DELIMITING MICROFINANCE THROUGH EFFECTIVE MIS

THE PHILIPPINE RURAL BANK EXPERIENCE

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Abstract

Approximately 20% of all households in the Philippines depend on income from micro-enterprises, a crucially important component of the Philippine economy.

Micro enterprises depend upon three categories of MFIs in the organized micro finance sector in the Philippines. These are the Rural Banks, Cooperatives and the NGO MFIs

Of these, the Philippine Rural Banking sector comprising of around 750 banks with 1800 branches that covers 85% of all municipalities of the country is uniquely positioned to extend the outreach of micro finance. Rural Banks have demonstrated that banks can make money by providing loan and deposit services for micro-enterprises if they "do it right."

In the ultimate analysis therefore, it can be said that a lot of the success of micro finance in the Philippines depends on the success of micro finance delivered by the rural banks.

Doing It Right

One of the critical components of "doing it right" is the harnessing of a suitable IT-enabled MIS that effectively delimits their aspirations for growth in outreach and sustainable operations.

This paper seeks to identify the 'key success factors' for an effective IT-enablement for micro finance operations of Philippine Rural Banks. The paper is based on actual experiences of JSPL Philippines Inc. the Philippine subsidiary of the Indian micro finance-focused IT company Java Softech Private Limited. It explores the entire process of understanding the strategic operational requirements, design, customization issues and implementation.

The paper shows how at the end of the day MF operations of the rural banks benefit from a system that facilitates day-to-day transactions, enables effective control over collections and PAR, generates reports that aid decision making by the bank management and generates desired reports and information for external agencies like regulatory bodies (e.g. Central Bank) and funding agencies.

A BRIEF OVERVIEW OF MICRO FINANCE IN THE PHILIPPINES

Philippines is a developing Asian country where micro finance is taking firm roots and is seen an effective mechanism for combating poverty. The incidence of poverty in the country as per the World Bank is summarized below:

Philippine Poverty Statistics

Year	% Population living on less than $1/day	% Population living on less than $2/day
1985	22.8	61.3
1990	19.1	53.3
1996	14.8	46.5
1997	12.1	45.2
1998	14.6	47.7
1999	13.7	47.1
2000	12.7	45.9

Source: World Bank 2002

Access to Micro Finance

According to the ADB, the following is the access of micro finance to the poor:

- No. of Poor people who have access : 600,000 to 1 million
- Currently, no more than 20% of the 5.8 million poor households are served

The major players in the market…. The rural banks, the MFIs and the Coops

According to the ADB, The MF industry in the Philippines comprises of:

- Cooperatives: most of the 2865 registered Cooperatives…since early 1900s
- Rural Banks: 100+ out of 786 operating since 1950s
- MFI (NGOs): Around 500 since 1980s
- Estimated Outstanding Loan Balance: PhP 6 to 8 billion (USD 121 – 161 million)

The External Agencies

The Bangko Sentral ng Pilipinas (BSP), the central bank regulates and supervisors all activities of the banking sector in the Philippines, including micro finance activities.

The Asian Development Bank (ADB) focuses on micro finance in all DMCs including the Philippines to:

- Create a micro finance-friendly policy environment
- Develop financial infrastructure
- Build viable retail institutions

- Support pro-poor innovations
- Support social intermediation

In the Philippines, the ADB has exposure in the micro finance sector through the Peoples Credit And Finance Corporation (PCFC).

People's Credit And Finance Corporation (PCFC): This a government agency set up in the mid nineties, to channelize funds to the micro finance sector. The PCFC is envisioned to be the viable and sustainable leader in the provision of financial products and services to generate income opportunities and improve the lives of the poor. In order promote this vision; the PCFC has formulated the **Micro finance Loan Program.**

Today it has more than 200 member conduits consisting of rural banks, cooperatives and NGO MFIs.

The Micro-enterprise Access to Banking Services (MABS): This is an USAID initiative designed to accelerate national economic transformation by encouraging the Philippine rural banking industry to significantly expand the micro-enterprise access to micro finance services. The MABS Program assists client rural banks increase the financial services they provide to the micro-enterprise sector by providing technical assistance and training. Trained banks in turn offer micro finance loan and deposit services specially tailored to micro-enterprise clients.

Since its inception in 1998, the MABS Program has helped more than 200 rural banks/branches in the Philippines.

The Rural Bankers Association of the Philippines (RBAP): RBAP is the apex level body comprising of and representing Rural Banks. It is active in propagating the concept of micro finance through its member banks. It partners the USAID in administering the MABS program.

Land Bank of the Philippines (LBP): This is a public sector commercial bank that has the maximum exposure in the rural sector and focuses specially on agricultural sector. It offers funding for MF operations to rural banks.

The Asian Institute of Management (AIM): The AIM is the leading B-school in Asia, which has taken a major academic initiative in micro finance. It is one of the six graduate institutions in four countries (the others are: INCAE of Costa Rica, Indian Institute of Management Ahmedabad, Indian Institute of Management Bangalore, Institute for Rural Management at Anand in India, and University of Pretoria in South Africa) that will develop research-based teaching and training programs for a MBA in micro finance project of the Micro Finance Management Institute (MFMI).

MICRO FINANCE AND PHILIPPINE RURAL BANKS

The Rural Banking System in the Philippines goes back to 1952 when the Rural Banking Act was passed allowing the setting up of regulated banks suitable for providing banking services to provincial-rural communities, where the reach of commercial banks was insufficient. Private investors set these up; often ending up a family owned small banks…mostly single branch operations, but a few with multiple branches in contiguous areas.

The Rural Banks spread rapidly through the seventies and eighties and today form a very critical component of the Philippines banking system.

The Chart Below gives the status of the Philippine Banking System as of the year 2002:

Bank Category	Total Assets (Billion PhP)	Gross Outstanding Loans (Billion PhP)	Total Deposits			Deposits less than PhP 15000			Small deposit Accounts as % Of total Deposit Accounts
			Amount (In Billion PhP)	No. Of Accounts (In millions)	Av. Deposit Per Account (In PhP)	Amount (In Billion PhP)	No. Of Accounts (In millions)	Av. Deposit Per Account (In PhP)	
Comml	2961.5	1615.8	2005.5	19.4	103,376	33.5	14.7	2,276	75.8%
Thrift	243.4	143	162.8	2.8	58,143	4.6	2.2	2,109	78.6%
Rural	73.6	46.4	49.3	4.7	10,489	5.2	4.3	1,217	91.5%
Total	3278.5	1805.2	2217.6	26.9	82,439	43.3	21.2	2,044	78.8%

Source: ADB/PDIC

As can be observed, small savings accounts (less than P15, 000) make up more than 90% of the Rural Banks savings mobilization. This gives an indication that these banks really penetrate the market segments ideal for micro finance operations.

Structure of the Financial Sector

The Banking and non-banking Financial Sector in the Philippines can be depicted in the chart below:

The Financial Spectrum	Regulated By	Supervised By	Authorized Products and Services
Commercial banks	BSP/PDIC	BSP/PDIC	Savings/deposits/Loans
Thrift Banks	BSP/PDIC	BSP/PDIC	Savings/deposits/Loans
Rural Banks	**BSP/PDIC**	**BSP/PDIC**	**Savings/deposits/Loans**

Pawnshops	BSP/SEC	None	Pawn Loans
Finance Companies	SEC	None	Loans
Saving /Credit Coops	CDA	None	Savings/deposits/loans
NGO MFIs	Annual Reports to BSP/SEC	None	Loans to individuals/groups
Money Lenders	None	None	Loans
Other Informal	None	None	Loans

As one goes down the spectrum, formal regulation and supervision levels decrease, until in the money lending and other informal sectors there is practically no regulation and supervision.

Rural Banks are squeezed in between, facing competition from commercial and thrift banks from above and the various shades of players from below. While they lack the financial muscle of the former, they are also given a tough time by the players below, who have more flexibility, being less regulated/supervised by varying degrees.

Under this scenario, the rural banks are focusing more towards micro finance to expand business.

However, although located in the "micro finance heartland", it was only in the nineties that they officially developed micro finance products targeting low-income communities in the neighborhood. This initiative was either taken up independently, or with the assistance of the MABS program, in partnership with the Rural Bankers Association of the Philippines (RBAP).

Volume of business/size of market

The Philippine Rural Banking sector comprising of around 750 banks with 1800 branches covers 85% of all municipalities. As of 2005, there were around 150 banks/branches offering micro finance products under the MABS initiative apart from a number of other banks followed their own MF initiatives.

During a recent RBAP annual conference held in Manila where JSPL put up its booth, of the 190 banks that visited the booth, around 35 were actively into micro finance and around 20 others stated that they were seriously gearing themselves up for offering MF products in the immediate future.

Rural Banks are ideally positioned to provide micro finance products and services because of the following reasons:

• Rural Banks offer excellent geographic coverage. At present there are an estimated 1800 Rural Bank branches located throughout the Philippines, covering over 85% of all municipalities in the Philippines.

• Rural Banks are culturally and geographically close to the target market. Most Rural Bankers have personal familiarity with scores of micro enterprises in their areas, and regularly use services offered by micro enterprises.

• Rural Banks tend to be small locally owned enterprises. Their size and structure usually allows for loan decisions (and other decisions) to be made quickly. There is usually no need to refer decisions to a headquarters bank in a provincial capital or in Manila.

• Rural Banks' overhead costs are usually much lower than are the overhead costs of other types of banks. This makes it more likely that they will be able to make a profit even as they carry out the large number of transactions that are associated with a micro enterprise portfolio.

• Many Rural Banks are being "squeezed" as commercial banks enter markets that formerly were exclusively theirs. As such, many are very interested in exploring potential new markets - like the micro-enterprise market.

MABS Targets: In fact, the MABS program is bullish about the prospects and future of micro finance in the rural banking sector and has ambitious targets over the next few years as outlined below:

By September 2007, MABS expects the following results to have been attained:

- Bringing the number of MABS Participant Bank units to 350 bank and bank branches.
- Total number of micro-borrowers served by MABS Participant Banks to exceed 500,000.
- Total number of new micro-depositors served by MABS Participant Banks to exceed 400,000.
- Expansion of training and technical support to thrift banks.

- Expansion of micro finance services to small farmers and owners of agriculture-based micro enterprises through the development and pilot-test of a new micro-agri loan product.

Models of MF prevalent

The rural banks, especially those that are PCFC conduits, commonly adopt different variations of the Grameen group model of micro-lending/saving.

The MABS approach, which emphasizes individual lending, is now gaining ground, as more and more banks are availing the technical assistance program of MABS.

The ASA model is also gaining popularity, although there is limitations n this process under the regulatory environment, where branch expansion is not easy.

LIMITING FACTORS FOR MF IN THE RURAL BANKS

In light of the foregoing, it appears that the rural banks have a major potential in the expansion and commercialization of micro finance in the country. However, in order to ensure unhindered growth, certain limiting factors need to be overcome. The major limiting factors are enumerated as under:

Difference as compared to regular banking: This is a limiting factor, which is conceptual in nature. Most often, banks treat MF as an extension of regular banking, using the same yardsticks and applying the same strategies. While in regular banking, the client usually comes to he bank to transact business, in MF; the bank has to go to the client's premises to transact business. Not only the banks… but the associated service providers also apply the same mindset…and this often acts as a limiting factor.

Difficulties in branch expansion: The process of obtaining approval from the BSP for expanding the branch network is not a simple one. A number of requirements are to be met and the process is at best time consuming. Therefore, a rural bank, wanting to expand fast in order to tap the MF potential often is frustrated and end up in complications in trying to circumvent the regulations by opening collection centers, etc. In some MF models like the ASA model, which relies on opening of more and more branches, this is a major problem.

Collection and Transaction Management: This limiting factor is related to the earlier one. In the absence of a mechanism for opening new branches to cater to the MF requirements, very often the number of borrowers at the existing branches go up. One bank, for instance, ended up with 13000 borrowers in one branch. When this happens, collections and transactions become unwieldy. For example, with 13,000 borrowers, there are at least 4000 to 5000 transactions per day (with weekly collections) and properly recording all these transactions on a day-to-day basis becomes a massive problem.

Portfolio Management, Control and Information: When collection and transaction management becomes unwieldy and relevant information is not readily available, portfolio management, effective supervision and control system tends to break-down…. resulting in increased delinquency and PAR. Very often, rural banks in the Philippines have had to curtail MF activities because of this. This is all the more aggravated by the capital reserve requirement stipulations of the BSP.

Regulatory Issues: The rural banking sector is regulated/supervised by the BSP and PDIC. These regulating/supervising agencies undertake periodic inspections of the banks/branches and require the submission of reports and returns on a regular basis. Very often, banks find it difficult to provide the required information/reports pertaining to their micro finance operations. Very often inaccurate information is provided with disastrous consequences.

External Agencies: External lending agencies like the PCFC, Land Bank, ADB or even private / institutional investors look for suitable portfolio and client impact related information in order to make funding decisions. Often the desired information is not readily available. This limits the sources of funding, thereby limiting micro finance operations.

MIS IN MF OPERATIONS

The Existing Level Of MIS/IT

Further limiting…rather than delimiting: Most Rural Banks are IT enabled. The regular banking activities like Current Accounts/Savings Accounts, GL, and even in some cases loan management systems are in place.

A number of banking solutions exist in the market…from DOS based systems, FoxPro/Clipper types to Windows based. However, all of them tend to treat MF as an extension of regular banking and try to stretch their applications to accommodate MF. This mental block that was seen as a limiting factor for bankers was also perpetuated by these software applications.

On the other hand, there are some MF oriented solutions that were handed out to their conduits by the PCFC, for use with the grameen loans. However, these were very rudimentary, basic and limited in features. As these banks expanded operations,

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increasing in complexity of product, transactions and reporting requirements, such solutions became virtually useless.

Thus, the above solutions, both the regular banking extensions and the grameen handouts, proved to be an added source of limitation for the MF practitioners, rather than reducing the constraints. This widening gap remained. As a consequence, most rural banks relied on manual systems or spreadsheet type applications for maintaining client lists and transactions. Invariably, all reports were prepared manually.

From MIS to effective MIS

An effective MIS system, in the context of the Philippine Rural Banking sector is the one that addresses / reduces the limitations identified in the previous section.

Elements of Effective MIS: The Table below summarizes features/activities that the a software solution must incorporate in the context of the identified limiting factors

	Limiting factor	How an effective IT system can help
1	**Difference as compared to regular banking**	MF operations are basically different from regular banking. Account officers, who are not as well qualified/trained compared to their regular banking collegues, handle MF clients. The software therefore must take this into account and provide very simple, user-friendly interface. Client information needs for MF are basically different from regular banking While in regular banking client info is required primarily for AMLA compliance, MF client info is much more detailed and includes information about the socio economic status, household member details and thorough background checks. The idea is to monitor impact. The software must therefore be suitably structured, to capture all this information and generate meaningful reports
2	**Difficulties in branch expansion**	A lot of rural banks circumvent this limiting factor by using collection points. Collection points are essentially like extension counters which do no transactions apart from enabling / facilitating collection from nearby areas. The collection point may have a small office with a computer. The software solution must therefore enable the recording of transactions at such satellite points and have a way by which details of these transactions are conveyed and ported into the main server…possibly located at the HO/main branch. Without this adaptation…the daily transactions remain incomplete.

3	**Collection And Transaction Management**	The point of collection is at the client's premises for MF. Therefore, the system must provide some kind of collection sheet…. either as a paper report or in some electronic format for each collector to collect accordingly.
		MF collection is a two-stage collection as opposed to a one-stage collection for regular banking. In MF, the collector collects from the clients' premises and at that point of collection a suitable receipt has to be given to the client. The next point of collection is at the bank/branch teller, where the collector deposits the money along with the receipts issued. The teller then counts/accepts the cash and issues another Official Receipt (maybe on an aggregated basis). The system must be able to accommodate these stages of collection.
		As the number of clients per branch increase, the daily encoding of transactions into the system becomes a time consuming task. Imagine entering 4000 loan and 4000 savings transactions into the system every day. Even assuming that the time taken to enter one transaction into the system takes 10 seconds, 8000 transactions will take 80,000 seconds or 22 man-hours. This implies 3 or 4 persons working full time. The software solution must therefore incorporate ways in which this transaction entering time is reduced. While cost / investment is a factor…. Ultimately the solution to this is a handheld, which the collector uses to encode the transactions right away at the point of collection and double entry is avoided.
4	**Portfolio Management, Control And Information**	Beyond the transactions comes the issues of supervision and control of MF operations. At the basic level, the system should generate Account Officer wise collection details on a daily basis. This will enable the supervisor to focus on past-due accounts of each account officer and follow-up for collection
5	**Regulatory Issues**	The BSP requires reports on micro finance operations on regular monthly basis. Very often banks are overwhelmed by the reporting requirements and spend large number of man-hours preparing them. This adds to inefficiencies. Also during inspections by auditors/ supervisors, performance reports are required instantaneously. Very often, banks are not able to satisfy the information requirements.
		The central bank, in trying to regulate the MF sector, has come out with performance standard ratios and ratings. An effective software solution can enable the bank to generate performance reports instantaneously. All this adds up to the banks ability to

		control performance and present a credible face t the BSP and other agencies.
6	**External Agencies**	External Agencies, whether these are fund providers or others, very often are interested in Impact Analysis reports. An effective IT system that enables collection of such client-related information and the generation of meaningful reports greatly enhance the banks capability of attracting external funding.
		In fact most funding agencies, an effective IT system is a prerequisite for lending funds to the rural bank.

STEPS INVOLVED IN EFFECTIVE MIS ENABLEMENT

Product development

Any effective application software that aims at providing the information backbone for business processes must do all of the following three things:
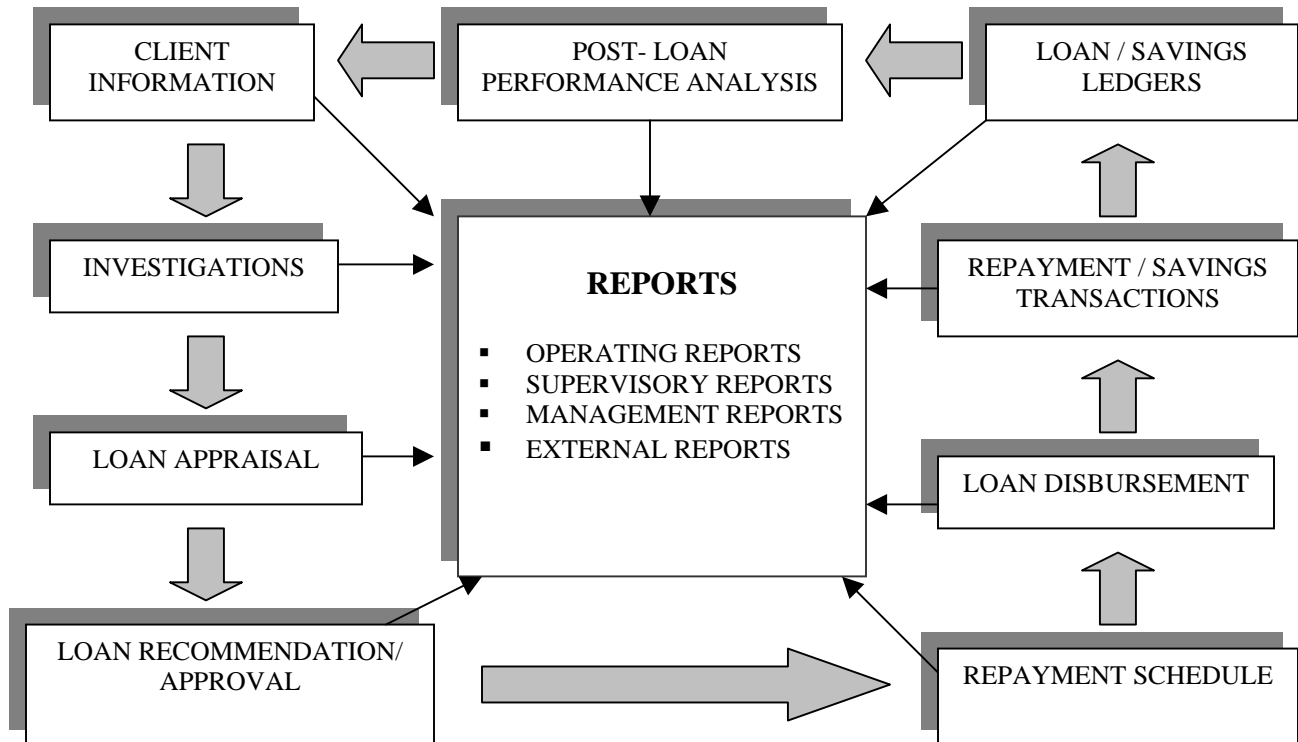
- Automate manual business processes…with data entry at source
- Provide information that enables effective supervision and control
- Facilitate 'strategic' business decision-making

Integration With Mainstream Banking: Philippine Rural banks are banks first and then micro finance practitioners. Most of them already have software solutions for regular banking. So the challenge for any MF application software is to ensure that at the end of the day, the bank is able to merge regular and MF operations to get overall banking information.

Multi Model Approach: As was mentioned earlier, the rural banks follow various MF models. In fact, most banks follow more than one type of model, simultaneously. For example, it is common for banks to follow the Grameen type of Group Lending along with the MABS introduced individual model. A critical challenge therefore is to develop a system that allows operations in different model-based formats and finally accumulates the information into one uniform format, which is ultimately converted into the regular banking format for overall banking information/ reporting requirements.

End-to-End Approach: For effective and meaningful operations, the system must enable end-to-end MF operations. In other words, the entire process, right from the client information, investigation by the bank, the loan analysis, the loan recommendation/approval process, the associated processes, the loan disbursement, and repayment must all be covered under the same system.

The following chart depicts the entire process that must be captured by the system in order to make it meaningful and useful for micro finance operations

The Micro Finance End-to-End Cycle

Transaction Crunching: Squeezing the cost of transactions is said to be one of the overriding objectives of MF operations. An effective system must therefore make a positive contribution in this matter.

A large volume of very small transactions characterizes MF operations. However, any practitioner of MF knows that the logic of the industry lies in its less than 5% PAR. In other words, more than 95% of the payments are as per the amortization schedule. Therefore, it makes sense to incorporate suitable features in the software that enables automatic transactions. Thus, only the few (less than 5%) of the transactions that are irregular are manually encoded into the system. The rest of the transactions (95%) are automatically passed by the system. This can save a lot of time, especially for large-volume banks. Let us take an example to appreciate the impact and cost savings potential:

Lets say a bank has 5,000 active borrowers…. Of which 1000 repay in daily installments and the remaining 4000 repay weekly. Let us also assume that the transactions involve both loan and savings components. Thus, the number of average daily transactions is as under:

No. of Savings Transactions	$1000 + 4000/5 = 1800$
No. of Loan Transactions:	$1000 + 4000/5 = 1800$
Total No. of Transactions:	3600

Assume entering one transaction into the system takes 15 seconds. Therefore entering 3600 transactions will take 54000 seconds or 15 man-hours. Typically, to cope up with this level of transactions, the bank would employ 3 data encoders.

Now assume the software enables 'auto transactions' whereby 95% of the transactions that are as per repayment schedule are passed in one transaction and the remaining 5% of the transactions are actually encoded one by one, then the estimated savings in time can be calculated as under:

5% of transactions (savings + loans) = 180 transactions @ 15 secs = 0.75 hours
95% of transactions (savings + loans) = 3420 transactions @ 1 hour for scrutiny and 'bulk' auto processing.

Thus the total time taken in entering daily transactions is less than 2 hours and can be handled by one person on a part-time basis! The savings potential is enormous.

Report Suite: Reports are perhaps the most sought after feature in the software solution. Most of the rural banks that have started micro finance operations have faced the daunting task of guiding operations in the midst of inadequate, late MIS. Not only have internal supervision and controls suffered, banks fail to satisfy the information requirements of regulatory and other external agencies, sometimes with disastrous consequences.

In the face of voluminous and often overlapping report requirements, the application must be able to present its suite of reports in a logical manner. This helps the user in accessing the right report without difficulty and facilitates the process of orderly operations, supervision and decision-making.

Three Basic Types of reports are **Operating Reports**, **Financial Reports** and **Performance Reports**. The following table categorizes and explains the logic of each type of report.

STRUCTURING AND LOGIC OF MICRO FINANCE REPORTS

REPORT TYPE	SUB-TYPE	REPORT NAME	REPORT LOGIC
OPERATING	TRANSACTIONAL REPORTS	- CLIENT PROFILE - CASH FLOW - LOAN REC. - CASH FLOW - REPAYMENT SCH - LEDGERS - COLLECTION DUE - OFFICIAL RECEIPT	These reports form the information background for day-to-day transactions
	SUPERVISORY REPORTS	- COLLECTION MONITORING - DEMAND NOTE - DROP-OUT MONITORING	These reports are the information support for supervisors and managers for monitoring/ control purposes.

	MANAGEMENT REPORTS	• PRODUCT PERFORMANCE • LOAN LOSS PROVISION • MABS	These reports are basically "post-mortem" reports that give feedback about what has already happened and enables management to plan/take actions accordingly for the future.
	EXTERNAL REPORTS	• PCFC (funding agency report) • BSP (regulatory/supervisory) • IMPACT ANALYSIS	These are reports that are required to be submitted to external organizations like fund providers/Donors (e.g. PCFC, ADB), BSP, government agencies, etc.
ACOUNTING REPORTS	TRANSACTIONAL REPORTS	• LISTING OF RECEIPTS AND PAYMENTS – LOANS/SAVINGS • LISTING OF RECEIPTS/PAYMENTS – OTHERS • DAY BOOK/CASH BOOK • JOURNAL/GL	Purpose of these reports is quite obvious…to keep track of transactions from the accounting point o view…basically to see that at the end of the day, cash balance and transactions tally.
	MANAGEMEMNT REPORTS	• INCOME STATEMENT • BALANCE SHEET	To monitor financial performance of micro finance activities.
PERFORMANCE INDICATING REPORTS	PORTFOLIO QUALITY	▪ PAR, ▪ LOAN LOSS RESERVE RATIO	These reports are a generated by combining information from accounting as well as operating reports. These are basically performance indicators for use by the top management (CEO level) as well as the Board of Directors and external stakeholders who wish to measure performance of the organization against past performance and/or given/ accepted standards and benchmarks.
	EFFICIENCY OF OPERATIONS	▪ ADMIN EFFICIENCY ▪ OPPERATIONAL SELF SUFFICIENCY ▪ LOAN OFFCR PRODUCTIVITY	
	SUSTAINABILITY	▪ FIN. SELF SUFFICIENCY	
	OUTREACH	▪ GROWTH – NO. OF ACTIVE CLIENTS ▪ GROWTH- LOAN PORTFOLIO ▪ DEPTH OF OUTREACH	

Implementation

Effective Implementation is a very critical part of any IT enablement. Even the best of applications, may flounder without effective implementation. The following summarizes implementation experiences at rural banks:

Sl.	Implementation Issues	Possible Approaches to Address these Issues
1	**Location/ Logistics** By definition, rural banks are located in rural areas. This has the	Wherever possible, remote implementation (using static IP address at client location and applications like RADMIN / VNC) may be

	following implications: • Physical distances and accessibility is a major consideration. This tends to drive up implementation costs and time. • Infrastructure like telephone lines, Internet connectivity etc. may be a problem. The client may suffer from power outages.	carried out. The implementation must be very carefully planned out and implemented according to plan. Very often, the client-personnel may not play according to the script for various reasons.
2	**Requirement Analysis** Very often, at the beginning of a project engagement, sufficient and well organized/ structured requirement details are not available. Most rural banks do not have a well-organized policy manual, although under BSP regulations they must have them. In the absence of clearly enumerated policies and SOPs most of what one gathers is anecdotal, depending upon the thoroughness of knowledge and communication skills of the person in charge. Exceptions are not spelt out and lead to problems at the time of implementation.	Detailed and complicated SRS may not be the best way out. In fact, the client may not even go thru it! The challenge is to develop simple, easy to visualize formats for the client's easy comprehension It may not therefore be a bad idea to offer to prepare a simple Operations Manual (for an additional fee, of course), prior to the actual implementation work, especially if the client does not have one. You can kill two birds with one stone! . .
3	**Hardware/Systems Software & IT Admin** • Generally the hardware and system software issues are left for the client to arrange prior to implementation of the application. The costs associated with hardware and systems procurement hits the client at this juncture. Most often, at this juncture, the client ends up positioning poor quality hardware and pirated systems software. • Often, banks may not have IT-knowledgeable people to handle	The Software vendor may say that this is not his responsibility, but ultimately he is the one who suffers. Maybe a revolutionary idea could be to bundle the software with suitable, no frills, low-cost hardware, especially for clients with multiple branches. This concept will work very effectively for solutions using open-source software. The solution must have auto back-up features and minimize the need for administration on a

	such basic issues like backing-up/ restoring of databases, creating new users/ roles, adequate virus protection etc.	day-to-day basis.
4	**Data Migration** Migration of existing data into the new system is a major issue. Normally, a software vendor will install the software; test it using some test data and then hand over to the client. However, this leaves the voluminous data migration job undone and the bank, with its limited personnel are unable to cope up with this job. Most banks are reluctant to use local data encoders, fearing information leakage.	Most clients can provide existing data in excel spreadsheet formats. The software vendor must therefore have a suitable system for porting data directly into the database in bulk.

Pricing

A major 'limiting' factor is pricing. It is often the first point of consideration. How does a rural bank justify ROI?

Quick ROI: Let is assume that a rural bank is into group lending with a 180 day product (12.5% add-on interest rate, 10% compulsory savings). Say average loan size is PhP 8000. Thus in a year there will be two cycles. Assume also that the cost of capital for the bank is 15% pa. Also let us assume the bank is able to follow the BSP standard of 300 borrowers to a loan officer.

Given the above, the bank will be able to attain around 20% Operating Self Sufficiency (BSP standard) provided around 50% of the loan amount is generated from savings and the rest is borrowed from external funds. The calculations are as follows:

A BACK-OF-THE -ENVELOP INCOME CALCULATION

AV. LOAN SIZE/LOAN CYCLE	8,000.00
NO. OF BORROWERS	1,000.00
NO. OF LOAN OFFICERS	3.33
TOTAL LOAN DISBURSED/CYCLE	8,000,000.00
ADD ON INT RATE (180 DAYS)	12.5%
INT, INCOME / LOAN CYCLE	1,000,000.00

LOAN CYCLES / YR	2	
INT INCOME/YR	2,000,000.00	
OTHER INCOME/YR (5% OF INT. INCOME)	100,000.00	
TOTAL INCOME / YR	**2,100,000.00**	
EXPENSES		
FINANCING EXPENSES	**960,000.00**	45.7%
COST OF LOAN (at 15% pa…50% of loan amount)	600,000.00	
INT. ON SAVINGS	40,000.00	
LOAN LOSS (2%)	320,000.00	
ADMIN EXPENSES	**700,000.00**	33.3%
DIRECT	500,000.00	23.8%
MANPOWER	400,000.00	
OTHERS	100,000.00	
INDIRECT (ASSUME)	200,000.00	9.5%
OPERATING SELF SUFFICIENCY	440,000.00	21.0%
BSP STANDARD OSS (20%)	420,000.00	

How much of the PhP 440,000 he will like to spend on IT ? For larger banks, with more than 5000 customers, the proposition makes more commercial sense. However, the more that no. of branches, the more is the cost of IT .

This situation calls for improvisations. For example, in a multibranch situation, a model of IT deployment, that maintains just one server at the HO/Branch and a data entry module each at the other branches can be tried. The daily transactions at the branches will be entered into the data entry module and at the end of the day, the file containing the transactions is sent to the HO and the server is updated. This way, a multi-branch bank can do with just one server and a number of clients and data entry terminals. This will bring down overall cost of IT.

The Future

What does the future hold for an IT company in the micro finance sector of rural banks? Micro finance operations are set for increase. Thus demand for IT will increase given its delimiting capabilities and pressure from funders and regulators as well as social impact analyzers.

Large volume, rapid deployment: This seems to be the strategy that the foregoing sections suggest. However to ensure this, effective systems have to be put in place to properly manage this strategy in a way that is profitable. The software company must be able to mass customize, based on a library of modules in the least possible time.

Integration with Regular Banking: Some banks that have ambitious micro finance plans, have segregated MF operations from regular banking operations. However, a large number of the banks want to keep their entire banking activities unified. For such banks, the issue of integration of the MF system with the regular banking software is a critical issue. Specially integration of the regular loans with the micro loans is an important aspect that needs to be examined.

Hardware Bundling: This is an interesting possibility that must be explored. With rapid expansion of branches, the software company must be in a position to roll out boxes with software installed and deploy at bank branches.