In northern Rwanda, there’s a village called Setwara that you aren’t likely to find on a map. In many ways, it’s typical of the numerous small villages that dot this poor and largely rural country. Roads are rough, opportunities are scarce and the lingering impacts of the 1994 genocide are not hard to find. One resident of the village, Marie-Claire Ayurwanda, bears her own personal scars. Twice widowed and HIV-positive, Marie-Claire cares for the two children of a brother killed in the genocide, as well as her only son. But what truly defines Marie-Claire is her resilience in the face of such challenges and — perhaps even more — a level of resourcefulness and ambition fueled by a determination to control her own economic destiny. It was this drive that led her to open what is now a thriving restaurant in a village. But the factor that ultimately made the biggest difference — and enabled her to change the direction of her life — was a short-term “microloan” of some $250.

Leadership Spotlight

The Grameen Foundation exists to provide microfinance institutions (MFIs) with the support they need to achieve their mission of reducing poverty in the world’s developing nations. George Conard is channeling his passion for microfinance into bringing smarter solutions to a worthy cause.

How Grameen Foundation helped MFIs get smarter

A grassroots endeavor at the core, microfinance has made a major mark on humanity largely without the aid of sophisticated banking systems. By developing Mifos®, a solution specifically designed for the requirements of MFIs, Grameen Foundation is helping the microfinance industry enter a new phase of its development — that is, making a good thing even better. It’s providing MFIs with the business intelligence they need to keep their product portfolios in sync with the needs of their clients. It’s enabling them to roll out new branches faster, thus expanding the reach of microlending to more of the people that need it. And it’s helping them to stay true to their mission.

Let’s Build a Smarter Planet
Unlocking opportunity

Stories like this illustrate how the microfinance lending model is helping to unlock economic opportunity in the developing world by providing a broader reach than the traditional branch banking model. Far from an incremental change, the introduction of microfinance more than 30 years ago (by Dr. Muhammad Yunus, a Bangladeshi economist who has since won the Nobel Prize for it) ushered in a revolution in economic development. Between the limited reach of traditional branch-based banks and the prohibitively high interest rates of local moneylenders emerged a new class of lender known as a microfinance institution (MFI). While diverse in size and profile, MFIs by and large share the common social mission of lending to the poor—as a way of changing the world from the bottom up.

George Conard is a true believer in the transformative capacity of microfinance. After 20 years in the technology business, he joined Grameen Foundation, a nonprofit organization focused on facilitating the growth of microfinance around the world. Conard’s first post took him to Rwanda, where his job was to set up the local chapter of a foundation-sponsored program, known as Village Phone, designed to bring reliable and affordable communications to remote villages. It was in this capacity that Conard crossed paths with Marie-Claire, who—having established herself as a restaurateur—was seeking to become her village’s Village Phone operator.

Intent on making a difference

Meeting Marie-Claire and hearing her story left a deep impression on Conard, reinforcing his already strong belief in the power of the microfinance model to help people help themselves out of poverty. But his work out in the field also brought to light some of the challenges that MFIs face in fulfilling their mission. Like traditional banks, the effectiveness of an MFI’s lending capability is a function of its ability to manage its operations. To Conard, the inherently diverse nature of MFIs—whose lending base can range from hundreds to hundreds of thousands—makes it hard for them to find the “right” solution. “We looked at the lack of systems designed specifically for the needs of microfinance as a market failure,” says Conard. “We saw it as our challenge to do something about it.” As head of the Technology for Microfinance group within Grameen Foundation, Conard is in the position to make a difference. When he and his team set out to design a microfinance banking solution, their efforts were guided by two general principles. First, since the ultimate aim was to extend the reach of microfinance to a larger slice of the poor, the solution’s ability to support growth was essential. This meant, for example, designing a solution that could be easily adapted and scaled as the MFIs using the solution matured, thus sparing them the “growing pains” that success can bring.

The benefits of efficient and intelligent MFI practices enabled by Mifos

- Faster growth through better targeting, portfolio optimization and more operational agility (Mifos has helped Grameen Koota achieve a nearly 40% growth rate in its client base)
- Faster loan processing time
- Improved ability for MFIs to meet social performance goals
- More current visibility into cash balances, freeing up capital for expanded lending

“We looked at the lack of systems designed specifically for the needs of microfinance as a market failure. We saw it as our challenge to do something about it.”

– George Conard
Lending smart through transparency

But growth itself isn’t the only indicator of an MFI’s success. This notion underpins the team’s second key guideline, namely that the solution needs to give MFIs the means—chiefly through more transparent business intelligence—to drive smarter growth. On a business strategy level, MFIs need to ensure that their lending product portfolio is aligned with the needs of their served markets. The salient point is that while the size of their loans tends to be small, seeing the “big picture” gives microlenders the insight they need to formulate faster growth strategies.

The other key dimension of intelligence for MFIs is finding a way to gauge the humanitarian impact of their microlending activities, or more specifically: Are we reaching the kind of people we’re trying to reach? Are we moving people out of poverty? Are we keeping people out of poverty? While for many MFIs the ability to measure against mission is of humanitarian significance, it also has important implications on their ability to grow. That’s because MFIs that can prove their effectiveness stand a better chance of attracting the external funding needed to make more loans. Like all major expenditures, developing the new banking solution required Conard to gain approval internally, from Grameen Foundation’s senior management and board. Perhaps more importantly, Conard needed to sell it to specific donors, whose targeted funding would pay for the project. It’s a decision-making climate, Conard explains, that feels a lot like a startup. “Our donors are always open to new ideas that help [MFIs] achieve that mission,” says Conard. “But in every instance, we need to justify those investments to our funding sources.” Drawing on broad input from across the Grameen Foundation network about the need for such a solution, Conard and his team made a convincing case. Conard attributes much of the success of the project to the team’s decision to embed the input of an actual MFI—India-based Grameen Koota, whose profile made it a de facto proxy for the kind of MFI the foundation was trying to help—directly into the design process. “Grameen Koota functioned almost as a joint development partner,” says Conard. “Their input was essential, from defining the solution’s functionality to improving its usability.”

Lessons Learned: Seeing is believing

It’s no surprise that MFI managers are, on the whole, an entrepreneurial lot. But that didn’t predispose them to embracing technology—at least not at first. “The fact that many MFI managers don’t have a strong background in thinking about technology strategically made demonstrating the value of Mifos that much more important. Once they saw the benefits, there was no turning back.”

— George Conard

Leadership is: Overcoming inertia

Leveraging credibility to extend beyond core area... “We saw the needs of MFIs were not going to be met without somebody doing something. Where there are problems like that, one of the hard choices you have to make is whether to catalyze a shift across the entire industry that might not pay off for 10 years.”

— George Conard, Executive Director, Technology for Microfinance Grameen Foundation
Transforming microfinance

What came out of the effort is a suite of open-source microfinance banking applications known collectively as Mifos. Delivered either as a cloud-based service or standalone software, Mifos brings core banking capabilities to the hamlets and villages that had never seen it before—and it’s transforming the microfinance experience for both borrowers and lenders. For the group of women who applied for a loan after discussing it together at their village’s “center meeting,” it means receiving approval and getting their money not in a matter of months or weeks, but days. For the MFI whose loan officer traveled by motorcycle out to their village to take their application, having a more streamlined process is just the beginning of the benefits. Through Mifos, MFIs can view up-to-the-minute reports on their current cash balances, the status of individual borrowers and other key parameters, and from that information make the right kind of lending decisions. Because it was designed for maximum flexibility, Mifos also makes it far easier—and faster—for MFIs to introduce new products and services, and thus optimize their portfolio for maximum growth. In the same way, the flexibility of Mifos also facilitates the creation of new branches, which represents the single most effective way of expanding access of much-needed capital in remote areas. Grameen Koota, which has used Mifos since its introduction, is a testament to its effectiveness. It now serves some 450,000 customers and is on track to reach its goal of two million within five years.

All in all, what most distinguishes Mifos as revolutionary in the world of microfinance is the transparency it has introduced where both operational and strategic information—due to fragmentation and inadequate tools—has long been opaque. Suresh Krishna, managing director of Grameen Financial Services (Grameen Koota’s parent company), sees this transparency as playing an important role in fueling his company’s growth. “Microfinance is about connecting the world’s poor to the global financial system in a practical, sustainable way,” says Krishna. “Mifos makes us far better able to do that than before.”
Small loans, big progress

Mifos has also introduced transparency in the way MFIs measure themselves against their poverty reduction goals. Using a statistical model developed by the Grameen Foundation known as the Progress out of Poverty Index™ (PPI™), Mifos gives MFIs the ability to “score” their clients on key poverty indicators, create profiles and track them over time. In the same way that “evidence-based” medical practices are designed to help doctors deliver the most effective treatments to patients, Mifos provides MFIs with the means to adjust different parts of their business to better serve their clients and succeed at their social missions. Of the countless MFI success stories across the developing world, that of Marie-Claire Ayurwanda shows that the life impacts of microfinancing are profound and long-lasting. With the profits from her successful restaurant, she’s putting her children through school, thus putting them on their own path to success, and hopes to expand her Village Phone business. To George Conard, stories like Marie-Claire’s serve as a powerful inspiration to help MFIs—and their clients—succeed. “Our bottom line is getting people out of poverty,” says Conard. “We're showing that technology can be a big part of that equation.”