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COVID-19 and the Future of Microfinance: Evidence and Insights from Pakistan*

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Abstract

The COVID-19 pandemic threatens lives and livelihoods, and, with that, has created immediate challenges for institutions that serve affected communities. We focus on implications for local microfinance institutions in Pakistan, a country with a mature microfinance sector, serving a large number of households. The institutions serve populations poorly served by traditional commercial banks, helping customers invest in microenterprises, save, and maintain liquidity. We report results from "rapid response" phone surveys of about 1,000 microenterprise owners, a survey of about 200 microfinance loan officers, and interviews with regulators and senior representatives of microfinance institutions. We ran these surveys starting about a week after the country went into lockdown to prevent the spread of the novel coronavirus. We find that, on average, week-on-week sales and household income both fell by about 90%. Households' primary immediate concern in early April became how to secure food. As a result, 70% of the sample of current microfinance borrowers reported that they could not repay their loans; loan officers anticipated a repayment rate of just 34% in April 2020. We build from the results to argue that COVID-19 represents a crisis for microfinance in low-income communities. It is also a chance to consider the future of microfinance, and we suggest insights for policy reform.

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Pakistan

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