

# ICT'S ROLE IN MICROFINANCE TO IMPROVE FINANCIAL INCLUSION IN NORTHERN, SRI LANKA

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POLICY BRIEF

Microfinance interest rates are high in Sri Lanka mostly ranging from 20% to 72%, mainly due to the high risks involved and transaction costs. For example considerable costs were incurred by following time consuming, costly manual procedures & practices. Some of the procedures currently used includes, manually filling the forms, conducting weekly meetings to collect repayments, regular visits to the Head office to update information and handover the repayments collected. Whereas, ICT diffusion can help to speed up the process and reduce costs.

A qualitative focus group discussion and in-depth interviews was conducted among women micro-loan borrowers from the Northern Province of Sri Lanka with the intention of assessing the following,

1. Current micro-finance practices used to achieve financial inclusion
2. Current level of ICT intervention/diffusion within microfinance practices
3. Barriers in adopting ICT to reduce transaction costs within the microfinance operation

## KEY FINDINGS

### 1. Opportunity to use existing financial services channel

Despite the financial services infrastructure & the high banking density, ICT has not been diffused as part of the microfinance operation in Sri Lanka. The widely practised conventional group lending model needs to be replaced by using the existing financial services channel.

### 2. Opportunity to capitalize on the digital infrastructure to optimize efficiency

Incorporating digital technology will reduce transaction costs & streamline loan management practices by improving efficiency and effectiveness. Relevant technology can be used to centralize the information on clients/loan, monitor portfolio, impact and results

## THE RESEARCH

### About the Research Study

The data collection for this research was qualitative and involved 30 respondents from Northern Province, Sri Lanka. The methodology involved Focus Group Discussions (FGD) involving around 5 participants per FGD which lasted for around 1.5 hours. The sample included female borrowers from both urban and

rural areas ranging from the ages 25 to 45 and representing SEC D & E. In addition to the above in order to understand the supply side factors of Microfinance, in-depth interviews with prominent microfinance practitioners were conducted. Micro finance practise in Sri Lanka can use Innovative operating methods could be used to save costs, time and improve efficiency

& productiveness. But technology adoption remains zero in Sri Lanka because MFI has access to exploitative form of female labour which comes at no cost.

### **Use the existing financial/banking systems**

Microfinance customers could be provided with the facility to access the current ICT technologies used by the traditional banking systems such as EPOS, ATMs, mobile transfer money and Smart Cards. Mobile Banking and Agent/borrower related banking services can be provided by the MFI's by partnering with the commercial banks. Thus, minimizing the costs related to setting up new financial/technological related infrastructures.

### **Mobile technologies can replace physical visits**

Establishing branches, physical visits incur a very high cost which can be replaced by the mobile technologies to reach more clients without opening new physical branches. ICT should be recognized as part of the core business and include ICT related expansions as part of the strategic planning of the MFI's. Policy makers, governments and other stakeholders should encourage MFI's to adopt ICT. Grants can be provided by the Government to encourage and support local MFI's to develop ICT based microfinance businesses.

### **Increase digital literacy amongst women micro-loan borrowers**

Encourage Microfinance Institutions (MFI's) to provide ICT related training to the women. For example, some of the Information & Communication (ICTs) such as the Mobile phones are among the fastest diffusing ICTs of all time.

### **Costs can be significantly reduced**

Operational costs can be reduced with comprehensive automated operation & management practices. By using the relevant technology to centralize the information regarding the client and loan, monitor portfolio, impact and results. Information systems can be effectively used to capture data, process relevant information for decision making at both the operational and strategic level at a cost effective and timely manner. Usage of devices such as the laptops and tabs in the field has contributed to a substantial reduction in paperwork. In addition to that the agents are able to access/enter the relevant and necessary client information, calculate and take key financing decisions on a real time basis or the collected information can be uploaded into the MFI's server at a convenient time much later

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