Chapter 7
ICTs and Social Inclusion:
The Case of Microfinance in Developing Countries

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ABSTRACT
Microfinance, defined as the provision of small-scale financial services for low-income populations, has widely been regarded in alleviating poverty and facilitating social inclusion. While much has been debated on the impact of information and communication technologies (ICTs) on social inclusion, paucity remains on how ICTs contribute to microfinance in developing countries. Social inclusion, particularly in the sense of increasing access to microfinance, is important to entrepreneurs in developing countries, especially among women entrepreneurs in rural areas. A major challenge is to understand how ICTs contribute to microfinance, both in terms of reaching to a large population, and in providing efficient and effective services. This chapter investigates the role ICTs play in facilitating microfinance in developing countries. To do so, the current literature on ICTs and social inclusion and the literature on microfinance are reviewed in order to provide an integrated conceptual framework on how ICTs contribute to microfinance in enhancing social inclusion in developing countries.

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INTRODUCTION

The United Nations Population Fund predicted that the population of developing countries will rise from 5.6 billion in 2009 to 7.9 billion in 2050, constituting 88% of the world’s population (UNPF, 2009). Contrasting the sheer size of the population is the low level of living standard. Many people in most developing countries lack basic resources such as clean water, adequate housing, healthcare, and education. To enhance social and economic development, many scholars have looked into the role of ICT, and established a clear link between ICT penetration and development (e.g. Avgerou, 2003; Mosse & Sahay, 2003; Krishna & Walsham, 2005; Walsham et al., 2007). In a recent review, Walsham et al (2007: 317) argued:

‘The question has now become not whether, but how ICTs can benefit development. ICTs have high potential value across both public and private enterprises; and at multiple levels, for example from software business in urban areas to health delivery in rural villages.’

Yet challenges remain in understanding how ICTs contribute to development. Mixed findings have been reported as to the mutual shaping of ICTs and social change in developing countries. In a similar vein, microfinance has often been credited as contributing to social inclusion and poverty alleviation in developing countries (e.g. Ivatury, 2009; Wiezorek-Zeul, 2009). 5,000 microfinance institutions worldwide serve approximately 50 million low-income individuals and their families (Frederick, 2009).

A major challenge is to understand how ICTs, such as mobile phones, Automated Teller Machines (ATMs), and Point of Sale terminals (PoS), contribute to microfinance, both in terms of reaching to a large population, and in providing efficient and effective services (Firpo, 2009). We therefore find it necessary to explore the inter-section between these two areas, namely the role ICTs play in delivering and transforming microfinance, and the subsequent social impact in developing countries.

To this end, we will first review the literature on ICTs and social inclusion in developing countries, followed by a review on the current trends of using ICTs in microfinance. We will then integrate the two bodies of literatures and propose a conceptual framework and future research questions to explore the interplay among ICTs, microfinance, and social inclusion.

MICROFINANCE

In the 1980s and 1990s, widespread disillusion with government programmes for poverty reduction, including financial schemes, led to the mushrooming of non-governmental organisations (NGOs) as channels for donors’ assistance. Building on informal financial practices such as ROSCAs,1 NGOs experimented with savings and credit groups following a bottom-up, demand-led approach. In Bangladesh, a university project that resulted in the now well-known Grameen Bank, also worked with groups for the delivery of financial services. Modern microfinance, as we understand it today, was hence born in the image of those enduring informal financial arrangements – and its fundamental aim was to achieve the social development goals of helping reduce poverty.

Such microfinance practices also encouraged further theoretical analysis of finance for the poor. As one of the first and most influential studies, Stiglitz (1990) contended that joint-liability lending schemes – such as the Grameen Bank groups where members share responsibility for loan repayment – can induce peer monitoring that leads to the overcoming of some of the main constraints to finance for the poor. By making group members liable for one another’s loan defaults, they have the incentive to monitor each other’s loan usage to ensure that default risks are minimised.
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