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The BWTP Bulletin

Providing an international platform for exploring ideas and reporting findings on microfinance in Asia.

MIS Usage at MFIs: A Pan-India Study

Arjun Kashyap

A Study by Microfinance Insights

Abstract

From awareness stems action

The present paper studies the progress of Management Information Systems (MIS) usage amongst Indian Microfinance Institutions (MFIs) since a previous survey (conducted in October 2009), which had uncovered a low understanding of MIS. Significantly, the study found that MFIs are now not only well aware, but also enthusiastic about MIS, and investing in line with their operating budgets, with plans of increasing their expenditure on the systems even further.

The study found that while MFIs lauded their MIS' ability to produce myriad reports at the click of a button, they complained about the ever-changing reporting requirements (with investors, donors, and regulators constantly asking for different sets of reports), which made the MIS to underperform. This suggests that there is an urgent need for the standardisation of reporting requirements, something that currently does not exist within the industry.

The other worry of the MFIs is the cost, and the perceived lack of an affordable product that can satisfactorily serve their needs.

Key words: MIS usage in India, Management Information Systems, financial inclusion.

Introduction

The microfinance industry has seen remarkable advancement in technology solutions in recent times. These include Management Information Systems (MIS), mobile banking, hand-held devices, ATM kiosks and smart cards, and hold great potential to act as an enabler of financial inclusion and a catalyst for Microfinance Institutions (MFIs) aiming to scale up their offerings to the poor.

Technology has been referred to as a “game-changer” by those within the microfinance sector, and indeed, it holds a lot of promise. However, there are many challenges before this promise can be converted into tangible benefits.

An earlier global study (October 2009) conducted by Microfinance Insights on the use of Information and Communication Technology (ICT), which assessed how technology solutions aid the growth of microfinance, found a growing interest among MFIs on adopting the technology. One of the main findings of the study was that while more MFIs were embracing ICT, mobile banking, and other technologies, adoption rates were being held back by limitations of infrastructure such as electricity, internet reach, and telecom networks that did not quite reach the “last mile.”

For instance, during a recent visit to a remote region in Bihar, one of India’s poorest states, the research team found that there was no electricity supply for the better part of a day. The only MFI that operates in the area understands the benefits of technology and laments its inability to avail of them. Yet another interesting finding from the October 2009 study was that while MFIs had a vague idea of the advantages of MIS, many were unclear about the exact cost-benefit equation. Of the MFIs that were using MIS, the top concerns were staff training, technical complications, and a lack of after-sales service.

As ICT is a relatively new subject in the field of microfinance, there have been very few assessment studies on the impact of MIS and how best it can be used to improve financial inclusion under such trying conditions. The rationale for this study is to provide a better understanding of the role MIS can play in India’s financial inclusion efforts through microfinance.

Toward this end, Microfinance Insights conducted a pan-India research study to examine the range of MIS being used by MFIs. The factors examined included reach, quality, affordability, ease-of-use, and after-sales service availability. Secondly, the research tried to understand how, and to what extent, MFIs were able to leverage the available technology given their current constraints and resources. The research also considered operational improvements in terms of efficiency, cost-benefits, outreach, and service offerings as a direct result of MFIs’ use of MIS.

The team found that there is no longer any hesitation among MFIs about the benefits of adopting MIS, and they are going all out to invest in, expand and enhance their current systems. Most Indian MFIs spoken to and/or surveyed for this study displayed a keen awareness of the benefits of MIS and have been taking significant steps to embrace technology in a big way.

Objective of the Study

The purpose of the present study is to explore MFIs' understanding and appreciation of MIS. It aims to build upon the researcher's initial efforts with the ICT survey and delve deeper into the subject – this time with a focus on MIS and India, which is Microfinance Insights' home base and one of the poorest and fastest growing markets in Asia. This research effort attempts to address the following question: How best can MIS be utilised to help MFIs address the challenges of financial inclusion in a country as vast, diverse and poor as India.

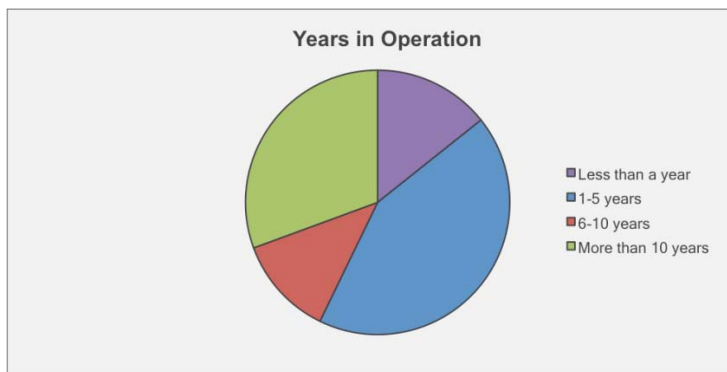
Research Methodology

The research process included an online survey, which was live from mid-July through August and received 49 responses from MFIs across the country. The aim of this online survey was to obtain quantitative data on the current adoption rate of MIS, usage of these systems, overall assessment of the impact of these systems, and challenges therein. This was followed up by a secondary research of literature on the subject.

While the online survey was in progress, *Microfinance Insights* undertook a qualitative survey consisting of one-on-one interviews with CEOs, COOs, and CTOs of 10 MFIs around the country. The rationale behind this exercise was to assess MFIs' experience (if current users) or level of their interest (if not current users) with MIS. During this process, the team obtained deeper insights, opinions, and qualitative data regarding risk perceptions, user experiences, and operational challenges. The identity of the MFIs that responded and the vendors/products has been kept confidential upon the MFIs' request.

Profile of MFIs

The survey sample included a diverse mix of young and old, and large and small MFIs from around the country. The effort received 49 responses to the online survey, and officials at 10 MFIs were interviewed, which brought the sample size close to 59, or about 40% of the MFI population in the country, according to Mix Market data. This large sample, the team believes, is truly representative of India's microfinance industry.



A bulk of the responses (61%) were from for-profit NBFCs, followed by NGOs, Section 25 companies (non-profit equivalents), and a smattering of societies and cooperatives.

A majority of the MFIs surveyed have been in business between one to five years, followed by a significant number (31%) of older, established MFIs among the respondents. The sample also included a fair amount (14%) of MFIs that are very young and have been around for less than a year.

In terms of their portfolio size, most MFIs (57%) had a gross loan portfolio (GLP) of less than US\$ 10m, while a quarter of the MFIs were bigger with a GLP ranging between US\$ 11m and US\$ 50m. At the other end of the spectrum, there were eight large MFIs with a GLP of more than US\$ 100m.

The response mix also had a fair amount of geographic diversity albeit with a greater response rate from the country's south, which also reflects the prevalent distribution mix of MFIs in India. Two-thirds of the MFIs that responded to the survey are active in the south - a region known for its concentration of MFIs - and about 30% of them are active in equal measure across the other three zones.

Of the MFIs that responded to the survey, 82% are active in rural areas, while two-thirds lend to the poor in semi-urban areas, with almost a quarter of them also active in remote rural areas. 57% of the respondents are active in India's cities and serve the urban poor.

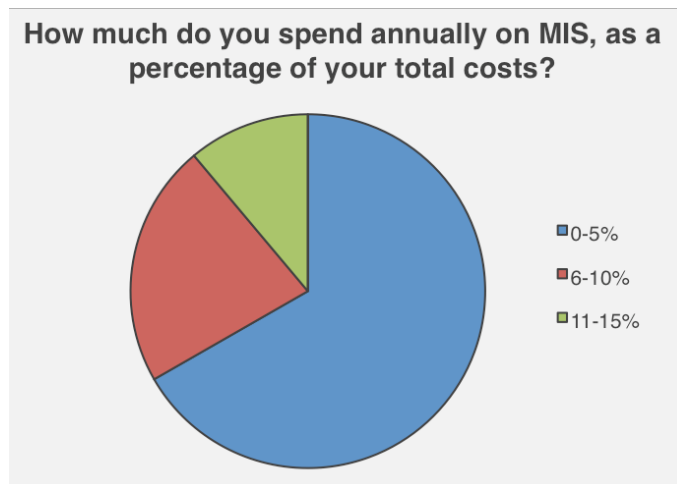
ASSESSMENT OF MIS USAGE

Initial Investments in MIS

While up-and-coming MFIs are slowly tiptoeing into the world of MIS, large MFIs are taking aggressive strides in an all-out effort to embrace the technology. Of the MFIs that responded that they had not invested in MIS, none had an operating budget over US\$ 50 million, and almost one half had an operating budget of less than US\$ 5 million. Larger MFIs, after outgrowing their basic MIS, are increasingly considering more comprehensive systems such as core-banking solutions.

The CEO of a small, yet fast-growing MFI in New Delhi says the microfinance industry will need systems that more closely resemble the ones used by the formal banking sector.

The COO of a large south India-based MFI said they were the first MFI to adopt a core-banking solution in May 2008. Now, the MFI provides its clients with smart cards enabled with biometrics technology, and their field staffs use point-of-sale devices.



As large MFIs have evolved, so have their use of MIS; smaller MFIs, on the other hand, are now where their larger counterparts were a few years ago in terms of MIS adoption, while mid-sized MFIs seem to be moving on from spreadsheets and stand-alone accounting software. According to a 2009 study by CGAP, the number of MFIs that used manual systems or spreadsheets to manage their portfolio had fallen to 18% - down from 46% in 2004.

An official at a large MFI with a robust MIS said: “What we have not done and are working on, is using tablets. This will add to what we already have, by making data entry completely redundant.” The same MFI is also building an MIS tool that will feed off the data tracked by a popular Customer-relationship management (CRM) software to produce historical trends and enable analysis.

In a nod to most MFIs’ concern that MIS is an expensive investment, an official at a small Chennai-based MFI pointed out that its MIS investment for the past three years was funded by a one-time grant from SIDBI (Small Industries Development Bank of India) and that, “Every emerging MFI [established between 2006 and 2010] has gotten considerable grant support from SIDBI.” While MIS investment can be expensive, there are funds out there to support MFIs in this goal.

This experience is in line with the 2009 CGAP study, which found that “lack of funding is perceived as a major contributor to weak information systems among small MFIs.”

An MFI official said they started the vendor selection process by considering about “six to 10 vendors, of which the top five were [prohibitively] expensive. For a start-up MFI, it becomes difficult to rationalise this cost. So, you have to settle for other vendors whose credibility and product features may not be the best.”

There are ways to work around the high initial cost of investment such as by adopting a SaaS model, which is what this MFI ended up doing. However, the SaaS model charges its users on the basis of number of clients and so it becomes less feasible as MFIs grow.

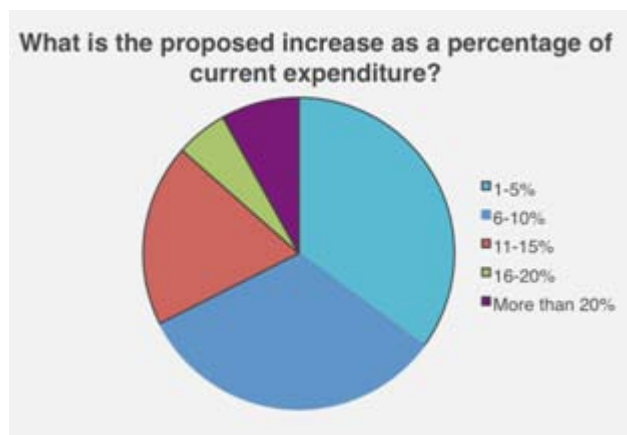
“We are protected until we reach 200,000 customers. Right now, we are at 50,000, so we have a ways to go before we have to worry about SaaS increasing our MIS cost as we grow,” he added.

The survey findings present a very promising picture. They point to a future where MFIs are eager and willing to harness MIS to extend their services and thereby achieve scale. A resounding 84% of respondents said they had already made an investment in MIS. Those that had not invested in an MIS system are only holding back because of either a lack of funding or they have not found the right product. Not a single MFI said it was unsure of the return on investment. For perspective, the Microfinance Insights survey from 2009 showed that a majority of MFIs were still holding out against investing in technology because they remained unsure of its benefits.

This may be taken to signify that the awareness battle has been more or less won, and that MFIs no longer need to be convinced of the advantages of MIS. Now, they only need to be assisted with the proper means to adopt one. However, MFIs aren't convinced that everyone in the sector realises the value of MIS. Here's what one MFI had to say about the industry's acceptance of MIS' advantages, “It's still not all there. Many do realise, but there is no total buy-in yet. The big boys who have become very big are finding it very difficult to implement it to suit their business, while the smaller ones maybe are aware but they are taking half-measures.”

MFIs' are also concerned that such an investment could increase the borrowing costs for their clients. The general manager of a Chennai-based MFI, which has taken advantage of funds from SIDBI to finance its MIS expenditure, said: “Ultimately, an MFI will charge the [cost of the MIS] to the borrowers, which we don't want to. So we are trying to identify other sources to fund this technology. If [we are not successful at raising funds], we will try not to exceed 0.5% to 1% of our portfolio size.”

Future Investments

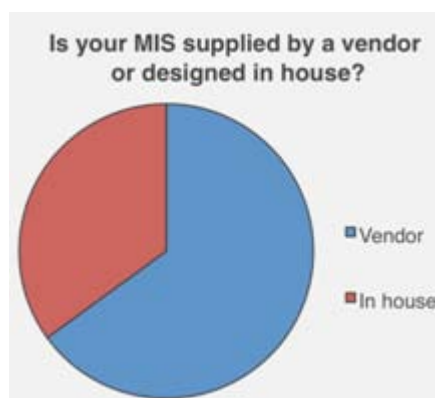


Of the respondents, 91% plan to increase their MIS budgets in the next two years. On average, MFIs spent about INR 3.5m (about US\$ 75,000) every year on MIS. More than 30% of the respondents plan to increase their expenditure on MIS by 6% to 10% over the next couple years; almost 25% of them plan to spend 11% to 20% more on MIS; and 8% said they would spend more than 20% on MIS.

The top three areas of MIS that MFIs intend to invest in include upgrading or changing their existing systems, upgrading their internet and telecom infrastructure, and building or expanding the in-house IT team. About two-thirds of the MFIs reported having a dedicated in-house IT team. Other items on the to-do list include computerising more branches, training staff to use the MIS, and incorporating technologies such as hand-held devices. Six MFIs stated they would spend the money to install an MIS for the first time.

Currently, two-thirds of the MFIs surveyed spend less than 5% of their total costs on MIS, and one-third spend between 6% to 15%. Although the expenditures varied, all segments reported around 80% satisfaction with their current MIS systems. This suggests that cost isn't the best measure of a strong MIS.

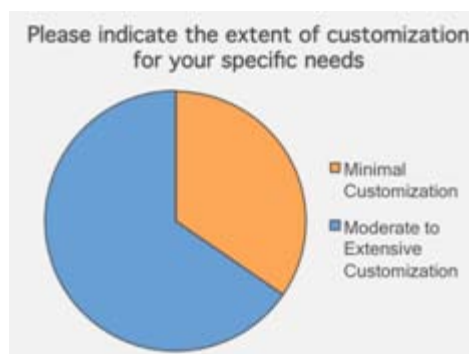
MIS Usage



More than half of the MFIs had retained the same MIS over the years, while the remainder had experimented with other systems before settling on their current MIS. While most of the MFIs that reported changing their MIS had done so once, there were a handful that had switched their systems up to four times over the past three years. The systems used by the MFIs in the past range from basic, plain-vanilla Excel spreadsheets to more complex database management software, either bought from external vendors or built by their in-house technology team.

While 14 MFIs reported using systems that were developed by their in-house technology teams, and three reported using Excel spreadsheets, the bulk of them relied on external vendors. There was no clear market leader, and no one system was used by more than 10% of the respondents.

Considering that 35% of the MFIs said they use a system designed in-house, this could imply that vendors are struggling to meet clients' requirements. Almost two-thirds said they need moderate to extensive customisation, which is easier with an in-house team. This could indicate that computerisation in the microfinance industry is a moving target and that best practices and processes are evolving continuously. Sure enough, many MFIs pointed to the breadth of reports required by different stakeholders and the challenges in getting their systems to keep up with the constantly changing reporting requirements.



For instance, a large national MFI which began operations four years ago and adopted an MIS from day one - for two years, the vendor and the MFI ran beta-testing on the software, fine-tuning it as they went along. However, as the organisation began to grow exponentially, investors, regulators, and auditors began demanding new reports. And the system, which was “strong in the field but not in back-end MIS reporting” could not keep up, and the MFI had to resort to producing reports in Excel.

This led the organisation to launch a search for another vendor. Six months and more than a dozen software evaluations later, the MFI selected a vendor and began a customisation process that had still not been concluded by August 2010 - 18 months after the selection. Ninety percent of the MFI's current system works on an open-source Linux platform. The company plans to move away from a client-server based system to a web-based system with an aim to integrate branch-level data and decentralise the data gathering.

As MFIs go, this particular one is well suited to take on a project of this magnitude. The MFI spends 8% to 10% of its total budget on an IT team of more than 20 people who manages a network of 700 computers at more than 300 branches. The company also has a tie-up, according to the CTO, with IBM and HCL, which provide server and hardware support.

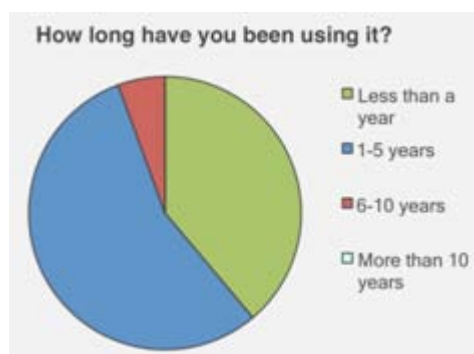
Another oft-heard sentiment was that there is a paucity of affordable choices, and predictably, this concern was voiced mainly by the smaller MFIs. This was also borne out by the findings of the survey which showed most of the vendors listed by the participating MFIs are small, with only a handful of big names.

An urban MFI based in Mumbai, which is at the vanguard of the technology movement, is fortunate to have the know-how from another of its founder's ventures - a technology company. So it worked out well when the MFI found its external vendor's product inadequate to meet its growing needs.

The MFI's founder said that current products and licenses for core-banking systems were "too costly" and that there were "too few vendors that really understand MFIs' needs and core operations." His contention is that the current crop of vendors and developers are not keen on bringing in new technologies.

The handful of pioneers notwithstanding, most MFIs are still relatively late adapters with the constraints and special needs of the sector having, perhaps, delayed the process of adoption, but this is set to change.

Almost 95% of them have been using an MIS for less than five years, 40% of whom have adopted MIS less than a year ago. Only two MFIs reported using an MIS for more than five years, while none had used one for more than 10 years. This is especially significant when viewed in the light of the MFIs' age. As noted earlier, 43% of MFIs have been in business for more than five years, and almost a third have been around for more than 10 years.



It's reasonable to conclude that the awareness of an MIS' benefits has only very recently started to resonate within the sector, although the adoption rates are picking up rapidly. The next hurdle to overcome will be blending the needs of the MFIs and the offerings of the service providers.

Impact on Operational Efficiency

MFIs are experiencing a growing confidence in their current MIS systems. A large majority (89%) of MFIs reported that using an MIS had “improved”, and a respectable 25% said it had “greatly improved” their operational efficiencies.

But MFIs’ comments, which point to the way MFIs think when it comes to assessing an MIS, indicate a preference for a system that is built to evolve with the business:

“Even though present software is advanced, updating is necessary.”

“It helps to take stock periodically and improve the efficiency.”

“All the information is real-time, cuts down duplication of work and improves efficiency at all levels.”

“Online reports were available, which resulted in quick and effective decision by the operational managers.”

One Bangalore-based MFI had this to say about operational efficiency and risk mitigation: “The mere fact that I’m able to capture a transaction as it’s taking place, or at the nearest point in time to that, is a risk mitigator to a certain extent. And fund management becomes more efficient.”

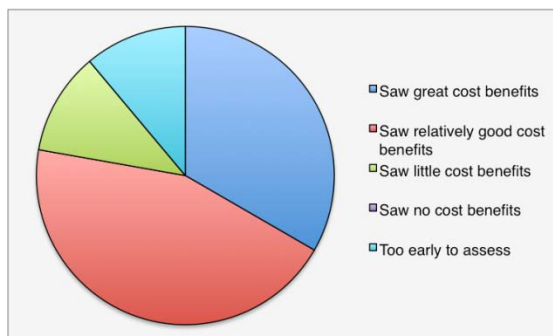
Another large MFI based in Bangalore listed effective budgeting, cash management, and a reduced turnaround time - which has in turn resulted in lower operating costs - as some of the biggest benefits of the organisation’s MIS. The MFI is looking to further reduce turnaround times with the help of their new document management system and after the implementation of their new MIS.

A Chennai-based MFI also lauded the benefits of its new Oracle-based software, which helped the organisation grow from a portfolio size of INR 2.9CR to INR 100CR¹.

“Such is the efficiency. And we don’t have to worry about converting documents from Word, Excel or PowerPoint,” the MFI’s general manager said.

¹ CR = Crore, which is 10 million

Impact on Cost



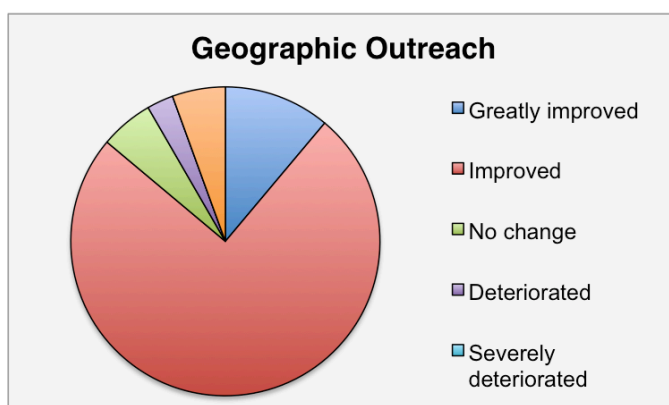
On the issue of cost-benefit analysis, almost a third of the MFIs saw “great cost benefits,” about 44% were slightly less enthusiastic in their review and said they saw “relatively good cost benefits.” 11% of respondents said they saw “little cost benefits” while an equal number reserved judgment stating it was “too early to assess.” This underlines a significant concern that there are not many value-for-money products available currently.

Some of the feedback received from MFIs in response to an open-ended question included concerns about a lack of timely after-sales support that decreased performance while others rejoice in the paperless transactions and online report generation feature that an MIS enables at a “single click.” Other advantages that MFIs cited were the savings in manpower usage resulting in higher productivity.

Another MFI noted that it owned the “best software in budget.” This points, at once, to the constraints and challenges, especially with regards to cost, MFIs face in adopting a useful MIS, and the paucity of good value-for-money products in the market.

More cost-related concerns are addressed in the section on Challenges.

Impact on Outreach



While most commercial MFIs are answerable to their investors for their profitability, there remains a distinct social motive to the business, which highlights the double bottom-line as a very real concept that frequently comes under scrutiny

Scale, measured in terms of how many clients an MFI reaches and in what geographies, is a crucial part of the social bottom-line and the financial inclusion agenda. The study asked MFIs to assess MIS' potential in helping them on this count.

The responses were promising; almost 87% of respondents stated that MIS had either "greatly improved" or "improved" their outreach to more clients in absolute terms. At the same time, 86% of MFIs said using an MIS had helped them improve their geographical coverage.

To paraphrase a few open-ended responses, MFIs are happy that MIS is enabling a faster, efficient, and more accurate reporting system, which frees up the time of their field staff from laborious manual data entry. Thus unburdened from a time-consuming task, field officers are now free to reach out to more clients over a wider area.

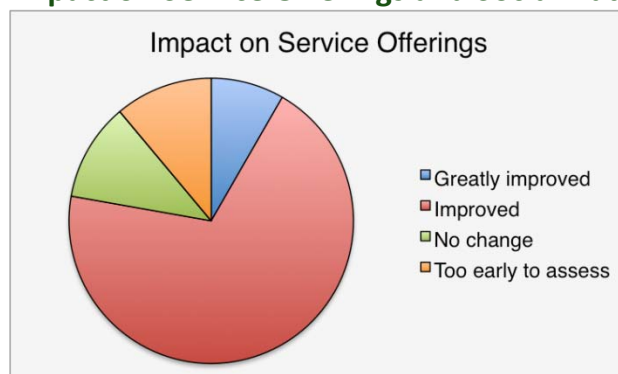
"The operation team is spending more time in the field, which helps them to acquire more members and reach out to un-catered geography faster," one respondent wrote.

One large MFI, which has been using an MIS from the beginning, has grown from having 85 branches, 175,000 customers, and 850 employees to a company with 4,000 employees serving 750,000 clients across a network of 310 branches.

"Without MIS, this growth would not have been possible because it's the only way we can maintain customer data. You cannot track data of 700,000 customers on Excel. Spreadsheets won't cut it," the CTO said.

Not all MFIs agreed that adopting an MIS improved outreach. One small MFI operating in the south said that geographic outreach had actually deteriorated and its client outreach had severely declined since adopting an MIS. The MFI had been using the MIS for less than a year with minimal customisation and said the system did not meet its needs. A medium MFI operating in the south for more than 10 years reported no change in both geographic or client outreach. The MFI started using its current system for less than a year and said it did not meet its needs. And not unsurprisingly, about 6% of the MFIs said it was too early to assess MIS' impact on client outreach.

Impact on Service Offerings and Social Data Tracking

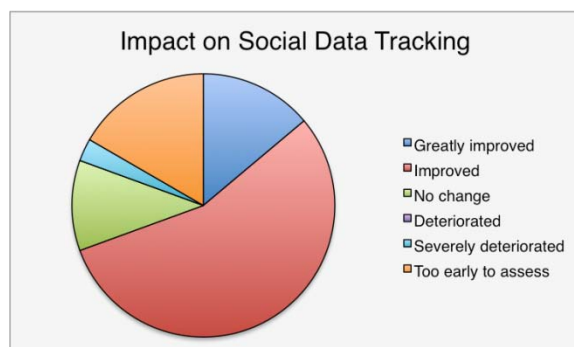


One of the biggest criticisms of present-day microfinance is that there are too few products in the market that do justice to the various needs of its clients at the bottom of the pyramid. Another criticism, and perhaps a more critical and existential one, is that there is no significant body of data available that justifies microfinance's relevance as a poverty alleviation tool.

Although MFIs have been making an effort in recent times to adopt a more diverse product mix, most critics (and even MFIs themselves) argue that most MFIs are functioning on different versions of the age-old, single-product Grameen Bank model.

However, MIS may have a role to play in improving the status quo. About 78% of the MFIs surveyed said MIS had helped improve their service offerings, of which about 8% went further to say that MIS had "greatly improved" their service offerings. About a tenth of the MFIs said there was no change while an equal number said it was too early to assess the impact.

A robust MIS is one that allows MFIs to function more efficiently at lower operating costs and thus bring down interest rates. It will also help capture and store a wide range of data, which will then lead to advantages such as credit scoring and transparent pricing. MFIs also expressed an interest to explore merging their MIS with the mainstream banking sector, which will help them offer services such as ATM access and remittances.



There were almost similar findings for the question about MIS' impact on social data tracking. While 69% of MFIs said MIS had improved this capability, 11% said there was no change. A greater percentage (17%) than earlier said it was too soon to know if MIS was helping or not.

Capability of Existing System to Meet Operational Needs

Respondents indicated that MIS can improve efficiency and productivity to a large extent if the organisation as a whole understands and gives equal importance to technology.

The study found that MIS was helping MFIs assess the all-important measure - Portfolio at Risk (PAR), and in turn, improve their ability to produce credit scores and analyse them. MFIs also noted that they were using MIS to integrate their branches and manage their field

staff better. Quite a few MFIs credited their MIS for reducing the paperwork for their loan officers who could then focus on acquiring new clients and follow up on outstanding payments.

CRM was another area in which MFIs said MIS was proving useful because it enabled them to introduce features such as smart cards (carried by borrowers) and hand-held devices (carried by loan officers) that help record transaction data directly into the main system without manual intervention. Such integration is not possible with an Excel-based system.

These technologies also precluded the handling of cash by field staff thereby reducing the risk of theft. Yet another, and one of the most useful features of MIS, is its ability to generate the many different types of reports mandated by lenders, donors and regulatory agencies.

In terms of overall satisfaction levels, a majority of the MFIs said they were happy with the MIS and that it met their expectations on various parameters such as cost, customer care, usability and flexibility of the MIS, and its reliability and stability. Many MFIs were also satisfied with the level of after-sales support provided by the vendor. In a clear indication of correlation between due diligence and the quality of an MFI's experience, it was seen that the MFIs that took the pain to carefully select a vendor and system, were usually happy with the product and the vendor.

A sizable number of MFIs, however, also indicated that their MIS fell short on various aspects, especially in terms of its flexibility and the ability to customise a system once it was built. This was also corroborated by our personal conversations with MFIs around the country.

Challenges

While this study shows that more MFIs are recognising the value of a robust MIS system, there are many challenges that prohibit MFIs from investing in MIS. The challenges include things that are beyond an MFI's direct control - such as infrastructure and after-sales support.

Cost

Cost - the biggest challenge of them all that MFIs have to surmount before investing in MIS. This continues to top the list of concerns for MFIs. Predictably, smaller MFIs worry more about this aspect than larger MFIs. While the latter have the financial wherewithal to make large investments, most small MFIs seem to get caught in trying to make a compromise between investing too much money on a system they might soon outgrow and settling for a less-than-ideal system just because they could afford it.

In response to concerns about cost, one CTO noted that while it may seem like MFIs are saving money by not investing in an MIS at the outset, managing and streamlining a business becomes very difficult a few years down the road. “It’s better to have a proper system from the beginning,” he says.

Inability to Meet Operational Needs

The requirements of a myriad range of reports, as mandated by entities such as investors and regulators, especially in the absence of a standardised reporting requirement, renders it extremely difficult for MIS products to meet 100% of any MFI’s reporting needs.

One MFI, which said it was satisfied with its system, added that it did not cover all reporting requirements concerning non-financial parameters such as social activities, requested by CGAP.

A Pune-based MFI seconded this concern saying, “We have 14 lenders, and not one of them has a common reporting requirement, and it’s changing all the time. So every time they change their requirements, we have to customise our MIS.”

The same MFI also noted that its present software is not capable of integrating with the software used by its intermediaries who use a different system. Consolidation is a challenge, according to an MFI official, which has led the company to switch to a core-banking solution with a centralised back office system. The MFI is currently in talks with three vendors assessing cost, deliverables, and maintenance issues.

The Pune-based MFI has one system that is “predominantly a loan management system” and another, Tally, to maintain its accounts. “So we have to integrate [these two systems] which is a challenge,” said the CFO.

Yet another challenge, the CFO observed, had to do with low delinquency rates in the industry. “This is why delinquency MIS is not very robust at MFIs. So, if delinquency skyrockets, most MFIs won’t be prepared for it.” There is a clear need therefore, for MIS to be able to flag off an early warning when delinquency rates cross an acceptable limit.

Infrastructure Availability

It’s hard to deny the fact that one of the basic necessities for a functional and effective MIS is the availability of electricity. However, most of the MFIs surveyed did not consider this a significant problem as their requirement of electricity, as far as MIS usage is concerned, is only a few hours a day, and most of them seem to manage despite severe disruptions, or work around them. While 22% of the MFIs reported having a very stable supply of electricity, almost 30% of them reported daily outages between two to five hours. More alarming is that nine MFIs reported suffering from supply disruptions of between five hours to more than 10 hours every day.

While all MFIs were wired to the internet, the access varied at branch locations. While 67% had access to high-speed Internet at their head offices and their branches, a few of the MFIs (22%) did not have any Internet access in their branches. An equal number were managing with slower, dial-up connections.

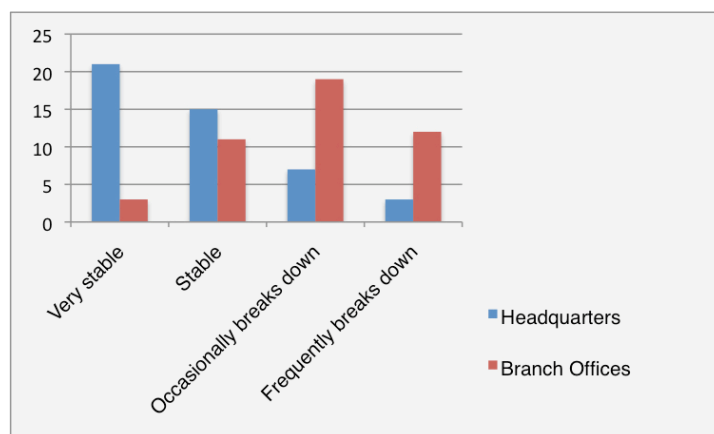
Direct conversations with MFIs were more revealing in this regard. One of the largest MFIs in the country had this to say about connectivity in rural areas: “Branches in rural areas have very unstable electricity supply and internet access. Power cuts and low bandwidth [are] the biggest challenges to building a centralised web-based application.”

This tech-savvy MFI with its own software development team is trying to do precisely this. The MFI also noted the lack of private telecom companies in these remote areas, which is dominated by Bharat Sanchar Nigam Ltd. (BSNL), a government-owned entity, “which is very difficult to deal with.”

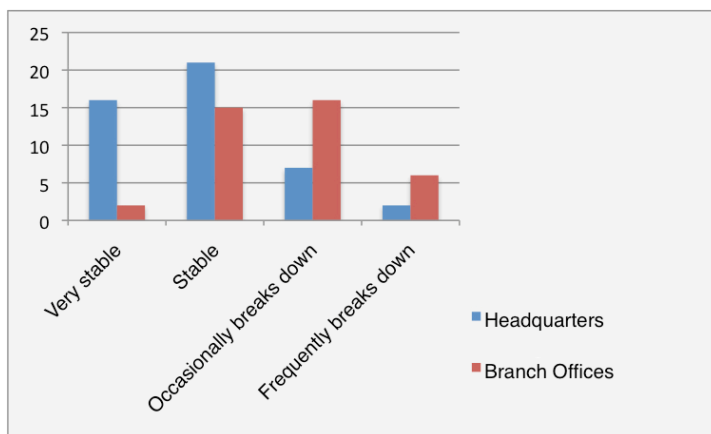
A small New Delhi-based MFI, which focuses on remote areas in rural India said, “...inadequate infrastructure and limited connectivity is a serious challenge.”

One executive noted that a stable supply of electricity is a problem for any company in India, regardless of its pedigree. Even cities like Bangalore, which boast of world-class technology hubs, suffer from frequent power cuts, and companies are driven to rely on captive generators and uninterrupted power supply (UPS) systems. Future studies that explore this aspect of an MFI’s operational challenge could examine MFIs’ investments in these backup facilities.

How stable is your electricity supply?



How stable is your internet connection?



Adoption of New Technology

One challenge faced by large and small MFIs is the availability of experienced staff to implement and use the MIS. According to one MFI, “Getting people with the knowledge of core-banking was a challenge, initially.”

One south India-based MFI pointed out that they invested in FINO’s Core-Banking software but saw other MFIs give up the system’s implementation half way, “because it is a very complex system.”

“We went through a period of turmoil when we were switching to the core-banking system. Understanding the system was difficult. For instance, how to track and treat payments was a significant operational challenge.”

However, once organisations dealt with the initial challenges of setting up a system, most MFIs claimed that the systems they used were highly user-friendly and easy-to-use, and required minimal training.

After-Sales Tech Support

Another oft-cited issue is that of post-sales support. One MFI pointed out that it is natural for software to be tweaked after it has been designed to meet the evolving needs of a growing organisation, but “this is difficult to get the vendor to do.”

Management Buy-In

Most surveyed MFIs stressed on the importance of a buy-in from the entire organisation’s staff - right from the senior management to those on the bottom-most rung in the hierarchy.

According to a south India-based MFI's COO, "Any implementation of technology is a diversion of management's time. It's very painstaking. You have to be dedicated and focused. You have to be tenacious, and you shouldn't give up. Also ensure you evolve in stages. Ultimately you have to be like a bank. You have no choice."

An official at a small Chennai-based MFI concurred, saying, "It all comes down to the decision of the top management and their comfort level with MIS and their vision for the future of the business."

The CTO of another large MFI based in south India - an early adapter with a sizable in-house IT team - also observed that an MFI's decision to adopt a system has a lot to do with the top management's views on the subject. "In [our company] most [senior executives] come from a banking background, and they have seen how these banks have grown with the help of technology. So they know the role of technology in a business' growth."

MFIs with technocrats and bankers at the helm are the ones thinking of the long term and willing to invest time, money, and energy into building a robust system that will support their operations as they grow larger to near bank-size proportions. This attitude is not limited to large MFIs; even small MFIs with clued-in senior management are working toward this future. However, smaller MFIs find it difficult to hire the best talent and seem to be stuck in a Catch 22 situation of sorts.

It is important to note that this is a hurdle faced by any large-scale IT project, and is not unique to MFIs. For instance, according to the CEO of a consulting firm in the space, large firms routinely refuse to manage an IT implementation on a stand-alone basis and will only take on broader change-management projects including adoption, capability building and training.

Reaching the Last Mile

Reaching the end-user is a challenge. This can be overcome by having web-based system architecture, MFIs say. "At present our customer relations staff has to call the branch or a regional office for information but if he has a hand-held [made possible by a web-based system]," this can help bring the benefits of an MFI's service faster and in a more efficient manner to the client.

Product/Vendor Selection

The CEO of a small Bangalore-based start-up MFI currently using Tally pointed out that while his company is keen on acquiring an MIS "within the next two to three months," it has been held back from this because the company's executives "have not really been able to articulate what we exactly need. An anxiety of articulating my needs wrongly is also holding us back."

The same MFI's executive also noted the dearth of products that serve smaller MFIs, which was echoed by other MFIs of similar size.

“Our problem was we found this huge emphasis on the core-banking system. The financial inclusion drive has created a big market for these systems. And the players in the market are keen on exploiting the big business brought on by this drive. This is completely natural for a vendor to do, but for our purpose, we need to find someone who can work with us.”

Not all agree with this view, and several leading vendors are building strategies to serve the development sector. The CTO of a large national MFI said, “It's not necessarily true that there are no good vendors out there.” The CTO went on to state that he had been approached by Wipro (one of India's largest software companies) and SAP, “because they want to work in microfinance.”

“SAP does not have anything in microfinance, and they want to take [our company] as a case study and want to build something for MFIs. These big players are looking at MFIs as good business after the SKS IPO hype², and I think about four to five years down the line, good software should be available for MFIs.”

Borrower's Literacy Levels and Unfamiliarity

While some MFIs are worried about borrower literacy and unfamiliarity, it is not a top concern currently. But, as MFIs move to using more advanced technologies and participatory methods with more client involvement, such as the use of hand-held devices, however, this could become a pressing concern.

CONCLUSION

What to Look For in an MIS

In the 2009 edition of the State of the Sector Report, sector expert N. Srinivasan enumerates what factors MFIs should consider while evaluating an MIS. The list includes checking to see if the system is in alignment with and can be integrated into the business model. It also touches upon a host of features such as report generation, usability, upgradability and security, which MFIs are now focusing on.

To gain a better understanding of what MFIs value in their systems, the present survey asked them what they thought were the strongest features of their current system. The CTO of a large MFI based in south India put handling customer data at the top of the list. In an industry like microfinance where customer information flows from the groups to the

² SKS was the first India MFI to go public and made US\$ 350 million from its initial public offering in August 2010.

branches to the headquarters, it's crucial for the MIS to tightly integrate these information flows and eliminate data mismanagement. He added that this was the critical element of MIS that microfinance software was unable to handle.

A Mumbai-based MFI suggested the following criteria for MIS vendor selection - a majority of which were echoed by other MFIs. Leading the list was the vendor's knowledge of the microfinance industry, followed by their capability and flexibility to customise and fine-tune the product. Next on the list were maintenance support and the stability of the vendor's business.

Drawing on lessons from a study conducted by the Institute for Financial Management and Research's Centre for Microfinance, the report points out what has been substantiated by the current study. Noting that Indian MFIs have their roots in the non-profit/NGO milieu "with minimalist technology systems," MFIs are now beginning to recognise technology as an investment rather than as an expense, according to the report.

Indeed, the IFMR report goes on to say that most new MFIs have invested in technology from day one, which is borne out by the survey team's one-on-one interactions with senior management of MFIs.

It is also important to temper expectations of what an MIS can and cannot do, one CTO cautioned. No MIS can produce all the reports an MFI may want, he said.

Other criteria that MFIs would do well to bear in mind are to pay particular attention to cost and the likelihood of a system becoming obsolete. As found during the study, one of the most recurring reasons why MFIs changed their MIS was because their system could not cope with their growing business thereby becoming obsolete.

Another issue is that of choosing a vendor. Should an MFI go for an established company or an independent service provider (ISP)? On this question too, MFIs were fairly unanimous in choosing an ISP citing reasons like cost, flexibility and after-sales service.

Says one large MFI: "The problem in technology and MIS is that the bigger vendors are still not looking at MIS as an opportunity, so we have to take what they have. Smaller [vendors], we are not sure of their future to go with their product."

One thing to keep in mind while choosing a vendor is the challenge that plagues most of the IT industry - a high rate of attrition. In fact, one large MFI has suffered through the departure of three lead project managers, delaying the process by almost 18 months.

Yet another challenge comes from what might seem like an unexpected quarter. One MFI the team spoke to noted that investors may indirectly be discouraging MFIs from adopting technology because the advantages of adopting new technology are not immediately apparent.

“Spandana is going for an IPO, but they don’t have any technology to speak of, yet big investors are running after them. [We] have done so much in tech, but the results would be seen only two years down the line. So, if an investor looks at us now, he will not give us money now and prefer to wait until later.”

Translated, that means investor buy-in is required and they need to have a longer-term outlook; and create incentives for MFIs to adopt technology.

Suggestions from MFIs

A small Bangalore-based MFI that is just starting up and is on the lookout for vendors said it needs a product that can integrate their system all the way from the initial field transaction to the final report. “What we are looking for is a highly flexible product that can produce both standard reports and exceptional reports for any deviation.”

And they are not alone in this request. Most MFIs said they are looking for MIS that has a more robust report-generating capacity. In terms of features, one of the examples given by an MFI’s CEO was: “For instance, if a client is facing difficulty in paying back a loan, we want to be able to provide an instalment feature and the system should be flexible to adapt to that. Or if someone makes an excess payment, which should be reflected in the principal, and future interest be calculated on the reduced principal.”

The system should also, the MFI’s CEO added, be capable of capturing transactions that occur when an MFI is cross-selling a product like a mutual fund or a savings product or an insurance product. In such cases, the software should be able to seamlessly pass on this transaction to the MFI’s strategic partner, without human intervention, so the partner can use it to track/record their product and transactions.

Another suggestion was for a system to enable a gateway for pass-through deposits, “like VISA, in case the regulator allows it, which would be a great catalyst.”

Yet another suggestion had to do with the RBI-approved Business Correspondent (BC) model, where local retail outlets take on the role of an MFI’s branch in areas where it may not be very cost-efficient for an MFI to open a full-fledged branch.

“We will have a lot of BCs working for us, so this intermediary should be integrated into the MIS - to track the BC’s cash exposure, commissions paid, etc.” said an MFI’s CEO.

Also, more MFIs spoke up in favour of a tailor-made product than for a standardised product. And the call for tailor-made products was usually accompanied by a request for a handholding period of about two years, which would help train MFI personnel to make the best use of their MIS.

Although MFIs are in favour of customised MIS, a study by the Centre for Microfinance found that using an off-the-shelf system actually provided more benefits. In some cases, using a customised solution was more expensive and time-consuming than an Excel-based system. The study found that in MFIs with custom-designed MIS, branch staff spent more time updating records per day and on branch audits than Excel-based MFIs and MFIs with an off-the-shelf MIS. The difference in the man days spent on a branch audit was significant: Excel-based MFIs spent eight, MFIs with a custom design spent 12 and MFIs with an off-the-shelf MIS spent six.

The same trend applies when looking at per client costs. The custom design produced the highest cost per client for branch audits. Excel-based MFIs had the highest cost per client for updating records by both branch staff and loan officers. The off-the-shelf system produced the lowest cost per client for all three categories.

So, while MFIs prefer a customised solution because it can be tailored to their specific needs, it might be more expensive in regards to common tasks. It could also be more time consuming because the management would incorporate more reports to suit their needs. On the other hand, a standard product will have only those features that most clients will demand. So, a better way would be to see the number of reports that these systems churn out per data point that will indicate how effectively it meets management needs.

One policy-level recommendation provided by an MFI was aimed at addressing the issues of cost and security concerns, both of which if dealt with, could significantly enhance adoption rates at smaller MFIs. Regulator/umbrella organisations such as NABARD could buy a product like FINO and the servers to support the software and create a platform for small MFIs to use this service without having to invest in the infrastructure hosting the data.

Large software companies, MFIs suggested, should invest some time pro-bono to develop software that “could be their CSR.”

Another recommendation, which is being followed by some large MFIs with the resources to do so, was to allow transactions to be captured onto a central server and not in an intermediate location. The system should be able to support technology such as GPRS so that transactions recorded at remote locations can be directly transmitted to and recorded on the central server. And this could be achieved if different providers, including MIS vendors, telecom companies, and other technology providers, worked together.

When asked the kind of support MFIs would need in order to effectively utilise MIS, reactions ranged from citing technical needs such as requiring help in converting a desktop MIS to a web-enabled system to an overarching call for “management support and persistence.”

Other feedback included the call for an MIS that would be easily and efficiently compatible with a wide range of financial products and services that MFIs will be expected to offer in coming years. MFIs also emphasised the need for a system that would work across business models such as self-help groups (SHGs) and joint-liability groups (JLGs).

And along with a reiteration of requirements such as availability of technical support, and flexibility and customisability at affordable costs, MFIs also feel the need for standardised systems. One answer could be the introduction of mass customisation - a production technique that aims to produce customised products while attempting to retain the cost efficiencies of a mass-produced product.

According to one MFI, “Customised universal model like Tally is essential to microfinance institutions.” Yet another MFI suggested a low-cost front-end technology that complements a mobile device-based technology at the clients’ end. Another crucial criterion pointed out by one of the responders was “Guidance at data capture level from Management and also from regulatory authorities & banks.”

In what could be termed as direct advice to software vendors, one MFI had this to say: “Most of the MIS in the market is built around loan management. CRM should be given equal importance so that we capture the details about the customer and develop/customise other financial needs, which will help to take care of financial inclusion.”

From One MFI to Another

MFIs also had tips for others like them that may be considering adopting an MIS. One company, which is currently involved in the process of selecting a vendor, recommended getting professional help in putting together the specifications of the required MIS. “Debug the sales pitch,” and use an independent evaluator who can guide in the process of acquisition.

A large MFI with an established and evolving MIS suggested that smaller MFIs can avoid investing heavy sums in technology by adopting the SaaS model, which allows MFIs to buy a software license subscription on demand to conduct tasks such as payroll management, billing and document management, until the organisation grows large enough to justify investing in an in-house system.

Increasingly, such technology is also available online for little or no cost. For bigger MFIs, SaaS may not be a viable model as the cost rises in line with the number of transactions. It might be more cost effective for a large MFI with a huge volume of transactions to invest in software.

For MFIs looking to shortlist vendors, the same CTO advised picking those with a strong technical background with an interest in and knowledge of the microfinance industry. It's also ideal to conduct third-party evaluations and speak with former and current clients of the vendors, he said.

Speaking from a borrower's perspective, an official at a Chennai-based MFI pointed out that, "The borrower should not be penalised because of technology. Decide how beneficial it's to the client because it's a capital expenditure and you have to amortise your expenses and that pushes up your costs."

"There is no standard system that will cater to all MFIs," he added and advised MFIs to be very clear when specifying their requirements to the vendor and hold them responsible for the deliverables.

MFIs consider it vital that the vendor train their staff in a way so that they can handle crises in the absence of a technical team. Also, if an MFI were to be migrating from one system to another, it is advisable to run the two systems parallel to each other until such time that the staff is comfortable with the new one.

Another MFI, which chose its vendor on the grounds that, "they were willing to work with a start-up MFI and grow alongside," had this to say: "Understand that 60 to 70% of MFIs' requirements are standardised by now; keep in mind scalability and [the MIS'] capability to integrate accounting software; and, don't forget the cost perspective."

MFIs in India, and elsewhere, would also do well to study the innovative use of IT by their counterparts in Latin America. Beset until recently with unstable governments, hyperinflation and other endemic socio-economic challenges, organisations in that part of the world are notable for adopting technology to surmount these challenges.

Another aspect of this discussion that can shine light on how MFIs can better aid the financial inclusion effort has to do with the use of mobile telephony. This issue, which was deemed to be beyond the scope of the present study, could address the challenges of reaching the "last mile." While web-based architecture, as mentioned earlier in this report can assist in this regard, it is also dependent on the availability of hardware and internet connectivity. On the other hand, and as has been proven by a handful of MFIs, mobile phones could possibly help bridge the gap and go where traditional MIS cannot reach.

Cloud computing is an easy-to-manage option. MFIs don't have to deal with the technology infrastructure or storage of information. If anything happens to the computers in the branch offices, all of the information is stored on the remote server. The one main disadvantage of such a system is that it requires internet connectivity to access, which many MFIs' branch offices have inconsistent access to.

In conclusion, the team would like to note that while there are many challenges yet to surmount in all the areas listed so far, there are plenty of opportunities and the willingness to embrace MIS. It is hoped that this report will act as a guide for vendors, regulators, and the MFIs themselves, and help in the journey toward better and more efficient systems. From all the evidence out there, it is now fairly obvious that MIS has proved itself as a catalyst to scale and the going should only get smoother in the years ahead.

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For Further Information:

Contact the Banking With The Poor Network Ltd. at info@bwtp.org

Tel: + 65 6438 4112