Benefits and Limitations of Technology in MFIs: Come to Save (CTS) Experience from Rural Bangladesh

Abu Saleh Mohammad Musa, South Asian Microfinance Network (SAMN), Bangladesh
Mostafa Saidur Rahim Khan, Stamford University, Bangladesh

ABSTRACT

Adoption of Information Technology (IT) in Microfinance Institutions (MFIs) has become one of the key indicators to improve operating efficiency and productivity of staff at all levels of the organization. Though the cost of investment in IT is a matter of concern, it has manifold benefits ranging from productivity improvement to socio economic development of the target clients. This 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. This paper reinforces that timely implementation of technology reduces cost of operation, attains economies of scale and increases outreach through increased staff productivity.

Keywords: Adoption of Information Technology (IT), Come to Save (CTS), Microfinance Institutions (MFIs), Point of Sale (POS), Staff Productivity

INTRODUCTION

On the eve of reducing donor funding and long term subsidized funding, Microfinance Institutions (MFIs) are facing the major challenge to become operationally sustainable. Improvement of staff productivity and operational efficiency is the core means to become operationally sustainable. Adoption of Information Technology (IT) in the production process is deemed to have a positive effect on staff productivity and operational efficiency. Use of IT has been successful to enhance employee productivity in the formal banking sector. Being semiformal financial institutions, MFIs are believed to improve efficiency, track operations more accurately, increase transparency and reach new customers by using IT. IT can be useful to track financial transactions and create reports for the management, donors and other stakeholders. IT is also helpful to keep client records, analyze data to predict client behavior and transmit data among staff and branches. Large MFIs can use delivery technologies like Automated Teller Machines (ATM), Point of Sale (POS) networks and mobile phone banking to become
cost effective in their operations and to deliver financial services smoothly.

Family Economic Security (FES) Program, a program domain of Plan Bangladesh has been promoting flexible microfinance programs to provide financial support to the poor and extreme poor in a sustainable manner. Come to Save (CTS), an MFI, is implementing this program as a partner organization of Plan Bangladesh with extensive technical and financial support from Plan. CTS had been partnering with Plan since 1998 and offering a demand driven, savings led, flexible microfinance program targeting the poorest of the poor.

The paper essentially focuses on the following key objectives by presenting a case study. Firstly, it identifies the cost effectiveness of the handheld POS in terms of staff productivity; secondly, it reviews the performance of the handheld POS in the areas of reducing human error and increasing client satisfaction at field level; and thirdly, it analyzes critically the strengths, weaknesses, opportunities and threats in relation to operational and technical viability of the microfinance program implemented by CTS. The background section provides details of microfinance, technology and the key organizations involved. The main topic section looks at the pilot implementation of POS by CTS and the learning from it. Finally, we conclude with the future research directions, suggested for further strengthening of POS implementation in CTS.

BACKGROUND

Microfinance is considered as one of the development interventions, which has been recognized as powerful instrument for poverty reduction of the low income households. Microfinance has enabled the poor to build assets, increase income, and reduce their vulnerability. However, out of a very large number of MFIs working in Asia, there are still very few financially sustainable MFIs operating with significant breadth and depth of outreach. It has been reported that the main constraint for the sector is not the lack of funds but the lack of capacity in operating sustainable institutions (Setboonsarng & Zhang, 2006). Information and communication technologies (ICT) have emerged as a powerful tool to reduce operating costs, making it viable for financial institutions to expand into rural and low-income areas. ICT innovations such as personal computers connected to the internet, mobile phones, ATM or POS devices located at retail may be less expensive to establish than branches located in rural areas and more convenient for customers (Ivatury, 2005). Unlike pure cash based transactions, ICT-based transactions can take place with less time or no time required from a teller. Rather than hand over cash to a teller when making a deposit or loan repayment, a customer can give cash to a store clerk, swipe a debit card through a POS card reader, and input an identification number to authorize the transaction. The store’s account at the financial institution would be debited by an amount equivalent to the cash deposit, and the customer’s would be credited. Since the transaction is electronic, from the institution’s perspective, it is less costly to process.

Arrival of the Personal Digital Assistant (PDA) unlocked the potential to use ICT in MFIs. With the help of these pocket computers, loan officers and collectors can fill out forms containing customer information and can provide an initial indication of whether loan would be approved, thereby automating the information gathering process (Silva, 2002). An article by Steve Whelan, for The Consultative Group to Assist the Poorest (CGAP), talks of the various technological devices that are currently being used around the world (Whelan, 2003). These articles highlight devices such as ATMs, interactive voice response technology (IVRs), smart cards and PDAs.

Along with its role in increasing efficiency and reducing cost, IT has become an inseparable element of decision making by processing and analyzing large amount of data timely and accurately. Through data transmission technologies, data can be made available among the branches and key decision makers instantaneously, which is faster and cheaper than physical data transfer.

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