Microfinance is the provision of small financial services to poor people. The movement, as we see it today, started with Microcredit, the provision of loans to poor people, in the 1970s, but forerunners have been around since Jonathan Swift started funds to provide loans to poor people in Ireland in the early 1700s (Hollis & Sweetman, 2004). Nevertheless, despite the high marginal productivity of people with little capital, capital did not flow from rich people in rich countries to poor people in poor countries in the form of loans till recently owing to the high transaction costs associated with asymmetric information (Armendariz & Morduch, 2005; Ashta, 2009). Microcredit solved this problem to some extent through various incentives such as group lending, staggered lending, incremental lending, weekly loan repayments, innovative collateral forms and many unique practices. Yunus indicates that such an access to capital was sufficient for large number of poor people to become entrepreneurs and escape dire poverty (Yunus, 2003).

The movement has been growing at the pace of about 30% per annum, indicating that unmet demand is huge. New services are being offered including notably microsavings, microinsurance, micro-remittances and transfer payments. The cost of microcredit, nevertheless, remains high owing to the need for processing millions of transactions of very small amounts with poor people. A recent study (Rosenberg, Gonzalez, & Narain, 2009) estimates the cost of credit at around an average of 28%, although lending rates may vary from 10% to as high as 100% depending on the country, its inflation rate, customary practices, and other institutional factors. Although these rates are significantly lower than rates charged by informal moneylenders which could vary from (50% to 1000% and higher), they are still high compared to commercial rates charged by bankers to rich people. The key component of the interest rate structure which seems to be difficult to reduce is operating costs.

It is hoped that technology may be a solution, especially information and communication technology. This special issue initiated by IGI Global is to draw the attention of the electronic commerce community to help in this task. It is a part of a global project of a book (Ashta, in press) and two special issues of this Journal dedicated to these issues, of which this issue is the first.

Very broadly, technology can help at least in three areas. The first is Management Information Systems. By incorporating suitable information systems and standardization, the operating costs of the Microfinance Institution (MFI) can be reduced. Once again, the many problems include the financial cost of introducing MIS in small burgeoning organizations
which are expected to grow fast and the growth absorbs all available cash. Off the shelf packages, packages adapted from banking industry and customs made packages have been tried, including open source software. There is now a movement to a Software as a Service (SaaS) concept which may allow many Microfinance Institutions (MFIs) to share the cost of the software in a pay-as-you-go scheme.

The second broad area is mobile banking. Almost 4 billion people are unbanked and 4 billion people have mobile phones (Pickens, Porteous, & Rotman, 2009). With a world population of 6.5 billion, a bit of arithmetic would indicate that at least another 1.5 billion people can be reached to provide financial services through mobile telephone networks. This field is now taking off after initial experiments, notably in Kenya, South Africa, the Philippines and India. In a recent visit to a pharmacy in a suburb of New Delhi, banks are using the banking correspondent method, first used in Brasil, and combining this with mobile banking to get cost economies in record keeping as well as transportation and communication costs.

The third broad area is online lending. This field is particularly interesting for those who have access to internet and a computer and want to help the poor, who have neither. The way this is being done is that online lending sites are coming in to relay the money of the millions of small savers in rich countries to the poor in poor countries. Such online lending sites are common in rich countries as well as poor countries (Assadi & Ashta, 2009).

In addition to Information and Communication technologies for microfinance, microfinance is also being applied to other sectors and using techniques such as risk evaluation. These techniques help MFIs to better evaluate the risk of poor people through credit scoring and other models and they help investors better evaluate MFIs for a more efficient channeling of funds.

The spread of Microfinance in poor countries is now getting linkage effects to other sectors. People with access to microfinance are buying phones and renting out phone time. People with access to microfinance are investing in education of their children. In a recent visit to a village in India, just 65 km from New Delhi, a group of 15 women using microfinance proudly declared that today they could all sign their names as opposed to only four before they met the representatives of the local MFI which had organized this visit. One lady was able to send her third child to school thanks to the funds received by her trading enterprise. In due course, she hopes to send all six to school. The success of microfinance in poor countries is now being experimented in the developed world too.

A lot more needs to be done. The five papers in this first special issue of the JECO on microfinance provide you with a look into some of these areas.

In the first paper, Information Technology and Microfinance Institutions: Challenges and Lessons Learned, Kishen Parthasarathy Iyengar, Najam Ahmad Quadri and Vikas Kumar Singh, provide an inventory of various information technology initiatives in Microfinance and indicate the key challenges that need to be addressed by microfinance institutions before the full potential of IT can be realized. They also discuss how some of these challenges are being overcome by these institutions. Finally, they lay out a framework for building and operating effective information systems.

In the second paper, Strategic Use of Information Technology in the Spanish Microfinance Sector, Glòria Estapé-Dubreuil and Consol Torreguitart-Mirada look at all this in a developed world context. Their main purpose is the study of the intensity of IT use in the sector, focusing on IT-related management of its organizations. They find that Information Technologies have indeed been used as a tool to provide information, both to prospective clients and with a more general scope. Furthermore, improvements on management due to IT use have also been encountered, such as on-line direct support to would-be entrepreneurs through specific software.

In the third paper, Identification of Intangibles in the Value of Microfinance Institutions,
Carmen Lozano and Federico Fuentes use the theory of fuzzy sub-sets to look into the valuation issues of measuring intangibles related to social performance to better understand the relevant qualitative aspects of a microfinance company’s strength. The inclusion of these aspects in accounting reports through what may be called “invisible balances” (coming from intangible assets) would be a complement to “visible balances” in which the tangible assets of the company are reflected.

In the fourth paper, Socio-Economic Differences and Deployment of the LDC Micro-Finance Bottom-up Approach in DCs, Samanthala Hettihewa and Christopher S. Wright indicate why microfinance is difficult to be applied in a developed country and why the mission drifts towards financial sustainability rather than to social outreach. As e-technology evolves further threats and opportunities are created for MF by changing cost structures and relationships. Their paper reviews current-performance concerns of DC MF, links those issues with the effect of regulatory and other socio-economic factors on micro-enterprise, discusses how MF can relieve poverty in DCs, and concludes that MF needs refocusing before DCs investing in further developing/adapting MF infrastructure.

In the final paper included here, Abu Saleh Mohammad Musa and Mostafa Saidur Rahim Khan present a case study of Benefits & Limitations of Technology in MFIs: Come to Save (CTS) Experience from Rural Bangladesh. After outlining the benefits of using IT in Microfinance, their paper focuses on the adoption of Point of Sale (POS) technology in MFIs and its benefits in operation, cost reduction and stakeholder relationship through an evaluation of a small-scale MFI, Come to Save (CTS), operating in Bangladesh. They find that timely implementation of technology reduces cost of operation, attains economies of scale and increases outreach through increased staff productivity.

Much more research needs to be done and those of you who decide to enter this field academically or entrepreneurially will find it very rewarding. The second special issue of the JECO on this subject, being finalized shortly, will provide you more food for thought.

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