

The Concept of Microfinance with Digital Technology in India

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ABSTRACT

Microfinance is a type of banking service which provides access to financial and non-financial services to low income or unemployed people. Micro-finance is provided to the weaker section people. The concept of microfinance is not new in India. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start business. Majority of poor are excluded from financial services in India. Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the society. Micro-finance is an important tool for improving the standard of living of poor and which ultimately contributes to the economic development of the economy. Digital technology is also playing a very vital role in extending its support to micro finance institutions (MFIs). Digital technology is transforming various traditional industry sectors in brilliant ways. This paper is focusing on objectives, features, problems and solutions to microfinance, SWOT analysis of microfinance, applications in microfinance and conclusion.

Keywords: digital technology, economic status, financial services, microfinance, MFIs.

I. INTRODUCTION

“Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include in addition to the provision of credit many other services such as savings, insurance, money transfer, counselling etc.”

Reserve Bank of India

Microfinance is a tool in reducing poverty, empowering women and creating awareness which finally results in sustainable development of the nation. Women have been the most underprivileged and discriminated strata of the society in India. In spite of all Government and Non-Governments' efforts, they have been highly ignorant clients of the financial sector.

In the recent times, microfinance has been emerging as a powerful instrument for empowering women particularly, the rural women. Apart from the informal sector of finance the formal and semi-formal sectors like commercial banks, NGOs etc. are taking much interest in providing microfinance to women considering it to be a profitable commercial activity.

Microfinance is the provision of loans and other financial services to the poor. The microfinance has evolved due to the efforts of committed individuals and financial agencies to promote self-employment and contribute to poverty alleviation and provision of social security. India has been able to develop its own model of microfinance organizations in the form of savings and credit groups known as the Self Help Group (SHGs), which are bank-linked. These SHGs are mainly formed and managed by women and this has become an instrument, which has led to women's empowerment and social change. Most of the microfinance institutions in India attempt to go beyond savings and credit groups to provide microfinance services in the form of savings and insurance. Many banks are playing a very important role in providing microfinance to people.

Women are also participating in the microfinance movement by availing the microfinance services being provided by the various financial channels. The main aim of microfinance is to empower women. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services.

II. OBJECTIVES OF MICROFINANCE

The organizations working to promote microfinance institutions in different parts of the world determine various objectives to microfinance.

1. To Promote socio-economic development.
2. To strengthen the weaker section people through self-help groups and joint liability groups.
3. To provide training and motivation to the poor rural people.
4. Promote programs for the disabled
5. To empower women and to provide the services with digital technology.
7. To promote sustainable agriculture, art and creativity of weaker section people.
8. To get benefits by reducing expenditure and making use of local resources as inputs for livelihood activities.

III. FEATURES OF MICROFINANCE

- Low income group people are benefited.
- Loans are of very small amount.
- Short duration loans.
- Loans are provided without any collateral security.
- Loans are generally taken for income generation purpose.
- Microfinance through digital way.

The idea is to provide extremely poor people with small loans so they can start and operate a business. The borrowers are able to save money and pay back the loan over time. Microfinance helps support financial security because it is not just a donation. A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

A great scale of organizations is regarded as microfinance institutes. Microfinance, also called microcredit, is a type of banking service that is provided to unemployed, poor, low-income individuals or groups, micro entrepreneurs, to the people who are below poverty line are the clients of microfinance. Microfinance is a powerful tool to self-empower the poor people especially women at world level and especially in developing countries. Microfinance activities can give them a means to climb out of poverty.

Developing countries like India higher emphasis is being laid upon the development of women as an entrepreneurs and their active participation in the development process. Women can be successful and better entrepreneurs if given the much needed conducive environment and provided with enough resources most importantly the required amount of capital. The studies of rural women have proved their business excellence. They have been found to be better in credit utilization than men but because of lack of access to assets they are often more vulnerable to poverty than males.

IV. MICROFINANCE AND ENTREPRENEURSHIP

It bring new ways for business. An entrepreneur is someone who is a risk taker and is ready to face challenges. Entrepreneurship is the process whereby entrepreneurs takes the lead and organize the business or industry and provides employment to others. Poor people generally are sensitive for their business, and work hard and they have no other option to survive therefore they always think about their business and try to do something new if they have opportunity. Implementing entrepreneurial ideas in microenterprise bring more profit and productive result as their entrepreneurship is for their survival. There are many entrepreneurs who has much knowledge and skills but due to lack of funds they are not able to start their own businesses. The concept of microfinance is trending these days. There are many MFIs which are providing credit to the people to start their own businesses. Therefore, combination of microfinance and entrepreneurship is a very effective developmental tool that can minimize poverty and empower people in a better way.

Table 1.1: state-wise Client Outreach

Outreach (in lakh) of MFIs across States/UTs – 2017 & 2016 (Decreasing Order)

State	2017	2016	Growth (%)
Karnataka	68.33	75.28	-9%
Tamil Nadu	32.25	57.22	-44%

Uttar Pradesh	29.82	39.36	-24%
Odisha	22.94	23.52	-2%
Bihar	22.57	23.93	-6%
Maharashtra	21.33	38.57	-45%
West Bengal	21.16	24.91	-15%
Madhya Pradesh	20.53	28.19	-27%
Assam	7.73	6.84	13%
Kerala	7.42	12.23	-39%
Rajasthan	6.28	8.20	-23%
Jharkhand	6.21	6.75	-8%
Punjab	5.46	6.26	-13%
Chhattisgarh	5.35	8.36	-36%
Gujarat	4.60	12.63	-64%
Haryana	3.83	5.98	-36%
Telangana	2.59	2.95	-12%
Uttarakhand	1.92	3.22	-40%
Delhi	1.15	2.52	-54%
Andhra Pradesh	1.04	7.27	-86%
Manipur	0.73	0.88	-16%
Mizoram	0.57	0.65	-12%
Tripura	0.43	1	-58%
Puducherry	0.28	1.27	-78%
Arunachal Pradesh	0.19	0.17	9%
Himachal Pradesh	0.13	0.49	-73%
Meghalaya	0.12	0.19	-36%
Sikkim	0.11	0.28	-59%
Goa	0.07	0.13	-47%
Nagaland	0.04	0.04	10%
Jammu & Kashmir	0.03	0.02	17%
Chandigarh	0.02	0.13	-82%
Andaman	0.02	0.01	267%
Total	295	399	

Table 1.2: No. of MFIs in Indian States/UTs and No. of Districts with MFI Operation (2017)

Name of the States/UTs	No. of MFIs operating in the state (including those having Head Quarters outside)	No. of districts of the state where MFIs operate	No. of Branches
Andaman Nicobar Islands	2	1	1
Andhra Pradesh	3	12	66
Arunachal Pradesh	4	4	11
Assam	21	28	344
Bihar	33	37	692
Chandigarh	3	1	4
Chhattisgarh	20	22	306

Delhi	10	6	33
Goa	4	2	10
Gujarat	18	24	257
Haryana	17	19	190
Himachal Pradesh	4	4	9
Jammu & Kashmir	1	1	1
Jharkhand	20	24	263
Karnataka	23	30	1218
Kerala	16	12	261
Madhya Pradesh	34	48	907
Maharashtra	41	36	808
Manipur	5	10	38
Meghalaya	8	5	18
Mizoram	4	8	26
Nagaland	3	2	3
Odisha	28	30	744
Puducherry	7	2	10
Punjab	10	22	173
Rajasthan	22	29	352
Sikkim	2	3	8
Tamil Nadu	35	34	1152
Telangana	5	6	11
Tripura	9	6	39
Uttarakhand	20	6	117
Uttar Pradesh	28	68	1064
West Bengal	41	21	1097
Total		563	10,233

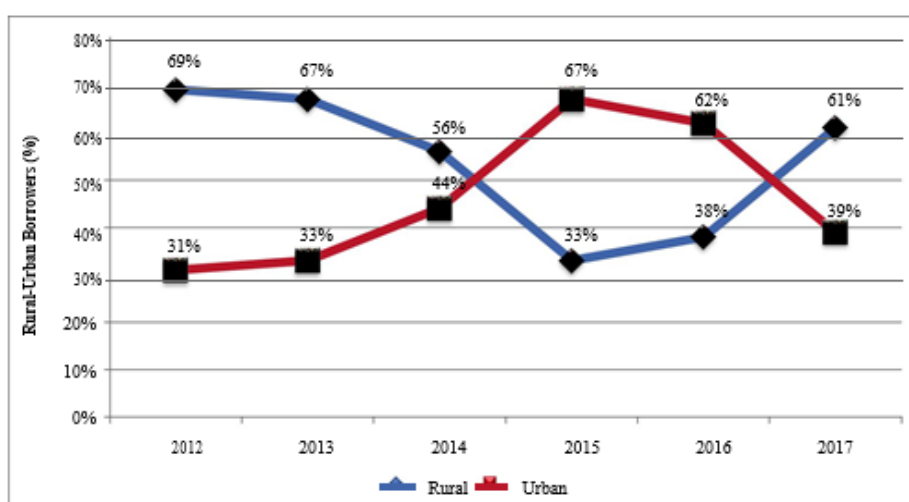
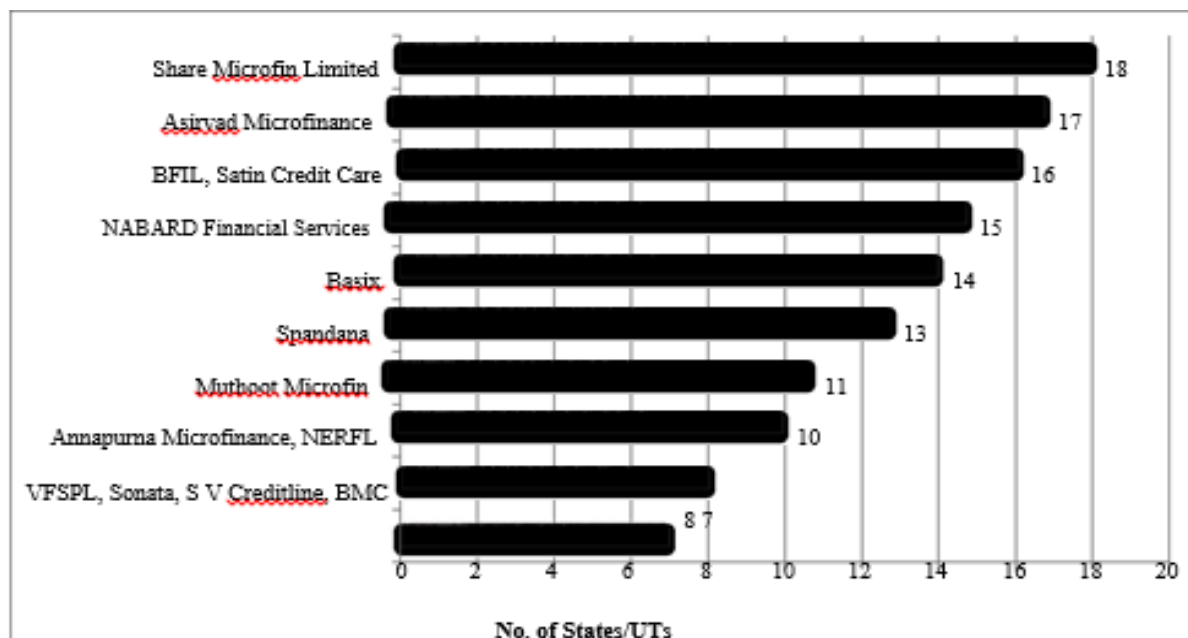


Figure 1.1: Rural – Urban Share of MFIs Borrowers

Analysis from figure 1.1: A very interesting trend is seen in the rural-urban focus of MFIs. The share of rural clientele which was 69 % in 2012 decreased to 56 % in 2014 and has drastically come down to 33 %. The proportion of rural to urban clients for the year 2014-15 is 33% to 67%. In the year 2015-16, there was a slight improvement in the share of rural clientele which increased to 38%. In 2016-17, the trend of rural and urban is rural 61% and urban 39%. One of the key findings from our research shows that small sized of MFIs are rural centric.

Figure 1.2: Top 10 MFIs operation in states and UTs



Analysis from figure 1.2: From the above chart we can see analyze that those are top 10 MFIs operating in India. Share Microfin limited is the MFIs which is operating in 18 states in India.

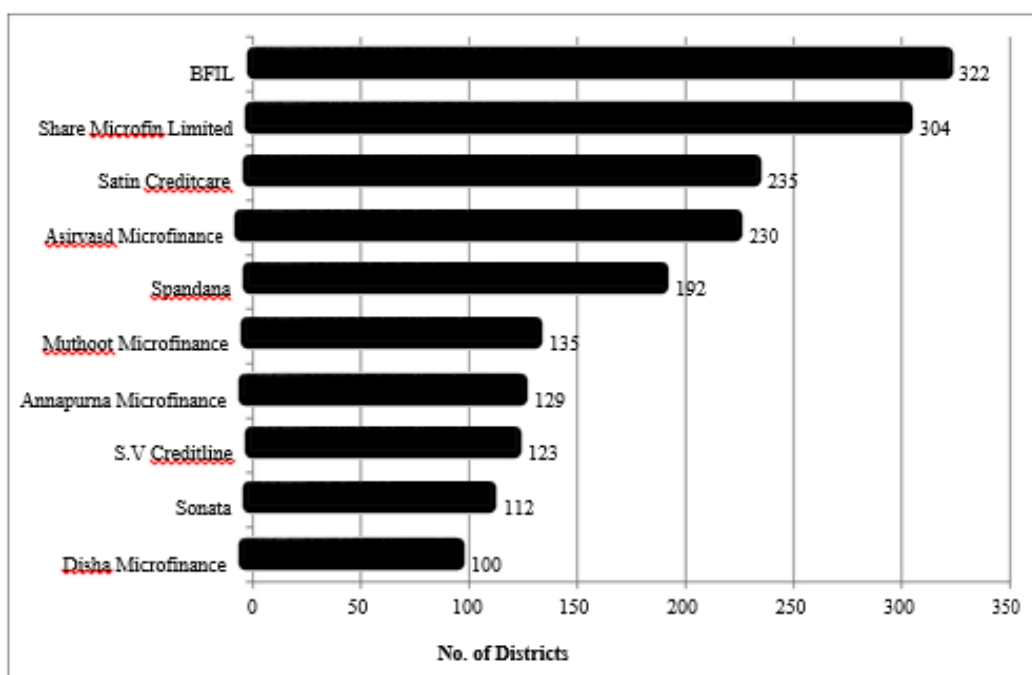


Figure 1.3: Top 10 MFIs operation in Districts

Analysis from figure 1.3: From the above chart we can see analyze that those are top 10 MFIs operating in Indian districts. BFIL is the MFIs which is operating in 322 Districts in India.

V. SWOT ANALYSIS OF MICROFINANCE

- Strength
 - Helps in reducing the poverty
 - Huge network available.
- Weakness
 - Not properly regulated
 - High number of people access to informal sources of finance
 - Concentrating on few people only and mainly in urban areas.
- Opportunity
 - Huge demand and supply gap
 - Generating employment
- Threat
 - High competition
 - High rate of interest.

VI. MICROFINANCE WITH DIGITAL TECHNOLOGY

Digital technology is used in all the sector in almost all the countries. Managing of manual bank transactions has become online through digitalization. People who are utilising funds from banks are using digital methods of obtaining funds. People are using internet banking, debit card, credit cards, paytm wallets etc for payments and transfer of funds. These digital technologies are reducing the time consumption to the maximum level. The people who are obtaining microfinance, they are using all the online methods to make payments and transfer funds. Microfinance is progressing in India with digital technology.

VII. PROBLEMS AND SOLUTIONS OF MICROFINANCE

Many MFIs in India or elsewhere in world suffer from corruption at various levels: corruption in the MFI itself, corruption in the Micro Enterprises, these MFIs support or corrupt channels, lack of record keeping can have its share of problems including increase in defaulters. MFIs achieve a lot of success in their programs in initial period, but they fail to maintain the same record in the long run because of lack of proper commercial orientation, thus making them unsustainable.

The industry suffers from certain client related problems such as attracting new clients, retaining existing clients and lack of information about existing and potential clients. Then there are staff related problems such as educational level and skill development of staff. However, the more fundamental problems faced by the industry are the system related problems such as high cost, profit performance and interest rate. Any micro finance institution lending out small loans has to keep doing a balancing exercise between the interest rate and loan repayment. To ensure a high rate of loan repayment, companies need to employ lots of field force who can work in the field doing background checks, disbursement of loan, follow-up on the clients and loan collection. But these activities cost money, which increase the interest rate that borrowers have to pay. On the other hand, there is always the pressure to keep the interest rate low because of repayment ability of borrowers who are mostly poor.

Micro finance companies often try putting more emphasis on high repayment rates, which means they recruit field staffs for all types of jobs and seem inclined to open offices in all their areas of operations. But this obviously leads to very high interest rates, and in turn affects the growth potential and profit performance of the industry. This is where the digital solutions have the potential to revolutionize the industry. You can cut cost by a huge margin if you take everything online. There are no offices; there are minimum field staffs with all the client information stored in their portable digital devices. Today technology is affecting almost every sector. With the technology cumbersome activities has become very simplified. Technology is playing a major role in minimizing the problems of MFIs and microfinance.

7.1: THE MOST COMMONLY USED APPLICATIONS IN MICROFINANCE

- **Automated Teller Machines (ATMs) or Point of Sales (POS) devices**— conduct many banking transactions that would otherwise require staff attention: they furnish account information, accept deposits, draw down on pre-approved loans and transfer funds. This is the main application in microfinance.
- **Management information system (MIS):** - provides computerized data processing for management decision making; it is used primarily for portfolio management, accounting and financial performance management.

- **Smart cards** – can be used for financial services, such as managing savings accounts, disbursing loans, or making transfers. There are different forms of personal identification, such as biometric technology and fingerprinting. Smart cards function like an electronic passbook. There is also a lower cost card, which operates through a magnetic strip on the reverse side of the card. A smart card differs in that it operates through more expensive chips that can store information offline on the embedded chips.
- **Biometric technology** – measures an individual's unique physical or behavioral characteristics, voice pattern and gait, to recognize and confirm identity. This is a supplementary technology used with ATMs.

VIII. CONCLUSION

The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extend small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. Many developing countries like India is progressing very rapidly with microfinance through digital technology. The concept of micro finance is huge successful in many developing countries. The present study concludes that despite of bottlenecks, microfinance helps to upscale them to a better living and playing a significantly positive role in upgrading themselves.

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