# Demonetisation turns out to be a double whammy for microfinance sector

By IANS | Updated: Nov 13, 2016, 06.07 PM IST

Post a Comment

KOLKATA: The demonetisation of high-value currency notes has come as a double whammy for micro finance institutions (MFIs), which have temporarily stopped providing credit to their customers while loan repayments have also taken a major hit, industry sources said.

The institutions have deferred the repayment schedule of their borrowers for the next few days. In the last four-five days, repayment collections of about Rs 500 crore to Rs 600 crore ($74-89 million) has been deferred and with the lack of currency supply, the MFIs' disbursement was also down by around Rs 600 crore.

"A lot of microfinance institutions put disbursement on hold because we need some clarity and it is currently quite ambiguous. We need clarity whether the institutions can collect Rs 500 or Rs 1000 notes from their borrowers as repayments of loans or not. We are not sure about it," Gurugram-based Microfinance Institutions Network (MFIN) CEO Ratna Viswanathan told IANS on the phone.

The microfinance industry is cash-intensive. Most of the borrowers take loans in cash and they repay loans in cash. Even many of the borrowers who have bank accounts do not know how to transact through them. Thus, cash transactions in the rural economy, where most of the MFIs operate, become inevitable.

"The MFIN asked institutions to consider putting collections on hold for the next five-seven days. They have deferred the repayment schedule. Repayment collections of about Rs 500-600 crore have been deferred. Disbursement was also down by around the same amount in the last few days as there is lack of currency supply to advance loans," Viswanathan said.

**Also Read: Won't stop even if burnt alive: PM Modi on fight against corruption**

MFIs record a repayment rate of 99 percent but it took a blow after demonetisation. The sector is worried about taking the business forward in view of the increasing risk of defaults.

"With the scrapping of Rs 500 and Rs 1,000 notes, the industry has been facing a challenge. We are neither able to disburse, nor taking repayments from borrowers with old notes. Our repayment rate fell to 60 percent on Wednesday after the demonetisation was announced on Tuesday night.

"We have started deferring repayments and on Friday, the repayment was down to 70 percent from nearly 100 percent," Village Financial Services' Managing Director and CEO Kuldip Maity said. "Fresh and repeat disbursements have completely been put on hold temporarily," he added.

It is a double whammy for the industry as borrowers do not possess much cash in hand with new currency to repay loans in time and due to lack of liquidity in the system, MFIs are not able to disburse loans.

"The situation is not expected to be prolonged beyond November 14 or so as we are in discussions with the regulator (Reserve Bank of India) and the Finance Ministry. We need to review the industry's stance of deferring repayments if the situation prolongs," Grameen Koota Financial Services' Managing Director Udaya Kumar told IANS.

The industry, meanwhile, has approached the RBI and the Union Finance Ministry seeking a clarification on how the MFIs should deal with repayments.

"The notification regarding the demonetisation of high currency notes primarily talked about retail customers and there is no clarity about institutional customers. We want to know whether it is applicable to institutional customers. As far as repayment is concerned, we want a clear idea on how we can deal with it because the institutions are also in the loan repayment business. Institutions share each and every client's data with the credit bureau," Viswanathan pointed out.

The industry is yet to receive any clarity from the RBI and the Finance Ministry, she added.