
DIGITAL ECONOMY AND MICROFINANCE

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ABSTRACT

Poverty exposes the poor to unfavorable, unbearable and uncontrollable circumstances, restricting them to avail services from formal banking sector. Imminent need for providing required financial services to needy for improvement in standard of living through an organized sector gave birth to microfinance in India. Microfinance institutions have come a long way in bringing a change by benefitting poor and underprivileged by providing access to capital. Further, digitization of microfinance institutions has emerged as the new wave and these institutions are persistently working on technology advancement to enhance efficiency and effectiveness. This working paper traces the evolution of the Microfinance revolution in India as a powerful tool for poverty alleviation. Where institutional finance failed Microfinance delivered, but the outreach is too small. There is a question mark on the viability of the Microfinance Institutions. There is a need for an all-round effort to help develop the fledgling Micro finance Industry while tackling the trade-off between outreach and sustainability.

This paper delineates various aspects where government needs to play a role. The paper also focuses on the developmental role in the economy, emphasizing scale-up of the microfinance industry where the key issues are diversification of access to funds, innovations in distribution, infrastructure and education, and the use of new technologies such as Mobiles, and the Aadhar scheme under the Unique Identification Authority of India. The paper discusses the factors and theoretical position associated with evolution of microfinance and its global acclaim based on it being a Win-Win proposition for both Micro Finance Institutions (MFIs) and Customers.

Keywords: *Micro Finance, Innovation, Digitization*

INTRODUCTION

India is witnessing an increasing pace of development mainly because of the digital revolution. A very strong development tool like microfinance is also undergoing a change in its operations and reach.

According to the census of India, 68.84% of Indian population resides in rural areas. With nearly 60% of the population depended upon agricultural sector there is a wide underemployment. Result is abject poverty and low access to institutionalized credit. Financial inclusion therefore is a key tool for development. In India, expansion of financial services in India started with the nationalization of all banks in the country during the late 1960s. This was reinforced with the establishment of Regional Rural Banks (RRBs) in 1976. The microfinance sector in India gained real impetus with the establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982. The Indian microfinance industry has been a strong enabler of financial inclusion of underserved and unbanked people in India. After digital India movement and the launch of Pradhan Mantri Jan-Dhan Yojana (PMJDY) in 2014, financial inclusion is vigorously promoted to ensure delivery of banking services at an affordable cost to the vast sections of the unbanked group.

In the past few years, a number of digital financial services programs have been launched across the globe, which has been successfully serving the population at the base of the pyramid. In India, several initiatives have been undertaken to build the public infrastructure in the digital ecosystem space as to leverage people in poverty alleviation.

OBJECTIVE:

1. To study examine and understand the impacts and challenges of Digitalization in Micro finance.
2. To study the microfinance models and understand how digitalization has leveraged their outreach.

RESEARCH METHODOLOGY:

The paper is an exploratory, qualitative and descriptive study based majorly on the analysis of secondary data of Digital economy and Micro Finance inclusion in India. The researchers have analyses four models of Micro Finance organizations to put across ideas of how Micro finance has been impacted with the introduction of Digital platforms pan-India. These models have been classified as PROVIDER AND ENABLER.

GENESIS OF MICROFINANCE

Microcredit and microfinance are relatively popular terms in the field of development, first coming to prominence in the 1970s, according to *Robinson (2001) and Otero (1999)*. Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidised rural credit programmes. These often resulted in high loan defaults, high losses and an inability to reach poor rural households (*Robinson, 2001*).

The 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank of Bangladesh began to show that they could provide small loans and savings services profitably on a large scale. The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (*Robinson, 2001, p.54*). *Dichter (1999, p.12)* refers to the 1990s as “the microfinance decade”.

Before Digitisation, microfinance was means of financial inclusion, which included a very personal approach to the clients. On one hand the personal approach method to each client facilitated the direct connection of information about

microfinance it restricted the outreach of knowledge.

LITERATURE REVIEW ON MICRO FINANCE

Shinde keshav in the year (2014) has done his research on the topic “Impact of microfinance and self-help groups (SHG) on Rural Market Development”. Analysis about the study conducted by NABARD revealed financial services required by poor households are safekeeping of small surpluses in the form of thrift; access to consumption loans to meet emergency needs and financial services and products. The benefits in terms of higher income, consumption, and savings matter for the poor, the focus here is broader, as an attempt is made to assess some key dimensions of women’s empowerment-defined broadly as expansion of freedom of choice and action to shape their own lives.

Vichore, S. (2012) analyse MFI, the study of M-CRIL, NABARD and relevant publication on the development of related area in the country is been studied. The findings that postulate the idea there the MFIs to ensure more measured growth and better control system

Ranjani, K. S. (2012) outlines the need for conceptual framework for regulation of MFI in India. The research findings

suggests that like every other financial intermediary, microfinance institutions will benefit the customer as well as the industry at large when they subject themselves to both self and statutory regulations.

Arora, S. and Meenu (2012) examines the role of the micro financing intervention to analyse how far it has been successful to meet the financial needs of the rural poor in terms of their preference for formal and informal sources of finance, their financial awareness and the level of satisfaction with regard to micro financing services. The study found that good saving habits among the rural poor, maximum of them save regularly and that too in formal financial avenues. The study also observed that no doubt, the formal sector of finance specially the banking sector has marked a significant progress in achieving the financial inclusion target but still a lot of efforts are required to pave the way for the micro financing movement among the banking sector.

Nasir, S (2013) tries to outline the prevailing condition of the microfinance in India in the light of its emergence till now and its aim is to provide a cost effective mechanism for providing financial services to the poor. The research finding discovers the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of

product diversification, customer overlapping and with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

DIGITAL ECONOMY

Digital India, an ambitious initiative launched by the Government in 2015, fundamentally seeks to ensure that government services are made available seamlessly to citizens, in electronic form, by improving online infrastructure and increasing internet connectivity. India has a mobile subscriber base of 1150.45 million, which includes 489 million rural subscribers (*TRAI, 2017*) which indeed is the second largest telephonic subscriber's base in the world by number. It is evident that the government, towards digital empowerment of the people, has taken significant steps. One of the direct gainers of this initiative is the financial sector, wherein our country's goal is complete financial inclusion.

MICROFINANCE AND DIGITALIZATION

While the India tops the global list of recipients of commercial capital for microfinance, the number of people still financially excluded runs into millions. (*N, 2010*) According to the World Bank, two billion people in the world lack access to

the financial services. (Randazzo, 2015) Digitalisation has facilitated microfinance institutions to reach customers efficiently and conveniently. With the mobile users base increasing rapidly in INDIA, channels such as Mobile devices which help in better tracking of transactions on real-time basis. The reach of Microfinance in India was confined because of non-availability of a tool for mass reach. People who knew about microfinance could only take advantage if it and a large portion remained untouched. With India, which is home to an unbanked population of around 47 per cent, technology can play a crucial role in driving financial inclusion of the under-banked as well as un-banked population in the country. (Raj, 2017).

Digital technology has increased the scope of micro finance reach. Beneficiaries, equipped with mobile phones and regions connected with internet have made this possible. A woman in rural parts of the country is now better exposed to microfinance because of digital technology.

The case studies here reflect on the developments that have taken place in the organisations providing microfinance after the spread of digital technology.

CASE 1- PROVIDER

- USE OF MOBILE TECHNOLOGY IN MICROFINANCE – A CASE OF UJJIVAN

Technology leads to efficiency. Microfinance institutions are persistently working on technology advancement to enhance efficiency and effectiveness. Ujjivan, one of the microfinance institutions manages operations through handheld devices like tablets and mobile phones. Ujjivan uses Trucell Mobile module for processing repayment transactions, marking attendance of customers and Loan Utilization Checks (LUCs). Android phones facilitates access to customer information for field staff. Additionally, tablets are used for acquisition of customers, underwriting and processing loan applications. Individual lending business is carried by using cloud technology through Artoo Platform

CASE 2- PROVIDER

- DIGITIZATION OF SHGS THROUGH ‘ESHAKTI’: MOVING TOWARDS DREAM OF DIGITAL INDIA

Keeping in view Government of India’s mission for creating digital India, NABARD launched a pilot project “EShakti” for digitization of SHGs on 13

November 2014. EShakti enables maintenance of records of SHGs in electronic form and creation of MIS. Digitization of SHGs ensures access of members to wide range of financial services. It concentrates on integrating SHG members with national financial inclusion and bringing persons under umbrella of Aadhar. Moreover, it facilitates banks in extending financial facility to SHGs by assessing their financial health.

CASE 3- PROVIDER

- SURAJYAPRAKALP NGO:

Pune based Surajyaprakash NGO has helped create 40 SHGs in the city. They have a 100% repayment record. On the lines of how the changes have taken place in his NGO since the digitisation of economy, it is still working manually and there is not much help from the digital platforms. The main reason behind it is that lack of literacy among members of SHGs who are taking loan. Lack of electricity is a major problem, which does not allow internet connectivity. Furthermore, lack of knowledge in the members about digital platforms is restricted them to shift to digital platforms. (Source: telephonic interview with Mr. Vijay Shivale, the head of the NGO)

CASE 4- ENABLER

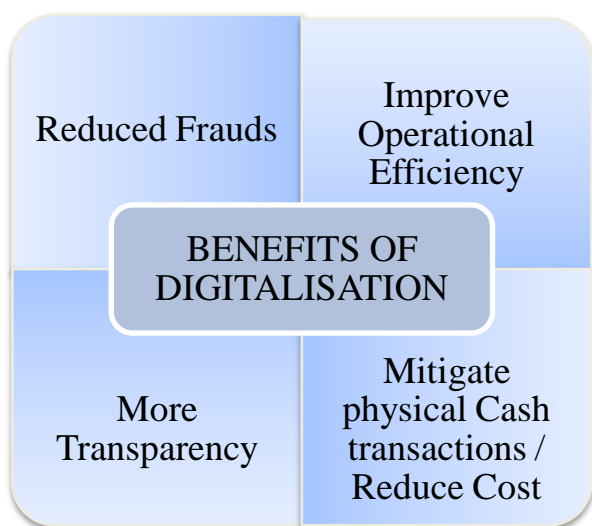
E-SAHAJ

Sahaj e-Village Limited, an ISO 27001 certified company and a venture initiative of Srei Infrastructure Finance Limited, in into bridging the digital divide between urban and rural India. The organisation has taken several initiatives to make information and technology reach all the nooks and corners of rural India. The organisation established Common Service Centres (CSCs) which provide direct access to modern state-of-art technological facilities to the rural users. The services of Sahaj reaches the most marginalized communities of India, brought to them and operated by members of their own community through organizational support, thus, bringing about great transformation in these traditionally deprived regions in India . Providing information of micro-finance schemes is one of the services provided by Sahaj through its CSC.

DISCUSSIONS

The study brings to forth the success factors and challenges in the micro-finance organisations as Provider and Enabler. While three cases show a positive impact of the digital technology on the reach of microfinance, the case of Surajyaprakalp

reflects the inability of digital technology to leverage the micro-finance service due to lack of awareness. MFI's have opportunities to leverage markets where mobile services are widely used to improve on large innovative technology projects and delivery channels. MFIs have the opportunity to be more transparent, reduce fraud risks, provide secure options to clients and field officers and mitigate cash risk, as the sector has been traditionally cash intensive. Digital Financial Inclusion improve operational efficiency, reduce costs, and provide regular alerts to clients without any additional cost. But this is not effective pan-India. There is still a need for interventions to make the beneficiaries digitally literate.



While it is undeniable that micro finance has had a great impact on the lives of poor Indians and that it has been one of the major contributors towards the goal of poverty eradication, but it has still not managed to have its desired impact. There are several challenges facing the sector.

- **Financial Illiteracy:** Financial illiteracy is one of the biggest challenges being faced by the microfinance industry. In most cases, the target clients of MFIs or SHGs are people who are either illiterate or have a very basic level of education that makes them highly ignorant about the financial system.
- **Infrastructure:** Lack of transportation, communication, electric wiring in remote and rural areas act as a hurdle in implementation of digital mode by MFIs.
- **Suitability or Affordability:** Small microfinance institutions are either not able to afford mature software packages and ICT solutions or they are unsuitable for them. Lack of skilled staff to support MIS, lack of budget to upgrade technology and high need of localization of software act as an obstacle to small MFIs in adopting digital channels.
- **Security:** Client Protection is a major concern with digitization as associated

risk factors such as fraud, misuse of platform, failure in transactions etc. would crop up.

- **Digital literacy**

There is apathy on the part of citizens above the age of 40 to use digital technology. This is a challenge in availing microfinance easily and he/she may not know about the various microfinance scheme. A recent joint study conducted by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) and Deloitte Research have found that 950 million Indian citizens are out of reach of the internet(www.guidingtech.com)

CONCLUSION:

Microfinance institutions can leverage technology to speed up the flow of information and capital, automate transactions, control and analyse data. It will also improve customer experience; reduce transaction costs; and increase efficiency and customer outreach for them. Convergence of digital platform in financial inclusion will be beneficial to MFIs and clients alike. Digitalisation is the way ahead. To reach the last unbanked segment of the economy and for poverty alleviation of the economy Digitisation of Microfinance is the most convenient and affordable way.

Outreach of MFIs due to digitization has undoubtedly increased in terms of its operations, clients and loan disbursement but it has not been able to capture giant market share. Moreover, utilization of funds is more for non-productive and consumption activities. Government needs to play a proactive role by ensuring provision of funds for productive and developmental activities to fully utilize gains of digitization. MFIs must also decide whether a particular technology is viable in that area and if so, how it should be tailored to meet specific needs of people they wish to serve. Further, need is to create confidence among stakeholders through a strong legal framework for strengthening MFIs to achieve goal of poverty alleviation.

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