CONCEPTUAL RESEARCH PAPER

COMPUTING TRENDZ Vol X No. 1,2 , January - December 2020 Print ISSN : 2230-9152, Online ISSN 2456-138X

A Study on the Role of E-Governance in Micro-Finance Based Institutions in India

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ABSTRACT

While the majority of microfinance institutions provide lending, microloans can range in size from Rs. 5000 to Rs. 125,000. Many banks now provide additional services such as checking and savings accounts, micro-insurance products, and financial and business education. The ultimate purpose of microfinance is to enable underprivileged individuals to become self-sufficient. Electronic governance, often known as e-government, is assisting Indian citizens in a unique way. Governments are now playing a crucial role in communicating their schemes and services to citizens through online channels where users can find detailed information, thanks to the use of Information and Communication Technology (ICT) at all levels of government in order to provide services to citizens. Prior to microfinance, governments backed agricultural banks and enacted legislation forcing commercial banks to use this e-governance method to send a portion of credit to specific economic sectors. This article attempts to investigate the purposes and prospects of e-governance, as well as its depth. The study is entirely descriptive in nature, and it is backed up by secondary data gathered from various sources such as online journals, publications, and newspapers. The goal of this research is to determine the impact of e-governance in microfinance, assess the role of government in the field of microfinance, and categorise government interventions in microfinance development. This research attempts to investigate the role of e-governance in disseminating information, schemes, and supplementary services to Indian villagers, as well as the extent of penetration of government models and their effectiveness.

Keywords : Role of E-Governance, Microfinance based Institutions, awareness about schemes

Computing Trendz (2020). DOI: 10.21844/cttjetit.v10.i01.17092

Introduction

Microfinance, often known as microcredit, is a sort of banking service that provides financial services to unemployed or low-income individuals or groups that would otherwise be unable to obtain them. While most microfinance organisations focus on lending—microloans can range from $100 to $25,000—many banks also provide additional services such as checking and savings accounts, micro-insurance, and financial and business education. The ultimate purpose of microfinance is to enable underprivileged individuals to become self-sufficient. Because most people who are poor or have limited financial resources do not have enough income to do business with traditional financial institutions, microfinance services are provided to unemployed or low-income people. Despite being denied access to banking services, those living on as little as $2 a day strive to save, borrow, obtain credit, or insurance, and make debt payments. As a result, many poor people seek assistance from family,

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How to cite this article: Kumar, A., Srivastava, A., Routh, A. (2020). A Study on the Role of E-Governance in Micro-Finance Based Institutions in India. Computing Trendz 10(1&2): 8-15

Source of support: Nil

Conflict of interest: None

friends, and even loan sharks (who frequently demand excessive interest rates). Microfinance, which is described as "a lending methodology that leverages effective collateral substitutes to distribute and recover short-term, working capital loans to microentrepreneurs,"1 has proven to be an effective strategy for poverty alleviation. Non-government organisations (NGOs) that receive donor funding and on-lend to microfinance clients were the first to create microfinance, and they continue to do so today (often at subsidised interest rates). Governments also play an important role in the microfinance business, whether through setting policies (most commonly regarding interest rates), granting lump sum grants to NGOs or other microfinance institutions (MFIs), or lending directly to the needy. Other key actors in microfinance include credit unions, cooperatives, commercial banks, and small informal groups (self-help groups—SHGs).

Microfinance was envisioned as a complement to both banks, which service barely 5-20 percent of the population in most developing countries, 3 and informal and semi-formal sources of credit for the poor, such as moneylenders. "A lending approach that leverages effective collateral substitutes to distribute and recover short-term, working capital loans to microentrepreneurs" is how microfinance is defined.

About E-governance

Electronic governance, also known as E-Government, is defined as the use of information and communication technology (ICT) at all levels of government to provide citizens with services, interact with businesses, and communicate and exchange information between government agencies in a timely, efficient, and transparent manner. Users can learn more about e-Government, the National Conference on e-Government, GATI e-services, and the awards scheme.

In India, e-government has progressed from the computerization of government departments to programmes that encompass the finer elements of governance, such as citizen centricity, service orientation, and transparency. Lessons learned from prior e-Government programmes have helped to shape the country's progressive e-Government policy. The idea that a programme approach, led by a shared vision and strategy, is needed to speed up e-Government adoption across the various branches of government at the national, state, and local levels has been taken into consideration. This method has the potential to save a lot of money by sharing core and support infrastructure, facilitating interoperability through standards, and providing citizens with a unified image of government.

The National e-Governance Plan (NeGP) provides a comprehensive look at e-Government efforts across the country, bringing them together under a unified vision. A major countrywide infrastructure, stretching down to the most remote of communities, is being built around this concept, and large-scale record digitization is going underway to provide easy, dependable access over the internet. As stated in the NeGP Vision Statement, the ultimate goal is to bring governmental services closer to citizens. "Make all government services available to the common man in his neighbourhood through common service delivery outlets, and assure efficiency, transparency, and reliability of such services at reasonable prices to meet the basic needs of the common man"

Governments (at both national and local levels) can create a legal and regulatory environment that encourages market entry and competition in microfinance. To do this, finance ministries, central banks, and other government bodies should recognize microfinance as a legitimate financial activity within the financial system, rather than a marginal sector or a resource transfer mechanism. The most important contribution governments can make to microfinance is to maintain macroeconomic stability through appropriate monetary and fiscal policies. In the 1990s, volatile inflation in Lao PDR often reached three digits. The resulting need for frequent price changes disrupted microfinance institutions (MFIs) and confused their clients.

Governments can involve the private sector in formulating poverty reduction strategies, and explicitly recognize its leading role in financial sector development, including microfinance. The active participation of the private sector should help to embed microfinance firmly within financial systems, with private and non-governmental actors taking the lead (as opposed to government bodies, such as ministries of agriculture and health, and local authorities)

Governments are involved in microfinance in a number of ways, including influencing regulations for the industry (most commonly regarding interest rates), granting lump sum grants to NGOs or other microfinance institutions (MFIs), and lending directly to the needy. Prior to microfinance, governments backed agricultural banks and enacted regulations forcing commercial banks to allocate a certain percentage of credit to specific industries (World Bank, 2003). Low repayment rates, politically motivated loan write-offs, and the takeover of subsidised loans by rich farmers all contributed to the failure of these attempts. 13 Similarly, government involvement in microfinance may crowd out private sector activity; this is especially true when government programmes charge or enforce interest rates below market, making microfinance unviable for institutions concerned with sustainability, such as commercial banks.

Government involvement has had negative effects in many countries. However, there are best practice examples of government microfinance; not surprisingly, these operations tend to be more market-oriented: Example: Bank for Agriculture and Agriculture Cooperatives (BAAC)14 The BAAC was established in 1966 as a state-owned specialized agricultural credit institution to replace the Bank for Cooperatives which could only lend to cooperatives and suffered from low repayment rates. BAAC, by contrast, lends to farmers, agricultural cooperatives, and farmer associations—and recently began providing non-agricultural loans to farming households (up to 20% of total lending). Dependent for many years on government subsidies, BAAC began to mobilize new funding sources in the mid-1990s. By 1998, savings deposits from the general public and proceeds from bond issues accounted for 60% and 14% of total operating funds respectively.

The form and extent of government involvement in microfinance must evolve as well. Governments may explicitly encourage the change to long-term, market-based microfinance by playing three roles: eliminating unfair competition from governmental institutions, reforming regulations, and strengthening the business climate.

Objective Of The Study

- To find out the consequence of e-governance in microfinance
- To check the role of government in the field of microfinance
- To classify the government interventions in the microfinance development.

Literature Review

By 2001, more than 1,000 microfinance programmes had reached approximately 20 million borrowers all over the world (Granitsas and Sheehan, 2001). Even though these figures are large in absolute terms, they only represent a small percentage of the world's poor. Only 18.4 percent of the poor are estimated to be reached in Bangladesh, one of the most developed microfinance markets; on the other hand, microfinance services in Brazil are limited to 0.4 percent of the poor (World Bank, 2003). The key issue now is to make microfinance a long-term and widely used strategy.

Microfinance will need to "scale up" in terms of its scope (number of people reached), impact (effect on borrowers' well-being), and depth (ability to reach the poorest of the poor). The goal is to make microfinance available to more people than simply the moderately poor, as it has been in the past, including the extremely poor and vulnerable non-poor, and to broaden the range of microfinance products available (CGAP, 2003b).

Deposit mobilisation, according to the increasing agreement, will be required to achieve an order of magnitude change in the scope of microfinance. Reliance on donor or government finances indefinitely is both harmful and unrealistic. The availability of subsidised funds reduces MFIs' incentives to scale up and improve service efficiency (Morduch, 1999). It will be important to have access to funds—most likely the unmobilized savings of the same people targeted by existing microloans. Microfinance's future, according to practitioners and academics alike, rests in creating a well-regulated microfinance environment that allows the poor to access a wide range of financial services while effectively connecting them to the developed economy (Gallardo, 2001).

While a small number of NGOS have transformed themselves into financial institutions (either full-fledged banks or "Tier 2" specialized banks or non-bank financial institutions (NBFIs)), and a small number of commercial banks have entered the microfinance field, the majority of providers are still MFIs dependent on donor and/or government funding. MFIs that are organized as NGOs typically have a low leverage of capital and use one of the lowest percentage of external funds relative to the average amount of loans. This arises due to legal restrictions that do not allow NGOs to raise voluntary deposits or access funds from commercial banks (Gallardo, Outtara, Randhawa, and Steel, 2003). Transformation into formal, prudentially regulated, deposit-taking institutions enables MFIs to access new funding sources (commercial funds and deposits), offer a broader range of microfinancial products, and achieve greater legitimacy in the financial sector *(Rhyne, 2002)*.

Traditionally, banks have shied away from microfinance for a number of reasons. In particular, the high costs of microelending compared to commercial lending, and the absence of credit scoring models have been major factors. In addition, uncollateralized loans are typically classified as risky by regulators, presenting prudential complications for banks. Finally, there may also be political/public relations risks involved if banks charge interest rates high enough to cover the costs of microfinance operations (World Bank 2003). However, the entry of existing commercial banks into microfinance in a meaningful way could bring important advantages, including economies of scale; risk management expertise; physical infrastructure and branch networks; and information, administrative and accounting systems—as well as access to commercial funds, and multiple financial products *(CGAP, 1998)*. Partnerships between banks 7 and

MFIs, NGOs, or self-help groups (SHGs) may prove particularly effective at bridging the gap between today's microcredit practices and a sustainable, commercial future for microfinance.

Between 1992 and March 2003, 39 NGOs in 15 countries transformed into full-fledged banks while roughly another 200 have transitioned into supervised NBFIs (either permanently or as an interim step in becoming a bank).11 By 2003, microfinance provision worldwide was split roughly in thirds between NGOs, microfinance divisions of mainstream banks, and local credit unions and cooperatives (Kresbach, 2003). The shift has been even more pronounced in Latin America where by 2001 commercial banks provided 29% of microfinance; and NGOs that had transformed themselves into licensed financial institutions along with other specially licensed financial intermediaries, an additional 45% *(CGAP 2001)*.

Research Methodology

Research design is partly descriptive, partly exploratory .The data for the present study was collected from different sources. To assess the performance of the microfinance institutions in India, The relevant information relating to role of government in microfinance, government intervention in microfinance etc. were collected from CGAP (Consultative group to assist the poor), Quora, Researchgate, Times of India etc.

Observations and Discussion

This is observed that governments has focused on the developing the microfinance in India. The government launched several scheme to promote microfinance and development of microfinance. MFIs/NGOs source funds from SIDBI (Small Industries Development Bank of India) and make the funds available to MSMEs for their commercial needs. However, for every loan availed, the MFI or NGO is required to make a security deposit with SIDBI as SIDBI offers only secured loans. The amount of security deposit is 10% of the loan amount sought. It becomes difficult for MFIs or NGOs to pay the security deposits for multiple loans due to financial constraints. This is where the Micro Finance Programme comes into the picture.

The Government has launched the Micro Finance Programme in tie-up with SIDBI to provide easy and affordable loans to MFIs and NGOs. The features of the programme are as follows:

- The Government would provide funds to SIDBI, which would then be used as security deposits for the loans issued to MFIs/NGOs. The funds paid by the Government to SIDBI under the Micro Finance Programme would be called 'Portfolio Risk Fund'. SIDBI can then use this fund for security deposit requirements of the loans issued to MFIs/NGOs
- MFIs/NGOs would have to pay only 2.5% of the loan amount as security deposit for the loan and the remaining 7.5% would be funded from the Portfolio Risk Fund paid by the Government
- Funds would be provided by the Government in four years after the Xth Plan and would be released on a half-yearly basis as per the requirement of security deposit by SIDBI
- Interest would be paid by SIDBI to the Government on the security deposit held. The rate of interest would be the same as that paid to MFIs/NGOs on their 2.5% deposit
- SIDBI would be responsible for the recovery of the loan granted to MFIs/NGOs
- When the loan is recovered fully, the

Government's contribution of 7.5% of the loan and the interest earned thereon would be rotated and used for future loans

- SIDBI would also monitor the Micro Finance Programme

Besides providing financial assistance, the Government would also help SIDBI arrange training programmes for NGOs, entrepreneurs, SHGs, etc. to promote MSME growth. These training programmes would be conducted through National level EDIs and SISIs

NABARD has been continuously focusing on bringing in various stakeholders on a common platform and building their capacities to take the initiatives forward. This has resulted in tremendous growth of microfinance sector in India through different approaches like:

- Bank Linkage Program for Self-Help Groups (SHG-BLP)

- NABARD Financial Services Ltd. is a financial services company owned by NABARD (NABFINS)

- Client training and capacity building assistance

- Microbusiness Development Program (MEDPs)

- Programmes for the Development of Livelihoods and Businesses (LEDPs)

- Women SHGs (WSHGs) Promotion Scheme in India's Backward and LWE Districts

Conclusion

Many governments felt that it was their responsibility to provide development finance, including direct lending to the disadvantaged. But experience shows that when governments engage in retail lending to the poor, they almost always do it badly. Although governments are not usually good at lending, they should play an important role to:

- Maintain macroeconomic stability through appropriate monetary and fiscal policies;

- Involve the private sector such that a critical mass of microfinance providers exists in the region;

- Adjust regulatory frameworks to permit all types of financial institutions to offer services to poor people;

- Avoid interest-rate caps that prevent microfinance institutions from covering their costs and operating sustainability;

- Avoid their direct involvement in credit delivery or the management of microfinance initiatives.

Suggestions

The government can help microfinance institutions (MFI) by providing the right regulatory support. The MFI's play a vital role in encouraging savings and lending to the poor to take up small businesses. The MFIs charge higher rate of interest than the banks because their cost of funds is high. They have no access to low cost funds like the banks. So the government must relax the rules to facilitate the MFIs to tap low cost funds both from domestic and foreign sources.

The MFIs also face loan defaults because of duplicate lending- many avail loans from both banks and the MFIs. There should a data base of borrowers to avoid duplicate financing.

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