

Technology's role in microfinance to improve financial inclusion in the post-conflict regions of Sri Lanka

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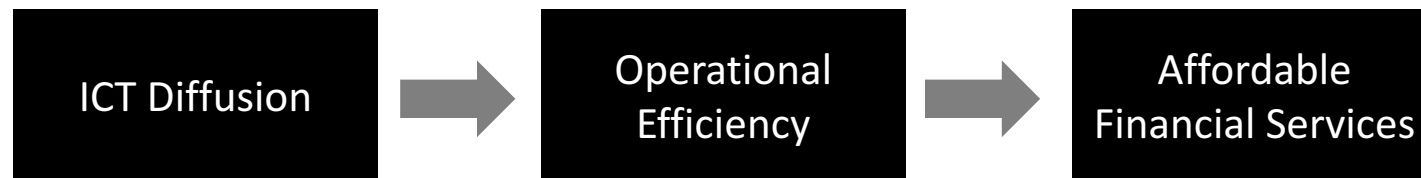
Microfinance, a key enabler of financial inclusion

- Financial inclusion has been identified in the development agenda as a powerful enabler to reduce poverty and boost prosperity.
- The global financial inclusion agenda specifically recognizes importance of building:
 - Financial literacy
 - Consumer financial capabilities
 - Consumer protection
- Microfinance emerged as a powerful tool to achieve financial inclusion, by providing **affordable financial services in a fair & transparent manner to low income households.**
- Is microfinance affordable to women from the Bottom of the Pyramid (BoP) in the Northern Province of Sri Lanka?
- How can we make it affordable through technology?

What are the factors affecting affordability?

How can ICT help?

- High interest rates incurred by lending small monetary amounts
 - High risks involved
 - **High transaction costs**
- Operating costs account to around 60% of the interest rates charged. (Responsibility Investments, 2014)
 - Achievement of higher levels of operating efficiency allows MFIs to charge lower interests on a sustained basis.



- Infusing ICT helps to provide affordable & convenient financial services

Research objective:

- To understand the role of technology within microfinance operations in the Northern Province of Sri Lanka

Research questions:

- What are the current micro finance practices and how has it helped to achieve financial inclusion in Northern Province, Sri Lanka?
- What is the current level of incorporation of ICTs within microfinance practices?
- What are barriers for incorporating ICTs in microfinance?

Both demand side and supply side information are gathered

- Qualitative Interviews
 1. Demand side data sources
 - Conducted Fieldwork in Jaffna and Kilinochchi:
 - During Dec 2016
 - Covering 30 respondents (5 FGD)
 - 25 – 45 year old women from lower socio-economic strata
 - Those who have taken a microloan
 2. Supply side data sources
 - 4 in-depth interviews with Microfinance practitioners
- Secondary Sources
 - Microfinance association
 - CBSL Report
 - CEPA Report
 - Newspaper Articles

1. What are the current micro finance practices in the Northern Province of Sri Lanka?
 - How has it helped to achieve financial inclusion?

Why do women from low-income households borrow from MFIs?

- **Small value loans are easily available during the time of difficulty**
 - *“I mentioned to the agent that I need loan to start my own tailoring business to get the money and used it to meet my family’s daily needs and expenses”.*
- **Approached/persuaded by microfinance agents/group leaders to join the group loans scheme**
 - *“We don’t go searching for loans from microfinance. They come to our door step with some known person and try to convince us to get credit”*
- **The loan is obtained to meet unplanned expenses/ day-to-day consumption rather than on regular income generating activity**
 - *“I bought a motor bike for my son with the micro-loan that I obtained. The agent is living around our neighborhood so I got it easily”*

Interest rates are as high as 72% per annum!

Leads to unaffordability

- Interest rates can be quite high
 - For e.g. borrowing a sum of Rs. 25,000 could require weekly payments of Rs.1,000 for 10 months, resulting in an interest rate of 72% per annum.
- People's financial positions and capacity were weakened due to high interest rate
 - *“It is very difficult to repay the loan, every week we have to some how get 1000/- When unable to repay, I borrow from my friends/neighbors”*
- The government has proposed limiting the lending rate offered by MFIs so that it doesn't go beyond 40% per annum (news.lk, January 2017)

- **The current level of ICT intervention within micro finance practices**

Group lending model requires excessive human interaction, so limits technology intervention



Loan Officer

- Employed by the MFI
- Visits Microfinance agent's house every week to collect the total repayments

Agent /Group leader

Primarily functions as Group Leader/agent for a particular area & also a borrower

Borrower

- Borrowers must visit the microfinance agent and handover repayments on scheduled dates
- In case of delay in payments on scheduled dates, need to visit HO and handover cash

Group Leaders, a key role to effectively disburse loans amongst borrowers

Approach

Borrower approaches agent/Group leader

- Assess if the applicant is credible & trustworthy (Through previous experience of interacting with each other)

Assess

Group Leader assess Loan Applicant

- Borrower approaches agent appointed by the MFI for a particular area

Application

Group Leader processes the application

- Informs loan officer if the agent believes the applicant is credit worthy
- Requests for new loan application forms from the loan officer
- Assists in filling the required forms
- Arranges for documentation such as the Grama Sevaka certification and obtain signature from two guarantors.
- hands over the application to the loan officer at the branch/head office and arranges for the loan facility for the applicant.

Operational work has been outsourced to the agents/group leaders at no cost

Agents/Group Leaders incur expenses, both monetary and time costs to ensure payments are settled on time. (E.g. telephone and transportation costs)

“I am working as a microfinance agent for the past three years and currently, handling around 25 accounts within my area. However, I have not obtained any benefit besides being able to take part in the annual raffle draw. I haven’t received any gift through the annual raffle draw but my friend has got a rice cooker. I have continuously requested the loan officer to reimburse my telephone bills and transportation costs but nothing has been done”

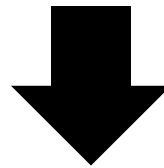
MFI’s doesn’t pay for the agents/group leaders services or reimburse for the costs incurred

- Exploitative forms of cheap labor is used for loan disbursement and management
- Barely incurs any costs to administer the smooth operations except for the weekly visit to collect the repayments from the microfinance agent.

- **What are barriers in ICT intervention and thereby reducing transaction cost in micro finance operation?**

Sri Lankan MFIs bear only a small portion of the transaction cost → They enjoy supernormal profit

- MFIs have no pressure to reduce transaction costs
 - They have less/ no transaction cost
 - Operational work has been outsourced to the agents/group leaders at no cost
- MFIs reluctant to adopt technology → Human interaction needed to pressure borrowers to re-pay on time.



However, when asked for the details for the barriers in adopting technology, MFI's claims that borrowers aren't ready yet.

Are borrowers ready to adapt tech?

- Based on feedback from 30 woman who participated discussion (though non representative)
 - All household have at least 1 mobile phone
 - 7 out of the 10 women interviewed have a mobile phone for them self (nearly half of them have smart phone penetration)
 - 4 out of 10 women had access to internet and watched news on YouTube and communicated with friends through Whatsapp.
 - 7 out of 10 woman have used ATM facilities
- Few respondents do not understand what is meant by internet, but they claim to have regularly used YouTube and Whatsapp.

“My 8 year old daughter taught me to chat on whatsapp with my friends and also to watch news on YouTube. But I can’t don’t have access to the internet and don’t know how to search for content on Internet”

Woman have high access to financial services in Sri Lanka

- 8 out of 10 respondents interviewed had a bank account in the commercial banks.
- 4 out of 10 respondents had multiple bank accounts.

Savings Accounts (% age 15+)	Sri Lanka	South Asia	Lower Middle Income	World
All adults	82.7	46.4	42.7	61.5
Women	83.1	37.4	36.3	58.1
Adults belonging to the poorest 40%	79.8	38.1	33.2	54.0
Young adults (% ages 15 -24)	85.2	36.7	34.7	46.3
Adults living in rural areas	83.4	43.5	40.0	56.7

World Bank (2015), the Little Data Book on Financial Inclusion

- Sri Lanka is considered a South Asian leader in Financial Inclusion (Alliance for Financial Inclusion, 2012). → Due to the high availability and access to financial institutions
- Had easy access to financial Institutions or ATM's in their village/town. Majority had visited the bank within a weeks' time.

"I visited the nearby bank last week to withdraw some money using my Husband's ATM card. After my husband gets his salary deposited to the bank, I visit the bank to take money whenever there is a need."

MFIs in Countries with lower financial infrastructure and mobile penetration, has already incorporated technology within their operation

- Tameer Micro Finance Bank (TMFB) has signed an agreement with Onelink Company that will make it possible for TMFB customers to use 2,000 ATMs of the company in 150 cities of **Pakistan** (the news,2007)
- MFI's in **India** developed low-cost village ATMs where the illiterate users can use the finger print scanning instead of using a personal identification number. (USAID, 2005)
- In **Peru** voice prompts from phone-based systems are being used to provide financial services within rural areas.
- In **Kenya**, Safaricom caters to more than 7 million users with agent network which is much higher than the number of bank branches in the country . (Kinyanjui, 2009).
- **Cambodia** launched cash by code service, where the service is accessible by using the mobile device through the internet and transfer money to other customers not holding an ATM card. (USAID, 2005)

Recommendations

For whom	Finding	Implication
Micro finance institution (Supplier Side)	Higher interest rate	Regulate interest rate & transparency- so affordable financial services are provided in a fair & transparent manner
	Operational work has been outsourced to the agents/group leaders at no cost.	Ensure adequate labor standards are in place – to prevent exploitative forms of labor
	Sri Lankan MFI's are not keen on any ICT intervention initiative	Regulation / Provide Capital allowance or tax benefits to incorporate technology
	Majority of the MFI's sole focus has been on profits rather creating a social impact	Provide skills development through community center
For Borrowers (Demand Side)	Digital skills at BoP are moderate and need to improved.	Improve digital skills among woman borrowers
	Woman at BoP have greater access / use of financial infrastructure and mobile ownership	Use existing financial infrastructure. Blend technology and human interaction to provide solutions
For Researcher	Lack of data & information asymmetry	More quantitative assessment need to be conducted