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.

Keywords: ICT Infrastructure, Information and Communication Technology (ICT), Microfinance Banks, Microfinance Institutes, Microfinance Sector

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 & Riggings, 2010). This objective is perceived in the United Nation’s commitment towards the global development. One of UN’s goals is to create a harmonized global platform for development (Kauffman & Riggings, 2010). This includes liaising with

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the private and public sector for the provision of benefits of information and communication technologies (Kauffman & Rigging, 2010).

Microfinance services have emerged as an effective and responsive mechanism for the economic development in the last couple of decades. Microfinance can be defined as “the availability of financial services to unbanked or poor or lower income clients or lesser privileged sector of the society” (Ledgerwood, 2000). Microfinance institutions give small loans to such clients who are not being provided any services from conventional sector and are willing to opt it for setting up their own business. This sector provides the services like loans, savings mobilization, remittance, insurance and capacity building for business setup. The Nobel peace prize laureate and the founder of Grameen Foundation brought the industry into limelight. There are about four billion unbanked people around the world which is more than two third of the population of low and middle income developing countries around the world (2010). Conventional financial institutions such as commercial bank are still unable to reach poor population, because of high cost for constructing and sustaining the branch network.

Microfinance Providers (MFPs) i.e., microfinance institutions (MFIs) and microfinance banks (MFBs) are considered as the best apparatus for alleviating poverty, as it helps reduce risk and increase income of the poor household. Several MFIs were converted into the full-fledged microfinance banks over a period of time. This transition has never been easy for such institutions to become a regulated bank under the supervision of the regulatory body of that country. The conventional banks are also looking into the feasibility to venture into this market as well. These types of conventional players are entering into the microfinance sector with diverse ICT background and facilities.

ICT is being stimulated as a technological instrument to help MFIs 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 MFIs have followed the same pattern to remain buoyant to compete in the banking sector. The use of ICT by conventional lending institutions and MFIs is driving the closeness and coordination between the two sectors of the banking arena. This is also dictating MFIs/MFBs 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 MFIs 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 solutions, communication and infrastructure in the last decade or so. Usually, the conventional banks are provided with the deep pockets to make huge investments in the technology area, but this is not the case of the microfinance banks.
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