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THEME ISSUE: COVID-19

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Note from the President

It has been almost a year since the world has somewhat recovered from the effects of the Covid-19 pandemic in the biological sense. Yet, the news of resurge in number of the cases of Covid-19 manage to haunt the world every now and then. The pandemic has had adverse impacts on the entire world ranging from health of individuals to economic and political health of countries with these being more evident in a developing country as India. To prevent such future economic shocks from striking the global economy, there stands a strong need to retrospect on how things slowly unfolded in the pandemic and led to a domino effect, to research on what aggravated the situation and ponder upon what could've been the preventive measures to stop this pandemic from having such disastrous consequences. It is for the same purpose that the dedicated and zealous students of Jamia Millia Islamia, New Delhi decided to contribute their small share in research thus adding to the global repository of priceless research.

The initiative of bringing the idea of the first student-managed journal in Jamia Millia Islamia to life was led by the enterprising co-founders of GAEE JMI- Mr. Farrukh Zaidi, Mr. Vaibhav Chhabra, and Mr. Arif Jamal in 2021. I'd like to thank their staunch efforts to execute this idea to stimulate the research-attitude among young students.

The proactive members of GAEE JMI then perseveringly supported the initiative by penning some of the remarkable and thoroughly researched articles for the first edition of the GAEE JMI Gazette, exploring the economic, entrepreneurial, and financial aspect of the impacts of Covid-19. The first research article is a result of the collective efforts of I-Zubiya Moin, Wajeeha Hamdani and Muntahar Ul Muzaffar and aims to examine the reasons behind the sharp fall in India's GDP due to Covid-19 (one of the worst fall in GDP faced in the world), and draw a comparative analysis of measures taken by India and other countries. The article was proficiently reviewed and edited by Mr. Zahid Siddiqui from the Department of Economics for which we express our heartfelt gratitude. The second article is penned by Mr. Hammad Nadim which seeks to explore and examine the impacts of Covid-19 on the harbingers of India's Economic growth- small businesses and entrepreneurs. The third and last article of this issue evaluates the working of the micro-financing scheme of Indian government for alleviation of poverty (- the perpetrator of India's slow Economic growth and low level of social welfare) during Covid-19.

Further value was added to the journal by the Editor of the Journal, Ms. Apekshya Basnett who took out a considerable chunk of her valuable time to edit the articles. Furthermore, the final frosting to the work was done by Ms. Subia Syed- the Marketing Director through her beautiful design of the cover page. Finally, the collective efforts were refined and the work sharpened by the valuable guidance by the co-founders.
I'd like to express my heartfelt gratitude to every contributor of the journal for their consistent hard work and support to make such a thoughtful idea- a reality.

Looking forward, I hope this journal serves its purpose by bringing value to the reader's knowledge and motivates students to gain and share their knowledge through similar initiatives. Finally, we hope that you tune in for future interesting editions of The GAEE JMI Gazette.

Best Wishes,

Zubiya Moin
President, GAEE JMI

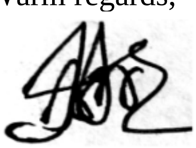
Wishes from the Head of the Department

*Photo credits- **Adnan Hassan Khan***

Dear Readers,

We are delighted to present the first issue of The GAEE Gazette 2023, a journal curated by students of the Department of Economics, Jamia Millia Islamia (a Central University, NAAC accredited A++ grade and third ranked University in NIRF 2020.)
It is a new initiative by the Global Association of Economics Education, Jamia Millia Islamia, for its members to voice their insights at this creative platform, particularly in light of the Covid-19 pandemic. We are proud of our budding talents who have expressed their thoughts, ideas, hopes, and convictions creatively.
I hope that The GAEE Gazette engages and inspires its readers. I congratulate the team at GAEE JMI for their excellent work and extend my best wishes. Finally, I look forward to the future editions of the journal.

Warm regards,



Prof. Asheref Illiyan
Head,
Dept of Economics
Jamia Millia Islamia

Editorial by Areeba Shakeb

Dear Readers,

We are delighted and proud to present the first edition of the GAEE JMI Gazette—the first student-managed journal at Jamia Millia Islamia, New Delhi, which has been crafted and curated by the talented members of the economics, entrepreneurship and finance wings and edited by the ever-ardent members of the editorial team. The journal is directed at bringing to the fore the various economic, entrepreneurial and financial aspects pertaining to the impact of the Covid-19 pandemic on our country and its people. From narrowing down on India's GDP fall fiasco to highlighting the plight of Indian entrepreneurs in light of the pandemic, the journal encompasses it all.

The editorial team and its members—Ayan Rasul, Syed Faiqul Islam, Utkarsh Rai and Nashita Imteyaz, have worked enthusiastically to ensure that the journal is structured well and it delivers what it has been curated for; furthermore, reading the articles simultaneously was absolutely treat for us, and we are certain, it shall be the case for you as well. With students pursuing courses in drastically different domains coming together to edit this journal, it is evident that the team possesses a collective multi-faceted expertise brought into play while editing the GAEE JMI Gazette.

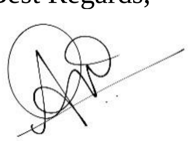
I cannot end this note without sharing my experience with GAEE JMI, which has been that of learning, unlearning and improving— I can't thank my seniors enough for guiding me throughout.

Firstly, I would like to thank the President, Ms. Zubiya Moin, who was actively involved in the editing process and has been a constant pillar of support and guidance for the team and me. Additionally, from being absolutely clueless about research and editing to learning loads about it, the entire process of learning was facilitated by the former member—Ms. Apekshya Basnet who edited the articles in this journal by fact-checking information, aptly referencing data, and checking for errors.

Finally, none of this would've been possible without the collective effort of all our team members who helped either overtly or covertly, and we're certain that their unwavering support and contribution are to play an instrumental role in our later initiatives as well.

As you flip through the pages of this journal, you're bound to learn, ponder and question. We hope this experience will be insightful and will leave you wanting for more.

Best Regards,



Areeba Shakeb
Editorial Head, GAEE JMI

India's GDP: The Story behind The Great Fall in 2020

Zubiya Moin, Wajeeha A. Hamdani, & Muntahar Ul Muzaffar

Abstract

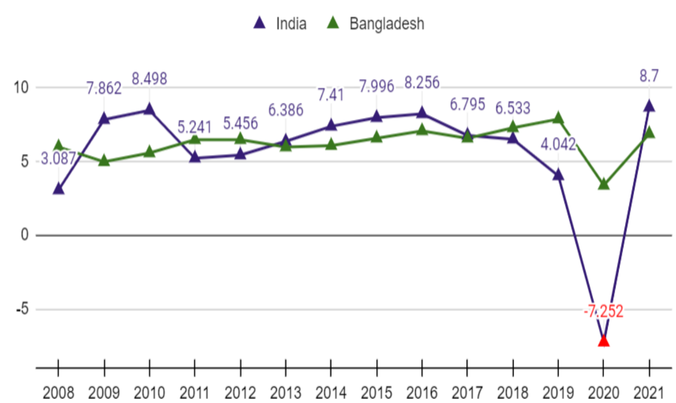
The Covid-19 pandemic shook all the economies globally by forcing a visible halt on economic activity. Even though almost all economies witnessed a fall in their GDPs, there are some economies which were the worst hit in the world. Indian economy, unfortunately, was one of them. However, when figures from other developing economies such as Bangladesh is observed, it is seen that those economies did not experience such a shock. This paper strives to examine India's fall in gross domestic product (GDP) during the COVID-19 pandemic. It analyzes the trends in GDP growth, identifies the causes for India's declining GDP performance and accordingly provides recommendations. The authors further explore COVID-19's economic impact on the Indian and global economy.

I. Introduction

The gross domestic product (GDP) is a widely used international measure of an economy's output. It is often used as the basis for several derivative statistics – the GDP per Capita and real GDP – which is the base GDP measure adjusted for consumer price inflation (Mallett & Keen, 2012). Thus, the GDP is commonly referred to the final value of the goods and services produced within the domestic territory of a country during the period of one year.

In addition, it is one of the primary indicators used to assess a country's economic health. Countries report economic growth if their GDP numbers increase from one period of time to another. Notably, it is the real GDP (adjusted for inflation or deflation) that demonstrates an economy's growth[1]

Fig 1: GDP growth rate (Annual) 2008-21



Source: World Bank

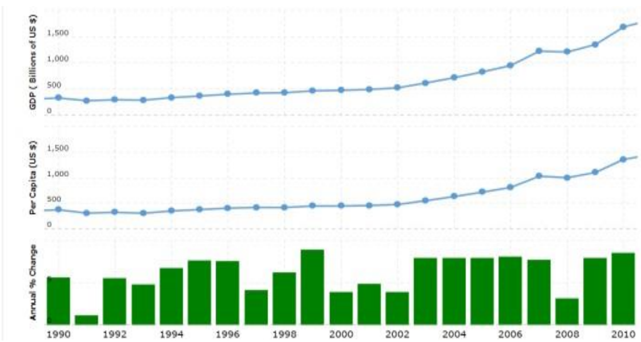
II. Mapping India's GDP trends

At the time of independence, India had a stagnant economy in which agriculture was the primary occupation and source of income. In 1951, India began reforming its economy by introducing "The Five-Year Plans." The Five-Year Plans aimed to boost growth and per capita income while also simultaneously eradicate

[1] The major components of economic growth are human capital, physical capital and technology. When all three of them are functioning properly, a country's economic growth is accelerated.

poverty and unemployment. All of these bids ultimately helped India moderately during the first thirty years, as the economy grew at the rate of 3.5%.[2] However, it was only after the 1991 Economic Reforms India experienced significant growth. In the subsequent years, India's growth trajectory peaked at 9% and averaged 7% per annum (Dalal S. K., 2019). Despite its growth, India has experienced its share of setbacks. Above all, India's economy has been intriguingly progressive since independence. Between 1990 and 2010, India's GDP registered an annual average growth of 6.6%.[3]

Fig. 2: India's Real GDP 1980-2010



Source: World Bank

However, when the Global Financial Crisis hit the country in 2008, India's GDP growth fell to 5.8% in the third and in the fourth quarters of 2008-09 (compared to 9.3% and 8.6% in Q3 and Q4 of 2007-08).[4] Fortunately, the Indian Government's subsequent measures aided the economy's recovery, and GDP growth reached a record high of 13.3% in March 2010.[5] India relied on external trade for only about 20% of its GDP and continued to produce goods and services which helped it to withstand the crisis. Remittances from overseas (majorly from blue collar Indian expatriate community in the Gulf countries) reached $46.4 billion. Besides, India's financial system kept at bay for they (banks and financial institutions) did not find buying mortgage-supported securities and credit-default swaps lucrative. The government also adopted a fiscal policy and rolled out two rounds of stimulus packages; pro-growth policies were adopted, which included lower interest rates, expanded credit and a reduction in excise duties. [6]

After 2010, the decline resumed (the reasons for which are discussed below), with periods of minimal growth, and this trend continued until 2016.

III. Causes for Decline for the Indian Economy

The following section has been dedicated to explaining reasons for the Indian economy's decline.

(i) Decline in Capital Investment

One of the major reasons for the slowing of growth is a decrease in capital investment which has dropped from 39.85 of GDP (in 2010) to a 10 percent lower in 2019. Productive capacity can be increased with capital

[2] See, "The Real Economy (Part 1 of 2)" https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=324

[3] See, "India's annual average GDP growth at 6.6% in 1990-2010: Govt," India's annual average GDP growth at 6.6% in 1990-2010: Govt - The Economic Times (indiatimes.com)

[4] See, "Economic Survey 2008-09," https://www.indiabudget.gov.in/budget_archive/es2008-09/chapt2009/chap12.pdf

[5] See, GDP growth (annual %) - India The World Bank https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2020&locations=IN&start=2010

6 See, How India Survived the Financial Crisis", https://www.project-syndicate.org/commentary/how-india-survived-the-financial-crisis

investment. [7]Instead of capital investment, the middle and upper classes have witnessed an increase in liquefied petroleum gas (LPG) and motor fuel subsidies.

Furthermore, fertilizer subsidies were only available to middle and large farmers with irrigated farmland. Since 2011, the savings/GDP ratio, tax/GDP ratio, and investment/GDP ratio have all been declining. The situation for projects funded by markets remains similar, and they are also declining.

ii. Slowing Rural Wage Growth

In November 2014, wages in the agricultural and non-agricultural sectors increased by only 5.6% and 6.5%, respectively. CMIE Report on rural wages highlight that the year-on-year growth in wages has dropped to a 3-year low of 3.09% in January 2018. [8]On top of these adversities is the insufficient farm land available to farmers. Average farm size (which is fragmenting) is currently less than an acre, and the lack of suitable land for cultivation prevents farmers from engaging in productive agricultural activities, forcing them to switch to less-skilled vocations such as construction.[9]

iii. Decline in the fundamentals of Economy

"Fundamentals of Economy" is referred to as a comprehensive measure of an economy's health that takes into account a wide range of economic variables. GDP is a fundamental of the economy, and its decrease indicates a decline in economic growth. Furthermore, demonetization and the implementation of (GST) exacerbated the misery by saturating the banking system with massive bad loans. As a result, India's GDP per capita presents a bleak picture.

iv Increase in Unemployment

India has performed poorly in terms of unemployment. In 2017-18, a year after demonetization and the implementation of GST, India's unemployment rate reached a 45-year high.[10] In addition, the total number of employed people fell by 9 million between 2012 and 2018. In the years leading up to COVID-19, India began routinely experiencing unemployment rates close to 6% - 7%, as opposed to the norm of 2% - 3%.

v. Inflation rate

During 2014 to 2017, the economy benefited greatly from low crude oil prices. It was hovering around $110 per barrel from 2011 to 2014.[11] However, it had dropped to $85 in 2015. In 2017 and 2018, the price had fallen further, to below $50.[12]

1 India benefited from the sudden fall in two ways— (a) it enabled the country to combat high retail inflation and (b) it allowed the government to collect additional fuel taxes. However, India was unable to

[7] See, "2010-2020: The Decade that India has 'lost', https://www.deccanchronicle.com/opinion/op-ed/171219/2010-2020-the-decade-that-india-has-lost.html

[8] See, "Why is Rural Wage growth at a Decade Low?" https://www.moneylife.in/article/why-is-rural-wage-growth-at-a-decade-low/54178.html

[9] See, "The land challenge underlying India's farmer crisis" https://www.livemint.com/Politics/SOG43o5ypqO13j0QflaawM/The-land-challenge-underlying-Indias-farm-crisis.html

[10] See, "Explained: India's GDP fall, in perspective," Explained: India's GDP fall, in perspective | Explained News,The Indian Express

[11] See, "Recent developments in oil prices," https://www.ecb.europa.eu/pub/economic-bulletin/focus/2019/html/ecb.ebbox201901_01~dd4b3e4eb2.en.html

[12] See, "Oil fell below $50 a barrel for the first time in over a year," https://edition.cnn.com/2018/11/29/business/oil-prices-50-dollars/index.html

continue reaping the benefits because it has been experiencing unabated high retail inflation since the fourth quarter of 2019. The average person's spending has also decreased, further impeding economic growth.

vi. Decline in Consumer Demand

The National Sample Organization (NSO) conducted a survey between July 2017 and June 2018.[13] According to the unpublished reports of the expenditure survey, the consumer demand has fallen by 8.8% in rural areas and 2% in urban areas.

Additionally, there was a 5.6% fall in private final consumption between March 2018 and June 2019. The economy contracted as a result of the hasty implementation of the GST and the ill-advised demonetization.

Furthermore, the crisis in non-banking financial companies added to the woes of India's fragile economy, resulting in a decline in private consumption and investment (Dalal, 2020).

vii Fiscal Deficit

India's fiscal deficit has been on a downward spiral. The government admitted in the Union Budget for the fiscal year 2020-21 that it had been underreporting the fiscal deficit by nearly 2% of India's GDP.[14]

Moreover, the rupee's relative weakness highlights the Indian currency's diminished purchasing power. With these factors performing poorly, India's economy continues to deteriorate.

Factors that Put Indian Economy on a Knife Edge

Apart from the reasons stated above, there are some specific reasons which led the India's GDP on a knife edge.

i. Demonetization

The demonetization of 500- and 1000-rupee constituting 86% of the currency notes in India took place in 2016 and hit the Indian economy hard by contracting liquidity, hurting economic sentiment which in turn affected consumer demand hard and finally translated into a two-percent dip in the GDP. The ill effects of demonetization were majorly through increasing NPAs in banks, causing huge scale informal sector unemployment, huge financial burden on RBI and State governments.[15]

Despite having certain positive impacts, demonetization lead to economic slowdown in India which hurled the Indian Economy in a distressed state. (Sharma, 2018)

ii. Hasty implementation of GST

The introduction of Goods and Services Tax was a great initiative to replace the previous complicated tax regime and unifying the Indian Market. However, the implementation of the new GST regime faced numerous

[13] See, "Subdued Rural Demand," https://www.epw.in/journal/2019/47/letters/subdued-rural-demand.html

[14] See, "Explained: India's GDP fall, in perspective," https://indianexpress.com/article/explained/india-gdp-gdp-fall-7-3-per-cent-in-perspective-modi-govt-coronavirus-economy-7338852/

[15] See 'Fiscal stimulus a fallout of misadventure; likely to be less effective' https://www.emkayglobal.com/insight-details/fiscal-stimulus-a-fallout-of-misadventure-likely-to-be-less-effective-37

challenges including issues in input tax credit, GSTN functionality[16], that necessitated well-thought implementation. Unfortunately, the required focus was not laid on the implementation of GST and it was rather hasty in nature. As stated by Ashok Lahiri (former chief economic adviser (centre) and currently a member of 15 Finance Commission), "GST was not completely qualified for the launch in July 2017. The system therein required a set of crucial amendments that were skipped at that moment"[17] This was evident from the numerous instances of difficulties being faced by a large number of registered assesses.[18] As a result of this hasty implementation, the problems of the India economy which was still recovering from the ill effects of demonetization were aggravated.

iii. Widening inequalities

As perfectly highlighted by The India forum's report titled 'Trends in Economic Inequality in India', the economic inequalities have been widening for many years[19]. Economic inequality is closely related to the ability of the economy to survive economic shocks. Inequality renders the majority, economically weak sections susceptible to the adverse effects of economic shocks which in turn adversely affects the economy as a whole.

IV. 2019-2021: The Ordeal

Impact of COVID-19 on the Global Economy

The COVID-19 pandemic is unlike any other disease outbreak in human history. Originating in China, it spread its wings in the G7 economies[20] before governments could recognize its gravity.

As the number of cases in countries increased and governments imposed stringent lockdown measures on human resource movement, these economies came to a halt, facing a shock from both the demand and supply sides.

The G7 economies are an integral part of the global value chains. Thus, it was not long before when COVID-19, originally, a health crisis transformed into a global economic crisis.

A. Twin Economic shocks

i. Supply shock

COVID-19 had an adverse effect on the supply side due to the following reasons:

i. Decline in productivity of human resources due to lung infections caused by COVID-19.

[16] See 'Implementation Issues in India's GST' https://www.orfonline.org/wp-content/uploads/2017/06/ORF_IssueBrief_185_GST.pdf

[17] See 'GST Stable in Long Term But Messy Right Now: Ashok Lahiri' https://blog.saginfotech.com/gst-stable-long-term-messy-now-ashok-lahiri

[18] See 'GST implementation – Hasty turns out nasty' https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=7654

[19] See 'Trends in Economic Inequality in India' https://www.theindiaforum.in/economy/trends-economic-inequality-india#:~:text=In%20India%2C%20the%20share%20of,since%201980%20(Figure%209).

[20] The Group of Seven (G7) is an intergovernmental political organization that brings together the governments of the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom. The European Union is also a "non- enumerated member."

ii. Restrictions on mobility of people thus directly affecting the supply of human capital to businesses for the production of goods and services.
iii. Social distancing measures prevent factories from working at full capacity.
iv. Fall in private investment due to fall in incomes of the household sector.
v. Business closures due to losses faced by owners.
vi. Reduced supply of raw materials, consumer goods, and capital goods from other countries as a result of global supply chain disruptions (emanating majorly from G7 countries).

ii. Demand Shock

The demand side was also affected due to several factors:

i. As a result of containment measures, quarantines, and closure of businesses, a large part of the workforce was rendered jobless, leaving them with little or no source of income.
ii. Fall in demand for capital goods due to fall in investment.
iii. Increase in household savings (hoarding) thus decline in household consumption of all goods except the necessities.

B. Savings-Investment disequilibrium

The disparity between savings and investment was a major cause of the global economic disruption. People are naturally hesitant to take risks in the face of uncertainty, which is a factor that is closely related to investments.[21]

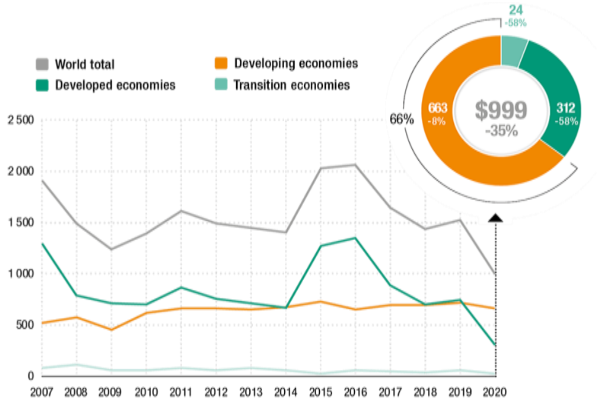
The situation after the advent of the massive global health and economic crisis like COVID-19, proved this statement correct.

In 2021, Foreign Direct Investment (FDI) flows fell by 35% globally in 2020.[22] According to the World Investment Report (2021), the decline in FDI was primarily due to pandemic-related lockdowns slowing existing investment projects globally and the prospect of a recession led multinational enterprises (MNEs) to reassess new projects

[21] See, "Economic uncertainty affects economic decisions," https://www.kenan-flagler.unc.edu/news/economichttps://www.kenan-flagler.unc.edu/news/economic-uncertainty-affects-economic-decisions/uncertainty-affects-economic-decisions/

[22] See, "Global foreign direct investment set to partially recover in 2021 but uncertainty remains," https://unctad.org/news/global-foreign-direct-investment-set-partially-recover-2021-uncertainty-remains#:~:text=FDI%20flows%20plunged%20globally%20by,MNEs)%20to%20reassess%20new%20projects

Fig. 3: FDI inflows, global and by groups of economies, 2007-20



Source: UNCTAD, World Investment Report 2021

Personal savings of the younger population in China increased by 34%, while savings of the population in the United States increased by 33%.[23]

In times of public health crisis, people prefer to save money rather than spend it. This occurs because households' liquidity preferences for money increase as households want to keep some savings on hand in case of a sudden health emergency involving a family member. These savings were hoarded rather than invested. This surplus of savings over investment causes a net leakage from the flow of national income, resulting in a recession-like situation.

C. Global Recession

In terms of annual GDP decline, COVID-19 has resulted in the worst economic downturn since the Great Depression, which was roughly three times worse than the global financial crisis of 2008.[24] The global economy contracted by 4.9%. This figure was 1.9% more than the International Monetary Fund's projected contraction of 3%.[25] In addition, all economic activities and industries that rely on physical contact have been hit the hardest.

One such example is the Airlines business. Air traffic is only 25% of what it was at the end of 2019 and is unlikely to recover for at least another couple of years.10 Furthermore, manufacturing, retail, export-import, hotels, travel agencies, and cruise ships have all taken a hit.

This has resulted in a sharp contraction in GDP in nearly all economies except China, which did not enter a recession, and South Korea and Taiwan, which recovered quickly.

The global recession is also reflected in 2020 global unemployment rates. The global unemployment rate,

[23] See, "Save for Safe: Effect of COVID-19 Pandemic on Consumers' Saving and Spending Behavior in China," https://www.frontiersin.org/articles/10.3389/fpsyg.2021.636859/full

[18] See, "World Vs Virus podcast: An economist explains what COVID-19 has done to the global economy," https://www.weforum.org/agenda/2020/09/an-economisthttps://www.weforum.org/agenda/2020/09/an-economist-explains-what-covid-19-has-done-to-the-global-economy/explains-what-covid-19-has-done-to-the-global-economy/

[19] See, "World Economic Outlook, Update, June 2020: A Crisis Like No Other, An Uncertain Recovery International Monetary Fund," https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/ world-economic-outlook-april-2021

which had been gradually declining from 5.92% in 2010 to 5.37% in 2019, has risen to 6.47% in 2020.[26]

D. Rise in Inflation

Headline inflation rose rapidly in the United States, as well as in some emerging market and developing economies, with varying degrees of pressure in different countries.

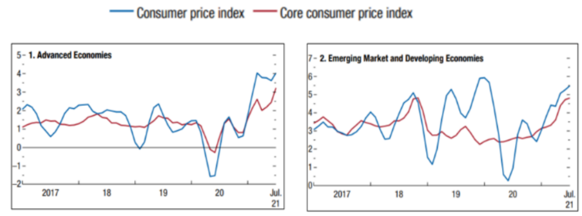
Food prices in some countries in Sub-Saharan Africa, the Middle East, and Central Asia have risen significantly as a result of local shortages and the rise in global food prices. This occurred as a result of a mismatch between supply and demand forces. Initially, as demand in economies fell, many businesses reduced their orders of intermediate goods.

As the recovery gained traction in 2021, some producers found themselves caught off guard and unable to quickly ramp up sufficient supply.

Further, during the pandemic, the global distribution of shipping containers became highly distorted, leaving many stranded off their usual routes. For example, the closure of the Suez Canal and restrictions in China's Pearl River Delta ports led to a temporary disruption.

Following the COVID-19 outbreak, River Delta and congestion in the ports of Los Angeles and Long Beach) exacerbated delays in delivery times (International Monetary Fund, 2021). Thus, as the economic recovery gained momentum, the increase in supply could not keep up with the increase in demand.

Fig. 4: Inflation Trends (3-month moving average; annualized % change)



[Source: World Economic Outlook, IMF]

COVID-19 had a similar impact in India as it did in other developing economies. However, the severity of the impact across sectors differed.

As India is a densely populated country with insufficient medical facilities, it was forced to implement a lockdown policy. Although empirical evidence suggests that social distancing and containment measures were very effective in reducing the number of COVID-19 cases, the Indian economy paid a high economic cost as a result (Deb et al., 2021).

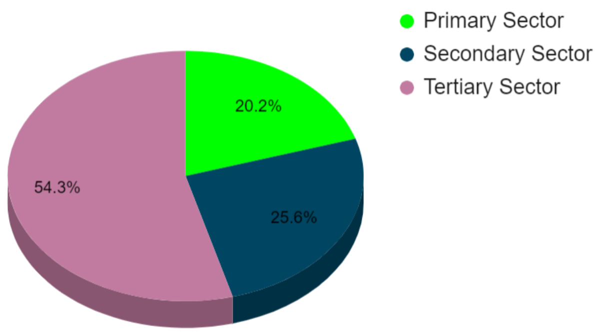
The severity of the crisis was exacerbated by the fact that the Indian economy had been in decline for over a decade prior to the pandemic. Ramakumar and Kanitkar (2021) claim that this led to India's capacity to deal with the pandemic to become severely harmed in March 2020, when the GDP contracted by a total of 23.9% in the first quarter of 2020 and 7.25% for the fiscal year 2020-21.

D. Sector-wise GDP drop.

The impact on GDP was felt across various sectors of the economy and was directly proportional to the size of these sectors' respective shares of India's GDP.

[26] See, "Unemployment, total (% of total labor force) (modeled ILO estimate), World Bank," https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2020&start=2010

Fig 5: Sector-wise share in GDP of India 2019-20



Source: World Bank

i. Primary sector

This sector includes agriculture and other allied activities and employs 43%[27] of the population and contributes to 20.19%[28] of the Indian GDP. When India imposed a complete nationwide lockdown on March 24, 2020, it was the beginning of the Rabi crop harvesting season.

In addition, the suspension of the operations of the businesses like hotels, restaurants, sweet shops and tea shops led to a fall in demand for agricultural products.

Crop marketing was hampered by mobility restrictions, and harvested crops ultimately remained on farm lands only. Moreover, international demand for agricultural products has declined due to the shutdown of international trade, mirroring the fate of domestic demand.

ii. Secondary Sector

The secondary sector employs 24.89% of the Indian population and contributes approximately 29.6% to the GDP.

The manufacturing sector became the focal point of COVID-19's negative effects. The Index of Industrial Production (IIP) in India fell from 134.2 in February 2020 to 54.0 in April 2020.[29] Due to supply chain disruptions, these firms were unable to source intermediate goods for production, and factory shutdowns, they were unable to sell their goods (Rakshit & Paul, 2020).

As a result, the values of their stock inventories and capital goods began to fall. Many businesses were forced to close due to a lack of income or funding. This result was more prevalent among firms producing nonessential goods, as demand for these goods fell by a large proportion.

Similarly, the construction and engineering industries were negatively impacted because they require the physical presence of a large labor force.

Micro, small, and medium-sized enterprises (MSME) are an essential component of the production supply chain and an important sector of the economy, accounting for 30% of GDP and around 49% of exports.[30]

[27] See, "Employment in agriculture (% of total employment) (modeled ILO estimate)2020," World Bank data https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS

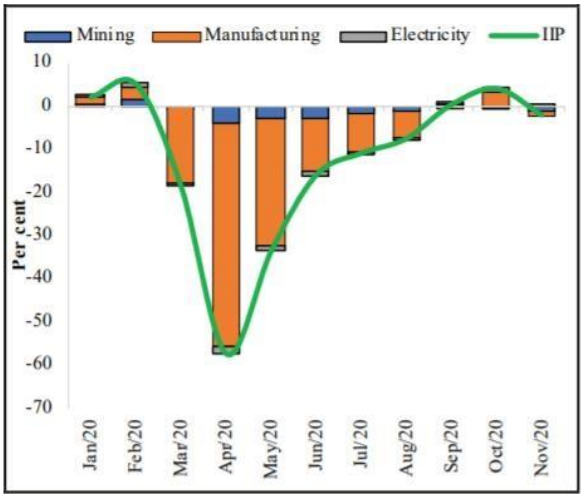
[28] See, "Press note on provisional estimates of annual national income 2020-21 and quarterly estimates of Gross Domestic Product for the fourth quarter (Q4) of 2020," https://mospi.gov.in/documents/213904/416359/Press%20Note_31-05-2021_m1622547951213.pdf/7140019f-69b7-974b-2d2d-7630c3b0768d

[29] See, "Impact of Covid-19 on Sectors of Indian Economy and Business Survival Strategies" https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3620727

[30] See, "Ministry of Micro, Small & Medium Enterprises Contribution of MSMEs to GDP," https://www.pib.gov.in/PressReleasePage.aspx?PRID=1744032

These MSMEs were also severely harmed, as the lockdowns forced these businesses to temporarily close for many months, and a lack of income and financial support left the owners with no choice but to permanently close their businesses (Dalal, 2020).

Fig 6: Growth in IIP



Source: MoSPI, DPIIT

iii. Tertiary Sector

The tertiary sector, also known as the service sector, is critical to the Indian economy because it employs 32.33%[31] of the Indian population while contributing 54% of the Indian GDP[32].

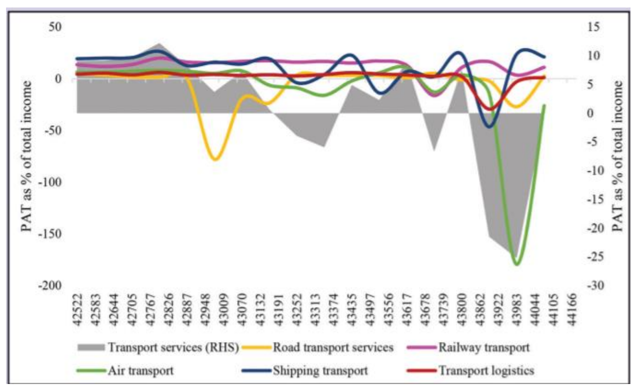
a. Tourism and Hospitality industries: As lockdown averted the inflow of tourists, it led to a crippling blow to the tourism and hospitality industries.

Fig. 7: Hotels & Tourism, Wholesale & Retail Trading

Source: Economic survey 2020-21

b. Transportation sector: Also, the transportation industry faced a blow due to restrictions on movement of goods and services.

Fig. 8: Transport Services and Logistics



Source: Economic survey 2020-21

c. Healthcare sector: The healthcare sector witnessed a sudden surge in demand as the number of COVID-19 cases started increasing but unfortunately met a shortage of supply of intermediate goods such as oxygen cylinders and capital goods such as ventilators at the same time which directly affected the supply of healthcare services.

[31] See, "India - Employment In Services (% Of Total Employment)," https://tradingeconomics.com/india/employment-in-services-percent-of-total-employment-wb-data.html#:~:text=Employment%20in%20services%20(%25%20of%20total%20employment)%20(modeled%20ILO%20estimate,compiled%20from%20officially%20recognized%20sources.

[32] See, "Key Highlights of Economic Survey 2020-21, Press Information Bureau" https://www.pib.gov.in/PressReleasePage.aspx?PRID=1693231

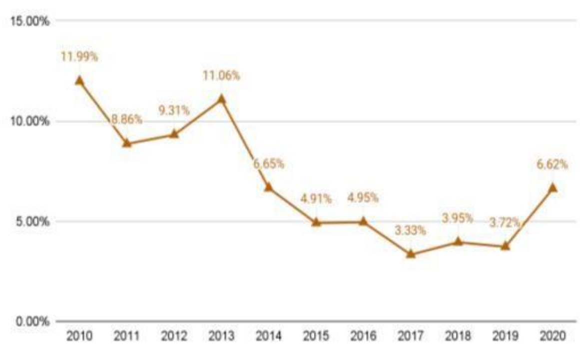
d. Banking, financial Services and Insurance sector (BFSI) sector: COVID-19 has afflicted the BFSI segment by causing upheaval to their business and annual reporting giving rise to their non-performing loans.

E. Other Economic indicators

i. Inflation

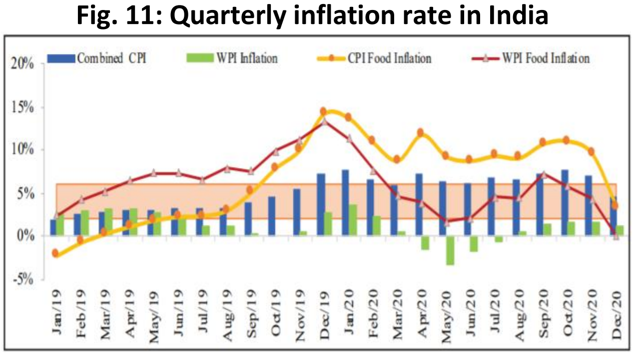
In India, inflation rates, (measured by CPI[33]) increased from 3.723% in 2019 to 6.623% in 2020.[34] The reason for this is a mismatch between demand and supply.

Fig 10: Inflation, consumer prices (annual %) – India



Source: World Bank data

Fig. 11: Quarterly inflation rate in India



Source: MOSPI

ii. Unemployment

The economic impact of the lockdown forced many workers out of work. People working in the unorganized sector or as daily wage earners were the hardest hit, exacerbating the middle and lower classes' financial situation.

Many unemployed laborers walked barefoot to their villages, where they turned to agriculture for a living. In absence of properly planned support framework from the appropriate sources, thousands of these migrant laborers died before reaching their hometowns.

VI. Economic Recovery Policy Patterns around the globe

The COVID-19 pandemic has had a significant impact on the global economy and in the post COVID-19 world where everything has changed. One thing which is interesting to note is how some economies managed to revive themselves while some could not.

Global growth was expected to accelerate to 5.6% in 2021, owing to the strength of m Regardless of the previous year's increase, the global GDP in 2021 was expected to be 3.2% lower than pre-pandemic projections, with per capita GDP in various developing economies remaining lower than pre-COVID 19 estimates.[35] Since the pandemic is here to stay for a while, it will continue to affect the global economic activities.

[33] The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time.

[34] See, "Inflation, consumer prices (annual %) - India, World Bank data," https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?contextual=default&end=2020&locations=IN&start=2014

[35] See, "The Global Economy: on Track for Strong but Uneven Growth as COVID-19 Still Weighs," Global Economic Prospects: The Global Economy: on Track for Strong but Uneven Growth as COVID-19 Still Weighs (worldbank.org)

The main verticals that were focused upon by the countries who managed to have a speedy recovery were:

1. Healthcare Responses

2. Financial Responses

3. Political Responses

Major economies closed down their borders and imposed strict travel restrictions. Although lockdowns and Standard Operating Procedures (SOPs) were practically universal, those nations that were able to bend the curve adopted them with stringent regulations and harsh penalties – which made a significant difference.

Another thing common among developed economies such as the United States and China was that they eased their monetary policies, introduced liquidity stimulus packages for safeguarding their citizens, increased unemployment benefits, spent on healthcare and most importantly built a sense of trust with citizens to avoid panic and ensure stability. Moreover speedy vaccinations and proper healthcare supplies with proper and efficient distribution contributed to combating the pandemic crises.

China's central bank eased monetary policies by lowering minimum reserve requirements for banks, increasing money flow by allowing them to lend an additional $80 billion to struggling businesses.

The Japanese government announced massive relief packages worth nearly $1 trillion to assist the country get through these challenging times. The headline figure amounted to roughly 20% of Japan's GDP[36].

In the United Kingdom, the Treasury (i) pledged to pay 80 percent of workers' salaries for several months in order to prevent companies from laying off large numbers of workers, (ii) offered to reimburse self-employed workers for lost wages, (iii) deferred tax payments; increased unemployment benefits, (iv) established a loan program for small and midsize businesses, and (v) provided rescue aid to charities.[37] The Bank of England also dropped its benchmark interest rate to 0.5 percent and loosened capital requirements for banks (Masters, 2020).

Australia acted quickly, restricting travel, doubling unemployment benefits, and introducing various subsidies, as well as an economic stimulus worth 10% of their GDP in 2020.[38]

Monetary policies were eased globally, with broad based reductions in short-term policy rates and reserve requirements to support activity, as well as emergency liquidity support to stabilize financial markets.

VII. Policy measures in India

Initially, the RBI and the government of India had announced stimulus packages to the tune of about Rs 9.92 lakh crores. However, on May 12, 2020 a much larger package was announced. When combined with

[36] See, "Coronavirus: How Are Countries Responding to the Economic Crisis?" https://www.cfr.org/backgrounder/coronavirus-how-are-countries-responding-economic-crisis

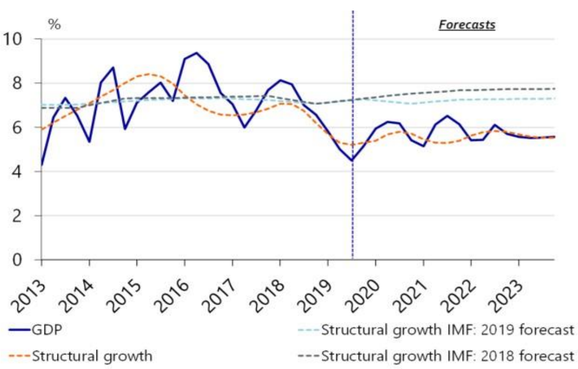
[37] See, "Global recovery continues, but the momentum has weakened and uncertainty has increased," https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021

[38] See, "Australia takes stimulus to 10% of GDP and orders closures to combat coronavirus," https://www.reuters.com/article/uk-health-coronavirus-australia-economy-idUKKBN2180LF

the previous packages, this package totaled Rs 20.97 lakhs, or about 10% of the country's GDP (Mani et al., 2020).

The package's goal was to focus on land, labor, liquidity, and laws. It would address sectors such as cottage industries, MSMEs, the working class, the middle class, and industry. The stimulus package put in place was more concerned with the supply side than the demand side. There are differing opinions on whether the economy can be boosted more by a supply-side or demand-side push.

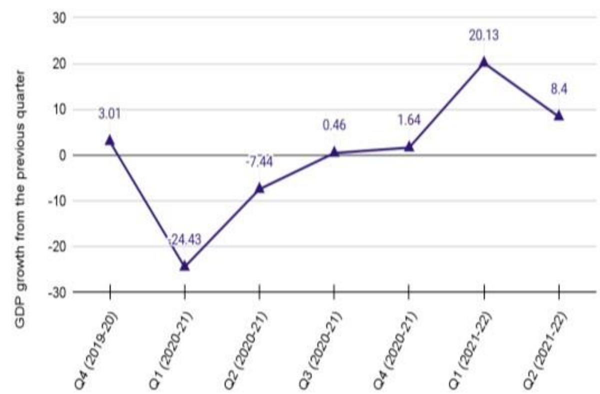
Fig. 12: GDP STRUCTURAL GROWTH FORECASTS FOR INDIA



Source: IMF World Economic Outlook

The Indian government announced several other initiatives aimed at feeding the country's most vulnerable citizens. Further, the government's decision to accelerate the Pradhan Mantri Kisan Samman Nidhi[39] transfer by four months would benefit eight crore families. Furthermore, the PM Ujjwala Yojana[40] ensured that three gas cylinders would be distributed free of charge for three months. For some sections, the government announced the payment of employers' and employees' EPF contributions for three months. Additionally, a collateral-free lending facility for self-help groups was announced. However, India lags behind in terms of planning and implementation, resulting in mismanagement and chaos. India did recover to some extent, but these measures were insufficient to restore growth.

Fig 13: Quarterly GDP growth rate of India at base year prices



Source: MoSPI

Fig. 14: Projections for Real GDP for the FY 2021-22

Source: NSO and Survey Calculations

[39] The Pradhan Mantri Kisan Samman Nidhi is a Central Sector scheme that the Indian government fully funds and was launched on December 1, 2018. All land-holding farmer families will get income support under the programme, which will be paid to them in three equal annual instalments of Rs. 6,000 each.

[40] On May 1, 2016, Indian Prime Minister Narendra Modi introduced the Pradhan Mantri Ujjwala Yojana, which provides 50 million LPG connections to women from households living below the poverty line.

VIII. Recommendations

1. Creating accountability at every level to ensure proper implementation.

2. Increased expenditure in healthcare to ensure better facilities for citizens and be prepared in case of a third wave.

3. Increasing unemployment benefits to nudge people towards spending and investing.

4. Creating a sense of trust with citizens and securing their residence and jobs with stimulus package

5. Once a stimulus package is announced, more attention should be paid to its details and the distribution process. Many times, large sums of money are lost in bureaucracy and red tape, resulting in the needy receiving the least amount of assistance.

6. Introducing insurance schemes for all the citizens based on different income groups.

7. Including mental healthcare experts in COVID-19 help desks. This will aid people in handling crises and will prevent decrease in productivity.

8. Increasing awareness among people especially in rural areas about the importance of vaccinations through Panchayats and Anganwari centres.

9. MSME should be financially supported by means of investment and subsidies on intermediate goods to boost supply.

10. Income inequality should be reduced through targeted taxation of the wealthy and the use of tax revenue to support India's growing poor population. This will help to increase household consumption expenditure.

IX. Conclusion

Since 2016, the Indian economy has been in a fragile and deteriorating primarily due to three economic shocks. The first is a lack of demand, the second is a policy disruption caused by ill-advised demonetization and a hasty implementation of the GST, and the third is a crisis in nonbanking financial companies (Dalal, 2020).

The COVID-19 economic crises exacerbated the situation significantly. It effectively forced all economies, developed and developing, into recession. The continuous lockdowns further severely harmed almost all sectors of the

Indian economy, stifling economic activity and causing GDP to fall to a record low.

Furthermore, as unemployment rose, income inequality grew and the woes of the lower classes were aggravated by rising inflation.

The Indian government and the Reserve Bank of India (RBI) implemented several schemes and packages to mitigate the effects of the pandemic by addressing demand and supply constraints. In addition, the Indian government responded with various policy and structural reforms to restore the country's disrupted financial balance. India also recognized the virus's massive impact and was quick to impose a host of restrictions to prevent further harm. However, due to the large population, execution and implementation were hampered – resulting in the loss of countless lives and livelihoods.

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Impact of COVID-19 on Indian Small Businesses & Entrepreneurs

Hammad Nadim

Abstract

Small businesses are essential to the expansion of the Indian economy. MSMEs must to be well equipped to handle any upcoming challenges or crises in the economy. The government's policies need to be reviewed in order to eliminate these inconsistencies and to promote small businesses to benefit from e-commerce platforms, improved market access, and loan rules that are followed by stronger marketing support. These small, regional enterprises will become an engine of growth for "New India," if the aforementioned policy areas are supported. After all, accomplishing the objective of an independent India depends on a robust and thriving MSME sector.

Before the COVID-19 pandemic, in Delhi's famous Chandni Chowk, streets packed with hawkers, peddlers, vegetable vendors, and many more food establishments running around the clock were a common sight.

Yet, the business has not been the same for many since the outbreak, and in fear of the virus, the crowd has slimmed down. As a result, small businesses have suffered huge setbacks, including financial hurdles, poor market access, and low productivity.

Over the past year, India has emerged as one of the worst affected countries by COVID-19. India has the sixth-largest economy in the world. The nation has long been able to drive significant global poverty reduction.

Thus, heavy pandemic-related casualties can magnify the national economic crisis.

In 2020, sustained lockdowns and supply chain disruptions caused a sharp GDP contraction. According to the Ministry of Statistics, India's growth in the fourth quarter of the fiscal year 2020 went down to 3.1%.

Micro, Small, and Medium Enterprises are defined as the enterprises involved in the processing, production, and preservation of goods and commodities. The enterprises are further categorized based on annual turnover and investment in equipment.

According to the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006, Micro, Small, and Medium Enterprises (MSME) are primarily divided into two categories:

(i) Manufacturing enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation Act, 1951). Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

Service enterprises: The enterprises engaged in

(ii) providing or rendering services defined in terms of investment and in equipment. Instead of product production, these enterprises provide services such as maintenance and repairs, training, consulting, etc.

Manufacturing Sector		Service Sector	
Enterprise category	Investment in plants machinery	Micro-enterprises	Investment shall not exceed Rs. 10 Lakh
Micro-Enterprise	Shall not exceed Rs. 25 lakhs	Small Enterprises	More than Rs. 10 Lakh shall not exceed Rs. 2 crore
Medium Enterprise	More than 5 crores shall not exceed Rs. 10 crores	Medium Enterprises	More Than 2 crores shall not exceed 5 crores

Table 1: Former definition of MSME

However, in 2020, the definition of MSME was updated. The MSMEs have been redefined on the basis of investment limits and turnover size. The investment and turnover figures were changed to larger values, thereby resulting in a larger number of medium-sized enterprises.

The criteria of investment and turnover are given below:

Micro, Small, and Medium Enterprises		
Type of MSME	Investment	Turnover
Micro	Less than Rs.1 Crore	Less than Rs. 5 Crore
Small	Less than Rs. 10 Crore	Less than Rs. 50 Crore
Medium	Less than Rs. 50 Crore	Less than Rs. 250 Crore

Table 2: Updated Definition of MSME

The MSME sector has proven to be a highly dynamic factor in forecasting the Indian economy. Since MSMEs produce and manufacture various products for both domestic and international markets, they have helped promote the growth and development of various product segments and industries.

MSMEs have played an essential role in providing employment opportunities in underprivileged areas. They have helped in the industrialization of such regions with a low capital cost compared to the larger industries in cities. MSMEs have also contributed to the country's development in different areas like the requirement of low investment, flexibility in operations, low rate of imports, and a high contribution to domestic production.

Today, MSMEs contribute one-third of India's

GDP and employ 110 million people (Rathore & Khanna, 2021).

However, they were put under significant strain in 2020 due to nationwide COVID-19 lockdown restrictions that lasted more than two months before being gradually eased.

A survey by Dun & Bradstreet[41] concluded that 82% of businesses has faced a tough time and major crunch running their business. There have been significant layoffs, and many firms and small businesses have closed down forever. Not surviving the crunch has been challenging for others to keep up.

6.33 crore micro, small, and medium companies (MSMEs) are estimated to exist in India, accounting for around 29% of the country's GDP.[42]Among these, 30 lakh MSMEs are registered under the Udyam registration portal, according to the Ministry of Micro, Small, and Medium Enterprises. The registered micro-enterprises are further estimated to be 28 lakh (93%), followed by small enterprises at 1.78 lakh (6%) and mid-sized enterprises at 24,657 (1%).

Several weeks after the onset of the pandemic and before government assistance became available, the virus led to massive dislocation among small businesses. Further, Indian small and medium-sized businesses face a considerable challenge with an uncertain future ahead and different government regulations and constraints that make it difficult to operate a business efficiently.

Small businesses' vulnerability and challenges depend on changed consumer behavior and government imposed health regulations (Thukral, 2021).

These challenges include (i) poor capacity utilization, (ii) Incompetent management, (iii) lack of marketing support, and (iv) lack of capital.

i. Poor capacity utilization

In many small-scale businesses, the capacity utilization is not even 50% of the installed capacity. About fifty percent of the machinery remains idle. This is due to a lack of knowledge about operating the machinery and equipment to their total capacity. This gap has to be bridged. Otherwise, it would be a significant impediment to the company's growth. This creates a blockhead to the unnecessarily locked up capital, and idle machinery takes up space and must be serviced, resulting in higher costs.

ii. Incompetent management

Many small-scale businesses are run by inexperienced entrepreneurs with little knowledge or know-how. Demand, production level, techniques, financial availability, plant location, prospects, and so on have received little consideration.

[41] See, "Impact of COVID-19 on Small Businesses in India and the Way Ahead" https://www.dnb.co.in/file/reports/Whitepaper_Impact-of-COVIDhttps://www.dnb.co.in/file/reports/Whitepaper_Impact-of-COVID-19-on-Small-Businesses.pdf19-on-Small-Businesses.pdf

[42] See, "How India's Midsize Business Community Can Fuel A Globally Competitive Economy" https://www.forbes.com/sites/sap/2021/12/02/how-indias-small-

iii. Lack of marketing support

Small Scale Industries lack market knowledge about competition, market size, and customer preferences. This results in low market production and negative results.

iv. Lack of capital

There is very little profit, which leads to a reduction in the capital in the business, which is required to run the business efficiently. This creates a hindrance in the operation of the business.

However, adapting change's dynamism and complexity in different organizations as COVID-19 disruptions did not equally affect all businesses (Bartik et al., 20220200). Some closed, some pivoted, some downsized.

Moreover, the effects of the second wave have been even more detrimental. According to an MSMEs survey, more than 70% of MSMEs confirmed that the second wave had a debilitating impact on their businesses.[43]

While 50 % of respondents claimed they have yet to fully recover from the effects of both pandemic waves, nearly 43% said they changed their business model to survive the pandemic.

When asked about the nature of the changes made in their businesses, 56 percent of MSME respondents said they were forced to adopt digital for marketing and payment, 38 percent said they focused on improving customer relations, 35 percent said they needed external financial assistance to support their businesses, and 34 percent said they moved to a remote working model.

However, it is crucial to understand how to mitigate the impact of COVID-19 on India's small-scale businesses. This may be done in the following ways:

i. Digitalization: Digitalization entails a shift to the online segment in terms of products, services, and digital payments, which can be used to set up businesses in terms of online security and be harnessed to generate significant profits to sustain the business.

ii. Health and well-being: This opportunity included COVID-related physical health offerings such as personal protective equipment, COVID tests, vaccine development, disinfection/ sanitation products, and, more broadly, medical supply chain offerings. Entrepreneurs also saw opportunities in the expansion of healthcare services and telemedicine.

iii. Create a Contingency Plan for the Next Crisis: While the coronavirus pandemic may appear to be an once-in-a-lifetime event, it is actually an emergency that can strike small businesses

[43] See, "Four out of 10 MSMEs changed their business models to survive COVID: Report," https://economictimes.indiatimes.com/small-biz/smehttps://economictimes.indiatimes.com/small-biz/sme-sector/four-out-of-10-msmes-changed-their-business-models-to-survive-covid-report/articleshow/88273618.cmssector/four-out-of-10-msmes-changed-their-businesshttps://economictimes.indiatimes.com/small-biz/sme-sector/four-out-of-10-msmes-changed-their-business-models-to-survive-covid-report/articleshow/88273618.cmsmodels-to-survive-covid-report/articleshow/88273618.cms

at any time. One should be aware of changing circumstances in order to sustain a business during difficult times. If businesses have learned anything over the past six months, it would be the importance of remaining resilient and the ability to adapt to the 'new normal. Looking at the future must also result in these small businesses taking note of the lessons learned through this pandemic and creating contingency plans for any future crises.

While micro and small enterprises are looking to sell themselves, the scenario at the ecosystem level seems to be moving towards recovery.

For instance, according to the latest edition of the Retail Business Survey[44] by the Retailers Association of India (RAI), retail sales in August 2021 were at 88 percent of the pre-pandemic levels (August 2019), as against 72 percent in July 2021. In categories, Quick Service Restaurants (QSR) showed growth with 12 percent sales in August 2021 compared to August 2019 sales, while the food & groceries category indicated a growth of 4 percent. However, beauty & wellness, which included salons, apparel, footwear, and jewelry, were yet to catch up to the pre-pandemic sale levels.

This pandemic has served as a wake-up call in every sense and emphasized the necessity of future business planning in the face of adversity. Thus, in order to survive these volatile circumstances, local businesses must establish a reserve fund to allow them to respond to such setbacks. Further, with individual business owners' efforts, a government policy support system is also needed to help the businesses survive the crisis and prepare the enterprises to ramp up the businesses once the crisis subsides (Hidayat et al., 2020).

In conclusion, the MSMEs sector has been one of the most vulnerable sectors during a pandemic because of its size, scale of business, and availability of financial resources. There is an urgent requirement for small businesses to assess their financial status and security.

To support these local businesses during the pandemic crisis, the government may come forward to provide soft loans with longer-term repayment and increased credit limits.

MSMEs need to re-strategize their overall value proposition, by improving the quality of/ products, strengthening distribution channels, using innovative promotion methods, etc. There is a need to create a strong digital ecosystem to increase the outreach among buyers and suppliers in the market.

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Micro-financing and the Alleviation of Poverty during COVID-19

Usloob Khan and Sarah Ansari

Abstract

In our contemporary world, qualifying for a business loan is a difficult task. It involves heavy formal documentation, and businesses often find it challenging to acquire finances – primarily due to the high-risk factor. This article attempts to explore the impact of microfinancing on poverty alleviation. It additionally identifies the challenges faced by microfinance institutions, which include, (i) low outreach, (ii) high-interest rates, and (iii) loan default.

I. Introduction

Rural women, low-income households, and often small businesses face a lack of finance all too frequently in Asia and the Pacific. Since the transactions are frequently small and the clients are in difficult-to-reach locations, most formal financial institutions regard them as high risk and high cost (Asian Development Bank, 2020).

These complications combined with the lack of banking options make it challenging for businesses to grow, especially those in impoverished areas or the developing world.

Microfinance has the potential to break down these barriers. Broadly, it may be defined as a banking service provided to low-income individuals or groups, as well as unemployed individuals, who do not normally have access to financial services.

Microfinance also refers to credit or loans given to small and micro-enterprises to help them grow and expand their businesses by scaling up their operations simultaneously. Essentially, it is a lending system that significantly impacts the developing world by aiding entrepreneurs to build assets, generate income and meet their financial needs.

II. Microfinancing & COVID-19

In December 2019, COVID-19 was initially found in China. It later spread rapidly across the globe leading to adverse effects on human health and induced enormous economic costs. The spread and the measures taken to contain and minimize the virus brought production and consumption to a halt (Boone et al., 2020).

Further, while the novel coronavirus led to devastating effects on all countries, the real challenge laid for countries with many middle and low-income populations. Such countries usually have high levels of informality, implying many laborers are either self-employed or employed in small or medium-sized businesses.

These individuals do not possess access to unemployment insurance, paid leaves, health insurance and are at risk to COVID-19 induced disturbances in the economy. Thus, in such economies, micro-financing plays an essential role in providing financial aid to struggling households and micro-enterprises who cannot afford conventional financial services.

COVID-19 adversely impacted the microfinance sector and amplified existing challenges to financial inclusion such as geography, internet access, and technology, as well as a lack of digital and financial literacy.

Zheng (2021) claims that the Gross Domestic Product (GDP) and rising unemployment impact due to the pandemic reduced the financial efficiency of microfinancing institutions, while simultaneously increasing their social efficiency.

The socio-economic damages caused by COVID-19 further harmed microfinance institutions' (MFI) financial performance, as small businesses which have been the most vulnerable to the virus's wrath have had a hard time meeting their debt obligations. Additionally, a decline in economic activity generally leads to a decrease in employment rates.

However, the increase in social impact may be explained by micro-enterprises assisting vulnerable and needy informal entrepreneurs during these difficult times.

III. Microfinancing institutions response to COVID-19

Initially, social distancing and other restrictions aimed at slowing the spread of COVID-19 have resulted in a sharp decline in economic activity as businesses have been ordered closed and workers stayed at home, though some have continued to work on a limited scale.

These drastic and abrupt measures have disproportionately affected the employment and earnings of the poor who are considered the targeted beneficiaries of the MFI.

The MFI operations and more specifically fresh lending are under serious threat as the mode of operations primarily involves physical interaction while distributing credits at the clients' doorsteps, conducting periodic group meetings and carrying out regular collections. Thus, there have been increasing concerns about the effect of the pandemic on micro-financing institutions (MFIs).

This section is dedicated to illustrating how these microfinancing institutions have responded to this unprecedented situation. The responses of microfinance institutions to COVID-19 are discussed in detail below:

(i) Provision of leniency to clients

The most applied step by MFIs’ appears to be the provision of leniency to clients in the form of issuing moratoriums and restructuring loans. These steps come as a relief to the borrowers whose incomes have been negatively impacted by the pandemic. Further, these measures are granted as a part of social impact. The moratorium is provided to any client in need.

(ii) Limited lending and reduced disbursements

Zetterli (2020) argues that numerous MFIs have also held back lending by significant amounts and have reduced disbursements by more than half, as opposed to normal, which is also why MFIs reported large liquidity buffers than expected.

This reduction in lending may be due to many reasons, including increased riskiness of clients, lower risk tolerance, or just saving cash for future needs. The question of the sustenance of MFIs further arises here.

(iii) Flexible Staffing

Another standard measure that has been adopted is flexible staffing. Some have also resorted to closed branches. However, most have started the "work from home" practice.

If teleworking is not possible, ideas recommended include (a) setting up a two-week rotation system for the staff (b) limiting the maximum number of clients in each branch, (c) ensuring a safe distance between people, inside and outside, (d) wearing masks and gloves, especially while handling money, and (e) providing masks, gloves, and antibacterial soap to the staff. (iv) Scaling up

Similar to other organizations following a business strategy to improve their competitive position, MFIs' have also aligned their growth and sustainability orientation. In this regard, MFI must adopt the right directional strategies to grow and remain in business. Lastly, scaling up or remote channels is being practiced to improve outreach to customers. Expansion or call center operations and digital channels are some steps that are being taken.

Notably, while these steps are welcome, they only point in one direction, i.e., the micro-financing sector is facing quite a setback on account of the ongoing global pandemic.

IV. The Impact of Microfinance on Poverty Reduction

The United Nations defines global poverty as "the inability to have choices and opportunities, a violation of human dignity." Across the world, poverty is unevenly distributed. Even though a significant concentration of it lies in Africa and Asia, the clutches of poverty are worldwide.

Due to the continuous efforts, the world has come a long way in battling poverty and still has miles to go. However, whenever disaster strikes, the underprivileged people are the most adversely affected.

With the onset of the COVID-19 pandemic, global poverty rose for the first time in over 20 years. As a result of the pandemic, 100 million people have been added to the list of people living in poverty today.

Microfinance has received broad acknowledgment as a methodology for poverty reduction and monetary strengthening. It is a method to battle poverty, especially in rural regions. Accessing small amounts of credit at reasonable interest rates give poor people an opportunity to set up their own small business.

A growing body of literature shows that poor individuals are trustable, with higher reimbursement rates than traditional borrowers. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks.

Further, poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. This shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, better manage their risks, gradually build their assets, develop micro-enterprises, enhance their income earning capacity and enjoy an improved quality of life.

Microfinance services contribute to improving resource allocation, promoting markets, and adopting better technology. Thus, microfinance additionally helps to promote economic growth and development.

V. Microfinance and India

With the current pandemic, India's uninterrupted progress in poverty reduction since the 1970s has stalled. Assessed COVID-19 prompted poverty at the total and disaggregated level show that around 150-199 million extra individuals will fall into poverty this year.[45] It implies a general expansion in poverty by 15-20%, making around half of its population poor. This increment is higher in rural regions when contrasted with metropolitan regions.

The concept of microfinance has been highlighted since the 1970s to uplift the poor section of society and enhance economic growth. Its importance has been amplified amidst the global financial crisis when the trust informal banking system is shaken.

To summarize, microfinance provides financial services to the poor who are not served by conventional formal financial institutions. Essentially, it extends the frontiers of financial service provision.

The provision of such financial services requires innovative delivery channels and methodologies. Today's world needs financial services that allow people to take advantage of opportunities and better manage their resources.

Income in India is closely linked to social and economic status. The upper and middle classes inhabit the 'formal' income from their formal ventures and employment. In contrast, the poorest and low-income status is largely 'informally' employed.

Low-income households are not usually involved in regular income occupations and therefore wait for job creation strategies to absorb them. Furthermore, they 'permanently inhabit' a dependent segment of the so-called developing Indian economy, in which opportunities for jobs or for independent and self-sustaining entrepreneurial capital accumulation, are minimal.

Although poverty reduction has long been a high priority for the Government of India, microfinance is still an experimental tool in its overall strategies.

India's microfinance experiments are much different from the more substantial microfinance institutions and programmers of its neighboring countries. The majority of poor people manage to optimize resources to develop their enterprises. They are often denied access to credit for any purpose, making the discussion of the interest rate level and other terms of finance irrelevant.

Financial services could enable the poor to leverage their initiative, accelerating generating incomes, assets, and economic security. Microfinance in India primarily operates through two channels:

(i) SHG-Bank Linkage Program (SBLP)

This channel was initiated by National Bank For Agriculture and Rural Development (NABARD) in 1992. This model encourages financially backward women to come together to form groups of 10-15

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[45] See, "India's population conundrum!" https://timesofindia.indiatimes.com/blogs/adi-bytes/indiashttps://timesofindia.indiatimes.com/blogs/adi-bytes/indias-population-conundrum/?source=app&frmapp=yespopulation-conundrum/?source=app&frmapp=yes

members. They contribute their individual savings to the group at regular intervals.

Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income-generating activities.

This model has achieved a lot of success in the past. It has further gained popularity for contributing to women's empowerment in the country. Once these self-sustaining groups reach stability, they function almost independently with minimal support from NABARD, SIDBI, and NGOs.

(iii) Microfinance Institutions

These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

VI. Challenges for Microfinance Institutions in India

Poor people do not live in a static environment of poverty. Millions of people are lifted out of poverty by successfully embracing new farming technologies, investing in new business opportunities, locating new jobs, and engaging in sustainable productivity.

At the same time, large numbers of people fall back into poverty due to financial setbacks, health problems, and other shocks. If available at critical moments, practical tools for savings, payment, credit, and insurance can help households capture an opportunity to climb out of poverty or weather a crisis or emergency without falling deeper into poverty.

Microfinance has been lauded by many, as it is a clear passage to end the cycle of poverty, aid the marginalized sections, decrease unemployment, and improve their earning power. However, it has also received criticism from certain corners, as it was argued that microfinance actually makes poverty worse.

Some borrowers of microfinance use these loans to pay off their existing debts or fund their basic necessities reinforce these arguments.

The major challenges for MFIs in India have been described below.

(i) Low Outreach

There is an urgent need for MFIs to improve their ability to reach the poorest families and to satisfy their growing demand for a range of financial services. This includes the safe and flexible savings services that poor people need and value.

The outreach performance of MFIs is affected by factors concerning MFIs such as age, size, profitability, efficiency, productivity, and portfolio quality, which affect the outreach (breadth/depth) of MFIs (Singh & Padhi, 2019). In India, MFI outreach is very low. It is only 8% compared to 65% in Bangladesh (Shrestha, 2021).

(ii) High-Interest Rate

It is well known that MFIs do not fare as well in the finance business as commercial banks. Banks in India are older and have more experience than MFIs.

Furthermore, MFIs charge very high-interest rates to borrowers compared to commercial banks because the borrowers generally have no other options for accessing the fund. Borrowers may default on payments as a result of such high-interest rates.

Most microfinance institutions charge a very high rate of interest (12-30%) compared to commercial banks (812%).[46] In recent years, the regulatory authority Reserve Bank of India (RBI) has issued guidelines to remove the upper limit of 26% interest on MFI loans.[47]

(iii) Loan Default

Loan Defaults are defined as the failure of a borrower to pay the principal or interest on a security or loan.

In 2019, Microfinance Institutions hit a hard patch during demonetization. And in the months following the demonetization, non-performing assets (NPAs) as a percentage of loans hit 14-15% highs. However, the sector recovered.

According to the Equifax SIDBI report, despite loan waivers and election season, the microfinance sector in India now has a default rate of 2.9%.

Further, the results of Mehta (2021) crosstabulation and hypotheses tests suggest that MFIs were not considering demographic and economic factors of the borrower while deciding the loan amount, and instead, it was related majorly to the number of borrowing cycles.

Loan default is an issue that creates a problem in the growth and expansion of the organization because around 73% of loan default is identified in MFIs.

Other challenges faced by MFI's in India include low educational levels, language barriers, negligence of the urban poor and low client retention.

VII. Conclusion

Microfinance is a type of lending that can significantly impact developing nations, where most of the population is poverty-ridden, and women entrepreneurs lack empowerment (Hynes, 2017).

It has existed for centuries, generally in the guise of informal lending, and is often seen as a tool for economic development as it aims to help poor people out of poverty.

While the COVID-19 outbreak wreaked havoc on the countries with large populations in the low-income strata, many countries took desperate measures to overcome the pandemic, such as lockdowns, resulting in mass unemployment. As a result, MFI activities witnessed a significant decline as the whole country stopped working, causing substantial damages to every sector of small-scale business.

Over the past few decades, microfinance has received broad recognition for its accomplishment in battling poverty by targeting the underprivileged strata to help grow or indulge in self businesses. In light of

[46] See, "Nine Critical Challenges Faced by Microfinance Institutions," https://finflux.co/blog/microfinance-2021https://finflux.co/blog/microfinance-2021-challenges-ahead/challenges-ahead/

[47] See, "RBI removed 26% interest rate cap on MFI loans," https://economictimes.indiatimes.com/news/economy/finance/ rbi-removes-26-interest-rate-cap-on-mfihttps://economictimes.indiatimes.com/news/economy/finance/rbi-removes-26-interest-rate-cap-on-mfi-loans/articleshow/30004542.cms?from=mdrloans/articleshow/30004542.cms?from=mdr

India's poverty-ridden history, this has been a welcome step for the mass population.

Although India lifted a large section of its population out of poverty between 1990 and 2011, COVID-19 has halted the process and severely devastated the Indian economy.

However, the world is rapidly adapting to this unprecedented situation and has found different ways to improve the condition of the masses through programs like MFI to eradicate poverty.

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