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RESEARCH ARTICLE OPEN ACCESS

A CONCEPTUAL STUDY ON NEW ERA OF MICROFINANCE

Devendra Verma
Research Scholar, Department of Commerce, MEDI-CAPS University, Indore, India.
dvermanov5@gmail.com

Dr. Anupama. Pardeshi
Assistant Professor, Department of Commerce, MEDI-CAPS University, Indore India.
anupama.pardeshi@medicaps.ac.in.

Shagufta Rehman
PGT Economics,S.S. Dev Public School , Ghazipur,India
shaguftarahman3335@gmail.com

ABSTRACT

Microfinance has always been seen globally as an important tool for alleviating poverty and financial development. The immense potential for improving financial access was seen as the key strength of the tool. The key goal behind the introduction of micro finance institutions was the development of convenient credit facilities for the vulnerable. The microfinance sector is on the cusp of transformation, worldwide, with the integration of digital technologies pushing the sector towards fundamental changes of its characteristics and organization. In this paper, we attempt to understand how innovations in digital technology may help the microfinance sector better fulfill its role in development in the context of India. The article defines diverse terminologies which consist of innovation idea, microfinance and digital development. This paper explains about the digital development that encourages productive or entrepreneurial activity for the poor through access to a microcredit. In this paper an attempt has been made to describe how micro credit is effective and financial viable method of addressing sustainable rural development through provision of digital microcredit to rural poor for productive activities. The present study is a descriptive study.

Keywords: Microfinance, Digitalization, Digital tools, digital microcredit, development

INTRODUCTION

The micro finance industry has a long and eventful history. Evolved out of efforts to combat poverty through capacity-building and women empowerment, micro finance is now a major component of banking systems in the developing world. Microfinance institutions are essentially financial intermediaries which made their mark by using innovative approaches to realize goals that were considered untenable by mainstream banking. These institutions gave small loans without collateral, to clients from low-income groups predominantly engaged in income-generating activities in the informal economy (Jayadev, 2016). Technology has potential to aid the industry through improvements in efficiency: there is potential to lower transaction costs and increase the productivity of existing factors of production. It has been reported that MFIs handling small transactions for dispersed populations tend to have operating costs in the range of 12-15%, while the same for banks is less than 5% (Moro Visconti and Quirci, 2014). In the case of MFIs, operating expenses are the most important cost component. Kneiding and Ignacio (2009) based on a sample of 1,003 MFIs in 84 countries find that the three main drivers of operating expense ratio (OER) are relative loan sizes, ages and scale. As per this study these variables impact efficiency in three ways. Firstly, higher numbers of loans may drive scale economies; secondly, higher average loan sizes may improve the cost structure and finally, more knowledge about customers may streamline processes. Much has changed in the microfinance industry over the last two decades: microfinance institutions are no longer exclusive, with the participation of commercial banks increasing. The poverty-alleviation practitioners who pioneered modern microfinance have been marginalized by commercial financial institutions (Kent and Dakin, 2013). The sector also saw increasing convergence in regulations in the financial sector. Even though commercial microfinance institutions were able to face this challenge by reorienting their business models, the original developmental vision has taken a step back. With its unique selling point in question, the industry is under pressure to innovate.

Evaluation of Microfinance in India

The origin of India's microfinance industry can be traced back to community development programmes and the emergence of self-help groups (SHGs). While these movements provided a foundation for microfinance activities, the biggest fillip came through NABARD's SHG-bank linkage program (SHG-BLP) in which NGOs were encouraged to promote and groom SHGs who would park their savings with existing banks and within the existing legal framework (Karmakar, 2008). Micro finance institutions are now an important component of the Indian banking sector. A brief history stated below to understand the evaluation of microfinance;

- Microfinance has been practice for ages informally.
- Legal framework for establishing the co-operative movement setup in 1904.
- RBI act 1934 provided for the establishment of the agriculture credit department.
- RRB's created in1975.
- NABARD established as apex agency for agriculture and rural finance in 1982.
- Passing of mutually aided Co-op. act in 1995.
- From 2017 onwards, the microfinance industry embraced the digital wave marked by innovations and transformation
- The Aadhaar-enabled identification system in India has around 1,277.9 million live users, as of June 2022,

Operational mechanism and concept of Microfinance

The micro-finance scene in India is dominated by SHGs through Banks linkage program with an attempt to build financial relationship between informal groups of people and formal agencies like banks for catering to the financial service requirements of the poor, especially women. SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor.

- The SHG – Bank Linkage Programme started as a partnership model between three agencies, viz, the SHGs,

- Banks and NGOs. - SHGs were to facilitate collective decision making by the poor and provide doorstep banking
- Banks as wholesalers of credit were to provide the resources.
- NGOs were to act as agencies to organize the poor, build their capacities and facilitate the process of empowering them.

A significant feature of the micro-finance movement in India is that it has relied heavily on the existing banking infrastructure, in the process obviating the need for a new institutional set-up. Most of the leading practitioners of micro-finance activities follow the Grameen model: group solidarity to manage risk and train recipients, repayment at regular meetings, and flexible repayment schedules. Banks lend micro-credit through self-help groups (SHGs) and to local micro-finance institutions (MFIs) that have contacts in small villages. The benchmark model for many NGO sponsored micro credit programme is Grameen Bank which:

- Lends only to the very poor (mostly women)
- Deals with creditors in groups
- Required creditors to deposit savings in the bank
- Uses the peer pressure of the group to ensure loan and repayment,
- Requires good credit standing to secure subsequent loans

LITERATURE REVIEW

There is plethora of literature on performance of MFIs across globe, though only few studies have been carried out on the topic related with digital growth of Indian MFIs. The methodologies to study digital sustainability and growth are also fewer. It is seen that without sound digital financial performance the sustainability of these MFIs is not possible.

(Mersland and Strom 2012) The microfinance sector pioneered financial inclusion with its extension of financial services to the unbanked. The growth of sector was rapid across the world especially in neglected rural areas and among women, both novelties in pro-poor banking initiatives at the time.

Abdul Qayyum and Ahmad M (2006)2, in their study on "Efficiency and sustainability of microfinance institution in South Asian" has aimed to identify the most efficient/best practice MFIs in south Asian region. The study has evaluated the efficiency of 85 MFI from south Asia shared as follows: 15 Pakistanis, 25 Indians, and 45 Bangladeshi MFIs. Data envelope analysis has been used to analyze the efficiency of microfinance institution in these selected South Asian countries.

Rangarajan, C (2008) reviewed the theoretical and overall performances of different financial inclusion programs like SHGs, SBLP, BCs, RRBs, Local Area Banks, MF-NBFCs, Use of PACS and other Primary Cooperatives as Business Correspondents, Technological applications in the field of FI, Micro-Insurance etc. The report assessed the region wise indebted and non indebted conditions of household. The committee recommended that Product Innovation like savings, credit, Insurance, further Financial Inclusion Promotion and

Development Fund, Deepening the outreach of the microfinance programme is an effective way in reaching out to the excluded segments

The role of financial development in economic progress goes back to **Schumpeter's (1912**) "Theory of Economic Development" and has been examined both theoretically and empirically in past studies. These studies investigate the evolution of finance systems and their role in economic development.

Sa-Dhan. (2015) pointed out that Indian Microfinance sector is highly dynamical with exponential growth and taking its right place in the financial inclusion. It was evidenced by the reality of eight MFIs received RBI's sanction for Small Finance Banks and one MFI has already started working as a universal bank. At the policy level, the Government of India launched lending banks named Micro Units Development Refinance Agency (MUDRA) by the Union Finance Minister in 2015 which would be the refinancing and regulatory organization for micro-enterprise financing. This would strengthen and stabilize the sector. Furthermore, this study did a detailed analysis on MFIs and SHG programs.

OBJECTIVE

The broad objective of the study is to analyze the challenges and issues of digital microfinance in India. However the paper also throws some light on the following issues:

- Digital Microfinance its present context, Challenges faced by the MFIs.
- Operational mechanism and concept of Microfinance.
- Digital growth of microfinance industry.

SIGNIFICANCE OF THE STUDY

Present take a look at advanced an information of modern-day & accurate issues in Microfinance developed a knowledge of the software of microfinance in poverty advanced capabilities in referring to the theoretical views and debates about microfinance to situations delivery mechanism of microfinance. The article defines diverse terminologies which consist of innovation idea, microfinance and digital development.

RESEARCH METHODOLOGY

The present study is a descriptive study. This study is mainly based on secondary data only. Secondary data is collected from various sources like journals, magazines and reports. So trueness of the data depends on the trueness of the source.

ANALYSIS OF VARIOUS ASPECT OF MICROFINANACE

Digital tools for MFIs

Mobile Device: Quite soon, the cell service use has risen in India. According to available statistics, the industry of mobile banking in India has crossed one billion in February 2015. MFI are utilizing numerous handheld devices such as iPads to render their interface interactive. Data base of such students would be without any mistake. There is also the method of data transfer using Smartphone applications. Many citizens may apply for a loan without needing to go through tedious process. By doing this, finding a prospect is easy.

Micro ATM: There is a rise in the probability of managing currency because of less human interaction with cash. It is not possible for any financial company to set up branches and ATMs in every city district in Singapore. The Specific Identity Authority of India (UIDAI) was established in 2012 to handle the increasing population of Indians. Biometric ATMs combined with biometric technologies for authentication are adding to the growth of micro finance. A biometric micro-ATM interface which is named "Aadhaar Enabled Payment System" enables customers of MFIs to withdraw money at close their ATM computer.

Personal Digital Assistant: PDA was used to know knowledge quickly and there are multiple apps, which will make your life simpler. In determining the financial lives of the Microfinance Organizations, MFI success is a significant parameter. The efficiency of the financial intermediation have been enhanced thanks to the introduction of computerize data management system.

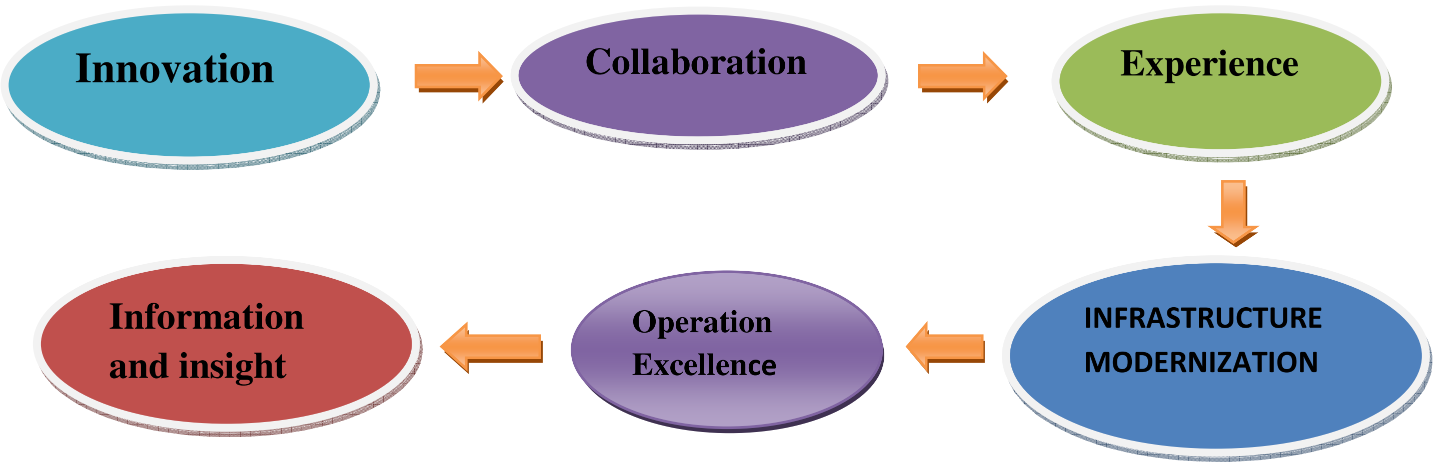
Management System: There is a way to monitor success and follow-up arrangements with repayment plans of the customers. The system of technology has revolutionized how MFIs perform their duties. Social Media: Social media has provided MFI with large number of clients and also provides the great forum to host discussions among MFI.

Internal Network: Intranet plays a crucial role in ensuring knowledge flow between neighboring organizations. It will use the internet to exchange details and expertise through different platforms. POs Terminal: POS terminal may also be used for credit transactions. **Mobile Wallet:** Mobile Applications like Paytm, Mobikwik, Freecharge, Bhim are launched in India where they are offering cash-transfer services to their customers. The FDIs will use this as their streaming media.

Problem faced by MFIs due to non digitalization

- Managing repayments on loans calls for strong focus in cash management. The banks receive credit entry from consumers and bring it to the closest branches. There is a major possibility of manipulation of the IFIs.
- Handling of high currency, recovering of debt, keeping of cash and dealing with deposits and withdrawals requires a time gap in the operations. In this way, it needs long-term preparation and work. All of these kinds of operations also tend to have operating expenses
- Diversification may not have been feasible under a conventional Multi-purpose cooperative or participating bank. These smaller MFIs are supposed to only offer low cost credits to their consumers in order to survive.
- There is a long procedure for acceptance of financial loans and it requires 15-20 days. Customer records could be incomplete. Therefore, the method will be long and require a lot of time.
- It is reduced in degree owing to the lack of digitization.

Conceptual Model for digitalization



What technology they are using?

Every MFI we interviewed is implementing digital technology in some part of their business. The scope of these implementations ranges from introducing focused productivity apps to wholesale replacement of CBS and data platform. Technology implementation is a permanent activity and cost center in all MFIs. Interestingly, most of the implementations that are generating measurable value were developed and grown to proof-of-concept scale as MVPs on traditional and simple technology.

How are they managing the change?

The challenges of change management are a recurring theme in studies and commentary about digital transformation initiatives in all industries, and especially in financial services. In some of the first programs that funded digital transformation in MFIs, we can see some clues to MFI struggle to convert significant investments in technology into measurable value. The fact that most MFIs we interviewed do not yet claim measurable value creation in their initiatives is another clue. The case MFIs provide lessons about how they managed the changes in their initiatives and the importance they ascribe to getting this part right in a digital strategy.

How are they measuring the value?

One of our most significant findings is how much more MFIs could be doing to measure value creation associated with their digital implementations. Most of interviewees reported that their implementations were at too early a stage to measure value creation metrics. In general, we found significant space for MFIs to sharpen their definition of value and develop the practice and metrics to measure it. We feature the best of what we found in the case studies and discuss the benefits to be gained by improving this practice. The featured MFIs represent diverse approaches, time in operation, and learning opportunities that showcase how MFIs can create a measurable customer and business value through digitization.

SWOT ANLYSIS ON DIGITAL GROWTH OF MICROFINANCE

STRENGTH

- The scope of customer not limited by geographical location.
- Got the opportunities for network expansion and cooperation.
- Reduced operational cost
- Flexible because transaction process could be any where
- Time efficiency because product search and transaction could be done more quickly.

WEAKNESSES

- Consumers not always could see the real product.
- There was waiting time for consumers.
- Market uncertainty
- High risk of fraud
- Acceptance rate in rural area is low.

OPPORTUNITIES

- Better outreach
- Innovative and fast payment mechanism.
- People are now moving towards digitalization

THREATS

- Troubles while using digital platform.
- Changes in government policies.
- Error in banking systems

FINDINGS

- The method of updating modern financial instruments would not be simple as it would entail to reassure consumers about making over technical switches in daily transactions. Infrastructure growth is needed for MFI's to be more digitalized. For this function, there is a need of providing internet access such that the applications can be used routinely. There is a great need to develop the infrastructure since it is really weak in rural and remote regions.
- The increased collaboration between commercial banks and fintech startups also intensifies the competition. These new partnerships allow banks to overcome the earlier drawbacks of cost and informational asymmetry to better target previously left out clients. Though the indirect competition is not intense at the moment, digital innovations are fast blurring the boundaries within and outside the market.

- Digital technology helps boosts financial inclusion and achieving the SDGs. Digital financial payment products – a mobile phone linked to a bank account – allow people to get money from far-flung relatives and friends in a crisis, reducing the odds they'll fall into poverty. There's growing evidence that digitizing payments —for health, education or other social safety nets – yields big benefits for individuals, in addition to improving efficiency for governments and aid agencies by reducing transaction costs and leakage

CONCLUSION

The microfinance models in India have traditionally followed a feet-on-street approach to undertake various operations such as customer on boarding (know your customer [KYC]), loan disbursal and repayment collection. Following this approach, the Indian microfinance industry has provided a wide array of employment opportunities to almost 120,000 individuals, operating with an extensive network of more than 14,500 branches, as of 31 March 2022.8 Banking correspondents (BCs) engage with the unbanked and underserved segment at the last mile, typically in terms of faceto-face interactions, to promote awareness of financial offerings and incorporate trust. Furthermore, the microfinance industry can leverage technology to personalise offerings and interactions with its clients. The global market size for the microfinance industry is estimated to grow by USD 122.46 billion from 2021 to 2026 at a compound annual growth rate (CAGR) of 11.61%.11 Rapid adoption of technology has been one of the primary contributing factors for the growth of the microfinance sector. Moreover, global development agencies and several governments have been making concerted efforts to alleviate poverty by enabling financial inclusion products, such as micro-credits, to the underserved segment. The microfinance sector is on the cusp of a transformation, worldwide. The integration of digital technologies is pushing the sector to a transformation which might affect its fundamental characteristics and organizational processes. While the integration of technology can promote development through innovation, efficiency and inclusion, the path ahead for the sector may not be smooth.

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