

POLICY BRIEF

COVID-19 AND DEBT MORATORIUM - THE CASE OF MICROCREDIT

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COVID-19 and Debt Moratorium - The Case of Microcredit¹

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Summary:

In this policy brief, we examine the implications of debt moratorium in the context of microcredit or Joint Liability Group (JLG) loans offered by NBFC-Microfinance Institutions (MFIs), non-MFI NBFCs, Small Finance Banks (SFBs) and Commercial Banks, henceforth referred to as 'microfinance providers'. Through this research, we attempt to understand how microfinance providers deployed and operationalised moratorium for its customers, its potential repercussions on customer's repayment discipline and behaviour, the effectiveness of moratorium as a policy tool measure and early lessons learnt. We draw on our conversations with practitioners from different types of microfinance providers to document key takeaways on effectiveness of debt moratorium and perspectives on future course of action that policymakers could take to ease the financial burden on both customers and lenders.

About Dvara Research:

Dvara Research is a policy research institution based in India. Our mission is to ensure that every individual and every enterprise has complete access to financial services. We strongly believe in the deeply transformative power of finance in unlocking the potential of individuals, households, enterprises and local governments.

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Content

Was Debt Moratorium Effective? Ten Key Takeaways.....	03
1. Introduction.....	05
2. Debt Moratorium and the Case of Microcredit.....	06
2.1 Implications of debt moratorium on the microfinance providers.....	08
2.2 Implication of debt moratorium on microfinance customers.....	09
3. Perspectives on Operationalising Moratorium.....	10
3.1 Deploying Moratorium.....	10
3.2 Collection Efficiency.....	11
3.3 Repayment Plan post Moratorium.....	11
3.4 Cost of the Moratorium.....	12
3.5 JLG Model in the Context of Debt Moratorium.....	16
3.6 Customer Protection and Moral Hazard Risk.....	16
3.7 Credit Information Companies and Moratorium.....	17
4. Early Insights on Effectiveness of Debt Moratorium as a Policy Measure.....	18

Was Debt Moratorium Effective? Ten Key Takeaways

01

Debt Moratorium on formal retail loans proved to be effective in achieving its intended objective of easing liquidity constraints for the end consumer, and relaxing debt repayment requirements in times of financial distress. As on April 30, 2020, 49% of customers across all lending institutions accounting for 50% of the total outstanding loans opted-in to avail the moratorium.

02

In the case of microcredit lending institutions, close to 98% customers availed moratorium in April and roughly 70% availed moratorium in May, based on data from some of India's top MFIs, suggesting that moratorium came as a much-needed relief measure, especially for low-income households.

03

Availing moratorium while beneficial in the short run, is a costly affair in the medium to long run. The accrued interest during the moratorium period and the compounding of interest post the moratorium period can come as a huge blow to already vulnerable segments, making the repayment of their outstanding loan extremely burdensome with a risk of increase in defaults. Therefore, burdening low-income and vulnerable households with the cost of moratorium can prove to be detrimental to their well-being.

04

Moratorium was offered universally to all microcredit borrowers and those choosing to repay where considered to have opted-out of moratorium. Thus, the group model per se did not impose a barrier on collections efficiency of microcredit service providers.

05

Providers interpreted RBI's guidelines pertaining to recording of moratorium through Credit Information Companies (CICs) in different ways, thus resulting in non-reporting to CICs. Further, technical hurdles in providers' core banking systems (CBSs) and loan management systems (LMSs) in capturing the moratorium led to non-reporting to CICs. However, there was consensus about the relevance of credit bureaus and need to shift to more advanced systems in CICs.

06

Effective communication with customers was key in ensuring that expectations from moratorium were clear. Customers understood that moratorium was simply a deferment of loan repayment and not a loan waiver. The role of suitable financial advice in this context can be crucial in guiding customers to make a choice that suits their financial capacity and circumstances.

07

Simultaneously, it is important for policymakers to effectively communicate the features and terms and conditions of moratorium as well as issue clear communication guidelines for lending institutions for greater awareness on the implications of moratorium, else it could be subject to misinterpretation by different parties involved.

08

The digitization journey for microcredit service providers should be continued to be prioritized and can prove to be critical during periods of uncertainties such as COVID-19. While lending institutions have taken leaps and bounds in transitioning to digital operations, extremely low adoption of digital financial services among last mile customers continues to be a challenge.

09

End to end liquidity transmission is a must for sustainability of lending institutions. The asset-liability mismatch due to differential deployment of moratorium for end customers and microcredit providers (largely MFI-NBFCs and other NBFCs) can lead to liquidity crisis, spike in NPAs, potential downgrading of credit ratings and an increase in the cost of fresh borrowing.

10

Uniformity in approach by announcing a universal moratorium across all lending institutions helped protect consumer's interest and increase awareness about the terms and conditions of moratorium.

1. Introduction

In the wake of COVID-19 related lockdown and the resultant impact on the financial lives of millions of households, the Reserve Bank of India (RBI) approved a series of regulatory measures, which among others, enabled lending institutions to provide their borrowers with a 6 month-repayment moratorium on term loans³. A debt moratorium at this scale has had unique implications for lenders, borrowers and regulators that need careful consideration. Lenders care most about the impact of debt moratorium on credit risk, liquidity and cost of raising fresh capital, while borrowers care most about the cost of debt moratorium and their ability to repay once moratorium is lifted. Regulators on the other hand have had to walk a fine line between protecting consumer rights and ensuring financial stability of the system, in the backdrop of ethical questions being raised about the cost of moratorium⁴. It is these potential implications that motivate us to examine the topic of debt moratorium as a policy measure and its effectiveness in providing relief to the end customer without impacting the financial stability of financial institutions and the system at large. While the actual impact of debt moratorium on both lenders and borrowers will play out in the coming month, this note provides early insights on the effectiveness of debt moratorium as a policy measure.

Box-1: RBI Announcement on Debt Moratorium

On March 27th, RBI announced the first phase of debt moratorium. It said,

“All commercial banks (including regional rural banks, small finance banks and local area banks), cooperative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) (“lending institutions”) **are being permitted to allow a moratorium of three months** on payment of instalments in respect of all term loans outstanding as on March 1, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months.”

On the implication of debt moratorium on asset classification, it said,

“..the rescheduling of payments will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.”

On May 23rd, RBI announced the second phase of debt moratorium. It said,

“..all commercial banks (including regional rural banks, small finance banks and local area banks), cooperative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) (“lending institutions”) are permitted to **extend the moratorium by another three months** i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. **Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.**”

³RBI announcement on debt moratorium, phase 1-https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582; RBI announcement on debt moratorium, phase 2- <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11902&Mode=0>

⁴The Supreme Court is currently hearing a plea challenging the levy of interest on loans during the moratorium period. At the time of publication of this piece, the plea was still pending in the Supreme Court.

According to the Financial Stability Report⁵, released by the RBI in July 2020, 49% of customers across all lending institutions accounting for 50% of the total outstanding loans (in value) opted-in to avail the moratorium. These figures clearly highlight that policymakers were able to respond to the impending requirements of borrowers by allowing debt moratorium and enabling them to conserve liquidity for more pressing needs. While extraordinary circumstances call for extraordinary solutions, provisioning of a 6 month-repayment holiday by lenders has never been attempted before in the history of the Indian financial system, which therefore calls for an examination in terms of the consequences it might have on the financial stability of lending institutions. The Financial Stability Report estimates Gross Non-Performing Assets (GNPA) to increase to 12.5 percent by March 2021 as against 8.5 percent in March 2020, raising serious questions about the resilience of the Indian financial system which has been under stress even prior to the lockdown. At the same time, availing debt moratorium requires careful consideration from a customer's perspective due to increased cost on outstanding loan on account of the interest accrued during the moratorium period. Given the potential implications of a 6-month debt moratorium on both lenders and borrowers, we see merit in unpacking the different ways in which this relief measure has played out on the ground.

This policy brief examines the implications of debt moratorium in the context of microcredit or Joint Liability Group (JLG) loans offered by NBFC-Microfinance Institutions (MFIs), non-MFI NBFCs, Small Finance Banks (SFBs) and Commercial Banks, henceforth referred to as 'microfinance providers'. Through this research, we attempt to understand how microfinance providers deployed and operationalised moratorium for its customers, its potential repercussions on customer's repayment discipline and behaviour, the effectiveness of moratorium as a policy tool measure and early lessons learnt. We draw on our conversations with practitioners from different types of microfinance providers to document key takeaways on effectiveness of debt moratorium and perspectives on future course of action that policymakers could take to ease the financial burden on both customers and lenders.

Given the customer segment that the microfinance sector caters to and the characteristics of low-income households, the policy on debt moratorium can have certain unique implications (adverse or otherwise) for both microfinance providers and their clients who are largely low-income households. We therefore focus the rest of this brief on examining the implications of debt moratorium for these segments.

2. Debt Moratorium and the Case of Microcredit

Globally the lending portfolio of microfinance industry stands at \$124 bn serving 140 million customers, but COVID-19 is straining its finances⁶. At the onset of COVID-19, when nations were taking efforts to revive economies, it was certain that credit would be required to rebuild the lives of vulnerable and low-income households. The lockdown has left both customers and microfinance providers at stress⁷. Microfinance providers faced multipronged challenges that shrunk revenue and liquidity as a result of high arrears, loan moratoria, withdrawal of deposits and inability to conduct branch operations or physically access clients due to lockdown restrictions.

⁵Financial Stability Report, RBI, July 2020- <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/OFSRJULY2020C084CED43CD1447D80B4789F7E49E499.PDF>

⁶COVID-19 is causing a microcredit crunch, The Economist, August 2020- <https://www.economist.com/leaders/2020/08/15/covid-19-is-causing-a-microcredit-crunch>

⁷ibid

As of August 2020, the CGAP Global Pulse survey of MFIs has reported survey responses of 314 MFIs with total assets of approximately \$18.7 bn (over 10% of the global market)⁸. While most participating MFIs report “severe stress”, a closer look at some operational data yields interesting results. On the liquidity front, globally MFI have reported to have adequate runway to sustain operation for greater than 12 months. Larger MFIs have expectedly reported having deeper cash reserves. However, 31% of MFIs (globally) with limited cash and liquid assets may find it difficult to finance their debt repayments for next quarter. From the beginning of the COVID-19 pandemic, multiple MFIs have discussed various relief measure with funders such as moratoria on their borrowings, restructuring of debt and fresh capital infusion. Almost 70% of MFIs across the globe have reduced lending and one in two institutions have cut lending by more than half due to financial constraints as well as precautionary measures such as lockdown and social distancing being adopted in the current context⁹. However, this could be a precarious situation for the MFI industry. MFIs that prefer to curb disbursements to maintain cash reserve, will end up building their liquidity at the cost of denying new loans to the low-income households that they intended to serve. This in turn can erode the revenue of these institutions.

For their last-mile borrowers, regulators and MFIs across the globe have implemented repayment moratoria (63% of MFIs) and restructuring of loans (64%). A few lenders have offered moratoria to all their customers, few to the borrowers who demanded it and other providers to borrowers as prescribed by the authorities. In order to facilitate debt repayment, some MFIs are exploring and expanding digital channels to facilitate transactions. However, the adoption of digital payments by providers continues to remain extremely low.

In India, the microfinance industry experienced a growth of 32% year-on-year by the end of 2019. In terms of market share, commercial banks’ (excluding SFBs) contribution to the MFI industry portfolio stands highest at 40%, followed by NBFC-MFIs at 32% and SFBs at 18%. The Pan-India MFI industry serves 6 crore customers¹⁰ with an average ticket size (ATS) of Rs. 34,880 as on Dec’19. However, ATS varies among the types of institutions. Although the geographical presence of MFI industry is Pan-India, the portfolio is dominated by 9 states across India¹¹.

At the onset of COVID-19, the government announced a complete lockdown to contain the transmission of the virus. In addition, RBI announced the provision of 2 phases of loan moratorium that last-mile customers could avail from microfinance providers. The first COVID-19 debt moratorium announcement was in March 2020 followed by an extension in May 2020. Simultaneously, various states periodically announced various localized lockdowns to limit the spread of COVID-19. For the microfinance industry, collection efficiency fell drastically as they offered moratorium to all their borrowers. For borrowers, the need to conserve liquidity and cope in the aftermath of an income and livelihood shock might have reduced their ability to repay. In the case of borrowers who were willing and had the capacity to repay, various obstacles such as restriction on geographical mobility and fear of contracting COVID-19 also hampered their ability to make payments.

⁸How is COVID-19 Impacting the Sustainability of Microfinance Institutions?, CGAP, August 2020- https://www.cgap.org/sites/default/files/event_documents/2020_08_05_How_Is_COVID19_Impacting_Sustainability_of_MFIs.pdf

⁹Is there a liquidity crisis among MFIs, and if so, Where?, CGAP, July 2020- <https://www.cgap.org/blog/there-liquidity-crisis-among-mfis-and-if-so-where>

¹⁰Microfinance Pulse Report, SIDBI, June 2020- <https://www.sidbi.in/files/article/articlefiles/Microfinance-Pulse-June-2020.pdf>

¹¹The 9 states are- Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Karnataka, Tamil Nadu, Odhisha, West Bengal and Assam

The MFI industry has prided itself of 98-99% collection efficiency prior to COVID-19. It however plunged to near zero in April 2020 and rebounded to 70-75% by July 2020 as a result of restrictions being lifted. As per CRISIL reports, the local economies in rural and semi-urban areas revived faster than urban areas and with simultaneous tapering off of the lockdown restrictions, MFIs with stronger presence in rural and remote areas recorded an upward trend in collection efficiency¹². Customers of Karnataka and Bihar reported better collections than customers of Tamil Nadu and Maharashtra. These states incidentally recorded higher levels of COVID-19 positive cases. Consequently, these areas witnessed sluggish collections¹³. Finally, customers working in agricultural and allied activities fared better compared to those working on daily wages and as casual employees in informal enterprises¹⁴.

2.1 Implications of debt moratorium on the microfinance providers

The policy measure of debt moratorium has significant implications for the microfinance sector that need careful examination. Firstly, while MFIs have offered moratorium to their clients, most of them did not receive moratorium from their own lenders (donors, investor and other banking institutions), therefore creating a break in the supply chain of liquidity¹⁵. This can lead to a widening of asset-liability mismatch for microfinance providers with repercussions on their ability to make timely repayments to their lenders, a potential risk of downgrading of their credit ratings and subsequently, an increase in the cost of raising fresh capital¹⁶.

Secondly, given the customer segment that microfinance providers cater to, questions of repayment capacity of microfinance clients have significant bearings on the operational sustainability of microfinance institutions. Issues of moral hazard in the absence of group meetings and discontinuity in repayments are questions that microcredit lenders need to be wary about. At the same time, the implications of debt moratorium on the JLG model needs to be examined further to understand if lenders are pro-group or pro-individual borrower (assuming a divergence of interest).

Once moratorium is lifted, in general, MFIs are anticipating 5-10% of their current loans to turn into non-performing assets (NPAs)¹⁷. Some MFIs are preparing to deal with its consequences by shifting their focus from 'expansion of new business' to 'stability of existing business' in these uncertain times, while at the same time remaining customer centric in their approach¹⁸.

The policy brief thus examines these questions from the perspective of microcredit lenders to understand the implications of debt moratorium on the factors listed above.

¹²CRISIL Press Release on MFI Collection, August 2020- <https://www.crisil.com/en/home/newsroom/press-releases/2020/08/from-zero-in-april-mfi-collections-spurt-to-70-75percent-in-july.html>

¹³ibid

¹⁴How did India's rural economy fare through the COVID-19 lockdown and the re-opening?, World Bank, September 2020- <https://blogs.worldbank.org/endpovertyinsouthasia/how-did-indias-rural-economy-fare-through-covid-19-lockdown-and-re-opening>; This was also highlighted by interviewees in our conversations with microfinance providers

¹⁵Based on our conversation with CEO's and CFO's of some of India's top MFI's; This is applicable only for NBFC-MFIs and non-MFI NBFCs and not for banks who fund loans through their customer's deposits

¹⁶End to end liquidity transmission a must to serve the vulnerable, Livemint, April 2020- <https://www.livemint.com/opinion/quick-edit/end-to-end-liquidity-transmission-a-must-to-serve-the-vulnerable-11586764881946.html>

¹⁷Based on our conversation with MFIs Representative

¹⁸How a microfinance organisation can prepare for a post-COVID world, Hand in Hand India, August 2020- <https://hihindia.org/how-a-microfinance-organization-can-prepare-for-a-post-covid-world/>

2.2 Implication of debt moratorium on microfinance customers

When examining the question of the impact of debt moratorium on the well-being of low-income households, certain facts and figures¹⁹ of low-income households should be factored in, to understand the potential ways in which debt moratorium could interact with their household portfolio. The following characteristics of low-income households have been sourced from household surveys conducted by CMIE and ICE 360:

- The average monthly income of low-income households is defined as the average of the bottom 20% of the income quintile and is Rs. 6244, with the median and maximum income for this group standing at Rs. 7500 and Rs. 10,000, respectively. However, 40% of Indian households earn below or equal to Rs. 10,000 per month, 60% of Indian households earn below or equal to Rs. 15,000 per month and 80% of Indian households earn below or equal to Rs. 21,000 per month.
- Low-income households have high levels of debt. 45% of low-income households have loans worth Rs. 20,000, another 45% of households have loans worth Rs. 20,000 to Rs. 1,00,000 and finally 10% of households have loans greater than Rs. 1,00,000. The median loan amount outstanding for low-income households is Rs. 30,000, which is roughly 5 times their average monthly income.
- Only 30% of low-income households have investments in financial assets such as Fixed Deposits and Life Insurance, followed by approximately 15% of low-income households with investments in Post Office Savings.
- Less than 10% of low-income households have ownership of risk protection products such as health insurance and retirement accounts.

In the absence of access to adequate formal financial services and social security combined with factors such as volatile cashflows, the lockdown has led to a massive economic shock in the lives of low-income households. A survey of 322 microfinance borrowers across several Indian states, conducted by Dvara Research, found that 80% of households did not have any income-generating activity in the first phase of lockdown, and close to 10% of households had to cut back on their regular consumption to manage their income²⁰. The survey also showed a gradual increase in informal borrowing between April to June 2020, suggesting that in the absence of fresh lending from formal sources of finance, microfinance customers were borrowing from high cost- informal sources to meet their emergency needs. Similarly, a large-scale, nationally representative survey carried out by the Centre for Monitoring Indian Economy (CMIE) revealed that close to 85% of LIHs reported income losses²¹.

The vulnerabilities of low-income households in the aftermath of the lockdown have significant implications on their abilities to repay debt. The debt moratorium while providing for a short-term relief to borrowers, increases the cost of their existing formal loans in the medium to long run, depending on the repayment plan

¹⁹Source: May to August 2019 data from CMIE- <https://consumerpyramidsdx.cmie.com/>; Household Survey 2016 from ICE 360- <http://www.ice360.in/>

²⁰COVID-19 Impact on Daily Life, Dvara Research- <https://www.dvara.com/research/social-protection-initiative/covid-19-impact-on-daily-life/>

²¹How are Indian households coping under the COVID-19 lockdown? 8 key findings, Chicago Booth, Rustandy Center for Social Sector Innovation - https://www.chicagobooth.edu/research/rustandy/blog/2020/how-are-indian-households-coping-under-the-covid19-lockdown?sc_lang=en

of such debt. The debt moratorium also has implications on the repayment discipline of borrowers, which in essence is core to the JLG model. Questions of customer protection are also of relevance in the current context as it is the lender's responsibility to provide accurate information about debt moratorium, allow their customers to avail the benefit if they wish to and educate them about the implications of availing moratorium. The policy brief thus examines these questions to understand the implications of a 6-month loan moratorium on low-income households.

3. Perspectives on Operationalising Moratorium

The following section draws from our conversations with CEOs and CFOs of financial institutions such as Commercial Banks, NBFC-MFIs and other NBFCs providing microcredit largely through the JLG model. We spoke to a total of 8 microfinance providers and to a representative of the Microfinance Institution Network (MFIN). Based on these conversations, we collated insights on how microfinance providers operationalized moratorium and the challenges and learnings that emerged from their experiences.

3.1 Deploying Moratorium

Through our stakeholder interviews, we observed that all microfinance providers offered a moratorium during the entire period of 6 months, across both, phase 1 (from 1st March to 31st May 2020) and phase 2 (from 1st June to 31st August 2020). Customers could either opt-in or opt-out of the moratorium, depending on their willingness and ability to make repayments. The choice of opt-in and opt-out can be attributed to customer's revival of cashflows, their perceptions about future income, their preference to conserve liquidity and their ability to repay through physical group meetings. Although not explicitly mentioned in the RBI's circular, all financial institutions were required to communicate the features and cost implications of the moratorium to its customers. Microfinance Institution Network (MFIN), the microfinance industry body also formulated advisory guidelines on how to operationalize and communicate the moratorium relief for lenders providing microcredit²².

During Phase 1 of loan moratorium, loan officers were unable to travel due to restriction on movement and could not conduct group meetings or ask customers to repay at the branch due to the severity of lockdown. Additionally, the economic impact of the lockdown made it very difficult for customers to make debt repayments. Therefore, majority of the customers chose to avail moratorium on their outstanding loans. However, in phase 2, restrictions and lockdown began to ease and economic activities partially resumed, leading microfinance providers to be more deliberate in their communication to customers, by emphasizing the additional cost accrued as a result of availing moratorium and by advising customers on a suitable path given their financial capacity and circumstances.

In spite of households facing differential impacts of lockdown on their household portfolio, microfinance providers did not segment customers based on their cashflow position, income and primary occupation while offering moratorium, as this was operationally challenging given the spread and size of their customer base. Additionally, offering moratorium at the individual level instead of at the group level would be impractical, as

²²MFIN Advisory for deploying moratorium on micro-credit loans - <https://mfindexia.org/mfin-publications>

it could lead to inter-group frictions. Therefore, moratorium was offered to all customers across all financial institutions. The uniformity in this approach also helped protect customers' interests, as a typical microfinance customer had outstanding loans from more than one microfinance institution and a differential approach would have led to customers making decisions about prioritizing one loan over the other. Finally, such uniformity also led to better awareness among customers about the terms and conditions of debt moratorium.

3.2 Collection Efficiency

Collections in MFI industry plunged to near zero levels in April as an outcome of the nation-wide lockdown, the announcement of loan moratorium, the inability to access customers or conduct group meetings, and the fear of contacting COVID-19. By June 2020, however, most microfinance providers with rural presence witnessed a collection efficiency of 40-70 percent as compared to a cumulative collection efficiency of less than 10 percent in April-May 2020. Through our interviews, we observed patterns in collection efficiency as shown in table 1. The revival in collection efficiency was a consequence of the easing of lockdown restrictions and the increasing ability to re-establish connect with borrowers, pursuing them to repay debt installments if they had the financial capacity to do so.

Table 1: Collection Efficiency for select microcredit service providers²³

Collection Efficiency (% of customers paid debt instalments)	NBFC-MFI N=5	Small Finance Banks N=2	Universal Banks N=1
March	80-90%	80-90%	80-90%
April	<2%	0-1.8%	Near zero to very low collection levels
May	15-30%	<20%	
June	50-75%	~60%	Moderate level
July	60-76%	~80%	Moderate level with upward growth

3.3 Repayment Plan post Moratorium

We also asked microcredit service providers about the design of repayment plan that they would devise once moratorium ends. Lenders could adopt different repayment plans which would have a bearing on the extent of additional cost borne by the borrower. Broadly the types of repayment design that could be used by lenders is discussed in box 2²⁴:

²³In some regions, the collection dropped in July due to rise in new COVID-19 containment zones

²⁴Based on an upcoming publication by Social Protection Initiative, Dvara Research on Impact of Moratorium on Households

Box-2: Types of repayment design

- **Option 1** – The loan tenure is extended, and EMI remains the same. In this option the borrower will have to bear higher interest rate for the extended time period relative to other options.
- **Option 2** – The EMI is increased for the same loan tenure for which the credit was disbursed. The drawback of this option is that it might affect the repayment discipline of the borrower if they are unable to repay the amount.
- **Option 3** – The interest accumulated during the moratorium period is added to the last EMI or last few EMIs. Although the option is reasonable, there could be risk of higher delinquency in payment of last EMI.

Most of the microfinance providers that we interviewed adopted the first option, that is, they extended the tenure of the loans and maintained the EMI amount unchanged as per the loan contract. The choice of repayment design was based on two factors a) increasing the EMI for the customer immediately after the moratorium period ends may create undue financial burden for the borrowers and b) the operating systems (backend MIS system) used by the FSPs were best suited to redesign the debt repayment plan in this format. In certain banking software used by microfinance service providers, the core banking system capitalizes interest amount on the principal amount and does not allow the system to separate the interest amount and the principal amount. Another issue that FSPs faced with recording repayments during moratorium period was for customers who availed the moratorium irregularly for a few days/months but not for the entire period of the moratorium. These led to analytical complications that were difficult to record and compute on existing operating systems. In some cases, certain providers also accepted EMI repayment during moratorium months as advance payments which were then adjusted against their outstanding amount post moratorium.

3.4 Cost of the Moratorium

It is difficult to decouple the cost associated with the moratorium from the cost that was incurred due to the preventative restrictions imposed by the government. Thus, in this section the discussion is not limited solely to the cost of providing the moratorium, but also to the cost associated with the organisations' daily operations during the various phases of lockdown (and un-lockdown). In the following paragraphs we discuss the costs borne by both the providers and customers. We then discuss a more normative position, who ought to bear few of the emergent costs.

3.4.1 Cost to Providers

Our conversations revealed that there may be four distinct types of additional cost that providers have had to bear. The first additional cost accrued due to the restrictions during the various phases of lockdown which led to operational and logistical complexities. This increase in operating expense (opex) was reported by all providers we spoke with, barring one which claimed that there was a decrease in opex. As may be expected, the primary reason cited behind the increase in the cost was due to the requirement of individual contact between loan officers and the borrowers, since group meetings were suspended following social distancing

requirements. The second heavily cited factor was the increased communication burden on providers, since, given the moratorium, each provider had to reach out to the borrower to describe the modalities of the moratorium. Further, additional overheads associated with such communication, e.g. stationery required to print explainers about the moratorium, also contributed to the additional cost.

The second aspect of additional cost that was considered arose from most NBFCs and NBFC-MFIs²⁵ not being able to obtain moratoriums from their creditors and debt investors on their borrowings. While there was no nominal increase in interest burden faced by the providers, the servicing of interest to their creditors was difficult, especially for small and mid-sized NBFCs and NBFC-MFIs who did not have adequate liquidity. The third aspect of cost that we considered during our conversations with the providers was cost of funds (CoF). In case of SFBs and SCBs, they may easily manage CoF by altering the interest on offer to their depositors. However, for NBFCs there was a possibility that CoF may increase (say, due to additional risk premium, given the uncertainty associated with the sector, post moratorium), but none of the interviewees reported an increase in CoF. Finally, many of the providers we spoke with confirmed that they were carrying excess liquidity and due to the lockdown, it was difficult for them to deploy it. Thus, few providers also cited an additional opportunity cost that they had to bear. Finally, *interest on interest*, presented a unique dilemma on whether to consider it as a cost to the borrower (if it is being charged), or to the provider (if it is not being charged); This is discussed in Box-3. The next section focuses on the cost to the borrowers.

Box-3: Interest on Interest

Interest on Interest (Iol) presents a unique dilemma to the providers, policymakers and the public. The RBI regulations allow providers to capitalise the interest rate, i.e. the accrued interest may be added to the principal outstanding of the loan, and thus, the interest for the next period is calculated as interest on the original principal and interest on accrued interest. This compounding of interest is expected to result in higher repayment burden on the consumer. Conversely, all liabilities held by banks and NBFCs features the effect of compounding, i.e. these providers must pay Iol on their liabilities. Thus, it seems that Iol is expected to be a central feature of the moratorium period and asking lending institutions to do away with this component does not seem practical.

However, during our conversations with providers, it emerged that only three (providers in our sample) have been charging Iol, while other providers are not capitalising interest. It is presently unclear how sustainable the model is for borrowers holding loans with longer residual maturity, since charging of Iol leads to burden on consumers and not charging it leads to burden on the provider. Thus, a central question emerges from this thread, “What is the optimal way to treat Iol, and who ought to bear the burden of the pandemic, and its resultant moratorium?”.

One provider that we spoke with opined that the burden of force-majeure events should be borne equally by the providers and consumers. Few other members opined that the government or the RBI should step in to prevent additional costs to either consumers or providers. However, most providers did not present an opinion on the subject.

²⁵The cost associated with servicing the loans taken by NBFCs and NBFC-MFIs are more pronounced compared to SCBs and SFBs, since the latter license categories have access to CASA deposits whereas NBFC and NBFC-MFIs rely mostly on funds received from banks and other NBFCs.

Despite the plurality in opinions, the fact remains that if IoI is charged, consumers have to pay an additional cost over and above the interest accrued for the period (see the following illustration). Conversely, if IoI is not charged, the providers would be worse off, and accrue additional cost in servicing their liabilities.

Illustration: Additional EMI for a Loan

(having Principal: ₹ 50,000, Annual Interest: 23%, to be repaid in 24 equal monthly instalments and availing 3-month moratorium)

Additional Cost (including IoI)				
		Scenario		
		Same EMI with Extended Tenure	Bullet Repayment once Moratorium Ends	Fixed Tenure with Modified EMI
Moratorium After	1 Month	₹ 4,503.87	₹ 2,915.60	₹ 3,529.99
	9 Months	₹ 2,690.14	₹ 2,034.04	₹ 2,302.17
	21 Months	₹ 478.31	₹ 452.16	₹ 460.43

Note: RBI has expressed its views on the subject in multiple submissions to the Hon’ble Supreme Court of India. Presently, such documents are not in public and only excerpts are reported in the media. Further, since the matter is presently subjudice, it is possible that RBI’s say may not be the final law of the land in India. Thus, excerpts from the RBI’s submissions are not discussed in the box.

3.4.2 Cost to borrowers

The cost to the borrower is apparent in the earlier discussion on accrued interest during the period of moratorium and the compounding of interest (interest on interest) in case the lender decides to capitalise the interest rate. However, costs are often the function of how the provider plans to collect interest once the moratorium ends (i.e. the post moratorium repayment plan). As discussed in section 3.3, different repayment plans would yield different costs. To exemplify, the cost would be the least if all accrued interest is discharged in the first month upon commencement of repayment, rather than at the end of the residual tenure of the loan. Other types of repayment plans could involve charging interest in the last few EMIs, one-time payment of interest in the last EMI, etc. Further, the rate of interest charged to the borrower also becomes an important part of the cost. If the rate of interest charged to the borrower is lower than their original interest rates, the cost borne by the borrower is expected to be less. This additional cost, despite its quantum, may prove to be a significant hurdle for LIHs, who may lack the capacity to service all additional cost in the first month. To illustrate the opportunity cost of the borrower due to additional cost on account of accrued interest and compounding of interest- In the case of same EMI with extended tenure, the additional cost of availing moratorium one month into the loan cycle is Rs. 4504. This amount is roughly 50% of low-income households’ total monthly expenditure, 97% of their monthly expenditure on food and clothing and close to 8 times their

monthly expenditure on education and health. Similarly, in the case of bullet repayment, the additional cost of availing moratorium one month into the loan cycle is 2916. This is roughly equal to one-third of low-income households' total monthly expenditure, 62% of their monthly expenditure on food and clothing and roughly 5 times their monthly expenditure on education and health. There is a potential threat that the households might have to forgo these essential expenses in order to meet their debt obligations²⁶. Thus, there is expected to be a trade-off between the cost to the borrower and the serviceability of the loan by the borrower, given this additional cost burden. However, an important question remains, who ought to service certain costs.

3.4.3 An Ideal Cost-Sharing Mechanism?

Respondents had varied opinions on the normative question of “who ought to bear the cost imposed due to the lockdown and the moratorium?”. Most providers believed that there should be a cost-sharing mechanism, where under the cost is borne by the borrowers, providers, and perhaps the government. There were also contrary opinions, two providers believed that certain costs, like interest on interest must be charged to the borrower, since the providers themselves are paying interest on interest on their liabilities. Thus, there was hardly any consensus regarding an ideal cost-sharing mechanism, especially regarding the interest capitalisation.

Identifying the ideal cost sharing mechanism however is not an easy task. Arguments exist in favour of government bearing the cost as well as in favour of borrowers and providers alike. It may be posited that the cost of doing business will always include considerations of the political economy, i.e. an unanticipated policy announcement by the government that has clear distributional consequences. Ideally, such risks are priced into the contracts, including credit contracts, to that extent, one may argue, there is no onus on the government to step in. But to the extent that such policy announcements were unforeseeable and were themselves brought on by events that were unforecastable, the government does bear some responsibility to properly distribute the ex-post cost burden. Especially for the micro-finance clients, who are often economically vulnerable, it would be onerous to pass on such costs. Further, if one looks at state policy, it becomes clear that one priority for the state is to promote financial inclusion and reduce the vulnerability of LIHs. Thus, the lack of state support not only adversely impacts the LIHs but also its own policy agenda, and ethical responsibility.

It must also be acknowledged that the state of affairs resulted out of long-term market failures, like the lack of products that address catastrophic risk. Further, it is also well established that the role of the state is imperative in remedying such market failures. Thus, it is, and ought to be a responsibility of the state to step in and ensure that the most vulnerable members of the society are not left by themselves to carry the burden of historic and present failures.

Finally, the modalities of how the state should compensate providers to ensure that borrowers are not burdened would require a closer study of the state finances, provider's expectations, etc. and as such are beyond the scope of the brief. However, what remains clear is that the state must play a more significant role in this crisis to ensure that the cost of the lockdown is not internalised by the most economically vulnerable members of the society.

²⁶The numbers used in this illustration have been sourced from the CMIE August 2019 data on low-income households' (bottom 20% of income quintile) monthly expenses. We acknowledge that the additional cost and the opportunity cost will be lesser if the borrower is past 9 months or 21 months into the loan cycle before availing a moratorium, however, the borrower will still have to bear a significant opportunity cost in order to service his/her debt obligation.

3.5 JLG Model in the Context of Debt Moratorium

Here we attempted to gather perspectives on whether the JLG model has any bearing on operationalizing debt moratorium for microfinance customers.

Our conversations with NBFC-MFIs and non-MFI NBFC revealed that the moratorium was offered universally to all their customers. However, individual customers within a group could choose to pay depending on their ability and willingness to pay. Those customers who made scheduled repayments during the moratorium period were considered to opt-out of moratorium and repayments by individuals were accepted by the lending institutions. However, one bank we spoke to mentioned that while moratorium was offered to all their customers, the focus on collection of repayments was at a group level. Banks encouraged all group members to make a collective decision at a group level about moratorium rather than at the individual level. This might have certain adverse impacts if (i) not all members within the group are willing and able to pay due to differential impact of the lockdown on their livelihoods, (ii) group frictions and group dynamics are at play as the most influential person within the group would have the most say in deciding the outcomes for the group (iii) group collectively decides to opt-out for the moratorium even though some members within the group have the ability and willingness to pay, therefore reducing the collection efficiency of the lending institution.

The requirement of group payment rather than individual payment could also lead to sub-optimal outcomes if the JLG was constituted by the institution rather than self-chosen by individual members. Institution driven JLG structures could lead to greater instances of frictions within the group due to lack of connect among group members. These frictions could amplify in the context of group level decisions being made on opting-in or out of debt moratorium.

Therefore, largely, the JLG structure does not impose a barrier on individual debt repayment from the borrowers' and individual collections from the lenders' perspectives. But it could act as a drawback in case lenders insist on payments at a group level, in a context where individuals have different preferences pertaining to opting in or out of moratorium.

3.6 Customer Protection and Moral Hazard Risk

Multiple concerns emerge from the perspective of customer protection about the impact of debt moratorium on last-mile customers. We asked our panel of microfinance providers whether the debt moratorium policy led to any recent customer protection concerns such as coercive collection processes, increase in demand for expensive informal debt and any rationing of loanable funds. Overall, microfinance providers reported that the sector hadn't witnessed any major customer protection issues. Since the moratorium was announced for all borrowers, customers were aware of their right to avail the moratorium benefit for a limited window and conserve their liquidity. With the repayment moratorium in place, lenders were averse to disbursing new loans; however, in some cases there has been rising demand for top-up loans and emergency loans by a segment of borrowers. Any new loan or top-up was sanctioned conditional on full repayment and closure of their existing outstanding loans. Few microfinance providers shared that disbursement of specific products (example: cattle loan) where the revenue generation might take some time to kick-in was best avoided as a measure to protect both the borrower and the quality of loan book.

During the lockdown, borrowers reported availing expensive loans from informal sources. This was highlighted in a survey conducted by Dvara Research where 7% and 12% of surveyed households borrowed from informal sources during the first and second round of the survey, respectively²⁷. In our interviews, microfinance providers acknowledged the take up of informal loans by households but did not necessarily link this to being used for repayment of microfinance loans. That said, there has been ample evidence to indicate that the lockdown left many low-income households in liquidity crunch and a large segment of distressed households borrowed and sold assets to cover for consumption and travel expenses²⁸.

Another concern that arose in the context of debt moratorium was the issue of moral hazard and credit risk management²⁹ wherein certain borrowers who might have the capacity to repay also opted for debt moratorium and may, in future, default, leading to a rise in non-performing assets (NPA). Microfinance providers also thought of this as a valid concern particularly for borrowers that availed moratorium for all six months. The repayment discipline formed through multiple years of regular and standardized repayment obligations serviced by borrowers could come under threat with a six-month gap in repayment³⁰. However, the fear of moral hazard was higher during the first phase of moratorium (March-May). With the extension of moratorium (June-August), collection efficiency improved from less than 10% to above 70%, lowering the looming fear of fresh NPAs. In some geographies, the problem was neither the customer's unwillingness to repay nor the lender's inability to collect the repayments but rather the fear of contracting and spreading COVID-19.

3.7 Credit Information Companies and Moratorium

Despite the instructions by the RBI on reporting requirements to Credit Information Companies (CICs), there were significant deviations observed across the micro-finance industry regarding reporting to CICs. Our conversation suggested that during the moratorium most providers did not report regularly to the CICs. Only one respondent mentioned that there was adequate and complete reporting to CICs whereas others indicated erratic reporting.

Most providers cited either of the following two reasons for not reporting. The first hurdle for regular reporting to the CICs occurred due to the automations in the Loan Management System (LMS) (or Core Banking System in case of Banks and few MFIs). As discussed earlier, many providers had assigned a '0' to the current demand against each loan in their LMS/CBS. Thus, the software didn't consider it as an active loan and didn't report the same to CICs. Similarly, since many LMSs/CBSs do not allow for the provision of moratorium, in many cases, auto-reporting to the CICs had to be temporarily shut down. The other factor that led to the erratic reporting to CICs was the various interpretations of the RBI circular and a certain Ministry of Finance order. One provider mentioned that "it may be technically illegal to report to CICs since moratorium is in force", another provider cited a Ministry of Finance (MoF) order that forbade reporting to CICs, though we, at Dvara Research, were unable to locate the MoF order/ circular.

²⁷COVID-19 Impact on Daily Life Survey, Dvara Research, June 2020- <https://www.dvara.com/research/wp-content/uploads/2020/06/COVID-19-Impact-on-Daily-Life-CIDL-Survey.pdf>

²⁸COVID-19: Analysis of Impact and Relief Measures- <https://cse.azimpremjuniuniversity.edu.in/covid19-analysis-of-impact-and-relief-measures/>

²⁹Moral hazard! Moratorium extension may trigger more defaults: Analysts, The Economic Times, May 2020-<https://economictimes.indiatimes.com/markets/stocks/news/moral-hazard-moratorium-extension-may-trigger-more-defaults-analysts/articleshow/75882595.cms>

³⁰COVID-19 and debt moratorium conundrum: The case of microfinance, Ideas for India, July 2020- <https://www.ideasforindia.in/topics/money-finance/covid-19-and-debt-moratorium-conundrum-the-case-of-microfinance.html>

Providers also had a split view on whether reporting should occur to CICs at all. Approximately 60% of the respondents were in favour of reporting the repayment behaviour of the borrower to CICs, citing that the role of CICs is fundamental to understanding repayment behaviour in the long term. Other providers believed that those borrowers who were still repaying during the moratorium, represent the “gold standard”, and as such should benefit from the recording of their prompt repayment in future loans. Other providers, however, believed that reporting to the CICs should only occur if every provider is reporting, otherwise there may be information asymmetry. Conversely, other providers were against reporting to the CICs since they believed it to be violative of the ethos of the moratorium.

Our discussions also shed light on the subject of whether a provider may be able to identify borrowers who availed of the moratorium. Most providers believed that such identification is possible (even if they were not lending to the individual at that time) since their credit report would indicate continued repayment (or lack thereof). Though few respondents who had received credit reports during the moratorium period acknowledged that there is no direct identifiable marker, they also believed such identification of borrower may happen through advanced analytics, as discussed earlier.

The final aspect of discussion regarding CICs and the micro-finance sector revolved around whether during the moratorium, and its aftermath, the relevance of CICs has diminished, or is expected to diminish. Most providers were of the opinion that the relevance of the CICs remains unaltered, however, the industry may benefit from more advanced systems in CICs. One such example that was discussed, was regarding the generation of credit scores for borrowers of micro-finance. Further, the moratorium was also seen as an opportunity to operationalise combo-reports,³¹ credit reports for the entire household, etc.

4. Early Insights on Effectiveness of Debt Moratorium as a Policy Measure

How did lenders ensure that moratorium was deployed successfully and what were the key lessons learnt?

4.1 Effective communication with customers is key to ensuring that expectations from moratorium are clear

Microfinance providers emphasized the need for and the role of accurate communication with their customers about the terms and conditions of debt moratorium as well as its implications on the costs involved to help their customers make an informed decision about availing moratorium³². Microfinance providers emphasized that moratorium was simply a deferment of loan repayment and should not be construed as a loan waiver. This along with efforts by microfinance providers to maintain a constant connect with their customers helped them understand the impact of lockdown on their customer’s financial lives and assess their repayment capacity. In spite of the debt moratorium being announced in two phases of three month each, several institutions we spoke to connected with their customers on a monthly basis to assess the repayment capacity both in terms of willingness and ability to pay. This allowed the lending institutions to keep a constant ear on the ground and improve its collection efficiency month-on-month, as also highlighted in the previous section.

³¹Combo-reports are CIC reports where repayment behaviour of the customer regarding non-JLG loans (e.g. KCC, etc.) of the individual are also captured in addition to JLG loans.

³²MFIN issued an advisory for moratorium on micro-credit loans for its member organisations- <https://mfinindia.org/mfin-publications#>

The role of financial advice is crucial in this context, as loan officers can assess their customer's financial circumstances and capacity and provide suitable advice to their customers. For example, one MFI we spoke to mentioned that it discouraged their customers from availing moratorium in the second phase of moratorium and emphasized that the cost of accrued interest for a period of 6 months would be substantial. However, it left the final decision to the customers.

4.2 Duration of moratorium should be aligned with resumption of economic activities

Duration of moratorium can have significant implications on the balance sheets of microfinance providers. Sector practitioners have highlighted that prolonged moratorium can result in asset liability management issues, especially for NBFCs who have not received moratorium on their borrowings. Overall, there was an echo among lending institutions that moratorium post 31st August 2020 would not be prudent as economic activities had largely resumed. Additionally, rural households that primarily form the customer base for microfinance providers are largely dependent on agricultural and allied activities and have not been as severely affected as compared to other sectors even during the lockdown, therefore providing confidence to lending institutions about improved collection efficiency.

Extension of moratorium can also impact the repayment discipline of borrowers, especially in the context of microcredit loans, where borrowers are subject to rigid loan contracts and fixed repayment schedules. With relatively better liquidity position due to economic activities picking up, there is a risk of borrowers diverting their surplus funds to other purposes which would have otherwise been used for debt repayment³³. Practitioners have also highlighted that even those who have the ability to pay are opting-in for moratorium suggesting that behavioural biases and preferences could also lead to sub-optimal decisions from the consumer's point of view. It might be hypothesized that consumers could be driven by time inconsistent preferences, therefore opting-in for moratorium despite its costs. Overall, the decision on the duration of moratorium should account for these factors by policymakers.

4.3 Digitisation of transactions is crucial to ensuring sustainability of lending institutions during unforeseen circumstances such as the one presented by COVID-19

Microcredit lenders emphasized the need for digitization of transactions both in terms of collection of repayments and disbursement of new loans not just to reduce operating expenses but also to manage unique limitations posed in the current context due to physical distancing norms and restriction on mobility.

Several microfinance providers we spoke to mentioned that they had taken proactive steps to transition to digital ecosystems through various channels to enable contactless payments such as payments via apps like Google Pay, Paytm, addition of MFI on Bharat Bill Payment System, customer activation via NACH/eNACH for regular collections, payment gateway facility on MFI website, etc. However, MFIs highlighted that the cost of transitioning to some of these systems was substantial. For example, one MFI highlighted that the cost of lodging a NACH mandate and return fee in the case of failed transactions should be rationalized by the regulators. Digital transactions were also highlighted as pivotal in the current circumstances due to restrictions

³³Don't extend loan moratorium, The Hindu, August 2020- <https://www.thehindu.com/business/dont-extend-loan-moratorium/article32249967.ece>

on group meetings which is a crucial component of the JLG model, and movement of loan officers across villages and blocks to collect repayments. The implications of digital repayments/collections on the sanctity of group meetings however are not well understood and while we are far away from doing away with group meetings, its effect on collection efficiencies must be studied and tested.

Despite the supply side initiatives, micro credit lenders highlighted digital payments to still be a challenge for rural segments. Factors cited by lenders for poor adoption of digital financial services on the demand side ranged from inadequate access to digital infrastructure, behavioural change and the confidence to make cash-less transactions, need for the digital ecosystem to evolve as consumers were still receiving their income in cash, frequency of bank account usage being minimal and lack of use case for customers to hold their cash in bank account and transact digitally.

4.4 Important to address concerns pertaining to Asset Liability Mismatch (both in the context of debt moratorium and one-time restructuring)

Providers, especially NBFCs faced difficulties in servicing their present outstanding debt (from banks, market, etc.) since they were mandated to provide moratorium to their borrowers, whereas their creditors had no mandate to provide moratorium. This imposed a significant burden on institutions that were not carrying sufficient liquidity to cover the repayments. Most institutions we spoke with had adequate liquidity to cover the repayments since they had completed large direct assignment (DA) and securitization transactions in preceding months. However, given the small sample of providers who participated in the interviews, it is possible that there may be many providers who are facing extreme liquidity challenges. Thus, while the moratorium may have been beneficial for the consumers, it could have (and still may) threaten smaller NBFCs who did not receive moratorium on their liabilities.

Similarly, providers from the microfinance industry believed a one-time restructuring may be beneficial for borrowers with large complex loans. But for a typical MFI borrower, with average outstanding of Rs. 35,000 across two providers, such exercises may be futile at best, and counter-productive at worst due to an increase in the overall cost of the loan. Further, such restructuring, if happening only for the assets of the microfinance providers would result in similar ALM issues that became apparent during the moratorium period. Therefore, a policy that ensures an end to end liquidity transmission is a must for the sustainability of lending institutions.

4.5 Uniformity in approach by announcing a universal moratorium across all lending institutions helped protect consumer's interest

The RBI's announcement on the loan moratorium, perhaps on purpose, allowed institutions to design the nature and the mechanics of the moratorium that they may offer to consumers. While the flexibility would have allowed providers to manage the moratorium in a manner that serves both their and the consumers' interests, in the microfinance sector, a baseline uniformity of the moratorium structure helped immensely. Firstly, the borrowers did not have to interface with different approaches adopted by different microfinance

providers and thus were able to comprehend the design across all institutions. Though there were minor variations in the mechanics, the offer of universal moratorium to all consumers helped immensely. As articulated above, uniformity also helped protect customers' interest as a typical microfinance customer had outstanding loans from more than one microfinance institution. A differential approach by microfinance providers would have led to customers making decisions about prioritizing one loan over the other³⁴. Finally, uniformity also led to better awareness among customers about the terms and conditions of debt moratorium.

4.6 Important for regulator to effectively communicate the features and terms and conditions of moratorium as well as issue clear communication guidelines for lending institutions

RBI in its announcement pertaining to phase one of debt moratorium failed to mention the cost of availing moratorium. It restricted itself to communicating the implications of moratorium on extended loan tenure but the details pertaining to accrued interest as well as compounding of interest due to availing moratorium were not mentioned. While this might have been implicit, we feel that it is important to clarify these nuanced features upfront, for greater awareness on the cost implications of moratorium as a policy tool. Similarly, instructions by the RBI on reporting requirements to Credit Information Companies (CICs) were subject to misinterpretations by lending institutions and there was lack of clarity on recording requirements of loan repayment data during the moratorium period. Clear guidelines on this would have avoided the confusion on this account. Additionally, issuing communication guidelines for lending institutions on informing the end customer about moratorium and its cost implications would have helped clarify explicitly the additional cost burden that moratorium entails.

4.7 Burdening low-income and vulnerable households with the cost of moratorium can prove to be detrimental to their well-being

Given the extensive evidence on the impact of lockdown on the livelihoods of households, the financial distress it has caused, and the expensive coping strategies adopted by households, it is amply clear that COVID-19 has proved most detrimental to the financial lives of households, particularly low-income households, largely self-employed and working on daily wages or as casual employees in informal enterprises. In the absence of access to adequate formal financial services and social security combined with factors such as volatile cashflows, the lockdown has led to a massive economic shock in the lives of low-income households. In such instance, burdening them with additional cost of their outstanding loan in the form of accrued interest and compounding of interest due to availing moratorium can prove to be detrimental to their well-being. The state must play a more significant role in this crisis to ensure that the cost of the lockdown is not internalised by the most economically vulnerable members of the society.

³⁴In our conversations, it also emerged that it is often up to the industry bodies to harmonise such activities, and MFIN played a crucial role in ensuring uniformity in the approach adopted by the providers.