The Pakistan Credit Rating Agency Limited

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SECTORWATCH | CORONAVIRUS | MICROFINANCE

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
FINANCIAL INSTITUTIONS	MICROFINANCE

SIZE

Microfinance Sector	2019	2018
Gross Loan Portfolio (GLP) PKR mln	305,753	274,706
Active Borrowers	7,249,943	6,936,554
Microfinance Banks' share in GLP	70%	69%
Deposits (PKR mln)	266,289	238,667
Number of Depositors	44,390,660	32,009,797

NUMBER OF PLAYERS

- 11 Microfinance Banks (MFBs) – Regulated by SBP
- 17 Microfinance Institutions (MFIs) and 10 Rural Support Programs (RSPs) – Regulated by SECP

PACRA PENETRATION

- PACRA rates 6 MFBs and 4 MFIs/RSPs
- GLP of PACRA Rated: MFBs: PKR~106bln and MFIs: PKR~25bln (Total: PKR 131bln, ~ 43%)

IMPACT

- Microfinance sector is a function of advancing credit/small loans to marginalized communities by raising funds through deposits (for MFBs) or through borrowings and grants in case of Institutions. This sector is considered highly leveraged owing to limited funding availability on one side and the necessity to build up loan book on the other side to remain sustainable.
- As a consequence of Covid-19 outbreak, the utmost risks striking the sector are the probable loss of recovery from their loan customers, the reduced pace of fresh deployment, and heightened need to remain liquid.
- This would have erupted the Portfolio at Risk (PAR) of the Banks and Institutions which had already risen to ~4.9% for MFBs as at End-Dec'19 due to economic slowdown (~2.7% End-Dec'18). However, relief packages from the regulators (SBP and SECP) in the form of deferment and restructuring of loans (refer to circulars for details) have come handy. The related modalities and the way each entity caters to this risk will unfold in days to come and hence requires constant monitoring.
- Most of the MFBs/MFIs bearing exposure in agri-financing and to some extent, livestock financing, have bullet repayment patterns while others have equal monthly installments (EMIs).
- Fresh disbursements are expected to reduce given rise in the perceived credit risk, and anticipated challenges in arranging requisite (deposits and/or borrowings). While MFBs attract deposits, MFIs are further pressured due to limited funding available from borrowings and grants.
- The players also need to watch their liquidity because historically the sector has had a high level of Advances to Deposits Ratio (ADR) (~80vv %). The low pace of recoveries amidst customer inclination towards cash retention is a challenge.
- Regulator's Support to the Sector may simmer down the exposure to financial risk. This could include arranging a funding line for MFBs/MFIs, relaxing the minimum capital adequacy ratio (CAR) for MFBs, or diluting any reserve requirements to release funds in times of need.

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