Chapter 28

ICT Infrastructure Framework for Microfinance Institutions and Banks in Pakistan: An Optimized Approach

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ABSTRACT

Information and communication technology (ICT) can be termed as a reagent for the microfinance sector. It has contributed significantly for the growth of this sector, which is clearly depicted from the reviewed literature as well as the market evaluation. The paper analyzes the impact of technological advancements within the microfinance industry from academic as well as practitioner’s point of view. The true advantage of that advancement in the technology is yet to be realized by this sector. The paper proposed that ICT components on an optimized approach can be beneficial for a new as well as an experienced microfinance player for the efficient and cost effective delivery of its services to the masses without any major hindrance.

1. INTRODUCTION

The ICT infrastructure framework for microfinance institutions can be seen in two perspectives—global and local.

1.1. Global Perspective

ICT is an enabler and catalyst of economic and social development in the third-world nations (Dewan & Riggins, 2005). At the global level, United Nations (UN) and the World Bank are consorting with government and non-government institutions of the less resourceful and developing countries to promote ICT with the target of bringing them up to a certain conventional level in technology by making the requisite grant funds available to promote economic development (Kauffman & Rigging, 2010). This objective is perceived in the United Nation’s commitment
ICT is being stimulated as a technological instrument to help MFI's being placed at a better position in a modest environment. ICT has been recognized as a preferred investment within the banking industry, especially in the conventional sector. Operational efficiency, risk analyzing and controlling/mitigation, getting new customers and retention of existing customers has been enhanced significantly through the use of ICT. The MFI's have followed the same pattern to remain buoyant to compete in the banking sector. The use of ICT by conventional lending institutions and MFI's is driving the closeness and coordination between the two sectors of the banking arena. This is also dictating MFI/MFB's into an economically more competitive business domain. The third-party websites such as the Consultative Group to Assist the Poor (www.cgap.org), Microfinance Information Exchange (MIX Market, www.mixmarket.org) and Banking With The Poor (www.bwtp.org), which creates healthy competition among MFI's for technological advancements, consultant pools, real success stories, strategy guidance and donor funds. This gives the benefit to bring more efficiency and performance in the overall business key indicators. Whether the ICT has provided an edge to the overall microfinance sector or not, is it really competitive to the conventional sector and has certainly raised the standard of the sector.

1.2. Local Perspective (Pakistan)

The microfinance is a specific sector within the banking industry that functions through the provisions set out in the microfinance ordinance approved by the State Bank of Pakistan. The industry is focused to serve the specific impoverished segment of the society which is un-served by the commercial banking. This sector provides the services like loans, savings mobilization, remittance, insurance and capacity building of clients for business setup. The conventional banking has flourished quite a lot in Pakistan from the technological aspects covering core banking so-
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