

# A Case Study on the Role of Digital Intervention in the Success of Micro-Finance through SIDBI-PRAYAAS Scheme

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## Abstract

Microfinance plays an important role in the micro, medium, and small industries in India. SIDBI-PRAYAAS is one such scheme governed by SIDBI to reach the bottom half of the financial pyramid. The current study presented a successful case that highlighted that 6.02% CAGR growth is observed in the businesses of the borrowers who took the facility of the above scheme. In this regard, digital interventions like B-POS and B-Bank have successfully helped borrowers for application, receive, and properly execution of loan repayment till now. The scheme has gained popularity through the collaboration of Patanjali Ayurved Limited, as borrowers could effectively apply the scheme for the growth of Gramin Arogya Kendra. Thus, the present case study has successfully highlighted the effectiveness of the PRAYAAS schemes as well as customer satisfaction through sound digital intervention in the banking system.

**Keywords:** Banking, Microfinance, PRAYAAS Scheme, SIDBI, Blockchain Technology

## Introduction

Poverty is a universal stumbling block. Therefore, addressing poverty alleviation is a difficult and high-priority task for governments all over the world. More than 736 million people were living below the poverty level in 2015 (Kolawole, 2021). Before the pandemic, 10% of the world's population struggled to meet even the most basic needs, including access to water and sanitation, education, and health care (Matta, 2020). Unprecedented reversals in poverty reduction brought on by the COVID-19 outbreak have further worsened due to the growing inflation and the effects of the war in Ukraine. Compared to pre-pandemic forecasts, it was predicted that the combined effects of

these crises would result in an additional 75 million to 95 million people living in extreme poverty in 2022 (Moyer et al., 2022). Considering the worst possible scenario, 2022 might rank second last in terms of the amount of progress made in eradicating severe poverty this century, only behind 2020, when there was a real rise in it (Alfani, 2022; Moyer et al., 2022). By 2030, the revised estimate is for 3% of the world's population to be subsisting on less than \$1.90 per day (Yonzan, 2020). By quantifying poverty, it is possible to determine which of the remedial steps for reducing it are effective and which are not. The measurement of poverty majorly enables developing nations to evaluate the success of their programmes and revise their development strategy in the context of swiftly shifting economic conditions. The best possible way to reduce poverty is through the creation of jobs. MSMEs play a crucial role in this regard, as they help create jobs and economic growth, and ultimately empower youth, women, and the poor (Agyapong, 2010; Asare et al., 2015). Not only this, but taxes paid by MSMEs to the government also account for growth in the GDP of the nation (Agyapong, 2010; Singh & Paliwal, 2017; Susanti & Widajatun, 2021). The MSME sector has developed into a symbol of the ability of the Indian entrepreneur to innovate and develop solutions despite the hurdles, with a consistent growth rate of over 10% over the past few years. The importance and role of the MSME sector as the main engine behind India's assertive vision of becoming a dominant global economic power cannot be overemphasised. It is the country's largest employer, creating more than 111 million jobs through 63.38 million businesses, contributing over 28% of the nation's GDP, and accounting for more than 40% of all exports (RBI, 2019). Thus, it should be appreciated that the most sustainable development approaches are to reinforce

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the Micro, Medium, and Small Enterprises (MSMEs). But according to previous reports, several constraints could hinder finance in MSME sectors (Muliadi et al., 2020; Tambunan, 2020; Wijaya et al., 2017; Zamberi Ahmad, 2012). There are numerous restrictions on MSME financing despite numerous policy measures and laws because the Indian Banking System is still small in comparison to the rising debt demand in this industry (Choudhury & Goswami, 2019; Khatri, 2019). MSMEs are considered high-risk borrowers by the banks because they have limited capital and insufficient assets. This industry is extremely susceptible to changes in the economy and market. In this industry, there is also a concern for the health of the units. MSMEs often have less publicly available information than large companies, making them opaquer. As a result, it becomes challenging for banks to evaluate the creditworthiness of MSMEs, which can discourage lending and cause lenders to substitute a higher demand for collateral for the absence of information. Indian MSMEs are unable to obtain timely and sufficient financing as they also lack collateral. Inadequate bank financing in this industry is a result of information asymmetry. The reported data differs from the actual sales and profitability figures because of the reliance on cash transactions. This discrepancy results from the absence of documentation for a significant number of small-ticket cash transactions. Because of this, MSMEs are eligible for a loan less than is necessary. Furthermore, MSMEs find it difficult to obtain timely and sufficient credit due to high transaction costs and poor profits, a lack of product innovation on the part of businesses, and the limited appetite of financial institutions for risk (Khatri, 2019; Muliadi et al., 2020; Mund, 2020). Another element in this market that makes bankers reluctant to make loans is the NPA. NPA data from June 2018 to June 2019 show a year-over-year increase rate of 12 percent in MSMEs vs 10.8 percent in large businesses. These limitations of MSMEs may be solved through digitally enabled microfinance schemes (Finezza, 2023; Singh Jaswal Associate Professor, 2014; UNESCAP, 2022).

Microfinance encompasses a variety of financial features such as credit, savings, insurance, mortgages, and retirement plans, all of which are available to even those who are excluded from mainstream borrowing and saving options since the transactions are in tiny amounts (Jiang & Hu, 2020; Sengupta & Aubuchon, 2008). Microcredit or microlending, which is the provision of small unsecured

loans to people or organisations to start or expand companies, is the most used microfinancing element (Jiang & Hu, 2020; Shaik Mohammed & Waheed, 2019; Vassallo et al., 2019). By promoting economic growth through entrepreneurship, microfinance strives to reduce poverty. Millions of the world's poorest people now have access to cash because of the availability of microcredit, which has enabled the availability of billions of dollars in small loans. Microfinancing has expanded and allowed a wave of foreign financial resources to enter the market. The Grameen Bank, whose founder Mohammad Yunus also won the Nobel Peace Prize in 2006 for founding a microcredit programme in Bangladesh, is arguably the most well-known microfinance institution (Sengupta & Aubuchon, 2008). The Grameen Bank has grown to 37 countries over more than 30 years and disbursed \$9.1 billion in loans. Unsurprisingly, 97% of Grameen Bank's customers are women. Lending to the needy is now seen by thousands of microfinance firms as an opportunity to succeed while doing good (Sengupta & Aubuchon, 2008; Shaik Mohammed & Waheed, 2019). Microfinance has developed into a promising endeavour globally with several stakeholders. One such noble scheme applied by the Small Industries Development Bank of India (SIDBI) is the SIDBI-PRAYAAS scheme. In collaboration with financial and nonfinancial intermediaries, the programme provides women and microbusiness owners at the base of the pyramid with credit up to Rs 5 lakh loan at a competitive rate. According to SIDBI, a specific fund of Rs 1,000 crore has been set aside for the programme to offer loans for livelihood activities at interest rates not exceeding 13% (The Hindu, 2021).

In this current study, we discuss a case study of micro-lending to MSMEs in Pan India under the PRAYAAS scheme of the Small Industries Development Bank of India (SIDBI). As a pilot run, SIDBI tried to reach out to small enterprises by lending a total amount of INR 5 Crore. This was facilitated by the robust digital intervention by Patanjali Ayurved Limited for due diligence and monitoring (Patanjali Ayurved, 2023).

Small enterprises that are involved in the dealing of products of Patanjali Ayurved Limited (PAL), in rural areas, are known as Grameen Aarogya Kendras (GAK) and are mainly targeted for the allocation of loans. The purpose of the setting of GAKs is to Vocal for local products and the creation of Rural Employment. PAL aims to promote the Swadeshi product and sales through

the establishment of a retail outlet known as Gramin Kendra; these Kendras are allotted to residents for self-employment. At present, GAKs are located in Pan India. The eligibility for availing of the loan was monitored through digital intervention via the monitoring of the sales and purchases of the individual enterprises using a given device.

The success of the microlending scheme was measured after complete loan disbursement to the different borrowers through a survey-based study in September 2022. Which started in February 2022. The B-POS device with the B-BANK ERP software was utilised to understand the eligibility for loan approval based on its sale inventory for existing GAK owners (pre-distribution). Therefore, the main objectives of the present study are to determine the financial profile of the borrowers and the PAL profits. To understand customer satisfaction in loan processing and receiving. Also, to determine the overall benefits due to the use of a digital intervention offered by PAL.

## Research Methodology

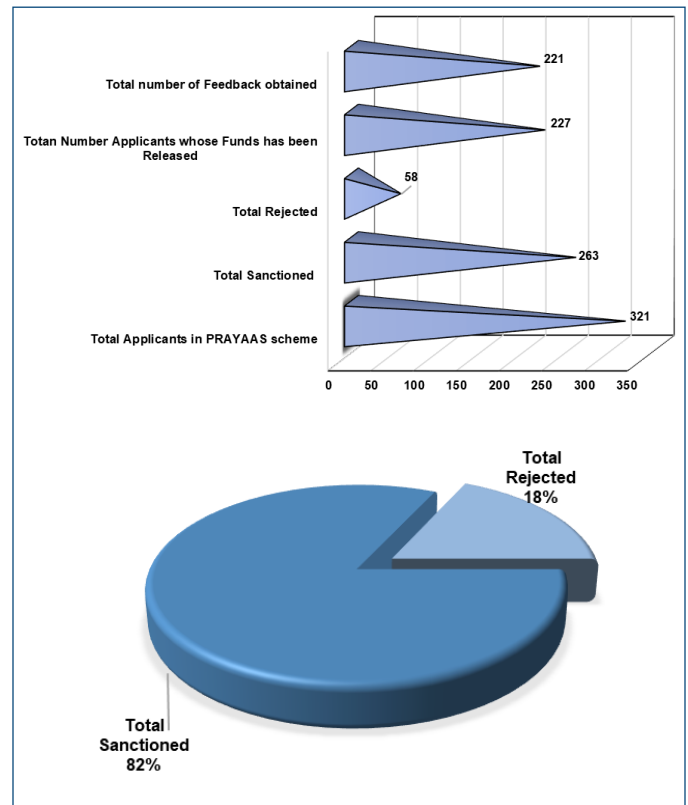
The study is based on primary data obtained from the loan receiver. The questionnaire contained multiple questions to cover demographic, economic, and satisfaction-related topics. The entire survey was completed through telephone conversations with the borrowers within 1 week. The answers to the questions were noted down and those questions where the respondent did not answer were marked as “not answered/others/not known, etc.” to maintain parity. The results obtained were expressed in the form of percentages in a graphical format (Balkrishna et al., 2023).

## Results and Discussion

### Summary of Borrowers

The survey results showed that the GAKs who were allocated loans covered 17 states in India and could reach out to ventures that were in a financial crunch but could prosper due to the aid provided by SIDBI. The initial number of loan applicants under the SIDBI PRAYAAS scheme was 321, who were selected for their eligibility for loan sanction. Stringent screening criteria were used after which loan was allotted to 263 applicants and 58 were rejected as they did not meet the criteria. Out of

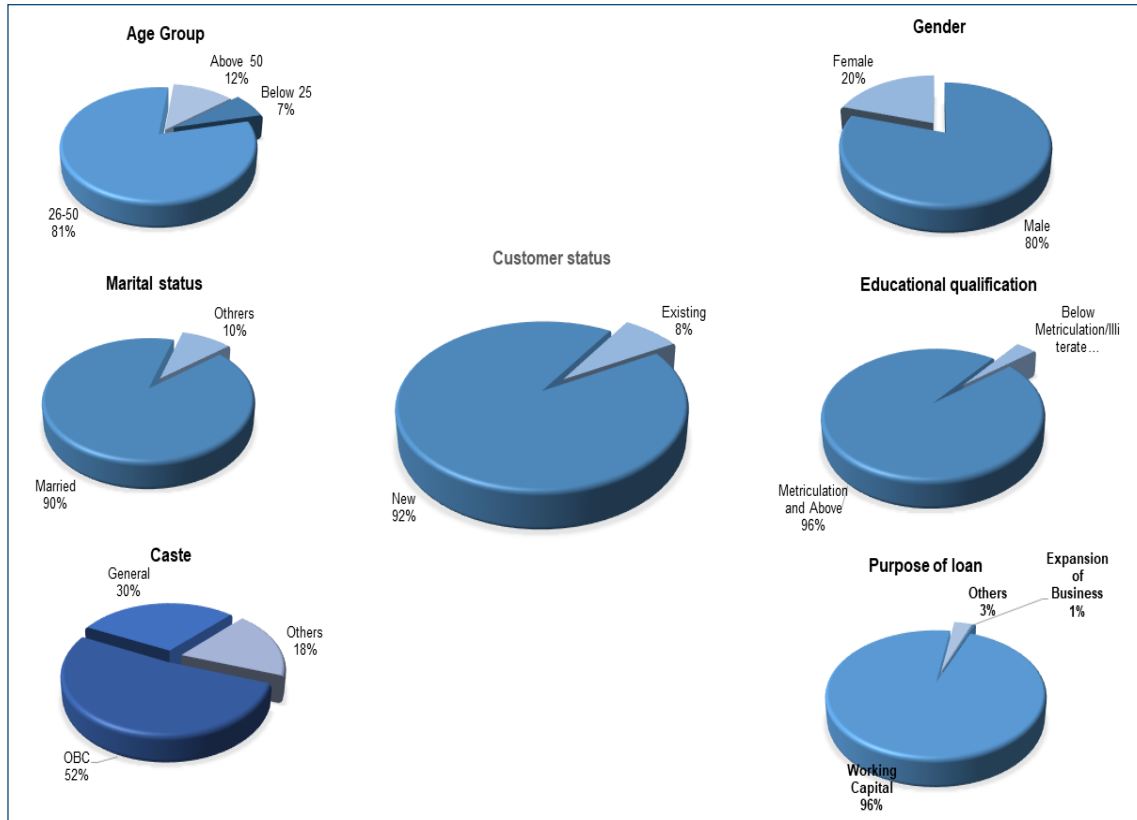
the 263 eligible borrowers, the loan amount had already been transferred to 227 borrowers of whom 221 or 97.3% responded to the telephonic questionnaire-based survey. The applicant numbers in different categories were represented graphically in Fig. 1 below:



**Fig. 1: Summary of the Applicants with Conversion Rate**

### Demographic Data of Borrowers

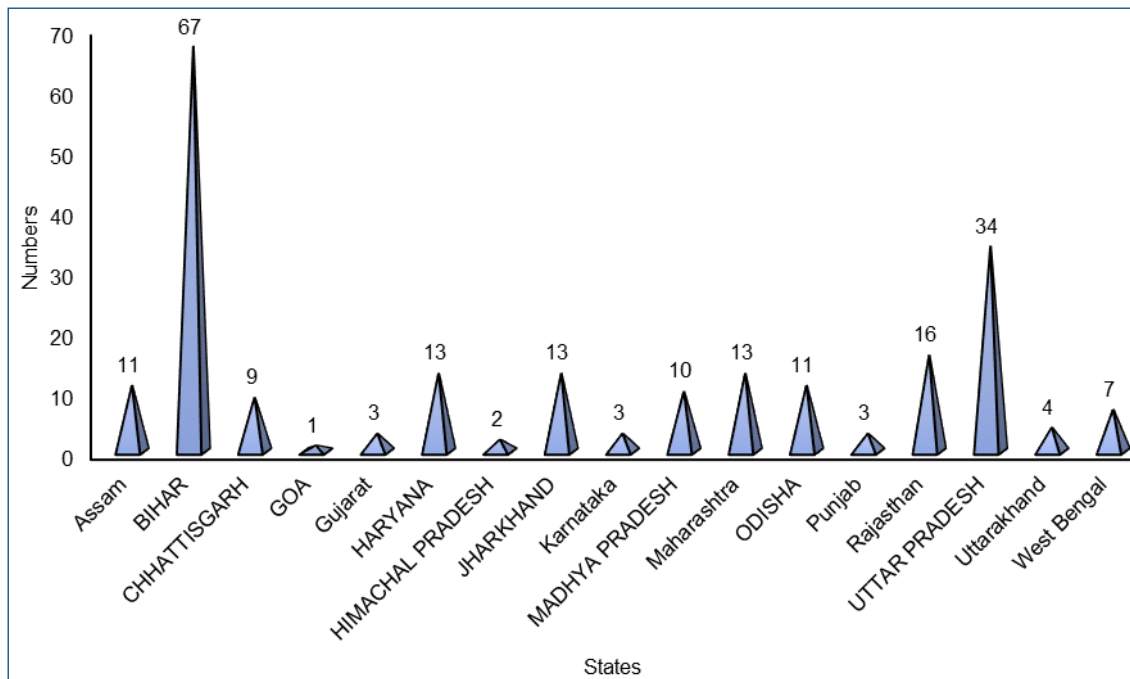
Demographic data obtained from the participants showed that 80% of the borrowers were male, of which 90% were married. The minimum qualification of 96% of the applicant was matriculation of which some had a higher qualification. With regards to the age group of the borrowers, 81% belonged to the middle age group, 7% were below the age of 25 and the rest (12%) were above the age of 50 years. From the answers, it was found that 92% of the borrowers had taken loans for the setup of the new GAK while 8% had taken loans for the existing GAK for its expansion. The reachability of PAL to backward classes in rural areas was proven by the fact that 52% of the borrowers belonged to the OBC class and 18% were SC/STs. The demographic distribution of the borrowers is described in Fig. 2.



**Fig. 2:** Description of the Demographic Profile of the Borrowers

In support of this, the reachability of the loan sanction to 17 out of 28 states further strengthens this fact. The

number of applicants from different states is represented below in Fig. 3.



**Fig. 3:** The Number of Applicants from Different States

### The Financial Profile of the Borrowers

As for the scale of borrowing, 77% of the borrowers had taken loans up to 2.5 lakhs and the rest of the borrowers (23%) had taken loans in the range of 2.5 to 5 lakhs. Most of the borrowers were new and took loans to initiate their venture, while the rest of the 8% of the borrowers took loans for the expansion of their existing GAKs, which had been running for more than 5 years. Of the borrowers, 59% had not taken loans previously, while the remaining

20% had availed of a loan from different sources and for different purposes. 21% of the respondents chose not to answer this question. Of the borrowers, 2% had declared a mortgage, while 75% did not, and the rest chose not to respond to the question. Of the total borrowers, only 10% had credit cards of which 85% had single cards and the remaining had more than one. A certain fraction (58%) of the borrowers who had a credit card had loans attached to the card and were paying EMI through that. The financial profile of the borrowers has been summarised in Fig. 4 below:

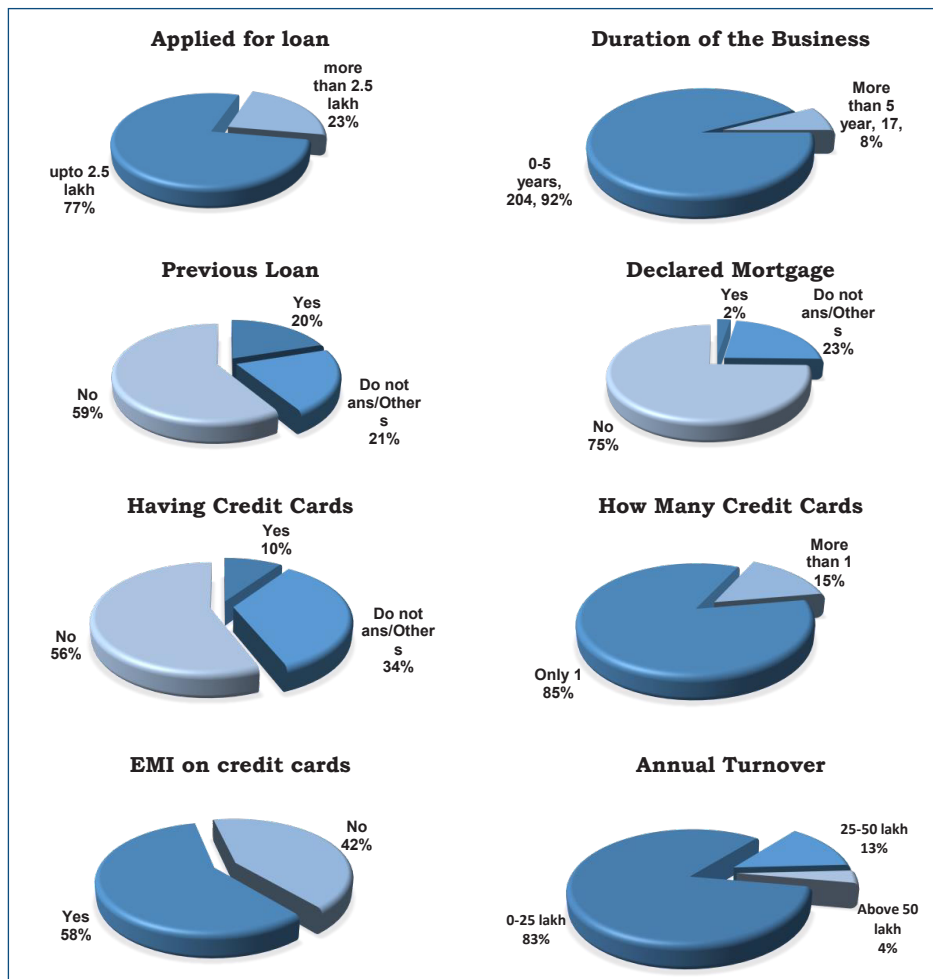


Fig. 4: The Financial Profile of the Participants

### Effectiveness of Microlending on the Financial Growth of Borrowers

The disbursement of loans to the borrowers is expected to bring about financial growth for the borrowers by increasing sales. The average sales of all GAKs who had availed of the loan had been tracked using the B-POS device, and the

change for the period from February 2022 to September 2022 was plotted and is shown in Fig. 5 below. The results obtained show a good response to the financial growth of the borrowers during the said period. GAK sales increased by 59.68% with a CAGR of 6.02% after loan dispersal. Thus, it was evident that the allotment of loans to GAKs significantly impacted their financial growth.

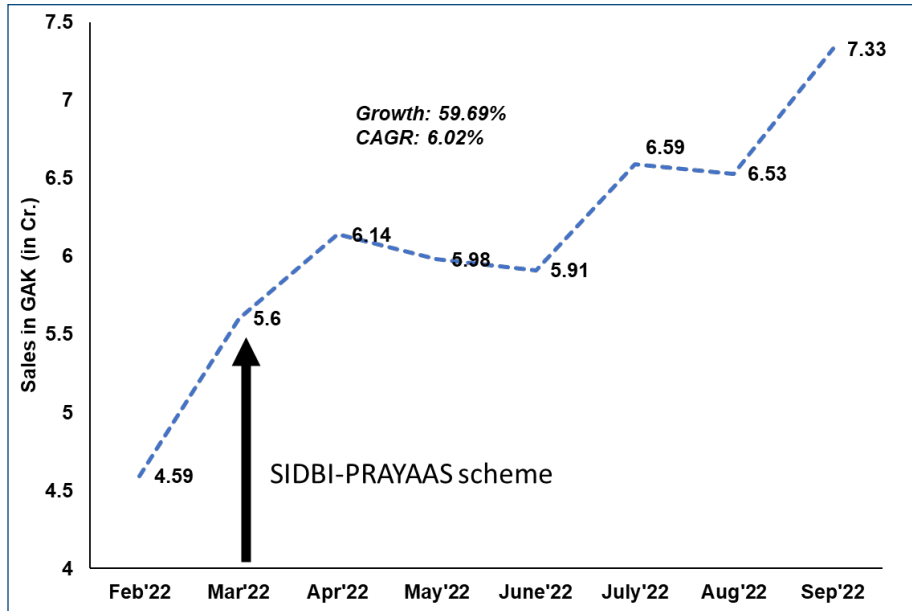


Fig. 5: Effect of the Financial Growth of GAKs

### The Impact of Digital Interventions

The success of the scheme lies in the robust digital interventions for monitoring the borrower’s pre- and post-disbursal of the loan. This was dependent on the reachability of the network of PAL as well as on the devices and software that had been utilised for sales and inventory management. The B-POS device helped in the

management of inventory and tracking sales through the use of the B-BANK software. The benefits of the loan sanction process, verification of eligibility, and approval were analysed from the answers obtained for certain questions. The summary of the results to determine the level of satisfaction due to borrowing through the digital intervention of PAL has been summarised graphically in Fig. 6 below:

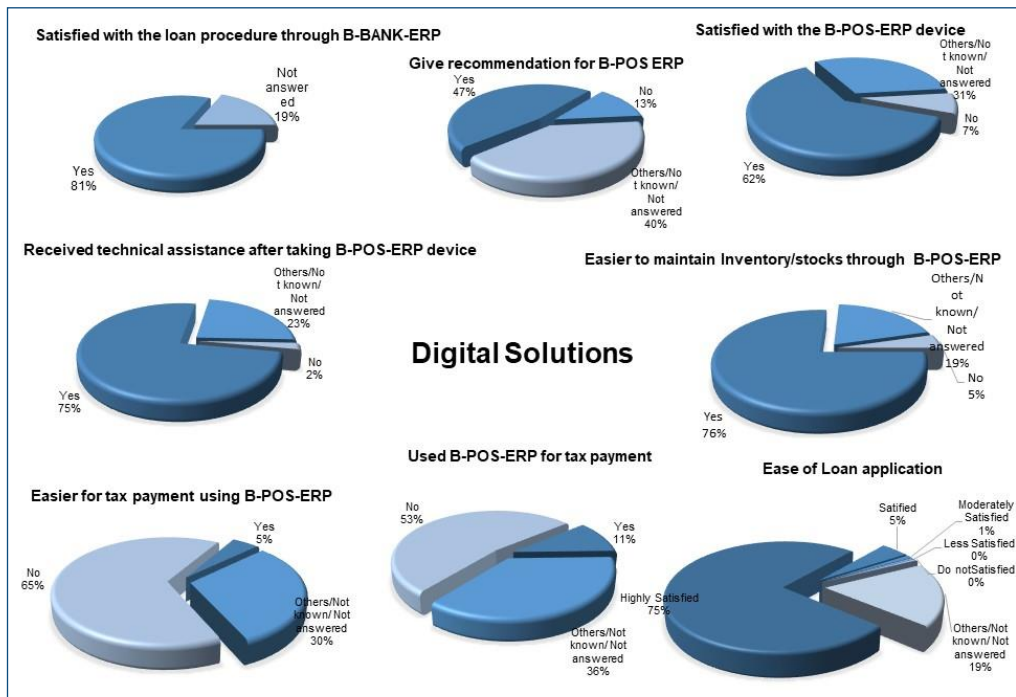


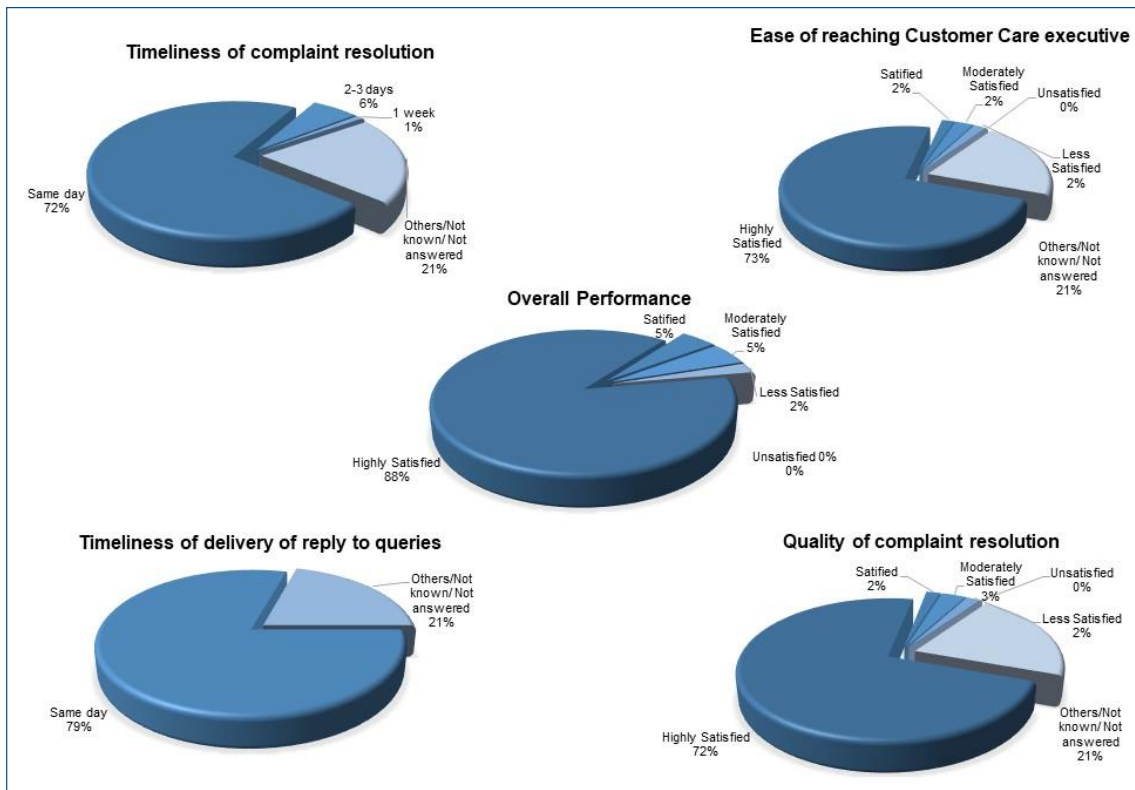
Fig. 6: Summary of Factors Showing Satisfaction of Loan Borrowers

As per the results obtained, the majority of the customers (81%) were satisfied with the loan procedure through B-Bank ERP. Similar kinds of positive results were also shown in the case of the utility of the B-POS-ERP machine (62%). As a result of this, 47% of the customer were willing to recommend using the B-POS-ERP machine. The reasons could be several, such as the ease of maintaining inventory stocks through the above digital intervention, as agreed with by 76% of the customers. In addition, 75% of the customers had received technical support regarding the utility of the machine. Although only 11% of the customers were using B-POS ERP for the tax payment which could be because only 5% of the

customers felt easier to pay tax using the system. This is an accountable matter, and further technical intervention is underway to ease the matter. The general loan application procedure through the digital intervention proved to be highly satisfactory by the majority (75%) of the participants involved in the feedback process.

### Overall Review of the System

The overall review including the effectiveness of the customer care executive in giving resolution to the constraints, the time of delivery of the resolution, etc. has been given in Fig. 7.



**Fig. 7: Overall Review of Satisfaction with the System and Related Support**

According to the above analysis, the majority (73%) of the participants were found to be highly satisfied with the customer care executive as they experienced ease in reaching customer care executives. Among the participants, 72% agreed that they obtained a resolution from a customer care executive on the same day. For other queries, 79% of the participants also experienced same-day resolution. In addition, the quality of the resolution was not compromised. 72% of the applicants were highly satisfied with the quality of complaint resolution. Thus, in

general, 88% of the participants are highly satisfied with their overall performance. The reviews above could easily reflect that customers are satisfied with their business operations under the PRAYASS scheme. Also, it should be noted that our reach has extended up to 17 states and is continuously expanding. The biggest win-win situation due to the digital solution is that to date there has not been a single defaulter in the repayment of EMIs. This can be accredited to the robust digital monitoring done by PALs digital intervention systems like B-POS-ERP

and B-BANK-ERP. The loan borrowers were chosen in such a way and verified through the network that the right number of eligible people were chosen without defaults.

## Conclusions

The outcome of the survey could highlight the following points:

- During the interaction with the GAK aspirants, it was observed that all households had a bank account, Adhaar, and Mobile. All the GAKs were having mail ids which meant that they were well-versed in technology and aware of the financial inclusion concept.
- According to the study, the MFI sector had a tremendous scope. During Q1 of the current financial year, the sector had seen a growth of 80% (MF IN) Approximately 45830 Cr. loans were disbursed during Q1 2022 against Rs 25503 Cr Q1 2021.
- There has been a sea change in the financial services market. Internet banking, Mobile Banking, UPI, Adhaar Enabled payment systems gained popularity, and there has been a paradigm shift from Brick Mortar Banking to Digital platforms. The pandemic created new opportunities in the field of the financial market and accelerated the pace of digitalisation.
- The entire process was through an App. Here the client did not need to visit any bank branch or go through the cumbersome process of providing KYC to banks. In place of completion of an application and waiting for disbursement for almost 1 to 2 months, in our scheme, the sanctions were made within 2-3 days and fund disbursement took 5 to 7 days to reach the ultimate beneficiary. This involved minimum paperwork with a short turnaround time.
- All regulatory guidelines were strictly adhered to and RBI guidelines on micro lending were compiled in true letter and spirit, transparently.
- The scheme was launched in May 2022 and there was not even a single default. All clients were informed about the scheme details and due care was exercised for the loan recovery process.
- Approximately 38 women beneficiaries were sanctioned and disbursed loan amounts ranging

between 50000 to 500000 Lacs, a move towards women empowerment.

- The interior rural areas of India were contacted and people from lower strata in a society such as OBCs were supported to lead a better life. Under this scheme, 135 OBC caste people have received financial help, so they can start their existing GAK to improve and improve their lives.

It can be convincingly recognised that microfinance is the cornerstone of the Indian economy and its utility has been well proven in the socio-economic scenario. In addition to this, the transparent monitoring and due diligence system will allow greater tax payments by enterprises to strengthen the Indian economy.

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## Conflict of Interest

None declared.

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