

# Chapter 5

## Effect of COVID-19 on Micro-Financial Institutions (MFIs): Special Emphasis on Developing and Emerging Economies

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### **ABSTRACT**

*COVID-19 caused a severe decline in the world's economy as the virus prevails throughout the world and hampered every form of business and operation. However, the middle and low-income countries received more severe impacts due to the unavailability of facilities and resources. Hence the need to focus on the significance & role of MFIs become more critical in low-income and developing countries. Therefore, this chapter has been written specifically for emerging and developing sides of the world. Hence the chapter has great significance as it does not only describes the MFIs and the challenges they are facing but also the impact of these challenges on the performance of MFIs during COVID-19*

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## **INTRODUCTION**

Asian Development Bank initially estimated that COVID-19 might cause a decline of \$5.8 Trillion to \$8.8 Trillion in the world's economy. The reason for such a massive impact is the rate of transmission of the virus that spreads around more than 200 countries across the globe and infected more than 5 million people. Therefore, the risk of being contaminated with the virus accompanied by security measures produced a disastrous impact on demand and supply due to unavailability of funds, labor, and materials to firms and financial resources to workers. These impacts were found to be under worsening conditions in low & middle-income countries due to lacking resources to manage the spread of the virus & continuous decline in socio-economic conditions. The reason being most of the workers in low and middle-income economies do not have the liberty of benefits like unemployment insurance, health insurance, paid leaves, etc, hence they were at the highest risk due to COVID-19. Thus, these forms of low-income households and firms are inclined towards Micro-Financial Institutions (MFIs) for fulfilling their financial needs through smaller but collateral-free loans (Zheng & Zhang, 2021).

These forms of loans are termed Micro Finance are used to foster living standards & foster household income. Thus the real aim of providing microfinance loans is to reduce mental stress, providing more jobs, and strive toward poverty alleviation. All of these are aligned with the long-term objective of microfinance by allocating sufficient credit to the vulnerable side of society to make these sides move towards entrepreneurship and improve their standards of living (Mustafa et al., 2021). On the other side, it has also been observed that in informal economies like Bangladesh MFIs were found to possess high resilience and always bounced back after local disasters. Though COVID-19 does not vary in impact and produces disastrous impacts on almost all types of areas, businesses, and activities. Therefore, considering the nature of COVID-19, there is a repetitive threat of localized lockdown and therefore it is a real challenge for MFIs to turn back to their normal operations (Mujeri et al., 2020).

## **Significance of the Work**

There are very limited studies on the impact of pandemics like COVID-19 on MFIs. Although there is a need to gear up the research towards the impact of COVID-19 on the sector that is the hope of millions of people, especially in low-income and developing sides of the world (Zheng & Zhang, 2021). Similar has been indicated by Mustafa et al (2021), that these forms of small and collateral-free loans are imperative for fostering new ventures and improving standards of living, especially in low-income countries. Thus, understanding the impact of the pandemic on the sector

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