

Chapter 2

Can Information and Communication Technologies Improve the Performance of Microfinance Programs? Further Evidence from Developing and Emerging Financial Markets

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ABSTRACT

Given the important role played by microfinance institutions (MFIs), a growing number of studies have been recorded in this field. More specifically, researchers and practitioners are interested in factors that influence their performance in order to enhance the way they function and to ensure their sustainability. One of these factors concerns the use of information and communication technologies (ICT) in MFI programs. Despite the relevance of the topic, few studies have looked at the links between ICT use and the enhancement of MFI performance. In addition, ICT use in developing and emerging financial markets is also under studied. The purpose of this chapter is to fill this gap in the literature and to analyse how ICT can influence MFI performance. In this regard, three aspects of MFI performance are studied: efficiency, risk management and customer relationship management. The results of the survey conducted with MFI professionals in developing and emerging countries show that the implementation of ICTs enables MFIs to significantly improve their microfinance services, while enhancing work efficiency and customer relationship management in the same way as in other branches of financial services in general. However, our results give no empirical support to the contribution of ICTs in risk management or risk reduction.

DOI: 10.4018/978-1-4666-2625-6.ch002

INTRODUCTION

Microfinance is a growing branch of financial intermediation with the specific and non-profitable goal of providing poor and excluded economic agents with small loans in order to satisfy their primary needs and/or finance their personal activities (Sriram, 2005). This type of intermediation first emerged in developing countries in order to reduce inequality and poverty (Hulme and Mosley, 1996). The first loans were allocated more than thirty years ago, but the movement reached its height during the 1980s when a lot of traditional bank systems were defaulting and microfinance appeared as a new regulation model where profit was no longer king (Morduch, 1999; Morduch, 2000; Labie, 2001). To achieve its social aims, microfinance products are generally provided in a local context by Microfinance Institutions (henceforth indicated as MFIs) such as banks, associations, mutual institutions, moneylenders, credit and savings cooperatives or local branches of mutual agricultural credit institutions.

Thanks to the success and the extensive contribution of some MFIs to national development, microfinance programs have increased rapidly. Their networks and subsidiaries have been introduced in several countries to satisfy the ever-increasing demands of clients worldwide. The first microcredit institution – the Grameen Bank – was developed by Muhammad Yunus in Bangladesh in 1974. It offered a small loan of \$27 to a group of 42 Bangladeshi families in order to help them overcome serious famine.¹ Ten years later, it had become the “Bangladeshi Independent Bank.” Nowadays, the bank counts over 7.3 million clients,² with a loan portfolio equal to €4.3 billion, and it continues to develop strong social projects nationwide. In 2006, the bank counted 2100 agencies in total. The bank now has an international dimension and has set up agencies in 60 countries across Africa, Asia and Latin America. Moreover, the Grameen Bank has provided the model for several MFIs that have sprung up around

the globe to offer loans and microcredit to poor families with no financial security. The number of institutions providing microfinance products has increased considerably since the end of 1990 and MFIs are now present worldwide, including in several developing countries, but notably in countries where poverty and inequality are particularly rife.³

Overall, there are around 10,000 MFIs worldwide, serving more than 150 million poor people in 105 countries. The great success of the Grameen Bank experience motivated financial institutions not only in developing and emerging countries but also in the developed countries.⁴

MFIs initially began with small structures, dimensions and capital. They were not well developed and were often financially limited. Moreover, the aims of their initiatives with respect to poverty and inequality gave rise to a number of issues. Daley-Harris *et al.* (2007), among others, pointed out that few people believed in MFI programs and their purpose at first. This was a real challenge for MFIs as they had to introduce various rules and management practices to reduce running costs in order to enhance their effectiveness. Some MFIs were implicitly against the introduction of Information and Communication Technologies (ICTs) as initially they just dealt with small applications and projects and only provided small loans that did not need complicated operations or tools. The choice of not introducing ICTs was thus justifiable on two counts. On the one hand, they considered that ICTs were not really useful or that the MFI employees could easily manage all the applications and meet all the clients’ demands without sophisticated tools. On the other hand, ICTs were costly and so many MFIs were unable to adopt such technologies in their daily activities. Indeed, ICT use would involve additional expenses and funding, and would also require the training of staff who often had few qualifications and so would not be very profitable.

However, the microfinance framework, as it was launched over thirty years ago, is no longer

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