

Sramana Mitra blog

July 15, 2007

<http://sramanamitra.com/2007/07/15/efficiency%E2%80%94the-key-to-microfinance-success/>

Efficiency—The Key to Microfinance Success

By Robert Lowry
Unitus, Inc.

Microfinance reaches fewer than 20% of the people who could benefit from it. Only 2% of microfinance institutions serve more than 100,000 clients. Why is the impact of microfinance, after more than 30 years of effort, still so limited?

A big reason is efficiency—or lack thereof. Inefficient microfinance institutions (MFIs) simply don't have the operational capacity to reach large numbers of clients. Moreover, inefficiency saddles MFIs with high costs and limits their capacity to offer a wider range of products. To address these problems, Unitus, a microfinance organization in Washington State, created the Unitus Efficiency Project, with funding from the Bill & Melinda Gates Foundation. Formed in September 2006, the project team of five experienced analysts is in the process of identifying obstacles to efficiency, developing solutions and helping microfinance institutions implement those solutions.

Focusing its analysis on four Unitus microfinance partners, in India, Mexico and the Philippines, the team is looking at efficiency improvements in operations, finance and productivity. Following its conclusion the results of the project will be disseminated across the industry. The team has already identified a number of efficiency bottlenecks. For example:

- **Technology:** MFIs often rely on inadequate technology to manage their portfolios—in fact, many still use ledger books, filled in by hand. Linking MFIs to technologies used in the commercial world would dramatically improve efficiency, allowing them to reduce costs and thereby lower interest rates to their clients and offer a larger variety of better-tailored products.
- **Internal communications:** The team found that MFIs often have poor lines of communication between the central office and field staff, contributing to a drag on operations, a lack of cooperation between the two and a sense of frustration among employees.
- **Project management and execution skills:** Many MFIs have undertaken well-intentioned initiatives to improve efficiency and productivity, but failed to consider the need for new hires, more training, incentive schemes or additional funding or technology. This kind of poor implementation results in a demoralized work force, unfinished projects and general skepticism about the change process.
- **Client retention:** Many MFIs often fail to track client retention; instead, they focus on acquiring new clients. But keeping clients—not just getting new ones—should be a key part of an MFI's growth strategy. Better client retention means the MFI

- can reduce marketing expenses, build better relationships with clients and reduce portfolio risk with a more permanent client base. Reduced portfolio risk encourages investment in the MFI, leading to greater funds available to clients.
- Limited market research: The team discovered that MFIs are often slow in responding to both market changes and borrowers' needs, with the result that clients don't get the products they need the most. To maximize their benefit MFIs will need more resources to support market research.

The Unitus Efficiency Project team is now creating specific plans to improve efficiency in these areas. For example, the team appointed "Employee Champions" at the MFI partners participating in the project to serve as liaisons to the project team and as the go-to people within their organizations on all matters relating to efficiency. Moreover, the team held a series of innovation workshops with the MFI partners on the project to identify specific objectives to focus on and create excitement about the benefits of greater efficiency. Finally, a number of breakthroughs in efficiency have been identified in the course of the team's work, which will be outlined at the conclusion of the project.

The industry's focus on efficiency is great news for microfinance clients. With more and better products offered at lower cost, millions more people currently trapped in poverty will have access to the tools they need to transform their lives.