



GRADATIM

MICROFINANCE: CONVERGENCE OF BUSINESS AND SOCIAL OBJECTIVES

Introducing Microfinance

Also referred to as “banking for the poor”, microfinance has emerged as a simple and viable way to provide financial assistance to the underprivileged for their social and economic empowerment. Microfinance refers to a host of financial services - savings, loans, and other financial products - that are available to the economically lower strata of the society.

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The concept of microfinance is not new. Numerous traditional and informal systems of credit have existed in developing economies for centuries, long before commercial banking gained momentum. The latest developments have resulted in the integration of traditional financial systems with modern banking. Earlier, microfinance was a means of providing very poor families with very small loans (micro credit) to help them engage in productive activities. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) owing to the realization that the poor and the very poor, ones who lack access to traditional formal financial institutions, require a variety of financial products.

Developing economies have recognized microfinance as an enabling and empowering tool for poverty alleviation and economical empowerment of the needy. Microfinance has now become an essential ingredient in the development process of a nation.



An Overview of the Microfinance Landscape

The emergence of microfinance as a global industry has marked the beginning of a convergence between the business and social objectives. Formed as a development tool for social empowerment, microfinance had given rise to MFIs who have now grown into profitable and sustainable business entities.

It is predicted that over 500 million poor people worldwide demand financial services and the present Micro Finance Institutions (MFIs) can serve only a fraction - about 16 million. This huge gap has necessitated the development of microfinance as a global industry.

Many significant changes are being witnessed in the concept, vision and practice of microfinance the world over. The vision of microfinance has changed from “provision of credit” to “permanent access to financial services”. To realize this vision, MFIs, apart from providing finance also provide technical support for the beneficiaries to ensure proper utilization of loans and repayment. At the same time they meet their cost of funds, cost of credit management and cost of default through the spread of interest and generate surplus for the viable operation of microfinance.

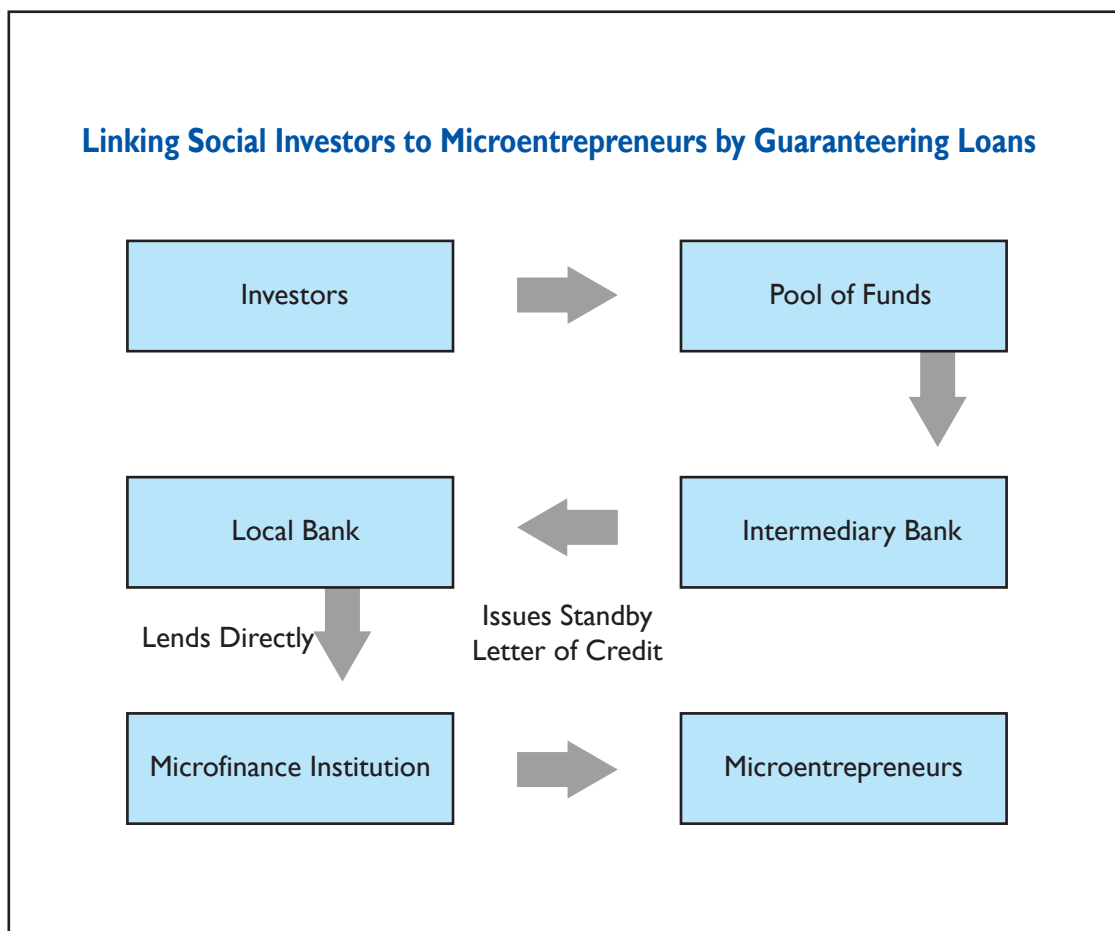
The emergence of microfinance as a global industry has marked the beginning of a convergence between the business and social objectives. Formed as a development tool for social empowerment, microfinance had given rise to MFIs who have now grown into profitable and sustainable business entities. The microfinance industry is expanding owing to commercialization and the reducing dominance of NGOs (non-governmental organizations), who have either merged with banks or transformed into MFIs. The industry is also attracting significant investment from the capital market.



MFI's exist in various legal forms, including NGOs, credit unions, non-bank financial intermediaries and commercial banks. Commercial Banks have now become very active players in this area. MFI's can broadly be categorized as:

- Not-for-Profit MFI's: These include Societies, Public Trusts and Non-Profit Companies
- Mutual Benefit MFI's: Such as State Credit Co-operatives, National Credit Co-operatives and Mutually Aided Co-operative Societies (MACS)
- For-Profit MFI's: Bodies like Nonbanking Financial Companies and Banks which provide microfinance along with their other usual banking services could be termed as Microfinance service providers of this type

The way an MFI operates is depicted below:





Need for Mainstreaming the Microfinance Industry

There is an increasing need for mainstreaming microfinance today. MFIs need to become self-sufficient and attain financial sustainability by leveraging technology and other management tools. Regulatory issues also have to be addressed in order to attract funds from domestic and international capital markets.

Second tier institutions like donor agencies, international NGO's, and multilateral institutions have played an important role in mainstreaming microfinance institutions. They have not only supported MFIs financially but also helped in instituting capacity building and good governance practices in the MFIs.

The entry (formation) of CGAP in 1995 in the form of a group of donor agencies including the World Bank played an important role in developing a common language for microfinance and catalyzing the move towards best practice standards. CGPA acts as a service center for the MFIs and offers a comprehensive array of services ranging from technical advice to funding and training.

The establishment of MIX (Microfinance Information Exchange) in June 2002, headquartered in Washington, USA, as a not-for-profit private organization, was also a milestone in the microfinance industry. MIX aims to promote information exchange in the microfinance industry.

MIX has also set up operations in India to boost its coverage of the local microfinance market. The new hub is located in Gurgaon, near New Delhi and allows close interaction with and quick responses to the needs of the Indian microfinance industry. The expansion of MIX into India follows the Indian microfinance industry's recent but significant growth in scope, which has attracted record levels of commercial funding. The market remains dynamic and many

new entrants are scaling up services, with innovative product lines and services under development.

Microfinance in India is showing slow, but significant growth. Today, there are about 700 to 800 MFIs working in India, of which about 10 to 15 are big players and are registered as NBFCs (Non Banking Financial Institutions). A few good examples are SKS Microfinance, Trichy-based ASA-GV, Kolkata-based Bandhan, Bangalore-based BSS, and Grameen Koota. State Bank of India is now the largest provider of Microfinance in the country.

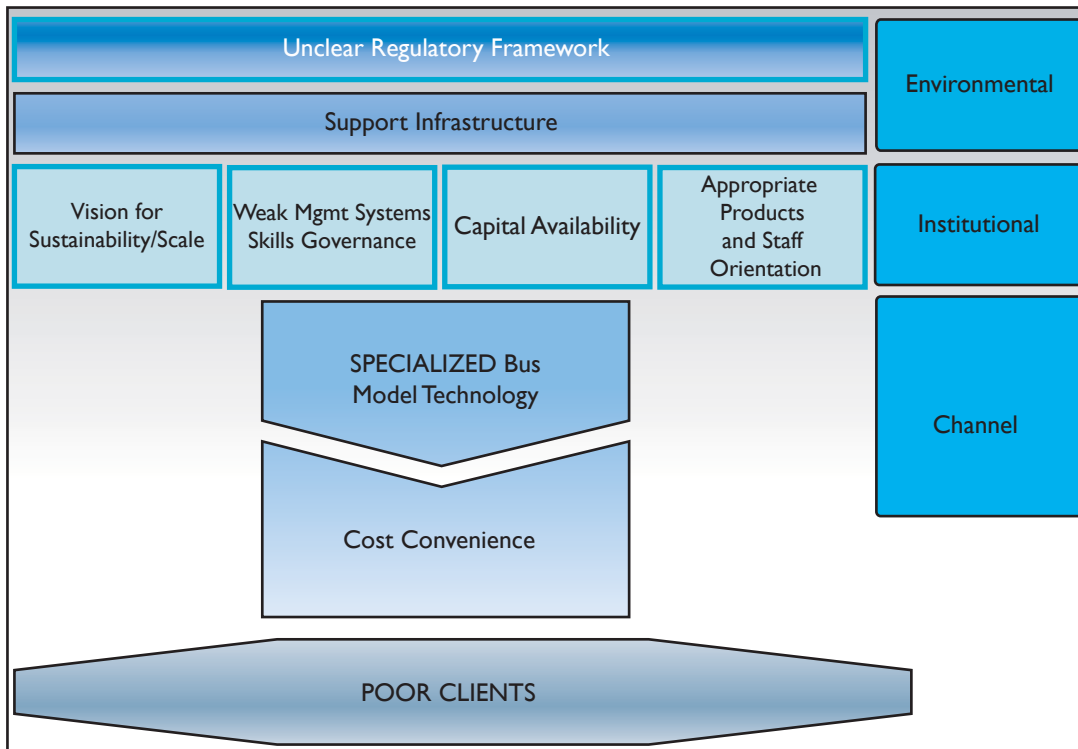
Challenges facing Microfinance Institutions

Despite the numerous developments, microfinance institutions still face numerous challenges in various forms. The most critical among these is high operating costs. To sustain in the competitive environment, it is essential that MFIs deliver their services at least cost while maintaining quality and operating profitability. As more players enter the market, MFIs need to also concentrate on improving their operational performance while focusing on customer satisfaction.

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The major challenges faced by MFIs can portrayed as below:



Technology can play a very important role in helping MFIs counter these. Solutions built on robust technology models like Service Oriented Architecture (SOA) can help MFIs realize economies of scale while minimizing costs and improving profitability.

provide timely and quality information at the place of operation to the customers, while minimizing operational costs. Developing client-responsive, flexible financial services for customers has become vital for MFIs.

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In this context, outsourcing, and BPU services in particular, have evolved as one of the effective options for MFIs to maximize efficiencies while controlling costs. Many companies are coming up with innovative technology solutions targeting the microfinance space. These services offer repeatable and scalable delivery models to MFIs resulting in significant cost benefits and enhanced performance.

To optimize business performance amidst change, competition, and increase in regulatory reporting, MFIs need to have a formal and efficient structure to record complex transactions and take intelligent business decisions. There is a growing demand on MFIs to



Gradatim in the Microfinance Space

Gradatim is a pioneer in providing comprehensive technology enabled solutions and services to the microfinance industry. Gradatim's solutions revolve around its technology platform that encapsulates industry best practices and covers all key functions of an MFI. As a partner, Gradatim can enable its customer's business by providing infrastructure, technology and processing support on an on-demand, pay as you use basis and facilitate to standardize, streamline and simplify operations.

Gradatim also has a multichannel, multidevice, on demand platform for microinsurance, pensions, payments and commodity trading that helps MFIs deliver reliable services for insurance companies and its various stakeholders – agents, intermediaries such as MFIs, banks, employees, and regulators. This on demand utility model is designed to deliver better services while reducing the cost of sales, underwriting, claims administration, collections, and payments. With Gradatim as a partner, MFIs can become more customer-centric and handle regulatory and reporting requirements with ease by leveraging the benefits of automation at rationalized costs.

Looking ahead

Though still in the initial phases of development, the microfinance sector has been successful in creating an impact across the world. It has been recognized as an important phenomenon in the process of development, especially in context of globalization and liberalization.

The field of Microfinance is poised to make revolutionary advances in technology, methodology and outreach, all of which will contribute towards creating a new landscape for MFIs in the years to come.

Microfinance, an emerging industry is poised to make revolutionary advances in technology, methodology and outreach.



GRADATIM

Established in early 2007, Gradatim is a privately held IT company with offices in India, Australia and Singapore. Headquartered in Bangalore, Gradatim is a pioneer in the sphere of Business Process Utility services. Our mission is to simplify business operations through an innovative combination of Technology and Services. Gradatim's on demand, multi tenant business process utilities deliver repeatable and consistent services that fulfill industry specific business needs and provide real economies of scale. Robust industry strength technology platforms are the underpinning of Gradatim's delivery model. Our expertise spans item processing, enterprise content management, business process management, and workflow technologies.

Gradatim's multifaceted management team, drawn from world-class organizations, brings together successful entrepreneurial experience, deep domain knowledge, and global market exposure. The Gradatim business model focuses on delivering value to users by providing a technology platform that is scalable, on demand, and robust. Enabling customers to manage change and provide flexibility in business process execution is the core theme of Gradatim's business.

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