

The digital journey of Shakti Foundation for Disadvantaged Women (SME loans): A lesson for progressive MFIs in Bangladesh

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The context of SMEs at Shakti Foundation

Microenterprise credit in Bangladesh struggles with an unmet demand worth BDT 438 billion (USD 5.4 billion), warns “[Diagnostics of Microenterprise \(ME\) Lending by MFIs in Bangladesh](#),” a policy study report by the Business Finance for the Poor in Bangladesh Project. Two and half years ago, the [Shakti Foundation for Disadvantaged Women](#), MSC’s partner in Bangladesh, wanted to extend its work among microenterprises, scale up its portfolio, and diversify it. Shakti launched small and microenterprise (SME) loans for its clients exclusively through the individual lending methodology. However, Shakti lacked a dedicated team, management information system (MIS), and policies and processes to offer SME loans.

[Our previous case study](#) highlighted how Shakti Foundation used technology to offer customer-centric savings products for low-income segments while managing associated risks. This case study charts the journey of Shakti’s SME program. It explores digital initiatives that enabled its SME portfolio to grow.



The senior management team of Shakti, supported by MSC under a project commissioned by MetLife Foundation, conceptualized the model and developed dedicated policies and processes to offer SME loans. The management also digitalized Shakti’s SME loan processes. Digitization enhanced cost and time efficiency, offered customer-friendly services, and helped staff members manage their loan portfolios better.

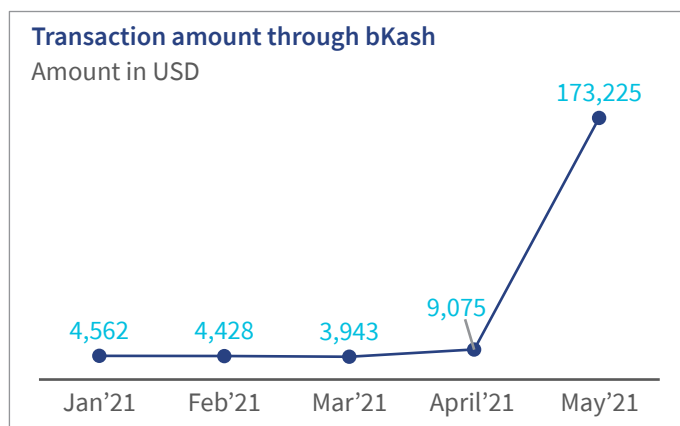
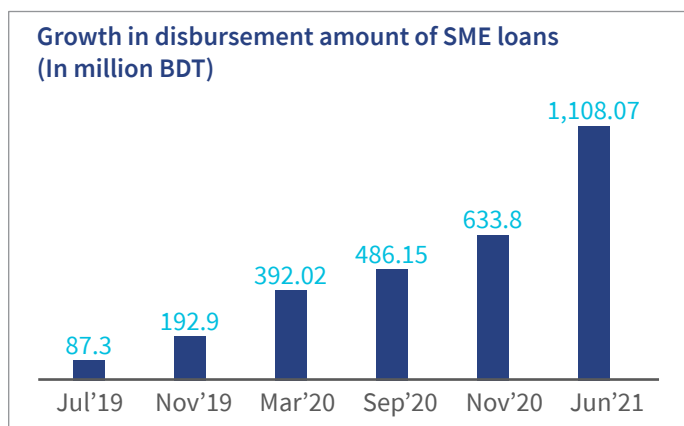
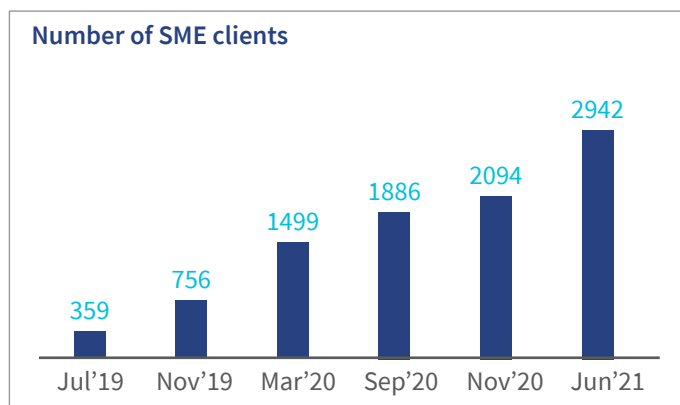
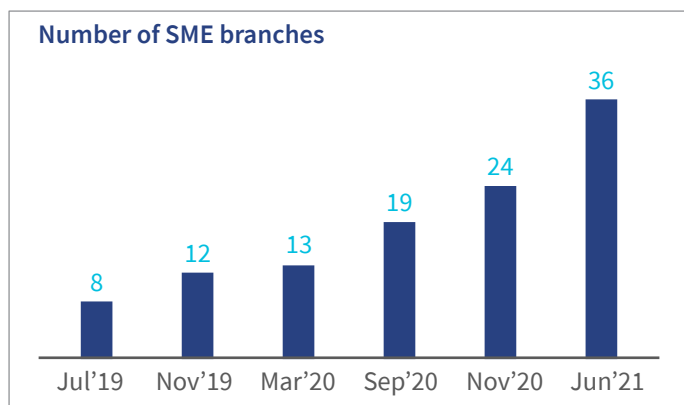
Shakti’s SME journey

During the pilot phase, Shakti offered the SME loan through four dedicated SME branches in 2019. It also rolled out digital initiatives, such as an MIS for SME loan products, digital field applications, and digital repayment options to customers. Shakti further decided to use its existing microfinance branches to scale up the SME program. It currently offers SME loans through 13 dedicated SME branches and 23 hybrid branches.

The outcome of the project

Status of the SME program as of June, 2021:

- The number of SME accounts increased by more than eight times—from 359 in July, 2019 to 2,942 in June, 2021.
- The disbursement amount increased by 12 times—from BDT 87.3 million (USD 1.02 million) in July, 2019 to BDT 1,108.07 million (USD 13.03 million) in June, 2021.
- The total number of SME branches increased from eight in July, 2019 to 36 in June, 2021. Shakti expects to add 12 new branches by December, 2021.



What are the key benefits of digital financial services (DFS) for Shakti and its customers?



Ability to make timely decisions:

Digitization helped Shakti track and access data on SME customers in real-time. It enabled the SME team to make strategic decisions quickly. For example, initiatives like the digital field application (DFA) and the online centralized MIS provide real-time updates to branches and the head office. These initiatives allow staff to monitor and manage the status of loan applications and loan repayment on a real-time basis.



Reduced the turnaround time of loan processes:

Digitization helped Shakti reduce the turnaround time (TAT) for loan disbursement from 10 to four days after the client submits all required documents. The reduced TAT enables customers to access loans on time and use them more effectively.



Strengthened internal control and reduced fraud:

Digital initiatives like a centralized MIS and DFA help program supervisors monitor the performance of branches and staff, portfolio growth, among others, in real-time. Supervisors can generate the report instantly as per their requirements.

The option for clients to repay loans through mobile financial services (MFS) has reduced the risk of collecting fake currency notes significantly. Cases of theft of cash during field visits, financial misappropriations by customers and staff members, and attacks on field staff carrying funds have also decreased.

Centralized loan disbursement using BEFTN has also helped Shakti reduce frauds, turn-around-time, and better fund management.



Improved loan portfolio quality:

Credit-scoring tools help assess the customer's risk profile and strengthen the client selection process. It will also help offer interest rates based on the risk profiles of customers.



Reduced opportunity cost for customers:

Digital repayments through the MFS channel have eliminated the need for customers to visit a branch, reducing the risk of theft and opportunity cost. The percentage of customers who use the bKash channel increased from 1% in January, 2021 to 26% in May, 2021.

Reduced operational cost of the program:

MFS payments have reduced the average time spent by branch staff collecting loan repayments at the branch. Consequently, the Relationship Manager can now focus on expanding the business and delinquency management. The automatic account posting of MFS transactions has reduced the overall bookkeeping time at branches.

Helped achieve financial sustainability for the program:

Digitization helped Shakti break even in its dedicated SME branches in seven to eight months. Shakti could reach the break-even point faster due to minimal use of paper, quick turnaround time, enhanced focus on business expansion, and real-time tracking and follow-up of delinquent and default customers, among other reasons.

What did Shakti Foundation do to achieve this?

Installed a dedicated management information system (MIS) for SME loan products:

Before Shakti developed its dedicated MIS for SME program, the organization used a common MIS system for its microfinance and SME loan programs. A common MIS increased the difficulties for the management due to the overlap of group lending and individual lending methodology, which delayed effective tracking of loan performance. These gaps affected the SME management team's decision-making capability and created credit and internal control risks.

Implemented a digital field application (DFA):

Shakti implemented a DFA to digitize the SME loan workflow. It equipped Relationship Officers and their supervisors with tablets.¹ The application helped conduct a pre-qualification check of the client, capture their relevant documents, and upload them on the system during the loan application process. It also helped conduct a cash-flow analysis during the loan appraisal process, and manage delinquency, among others. In the future, Shakti can use DFA to support activities, such as savings mobilization, social impact measurement, and insurance coverage, with the initial usage focused on credit offerings.

Rolled out the Enterprise Resource Planning (ERP) software:

Outdated legacy MIS persists as a challenge for MFIs in Bangladesh. It limits their ability to realize the benefits of digital transformation and leaves them exposed to competition from digitally-enabled competitors. Shakti decided to replace its existing loan management system with more agile and robust



software. The organization has been rolling out the ERP software for both its microfinance and SME programs. The ERP software helps Shakti secure the system, automate processes, integrate with other payment systems through an API, and strengthen database management and report generation systems. It will also help reduce system downtime and support future growth.

Provided an option for digital repayment to customers:

Shakti's clients can now choose to repay their loans and deposit their savings installments digitally. To this effect, it signed an agreement and completed API integration with bKash, the largest mobile financial service (MFS) provider in Bangladesh.

Digitization of credit scoring tool:

MSC helped the Shakti team develop credit-scoring tools for its SME loan products, including rental and trader loans. Shakti has been digitizing this tool. The automation of credit scoring tools will help sustain the momentum of digital adoption during the rollout phase.

What made DFS work in Shakti?

Shakti identified the substantial unmet demand for loans among the missing middle and launched a dedicated SME program. Shakti's Board of Directors responded to the needs and aspirations of the clients and forged partnerships for their digital transformation journey. The management's strong commitment to digitization, a robust training program for staff members, and change management have made DFS work in Shakti.

The way forward

Shakti Foundation's digital initiatives are a good case study for MFIs reluctant to transform digitally. Based on the success of the SME program, Shakti has decided to conduct a pilot of digital initiatives for the microfinance program from January, 2022. It will roll out the digital initiatives (microfinance program) by March, 2022. Shakti's experience demonstrates the benefits of digital initiatives, such as improved business efficiency and customer service. The challenges posed due to the COVID-19 pandemic further accentuate the need for the digital transformation of the entire microfinance sector.

¹ A tablet is a portable notebook built on a mobile operating system platform.