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Role of Small Finance Bank in Uplifting the Indian Economy During Covid 19 Pandemic Period.

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Abstract
In the year 2020, India was also hit by the COVID-19 pandemic like many nations across the globe, but through various public health and economic measures, it is managing the effects of the COVID-19 pandemic. All the sectors of the Indian economy got affected by the Covid-19 pandemic, with small business units, micro and small industries, and unorganized sector entities getting hit the hardest by this pandemic and are now facing another big crisis. In this article, we are providing a holistic outlook on the role of Small Finance banks in uplifting the Indian Economy during the Covid 19 pandemic period. Our study is a conceptual research type. In this article, we have researched by observing and analyzing the present information and data collected from secondary sources. The main findings of our research are that the Indian economy is badly affected by the COVID-19 pandemic, and small finance banks will be able to uplift the Indian economy with the help of technological advancements. The limitation of our study is that the study was conducted by secondary data only. It can be concluded that with the help of technology advancement, Small Finance Bank can follow various strategies which will have a direct influence on the growth of Indian economy during Covid 19 pandemic period. There are studies related to small finance bank but there are no studies related to role of small finance banks in the upliftment of Indian economy during Covid 19 pandemic period.
Keyword: Small Finance Bank, Covid 19 Pandemic, Indian Economy

Introduction
The Small and micro business units in both organized and unorganized sectors have generated employment opportunities and played an important part in the process of the economic development of India. But these business units are facing stiff competition from large-scale industries and multinational companies in India. The support and financial aid which these businesses are receiving from the government and financial institutions are enjoyed by the majority of organized sector industries and only a few unorganized sector industries. According to Chakraborty (2011), the inconvenient, inflexible, and low-quality banking products are not satisfying the needs of the poor. Equilibrium credit rationing models state that the problems of moral hazard and adverse selection (Stiglitz & Weiss, 1981) are extremely high for small firms and that small firms may be particularly vulnerable to the availability of credit. So, small and medium enterprises are receiving fewer loans from large banks (Berger & Udell, 1998). Rural areas of India are facing a problem of seasonal unemployment in agriculture, which can be overcome by supporting small-scale industries development and, thus, making use of the labor which might otherwise be wasted. Across the globe, almost all developing countries including India are focusing on rapid economic development. India is planning to become a 5 trillion economy by the year 2025 and for which industrialization occupied a crucial place. This is because industrialization plays an important role in the economic development of a country. Under the planned development programme of rural areas, rural industrialization has the major objective of creating various job opportunities in the non-agriculture domain, especially for rural labor, artisans, marginal farmers, women, and thereby, improving the economic well-being of wage earners. Specifically, rural industrialization is a systematic, scientific and integrated approach to

modify the occupational structure in rural areas by increasing job opportunities in non-agriculture sectors, and, thereby, reducing the pressure on agriculture. It helps to engage the underemployed and the unemployed rural labor in productive and socially viable occupations and enable them to earn an income that would meet their basic minimum needs.
Over the years, various financial institutions in India are providing small and microloans that serve many small and micro enterprises mostly in unorganized livelihood domains but still is unable to meet the financial need of the organized and unorganized sector of the country. This prompted RBI to introduce new differentiated banks know as Small Finance Bank in the year 2015 with the objective of financial inclusion to sections of the economy not being served by other banks, such as small and micro business units, small farmers, and unorganized sector entities.
Small finance banks (SFB) are the new differentiated banks in India that will help in both rural industrialization and accomplishing the RBI financial inclusion goal. Similar to other banks, SFBs have deposit schemes and disburse loans to customers. The main purpose of SFBs was to serve the unattended and underprivileged sections of populations which includes business units, farmers, and other unorganized business units.

In India, ten entities got licenses from RBI to function as SFBs in the year 2015. The ten small finance banks are Ujjivan SFB, Jana SFB, Equitas SFB, AU SFB, Capital SFB, Fincare S SFB, ESAF SFB, North East SFB, Suryoday SFB, and Utkarsh SFB. Out of the ten small finance banks, Capital SFB and Equitas SFB started their operations in the year 2016. Ujjivan SFB, AU SFB, Fincare SFB, ESAF SFB, North East SFB, Suryoday SFB, and Utkarsh SFB started their operation in the year 2017. Jana SFB started its operation in the year 2018. In Kerala, as of August 2021 only ESAF SFB, Ujjivan SFB, and Fincare SFB have branches in Kerala

OBJECTIVES OF THE STUDY

1. To get a holistic view of a Small Finance bank.
2. To identify the role of Small Finance Bank in the uplifting Indian economy during Covid 19 pandemic period.

RESEARCH PROBLEM

The research problem under the study is to "Understand the role of Small Finance Bank in uplifting Indian economy during Covid 19 pandemic period."

RESEARCH METHODOLOGY

The research type of our study is conceptual. In this article We have researched by observing and analyzing the present information on the topic - the role of Small Finance Bank in uplifting Indian economy during Covid 19 pandemic period.

Sources of Data

Data has been collected from secondary sources. Secondary data refers to the information of facts, which are already available. The source of secondary data mainly includes various periodicals, websites, and articles in connection with the study. The collected data are analyzed and interpretations are made.

REVIEW OF LITERATURE

RBI (2019, p. 2), "The objectives of setting up of small finance banks will be for furthering financial inclusion by (i) provision of savings vehicles primarily to unserved and underserved sections of the population, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations."

According to Mohanty (2018, p. 18), "Small financial bank has huge potential in unbanked and underserved areas where local and corporative banks have underperformed. Similarly, the small finance bank has a major role in the development of MSME (Micro Small and Medium Enterprises) sector".

According to Shah and Dubhashi (2015, p. 37), "the origin of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance, and other banking/payment services to all 'bankable' households and enterprises at a reasonable cost. The availability of quality financial services in rural areas is extremely important for the growth of the economy as this will enable a large number of rural households to fund the growth of their livelihoods. The growth of the economy is dependent on the growth of the rural market in the country".

According to Abijith and Raghavendra (2018, p. 730), "Small financial bank plays an integral role in economic development. They should concentrate on establishing more small financial banks in rural areas as it would enhance the performance of the MSME sector. People in rural areas can avail basic banking facilities such as loans, online banking, deposits, etc without complexity. Small Finance Bank Plays a crucial role to provide assistance for under and unserved faction to enhance their socio-economic environment of a MSME sector".

According to Kittu and Chittawadagi (2018, p. 1), "financial inclusion plays a major role in inclusive growth of the country. The growth of our economy is dependent on the growth of rural India. The Small Finance Banks will play a major role in promoting financial inclusion in India by providing quality financial services in rural areas which will enable a large number of rural households to fund the growth of their livelihoods".
According to Jagwani, (2019, p. 257), "the Small Finance Banks are functioning as business correspondent of other banks. SFBs can perform almost all the functions that a bank performs but on a small level. Small Finance bank does not concentrate more on an advertisement. Small Financial banks play a significant role in the generation of sustainable challenges in rural and semi-urban areas. The main function of Small Finance Banks is to provide financial services at a lower cost by innovative and ingeniously high technology. SFBs can be a part of the payment and settlement system as a direct member or a sub-member of a sponsor bank. These banks have a very low-cost structure so they can easily achieve profitability. Small Finance banks are allowed to create differentiated brands and leverage to create a long-term client relationship. It will also reduce the possibility of political interference. SFBs are providing a large range of product and it gives poor people the tools they need to manage the fluctuation in their income and expenses better, protect themselves against the risk".

Hakenes, Hasan, Molyneux, and Xie (2014, p. 677) proposed " a theoretical model of financial development and economic growth. The model suggests that under credit rationing, rich regions are more attractive for external investments because of higher initial endowments and because poor regions tend to have fewer projects that need financing. Thus, in a financially integrated market, capital will flow from poor to rich regions. Accordingly, due to the lower level of economic activity, an expansion in investment will have a rather high marginal productivity in poor regions. Thus, small banks can improve local economic development and will have a higher impact on economic growth in such regions. We then empirically test the roles of small banks and big banks on economic growth. The GMM estimations show that small bank development improves local economic growth, with the effect being stronger in less developed regions. Overall, both the theoretical and empirical parts of their analysis suggest that small banks may be effective in preventing capital outflows from poor to rich regions".

INDIAN ECONOMY IN COVID 19 PANDEMIC PERIOD

Like many nations across the world, India also got into the grip of the Covid 19 Pandemic with the first case reported on 30 January 2020. To tackle Covid 19 Pandemic, the Indian government imposed a countrywide lockdown on March 24, 2020, that remained in effect until May 31. In this period, the influence of the coronavirus was decreased to some extent but the positive covid cases started to grow in the country as the restrictions were lifted off. In India, a larger part of the residents stayed in their houses during this nationwide lockdown with stringent measures implemented by the authorities to tackle the covid 19 pandemic. During this lockdown, only some essential services and activities were functional whereas remaining India's $2.8 trillion economy remained closed. Economic activity came to a grinding halt across the nation. Covid 19 pandemic had catastrophic impacts on an already slowing Indian economy and people's livelihoods as most of the shops, factories, transport, services, and business establishments were not functioning profitably.

During the April-June quarter of the FY 2020-21, the Indian economy shrunk by 23.9% as per official data released by the Ministry of Statistics and Programme Implementation. The contraction of Indian GDP was bad in comparison to the world's biggest economies. All the major economies faced GDP contraction during this pandemic period. The two countries which are severely hit by the coronavirus pandemic were the US and Italy, but India posted the steepest quarterly GDP decline compare to the US (9.1%) and Italy (17.7%). During the 2nd quarter that is July – September of the FY 2020-21, the Indian GDP growth shrunk by 7.5% (Singh, 2020).

For the Indian economy, personal consumption expenditures (PCE) and investment are the two major factors for growth. During the April-June quarter of the FY 2020-21, personal consumption expenditures (which is accounting for 59% of India's GDP) were decreased by 27%, while investments by private businesses declined by 47%. In India, the net exports increased but imports decreased during this pandemic period. During the April-June quarter of the FY 2020-21, government fund disbursement increased by 16%, but it was insufficient to recover the decline of the Indian economy suffered due to pandemic. Except for the agriculture sector, all the remaining sectors of the Indian economy have been affected by the covid 19 pandemic. Significantly, labor-intensive sectors such as construction, retailers, tourism, and manufacturing sectors got affected by the pandemic during the FY 2020-21. As per the global forecasting and quantitative analysis leader Oxford Economics, even after the decline of the pandemic, India will be worst-affected among the world's major economies even with output 12% below pre-pandemic levels" (Nag, 2020).
Priyanka Kishore (Head of economics for South Asia and South-East Asia), stated the worsening of balance sheet stress that had been building before the coronavirus outbreak and predicted 4.5% growth for India economy over the next five years which is 6.5% lower than the pre-pandemic period. The pandemic impact will remain for the long term and it will be probably among the worst globally, which would push India's trend growth substantially lower from the pre-pandemic level (Nag, 2020).

According to the International Monetary Fund (IMF), the Indian GDP will shrink by 10.3% during the FY 2020-21. While it also predicts the recovery of Indian GDP as the economic activity resumes but the effect of the covid 19 on the Indian GDP will last for a long time (Nag, 2020). The IMF forecasted Indian economy growth for 2020-21 to be 5.8% in January 2020 but in June 2020 it forecasted Indian GDP growth for 2020-21 to 1.9% because of the covid 19 pandemic. The laborers of the Informal sector and members of lower-income categories have been affected by the covid 19 pandemic as many became unemployed. The International Labour Organization (ILO) estimates that 40 Cr. people in India are at risk of sinking deeper into poverty (Srivastava, 2020).

SMALL FINANCE BANK AND INDIAN ECONOMY

Small Finance Bank (SFB) provides banking services to the unattended and underprivileged sections of populations which include business units, farmers, and other unorganized business units. That is, these banks provide loans to both formal and informal sector enterprises. Nowadays during this pandemic period, we can see many informal sectors are emerging in the various parts of India. In Kerala, many NRI who had lost their job overseas are returning to their hometown and starting their own business. Across India, many who have become unemployed in the city because of the financial crisis hit due to the Covid 19 pandemic, started a small informal business on the roadside. The parallel economy which is composed of informal organizations comprises around 85% of overall employment and around 40% of GDP (Nag, 2020). During the covid 19 pandemic period, many small informal businesses stopped functioning and many lost their jobs across various sectors. Now Small Finance Bank can support these small informal businesses, NRIs who have lost their job, and other low-income segments to start their own small business by offering them various financial products and services. Further, Small Finance Banks will be able to penetrate the semi-urban and rural areas to cater the financial needs of the unserved and underserved population as it has a superior business position concerning the cost factors in comparison with the local NBFCs. Besides, the knowledge of local areas enables SFBs to understand the needs of the customers better. SFBs are taking the advantage of technology and online banking to provide various financial services to their customers. Not only that, SFBs have reduced the period taken to complete a process or fulfill a customer request with help of technology, thus reducing its costs considerably. Hence, SFBs can reduce costs and can pass on those benefits to their account holders in the form of higher deposit rates for various deposit schemes.

During the October 2020 Monetary Policy Review, RBI kept the repo rate unchanged at four percent and it ensured that to increase economic activities, the priority sectors can lend money easily and at a cheaper rate (Sinha, 2020). This will allow SFBs to provide loans at a cheaper rate. Since the informal enterprises provide 85% of overall employment and contribute around 40% of GDP, Small Finance Bank can focus on these informal sectors which will in turn directly help in the upliftment of the Indian economy. Many of the workforce in India is informally employed, which includes gig economy workers. This population is also got affected by the covid 19 pandemic and vulnerable to other external shocks. The informally employed workers need greater access to formal credit and other financial products such as insurance and pension schemes which the small finance bank can satisfy. With RBI taking various steps to make funds available cheaper for lending, so SFBs can utilize this opportunity to provide various innovative loans to the unconventional sector. Through high technology and low-cost operations strategy, SFBs will be able to provide various lending schemes to both the formal and informal sectors. Some of the strategies which SFBs can follow are:

i) Designing specific saving schemes for the target group: Small Finance Banks have to be innovative in designing financial products that suit the needs and cash flows of the target segment. Research suggests that the main reasons why low-income households save are - marriage, education, construction of houses, and medical expenses, though not strictly in the same order. Marketing of long-term, illiquid savings products during the harvest season and the provision of highly liquid savings accounts during sowing/weeding seasons are some of the tactics that Small Finance Banks can employ for rural markets. Small Finance Bank will be able to increase its deposit base by providing various saving schemes in rural market and this will help in expanding their asset side portfolio. In this way, Small Finance Bank will help the Indian economy to grow during this pandemic period.

ii) Providing Tiny Loans for Informal Sector: Small Finance banks can provide tiny loans for newly set up informal businesses with flexible terms of the loan based on the type of business. A tiny loan is a small sum of money lent at low interest to a new business. By providing small loans to small informal businesses can help the informal sector to grow which in turn helps to grow the Indian economy.

iii) Enhanced use of technology: Technology plays an important role when it comes to making financial services available in the remotest part of the country. With improving technological infrastructure (the Internet, 3G, and 4G networks), customers are making transactions without any physical contact with a brick-and-mortar branch. During this pandemic period, people hesitate to visit branch, so small finance bank which are providing banking services with the help of technology will be able to lower its operational cost and reach the remotest customer at ease. This will help in providing banking services to unbanked citizens of India which will indirectly help in the growth of the Indian economy.

iv) Providing banking services to the E-Commerce sector: It is useful to consider that the future may see greater employment in the e-commerce sectors, as well as in new technologies that can help support future response and resilience mechanisms. During this Covid 19 pandemic period, customers are preferring e-commerce websites for purchasing various items. During the covid 19 pandemic period, more consumers have started purchasing products through various e-commerce websites. With the advancement of technology, e-commerce businesses are expected to grow in the near future also. So providing various banking services to e-commerce businesses to help them to grow will directly impact the growth of the Indian economy.

v) Customized loans based on Cash Flow: Small Finance Bank can restructure their loan repayment strategies for both formal and informal sectors based on the cash flow of business enterprises. During this Covid 19 pandemic period, most of the formal and informal business enterprises will be getting irregular cash flow, and reframing repayment loan strategy will help Small Finance Bank to increase their profit and customer base. Business enterprises will also get much-needed relief for repaying their loan amount. This in turn will have a direct impact on the growth of the Indian economy.

By following the above strategies and providing various banking services to the informal sector, Small Finance bank will be playing an important role in the upliftment of the Indian economy during this Covid 19 pandemic period.

CONCLUSION

The economic impact of the 2020 covid 19 pandemic in India has been largely disruptive. During the April-June quarter of the FY 2020-21, the Indian economy shrunk by 23.9% as per official data released by the Ministry of Statistics and Programme Implementation. The covid 19 pandemic effect on the economy is the main reason behind this drop as per the Government of India. The government authorities had initiated various steps to tackle the impact of the Covid 19 pandemic on the Indian GDP. Small Finance Bank can follow various strategies which will have a direct influence on the growth of Indian economy and they are - Designing of specific saving schemes for the target group, Providing Tiny

Loans for Informal Sector, Enhanced use of technology, providing banking services to E-Commerce sector and Customized loans based on Cash Flow. With new innovative banking services and the use of technology, Small Finance Banks will be able to provide various financial products to informally employed workers (which includes gig economy workers), small business units, small and marginal farmers, micro and small industries, and unorganized sector entities. With the help of technology advancement and innovative financial products, these financial institutions can play a key role in serving customers who need non-collateralized loans to finance their livelihood activity. Based on the Reserve Bank of India's current policies and with the emergence of many new informal businesses during this pandemic period, Small Finance Bank will play an important role in the upliftment of the Indian economy.

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