A Study of ICT Adoption and its Impact on Selected MFIs of Gujarat

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Abstract

The microfinance sector is considered as an important vehicle for financial inclusion in developing countries, including India. Despite significant efforts by various microfinance institutions (MFIs) and Government of India, microfinance penetration has grown little over 50% of the Indian population. Information and communication technology (ICT) has changed the scope and functioning of the microfinance industry and can play a catalytic role in its pursuits of social objective and sustainability. This paper presented a brief overview of the microfinance sector in India. It focused on the role of ICT in strengthening MFIs' operations. The Government of India's role in digital enablement was also discussed. Primary research was also conducted with the aim to study the adoption of ICT and measure its impact on the performance of selected MFIs of Gujarat State. It was found that ICT has been largely adopted by the MFIs and it was found to be beneficial for the core functions of the selected MFIs. However, there were some constraints in the adoption of ICT that need to be addressed.

Keywords : financial inclusion, ICT, microfinance, MFI, JAM

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Individuals of the low-income group are mostly devoid of the organised financial sector. Due to this, poor people are compelled to accept unorganized, community-based financial setups for their varying requirements. After independence, the Indian government started emphasizing on improving access to financial markets to fight against poverty. Based on feedback of All India Rural Credit Survey in 1950s, the government initiated measures to review the cooperative structure. This 'social banking' intervention paved the way for the establishment of Regional Rural Banks and National Bank for Agriculture and Rural Development (NABARD) in 1975 and nationalization of banks in 1969 and 1980. During the initial plans, lead was given to state-run banks to increase the outreach to poor with targeted low-priced loans (Reddy, 1999). However, they failed to shatter the presence of local moneylenders (Morduch & Rutherford, 2005). Provision of financial services to the excluded section can lead to attainment of poverty reduction. Moreover, the objectives of improved healthcare, hygiene, and education can be sustained with the increased earnings of households and control of financial resources (Littlefield, Morduch, & Hashemi, 2003). The study was conducted in September 2019.

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