

## Microfinance and Automation

*Ralph Houtman*

There are a number of characteristics that differentiate microfinance institutions (MFI) from commercial banks (CB). Some of these are:

1. For MFIs, the transaction amounts are usually small and so are the balances of the savings and loan accounts. This is the logical result of the target clientele that the microfinance sector aims to serve: small and micro businesses and poor and middle class individuals.
2. MFIs often deploy methodologies that result in a relatively large number of transactions per account. An example of this is the typical "Grameen" type of group loan with weekly repayments, with sometimes also weekly savings deposits, either compulsory or voluntary.
3. In most developing countries the commercial banking sector has reached not more than 20 or perhaps 25 percent of the population, usually the wealthier individuals and the larger companies. The potential market for the microfinance sector is in principal the rest of the population, 75 percent or so. This potential share is much larger than the existing share of the commercial banks.

From the above it is fair to conclude that, potentially, the transaction volumes of MFIs are larger than those of commercial banks. And, especially when seen relative to the value of the transactions, microfinance is a more transaction-intensive type of business than commercial banking.

It is probably also fair to conclude that, because of the transaction-intensity of microfinance, the need for automation in the microfinance industry may even be greater than in the commercial banking industry!

It is therefore rather contradictory, and disappointing, to observe that there are still a considerable number of MFIs that have either not computerized their operations at all, or that have used consumer software tools, such as spreadsheets, which are not specifically designed for the transaction-driven, type of operations that MFIs should actually be specialized in. Some MFIs have used off-the-shelf accounting packages which are not designed to perform interest calculations and which are therefore also fundamentally inappropriate.

Experience has shown that MFIs can benefit greatly from computerization of their operations if the computerization is carried out in a proper manner. Some of the main benefits to be expected are:

- a. Easier and faster and more complete access to existing information, contributing to better decision making and improved customer service;
- b. Higher staff productivity and lower cost which can be translated into improved profitability or lower, more competitive lending rates (or higher deposit rates);

- c. Reduction in the number of errors, improved reliability of the available information and reports, greater confidence from customers;
- d. Because more reports can be generated more frequently and more timely, the transparency of the operation and of the condition of the MFI should improve.
- e. Faster growth of the institution, especially when it is computerized from day one. This will contribute to an early breakeven and profitability of the MFI's operations.

Unfortunately, too often in microfinance projects or when new MFIs are being established, computerization is only an afterthought, something that is remembered after the procedures are set and the operations manuals are written, and sometimes after the staff is already trained.

That is a great pity, actually it is a shame!! Because computerization is most effective when:

- it is included in the planning from the very beginning;
- the software system is selected before the rules, procedures, forms, products and job descriptions are designed;
- the rules, procedures, products, operations manuals, job descriptions are designed with the selected software system in mind, making full use of its features and finding workarounds for its shortcomings;
- the branch operations manuals fully integrate the computer-based operations with the non-computer based operations;
- the fully configured system is well tested prior to the start of live operations.