Chapter VII

Enabling the Expansion of Microfinance using Information and Communication Technologies

Narima Amin, Independent Consultant, USA

Abstract

This chapter looks at the origins and evolution of microfinance and explores some of the challenges faced by microfinance institutions (MFIs). It examines the costs and benefits of using ICTs as a means of increasing the effectiveness and efficiency of MFIs enabling expansion and outreach to remote populations. Specific technologies such as smart cards, PDAs, and MISs are explored in detail and case studies are provided. MFIs can also use ICTs to facilitate income-generating opportunities for borrowers, and the case of Village Phone will highlight this potential. It is hoped that this chapter will advance the case for the continued use and research into the synergistic combining of microfinance and ICTs.

Copyright © 2007, Idea Group Inc. Copying or distributing in print or electronic forms without written permission of Idea Group Inc. is prohibited.
Introduction

In the international development community, there have been numerous discussions on methods for reaching the millennium development goals (MDGs)\(^1\) by 2015. Stakeholders from all walks of life have many suggestions for eradicating poverty from this world where 1.2 billion people still live on less than $1 a day.

Poverty-intervention tools will be of vital importance if we are to achieve the MDGs, especially the goal of reducing the number of people living in poverty by half by the year 2015. It is acknowledged that:

\[
\text{access to financial services provides the poor with the means to make improvements in their lives—in other words, to achieve most of the MDGs—on their own terms, in a sustainable way. Access to credit, savings, or other financial services is only one of a series of strategies needed to reduce poverty and achieve the MDGs.}^2
\]

Microcredit and microfinance, which involve providing financial and other services to the poorest\(^3\) people in developing countries, has proven to be a practical way to assist them in working their way out of poverty. Microcredit refers to small collateral-free loans targeted to the poor, provided by a bank or other institution. Microfinance involves not only loans, but also other financial products such as savings, insurance, and transfer services to the poor. Microcredit and microfinance are recognized as effective tools for the reduction of extreme poverty and the creation of sustainable economic development. It is in the best interests of those living in poverty that the most effective strategies for reducing and even eradicating poverty be identified and implemented. Whether poverty is created because of the death of the head of a family, changes in economic policies, wars, or natural disasters such as a tsunami, poverty alleviation requires that the best alternatives be found to help poor people build their lives. As poverty-reduction tools, the strengths of microcredit and microfinance are that they are sustainable over the long term and also encourage the independence and self-sufficiency of their recipients.

The concept of microcredit originated in 1976 in Bangladesh when Professor Muhammad Yunus lent money out of his own pocket to prove poor people were bankable and creditworthy. Over the last 30 years, microcredit has evolved to the point where the United Nations declared 2005 as the International Year of Microcredit. According to a United Nations Development Programme (UNDP) administrator Mark Malloch Brown:

\[
\text{microfinance is much more than simply an income generation tool. By directly empowering poor people, particularly women, it has become one of the key driving mechanisms towards meeting the Millennium Development Goals, specifically the overreaching target of halving extreme poverty and hunger by 2015.}^4
\]

Information and communication technologies are considered tools for poverty reduction. Hans d’Orville (2001, p. 1) states that “in the developing world, information and communication technologies (ICTs) are proving formidable and cost-effective development tools. Properly used they can reduce poverty; empower people; build capacities, skills and networks.” ICTs\(^5\) have been identified as mechanisms to help microfinance institutions (MFIs) overcome their operational challenges when expanding in remote and rural areas. Brown (2001, p. 1)
Integrating ICTs in African Development: Challenges and Opportunities in Sub-Saharan Africa
www.igi-global.com/chapter/integrating-icts-african-development/22618?camid=4v1a