

# THE CONCEPT OF MICROFINANCE WITH DIGITAL TECHNOLOGY IN INDIA

Ms.Sandeep Kaur<sup>1</sup>, Dr.Amanpreet<sup>2</sup>

<sup>1,2</sup>University College of Commerce & Management

<sup>1,2</sup>Guru Kashi University, Talwandi Sabo

## ABSTRACT

*Microfinance is a sort of banking service that gives low-income or jobless individuals access to financial and non-financial services. Microfinance is available to the less fortunate. Microfinance is not a new idea in India. People have traditionally saved and borrowed modest amounts of money from individuals and organisations in the framework of self-help in order to establish a company. 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). Various conventional industry areas are being brilliantly transformed by digital technology. The aims, features, difficulties, and solutions of microfinance are discussed in this article, as well as a SWOT analysis of microfinance, applications in microfinance, and a conclusion.*

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

## 1.INTRODUCTION

"Microfinance is a type of economic development strategy that aims to help the poor get out of poverty." It encompasses a wide variety of services that include, in addition to credit, savings, insurance, money transfers, and counseling."

### **Reserve Bank of India.**

Microfinance is a tool for eliminating poverty, empowering women, and raising awareness, all of which contribute to the nation's long-term development. In India, women have historically been the most marginalised and discriminated members of society. Despite all of the efforts of the government and non-government organisations, they have remained mostly uneducated clients of the financial industry.

Microfinance has recently emerged as a significant tool for empowering women, particularly those in rural areas. Apart from the informal sector of finance, the formal and semi-formal sectors, such as commercial banks and non-governmental organisations (NGOs), are increasingly interested in offering microfinance to women, seeing it as a lucrative business activity.

The provision of loans and other financial services to the underprivileged is known as microfinance. Microfinance has arisen as a result of the efforts of dedicated individuals and financial institutions to promote self-employment, alleviate poverty, and provide social security. In the form of bank-linked savings and credit

groups known as Self Help Groups (SHGs), India has been able to build its own kind of microfinance companies. SHGs are mostly created and managed by women, and they have evolved into a tool for women's empowerment and social change. Most microfinance institutions in India aim to provide microfinance services in the form of savings and insurance in addition to savings and credit groups. Many banks play a critical role in delivering microfinance to individuals.

Females are also taking part in the microfinance movement by taking use of the various financial channels' microfinance services. Microfinance's major goal is to empower women. Microfinance is the provision of financial services to low-income clients, such as consumers and small business owners, who have traditionally been denied access to banking facilities.

## **II.OBJECTIVES OF MICROFINANCE**

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

1. To encourage socioeconomic progress.
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 given without any kind of security.
- Loans are typically taken out to supplement one's income.
- 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 a business that provides financial services to people with low incomes. Almost all offer loans to their members, and many also provide insurance, savings accounts, and other services.

Microfinance institutes encompass a large number of organisations. Microfinance, often known as microcredit, is a sort of banking service that is offered to unemployed, poor, low-income individuals or organisations, micro entrepreneurs, and persons living below the poverty line. Microfinance is a powerful tool to self-empower the

poor people especially women at world level and especially in developing countries. Microfinance operations may provide a path out of poverty for them.

Women's entrepreneurial development and active engagement in the development process are given greater priority in developing countries such as India. Women can be successful and better entrepreneurs if they are given the right atmosphere and resources, most significantly the necessary quantity of capital. Rural women's commercial skills have been demonstrated in research. They have been proven to be better at credit use than men, yet they are generally more prone to poverty than men due to a lack of assets.

#### 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. As their entrepreneurship is for their existence, using entrepreneurial ideas in microenterprises brings more profit and productive results. Many entrepreneurs have extensive knowledge and abilities but are unable to start their own firms owing to a lack of capital. 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%

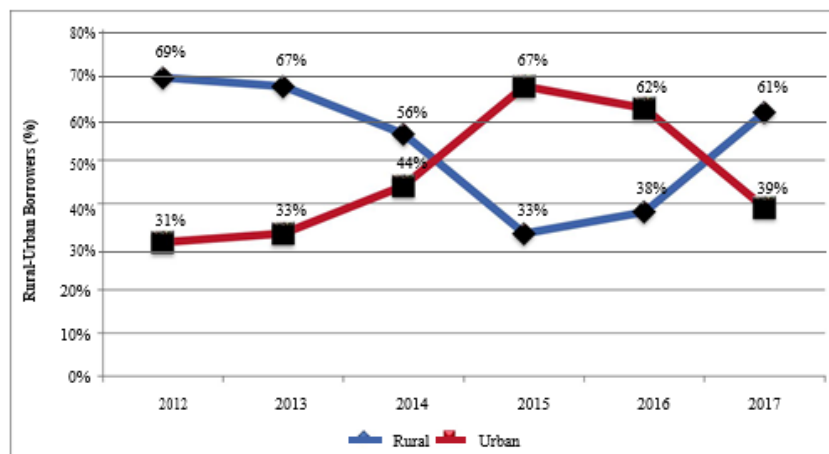
Haryana	3.83	5.98	-36%
Telangana	2.59	2.95	-12%
Uttarakhand	1.92	3.22	-40%
Delhi	1.15	2.52	-54%
Andhra Pradesh	1.04	7.27	-86%
Manipur	0.73	0.88	-16%
Mizoram	0.57	0.65	-12%
Tripura	0.43	1	-58%
Puducherry	0.28	1.27	-78%
Arunachal Pradesh	0.19	0.17	9%
Himachal Pradesh	0.13	0.49	-73%
Meghalaya	0.12	0.19	-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%
<b>Total</b>	<b>295</b>	<b>399</b>	

**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

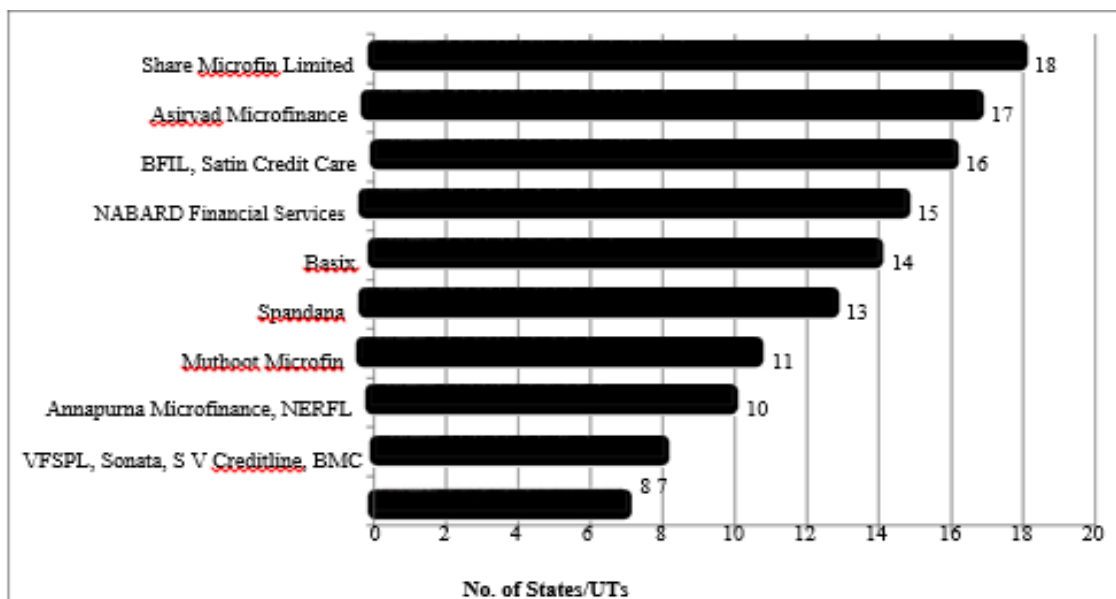
Gujarat	18	24	257
Haryana	17	19	190
Himachal Pradesh	4	4	9
Jammu & Kashmir	1	1	1
Jharkhand	20	24	263
Karnataka	23	30	1218
Kerala	16	12	261
Madhya Pradesh	34	48	907
Maharashtra	41	36	808
Manipur	5	10	38
Meghalaya	8	5	18
Mizoram	4	8	26
Nagaland	3	2	3
Odisha	28	30	744
Puducherry	7	2	10
Punjab	10	22	173
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
<b>Total</b>		<b>563</b>	<b>10,233</b>

Figure 1.1: Rural – Urban Share of MFIs Borrowers



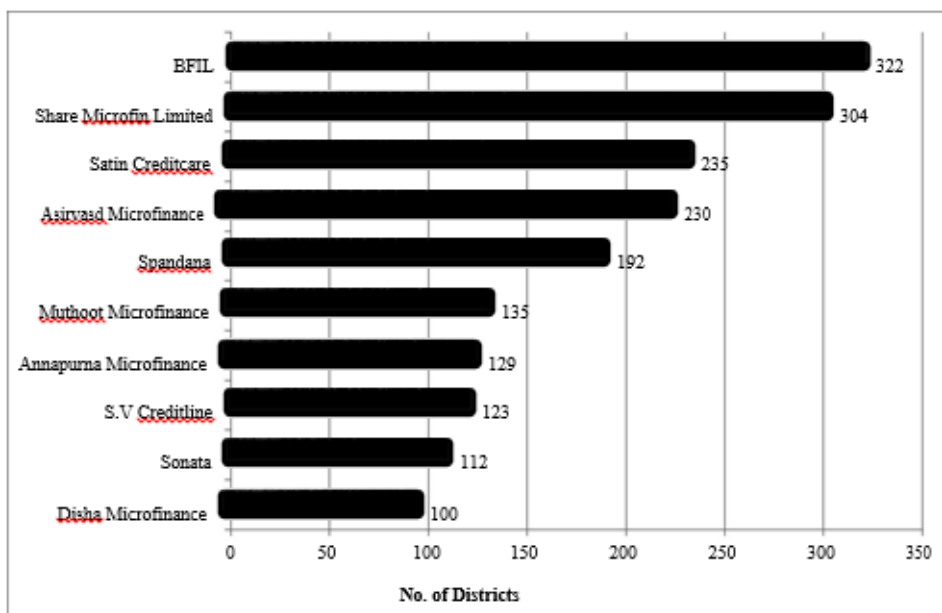
**Analysis from figure 1.1:** A very interesting trend is seen in the rural-urban focus of MFIs. The share of rural clientele which was 69 % in 2012 decreased to 56 % in 2014 and has drastically come down to 33 %. The proportion of rural to urban clients for the year 2014-15 is 33% to 67%. The percentage of rural clients climbed to 38 percent in 2015-16, indicating a minor improvement. In 2016-17, the rural-urban divide was 61 percent for rural and 39 percent for urban. One of the primary conclusions of our study is that tiny MFIs are primarily focused on rural areas.

**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 have a lot of success in their programmes in the beginning, but because of a lack of sufficient commercial orientation, they can't keep it up in the long run, making them unsustainable.

Recruiting new clients, keeping existing clients, and a lack of understanding about current and potential clients are all client-related difficulties in the sector. Then there are issues with workers, such as educational levels and skill development. The industry's more fundamental issues, however, are system-related issues such as high costs, profit performance, and interest rate. Any microfinance institution that makes small loans must maintain a constant balancing act between interest rate and loan payback. To achieve a high percentage of loan repayment,

businesses must employ a large field staff capable of doing background checks, loan disbursement, client follow-up, and loan collection in the field. However, these actions are costly, increasing the interest rate that borrowers must pay. On the other hand, due of the borrowers' poor repayment ability, there is constant pressure to keep interest rates low.

Microfinance organisations frequently aim to place a greater emphasis on high payback rates, which means they hire field workers for a variety of positions and appear to be eager to create offices in all of their business regions. However, this inevitably leads to extremely high interest rates, which has an impact on the industry's growth potential and profitability. Digital solutions have the potential to change the market in this area. If you do everything online, you can save a lot of money. There are no offices; instead, there are a few field workers who have all of the client information on their mobile digital devices. Today, technology has an impact on practically every industry. Complicated activities have gotten much easier to accomplish because to technological advancements. Technology is helping MFIs and microfinance institutions solve their difficulties.

#### **7.1: THE MOST COMMONLY USED APPLICATIONS IN MICROFINANCE**

- **Automated Teller Machines (ATMs) or Point of Sales (POS) devices**– They provide account information, take deposits, draw down on pre-approved loans, and transfer funds, among other banking transactions that would otherwise necessitate personnel attention. In microfinance, this is the most common application.
- **Management information system (MIS):** - It is generally used for portfolio management, accounting, and financial performance management, and it uses computerised data processing for management decision making.
- **Smart cards** – can be used to manage savings accounts, disburse loans, and make transfers, among other financial services. Personal identity can take several forms, including biometric technologies and fingerprints. Smart cards work in the same way as an electronic passbook does. There is also a less expensive card that works with a magnetic strip on the back of the card. A smart card is distinguished by the fact that it is powered by more expensive chips that can save data offline on the embedded chips.
- **Biometric technology** – To recognise and confirm identity, a person's unique physical or behavioural features, voice rhythm, and stride are measured. This is a technology that is used in conjunction with ATMs.

#### **VIII. CONCLUSION**

The primary concept of microfinance is to provide credit to people who would otherwise be unable to obtain it. Microcredit programmes provide very poor people with small loans for self-employment initiatives that produce income and enable them to care for themselves and their family. Many poor countries, such as India, are making rapid success with microfinance thanks to digital technologies. Microfinance is a hugely effective concept in many poor countries. Despite constraints, the current study suggests that microfinance assists individuals in upgrading to a better standard of living and plays a key part in their upgrading.

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