the ongoing emergency. These were generally transient liquidity products to assist the customers with conquering temporary money deficiencies and business needs. This was the situation when the governments and social interest organizations presented exceptional crisis loaning schemes for micro and small companies during the Covid-19 outbreak. At times Microfinance institutions were qualified for receiving financial support from such projects (Yeboah, Antoh & Kumi, 2022).

## Working With Clients

Microfinance institutions have changed their communication pattern with customers decisively during the covid-19 outbreak. The failure to make site visits to the places for offering and collecting loans made a need to open up a new mode of communication platform digitally which has been utilized by most of the Microfinance institutions as of now somewhat and has now been extended. They also began to utilize different digital communication platforms such as Whatsapp, Google meets Zoom, Skype, and the like. Through these applications, they have sent and received credit application forms through smartphones. Further, they have changed specific techniques and necessities to match what is going on, for instance, it ensures paperless financial transactions through electronic archives when it is viable and permitted. Though it is looking like a challenge to say for those who are not willing to change the communication process. However, microfinance institutions needed to roll out various domestic improvements in their business operations and processes; however, customers had additionally to figure out how to impart utilizing new apparatuses. Even though people have smartphones, it is difficult to expect that each customer will know how to convey the necessary records in the computerized structure or have the option to digitally sign the credit reports and documents electronically (Gabbiadini et al, 2021).

## Risk Management

Many of the Microfinance institutions chose to change and alter their business operations to reduce business risk and manage the business better manner amongst the Covid-19. Changes incorporated the utilization of time for issuing and collecting loans, the decline in the credit limit, and changes connected with new financial regulations directing business operations. The new risk management strategies may reject specific kinds of business operations or reduce their operation in some part of the credit portfolio. However, some Microfinance institutions chose not to change the policies related to risk management, until the tragedy is over (Thomas, & Kumar, 2021).

## Internal Operations

Microfinance institutions throughout the world were forced to follow lockdown and social separating guidelines which have considerably influenced their business operation plans. As they have to follow the work-from-home guidelines, all of which required a significant change in their work and communication patterns. As a result, many of the microfinance institutions shut down their usual office and moved to a collaborating space for gatherings, depending generally on telecommuting. Telecommuting and a virtual joint effort were especially hard for credit officials who are having direct and personal contact with customers. Further, these institutions kept on working out of their workplaces needed to oblige the prerequisites of social separation and with protective measures like masks, hand gloves, sanitizers, and other preventative measures (Gabbiadini et al, 2021). Yet another change was made with online credit applications and online loan instalment frameworks that would permit customers to apply for credit and make payments through digital platforms. At present, microfinance institutions start to offer internet-based credit applications and repayment solutions even though more work needs to be developed in this regard. Some of the Microfinance institutions in India that initiated the digital business process before Covid-19 lined up with the conventional credit application procedure and saw an expansion in the utilization of the digitalized applications during the pandemic (Thomas, & Kumar, 2021).

## Financial Management

Though the pandemic has shaken the entire business, the performance of the Indian Microfinance institutions looks good; however, some institutions have had initial problems with liquidity which was one of the significant problems in the beginning. Against the same, some Microfinance institutions began the financial year with a good liquidity position and didn't encounter liquidity deficiencies. Simultaneously, poor credit demand facilitated the strain on liquidity. While some microfinance institutions ran into liquidity deficiencies issues to get financing under marked agreements with the investors who were hesitant to dispense cash during the Covid-19, meantime the investors had fostered a unique liquidity pattern that gave transient monetary help to the microfinance organizations (Ngumo, Collins & David, 2020).

### Cost Reduction

Few Microfinance institutions in India demonstrated that they had to decrease their functional expenses to have the option to endure the emergency and to be in great monetary standing. The cost cuts included disposal of certain costs, for example, preparing and proficient turn of events, bringing down wage levels, furloughing, or laying off staff, and deferring making specific ventures till after the pandemic (Elzahi Saaid Ali, 2022; Ngumo, Collins & David, 2020).

### Impact on the Future Operations

The pandemic has affected microfinance institutions and their future. As a result, they are needed to reach normal operations to get typical appearances that won't be what they used to be. The changes made by the pandemic are probably to stay with microfinance institutions and make them continue their business processes more digital than before (Gott, 2022). Thus the pandemic has formed a new way of credit creation and delivery by transforming conventional business processes into modern and digital.

## STAKEHOLDERS RESPONSES TO THE CRISIS CAUSED BY THE PANDEMIC

Organizations on all levels are responded to the arising wellbeing emergency offering different help components inside their area of capability and authority.

### Microfinance Institutions

Though the microfinance institutions are working in specific circumstances and organizational climates, they could able to react against Covid-19 emergency times. However they have not been using all the methods and approaches the same, but they have implemented changes in Domestic Business Operations, loaning procedures, Loan reforms and Emergency loan sanctions, customers relationship, supporting customers to revive themselves and their business, risk management procedures, cash management, and other related measures.

## Domestic Business Operations

Microfinance institutions needed to adjust their domestic business operations according to the prevailing emergency. For the same, some of the actions have been incorporated. They are:

Execution of a Business Progression Plan: Microfinance institutions frequently disregarded and failed to remember the methodology tracked down their utilization during the emergency to change the association to the new circumstances and reassign liabilities diversely that during typical tasks.

Shifting Online Work Platform: The majority of the microfinance institutions in India have moved to online and digital work platforms, by forcing the staff to do the job digitally. Indeed, even with the facilitating of limitations on association and maintaining individual distance. Thus, microfinance institutions keep on working on the digital platform even though some decided to get back to the individual and personal contact with customers gradually.

Workplace Safety and Preventive Measures: Covid-19 also forced the companies to go with new kinds of safety and preventive measures including wearing a face mask, applying sanitizers, social distancing, clean and hygienic workplace, and coordination with stakeholders (Tehulu, 2022).

## Lending Process

The new loan issuing process has been tightened and several loans sanctioned have also been restricted by the microfinance institutions. It is due to the dual effect of less customer demand for loans and a reduction in credit supply due to the mounting risks of a pandemic. However some new types of loans have also been designed by the microfinance institutions and need to manage the existing loans constant basis, otherwise, it will create a challenge to the business process, loaning procedures, and financial management systems (Karibo, 2022). The following are the most common adjustments done by microfinance institutions with respect to lending:

*Online Credit Applications and Credit Endorsements:* Due to the pandemic outbreak most microfinance institutions had initiated online business processes such as issuing applications through digital mode and receiving cash through electronic payments; thus the pandemic promoted digital credit applications and avoided other forms of the application process. As result microfinance institutions and clients start to embrace the digital way of doing banking.

*Online Loan Distributions and EMI Collections:* Microfinance institutions forced to adopt the digital process in their business to pay out cash and allow cash settlement of loans had to rapidly expand digital business options using digital banks, smartphones, or other card payments.

*Digital Business Monitoring:* Due to the government social distance protocol, in-person and onsite supervision was impossible; as a result, microfinance institutions start to use various digital communication platforms to monitor customers and their capacity to pay back their loans. In such a process various contemporary technologies such as Whatsapp, Google Meet, Zoom, Skype, and Viber, are most suitable for smartphones as most customers have a smartphone with video potential.

## Restructuring of Loans and Urgent Lending

Loan rescheduling was a common aspect followed by microfinance institutions during the early months of the pandemic, as well as launching new products for emergency lending. In connection with this the following measures were adopted by the majority of the microfinance institutions:

*Restructuring of and a Moratorium on Loans*: Microfinance institutions launched different forms of moratorium schemes on repayment and restructuring of the loan, as a result, there were variations have been existing in the execution. While some of the microfinance institutions offered to restructure loan facilities to all customers, the mainstream took a more restricted move towards offering a moratorium on a case-by-case base, and as a result, loans have been restructured to those who requested. The majority of the loan rescheduling happened on a basis of the departure of the microfinance institutions with an option to demand repayments as early as the customers restarted their business (Dandapat & Das, 2022).

*Launch of New Financial Products:* Microfinance institutions restricted considerably their new loan sanctioned volume, while some microfinance institutions launched new financial products to combat the Covid emergency and to maintain their customers with cash during the pandemic. However such new financial products' demand was not up to mark among the customers as they may not be eager to take on extra burden in the uncertain period.

## Customer Communication

Microfinance business is popular for its relationship with customers, and it is happening through onsite communication with customers. The communication might have been personal and friendly before the pandemic, but it forced us to move from an onsite to a virtual platform by using digital technologies (Dandapat & Das, 2022). For the same many microfinance institutions used two approaches, as follows:

*Credit Officer Interactions:* Credit officers used to interact with their customers to ascertain their condition during the pandemic. In many cases, clients were getting in touch at least once, and frequently, credit officers uphold regular communication with their customers during the pandemic.

*Customer Opinion Surveys:* Microfinance institutions conducted an opinion survey among customers to study about confronts and to provide better measures based on the range of the exertions faced by customers.

## Conducting Awareness Programmes for Clients and Their Businesses

Although, microfinance institutions did not provide support for business development services to their customers, conducted awareness programs through online training and webinars on various contemporary business areas. While some microfinance institutions were also providing coaching and mentoring services to their customers to aid them to move forward. Even though it did not happen homogeneously and consistently, numerous microfinance institutions provided pertinent information about various business financing opportunities and other relevant supportive programs available with State and Central governments to ensure that customers take benefit of such financial assistance programs (Masanyiwa, Chusi & Haji, 2022).

## Risk Management

Microfinance institutions have introduced transformations in their risk appraisal process even though not every alteration was yet established as bureaucrat rules and regulations. The policy transformations mostly related to the disclosure of a business to possible risks shaped by the Covid such as the impending effects of social distancing on the capability to run a business or the place of a business. These provisional changes will be incorporated into the usual rules and regulations when these perils are understood better and can be calculated.

## Liquidity Management

Despite the early pandemic fears, only a few microfinance institutions have reported that were in cash problems, they had to diminish it, if not suspend lending and diminish expenses in the short period. Meantime, microfinance institutions were capable to collect finance from their lenders and investors under the existing contracts; others had to enter into rough discussions to take delivery of funding. Larger microfinance institutions were capable to attain cash support from local banks to plaster their cash deficiency to pay wages and other existing expenses. Those microfinance institutions that were unable to accumulate the essential finance had to initiate more radical measures like plummeting staff remuneration. On the other hand, most microfinance institutions fell into financial crisis in a comparatively strapping liquidity situation which aids them to continue to exist against the pandemic with no major negative impacts (Masanyiwa, Chusi & Haji, 2022).

### Other Measures

Besides the above-revealed cases are the most ordinary responses to the crisis caused by Covid-19, as a result, every microfinance institution has used various essential measures towards the context of a country as well as the requests of the confined authorities. In many cases, the majority of the microfinance institutions acted autonomously or through their national associations, wrote letters to their respective government agencies, and requested support for their financial institutions as well as their customers.

## Microfinance Investors

The reactions of the investors towards microfinance look like an assorted one because it took an unadventurous move towards lending microfinance institutions to those lenders which presented supplementary financial support along with other help during Covid-19 (Czura, Englmaier, & Spantig, 2022). In a manner various compassionate measures were initiated by the lenders and financiers consisting of the following:

*Prolongation of financial support to microfinance institutions and continuing former agreements:* even though it is not common, the majority of the investors desire to continue the pending promises to microfinance institutions, without additional due diligence and inspection, as they needed funding support.

*Rearrangement arrears:* In many cases, the lenders and investors of microfinance have been ready to renegade settlement of due by microfinance institutions, caused by Covid-19. Further microfinance institutions which are not made repayments within the stipulated time; the investors approved to dangle delayed payment fines and rearrange the arrears for a future date. Apart from these measures, necessary technical support is also provided to the microfinance customers by the investors, to make stronger their capability to endure and pay back loans to microfinance institutions (Czura, Englmaier, & Spantig, 2022).

## Regulators

Reserve bank of India and other financial regulatory bodies introduced provisional policies relating to risk management and lending to regulate the loan issuing and repayment procedures to manage unexpected conditions created by the pandemic. Those policy measures include moratorium, interest rate reduction, and so on (Jain, 2022). The same has been explained in the following manner.

*Provisional moratorium on settlement of Loans:* Like other countries, the Reserve Bank of India also issued provisional moratorium policies to help the borrowers to postpone repayment of loans for six months during Covid-19. In connection with this microfinance institutions made effort to disseminate the information about the moratorium. This moratorium has been provided as an option and left to the discretion of the borrowers, to take a decision. In many of the countries moratorium option has been issued only for the repayment of bank loans not for microfinance institutions. But, in India, the moratorium option has been provided to the microfinance institutions too, and it has been treated as a provisional relief to the needy people.

*New-fangled Risk Management Policies and Credit Risk Categorization*: Reserve bank of India has changed its policies related to Banking and Financial Institutions including microfinance institutions to modify the categorization of loans based on the customers who repay the loan dues lately, due to the pandemic. Such policies have facilitated microfinance institutions to categorize the performance of the portfolios into two categories as directly and not directly pretentious by the pandemic.

## Governments

During the time of the pandemic, every country's government has assumed different types of policies to safeguard the public against the spread of Covid-19 and thereby ensured a secure environment in the domestic and working places. Meantime, governments provided monetary support and assistance to maintain businesses to prolong their business operations (Balanagalakshmi & Kumari, 2022). The most common government supportive measures comprise the following:

*Deferment of Levies*: Due to the pandemic all the business units have got affected severely and lost their income too. So the governments of various countries postponed the tax payment period to reduce the financial burden of business, and the same has also been followed by the government of India. This has given an option to the microfinance institutions to pay the tax either on time or afterward.

*Redundancy Benefits*: The government of India has initiated the unemployment allowance scheme for various segments of people. This scheme was much useful for workers who were made outmoded or furloughed, but still, this action was not much constructive to the microfinance institutions and their clients.

# KEY CHALLENGES TO EMERGING FROM THE PANDEMIC CRISIS

Finally, the three-year virus war called covid-19 has come to an end. As we are approaching the end of 2022, the virus has started to lose its control slowly and lessening its grip on the financial system of the countries, however, in many countries, Covid-19 cases represent that the pandemic is not over. Governments of various countries are initiating different economic promotional activities with a variety of amount of restrictions and boundaries to turn the economy towards the new normal. The government of India has also taken a lot of initiatives to regularise the economy by reducing the issue caused by the covid-19. Thus the measures taken by the Government of India help the microfinance institutions and customers to move back to the pre-covid-19 environment and it also aids them to adjust themselves to cope-up with the post-covid-19 environment (Onuka, & Oroboghae, 2022). Though the Government of India is taking so many measures to save the microfinance institutions and customers, still there are several confronts such as monetary, Business, and personal in front of microfinance institutions and customers.

## Challenges to Microfinance Clientele

Irrespective of developed, developing, and underdeveloped countries, Covid-19 has affected all economies and created so many challenges to all sectors, microfinance is one among them. Confronts faced by the microfinance clientele turn their capability to resume their business process and activities and to clear bank loans and other monetary obligations mounted up during the Covid-19 (Aziz, Iqbal, Murtza, Gill & Cheema, 2022). The following are some of the challenges in front of the entrepreneurs are expected to meet:

### Monetary Challenges

Repayment of loans to banking and other financial institutions: Though banking, financial, and microfinance institutions facilitate repayment rearrangement either on their own or by the ruling of government regulations, there were no arrears clemency schemes for the microfinance clientele those who are still accountable for their existing loans to banking, financial and microfinance institutions. Though the rearrangement of loans is helpful in the present, it lifts the cost of debt to the clientele and pushes them into a difficult situation to settle up the loans, particularly when the business resurgence is unsure.

Challenges for facing other financial commitments: The government of India established deferment of various payments related to the government such as income and other taxes, payments to the social security schemes, and the like. However the rescheduled payments, and loans, do not decrease or reduce the requirement to pay, instead, it is increasing the financial pressure additionally on individual and business businesses to start to resume their operations, and reduced the ability to make profits than pre-covid-19 (Aziz, Iqbal, Murtza, Gill & Cheema, 2022).

## Challenges to the Business Concerns

*Resuming Business Processes:* resuming the stopped business process is not such an easy task and it may require numerous forms of effort and time. Resuming the business process may be easy and trouble-free for some business people and they may start their business as early as possible once the pandemic precincts are lifted, they may also be capable to go back to the pre-pandemic circumstances. This is possible only for the services industries such as cafeterias, hotels, beauty salons, and so on. Though these businesses start their business operations, they need to transform the way of doing business, as they need to bring into line themselves with precautionary measures. On the other side, some kinds of businesses and other revenue-generating activities are not possible to resume and force the entrepreneurs to stop the business process either partially or completely or to start a new line of business (Patra, Reddy, Reddy & Reddy, 2022).

*Reinstatement of Customer Base and ensuring Business Relations:* Pandemic has forced business people to transform their business practices in a new way by observing the government rules for ensuring the safety of customers. As a result, almost all sorts of businesses start to embrace online business, although the size of the business is micro and small. As a result, they lost their offline customer base and are in a situation to gain a new customer base. It may be hard for business people to get back the previous customers. In the same way, the old supply chain associations need to alter due to the crisis.

*Acclimatize the Business to New Business Environment*: Covid-19 has not only changed business, but also the mindset of the people. The majority of the entrepreneurs thought that they have capable to prolong their business process as earlier it was before covid-19; however, it may not be possible for all business people. As the covid-19 has transformed the way people think, communicate, and buy, it is also expected that this transformation to prolong and progress in the days to come, rather than turn back to the precedent business practices.

## Personal Challenges

*Challenges to upgrade personal Skills to face the Virtual and Digital World*: Pandemic has changed the way of doing business, and forced business people to upgrade their skills to incorporate and use information communication technology and shift business processes from offline to online. In a country like India still, the majority of the people are in lower level educational qualifications and this may be confronting for those business people and customers, as it is hard to pivot towards new technology-based business operations.

*Fear of Failure to Start New Business*: Covid-19 has threatened all the sectors to move forward, as it has more possibility of failure and incurring extra costs in unsure times. As a result, starting a new business may be more exigent for the new as well as existing entrepreneurs, as they have to borrow more money to start a new or get their existing business going again. Though these issues are real and general, some businesses people ready to prolong their business process and are willing to take the risk of resuming their existing business operations (Rameshkumar, 2022).

## Challenges to Microfinance Institutions

All the industries were got affected by Covid-19, and the Microfinance industry is one among them and it had faced more crises, however, the majority of the microfinance institutions can deal with the crisis caused by the pandemic. They also have emerged from the crisis successfully, not free from some of the challenges. The following are some of the challenges to face by microfinance institutions in the days to come.

### Functional Issues

Though the pandemic forced all businesses to embrace digital platforms for their survival, still many industries are not able to introduce digitalization in their business, the microfinance industry one among them. Many parts of India still have not digitalized their business process due to various reasons such as higher investment, training requirements, and so on. Moreover, the policies related to risk management need to be attuned to describe the new types of perils connected with the covid-19 which compel certain boundaries to various business processes and make some of the business activities more uncovered to the risk in case of the pandemic. Apart from this, the operational style of the businesses need to reorder and regulate to meet the recent challenges of social distancing, and sanitization of working places which may necessitate reorganization of the organizational spaces in the working places and transformations in the work schedules such as client meeting, visits to the field (Singh, Chamola, Kumar, Verma, & Makkar, 2022).

## Market Challenges

Due to the adverse and worst conditions created by the covid-19, the majority of the business houses have been under the financial trap, and it has reduced the credit demand aftermath of Covid-19, as the business people remained more cautious and engaged in business. Further, this pandemic forced the borrowers to shift to other financial platforms such as fin techs to fulfill their financial requirements, as it is equipped better for virtual processes and it has incarcerated parts of the microfinance industry during covid-19.

## Financial Challenges

Covid-19 has created so many challenges to the microfinance industry; the financial challenges are one among them. Due to the pandemic, the interest rate of the loans is expected to increase to balance the augmented financial risk associated with the business. Further, all the business concerns are trying to transform their business to digital, and it forces the businesses to increase investments in information and communication technologies, and this issue also increased the cost of microfinance institutions. However access to finance after the pandemic seems not such an easy task, due to the economy recovering slowly from the crisis, as a result extending financial support to the microfinance industry is considered a perilous proposition.

## Strategic Challenges

The pandemic changes the way of doing business and interrupt the linear strategies of the microfinance industry and made them redesign their business objectives, vision, and business positioning in the new socio and economic environment after Covid-19. As a result microfinance institutions faced numerous confronts such as access to finance, direct and indirect borrowing, guarantees, and augmented credit mechanisms or other financial amenities.

Application of Digital Technology Platforms: this global pandemic forced the microfinance industry to invest more in digital technology platforms to facilitate internal as well as external business. Since the microfinance institutions are realizing the financial benefits from the loans developed at low cost, it may not be possible for the microfinance institutions for upgrading their existing operational systems as their internal financial capability is not sufficient to create the requisite investments (Uddin, Jamil, & Khan, 2022).

Payment systems: the government of India is forcing the banking, and non-banking financial institutions to follow the national payment system to ensure fraudless financial transactions, serve customers better, and ensure inclusive financial systems. However, the majority of the microfinance institutions are not linked with the national payment system, and as a result, ultimately become a failure.

## POLICY RECOMMENDATIONS AND ACTIONS NEED TO BE TAKEN

It is understood from the previous sections that the pandemic has collapsed the entire world as well as all the business sectors. To rejuvenate and recover society as well as the economy from this crisis need to take some actions and policy measures to alleviate the consequences of Covid-19 and we must address the issues at all levels such as the microfinance industry, customers, and society.

### Recommendations to Microfinance Associations

Regional as well as national microfinance associations need to play an important role to advocate for the essential support for microfinance institutions as well as the customers. Microfinance associations need to work with regional and national government agencies and regulators, to settle the functional, economic, strategic, and regulatory support to microfinance institutions to continue their services in the post-Covid without problems. Microfinance associations should also extend operational aid to microfinance institutions to align themselves to install and utilize digital technologies to speed up the business process. Microfinance institutions need to concentrate more on knowledge management area to tackle the days to come. They also try to learn from the present happenings and thereby enhance their capability based on the best things that emerged from the pandemic. Policymakers need to concentrate more on microfinance-related research and development aspects so that the requirements, confronts and opportunities available to the microfinance institutions after Covid-19 can be understood better.

### Recommendations to Investors

The role played by microfinance investors is crucial during and after the pandemic, as their investment policies decide the functional ability of microfinance institutions against the pandemic. They have invested the lower interest during pandemics. In the same way, microfinance investors need to alter their financial indications and benchmarks to their accounts to do changes in the concert of the portfolio after the pandemic. They also need to redesign and renew their existing contracts on funding and ensure the required financial support to microfinance institutions to uphold unimpeded business processes.

### Recommendations to Governments and Policymakers

Both the governments and policymakers are having more responsibility to support the smooth functioning of the microfinance industry at the national level after the pandemic. Governments need to redesign the current credit guarantee scheme to support microfinance institutions in the post-Covid financial environment. Thereby microfinance institutions can help their customers with new credit programs for needy people such as rural business people, day to day business people. Policymakers need to alter the existing legal regulations to permit customers to provide the necessary documents to enter into the contracts. Need to make changes in the existing microfinance institutions' risk measurement framework to ensure sufficient financial support. Policymakers also made the microfinance institutions enrol themselves in the national payment system to the smooth progress of online business dealings with their customers.

## CONCLUSION

Microfinance industry act as an instrument and it has been extending financial support to the needy people especially to the poor, marginalised and unprivileged people. It has change the lifestyle of people by means of ensuring the financial support. Such a wonderful microfinance industry is currently in a difficult situation due to covid-19 pandemic. This pandemic has affected the microfinance industry negatively, due to this situation, this industry unable to raise fund from the debt market, and found difficult to move ahead. To support the microfinance industry, government of India has launched some of the constructive measures to get better the financial needs. It has provided 4.10 billion USD worth of financial support for microfinance industry, non-banking financial institutions, and for housing finance companies. By this way it is expected to lubricate the functioning of microfinance industry, thereby it will help to move forward in the new normal. Further, thorough this financial support microfinance industry will support its customers to recommence their business as well as economic activities. Thereby it is expected that the demand for the loans and repayment of the loans will be increase in the days to come, there by the business performance of this industry expected to improve.

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