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Market-led solutions for financial services

Responsible Finance

Optimising Performance and Efficiency Series

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Inspiration:

"A world in which all people have access to high-quality affordable market-led financial services"

Mission:

"Strengthening the capacity of financial service providers to deliver market-led financial solutions"

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Optimising Performance and Efficiency Series

Responsible Finance

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Responsible Finance

Background

Responsible finance has emerged as a call to financial service providers, lenders, funders, regulators and other stakeholders to be more accountable and ethical when working with low income clients. The microfinance sector, which began with the noble mission to provide financial services to clients generally excluded from the mainstream financial sector is now under criticism for "mission drift".

With the rapid growth pursued by the sector, some stakeholders compromised on the basics of microfinance, particularly that of the imperative to put the client at the centre of the business, in order to compete. Instead of helping the poor and marginalised, certain practices (such as multiple lending leading to over-indebtedness, non-transparency, coercive and arm-twisting collection practices, etc.) did more harm than good to clients. The recent crisis experienced by the Indian microfinance sector compelled many stakeholders, especially financial service providers to go back to their drawing boards and chalk out systems, methods and practices by which they could win back the lost confidence of their clients. This is where (perhaps belatedly) responsible finance comes in.

Responsible finance refers to the provision of financial services in an accountable, transparent and ethical manner. As defined by the Responsible Forum in its "Advancing Responsible Finance for Greater Development Impact" report: *Responsible finance refers to coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices, and behaviours that can eventually contribute to creating more transparent, inclusive, and equitable financial markets.*

Responsible finance builds on the broader framework of Social Performance Management (SPM), which accords importance to the translation of socially-oriented missions into practice. Using the mission as the starting point, financial service providers are enjoined to align all aspects of the institution (products, systems and resources) towards achieving envisioned outcomes and results that favourably affect clients. Responsible finance also draws on the basics of client protection. The current global campaign on client protection focuses mainly on basic principles and standards that, when adhered to, will reduce the chances of financial institutions harming their clients. Responsible finance likewise involves pro-active and coordinated efforts among key stakeholders, including regulators and policy makers, funders and investors and technical service providers, to create transparent, inclusive and equitable financial markets.

Hence, responsible finance focuses on 3 key areas:

1. ***client protection*** including offering appropriate financial services to meet the financial needs of the clients;
2. ***financial capability*** to enable clients to understand better the products and services being offered, and to take informed decisions; and
3. ***social performance management*** to improve the practices of financial service providers and to advocate the delivery of appropriate services to excluded and vulnerable client segments such as youth.

From its inception *MicroSave* has been a strong advocate of "market-led approach" and "putting clients at the centre", and for years now has been working in these areas to further the cause of responsible finance. *MicroSave* has worked extensively in Africa and Asia on client protection, financial capability, social performance management[1] and youth services.

[1] Refer to appendix for *MicroSave*'s Social Performance Management Toolkit Summary

This OPE series on Responsible Finance is drawn from *MicroSave*'s extensive work in the areas of social performance management and financial capability. This compendium takes a practical approach to some of the most complex issues, analyses them and offers possible solutions to deal with them.

Articles presented in the booklet can be broadly classified in the following categories:

1. Those that help understand the concepts of responsible finance and its sub-components (such as client protection, social performance management, financial capability and financial services for the youth);
2. Those that offers insights into the practices that led to the crisis in the microfinance sector, especially in India and make recommendations as to what can financial service providers and governments can do;
3. Those that offer insights into the clients' perspective; and
4. Those that present the case studies of organisations that have improved their practices after social performance diagnosis;
5. Those that can help financial service providers as tools to improve their practices.

The selected articles on responsible finance are as follows:

Client Protection

1. ***Microfinance Is Not An Easy Business!***
   Moumita Sen Sharma

   This article journeys through the emergence, history and present status of microfinance in India. It discusses the various stages of evolution while highlighting key challenges of each stage. It pinpoints the issues related to transaction costs of delivering microfinance services in Andhra Pradesh and their impacts. It gives lessons relating to resource constraints, transparency, efficiency in operations, and internal and external dynamics to the investors, promoters and to the practitioners in microfinance as well. The article makes a strong case of immense potential the MFIs have in terms of meeting the financial needs of the poor and also maintaining high organisational standards.

2. ***Dinosaurs and Rabbits – Indian Microfinance Market Evolution***
   Christopher Murdoch, Manoj K. Sharma and Graham A. N. Wright

   The microfinance world is changing - very fast. Because different clients have different needs and no one product or microfinance player is going to meet all needs. If microfinance is to deliver on its promise it must evolve and adapt in a way which meets clients' needs more effectively, as clients change, and as the world changes around them. This article assesses what is needed for MFIs to keep up with the pace of change.

3. ***The Andhra Pradesh Crisis: What Should MFIs Do?***
   Graham A.N. Wright and Manoj K. Sharma

   This article examines how the Indian MFIs should respond to save their industry - denial is no longer an option. It examines how MFIs need to improve transparency of interest rates, governance and operations; as well as analysing and documenting their social performance management. It looks at the role of a credit bureau and concludes that ultimately, MFIs will have to move towards 3rd generation microfinance, probably on the mobile money platforms.

4. ***The Andhra Pradesh Crisis: What Should The Government Do?***
   Manoj K. Sharma and Graham A.N. Wright

   This article examines what the government should do in the wake of the Andhra Pradesh Crisis. It highlights that first and foremost, the government should recognise that the MFIs have provided valuable credit-led financial inclusion, and that the SHG movement is not a panacea. The article notes the importance of banking correspondence as the key to full, diversified financial inclusion. It also recommends against interest rate caps, and suggests that caps on returns on equity, improved approaches to priority sector lending regulations and responsibility delegated to a combination of the banks financing the MFIs and an empowered industry association would better guide rather than suppress the market.

5. ***The Andhra Pradesh Crisis – Clients' Perspective***
   Anjaneyulu Ballem, Trivikrama Devi and Veena Yamini A.

   This article focuses exclusively on clients' perspectives, before and after the crisis, gathered by the *MicroSave* team at various points of time, in a wide variety of locations, across Andhra Pradesh after the crisis broke in October 2010. The credit discipline, which was carefully nurtured by MFIs has been almost completely eroded. The implications for the credit risk associated with lending to the poor in India, whether through joint liability groups or through SHGs, are enormous.

6. ***Relevance of Customer Service Post the Andhra Crisis***
   Soumya Harsh Pandey and Aanchal Piplani

   Post the Andhra crisis, the question confronting Indian MFIs is not just to manage their way through the present crisis but also on how to survive and thrive in the long term. The following questions confront Indian MFIs:
   - How to maintain the required yield on portfolio given the interest rate cap and other restrictions?
   - How to ensure that current portfolios remain intact?
   - How to ensure that multiple borrowing does not affect portfolio quality?

   This article highlights the role and importance of customer service as an answer to these questions. Moreover, the article gives practical examples on how to listen to clients and more importantly on how to integrate and institutionalise the best practices on customer service.

7. ***Why do Microfinance Clients Take Multiple Loans?***
   Veena Yamini A. and Venkata N.A.

   This article (a) presents the rationale and impact for multiple borrowings from a client perspective; and (b) discusses how the MFI and its leaders perceive the issue and its implications. It is difficult to attribute multiple borrowings just to unmet demand for credit from borrowers, or to dumping of loans by the MFIs on clients well versed with the MFI methodology. However, MFIs can reduce the incidence of multiple borrowing. The appropriateness of disbursement timing can be improved through studying microenterprise cash flows by type, and changing operational policies to reduce mismatches between client cash flows and the timing of loan cycles.

8. ***A Closer Look at Multiple Borrowing in the Philippines***
Johan N. Diaz and Jesila M. Ledesma

With increasing cases of over-indebtedness among microfinance clients, multiple borrowing is getting its share of unfavourable limelight. Multiple borrowing brings many benefits to clients, but too much can also bring problems. In this article, we present summary results of a study which looked at this phenomenon in the Philippines.

The study aimed to contribute to the body of knowledge to better understand multiple borrowing and its link to over-indebtedness. It concludes that MFIs and the microfinance industry can look to multiple borrowing as an early warning sign of the need to improve products and services to better meet and serve the needs of the low income market. MFIs would do well to heed the warning.

9. ***Diagnosing Financial Stress in Group Methodology***
Venkata N.A., Veena Yamini A. and Suresh K. Krishna

The recent past has seen instances in the south of India where groups refuse *en masse* to repay, which has, unsurprisingly, challenged MFI operations. The reasons for this are many, including the competitive environment, multiple borrowing, the perceived threat from MFIs to the SHG movement and the increasing attention being focused on the sector. This article presents the learning from a study conducted by *MicroSave* in collaboration with Grameen Koota to look at the group lending methodology and assess the drivers of financial stress in the *kendras*, and if/how this can be diagnosed.

10. ***Microfinance - Time to Get to Back to Basics?***
Manoj K. Sharma and Graham A.N. Wright

The rapid growth of the microfinance sector in the last few years has completely changed its complexion and nature. Detractors of typical 'Grameen' replicators have been saying for a while that high rates of growth have led to mono-products and multiple lending to a vulnerable section of the population. Overall, the need for microfinance in India cannot be understated and the role of private sector microfinance whether in 'for-profit' or 'not-for-profit' formats will remain. However, any business that forgets its client cannot have a bright future.

Financial Capability

11. ***Financial Education – Time for a Re-think?***
Graham A.N. Wright, Angela Wambugu, Julie Zollmann and Daryl Collins

Traditional financial education both in poor and rich contexts have taken a didactic, classroom-based approach to convey analytical financial concepts like budgeting, saving, managing debt, and calculating interest rates.

It is now time to re-think the process of financial education to merge it with product marketing, thus making it more relevant for customers and more cost-effective for financial institutions. It is clearly time to test the efficacy of alternative, experiential, product-focused financial education interventions compared to traditional financial education training.

Social Performance Management

12. *Social Performance Management in India*
Matt Leonard

Social Performance Management (SPM) - putting mission into practice - is increasingly relevant to the Indian microfinance sector, which may be on the brink of a 'perfect storm': a push for high growth and expansion coupled with growing over-indebtedness of clients, increasing competition, aggressive collection practices and the entry of private equity and investors looking for returns. With so much at stake, Indian MFIs need to find a greater balance between their social and financial bottom lines. *Market-led* SPM can help to ensure an MFI meets its mission and manages these growing risks while improving overall performance. In sum, a *market-led* approach to SPM is one part "truth in advertising", one part "risk management" and one part "common business sense".

13. *The Overlap between Customer Service and Social Performance Management*
Veena Yamini A.

MicroSave has worked with a variety of banks and MFIs across Africa and Asia to implement customer service programmes that have made significant impact on the organisations' social performance. *MicroSave*'s customer-focus interventions involve the following activities:

- Understanding client needs to develop tailored products and services.
- Studying client drop outs to prevent the same in the future.
- Collecting client feedback to design suitable client protection strategies.
- Client assessment strategies for better targeting.
- Studying staff motivation for better service to the clients.
- Crafting client-delight strategies to offer them services far in excess of their expectations.
- Aligning systems and processes towards the objective of client delight articulated clearly in the Mission statement.

Through SPM diagnostics, *MicroSave* helps MFIs to prioritise and choose concrete steps to take in the implementation of proposed SPM improvements.

14. *Integrating Social Performance Management into Strategic Business Planning of MFIs*
Veena Yamini A. and Matt Leonard

MicroSave has run Strategic Business Planning (SBP) in over 100 MFIs across Asia and Africa, including several of the leading NBFCs in India and the top tier MFIs in the Philippines. The SBP enables MFIs to improve synergies between excellence in market-led financial services and social performance.

MicroSave views SBP and social performance management (SPM) as integrated rather than stand alone processes. Hence, while the SBP lays out the key objectives, goals, measures/targets and activities of an organisation (KOGMA), SPM consists of (re)designing key operational policies, processes and systems to reflect an MFI's social aspirations. This synergy adds value to the overall plan and to both financial and social bottom-lines.

The integration of SBP and SPM involves the following:

- Periodic assessment of the mission, values and vision of an organisation in order to evaluate the extent of *achievement* of the mission and to lay down strategies to prevent possible 'mission drift' away from social orientation.
- Competition analysis and institutional analysis to better understand the 'environment' and devise policies/strategies for competitive edge.
- Evolving strategies to better serve social ends
- Evaluation of strategies in the context of financial projections and budgets
- Work planning and system analysis with a social perspective
- Creating measures and targets for goal achievement

15. Integrating SPM into Governance of MFIs

Veena Yamini A. and Matt Leonard

MicroSave has worked with Imp-*Act* to integrate a social lens into its Governance training. The *MicroSave* SPM diagnostics tool has increasingly focused on the role of governance structures in managing the growing financial and social risks associated with the global financial crises and the oft repeated criticism of MFIs being primarily commerce-driven ventures.

MicroSave's SPM recommends stakeholder involvement - especially clients or the representatives of clients in strategic decisions, through periodic client consultative group meetings; informal feedback from field staff or other forums; and regular client and employee feedback (grievance systems, market research, client committees and customer satisfaction surveys, etc.). It also recommends effective design of motivation packages for staff, as well as putting in place client protection measures to prevent over-indebtedness, fraud, abusive collections and client privacy.

16. SPM Case Study 1: Asirvad

Matt Leonard and Melanie Bowen (with contributions from Ami Karnik)

In April 2010, Asirvad and Lok brought in *MicroSave* to undertake a comprehensive social performance management (SPM) diagnostic and action-planning exercise to gain a competitive edge in the fiercely competitive rural lending environment in the South. Asirvad Microfinance Private Ltd. (Asirvad) is an NBFC-MFI operating in 14 districts of the South Indian state of Tamil Nadu. In 2009, Lok Capital (Lok), a social venture fund, became a partner to Asirvad by subscribing to 24% equity.

The SPM diagnostic focussed on the following areas:

- Overlap between social and financial performance and mutual reinforcement for better achievement of organisational goals
- Synergies between partners through participatory planning/strategising exercises
- Focus areas over a definite time-frame
- Process improvement
- Human resource development
- Value addition to existing services

The SPM intervention led to improvements in product design, client protection, staff incentives, transparency, professional quality services, and sustainability with a goal of increasing outreach to the unbanked.

17. SPM Case Study 2: Nirantara

Matt Leonard

MicroSave conducted a Social Performance Management (SPM) exercise with Nirantara to help the organisation better align its operations and strategy with its social mission. The focus was on client needs and preferences. Nirantara Community Services (Nirantara) was founded in 2006 as a Society, with a vision to provide need-based and cost-effective financial services to underserved women. It presently manages a portfolio of Rs.55 million and works in peri-urban and urban areas of three districts of Karnataka (Bidar, Gulbarga and Bijapur).

MicroSave's SPM interventions were focussed on the:

- Holistic strategy to address client needs such as provision of non-financial services such as education along with microfinance
- Credit risk management through clearer client-profiling
- Analysis of social indicators in MIS
- Performance development of staff through incentives and training

The intervention led to significant improvement in staff productivity, client dealings through the functional literacy programme, and focus on social orientation through provision of non-financial services such as pre-school education.

18. SPM Case Study 3: Sambandh

Matt Leonard

MicroSave conducted an SPM assessment on Sambandh which brought out the strengths and weaknesses of the organisation and the areas for improvement. Sambandh is an MFI operating in northern Orissa, predominantly in the urban areas of Sundargarh District. It functions as an urban financial services initiative for low income households with a long-term view of improving the quality of life of the poor. Its objective is to support micro-entrepreneurs in developing and expanding their businesses.

The SPM exercise focused on:

- Strong systems and procedures reflecting strong institutional culture
- Motivated staff and healthy organisational climate as borne out by robust formal/informal communication system
- Initiative to strengthen the helpline system through requisite training of staff
- Induction training focusing on role plays, punctuality and etiquette
- Performance appraisal as per the organisation's mission and values
- Viable product mix

The SPM diagnostic led to improvement in process optimisation, credit risk management, incorporating social indicators and strengthening support services like the helpline facility.

Financial Services For Youth

19. Youth-Inclusive Financial Services (YIFS): Lessons & Key Considerations

Corrine Ngurukie, Flavia Nakamatte, Peter Mukwana, Elizabeth Kariuki and Angela Wambugu

Youth between 10 - 24 years of age constitute 1.77 billion (27% of the total global population). This constitutes a huge potential market for FIs seeking to extend financial services to the youth. *MicroSave* together with the Population Council have been managing - The Safe and Smart Savings Products for Vulnerable Adolescent Girls (SSSVAGs) project - implemented in Kenya and Uganda. The project, among other objectives, seeks to extend financial services and build financial capability amongst young girls 10 - 19 years of age. Under this project, savings products were designed specifically for the adolescent girls using *MicroSav*e's systematic product development approach, which begins with market research to understand the target clients' current financial behaviour, needs, coping mechanisms, gaps and preferences.

This article presents key lessons learned from this project, on youth-inclusive financial services using the "8Ps of marketing" as a framework. The lessons, derived from the success and challenges experienced, offer an opportunity to inform future YIFS programmes.

Considering the target age group: 10 – 19 years, the project focused on financial education (that builds financial capability of the girls) and client protection (keeping in the regulatory considerations in mind) in the product design and in the other processes. This article outlines work done in this regard.

20. Understanding Demand for Financial Products among the Youth of Central Java

Premasis Mukherjee, Neeraj Lal and Sonmani Choudhary

In Indonesia, over 20% of youth are neither in school nor employed, and over 50% of youth in the labour market are unemployed or underemployed. *MicroSave* conducted market research to understand the needs for financial products and perceptions of existing financial products amongst the youth of central Java. *MicroSave*'s Product Development Framework was used to design a suite of client responsive products. Major financial stress points and aspirations of the youth were assessed. The team further segmented the market based on age and marital status. The preference of the segments were analysed using a segment preference matrix. Finally the team suggested a mix of products to be piloted for the youth.

Microfinance Is Not An Easy Business!

Moumita Sen Sharma

The world's attention turned towards microfinance with United Nations proclaiming 2005 as the Year of Microcredit. It reached a crescendo with the award of Nobel Peace Prize to Grameen Bank of Bangladesh and its Founder, Professor Md. Yunus in 2006. Riding the wave of the new found popularity of microfinance, mainstream investors like Sequoia and Legatum suddenly discovered a new asset class in the fast growing Microfinance Institutions (MFIs) of India. The infamous Krishna District episode of March 2006, that appeared to threaten the very survival of the microfinance sector became a distant memory, all but erased. The MFIs of India are suddenly the toast of shrewdest investors, boasting of valuations almost reminiscent of the dot com boom. It is at such apparently giddy times that are opportune to take stock of where the journey of microfinance began so as not to lose sight of where it needs to go. And that it can do so, armed adequately with the lessons learnt along the way.

For those who came in late, microfinance essentially entails the provision of financial services for the poor, involving transactions of small sizes, be it credit or savings and hence the self-explanatory prefix. In India, beginning essentially in the early eighties as an NGO movement, whether through the (later) Government supported, Self Help Group (SHG) movement or the Grameen replicating MFIs, microfinance emerged as an answer to the inequitable access to finance provided by the mainstream banks, with the aim of poverty reduction at its very heart. Initially funded mostly by grants and donors, the first phase of growth, even if limited in scale, suggested at least to the more daring amongst the banks that an interesting and viable model of delivery was taking shape. Targeted mostly at poor women in rural households, the peer selection model of client acceptance, door step delivery of services, small repayment amounts through frequent collections (aided somewhat by peer pressure) and above all, the promise of a repeat higher loan to reward impeccable credit record, produced almost hundred percent recovery rates and an astounding asset quality.

The only trouble was that to deliver financial services (mostly credit) in such manner, with small frequent transactions and doorstep delivery, cost a lot of money. The high costs of transactions (between 10% to 15%) translated into high borrowing costs for the poor (between 24% to 40%), which even seemed ethically acceptable, albeit as a temporary solution where none other existed (and as is the case across the globe). Besides, it was quite clear that an optimum scale would certainly cut down the costs. That began to happen soon enough as the next phase of growth saw funds from commercial banks, first trickling and soon pouring, many accuse, somewhat indiscriminately. But the results were clearly for all to see. Most MFIs hitherto in the red, grew rapidly and turned profitable, some modestly and a few not so modestly.

Most MFIs however, including those amongst the latter, continued to charge their borrowers, at seemingly high rates. Uncertain perhaps, of how long the abundance of funds would last, these MFI continued zealously on their path to build up large reserves.

In hindsight, it was only natural perhaps that the bounty tucked away in the balance sheets of organisations, ostensibly providing credit to the poor for alleviating their poverty, would attract the attention of authorities keen on securing a "fair deal" for the poor. As the bureaucrats of Andhra Pradesh's Krishna district were grappling with low repayment of the Government supported SHGs, their focus naturally turned on those MFIs whose higher priced loans were causing multiple indebtedness and (possibly) debt traps. These authorities saw that MFIs continued, rather unfairly according to them, to enjoy perfect repayment, arguably at the cost of those loans offered at a subsidised rate through the SHG-based systems.

The much debated crisis that followed the pronouncement of the District Collector prohibiting borrowers from repaying their loans to the MFIs, was the first big road bump, which at its peak, appeared close to derailing the entire sector, even beyond the borders of Andhra Pradesh.

But eventually good sense prevailed in all quarters. The erring MFIs reduced their lending rates, the District Collector recalled his orders banning repayment and with RBI's active intervention, the sector survived, one hoped, strengthened and mellowed by this rude shock.

Well wishers of the sector, attributed the super profit motive of the biggest MFIs in India, to their desperate need for building reserves, crucial for leveraging debt and growth (to further financial inclusion) particularly as equity for this sector was virtually non-existent. It's logical therefore, to be highly enthusiastic of this exciting trend of private equity coming the way of this deserving sector. Visions of a public listing and wealth creation by the MFIs begin to look distinctly achievable.

And there lies the danger. The Krishna lesson is barely a year old and too valuable to be forgotten yet. One wonders if the MFIs can afford investors seeking internal rates of return of 30%; and what may be the cost of doing so? The jury may still be out, but the need for capital is very much in. And there is far too much at stake to risk another mistake. Will the Social Investors of India (not just Vinod Khosla, the lone torch bearer of 1.1 billion Indians) please stand up and be counted?

And will the MFIs rise to the occasion and respond to challenges as well as the opportunities? Managing a compounded growth rate of 100%, year on year, is a daunting task even for those with very deep pockets. For the still largely resource challenged MFIs of India, the danger is far greater. The ability of these increasingly hugely staffed organisations, to handle ever changing external dynamics, internal complexity, and the consequent stress on human resources, will not only determine the fate of these MFIs but also that of hundreds of thousands clients they serve. To rise to this challenge, the MFIs must be constantly vigilant and react with agility. Even as many of them need to raise the bar on governance and transparency, running tight and efficient operations across ever larger and disparate geographies will call for even stronger management and information systems. And all this without losing touch with the local realities and client needs.

A tall order indeed! But only this way can we hope to bring cost-efficient, quality financial services to the millions of poor in India who are still without access to the formal financial system.

- Moumita Sen Sharma is Vice President, Head Microfinance and Sustainable Development, India for ABN Amro Bank – the opinions expressed in this article are her own and do not necessarily reflect those of the bank.
- This article first appeared, in a somewhat abridged form, titled "Microfinance Is In", in the Bombay Stock Exchange's magazine, BSEnsex, June-July 2007 issue.

Dinosaurs and Rabbits – Indian Microfinance Market Evolution

Christopher Murdoch[1], Manoj K. Sharma and Graham A.N. Wright

[1] Christopher Murdoch is Strategic Services Director at Opportunity International Australia

Background

No one really knows what happened to the dinosaurs. In their day they were the largest and most powerful creatures alive on the earth. Some scientists argue that the earth was struck by a meteorite and the dinosaurs wiped out in a cataclysmic mass extinction. Others say there is no evidence of a meteorite of the size required, and that the dinosaurs died out gradually. Everybody agrees that today they are dead. And mostly scientists agree that the most likely explanation for the disappearance of the dinosaurs is that somehow the environment changed and the dinosaurs failed to adapt. Over time they were replaced by warm blooded furry creatures - rabbits if you will - that were better suited to the new world.

In India today the world is changing - fast. The microfinance world is changing - very fast. In some places the meteor of competition has already struck the ground; in other places MFIs are breaking new ground in savings product innovation; and in still others there are interesting experiments in distribution technologies that will change the economics of microfinance for good.

Signs of Change in Kolar District Karnataka

There is growing consensus that the large-scale defaults in Kolar are, in the main, driven the over-indebtedness of a small, but influential, subset of MFIs' clientele. With the rapid emergence of competition, these clients have taken loans from 3-5 MFIs, and are now struggling to repay. In desperation they turned to their community leaders, who have sought to organise mass default.

In Bangladesh, most villages are served by ten or more MFIs of varying sizes and product offerings[2]. And yet over indebtedness is limited, and repayments are largely made on time. The difference may lie in the speed at which the growth in competition emerged. In Kolar, villagers moved from having no source of reasonably-priced credit, to being able to access five or more MFI loans, in the space of a couple of years. For many of the self confident ones (many of whom became the group leaders), this was an opportunity, and temptation, they were not able to refuse. And so they amassed as many loans as they could … and are then discovered the implications and pain of being over indebted.

By contrast, in Bangladesh, it took over a decade for a fully competitive environment to emerge. As a result, Bangladeshi villagers were able to learn about, and gauge, their household debt-carrying capacity. They learnt this without falling into the type of large-scale, widespread over-indebtedness in Kolar, and possibly elsewhere in India.

What are the lessons from Kolar?

1. The idea that several MFIs lending Rs.10,000 each to a single client somehow diversifies or reduces risk is optimistic. This approach simply increases the transaction costs for the clients who have to sit in many meetings.
2. Many clients do indeed need loans greater than Rs.10,000 … or indeed Rs.20,000; but some need less than Rs.10,000. It all depends on what is being financed.
3. It is hugely important for MFIs to understand their clients and their debt carrying capacity better. Group guarantee will not necessarily adequately reduce over-borrowing – particularly when it is often the influential group leaders that take multiple loans. Indeed group solidarity may even be used to instigate coordinated, mass default.
4. Understanding clients better will require MFIs to move quickly to cashflow-based individual lending; and many will leverage the potential of m-banking technology to make this cost effective.

[2] See India Focus Note 12, "Are There Lessons For India From Bangladesh?"

Can the Traditional Microfinance Players Adapt?

Successful adaption involves managing both the pace and degree of change. A small change undertaken quickly is not too challenging. A large change conducted over a long time might be more difficult, but would still be expected to be conducted successfully. After all that is the story of microfinance in Bangladesh. But what about very large changes conducted very quickly? The challenge is daunting.

How Well Prepared are Traditional MFIs to Navigate Change?

Existing large players in India today by and large share the same broad characteristics:

- Growth is by geographical expansion
- Product suite is dominated by a single product
- Distribution is carried out via one channel
- Their operating focus is efficiency
- Operations are strongly standardised
- They are very flat organisations
- Over 95% of the labour is devoted to operations
- Product feature trade-offs are in favour of the MFI

…all copied from an existing successful model.

And if you were to choose a set of capabilities to grow a single model very fast then this would be the right model. It is rather like having a fast powerful rocket, with only limited navigation equipment and engineering.

What if the Following were Required?

- Growth by wallet expansion of existing customers
- Multiple products
- Multiple channels
- Effectiveness but much less labour
- More complex profit centre-based structures
- Some staff focussed on market sensing, and product and channel innovation

…invented from first principles

It is fair to suggest that not only would the existing organisations lack the capabilities, but the essentially conservative culture of such an organisation around standardisation and simplicity (the very thing that powers the organisation for success today) would be like a ball and chain slowing change.

MFIs need four new capabilities on the same footing in terms of respect and influence within the organisation as operations currently enjoys today. These are:

1. Sensing
2. Learning
3. Design
4. Change implementation

… as well as operations.

1. Sensing is the capability to gather structured and reliable data from the external environment to assess changes in: client circumstances; client satisfaction; product responsiveness to client needs; competition; and in technology available for reaching and transacting with clients.

2. *Learning* is the capability to understand the implications of the data captured through sensing. This implies that the organisation is able to discuss and debate the implications of the data, and arrive at a consensus view of what actions, if any, to take in the light of the data from the external environment.

3. *Design* is the capability to design and test changes to products and distribution structures, based on the consensus agreed on during the learning. It includes designing coherent business processes, systems, and organisation structures and people skills.

4. *Change implementation* is the capability to manage the changes required to implement new products: project planning and management; resource allocation; and management of the human factors surrounding the change.

Making the Change

Each of these capabilities is required for change in MFIs, products and channels. Of course undertaking major change takes time, and capital support. Capital participants in MFIs in India generally operate around two time frames. Either they are long term patient capital providers, with a strong interest in effective products to maintain strong engagement with clients; or they are short term participants looking to grow the size of single product players and exit within 2 to 3 years.

The second kind of capital providers are generally much less tolerant of time and effort spent on long term change, because it diverts resources and distracts management. But, of course, such changes may well be important to the medium term success of the organisation in the market. Alignment of capital provider time frames with market strategy appears to be very important and a strong consideration.

Conclusion

In summary, it is desirable that dinosaurs become warm blooded and furry … and that agile, and successful bunnies emerge too. Because different clients have different needs and no one product or microfinance player is going to meet all needs. If microfinance is to deliver on its promise it must evolve and adapt in a way which meets clients' needs more effectively, as clients change, and as the world changes around them.

The Andhra Pradesh Crisis: What Should MFIs Do?

Graham A.N. Wright and Manoj K. Sharma

India Focus Note 56 "The Andhra Pradesh Crisis: So What Next?" highlighted the problems Indian microfinance now faces. This chapter examines how the MFIs should respond to save their industry – denial is no longer an option.

Transparency Of Interest Rates

First and foremost, MFIs need to respond to the accusations that their pricing is not transparent – a common charge that is echoed around the world in microfinance, and points to a clear and present need to change. However, it is worth noting that the pricing of loans with fixed process or passbook fees, coupled with an interest rate that is usually expressed in terms of flat rate on principal, means that the Annualise Percentage Rate (APR) may vary with each loan. Furthermore, clients do not always understand APR, as typically informal sector interest rates are expressed as "X% of loan outstanding at the beginning of the month", or "Rs.X per Rs.100 outstanding". Often clients are above all interested in how much they have to repay each week. So pressing for expression of interest simply on an APR basis may add little real transparency for clients. Bangladesh has recently introduced a requirement that interest rates be expressed on a declining balance basis and that the upfront fees (which are also being capped at Tk.15) are clearly expressed separately from the core cost of the loan. But, of course, this masks the real effective interest rate.

Other elements of the typical MFI's loan package that obfuscate real effective interest rates include grace periods, the number of weeks over which the loan is to be repaid and requirements/"encouragement" to prepay the loan (most of which would be addressed by a move to declining balance-based interest rates). In addition, the commonly bundled loan-life insurance cover, compulsory savings or loan insurance funds will need to be unbundled to promote transparency in pricing. Clearly there is a need for an industry standard way of pricing, and a real commitment to helping clients to understand the real cost of their loans.

Transparency Of Operations And Governance

MFIs in India have a very real credibility problem when it comes to transparency of operations and governance – and continue to under-estimate how damaging this can be. The sudden and mysterious sacking of Managing Director and CEO Suresh Gurumani and his replacement with M. R. Rao, just two months after the IPO, resulted in a 6% dip in the organisation's share price. Discussions with bankers repeatedly show that the price of loans advanced to MFIs depend greatly on perceptions of their transparency and governance. However, MFIs, large and small, continue to ignore this sacred tenet.

But the challenges are in many ways more profound, The chapter "Microfinance – Time to Get to Back to Basics?" highlighted concerns about the lack of transparency in transactions amongst many of the larger MFIs. Professor Sriram's analysis of the dealings of some of the leading MFIs confirmed concerns that many industry insiders had long since harboured.[1] Whether the dealings are strictly legal or not is unimportant; in a politically and social sensitive environment like microfinance, it is essential to be, and be seen to be, transparent and honest in all dealings … as Professor Yunus and Grameen Bank discovered amid a maelstrom of negative press in early December 2010.[2] However, the strong response that Professor Sriram's article elicited from some quarters just showed that months' before the crisis, the industry was still in denial.

[1] Sriram, M.S., "Commercialisation of Microfinance in India: A Discussion on the Emperor's Apparel", W.P. No. 2010-03-04, IIM Ahmedabad, March 2010
[2] http://www.bbc.co.uk/news/world-south-asia-11899506 and http://www.bbc.co.uk/news/world-south-asia-11947902

MFIs in India, and indeed elsewhere in the world, need to establish outstanding levels of transparency and governance – in all parts of their business, financial and operational. They deal with a sensitive segment, the poor of the country, and should not only do good, but should also be seen to be doing so.

Improved Analysis And Dissemination Of Social Performance

MFIs often collect data about the nature of the clients they serve, but this typically remains on loan application forms, unanalysed, in branch offices. But this data could provide important insights into how MFIs are indeed reaching the very people that the Government of India is so keen to have served. Furthermore, very few MFIs are tracking their social impact – not least of all because of how difficult it is to do effectively without falling into attribution and selection biases. This problem is compounded because the tools available and currently being promoted focus on depth of outreach rather than how best to serve the poor. Analysing and acting on social performance analysed on the basis of client satisfaction and loyalty makes business sense – not just because it can be used to describe how the MFI is performing to external stakeholders, but also because it enhances the client responsiveness of the MFI.

Given the sensitivities involved and the vulnerability of MFIs' target customers, it is imperative that MFIs pay more attention to the basics of their business and the missions for which they exist: listening to and providing clients appropriate financial services. *MicroSave* has been concerned that the rate of growth of Indian MFIs and their loss of relationship with their clients for several years now.[3]

The concrete steps that MFIs can and should take are to:

- Follow stricter policies around *client protection* principles and do no harm. Maintaining transparent and fair pricing/interest rates, addressing multiple borrowing/ lending and ensuring appropriate collection practices is the starting point (and the bare minimum). Understanding clients' perspectives of what client protection actually entails is also essential.
- Take steps towards ensuring *client delight* through offering a range of high quality, client-centric and flexible financial products in a manner that is appropriate and suitable for clients.
- Develop a *strategy* that makes sense for the company, the management and the mission – not copy-paste from others.
- Improve *communication* with the stakeholders such as government officials, media about the social side of the microfinance, the nature of, and the benefits for, clients served.
- *Grow and expand*, but at rates that are manageable and enables human resources to be valued, well-treated and integral part of the institution, rather than becoming loan disbursal machines – and treating the clientele accordingly.

The points listed above seem clichéd. But despite repeating them on many occasions in the past, they have not been given enough attention, to the detriment of the entire fledgling industry. Meeting these challenges not only helps MFIs meet their mission and social performance needs, but also clearly makes business sense and enhances risk management (including strategic and reputation risks).

Establish a Credit Bureau?

The Indian MFIs that comprise the membership of MFIN are proposing to establish a credit bureau, which they believe, will allow them to mitigate the risk of over-indebtedness. However, even with the national unique identification number, a credit bureau may struggle to deliver information that is valuable in terms of reducing over-indebtedness for two important reasons. Firstly, MFIs effectively

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[3] See *MicroSave*'s India Focus Note 42 "Microfinance In India: Built On Sales Targets or Loyal Clients?"

lend to a household not an individual … and it is from the household income and expenditure flows that the repayments will be managed. In the event of one member of the household being blacklisted on the credit bureau, another can easily step in and join another MFI(s). A second, related point, is that the informal sector will not participate in the credit bureau, and as the recent IFMR study[4] shows, the vast majority of poor households' loans come from informal sources. So the database will only show a small proportion of the debt burden of the households registered.

Move to 3rd Generation Microfinance[5]

Ultimately MFIs need to provide a suite of products to their clients to reduce their vulnerability and enhance their ability to earn income. This cannot be done by delivering mono-product, group-based lending. Poor people need a wide range of financial services – and many need considerably larger loans than group-based MFIs (or indeed SHGs) are typically offering them. This provides a tremendous opportunity to use banking correspondents to offer the full range of financial services (savings, credit, remittance and insurance) and thus real financial inclusion to the poor of India.

This range of financial services delivered by banking correspondents would deepen the relationship between the client and the financial service providers. High quality saving services, so often demanded by clients in focus groups held by *MicroSave* in the villages across India, would allow poor people to build financial assets to help manage their household budgets and loan repayments through the lean seasons and household crises. Remittance and payment services could remove the pain of spending both time and money getting to, and waiting in, the bank to access the cash, which could be delivered in the village by the banking correspondent instead.[6] Microinsurance products, to reduce households' risk, or provide a long-term savings mechanism, could also be accessed through the banking correspondent. Clients would repay loans to secure on-going access to wide range of valued financial services rather than because their group and a credit officer were pressurising them to do so – moving to a carrot- from a stick-based incentive.

MicroSave calculates that loans of Rs.20-25,000 are adequate to cover the costs of conducting a cashflow analysis of, and reference checks on, the borrower's business and household, and thus to offer a cashflow-based individual loan. Performed well, such analysis (while not perfect) may offer a better chance of assessing the risk of over-indebtedness than a credit bureau. Furthermore, if delivered on a mobile phone banking platform alongside other financial services, individual cashflow based lending could reinvent the way the MFIs' front-line staff interact with their clients. Mobile phone technology could take care of loan reminders, collections and initial follow-up; thus allowing staff to focus on origination, appraisal, monitoring/client relationships and the (hopefully) few cases of delinquency. Coupled with an agent based network, this could be the answer to a low cost model that India needs at the moment.

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[4] http://microfinance.cgap.org/2010/11/11/who%E2%80%99s-the-culprit-accessing-finance-in-andhra-pradesh/
[5] See *MicroSave*'s India Focus Note 26 "Market Strategy Development and 3rd Generation Microfinance in India"
[6] See *MicroSave*'s India Focus Note 29 "Potential for E-/M-Banking Enabled Migrant Remittances"

The Andhra Pradesh Crisis – What Should The Government Do?

Manoj K. Sharma and Graham A.N. Wright

So What Should the Government Do?

Recognise And Build On The Success: The microfinance industry in India has grown by leaps and bounds and has managed to achieve in a decade what banks could not do in more than sixty years since India's independence. Outreach has expanded rapidly and large parts of the country have been provided with financial access, albeit only for credit and not for a suite of financial products. The banking industry has supported the growth of the microfinance sector in India, and its ready provision of the funds needed for the growth of the sector have enabled the horizontal expansion.[1] In a country still looking for greater penetration of financial services, the definition of microfinance as provision of credit of ₹50,000 or less should be maintained and maybe even enhanced. It is well known that banks find it very difficult to extend credit for enterprises in the informal sector with credit needs of ₹200,000 to ₹500,000. Microfinance institutions should be encouraged to fill this gap while maintaining levels of transparency and realistic pricing. Alternate channels of credit provision have to be developed for the informal sector, which otherwise has suffered apathy from the formal banking industry.

Enforce Transparency: Transparency is a pre-requisite in any business and more so in the microfinance sector as it deals with millions of poor. The Reserve Bank of India (RBI), which has till recently fought shy of closely regulating the sector, should take up the challenge. Reporting standards should be developed for microfinance institutions and to the extent possible, common reporting formats and measures for sharing of information should be adopted across banks. For too long it has been speculated that some MFIs are benefitting from reporting arbitrage, leading to unhealthy practices in the industry. A growing number of MFIs are examining options to cap the returns on equity that they make, and committing to reducing interest rates, or channelling any excess returns above the target cap into their social programmes. This too could play an important role in managing the nature of investors attracted, purely-profit-focused decisions in board meetings, and encouraging a truly double bottom-line approach to providing financial services to the poor.

Regulate For Responsible Lending: Group lending in its present form is a methodology that can only go so far. MFIs should be encouraged to provide a wider range of products, not only limited to credit. Even in terms of credit, a wider range of products should be encouraged. Providing artisans and farmers access to appropriate, and cost-effective credit products should be made eligible for priority sector lending. The challenge, of course, will be to have appropriate audit/end-use verification measures in place. In terms of recovery practices, strong arm tactics cannot be tolerated; however, action should be taken against errant microfinance institutions, and not against the industry as a collective. An Ombudsman-like institution should be created for MFI clients to be able to provide a forum for redress. Another means of fixing responsibility on banks extending credit to MFIs could be to adopt an area approach in bank lending to MFIs. Banks should extend credit to MFIs on the basis of portfolio of a certain number of branches. These banks could be held accountable for errors of omission and commission at these branches of MFIs. Such an approach would encourage banks to take greater responsibility and exercise greater care in the operations of MFIs.

The RBI has the option of regulating the microfinance sector comprised of Non Banking Finance Companies – MFIs (NBFC-MFIs) on its own, or through banks, or a combination of the two. RBI should probably enhance its own capacity to regulate and supervise NBFC-MFIs, and also entrust greater responsibility to banks extending credit to MFIs. Greater supervision and care by banks could have ensured a healthier growth of the sector, early adoption of transparency measures and possibly reduction in interest rates to the end clients. However, in pursuit of priority sector targets, banks turned a blind eye to the happenings in the sector and steadfastly refused to influence interest rates or the

[1] See *MicroSave* India Focus Note 43 "Commercialisation of Microfinance in India: Is it all Bad?"

extraordinary growth rates. The consequences of this have been detailed in IFN 55 "The Andhra Pradesh Crisis: Three Dress Rehearsals … and then the Full Drama".

Use Priority Sector Lending Requirements To Manage Growth And Encourage Operations In Remote Areas: Managing the explosive growth of MFIs could play an important role in ensuring that these organisations develop in a client-responsive and sustainable manner – rather than focusing exclusively on sales and gross numbers. Priority sector lending (PSL) requirements played a key role in encouraging the unsustainable growth rates of MFIs.[2] They should be amended to temper the incentives for rapid growth and to encourage competition. One such approach might be to limit the amount of lending per MFI that can be counted towards PSL requirements as has been done in the case of direct agriculture credit eligible for PSL. This would both reduce the scope for MFIs to leverage PSL debt to attract aggressive private sector equity, and encourage banks to lend to a wider range of MFIs, thus enhancing competition amongst them. Furthermore, as in the case of banks, microfinance institutions should be encouraged to set-up operations in remote areas. Access to priority sector funds should be contingent on MFIs' presence in remote unbanked areas, transparency and provision of a wide range of financial services - not only credit.

Develop Union Level Legislation: The applicability of money lending legislation of various state governments and efforts to regulate the sector through a plethora of state level legislations will harm the industry, and the poor in the country. Different state level legislations would lead to the promotion of state-specific entities as pan-India institutions will find it difficult to navigate through myriad legislations. This will ensure smaller institutions and will preclude the options of economies of scale in the provision of credit and other financial services to the poor. Hence MFIs, in all regulatory formats, should be exempt from state-specific money lending and other legislation.

Interest Rate Caps: Similarly, attempts to cap interest rates in microfinance will be detrimental for the poor and will set back the agenda for financial inclusion by decades. Clients in remote areas, in difficult terrains such as sparsely populated hills and in high cost urban settings will be denied access to quality financial services. If the regulator is concerned about super-profits being made by some of the MFIs, it should look at capping RoE rather than capping interest rates. A case against this, and the possible loopholes that such a measure will present has been earlier elucidated in *MicroSave*'s India Focus Note 56 "The Andhra Pradesh Crisis: So What Next?". The effects of interest rates on financial inclusion have been well documented, and are almost universally detrimental to the well-being of the poor.[3]

Enhance and Encourage Banking Correspondence: RBI should also facilitate movement from microcredit to full and comprehensive financial inclusion through the banking correspondent model. As of now, attempts are being made to enhance access to savings through e/m-banking channels. Such a model will continue to struggle to break-even unless a more comprehensive range of financial services are made available. Microfinance institutions have developed expertise in low-ticket size group lending, this can be very easily expanded to cover trade-specific individual loans, savings, remittance and insurance. Such an approach by MFIs, at least for some products, acting as agents of banks, will leverage the outreach and networks already created and will also be a step forward in bringing down costs.

Recognise, And Hold Accountable, An Industry Association: The microfinance industry collectives have also been struggling to maintain focus in a sector experiencing such rapid growth. Industry associations go into overdrive at the time of crisis, but lose their pre-eminence once the crisis is

[2] See *MicroSave* India Focus Note 42 "Microfinance In India: Built On Sales Targets or Loyal Clients?"
[3] See for example CGAP Occasional Paper "Interest Rate Ceilings and Microfinance: The Story So Far"

resolved. A clearer and more proactive role has to emerge for industry associations – or probably an industry association, singular. Coming up with codes of conduct, which remain voluntary, on paper and not adhered to by members in practice is clearly inadequate. The microfinance sector, (and the industry association collectives), has long known the black sheep within its fold – the question that arises is why were efforts not made to expel such players? The onus of such action lies on the entire sector. A few MFIs have in the past adopted grossly unfair and unacceptable practices, which have been topics for gossip, but on which no collective action has been taken. This will have to change or else, the entire sector will have to face the consequences - as has been demonstrated by the turn of events in the last couple of months. The RBI needs to recognise and hold accountable a credible, well resourced industry association.

Be Open And Honest About The SHG Movement: The events of the recent past should not encourage the illusion that the SHG model is the way, truth and light for financial inclusion in India. People involved in the sector admit that the SHG model is struggling, and will crumble unless rapid efforts are made to reengineer it.[4] Too much has been made out of the SHG model, and too many government programmes are made to ride on SHGs. It is time for an open and honest review of SHGs - analysing why MFIs had the space to lend to SHG members when MFIs were charging 24% (or more) and SHGs were charging just 3%. NABARD, as the custodian of SHGs, should conduct rigorous analysis of the model and arrive at ways and means of strengthening it. Given NABARD's deep involvement and ownership of SHGs, it can be safely said that the staff and officers of NABARD are aware of the problems and challenges, and are capable of addressing them. Indeed the SERP programme in Andhra Pradesh has already started sincere efforts to do this.

Conclusion: The Deputy Governor of the RBI, Mr. Subir Gokarn noted on December 8th, 2010 in Kolkota that, "MFIs constitute an important component of our financial inclusion strategy. The last mile that MFIs are able to cover is not something that the formal financial sector is able to. They remain an important part of the system". We hope that this foresight and forward thinking is maintained by RBI, and indeed the whole sector … and the poor of this country do not have to pay for the aggression of a handful of players or political expediency.

[4] See *MicroSave* India Focus Notes 15 "Delinquency in Self Help Groups", 19 "SHGs Should Balance or Break" and 44 "Savings Mobilisation in SHGs: Opportunities and Challenges"

The Andhra Pradesh Crisis – Clients' Perspective

Anjaneyulu Ballem, Trivikrama Devi and Veena Yamini A.

Background

India Focus Notes 55[1], 56[2] and the chapters 3, 4 discussed the Andhra Pradesh (AP) crisis at length – from the background and build-up to the crisis; what is likely to happen next; what microfinance institutions (MFIs) should do; and what the government should do. This chapter focuses exclusively on clients' perspectives, before and after the crisis, gathered by the *MicroSave* team at various points of time, in a wide variety of locations, across Andhra Pradesh, after the crisis broke in October 2010.

Clients' historically admired and appreciated MFIs, because of their products and delivery systems, which offered:

1. Easy access to collateral-free loans;
2. Convenient, doorstep delivery;
3. Quick processing of loans with little documentation;
4. Lower interest rates compared to moneylenders etc.

Even for self- help group (SHG) members with loans through the bank linkage programme, MFIs were an attractive option, as they provided larger loan amounts in a short span of time. For most members, the loans they received from/through the SHGs were insufficient for their needs. In addition, in SHGs, other transaction costs were common: there is often a long waiting period until the bank linkage loans are disbursed; some bankers demand that SHG members keep at least 10% of the loan amount as fixed deposit, while others insist that SHG members buy insurance products to get the bank loan. SHGs also need to spend considerable time and incur substantial direct costs to receive the loan and make monthly repayments at the bank.

For these reasons, many people were borrowing from MFIs with relatively high interest rate, even though they could get loans at 3% through their SHGs. MFIs provided them easier access and client focussed service not otherwise available.

While many poor people did take loans from MFIs for the reasons cited above, others hesitated to take loans because of:

1. The rigidity in frequency of collections (most MFIs require weekly repayment - irrespective of the cash flows of the clients);
2. Compulsory weekly meetings (which put pressure on the clients' time);
3. Stricter collection practices;
4. Higher interest rates etc.

Sectoral stakeholders have been advocating the need for product innovation and enhanced usage of technology to reduce the delivery costs. However, as MFIs were growing rapidly, the incentive to invest in innovations was missing. Most MFIs were happy rolling out vanilla group products with repayments at weekly frequency. All this has changed over-night after the Ordinance issued by the Government of Andhra Pradesh. The following sections of the chapter capture the perspective of clients' in AP on microfinance.

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[1] http://*MicroSave*.org/briefing_notes/the-andhra-pradesh-crisis-three-dress-rehearsals-%E2%80%A6-and-then-the-full-drama
[2] http://*MicroSave*.org/briefing_notes/india-focus-note-56-the-andhra-pradesh-crisis-so-what-next

Clients' Perspectives Of MFIs

After the Andhra Pradesh State Government issued the MF-Ordinance[3] in October 2010, matters have become worse for MFIs, banks and clients themselves. The general trend has been that clients have stopped repayment of loans to MFIs – due to pressure from elected representatives and active workers of various political parties, as well as other local leaders; or because MFI staff are not coming to collect; or due to peer pressure.

There are three broad categories of client reactions to this:

1. Those who are willing to pay despite the situation

Some clients are willing to pay, thinking that it is better to pay weekly instalments now than to have to pay larger amounts later when the issue is resolved. Clients are unable to pay because MFI field staff are unable to come for collections. In some villages, MFI loan officers have been arrested by the police, based on the complaints received from their clients. As a result of these incidents, many loan officers have stopped visiting villages. In other areas, the management of third parties has become a major challenge for MFI staff. One MFI loan officer noted, *"I know how to convince and manage our clients, but I really do not know how to manage local politicians and Panchayat Presidents and Ward Members, who are not allowing me to enter the village"*. MFI clients of Ramavaram[4] said that they are willing to pay the instalment amount, but MFI staff members are not coming to their area for collection.

A prolonged period in which collections have not happened in the field meant that at least some clients have had a rethink on their continued relationship with MFIs. Even amongst clients willing to repay, the general perception has been that the MFIs might collect repayments, but not sanction any further loans. In Rudrapur, clients are willing to repay as long as the MFIs promise them to give further loans. In the Rayapruam village clients who recently completed repayment of their loans, and are waiting for new follow-on loans, are not happy with the Ordinance which stopped MFIs' disbursements. Hence, uncertainity is building up amonst clients and chances of repayments are reducing with every passing day.

2. Those who want a clarification from the government before making payments

After the crisis erupted in October, many local administrators, as well as local and state politicians have been openly telling clients not to repay to MFIs. This campaign has been very effective in many areas, and created significant uncertainty (not to mention opportunism) amongst many MFI clients.

As a result, in many places, MFI clients do not want to repay their loans unless the government makes a clear, formal announcement on repayment to MFIs through prominent TV channels. Local Panchayat Presidents and Ward Members and political representatives are expecting an official letter from local Mandal Development Officer or Mandal Revenue Officer regarding repayment of MFI loans; otherwise, they do not want to allow MFI staff to enter villages/towns.

Some MFI centre leaders stated that loan officers have approached them with a copy of the Registration Certificate[5] given by the District Rural Development Agency (DRDA), but that they are waiting for the local government administration's guidance on this issue. MFI loan officers say that people do not attach any value to the Registration Certificate issued by DRDA, asserting that these documents have been produced by MFIs, rather than obtained officially through the DRDA.

[3] Andhra Pradesh Microfinance Institutions (regulation of money lending) Ordinance, 2010
http://www.serp.ap.gov.in/SHG/index.jsp

[4] Names of the villages and names of the respondents have been changed

[5] As per MF-Ordinance, all MFIs operating in the State of Andhra Pradesh must now be registered with specified authority to conduct business in the villages or towns in which they have been operating or propose to operate.

In Gajulapalli, MFI clients say that many of the families have taken so many loans from MFIs that now it has become very difficult for them to pay all the instalments due. Some families have to make loan repayments every day of the week, other than on Sundays. These people are now expecting/hoping that the government will waive all MFI loans. In contrast, in Peddapalli village, MFI clients want the government to show them alternative sources of credit - otherwise they will have to go back to the informal moneylenders.

3. Those who are taking the opportunity to default on repayments.

In some places there are dominant members, including the centre leaders, who are not allowing the members to repay, as they want to use this as an opportunity to default on or renegotiate their loans. The extensive discussions of MFI interest rates and other charges (for example processing fee, insurance and business development service fee etc.) in various forums, especially in the electronic media, has increased the clients' awareness of the costs of borrowing from MFIs. This has brought a new set of problems for the repayment of existing loans to MFIs. For example, many clients have started thinking that they have overpaid on the loans that they have taken to date.

In Kothapalli village, one of the MFI clients who had recently taken loan from a prominent MFI, attended a meeting about the Ordinance, and calculated the entire amount she was supposed to pay to the MFI in addition to the principal amount. After this calculation, she concluded that the MFI was charging exorbitant interest, and spread this information in the entire village. As a result, all the members decided not to repay their loans, demanding that the MFI reduce the interest rate to Rs.1 per Rs.100 per month.

The media coverage of the crisis and alleged suicides attributed to MFIs has also affected clients' belief in MFIs. In Mamillapalli village, for instance, some clients are under the impression that MFIs caused clients elsewhere in the state to commit suicide. Hence, although none of the clients the team met actually knew of anyone who had committed suicide, they have decided to stop taking loans from MFIs, mainly on the basis of media reports and what they have heard from other villagers.

Non-clients' Perspectives of MFIs

Non-clients' perspectives on, and prejudices about, MFIs have been strengthened. Many of the non-clients do not know how MFIs operate, as MFI staff do not share their norms and terms of business with anyone other than their clients. Many of them believe that MFIs are charging higher interest rates than local moneylenders. The present crisis, publicised through media, has made the MFIs infamous - even amongst those who have never before heard of microfinance. Many such non-clients believe that poor people across the state have committed suicide because of pressure from MFIs and the use of coercive practices for repayments.

Conclusion

The main impact of the crisis has been on the credit discipline demonstrated by the clients. The credit discipline, so carefully nurtured by MFIs has been almost completely eroded. Yashoda of Jagatpur says, *"Only a few weeks back, we used to worry about instalment amount that needs to be paid on time to MFIs. We could not even sleep properly until we mobilised the necessary amount. But now we know how to manage the loan officer of MFI in case we do not have money for payment of the instalment"*. The implications for the credit risk associated with lending to the poor in India, whether through joint liability groups, or through SHGs, are enormous and profoundly worrying.

Relevance of Customer Service Post the Andhra Crisis

Soumya Harsh Pandey and Aanchal Piplani

Microfinance is often seen as a multiple bottom line business. While the jury is out on how many bottom lines it affects, at a very basic level it was supposed to yield both social and economic benefits. However, in last five years, microfinance operations in India have undergone a sea change with organisations chasing numbers driven by an influx of private equity.[1] As a result, MFIs which were operating in one or two states grew rapidly to become pan-India behemoths in order to achieve the generous returns promised to their investors. This is common when private equity starts chasing opportunities to maximise returns. For example, the dot-com industry followed a somewhat similar growth trajectory. However, microfinance was supposed to be special with its social underpinning and origins.

Clients have suffered most of all amongst this rash dash for growth.[2] This is because some MFIs' focus on quantity over quality of service has led to irresponsible lending practices like multiple lending, coercive collection methods, hidden charges, use of loan agents, misuse of insurance etc. From an industry perspective, the recent 'Andhra Pradesh (AP) Crisis' provides an opportunity to hit the "reset" button, and allows all the stakeholders to take stock of what went wrong.

After the RBI guidelines[3], there is clarity on some of the policy issues and on who is going to regulate the sector. However, with both interest and margin cap, and restrictions on multiple lending and loan amounts, the future of MFIs focusing solely on profit margins and portfolio growth will be challenging. Furthermore, funding to the sector at present is largely constrained, and raising money through off balance sheet arrangements is becoming increasingly difficult.

Therefore, the question confronting Indian MFIs is not just to manage their way through the present crisis but also on how to survive and thrive in the long term. Several measures, including reduction in interest rates/loan processing fees, development of a credit bureau, increased interaction with clients etc. have been taken by MFIs post the AP crisis. However, after the RBI's guidelines, Indian MFIs need to answer the following questions:

1. How to maintain the required yield on portfolio given the interest rate cap and other restrictions?
2. How to ensure that current portfolios remain intact?
3. How to ensure that multiple borrowing does not affect portfolio quality?

One of the ways to resolve these issues is to ensure better retention, which is directly linked to better client service. As a rule of thumb, for an MFI, it is 5-10 times more expensive to acquire a client than to retain an existing one.[4] Repeat clients are of vital importance to microfinance programmes. Furthermore, reducing customer defections can boost profits by 25-95%.[5] If customer service is part of the solution, the question arises as to how MFIs can institutionalise the best practices to improve customer service.

But it is important to be clear on what we mean by customer service. Quality customer service is not only about how customers are treated by staff, but also ensuring that they are offered appropriate products, delivered in an efficient manner, at an appropriate price and in an easy to access location with clearly communicated terms and benefits, which lead the customer to use the services of the MFI time and time again.

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[1] See chapter 10 "Microfinance – Time to Get to Back to Basics?"
[2] See *MicroSave* India Focus Note 42 "Microfinance In India: Built On Sales Targets or Loyal Clients?"
[3] http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=6381, on May 3, 2011
[4] Frederick F. Reichheld and W. E. Sasser, "Zero Defections: Quality Comes to Services," Harvard Business Review, September–October 1990, 105–111.
[5] ibid

How To Know What Customers Want?

There are different ways to understand the changing needs and preferences of both clients and staff. These approaches are also useful to better understand the competition and its offerings to benchmark our services and product offerings.

- **Regular Market Research:** Market research focused on the basis of client satisfaction surveys, MIS data and feedback from front-line staff can provide valuable insights for optimising existing products or developing new products. Many of *MicroSave*'s better clients in India, Philippines and across South and East Africa have developed in-house market research teams to develop new products and monitor customer satisfaction as well as the competition's activities.
- **Regular Client Satisfaction Surveys:** Conducting client satisfaction surveys on a regular basis helps an MFI to understand its clients and their needs and respond to these.[6] ***Arohan***, a Kolkata-based MFI hires a market research agency to conduct a client satisfaction survey every year. With a little training and preparation, internal staff of MFIs can also be used to conduct such surveys.
- **Staff Satisfaction Surveys:** Loan Officers (LOs) play an important role in the performance and growth of the MFI. LOs are the face of the MFI for the clients. Conducting staff satisfaction surveys, especially for the field staff helps an MFI to understand the level of their staff's commitment and areas for improvement.
- **Effective Client Grievance Redressal Mechanism:** MFI should build strong and responsive client grievance redressal mechanisms to build confidence among clients. Such initiatives not only help protect clients' interests, but also make staff more responsive and accountable. Simple things like having a suggestion/complaint box which is regularly monitored and followed up on can bolster confidence.
- **Client Exit Interview:** Client exit interviews help to understand and keep track of the reasons for clients leaving the MFI. In addition to understanding the customer needs, it also helps an MFI to understand the competition and their services better. This can help MFIs adapt themselves to market needs and remain competitive.
- **Mystery Shopping:** Many *MicroSave* clients now get new staff members to conduct mystery shopping at branches and in the villages as part of their induction training. This provides valuable feedback to the MFI and excellent initial immersion training for staff. Older staff can also be used to do this as they can compare organisational product and service over time and operational area much better than new ones.

Embedding Customer Service in the System

Understanding the needs of the client and the market is the first step and a relatively easy one. However, integrating and institutionalising client responsiveness in all organisational processes and procedures is more difficult. Embedding the changes in the system and processes will mean that staff will be consistently guided to take decisions that improve customer service. The 8Ps of marketing[7] provides a structured way of integrating customer service. Some such examples are given in the following box.

[6] *MicroSave*'s Customer Service Toolkit includes ServQual and other survey instruments to do this effectively.
[7] See *MicroSave*'s Customer Service Toolkit

8Ps in Customer Services – Some Examples

Product: ***Arohan*** has designed a loan product for working men and women. Based on the feedback from the target clients, collections are now made at the place of business.
Price: ***Sonata*** has been following some best practices in pricing including minimal pricing points, transparent pricing by quoting interest on reducing balance basis, not charging for prepayment, no compulsory savings etc.
People: ***KGFS*** has issued uniforms to both their head office and field staff to make them easily recognisable and increase confidence among clients that they are transacting with the MFI's staff.
Place and Processes: ***KGFS*** offers all its services through conveniently located branches, and (in response to client demand) through a network of agents. The processes are short, simple and thus convenient for the clients.
Physical Evidence: With introduction of caps on interest rates and processing fees, MFIs like ***BASIX, Shikhar,*** **Ujjivan** etc. have started to print their charges and fees on the loan cards and have also set up displays in their branches that detail the loan product and interest rates.
Promotion: ***Svasti*** has built a promoting their grievance redressal mechanism into the collection meetings. During the collection meeting their grievance redressal mechanism is repeated to build confidence in the MFI.
Positioning: It is also important that an MFI is seen as it wants to be perceived. ***Cashpor*** is an MFI that has positioned itself as working with the poorest of the poor. Use of their poverty assessment tool based on the type of house has helped them in targeting the right set of clients.

Conclusion

Post the recent AP crisis and subsequent changes in the regulatory environment, implementing effective customer service is essential to survive and remain competitive. Some of the ways to ensure good customer service are mentioned in the previous section. However, the most essential component is the willingness of the MFI to listen to its clients and adapt itself accordingly. Improving customer service is a continuous process and should be driven by the management's will rather than by external compulsions.

Why Do Microfinance Clients Take Multiple Loans?

Veena Yamini A. and Venkata N.A.

Introduction

Since 2004 microfinance in India has gained impetus, and the sector has grown very rapidly. This trend was reinforced by the commercialisation of the sector, which is often characterised by increased competition for clients and a clear objective to seek profitability – resulting in more than one microfinance provider (MFI) operating in an area. While this offers members a scope to borrow from multiple sources, it can also lead them to over-indebtedness.

The aim of this chapter is (a) to understand and present the rationale and impact for multiple borrowings from a client perspective; and (b) to discuss how the MFI and its leaders perceive the issue and its implications. The observations and findings of the authors are based on extensive interactions and conversations with borrowers, MFI staff and leaders in the field.

The *State of the Sector Report, 2008* estimates the extent of multiple borrowing as prevalent in 10% to 20% of MFI clients.[1] However, actual incidence may be much higher, especially in mature markets or in markets where there are many MFIs competing for clients in the same area, such as the southern states of Andhra Pradesh, Karnataka and Tamil Nadu.

Clients borrow multiple loans from:

- Moneylenders
  - Registered - Pawn brokers, local finance
  - Unregistered - *Thakur, Seth, Patel*
- SHGs – internal corpus, bank linkage, etc.
- Several different MFIs
- Different branches of the same MFI through group and individual lending (IL) methodologies

Clients borrowing from different types of lenders to meet their diverse needs have created some concerns (see box for the scope of such borrowing). The problem is complicated by the limited capacity of MFIs to limit loan use to 'productive' purposes. Clients often use multiple loans for "non-productive" purposes, such as meeting emergency expenses or for another more viable or lucrative opportunity.[2] Multiple loans are commonly used for emergencies (indeed emergencies are often a trigger, motivating clients to seek credit from other MFIs). If the clients receive funds at an inappropriate moment in their business cash flow cycle, they may also be tempted to divert them to other needs like education, festivals, consumption etc.

However, the real concern is with clients taking multiple loans from different MFIs who have similar products with rigid instalment schedules (unlike most informal/semi-formal loans for moneylenders, SHG groups etc. which provide the flexibility to help clients manage repayments). The chances of getting over indebted are high due to the inadequate control mechanisms in MFIs to prevent multiple lending.

[1] Srinivasan, N., "State of the Sector Report 2008", Sage Publications, London, UK, 2009.
[2] See *MicroSave* India Focus Note 7 "Are Loan Utilisation Checks Necessary"

Views of a Senior Manager
(of a Tier-II MFI) on Multiple Loans

> *"Our field staffs are very aware of the number of loans each member has taken from different MFIs. But, they don't reveal the information nor do they capture it in the loan documents as their incentives mainly depend on number of clients, outstanding and repayment percentage".*

From the ***client's perspective*** there are quite a number of reasons for taking multiple loans including:

- Receiving inadequate loans for business expansion as the loans are based on loan cycles rather than cash flow;
- Repayment of existing (high interest) loans with money lenders;
- Borrowing to meet other requirements such as marriage, funeral, construction of house, health, education etc;
- For starting another business by the member/spouse/children;
- On-lending (like money lenders) to neighbours/friends;
- Purchasing gold jewellery in order to create savings;
- Unexpected receipt of loans (while already in debt) from banks/ government;
- Repayment of existing loans with other MFIs/ SHGs.

A study conducted at Ramanagaram[3] for three months period, shows that 19 of the 20 households involved in the study were indebted to more than 2 MFIs/SHGs; 10 households to more than 4 MFIs/ SHGs; and 2 households to a total of 7 MFIs. One of the common reasons cited for multiple borrowings was the inadequate loan size. 10 of the 20 households were spending more on loan repayments than on food. An analysis conducted by GFSPL[4] in Kolar showed that 11% of the MFI clients have loan accounts with 2 or more MFIs, with 20% of total loan amount disbursed is to clients with accounts in multiple MFIs.

A recent study[5] on stress levels of *kendras* (centres) conducted at Grameen Koota suggested that over the years, the older *kendras* have learned to manage stress by adopting improved strategies. For example: hanging on as the member gradually pays off her loans; managing the delayed payments for the delinquent client; saving up amounts as small as Rs.10 per member per week to manage large delinquencies; starting group-based income generating activities that help them generate income and build affinity; adopting more rigorous member selection practices; checking loan utilisation even when it is not required; and not permitting members to join who are members of too many other MFIs.

From the ***MFIs' perspective,*** there are quite a number of potential ways for multiple borrowing to happen:

- MFIs' aggressive growth plans force poaching the existing clients of other MFIs as the members have proved their credit history and they have fair knowledge of joint liability group norms and credit discipline;

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[3] **Kamath**, Rajalaxmi, Arnab Mukherji and Smita Ramanathan, "Ramanagaram Financial Diaries: Loan Repayments and Cash Patterns of the Urban Slums", IIMB Working Paper No. 268.

[4] Grameen Financial Services Private Ltd for the Association of Karnataka Microfinance Institutions (AKMI).

[5] Excerpts taken from the report '*The Voice of the Kendras: Diagnosing Internal Stress*' a research conducted by teams of Grameen Koota and *MicroSave* in June and July 2009.

- Clients do not reveal their borrowings/membership with other providers (and also MFIs do not share the information with other MFIs);
- Loan sizes are based on cycle rather than cash flow;
- Different members from the same family or household take loans;
- Borrowers avail multiple loans by taking advantage of multiple spellings/names on multiple identity cards;
- Front line staff want to reach their monthly targets and thus ignore multiple borrowing;
- Front line staff do not reveal that the member has already taken multiple loans from different institutions as they do not get any incentives for revealing this information.

Implications

When borrowers resort to multiple borrowings to smooth their cash flows, they must bear a heavy burden.[6] This includes: transaction, opportunity costs and time spent in various group meetings; household over indebtedness; stress of meeting multiple loan payment schedules; increased risk of inability to pay; stress of increasingly unstable joint liability agreements; and ultimately the risk of defaulting. For MFIs, there is a high risk of default and drop out, and a risk that staff and operational resources may be shifted to areas where a proliferation of MFIs is eroding portfolio quality.

Conclusion

It is difficult to attribute such multiple borrowings just to unmet demand for credit from borrowers, or to dumping of loans by the MFIs on clients well versed with the MFI methodology.[7] However, MFIs can reduce the incidence of multiple borrowing. The appropriateness of disbursement timing can be improved through studying microenterprise cash flows by type, and changing operational policies to reduce mismatches between client cash flows and the timing of loan cycles.

Another strategy is to implement individual cash flow-based lending. This entails a special product design of which the terms and conditions are based on the actual needs of the clients' business; offer differential loan tenure and repayment schedules for each borrower based on cash flows; specialised recruiting, training and incentivising of a person only for cash flow analysis and develop specialised underwriting tools, analysis, process and approval.

At policy level, MFIs can: (a) initiate state level MFI-forums like Association of Karnataka Microfinance Institutions (AKMI) and share data about delinquent clients and areas of multiple loans; (b) also to adjust their field officers' targets to be more realistic, and (c) graduate clients with need and good credit history to individual lending with higher ticket size.

[6] **Krishnaswamy**, Karuna, "Competition and Multiple Borrowing in the Indian Microfinance Sector", IFMR-CMF Working Paper, September 2007.
[7] **Srininvasan** R. and Rajyalaxmi Kamath, "Microfinance in India: Small, Ostensibly Rigid and Safe", IIM-B Working Paper, 2009.

A Closer Look at Multiple Borrowing in the Philippines

Johan N. Diaz and Jesila M. Ledesma

Background

With increasing cases of over-indebtedness among microfinance clients, multiple borrowing is getting its share of unfavourable limelight. Research on the Indian microfinance sector, for instance, identified product design constraints such as mismatch between the size of the loan and the financial needs of the clients, as one main reason for turning to other sources of funds.[1] This is confirmed by a study in Uganda, which found borrowers to take on multiple loans to manage cashflow, and to smooth the timing of loan repayments.[2] For many, multiple borrowing ensures a reliable and steady source of funds to cope with financial pressures. It thus makes rational economic sense.

Multiple borrowing brings many benefits to clients, but too much can also bring problems. Lack of control and discipline in multiple borrowing can lead to over-indebtedness where the borrower takes more loans than she can repay. When loans are not paid, financing is cut off. Without continuing access to funds, micro enterprises stop growing or even go bankrupt.

In this chapter, we present summary results of a study which looked at this phenomenon in the Philippines. The study aimed to contribute to the body of knowledge to better understand multiple borrowing and its link to over-indebtedness. *MicroSave* partnered with Tulay sa Pag-unlad, Inc. (TSPI), one of the leading MFIs in the country with 250,000 clients and 30 years of services to micro and small entrepreneurs. The study administered a detailed questionnaire to 151 urban women micro entrepreneurs with outstanding loans from TSPI.

Respondents' Profile

Sixty-two percent (62%) of the respondents are more than 41 years old, and a majority at 89% are or have been married with average household size of 5. Typical of Filipino micro entrepreneurs, 71% of respondents are engaged in petty trading, with 32% operating *sari-sari* stores (community-based shops) and mini groceries which sell different kinds of food and non-food items on retail. Nearly half (45%) earn a weekly gross family income of not more than P3,000 (US$71), which is close to the household poverty income threshold set by the government at P2,760 ($66) in 2008. Self-rating on income adequacy showed 1/3 of respondents were experiencing income shortfall sometimes.

Borrowing Habits

Twenty eight percent (28%) of borrowers had two loans, while 15% have three loans or more. The average loan amount for single loan borrowers is P10,425 (US$250) – this rises to P16,700 ($388) among multiple borrowers. Converting the weekly loan payment for all borrowers to a percentage of estimated weekly gross income, the study found the average weekly repayment for single-loan borrowers at 18%, compared to multiple borrowers, at 33%.

Most of the multiple borrowers had obtained additional loans from non-bank financial institutions (44%). This indicates that the availability of many MFIs does facilitate the incidence of multiple borrowing. The next major source identified is family members and relatives (30%), followed by individual moneylenders (24%). Only one had borrowed from a bank.

Views on Multiple Borrowing

Respondents cite good reasons for taking additional loans. The top four reasons are: 1. additional capital

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[1] **Krishnaswamy**, Karuna, "Competition and Multiple Borrowing in the Indian Microfinance Sector", Institute for Financial Management and Research, Centre for Micro Finance, India, 2007.

[2] **McIntosh**, Craig, **de Janvry**, Alain, and **Sadoulet**, Elisabeth, "How Rising Competition Among Microfinance Lenders Affects Incumbent Village Banks", Economic Journal, vol. 115(506), pp. 987–1004, 2003.

for business (37%); 2. keep children in school and pay for the education of a family member (33%); 3. medical expenses for the family (11%); and 4. meet basic household needs (11%).

Respondents, however, recognise the risks involved in taking more than one loan. They acknowledge the stress and mental burden that goes with multiple borrowing when expected income does not come and there is not enough money to cover the needs of the family, business and lenders. Testimonies shared by respondents during informal discussions highlight this stress, which leaves borrower sad and depressed, short tempered and often angry, having fights among family members, and losing the affection of friends and loved ones.

Overall, the majority (80%) of respondents do not recommend multiple borrowing and offer the advice to stick to one loan at a time. The minority 20% appear to be risk taking-types and the practical ones who find no problem going into multiple borrowing provided that money is put to good use - notably to seize opportunities for business growth.

The view of this minority group is supported by recent studies from Uganda[2] and India[2], [3], [4] which show the reasons that drive the poor to multiple borrowing. These include: continuity, convenience, flexibility and reliability of access to financial services. Some clients thus borrow from more than one MFI to have a continuous source of credit to meet their needs. In a study involving interviews with credit officers from several major MFIs in Uganda, similar reasons were highlighted, particularly to smooth household cash flow.

Implications for the Industry

While the study covers a small sample, it is troubling that the rate of multiple borrowing recorded is not far from the rates of countries that have experienced a microfinance repayment crisis after a period of high growth.[5, 6] Although many factors have played a part in the repayment crisis in these countries, multiple borrowing has been cited as a relevant indictor, or key symptom, prior to a repayment crisis. MFIs would do well to look at the incidence of multiple borrowing as an indicator of financial stress of clients. It can also be used to help the institution mitigate credit risk.[7]

Country[2,3]	% Multiple Borrowers
Nicaragua (2009)	40%
Morocco (2007)	40%
Bosnia and Herzegovina (2009)	40%
Pakistan (2009 at areas where the repayment crisis occurred)	30%
Ecuador (2009)	25%
Peru (2009)	45%
Philippines (2010, limited sample only)	43%

In Latin American countries for instance, fast growth has led to intense competition among the MFIs. Reckless lending by fast growing MFIs fuelled over-indebtedness among clients.[2,5] MFIs deliberately competed in concentrated geographic areas with greater economic activity and higher population density.

[3] **Morduch**, Jonathan, and **Rutherford**, Stuart, "Microfinance: analytical issues for India", a report for the World Bank, South Asia Region – Finance and Private Sector Development, April, 2003.
[4] See chapter 7 "Why Do Microfinance Clients Take Multiple Loans?"
[5] **Chen**, Greg, **Rasmussen**, Stephen, and **Xavier** Reille, "Growth and Vulnerabilities in Microfinance," CGAP Focus Note 61, CGAP, 2010
[6] Martinez, Renso and Gaul, Scott, "Measuring Cross-indebtedness in Microfinance – Evidence from Latin America," CGAP March 8, 2011 http://microfinance.cgap.org/2011/03/08/measuring-cross-indebtedness-in-microfinance-evidence-from-latin-america/
[7] See chapter 9 "Diagnosing Financial Stress in Group Methodology"

The focus on commercialisation often leaves out low potential and remote areas also in need of financing. MFIs with social missions could benefit from adopting social performance management systems and pursuing a systematic process of deepening outreach among marginalised groups.

MFIs in the Philippines and elsewhere may want to consider the following activities to better respond to the target market and prevent multiple borrowing to lead to over –indebtedness:

Continuous innovation of products and services. The financial activities of low-income families are usually driven by 3 main needs, as mentioned in "Portfolios of the Poor" by Collins et al.:

(1) Managing basics: cash-flow management to transform irregular income flows into a dependable resource to meet daily needs; (2) Coping with risk: dealing with the emergencies that can derail families with little in reserve; and (3) Raising lump sums: seizing opportunities and paying for big-ticket expenses by accumulating usefully large sums of money.[8] The needs of low-income families in the Philippines are not any different. This calls for MFIs to pursue continuous innovation in products and services to meet clients' varied financial needs. Clients need not always turn to borrowing when given options with other appropriate products such as savings and insurance.

Client protection strategies. As active financial managers, many clients do employ systems to avoid over indebtedness. If they have to get into multiple borrowing, they only borrow small amounts or they try to borrow loans with terms that make repayment low cost and affordable. But not all clients do so. This calls for MFIs to adopt strategies to protect clients, especially from over indebtedness. Careful screening of loan applications is critical, especially in areas where many MFIs compete for the same type of clients. MFIs should develop policies on maximum debt exposure levels, and train their staff to conduct simple client repayment capacity assessments. MFIs should monitor multiple borrowing among clients and align their systems and processes to be able to help clients in financial distress and keep other clients from falling into the debt trap.

Client protection will be effective when it becomes part of core business processes. This relates to balancing targets of outreach and portfolio size with extending the right loan amount to clients based on capacity to pay. To operationalise client protection in the institution, the SMART Campaign, the Social Performance Task Force, and other global initiatives have developed a wealth of information and tools for MFIs.

Information sharing at the industry level. In Nicaragua, Ecuador, and Peru, MFIs continuously provide borrower information to credit bureaux, helping them validate the relationship between over-indebtedness, multiple borrowing and social and financial performance metrics such as write-offs, product offerings and growth. This has helped them study in detail the multiple borrowing phenomenon and make adjustments to their systems to address the current issues.

In the Philippines, collective efforts have started to bring to reality the microfinance credit information bureau mandated by Republic Act (RA) 9510 or the Credit Information System Act which was passed into law 3 years ago.

Conclusion

MFIs and the microfinance industry can look to multiple borrowing as an early warning sign of the need to improve products and services to better meet and serve the needs of the low income market. MFIs would do well to heed the warning.

[8] See India Focus Note 60 "Speculation on the Future of Financial Services for the Poor in India"

Diagnosing Financial Stress in Group Methodology

Venkata N.A., Veena Yamini A. and Suresh K. Krishna

Introduction

Micro credit evolved and became successful on the basis of its group lending methodology, with "peer pressure" and "joint liability" as the building blocks. Now, four decades after its beginnings, the group methodology is under scrutiny, especially in India, with many stakeholders (particularly elements in the political and religious establishments) alleging that it is causing financial (and indeed other) stress to the women clients. The recent past has seen instances in the south of India where groups refuse *en masse* to repay, which has, unsurprisingly, challenged MFI operations. The reasons for this are many, including the competitive environment, multiple borrowing[1], the perceived threat from MFIs to the SHG movement and the increasing attention being focused on the sector.

This triggered *Grameen Koota (GK)*[2] to look at their group lending methodology from a different perspective, and to ask questions about the financial stress levels of the kendras[3], if and how this can be diagnosed. *MicroSave* as the technical support partner, designed and jointly conducted a research study, "The Voice of the *Kendras:* Diagnosing Internal Stress", to answer these questions.

The objective of the study[4] was to identify the financial stress of members, sources/reasons for this stress and indicators for measuring it, and to identify strategies for mitigating financial stress amongst *kendra* members. This chapter presents the learnings from the study, and authors' experience in the sector.

Key Findings

For the purpose of the research, and for this chapter, financial stress is defined as: "a difficulty that causes worry due to the financial factors". Financial stress is caused by a combination of factors that affects individuals, groups and *kendras* differently.

Delinquencies within *kendras* are one of the major sources of stress for members. Other life cycle and seasonality related issues also affects members' income and expenditure patterns and add to the financial stress.

1. **Delinquency Related Stress Factors:**

- In the majority of cases, the amount due from delinquent member(s) must be repaid by other group/ *kendra* members. If the delinquent amount is low, (usually) 2 to 3 group members take the burden of repayment; if the amount is high then all the group/*kendra* members contribute equally.
- Financial stress also varies according to the time/season members have to pay for delinquent member, the amount and the seasonality of their business, and when the delinquency occurred.
- Migration without notice (leaving other members to make the repayments) and over-indebtedness due to multiple borrowing are the major causes of serious delinquency in *kendras*, as well as their major causes of financial stress.
- The selection of inappropriate members, leading to delinquency, also causes stress. Recruitment of people who could not be trusted with debt in the first place, and/or cannot attend meetings regularly, affects the *kendra*'s chances of getting subsequent loans, further adding to the pressure.
- At times, to access multiple loans, entire *kendras*/ groups enroll en masse in several MFIs. In this case, if any member becomes delinquent or defaults, the stress levels of other members can become

[1]See chapter 7 "Why Do Microfinance Clients Take Multiple Loans?"
[2]Grameen Koota, a division of Grameen Financial Services Private Limited
[3]Kendra is akin to a Centre in Grameen model
[4]The study was conducted in 8 districts in Karnataka, covering 13 branches, 65 kendras and 341 respondents.

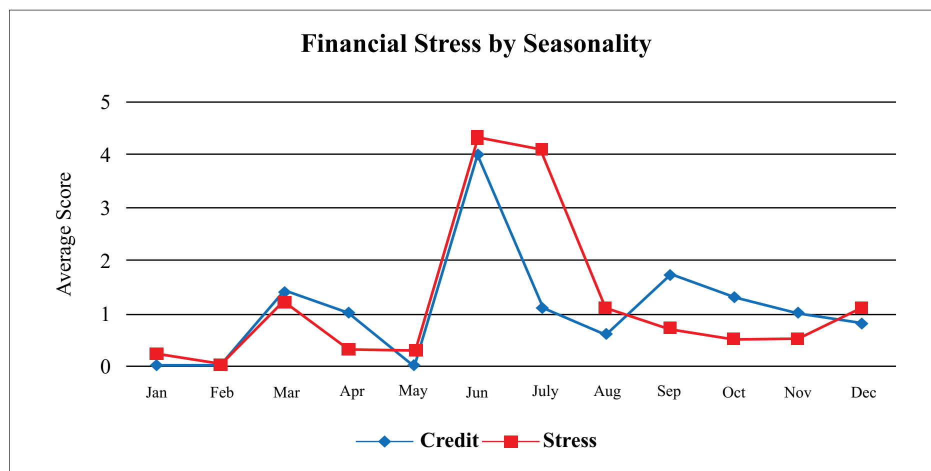
very high as they often have to pay the delinquent amount on behalf of the delinquent/ defaulting member to many (or all) the MFIs in which they have enrolled.

2. **Life Cycle Event Related Stress Factors**

- Unsurprisingly, major life cycle events such as marriage, education of children, business start up or expansion, house construction, festivals etc. cause financial stress. However, this is not just due to the size of the expense. For instance, some very high costs (like house construction, maternity, business expansion, higher education etc.) can involve relatively low financial stress, as timelines are predictable, relatively long and flexible. This gives members the ability to mobilise more resources, more systematically under conditions that entail less pressure.

3. **Seasonality Related Stress Factors**

- Income, expenditure patterns in certain months causes financial stress. For instance, the month of June is the most difficult for many GK members. In this month, members face very high costs for children's education, and take credit to meet these costs - school fees, books, uniforms etc. These loans must be repaid from other income, as the investment in education does not add to their immediate earning capability. June is also the period in the year when many members face very low levels of household income.



Indicators for Measuring Financial Stress

Identifying indicators that give an 'instant' measure of financial stress of members is easier said than done. However, during the study some observations were made in terms of which factors, if tracked over a period of time (combined with some qualitative research inferences, of course), can portend the building up pressure within the *kendras.*

- ***Delinquent payments and defaults*** can be due to reasons such as: to attend emergencies; over indebtedness due to multiple borrowings; family problems; loss of wages/business; dearth of an earning member of the family; emergency expenses; and wilful defaults. This will add to more financial stress if: (a) the burden is huge and (b) the entire burden falls only on a few members.
- ***Drop outs*** that lead to delinquencies and vice versa are potential source of stress. Delinquency and default problems often exacerbate drop out problems since the group/kendra members have to pay to the MFI on behalf of delinquent members. And, of course, clients dropping out often leave without paying. So it is worth investigating the reasons for such drop outs and to analyse the resultant financial stress levels.

- **Group/*kendra's*** behaviour in terms of who takes responsibility for making up delayed or delinquent payments - whether only a few members take up the responsibility all the time or all the members share the burden equally - also affects stress.

Role of *Kendras* in Managing Stress

One major lesson that emerged from the study was also that *kendras* have their own coping mechanisms in terms of paying for the delinquencies and for managing financial stress. *Kendras* are capable of learning and improving over time, and MFIs could play a key role in facilitating this process.

Some of the strategies adopted by *kendras* included: careful selection of new members (by checking candidate's income sources, livelihoods sources, family background, family support etc); conducting their own loan utilisation checks; expelling the delinquent members; sanctioning loans in subsequent loan cycles based on the member capacity; reducing loan sizes as penalty; and (as a last resort) recommending to the MFI to stop loans to delinquent members.

Kendras vary widely on two critical dimensions that affect their performance in managing delinquency. These are: the quality of their leadership and their capacity to collectively learn from experience based on a certain level of mutual trust ('social capital').

Conclusion

Kendras that manage financial stress best are those that anticipate these events in advance; while those that experience the greatest financial stress are those that least expected them. Delinquencies due to migration without notice, and over-indebtedness owing to multiple borrowing, are major causes of financial stress. If MFIs can study such delinquencies and observe any pattern, this type of research might identify ways for MFIs to increase awareness and preparedness of its *kendras* in future.

Also, it is important to note that many of the largest sources of financial stress faced by *kendras* are (to a large extent) within the control of *kendras* and their leaders. Hence, MFIs should attempt to facilitate *kendra* empowerment, decision-making and action.

Microfinance – Time to Get to Back to Basics?

Manoj K. Sharma and Graham A.N. Wright

The rapid growth of the microfinance sector in the last few years has completely changed its complexion and nature. The growth has transformed microfinance: from being a sub-set of the development sector it has become a sub-set of the financial services industry. Microfinance is already pushing towards recognition as an 'industry' with a separate Act for regulation of microfinance institutions in the offing. This growth has led to many issues and challenges before the sector and one of the major concerns voiced about the sector has been that of 'mission drift'. Detractors of typical 'Grameen' replicators have been saying for a while that high rates of growth have led to mono-products and multiple lending to a vulnerable section of the population.

> *"In Karnataka or AP, it appears there is aggressive pushing of loans without ascertaining repayment capacity. In the event of distress, there could be defaults and the MFIs will take a hit. If the defaults are widespread, MFIs may find it difficult to repay their bank loans. But, this is not a systemic problem. The MFIs are too small for that. The real concern is rural women. Irresponsible lending can push them into distress and impoverishment. And make banks wary of microfinance itself."*
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> **The Economic Times, March 8, 2010 quoting the Deputy Governor of the Reserve Bank of India, Mrs. Usha Thorat.**

Similar sentiments have been voiced by other stakeholders, and also the media. Various issues have been brought out to highlight the problems in the microfinance sector and the main concerns are as follows:

Lack of Transparency

The microfinance industry has evolved from NGO[1] roots. The push towards a 'for-profit' status to the industry was primarily at the behest of banks. The thinking in the early part of the decade of 2000 was that a Non-Banking Finance Company[2] format would usher in transparency and also bring the institutions under the ambit of the Reserve Bank of India making them 'supervised' entities and in the process, giving them some regulatory legitimacy. However, NBFCs needed to fulfil capital adequacy norms and most promoters from humble NGO roots did not have the wherewithal to bring in equity capital. (In those days, a CRAR of 10% had been stipulated by RBI for NBFCs).

Working with a leading accounting firm, MFIs came up with an innovative idea and for-profit trusts were constituted which took in money as 'contributions' from a large base of 'clients' or 'members'. The corpus thus created with the trusts was invested as capital in the NBFCs. It was widely believed at that time that the clients putting money in the trusts were not aware that this was actually an equity investment. These trusts over a period of time disappeared or reduced in size with the promoters or investors buying out the community without, at least in some cases, sharing with them the growth and returns. Hence, while the route of forming trusts was not illegal, and was perhaps dictated by the need to bring in the much needed equity, the sectoral grapevine was abuzz with tales of unethical, and in some cases illegal, behaviour of MFI promoters. The way the issues were handled by the concerned MFIs and by other sectoral stakeholders, in terms of transparency and ethical/legal issues, left a lot to be desired.

[1] Non Governmental Organisation. The early 1990 saw NGOs beginning to offer credit services in addition to other social development programmes that were already in their repertoire such as education, women empowerment, water and sanitation etc.

[2] The non-banking company format provides oversight of the Company Law Board as also the Reserve Bank of India

"We also find that by 2006, the individuals were gradually replaced by a substantial holding by mutual benefit trusts [MBTs] – a new special purpose vehicle discovered by the microfinance sector. These for profit MBTs – the creation of an intelligent legal brain – were actually special purpose vehicles that would aggregate the borrower-members of the microfinance organisations as members. The grant money in the not-for-profit society would find place in the MBT and this MBT in turn would contribute to the share capital in the NBFC. This had two advantages – the companies did not have to deal with large number of retail share holders on their books – but would be dealing with blocks of shareholders in the form of MBTs. Two, the trust deed would be drawn in a way that an employee of the for-profit entity would act as a representative of these trusts in participating in the general bodies of the companies – thereby retaining complete control over the so called 'community investment' in the NBFC. Thus, by the time we come to the middle of the decade, the charade of the community participation in the capital structure of the company is also shed". - M S Sriram[3].

While the merits of the move to a for-profit status can be debated, it is apparent that the manner in which this happened was not always above board. "Thus the privatisation of the community owned entity was thus well on its way. The transformation of microfinance as a vehicle for personal enrichment clearly was visible".[3]

Private Equity Push

The transformation of microfinance institutions to an NBFC format, largely pushed by banks and supported by the Small Industries Development Bank of India through its 'Transformation Loan' helped a for-profit orientation to emerge. Large institutions were able to bring down operating costs, and the operating cost ratio[4] reduced to 8.5% in 2008 from 15.4% in 2006. Total cost ratio[5] also came down drastically to 17.6% from 23.4% in the same period. As against this, interest rates for ultimate clients continued to hover at around 30%, and the industry margins were quite attractive. The high margins and the seemingly limitless market, considering the poverty levels in India brought private equity (PE) players to the sector. The industry stakeholders and banks welcomed this move as it was seen as a coming of age of the sector. A few voices expressed their concern that the entry of PE players would lead to rapid growth and commercialisation at a scale not seen before, but these were quickly brushed aside in the initial euphoria.

The entry of PE players changed the game quite comprehensively. The money brought in was short term money and needed high returns of the order of 24-30%.[6] The only way such returns could be realised was through rapid growth. The more money that was leveraged on account of equity, and the faster it was turned around, the more would be the profit. Growth, which till then was being supported by all stakeholders, became an end in itself and was driven by profit - the client and her needs scarcely factored. Die hard capitalists and stakeholders from other industries might feel that there is nothing wrong with this, as profits are the drivers of growth. And, especially in a sector where clients are not getting enough services, growth is inextricably linked to clients' needs and hence to client satisfaction.

However, this may not be the complete picture in the case of the microfinance industry as it continues to be "sellers-market". As one expert repeatedly points out, "Microfinance is one of the last remaining supply led industries in the world." In this situation, the direct fall out of rapid growth has been the

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[3] Sriram, M.S., "Commercialisation of Microfinance in India: A Discussion on the Emperor's Apparel", W.P. No. 2010-03-04, IIM Ahmedabad, March 2010
[4] State of the Sector Report 2009
[5] State of the Sector Report 2009
[6] The Bharat Microfinance Report, Side by Side 2009 reports an average return on equity of 25.88% (Table 4 : Operating and Financial Summary of 69 MFIs; Page 11).

insular growth of the microfinance in India. Despite the presence of plethora of institutions most offer the same product, typically with a first cycle loan of Rs.10,000 to be repaid over a period of 50 weeks. Thus, despite all the 'we are different' postures that may be adopted, the race to 'capture' clients is very clearly visible. This race has stifled innovation and has ensured that the customer needs are simply not the basis for the products and services offered by MFIs. It is for this reason that from the villages of Andhra Pradesh to the Gangetic belt of UP, whether clients are in remote rural villages, urban settlements or metros, everyone is being offered the same product irrespective of his or her needs.

However, one might ask as to how could growth have stifled product innovation? The answer perhaps lies in the operations of the microfinance industry. One of the reasons for the rapid growth of microfinance has been its simplicity in terms of products and systems. The moment multi-product offerings are made, the systems become more complicated. Then the MIS has to be more robust, and risk in operations grows disproportionately, as does the complexity of HR, which requires better qualified staff and more involved training. Hence, sectoral growth has been at the cost of innovation and has not factored the clients' needs.

Meaningless Growth

The growth in coverage of microfinance is limited to pockets, and MFIs across the country have developed a tendency to congregate in selected areas. It is very common to find urban and peri-urban settlements to have between 10-20 microfinance institutions operating within a small geography. This has lead to the problem of multiple lending, which has raised the issue of client over indebtedness, default and strong arm recovery tactics. On occasions, charges have also been made of client suicide because of repayment pressures, but this appears to be more a figment of the imagination of the vernacular press than corroborated by any evidence on the ground. Hence, multiple lending is a well known phenomenon and the sector has continued with an ostrich-like attitude to the problem. Despite evidence from across the globe, no efforts have been made to address the short-comings of the group-based lending product and collection methodology, which remains almost exactly as it was when imported in the late 1980s.

Conclusion

Overall, the need for microfinance in India cannot be understated. The government and its programmes aimed at bringing about financial inclusion, cannot ever hope to address the needs of the large number of poor in the country. Hence, the role of private sector microfinance whether in 'for-profit' or 'not-for-profit' formats will remain. However, any business which forgets its client cannot have a bright future. In the desire to grow at double digit (and even triple digit!) rates, the microfinance sector may have forgotten the *raison d'etre* for its existence - its clients. Adopting a client-responsive approach, coupled with ethics-based transparency, could take this sector to greater heights and fulfil a very strong need of poor people in India.

Financial Education – Time for a Re-think?

Graham A.N. Wright, Angela Wambugu, Julie Zollmann and Daryl Collins

Traditional financial education both in poor and rich contexts have taken a didactic, class-room based approach to convey analytical financial concepts like budgeting, saving, managing debt, and calculating interest rates. We need to re-think the process of financial education to merge it with product marketing, thus making it more relevant for customers and more cost-effective for financial institutions.

Recent research by Zollmann and Collins[1] suggests that, particularly amongst the poor, traditional financial education is missing the mark both in terms of content and pedagogical approach:

1. **Content:** For the poor, financial decisions are not big, infrequent analytical choices about allocating funds. Rather, financial management is a constant, inseparable cycle of earning and allocating uncertain, erratic cash flows. Managing money is all about staying disciplined. Our conversations found that Kenyans are already quite strong at budgeting and saving; the real knowledge gaps come in understanding how financial products should function to help them stay on track and realise their short and long term goals.
2. **Approach:** Research participants said that money management is something they would find difficult to learn in a classroom. Experience rules. People test financial products with low values and little risk to make sure the product performance conforms to their understanding before entrusting it with larger values. Frequent, clear feedback and being able to get answers seem to be key factors enabling effective product testing.

Customers learned:

1. **From their own experiences:** Zollmann and Collins hypothesise that any intervention that helped customers learn about their own transactions, and whether their expectations of whether it works are being met, would increase use of the product. For example, if customers are able to check fees and balances in a frequent, free, convenient way, we believe they will use the product more intensively. We call this a **high frequency feedback** intervention.
2. **From the experiences of those close to them:** The Zollmann and Collins piece also observed that most people tend to watch others and learn from their successes or failures. Therefore, a peer-led introduction to a product will lead to more comfort and knowledge about how the product works. We call this a **social marketing** intervention.

There are also challenges arising from financial education donors/sponsors who have maintained the position that financial education is a public good, and thus institutions should not use it as a platform to market their products. While this is done to protect people from exploitation by financial institutions, the downside is that it undermines the ability to fully develop people's financial capability. To improve financial capability, knowledge needs to be provided through practical exercises to facilitate an internalisation of money management concepts. This knowledge needs be supplemented with information about available products and services and how they work. This enables people make informed decisions on which products to use, and thus fully exploit them to the mutual benefit of the institution and its potential clients. Furthermore, it also enhances consumers' financial capability since positive results should be experienced from appropriate choice and use of products and services that match people's needs.

Finally, it is essential to link financial education to real products, not just because of the need to provide consumers opportunities to use and experience products, but also because this provides an opportunity to deliver financial education on a massive scale as part of product marketing efforts. The alternative is

[1] Zollmann, Julie and Daryl Collins, "Financial Capability And The Poor: Are We Missing The Mark?", Financial Services Deepening Trust, Kenya FSD Insights, December 2011.
http://www.fsdkenya.org/insights/11-01- 12_FSD_Insights_Branchless_banking_issue_02.pdf

small-scale financial education delivered as part of charity or corporate social responsibility efforts – with over 2 billion people financially excluded, efforts this size do not fit the need.

It is clearly time to test the efficacy of alternative, experiential, product-focused financial education interventions compared to traditional financial education training. Fortunately, some financial institutions are already working somewhat along these lines:

KGFS-India

IFMR Trust's KGFS uses "Wealth Managers" to deliver their range of financial products to the 2,500 customers served by their branches. The KGFS model is structured around the concept of financial well-being and aims to maximize the financial well-being of every individual and every enterprise. As part of the enrolment process, customers' plans for the future, income, expenditure and assets are assessed in order to identify the household's potential needs for financial services.

To conduct and respond to this assessment, KGFS uses an evolving framework of:

1. *Plan* (for future aspirations: education, marriage, housing, acquisition of land or business asset etc.)
2. *Grow* (through investing business from either loans or savings)
3. *Protect* (through life, livestock and accident insurance products)
4. *Diversify* (through investing in a range of assets and avoiding concentration)

Wealth Managers are trained to discuss and probe their customers' plans and financial needs. On the basis of this, they fill out a comprehensive form which is then uploaded into the KGFS wealth management system to identify which of KGFS's range of 14 products to be sold to clients. KGFS is aware that the initial data collected may not be very accurate, but it is the conversation about financial aspirations and the products that help customers realise their plans that enables a process of personalised financial counselling. Customers often start with a single credit product to test KGFS and its intent, but unsurprisingly, the follow-up conversations often yield increasingly accurate data and more opportunities to sell products. But the Wealth Managers are not assessed on the basis of the products they sell but rather the financial well-being of their customers – as measured by their net assets and the level to which these are appropriately protected and diversified.

Kashf Microfinance Bank-Pakistan

As part of the Bill & Melinda Gates Foundation Safe Places to Save initiative, Women's World Banking (WWB) is supporting Kashf Microfinance Bank's (KMB) rollout of savings, with a focus on low-income women. To help KMB effectively tap into Kashf Foundation's low-income client base with access to savings, WWB developed a holistic approach that includes financial education, product information, and a visual savings planning tool that can easily be used by customers with low levels of literacy. The programme leverages in-house expertise of Kashf Foundation's Department of Gender Empowerment and Social Advocacy (GESA).

As part of the initiative, GESA leads regular financial education sessions, both in Foundation branches that house KMB kiosks, and in women's homes. The sessions, which focus on setting goals, planning, and budgeting, includes a module that introduces and explains KMB's flagship committee savings account. Customers receive a visual worksheet they can fill out themselves, to help them choose the account terms (savings goal, monthly deposit amount, length of account) that are right for them. Initial feedback from customers on the tool and the savings account has been quite positive.

The Safe and Smart Savings Account for Vulnerable Adolescent Girls - Kenya/Uganda

Since 2008, *MicroSave* together with Population Council and in partnership with four financial institutions, have been implementing a youth savings program dubbed "The Safe and Smart Savings Account for Vulnerable Adolescent Girls" (SSSVAG) targeting girls aged 10-19 years old. This programme is holistic and includes financial education as one of the key components.

The objective of the financial education component is to promote and enhance a savings culture among the girls and build confidence and self-esteem to interact with the financial service providers. The girls are trained on key aspects of savings including: the benefits of saving, choosing savings goals, and how to make a savings plan amongst others. These all include practical exercises to facilitate internalisation of concepts.

The financial training was adapted from a generic curriculum to suit the target group. Terms were simplified, length of sessions reduced in light of concentration levels and availability of the target group and a topic 'Dream Big' was added whose aim was to show the relevance of financial capability in young people's lives.

The training is offered using facilitators, but the girls also get a workbook that is interactive, incorporating games and puzzles designed to enhance learning and retention of concepts. In addition to the training on savings concepts, the girls also get trained on the savings account and how it works. They are then provided with an opportunity to open an account and are assisted through the process. Initial results indicate that girls are saving more in terms of amount and frequency than they used to prior to opening formal savings accounts.

Social Performance Management in India

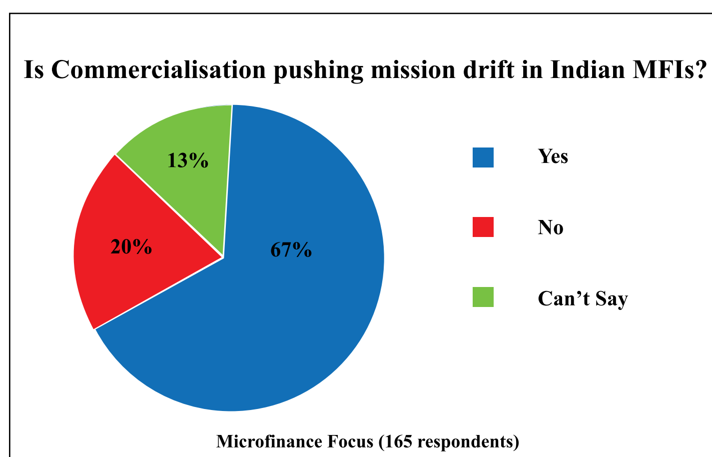
Matt Leonard

Overview

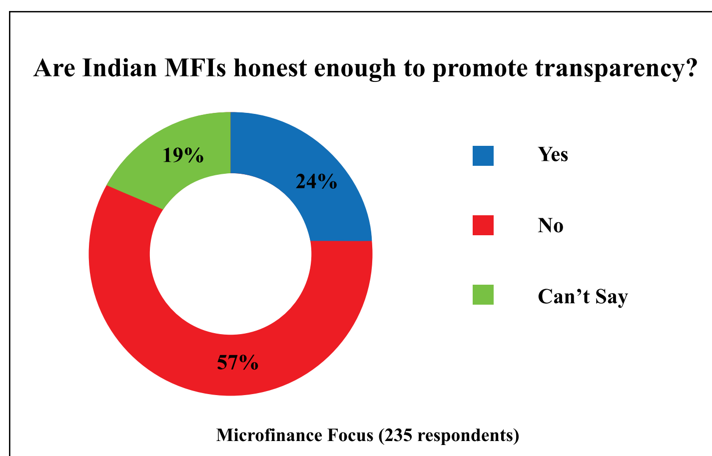
Social Performance – or putting mission into practice – has become a buzz word across the microfinance industry. It is now increasingly relevant to the Indian microfinance sector, which may be on the brink of a 'perfect storm': a potentially dangerous push for growth and expansion, growing over-indebtedness of clients, increasing competition, aggressive collection practices and the entry of private equity and investors (both social and commercial) looking for returns. Now, momentum for Indian MFIs need to find a greater balance between social and financial bottom lines is at a critical point.

Recently, Ujjivan – a large Bangalore-based MFI with over half a million clients – announced that it was participating in Unitus' Social Performance Management Implementation Project (SPM IP). Likewise, MFIs both small and large, from Chaitanya and Sonata in the north to BASIX and BWDA in the south have piloted different approaches to audit, report on or manage social performance. This chapter introduces the case for why SPM is relevant to Indian microfinance today, and advocates for a more client-centric, market-led approach.

Growing Risks in Indian Microfinance



The Indian microfinance market is in a period of rapid expansion. Investments have increased dramatically since 2006 and India is poised for its first microfinance IPO – by SKS, the country's largest MFI. However, such growth has led to increasing financial and social risks. According to the India State of the Sector report (2008), "fast-paced growth with [a] focus on the creamy layer of the poor and…uniform products (without taking into account the comfort of the clients) has led to…lending which almost excludes the most vulnerable and the core poor." Indeed, the report cites mission drift, lack of transparency, weak audit and lack of client protection/ mechanisms to redress grievances as some of the key governance risks. A recent poll by Microfinance Focus confirms this: 67% of respondents believe that commercialisation is pushing mission drift in Indian MFIs; while 57% are not confident in Indian MFIs' transparency levels.



With growth has come increasing competition, particularly in urban areas, as well as the relatively saturated southern states of Karnataka, Tamil Nadu and Andhra Pradesh. Growth and competition have led, predictably, to multiple borrowing and potential client over-indebtedness, which may increasingly affect both clients and MFIs adversely. This may be particularly

dangerous in a context in which most Indian MFIs are highly leveraged (8.4 debt to equity ratio compared to a 4.9 regional average).[1]

India's volatile political climate also does not bode well for MFIs, particularly following the crisis in Andhra Pradesh (2006), where the government briefly shut down two MFIs accused of abusive collection practices and of charging usurious interest rates. Recently, community organisations near Kolar, Karnataka have encouraged Muslim women to stop repaying interest-bearing loans.

The Response

Much as the Andhra crisis spurred the creation of a voluntary code of conduct led by Sa-Dhan in India, the social performance movement has arisen globally partly to mitigate these risks. Also, given the extent of public and private investment in the industry, the supposed benefits of microfinance can no longer be taken for granted. This is particularly the case in the wake of recent high profile media critiques and the global financial crisis. Donors, investors, practitioners, support agencies and MFIs are waking up to the need to understand how to better balance an MFI's social and financial objectives.

> *"Irresponsible lending, predatory practices, and non-transparency – all this needs to be avoided because it will eventually implode the sector."*
>
> **V. Mahajan - MD, BASIX[2]**

So How Will Social Performance Help?

Social performance today goes beyond determining the poverty-level of clients or conducting impact studies[3]. It is commonly defined as "the effective translation of an institution's social goals into practice in line with accepted social values".[4] SPM, meanwhile, refers to the strategies and practices necessary to accomplish this, including responsible lending, listening to clients, being sensitive to staff, aligning systems and monitoring social indicators alongside financial ones.

The Need for Market-Led SPM

Some argue that MFIs can only worry about social performance if it is a pure NGO MFI or when it reaches maturity, after it has built strong systems or attracted sufficient funds. Likewise, senior management at many Indian MFIs often view SPM as important, but costly and time-consuming. These beliefs have led to a limited *unsubsidised* uptake of social performance in India and elsewhere. As a result, SPM approaches are often donor or investor-led, focused primarily on indicators and may lack practical application to the day-to-day problems or context faced by MFIs. Furthermore, a top-down approach to SPM does not adequately involve or ask clients what matters to *them*. This risks missing the point and not reflecting clients' true needs and concerns.

Social Performance Management (SPM): setting clear objectives and creating a deliberate strategy to achieve them, including aligning systems and monitoring progress with an aim to improve overall performance.

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[1] Mix Market. Asia Microfinance Analysis and Benchmarking Report 2008.
[2] CGAP: Microfinance Now – An Interview with Vijay Mahajan. November 2009.
[3] Refer to *MicroSave*'s Social Performance Management Toolkit.
[4] Social Performance Task Force (SPTF)

An MFI should **not** wait until it is sustainable to worry about the social concerns that indeed were the impetus for its creation – they should form part of its business plan and core systems. Furthermore, effectively managing an institution's social performance should actually improve an MFI's financial bottom line through higher rates of repayment, mitigation of risks, better attraction and retention of clients/staff, and reduced costs.[5] Indeed, researchers in the corporate world have found a correlation between improved social performance and financial growth across a wide variety of industries and contexts.[6] Likewise, a CERISE study of 42 MFIs in Latin America found that while targeting the poorest may create additional costs, better tailoring products and services or reinforcing social capital, actually had a positive effect on financial results.[7]

Some Examples from the Field

A *market-led* approach to SPM: 1) can be adapted to the institution's mission, operational needs and local context; 2) focuses on meeting *clients*' needs; and, 3) reinforces both *social* and *financial* goals. While it is important to focus on industry-wide efforts, tools and indicators used to assess, improve and monitor social performance of an MFI cannot be completely standardised, but must take into consideration an MFI's own mission and social objectives. For instance, a small NGO-MFI like Grameen Sahara (located in northeast India) has a mission focused on the poor and thus requires tools to assess depth of outreach or poverty-level of its clients. However, larger MFIs may want to focus on responsible lending and on understanding its clients better to modify products and improve retention.

SPM can be an important way to mitigate the risks mentioned earlier. BWDA, a large Tamil Nadu-based MFI, plans to use client surveys to assess satisfaction levels in order to improve client retention. Likewise, Chaitanya (an MFI that promotes SHG federations in Maharashtra) has built client protection mechanisms into its methodology by providing accounting skills and capacity building to SHG members, auditing groups and providing access to legal advice. Not only does this empower its female SHG members, but it lowers operational costs as staff spend less time with a group.

Whereas most Indian MFIs provide a standard credit product, leaving many unmet client needs, more and more MFIs are listening to their clients and adapting their offerings. Grameen Koota, a fast-growing MFI in Karnataka, has recently concluded market research and will pilot an education loan. BASIX continues to grow, helped by its holistic and client-responsive products, including agricultural loans, low-income insurance and savings through KBS Bank. These, along with livelihood services, help to build its brand and ensure client loyalty, while meeting client needs and financial inclusion goals.

Finally, as staffing remains a key constraint in the sector, Sambandh (a small MFI in Orissa) uses staff satisfaction surveys to help it ensure a convivial environment and staff retention. Meanwhile, Nirantara – an MFI based in Karnataka – has seen less employee attrition since it began piloting a balanced incentive scheme that monitors and rewards its loan officers using financial and social criteria. Likewise, Share Microfin – with 300 branches in five states – has invested heavily in training and retention of staff to help sustain its rapid expansion.

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[5] Hashemi et al., "Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions", 2007.
[6] Orlitzky, Schmidt and Rynes, "Corporate Social and Financial Performance: A Meta-analysis", Sage Publications, 2003.
[7] SPI/Financial Performance Brief No.7. Studies of link between social and financial performance for 42 Latin American MFIs, CERISE, 2008.

Conclusion

Market-led SPM – in the Indian context – not only can help to ensure an MFI meets its mission and manages growing risks, but also to improve overall performance. Ensuring that clients are not over-indebted and that they clearly understand prices and terms – whether through strong communication, simple cash-flow analyses and/or credit bureaus – will not only assist an MFI's clients, but also help it maintain portfolio quality. Listening to clients and adapting products and services can likewise lead to improved client retention. Hiring and retaining the right staff, putting in place strong internal controls and even reaching out to the community are also ways to help mitigate risks. Indeed, a recent study concludes that being responsible to employees and the community are correlated with lower PAR.[8] In sum, one can consider a *market-led* approach to social performance management as one part "truth in advertising", one part "risk management" and one part "common business sense".

[8] Bédécarrats et al., "Is Social Performance Profitable?", The MicroBanking Bulletin. Issue December 19, 2009.

The Overlap between Customer Service and Social Performance Management[1]

Veena Yamini A.

[1] This chapter is based on the *MicroSave*'s "Customer Service" and "Social Performance Management" toolkits.

Customer Service: Foundation for Sustainable Organisations

Customer service[2] is the fundamental principle on which financial services providers can thrive in dynamic and competitive markets. As financial services offered by providers in competitive environments are often relatively similar in prices and features, customers often use the **service** that institutions provide to differentiate among them.

Customer Service in the Social Performance Framework

MicroSave's practical, market-led approach to Social Performance Management (SPM)[3] includes a social performance assessment or 'diagnostic' of a microfinance institution from different operational aspects, including: *alignment of an organisation's key systems* (MIS, operations, internal audit, human resource management, training, etc.) with its *mission; governance and strategy* (including business planning); and field-level research on its level of *understanding/responsibility towards its staff, clients,* and the *community*. Emphasising customer service is important from a social performance perspective because achieving positive client outcomes is predicated on an MFI's ability to: (a) provide service in a manner that results in ***customer delight*** (**client services**) and **(b) not harm** its clients – meaning they should not become worse off than they were before joining the programme (**client protection**). Thus, an integrated approach fuses these two aspects into a socially responsible, customer service strategy by influencing overall customer service and SPM strategies, including implementing the strategy, monitoring the performance and taking corrective course of action.

Client delight is about exceeding customer expectations. MFIs that take customer service seriously should naturally have better social performance as well. Such institutions may offer a range of high quality, client-centric and flexible financial products in a manner that is appropriate and suitable for clients. All of which ultimately leads to better financial outcomes as well. Customer service, or client delight, involves:

- *Listening to clients:* Understanding clients' needs helps organisations to better tailor products and services. In a competitive market, it is also a way to differentiate; while in a nascent one, it is a way to attract clients and deepen outreach. In any circumstance, understanding client needs should be built into an MFI's institutional culture and it will likely pay dividends in client retention, financial performance and growth.[4]
- *Offering appropriate products and services:* Information pertaining to client needs and preferences should be used to inform key decisions in policy and strategy, and may eventually be used to further develop/tailor products and services.
- *Client retention:* The retention rate, or inversely exit rate, can be an important indicator of social performance. If clients are leaving an MFI's programme, then it is missing a chance to improve their well-being and serve their true needs. Calculating and reporting on the client dropout rate regularly can be an easy way to force management to pay attention to the gaps. By monitoring who is leaving the programme (and why), one can better adjust products and services to retain the bulk of the MFI's clients and can also give MFIs a sense of how well staff members are treating its customers!
- *Client feedback:* Collecting (and acting upon!) client feedback regularly will help MFIs to improve the design and delivery of their products and services. Such feedback can be collected in many ways, including: monthly/quarterly meetings with clients, client committees, using

[2] Refer to Briefing Note 28, "Customer Service – Why it is Important for Microfinance Institutions".
[3] Refer to India Focus Note 35, "Social Performance Management in India: Seeking a Market-led Approach".
[4] See *MicroSave*'s "Market Research for Microfinance Institutions" toolkit.

feedback mechanisms like a drop box or phone line, informal client visits by supervisors, and/ or weekly/monthly debriefings with field staff about client issues.

- *Client outreach/targeting:* As part of effective SPM, MFIs need to have a precise selection process that will help them in reaching their target clients. Therefore, it is important that: 1) the target market matches what is stated in the MFI's mission; and, 2) the MFI's client/ geographic selection and operational processes provide a successful strategy towards reaching this market. This will not only help an organisation to meet its mission, but become more efficient operationally.

Client protection is the bare minimum and 'no compromise' aspect of microfinance operations. Clients of MFIs are especially vulnerable because of their socio-economic backgrounds, and hence MFIs have a responsibility to protect these clients and to avoid pushing them into a worse position. Such protection may entail the implementation of policies and practices ranging from ethical staff behaviour, transparency/proper communication with clients, avoidance of over-indebtedness, and effective grievance redressal mechanisms.[5] While current client protection measures have achieved broad consensus among microfinance practitioners, clients' own priorities are likely to vary between countries and perhaps even between regions or markets within countries. Hence, it is important to have a client-focused approach and a firm grasp of clients' own perceptions, needs and aspirations in both SPM and customer service equally.

Staff Training and Client Orientation

Sambandh, an MFI in based in Orissa, India, incorporates a client focus in its induction training. This includes reviewing not only the mission of the organisation, but also its statement of challenges and its ten core values. The ten core values should then be followed by all staff in all dealings with clients. For instance, being *honest* in all transactions, maintaining *integrity and trustworthiness* in all the dealings, being *transparent* by inculcating high degree of commitment of reporting exactly what "things are" and not "what is expected to be" are some of the ways in which it integrated its values into the customer service.

Some of the ways to ensure client protection is to place clear guidelines in the operations manual and trainings on client treatment, disseminating or displaying a code of conduct in branch offices, and fostering a well-informed, motivated and trained staff.[6] These measures should be backed up with appropriate supervision, regular interaction with clients and grievance mechanisms to monitor actual adherence to client protection norms. All of these are incorporated into the *MicroSave*'s own SPM approach.

Implementing an SPM-Customer Service Strategy

One of the biggest challenges for MFIs is not simply to understand the issue but to identify which steps they should *practically* take. As part of the on-going service improvement process, *MicroSave* can help MFIs to analyse the high impact, low cost steps available in order to identify the "quick wins". This is similar in both the SPM and customer service toolkits. At the end of an SPM visit, *MicroSave* helps MFIs to prioritise and choose concrete steps to take in the implementation of proposed SPM improvements. It then helps in providing expert technical assistance to ensure uptake. Likewise, *MicroSave*'s approach to customer service involves using a variety of market research tools to examine the perceptions and priorities of the clients and staff, as well as a comprehensive diagnostic and analysis

[5] http://smartcampaign.org/

[6] See *MicroSave*'s "(Advanced)/Human Resource Management for MFIs" toolkit.

tool built around the "8Ps[7]" of marketing which is then administered with senior management and frontline staff to analyse the optimal response to these.

Customer Service and SPM

MicroSave has worked with a variety of banks and MFIs across Africa and Asia to implement customer service programmes that have a significant impact on the organisations' social performance. Recent examples include a large bank in Africa that will completely overhaul its staffing and customer management systems in response to growing dissatisfaction with its service and delinquency management practices. An MFI in India, in response to complaints about lack of information, has introduced further discussion between the credit officers and client about loan amounts sanctioned as well as FAQ guides.

Conclusion

Realising the overlap between customer service and social performance places the client once again at the centre – the *raison d'etre* for the existence of the microfinance sector. Excellent customer service does not just happen – it needs to be a purposeful pursuit which needs a strategy, commitment, and continuous improvement. The SPM framework does just that by:

- providing opportunities to be proactive in defining a socially relevant mission and then fulfilling it
- offering opportunities to measure such performance and take corrective actions
- offering a range of practical tools to give feedback on the responsibility of the organisation to each of the stakeholders
- giving scope for systematic feedback built in
- putting customer delight and other stakeholder delight at the centre
- recognising that internal customers – staff of the organisation – matter just as much as external customers. It provides steps/approach to learn about the internal customer (staff) needs as well and respond to them.

recognising that customer service and social performance is not just a front line issue – it is the way whole organisation works, the corporate culture.

[7] Product, Price, Place, Promotion, People, Process, Physical evidence and Position

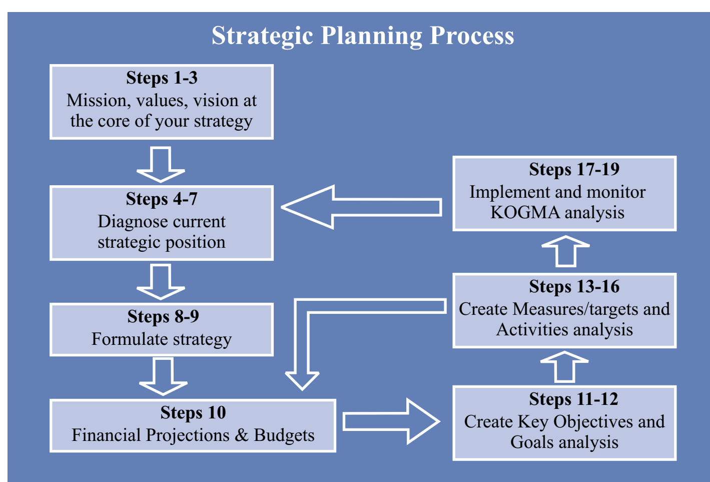
Integrating Social Performance Management into Strategic Business Planning of MFIs[1]

Veena Yamini A. and Matt Leonard

[1] This chapter is based on the *MicroSave*'s Strategic Business Planning and Social Performance Management Toolkits.

Creating Sustainable Customer and Stakeholder Value

A balanced view of performance management involves the inclusion and integration of an institution's social objectives and values, alongside its financial goals, into the very fabric of its DNA. In microfinance, this begins by placing appropriate emphasis on social aims in an MFI's guiding document: the strategic business plan (SBP). An SBP exercise, typically undertaken by board members and senior management, sets the strategic direction for an MFI over the long term. Much more than financial projections, an SBP lays out the goals, key objectives, measures/targets and activities of an organisation (KOGMA) and is ideally undertaken every 3 to 5 years depending on the growth plans and market conditions.



Effective social performance management (SPM) consists of (re)designing key operational policies, processes and systems to reflect an MFI's social aspirations – rather than considering it as a separate, stand-alone set of activities (or department). To do so, SPM should be closely integrated into each SBP exercise.

Integrating Social Performance Management into Strategic Business Planning

Steps 1-3: Mission, Values, Vision at the Core of your Strategy

Social Good
Commercial Imperatives
Growth
Serving the Poor
Financial Margin
Improving the standard of living
Operating Cost

The *Mission* statement of an organisation (re)defines why the organisation exists, whereas **values** give the principles on which the organisation functions. The **vision** is a 'big audacious goal' of where the organisation wants to head in the long term. This is precisely where SPM in MFIs begins: by spelling out "who you want to reach (outreach), how you plan on serving target clients (methodology) and what benefits you want to create for clients (change)"[2]. It is here where the motivating force behind an organisation, its beliefs and aspirations should be clearly articulated. Achieving the delicate balance between achieving social aims and ensuring commercial viability can be overcome by carefully reflecting (and measuring!) *both* aspects in an organisation's strategy and activities. An MFI's mission should be re-evaluated when strategic priorities shift, and an SPM assessment exercise is often useful to evaluate *achievement* of mission and spell out the concrete steps necessary to re-align one's mission and to prevent 'mission drift'.

[2] Campion and Linder. "Putting the 'Social' into Performance Management", Imp-Act/IDS, 2008

Steps 4-7: Diagnose Current Strategic Position

Diagnosing a strategic position involves conducting: (a) market analysis, (b) competition analysis, (c) institutional analysis and (d) sector analysis. This helps to analyse where an MFI stands and to how differentiate itself from competitors. SPM can be reflected in a market analysis by analysing/verifying if an MFI is reaching its target clients, and by understanding the client's needs/preferences by using market research tools or informal feedback mechanisms. Competition analysis can include benchmarking other MFIs to know, for example, how they treat their staff and what services they offer clients. These aspects – when coupled with an institutional analysis that looks critically at how one's own MFI fares when it comes to staff satisfaction, client protection or customer 'delight' – could provide insight into ways an MFI can gain a competitive advantage. This may involve redesigning staff incentives; recruiting more women; refining targeted internal processes as part of a new IT strategy; offering different products; preventing over-indebtedness or providing friendly customer service to build stronger client relationships. Similarly, some environmentally or community-conscious organisations may restrict funding with environment damaging businesses (stone cutting, etc.) or consider offering non-financial activities (e.g. health or financial education).

Steps 8-9: Formulate Strategy

Formulating an institution's strategy while using a social lens, involves choosing both social and financial goals and providing a clear road map on how to achieve them. For instance, some of the strategies with dual goals can clearly include: which markets to serve (based on the income levels or gender or geographies); how to serve them (solidarity group, centre-based or individual); what value proposition is being offered – quick service, professionalism, customer-friendly, safety and security; and designing products or services to meet clients financial (top-up, emergency, etc. and non-financial needs (livelihoods training, financial literacy, providing health care, etc.)

Step 10: Financial Projections and Budgets

Financial projections should be equally aligned with social objectives and related expenses – e.g. conducting market research, redesigning an MIS with social indicators, conducting an SPM assessment, etc. This step will help an MFI to analyse if its SPM strategy can be implemented with available resources or needs modification.

Steps 11-12: Create Key Objectives and Goals Analysis

This step requires designing clear social objectives and goals that are SMART (specific, measurable, achievable, results-oriented and time-bound) and linked to mission and strategy. A Key Objectives (or critical success factors) and Goals Analysis links an organisation's SPM-related strategies (client protection, customer service, staff satisfaction) to work-planning and helps to formulate the steps necessary to ensure that an MFI's core systems (HR, MIS, Internal Audit, and Operations) include a social perspective. It will help MFIs not only in designing specific activities, but also in monitoring both social and financial performance on a regular basis.

Step 13-16: Create Measures / Targets and Activities Analysis

While selecting the measures or targets, organisations should include those that reflect the achievement of its social goals and objectives. For instance, for a customer service goal/objective, an MFI may select targets like: client retention rates above 85%, or an average score of 4 or more on client satisfaction surveys. For staff satisfaction targets may include: staff retention of 90% or product development "introduction of X# of new products". Such measures or targets are critical and will help organisations to measure both social and financial performance and thus indicate achievement of mission. Likewise, with clear social objectives and targets, an MFI can then spell out the concrete steps and activities required for implementation. Ultimately, "what gets measured gets done".

Steps 17-19: Implement and Monitor KOGMA Analysis

KOGMA (Key Objectives, Goals, Measures, Activities)/ Goals Analysis can be used to drive organisational alignment from top to bottom, through the process of *cascading*. This step is even more important in organisations with social goals, since achieving long-term social outcomes are often less visible. Effective SPM strategies thus require focused, initial efforts and very good collaboration at all levels across the organisation. Creating the right institutional culture, balancing social and financial aims, involves strong leadership and communication. Proper implementation and, critically, *monitoring* of the SBP and KOGMA analysis will help organisations in balancing overall performance management – both social and financial. A successful KOGMA analysis:

- has a mix of financial and social measures
- creates an environment conducive to motivating staff
- enables communication of objectives and targets:
    - describes the organisation's vision
    - gives an overall picture of the strategy
    - shows staff where to contribute and where to focus
- allows monitoring of progress towards goals and thus key objectives

Conclusion

Ultimately an organisation's strategy, and indeed strategic plan, boils down to one thing – how to add value to its customers in a sustainable way to ensure both business and social success. Integrating SPM into an MFI's operations systematically begins with a holistic SBP exercise, linking social goals, objectives and activities to an organisation's mission and strategy. The tracking achievement of the same will surely help to ensure achievement of both.

MicroSave has run its SBP process in over 100 MFIs across Asia and Africa including several of the leading NBFCs in India and the top tier MFIs in the Philippines, thus allowing those MFIs to better balance their double bottom lines and assess the clear synergies between excellence in market-led financial services and social performance. Many of these MFIs have seen sustainable, triple digit growth <u>because</u> they address both financial and social objectives.

Integrating Social Performance Management into Governance of MFIs

Veena Yamini A. and Matt Leonard

Background

Today, in light of the global financial crisis, good governance is more important than ever. And the dynamism of the microfinance sector – leading in some cases to rapid growth, commercialisation and transformation, and allegations of over-indebtedness or mission drift – have brought increasing focus to "social performance" and to the role of governance structures in managing the growing financial and social risks.

In the face of these challenges, the governance[1] structure of an MFI – which comprises of the board, CEO and/or top management/senior management – has a critical role to play in providing leadership and strategic direction to the organisation. Likewise, it must ensure that an MFI manages risk effectively (e.g. social, reputation and financial) and is accountable to its stakeholders (e.g. funders, staff, clients, community, government etc.).

Observations from various social performance management exercises conducted by *MicroSave* at different MFIs indicate that many a times the Board composition is focused on having experience and expertise in financial rather on social aspects. The Board's role is often not clearly defined with respect to social performance, and hence there is limited scope for active participation of the Board in this area. This is more so when the organisation is transformed from a not-for-profit entity to a for-profit entity with more focus on financial bottom line than the social bottom line. This chapter discusses the importance of integrating social performance into the governance framework of MFIs and practical strategies to do so.

Good Governance and SPM

Good governance thus extends beyond the fiduciary responsibilities that often are the focus of most MFI board meetings. A more balanced management approach looks at the role that *all* stakeholders have in governance as well as the critical importance of both financial and social performance across all levels of the organisation.

Social performance management (SPM), meanwhile, is an institutionalised process which includes setting clear social goals based on the organisation's mission, monitoring progress towards achievement of them, and using this information to improve performance and practice.[2]

SPM is a cross-cutting issue that requires management and the board to be more intentional about achieving mission-driven social objectives by ensuring a social focus is woven in throughout operations, where appropriate. This requires strong leadership, effective communication and patience – and does pay dividends. Integrating SPM principles throughout an organisation will help the board and/or management: (a) to assess and ensure achievement of mission, and (b) to improve overall performance through knowing its clients, improving products and customer service, ensuring client/staff satisfaction and retention, and fostering a stronger alignment of systems and values.

Integrating the Two – A Practical Approach

SPM thus begins with effective governance – which involves putting an organisation's mission (social and financial) into practice at both the strategy and operational levels. The starting point for such integration would be the Board and senior management asking the following questions:

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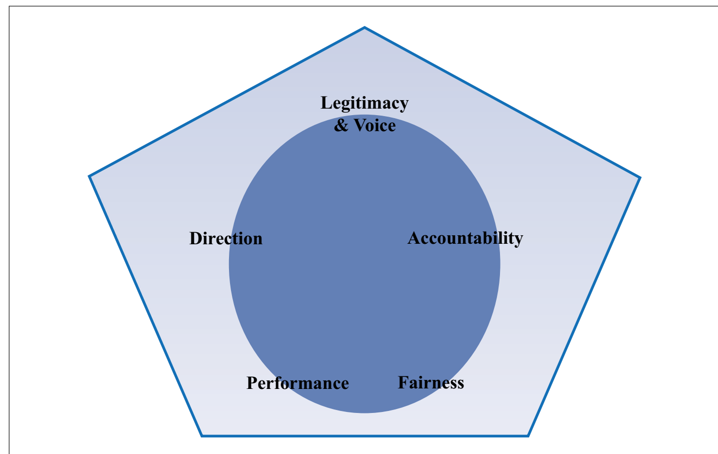
[1] To know more about Governance in MFIs, refer to *MicroSave*'s toolkit on "Board Governance for Microfinance Institutions".
[2] Campion and Linder. Putting the *'social' into performance management*. Imp-*Act*/IDS. 2008.

- What does the Board consider its responsibilities related to SPM?
- What types of trainings do board members receive - to what extent is the social mission and their responsibilities relating to it covered?
- MFIs often have board members who are either only socially-oriented or just financially-oriented.
- How can the board members be trained to understand both the social and financial performance management considerations and see the mutual advantage of it?
- Which stakeholders will be given a role within the MFI's governance system? What would be the role and expectations of each of them regarding the social mission (private investors, donors, clients, governments, etc.)? In what sense the different stakeholders will contribute to balanced performance management?

The United Nations Development Program (UNDP) highlights five key governing principles[3], entailing: ***Legitimacy & Voice, Direction, Performance, Accountability and Fairness.*** These also form the basis for integrating many of the key *social performance* principles at the strategic level.



The following are some of the concrete steps that can be taken by MFIs to integrate SPM principles into their governance structure.

Direction

- Get the right skill set and experience to drive the organisation. The board should ideally have people with a mix of backgrounds and who are committed to both financial and social missions.
- Empower the board to participate and contribute towards the guidance, development and safeguarding of the organisation's mission as well as its financial and social assets.
- Create a social performance committee that is responsible for designing and overseeing social performance-related activities. This committee can report directly to the board.

Performance

- Create a 'dashboard' of a few key social indicators (such as client or staff retention levels, customer satisfaction scores, education levels or poverty likelihood of client households, etc.) and adjust the MIS to have easy and objective ways to track social performance. Review these at board meetings alongside financials.
- Conduct periodic reviews of 'achievement of mission' and take corrective steps.[4]
- Work to involve and motivate staff, including appropriate performance reviews and incentives.[5]

[3] UNDP "Governance and Sustainable Human Development, 1997".
[4] See *MicroSave*'s "Social Performance Management" toolkit.
[5] See *MicroSave*'s "Designing Staff Incentive Schemes" toolkit.

Legitimacy and Voice

- Give a role to stakeholders – especially clients or representatives of clients – and encourage their participation in strategic decisions, through periodic client consultative groups, informal feedback from field staff or other forums.
- Ensure mechanisms are in place that allow for regular client and employee feedback (grievance systems, market research, client committees and customer satisfaction surveys, etc.).[6]

Fairness

- Design and develop fair and competitive compensation packages, fair and equal employment opportunities for the staff.[7]
- Putting in place client protection measures[8] (preventing over-indebtedness, fraud, abusive collections, client privacy, etc.)

Accountability

- Having in place a code of conduct to ensure accountability to all stakeholders.
- Developing transparent policies and communication (of pricing/terms, portfolio data, etc.) to facilitate the free flow of information across various levels of stakeholders.

Governance and SPM

MicroSave has worked with Imp-*Act* to integrate a social lens into its Governance training. At a recent training in Delhi for small and nascent MFIs, the senior management and the Board felt that the social performance measures are what helped them stand out in the competition and gain loyalty for their microfinance initiative. The Board emphasised on the importance of the inclusion of the social performance indicators at all levels - from Governance to Operations - to understand the working and the impact of the work of the institution as a whole.

Conclusion

The benefits of integrating SPM principles into the governance structure of MFIs are manifold. Not only will it help the board and management to understand whether the organisation is achieving its mission and better balance both financial and social goals, but it will also help to align and improve systems, mitigate reputation and political risk, and ultimately improve overall performance and ensure financial stability.

However, it is easier said than done. Orientation and training to the board members can go a long way in building appropriate governance capacities and ensuring that key actors both know, and are able to fulfil, their roles properly. Furthermore, it is critical that voices at the top build and sustain the appropriate – and *balanced* – performance culture, as well as putting in place the right incentives and review mechanisms to ensure strong and effective governance and social performance in an MFI.

[6] See *MicroSave*'s "Market Research for MicroFinance" toolkit.
[7] See *MicroSave*'s "Human Resource Management" and "Advanced Human Resource Management" toolkits.
[8] For more details, refer to www.smartcampaign.org

Asirvad – The Balance of Social Aspirations and Financial Realities

Matt Leonard and Melanie Bowen (with contributions from Ami Karnik)

> **Asirvad's mission:** "*to organise groups of committed poor women and provide innovative financial services in a sustainable manner with a view to eradicate poverty through viable income generation activities.*"

Introduction[1]

Asirvad Microfinance Private Ltd. (Asirvad) is an NBFC-MFI operating in 14 districts of the South Indian state of Tamil Nadu. Headquartered in Chennai, the company aspires to develop and make use of innovative technology to deliver its services and enrich the community at large. In a little more than two and a half years, Asirvad has grown to nearly 139,542 clients with a Rs.63 crore portfolio outstanding and has set itself an ambitious target of lending a minimum of Rs.1 billion in the next three years to the people of urban and rural India. Asirvad has already built a reputation as a reliable institution, having a high level of transparency and a systematic and professional approach to microfinance. In 2009, Lok Capital (Lok), a social venture fund, became a partner to Asirvad by subscribing to 24% of the equity and placing a member on the board.

Challenges of a Start-Up

Asirvad was founded by a promoter and board chairman, Mr. S.V. Raja Vaidyanathan, who possesses a banking background and a clear social vision. Mr. Vaidyanathan recalls, "We always wanted to be more than just another moneylender". In the fiercely competitive urban spaces of Chennai and districts of Tamil Nadu, Asirvad had to manage the natural challenges that arise with any MFI start-up: how to fulfil its social aspirations while ensuring that it could sustain and build its business. While Asirvad's leadership focused on putting in place strong and sustainable operations – witnessed today in efficient and impressive systems, from internal audit and accounting to its loan procedures and branch network – it also ensured that the organisation remained well grounded in its mission. It did so by promoting professionalism and minimising operational costs across the organisation as a way to satisfy clients with quick, low cost and high quality services. By expanding outreach to underserved villages and districts, including being the first MFI to enter an area in many cases, Asirvad upheld its commitment to reach the unbanked. Furthermore, from the beginning, the promoters of Asirvad have stressed transparency with both clients and funders, and have taken steps to ensure this happens – allowing funders to access up-to-date information on their funds/clients and ensuring proper communication with clients on product terms.

SPM in Phases: A Question of Timing

In late 2009, Asirvad began to take additional steps, with assistance from Lok, that have had a clear impact on both its financial and social performance, including: creating active committees (management, compensation and audit) that kept the Board involved and up-to-date; reiterating the importance of client/group discipline and attendance; and passing on its cost savings to clients by changing from a flat to declining interest rate. After passing the 125,000 client mark – while maintaining an impressive 160% operational self-sufficiency rate and 0.02% portfolio at risk – Asirvad was ready to take its social commitment to the next level. In April 2010, Asirvad and Lok brought in *MicroSave* to undertake a comprehensive social performance management (SPM) diagnostic and action-planning exercise. The diagnostic (based on the criteria promoted by the Social Performance Task Force) focused on how and where social aspects reinforce operational ones and lead to improvements in overall performance.

[1] Melanie Bowen and Ami Karnik are from Lok Capital in Gurgaon, India: www.lokcapital.com

A rapid, but rigorous, SPM diagnostic was conducted over five days and employed a mix of field visits, focus groups with staff and clients, interviews with senior staff, and reviews of documents and systems. More than simply a clear look at where Asirvad stood in regards to achievement of its social mission, the diagnostic also helped it identify and prioritise key areas of improvement, and provided concrete steps to enable implementation. Equally remarkable was that, in the context of a very competitive environment, suggested action items (e.g. offering products according to client needs, aligning staff incentives with client retention goals) showcased the overlap between social and financial performance. This allowed Asirvad's top management and key stakeholders to clearly see the benefits of ensuring an effective balance therein.

The Importance of Process

The process itself (of the SPM diagnostic and action planning exercise) offers several important lessons to structuring similar interventions with investors, MFIs and technical assistance (TA) providers:

1. **Partnership = Ownership:** an overarching element of success is ensuring that all parties involved – the MFI, donor/investor and TA provider – see themselves as equal partners. This is accomplished by effective communication early on and by taking the time to listen to the goals of each partner in order to build buy-in.
2. **Strategy & Planning:** To help forge this partnership and better tailor the approach to Asirvad's context, *MicroSave* and Lok met with the promoter of Asirvad well before the visit to discuss international SPM standards and ways to relate them to Asirvad's own priorities. This was followed by written and phone communication with the CEO/COO; identification of a point person at Asirvad; and participatory planning that laid the stage for an effective SPM diagnostic.
3. **Participation:** The SPM diagnostic visit also involved participation of all parties. Asirvad's CEO, Head-Operations, Head-Process, and Lok staff accompanied *MicroSave* consultants at each *stage* – from the introductory meeting, interviews and field visits, to the focus groups with staff and clients, and finally at the closing debriefing.
4. **Action-Plan:** Critical to longer-term success, and short-term traction, was the action-planning exercise scheduled two weeks after the diagnostic to allow time to develop recommendations. The parties reassembled to prioritise action items, *together*, and to define the way forward, including selecting areas to address in more detail. The follow-up action planning session concluded with choosing action items, concrete next steps, timelines and persons responsible.

The above SPM diagnostic planning and execution process – coupled with effective action planning – is precisely what is necessary to carry out an effective SPM exercise and one which, importantly, yields results. Furthermore, follow through on action items is assured by Asirvad's ownership of the process, as well as by the oversight structure in place through Lok's presence on the Board and its quarterly/ annual reporting format (which includes both financial *and* social indicators).

The Need for Action Planning

The follow up/action planning exercise is a critical element of an SPM exercise designed not just to 'prove' but to 'improve' social performance. The difference lies in not only focusing on capturing a snapshot of social performance to date but also, regardless of how the MFI is doing, what it can do to improve social and operational performance even further for the benefit of clients and overall sustainability. Throughout the SPM visit, the three parties were in continuous dialogue, communicating expectations and findings along the way. This helped not only to ensure that there were no surprises but also to calibrate recommendations. As a result, the way forward reflects items across the operational spectrum (from HR to Internal Audit to MIS and Governance). This was in addition to and even before providing a comprehensive report. Indeed, steps already taken or planned at Asirvad following the

SPM visit include: raising travel allowances in response to feedback from field staff; focusing on hiring more women and ensuring the most conducive work environment; strengthening human resource management to ensure high staff satisfaction and performance; recruiting a social performance / marketing 'champion' to liaise with clients, staff and the Board; reconfiguring the organisation's MIS to report on a few select social indicators; and, even reporting on social performance to the Mix Market.

> *"This is as much an operational review (with a social lens) as anything else."*
>
> **– Lok Capital**

Beyond these operational changes, the parties also tackled difficult policy challenges. For example, although competitors in Chennai are relaxing client attendance to boost retention, Asirvad decided to maintain its strict group discipline policy. While it risks losing some clients, it should be able to maintain strong portfolio quality and expand outreach. Instead, the SPM visit helped Asirvad realise that it can compete by improving its value-addition in the realm of product offerings such as by offering a new top-up loan requested by clients, integrating client protection elements into its internal audit checklist, and aligning staff incentives with its client retention goals.

Conclusion

One of the key ingredients in a successful SPM exercise is the importance of responding to an MFI's key priorities – particularly as they relate to its organisational form, stage of growth, operational context, staff and leadership capacity–as well as its financial realities. While as a start-up, Asirvad focused on its top-level social priorities (transparency, professional quality services, and sustainability with a goal of increasing outreach to the unbanked). Now a more mature organisation, Asirvad is able to focus on additional areas that further reflect its social aspirations. Furthermore, by integrating SPM into its management 'dashboard' and reporting, listening to and responding to client needs and preferences, and ensuring staff satisfaction and appropriate incentives, Asirvad will be able to see the financial benefits as well. These steps, each essential to Asirvad's quest to better balance its social and financial performance, were made possible by a partnership approach (investor/MFI/TA provider), tailored SPM process, and strong emphasis on follow-up action planning.

Nirantara – Building a Sustainable Social Enterprise

Matt Leonard

> **Nirantara's Mission:** *"To provide financial services to the underserved segment of the population to improve their living standards."*

The founders of Nirantara strongly believe in building a sustainable social-enterprise which will focus and work to achieve a positive social-impact on women living within the margins of poverty.

Introduction

Nirantara Community Services (Nirantara) was founded in 2006 by a team of like-minded microfinance professionals led by its energetic founder and CEO, Mr. Niranjan Sheelavant. It began operations in 2007 as a Society, with a vision to provide need-based and cost-effective financial services to underserved women within the Bidar district of Karnataka. From its headquarters on the Deccan plateau, Nirantara has since expanded to serve over 9,000 clients with microcredit and micro-insurance, using a modified Grameen model. It presently manages a Rs.55 million portfolio and works in peri-urban and urban areas of three districts of Karnataka (Bidar, Gulbarga and Bijapur).

A Focus on Clients

In March 2009, *MicroSave* conducted a Social Performance Management (SPM) exercise with Nirantara to help the organisation better align its operations and strategy with its social mission. Nirantara, like so many Indian MFIs, had leveraged a single product to fuel its growth and now sought to build a more durable relationship with its clients and differentiate itself from other MFIs. Hence, the SPM visit was tailored to focus on the organisation's primary interest areas: client needs and preferences. This required use of an array of customised, qualitative market research tools like focus groups and product attribute ranking (to understand client product and service needs) as well as customer service surveys and relative preference ranking (to understand how to forge a competitive advantage).

Meanwhile, demonstrating its own commitment, the CEO and Area Manager accompanied the team during field visits to listen for themselves to clients and staff, and thus better understand their respective needs.

Strengths

The SPM visit highlighted several of its existing social performance strengths. Nirantara currently works with un-banked populations in the 3 districts and has a clear social mandate evidenced throughout all levels of staff. To reinforce this mandate, the leadership team has devised 8 key social goals to guide the efforts of staff and likewise enable Nirantara to measure achievement of its mission. As part of a holistic strategy to address client needs, Nirantara has also begun providing non-financial services (education) to supplement microfinance and help to strengthen its relationship with the community.

Figure 1: Nirantara's 8 Key Social Goals
1. The client's family lives in own house worth Rs100,000 (with at least a tin/asbestos roof, 2 rooms and latrine)
2. Family members have access to pure drinking water and sanitation facilities
3. All children in the family are going to school and/or have completed at least primary grades
4. The family should have additional income sources – at least two different sources within the family
5. The family maintains an average of Rs5,000 as savings
6. Customer is capable to pay a minimum weekly instalment of Rs1,000 or more
7. The family is out of the clutches of moneylenders and no member of the family is a defaulter
8. If any member of the family falls ill, the family can afford to take all necessary steps to seek adequate healthcare

Internally, Nirantara has recently expanded and improved its training for staff, including an emphasis on the organisation's mission and vision, but equally on ensuring proper treatment and transparency with clients. This – based on focus group discussions with a sample of 50 clients from two regions – has seemingly translated into satisfied customers. In field visits, clients routinely said that they value the quick, professional and friendly service offered by staff as well as the on-time centre meetings. Likewise, Nirantara's efficient systems and strong documentation have helped staff to feel more confident about their role and improved productivity– thus helping Nirantara to steadily grow.

Key Issues and Challenges

Some of the key challenges identified during the SPM diagnostic include:

- ***Socio-economic data*** was collected during the loan application process but not analysed in their MIS, thus missing an opportunity to keep track of social data / progress in client household income, education, etc.

- ***High staff desertion rate*** and the difficulty of finding qualified personnel persist, but these may be improved with a strong staff incentive scheme and through better recruitment and screening.

- ***Client targeting*** was not well understood at various levels (senior management, field officers) and was not always aligned with mission (e.g. the underserved). Likewise, the poverty assessment tool was mistakenly classifying clients with low-middle incomes as 'poor'.

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- ***Risk of over-indebtedness*** is present since many sampled clients admitted to have multiple loans (often between 2-4) from other providers.

Actions Taken

The SPM diagnostic, rather than focus solely on the poverty level of clients or the elusive quest to demonstrate impact, gave Nirantara a more *actionable* understanding of how well its systems, policies and practices were aligned with its social goals. Furthermore, incorporating senior management's active participation in the SPM visit ensured that Nirantara *itself* would decide what its priorities were and what adjustments to make – though an action-planning exercise.

> *"MicroSave provides a good exposure to SPM. The exercise gave us a lot of important insights."*
>
> **– Niranjan Sheelavant (CEO of Nirantara)**

This exercise, coupled with follow on technical support, helped Nirantara take steps to re-calibrate its client targeting – first getting clarity on the issue amongst senior management and then explaining to its staff the typical client profile (poor *and* vulnerable non-poor). There is now a more rigorous assessment process – which not only helps ensure clients are not over-indebted, but also limits risk to the institution. Furthermore, Nirantara has recently adopted MIFOS software and used it to develop a capable, new MIS which also allows for analysis of various social indicators, including poverty status and income level, as well as the social status and education level of its clients.

Nirantara has since developed and piloted a new, more balanced staff incentive scheme that places emphasis on quantity *and* quality. Social performance is now translated into increasing client participation in meetings, investigating client dropout instances and implementing important client protection elements like proper communication (and understanding) of terms and conditions. The organisation has likewise hosted more staff development and training workshops in 2009-10 and recently introduced a mentor assessment system. These concrete steps have resulted in increasing levels of staff performance with staff productivity rising 28% from August 2009 to today (from 476 borrowers per field officer to 611). Furthermore, client retention rates are on the rise in 2010 – suggesting more satisfied customers and impacting both the social *and* financial bottom lines.

Nirantara Kids

While fortifying the social performance aspects of *microfinance operations* is at the core of an SPM visit, Nirantara has decided to also pursue non-financial services to complement credit and insurance – as well as to build and maintain a deeper relationship with its clients and communities. As such, the Nirantara Foundation was set up to spearhead social development initiatives, the largest of which being *Nirantara Kids. Nirantara Kids* – started in May 2009 – offers quality and affordable preschool education to low-income families at $5 per month (compared to others offering the same at $6-25 per month).

Financial Literacy Programmes

As part of its efforts to be a responsible lender and to address the growing trend of multiple borrowing in the region, Nirantara organised a series of Financial Literacy programmes in January-February 2010, reaching more than 7,000 of its members. The programmes built awareness around:

- Savings for life-cycle needs and investments
- Life insurance instruments for securing family needs
- Balanced financial planning and management within both the house and their micro-business
- Planning for education of children, investment in business, housing and life-cycle needs (marriage)

The Road Ahead

Nirantara is poised to expand operations throughout Karnataka and will soon cross the 10,000 borrower threshold. Its success is underpinned by an incremental growth strategy, an emphasis on doing things 'the right way', and an ability to attract a diverse mix of commercial funders (from 8 institutions in 2009 to over 14 today!). While it still faces challenges – to attract and retain staff, to limit multiple borrowing and to thrive in a competitive MFI landscape – Nirantara represents an enterprise that has effectively woven both business and social principles into its organisational DNA. Furthermore, it demonstrates the importance of social performance interventions that draw a clear link between social *and* financial performance and that provide both concrete action steps and follow up support.

Sambandh – Building Client Relationships

Matt Leonard

Mission: *"To economically empower low income households by providing a broad range of client focused and responsive financial services on a continuous basis."*

About Sambandh

Sambandh is an MFI operating in northern Orissa, predominantly in the urban areas of Sundargarh District. As an urban financial services initiative for low income households, Sambandh's objective is to support micro-entrepreneurs in developing and expanding their business, thereby improving their quality of life. As a financial service provider, it has grown to nearly 6,382 clients and a loan portfolio outstanding of 5.3 crore (as of May 2010). Furthermore, as a *social business* initiative of the Regional Rural Development Centre (RRDC), they also offer other value added services (e.g. health, agriculture) to its "preferred clients", keeping in line with its long term mission of improving their quality of life. Being a part of the "Sambandh family", clients also have access to insurance services *(both Life and Health)* and health services in addition to reliable credit services.

As an institution, "Sambandh" has come to be known to all stakeholders as a reliable institution, with a high level of transparency and a systematic approach. The strength of the microfinance initiative stems from a highly motivated staff team, which comprises of young and dynamic individuals – led by CEO Mr. Deepak Kindo – who strongly identify with its mission and values.

SPM Diagnostic Visit

MicroSave visited Sambandh in May 2009 to undertake a social performance management (SPM) exercise.[1] Already with a strong social commitment, Sambandh looked to *MicroSave* to give it a snapshot of how well it was 'living' its mission, as well as concrete ways forward in its effort to expand access to finance for the urban poor and achieve sustainability. *MicroSave*'s rapid, 5-day SPM diagnostic visit involved meetings with all stakeholders, interviews with key senior managers, a thorough analysis of systems and operations, and ample time spent in the field using participatory client and staff tools and methods, including focus groups and client satisfaction surveys. Sambandh, an MFI with strong social aspirations and rigorous attention to getting its systems right, offers many examples of effective SPM practices that illustrate the overlap between social and financial performance.

Mission-driven Culture

Sambandh's mission, challenge statement and 10 key values are repeated at the beginning of all staff meetings, and as a result, most staff – from senior management to field levels – have internalised it well. The sense of ownership of the mission, vision and values at Sambandh fosters a strong institutional culture. Staff also report a climate of open communication with supervisors and among colleagues. Each of these forms a key part of the motivation and satisfaction of staff members – and may play a critical role in staff retention, which is important to an MFI providing quality and consistent services as well as reigning in costs.

Client Help-line

During its SPM visit, *MicroSave* observed that many clients were not using, or were not aware of,

[1] See *MicroSave*'s "Social Performance Management" toolkit.

the existing helpline. Clients would call individual field officers with any issues, but the information would often fall through the cracks. As a result, Sambandh recalibrated its approach and today field staff members are trained in its functioning, and one is appointed to the helpline in each branch unit. Clients are also informed about the purpose of the helpline during group formation and then reminded at disbursement. Whereas client help-lines often have a dubious track record, the difference here may be due to: 1) appropriate training – staff are trained to operate the helpline; 2) supervision – all calls are recorded in writing, including details and action taken, with follow up from supervisors; and 3) two-way communication – to ensure clients are comfortable using this channel for regular communication, Sambandh themselves use phones to communicate meeting times, loan amounts approved and any policy changes.

Client Retention: 98.95%

Market-Orientation

Sambandh staff and leadership understand the social and financial value of listening to clients, and have also attended *MicroSave*'s training on "Market Research for MicroFinance".[2] Despite limited resources to commission formal market research studies, Sambandh uses informal methods to collect information on client needs and preferences – including field visits by senior staff to talk to clients, informal surveys and reports from field staff. Recently, to respond to client demand, the MFI introduced a new loan product with fortnightly repayments (versus weekly) for clients in the 4th cycle. This not only provides an incentive for clients to associate with Sambandh over the long term, but ensures credit risk is minimised.

Human Resources

Building a strong social orientation begins with an MFI's frontline staff – the face of the organisation – and thus requires a strong HR system. Sambandh's training module for induction of new staff includes a strong focus on the mission and values of the organisation, lasting for around one full day. Beyond operational aspects and job responsibilities, the induction training manual describes role plays around punctuality and a focus on proper etiquette with clients. Staff performance appraisals, which occur regularly, are well aligned with the MFI's mission and values: measuring whether staff members have lived up to the organisation's values in his or her day-to-day work. Staff report feeling confident in their roles and know what is expected of them. Indeed, very few staff leave the organisation.

Staff Retention rate: 97.8%

The Business of MFIs is .... Only Microfinance?

There is considerable debate in microfinance as to whether MFIs should stick to their core business. Indeed, offering non-financial services holds benefits and risks: as a value-added service it can help differentiate MFIs in a competitive environment, but if these are not provided in a fashion that meets the expectations of its clients it may be a risk. Sambandh currently offers health camps through RRDC, distributes items such as malaria nets, and provides scholarship opportunities for the children of clients through the Life Insurance Company of India (LIC). While clients expressed an interest and appreciation of health camps that give them an opportunity for health check-ups, there have been some complaints about lack of further health camps and delays in accessing scholarships. Still, remarkably, through a partnership with Healing Field Foundation, Sambandh's 4S department (Sambandh Social Security Scheme) is making health insurance available to clients. They hope to make the product viable in the near future.

[2] See *MicroSave*'s "Market Research for MicroFinance" toolkit.

Challenges

Sambandh's services cost slightly more than its competition. This is partly a result of its higher operating expense ratio (19.5%) and lower staff productivity levels (210 borrowers/per staff) than Indian industry standards. The result is an effective interest rate, after loan processing fees and loan/life insurance of 34.7%. However, in a bid to build a long-term relationship, Sambandh now offers its clients discounted interest rates and the additional loan benefits mentioned above. Furthermore, following the SPM visit, senior management began to focus on process optimisation – a further way to meet clients' expectations – and improved the time from group formation to loan disbursement from 15-21 days to an average of 7-10 days today.

Effective Interest Rate: 34.7%

Operating Expense Ratio: 19.5%

Due to the presence of many MFIs in the area, many of clients visited had multiple loans. Although Sambandh field staff conduct a basic cash flow analysis – there was insufficient awareness of clients' debt threshold. Senior management realised that over-indebtedness is not only a risk to clients, but to the portfolio as well. Sambandh has since added frequent loan utilisation checks, and even surprise visits by supervisors. At present, they enjoy a portfolio at risk of just 0.11%.

PAR: 0.11%

One further suggestion to Sambandh during the SPM diagnostic was to incorporate social indicators into its branch rating, internal audit frameworks and monitoring the social indicators already collected in its MIS. This could then form a part of its management 'dashboard' and inform governance and decision-making. For instance, with existing data, Sambandh could better monitor and report on client dropout rates, poverty level of clients (based on rough income data), average loan size for first cycle borrowers (as a proxy for poverty level), caste-wise distribution and/or *housing* conditions.

The Way Forward

Having recently acquired a non-banking financial company (NBFC), Sambandh is in the process of transformation – setting the path to increasing funding opportunities and a higher growth trajectory. As it transforms, and investors' expectations rise, Sambandh will face the typical challenges of a social business: how to balance its strong social mission with a need to improve sustainability and expand the business.

Fortunately, the lessons above – maintaining a mission-driven culture, ensuring staff satisfaction, monitoring client feedback and protecting them from over-indebtedness, and, providing clients with product better suited to their needs – provide a clear way forward. Beyond its social implications, building stronger client relationships will also help Sambandh to grow and differentiate itself in a very competitive environment.[3]

[3] All data from DiA Vikas/Opportunity International Australia

Youth-Inclusive Financial Services (YIFS): Lessons & Key Considerations

Corrine Ngurukie, Flavia Nakamatte, Peter Mukwana, Elizabeth Kariuki and Angela Wambugu

Ensuring that youth have access to the financial services is important because it helps them develop the financial capability to become financially responsible as young adults. It is also important however to have the right product and legal framework in place so that those youth are adequately protected.
Bryce Kam, "Legally, how young is too young to open a savings account?" CGAP Microfinance Blog, Jan. 10, 2011

Background

There is growing interest around the world in extending financial services to youth as part of broader financial inclusion initiatives. But in most countries, youth under the age of 18 are not able to open and operate savings accounts as most banks require signed contracts for this. In most cases, accounts for such youth are held and managed by parents or guardians. This, however, limits the financial capability that would be gained from actively operating an account.

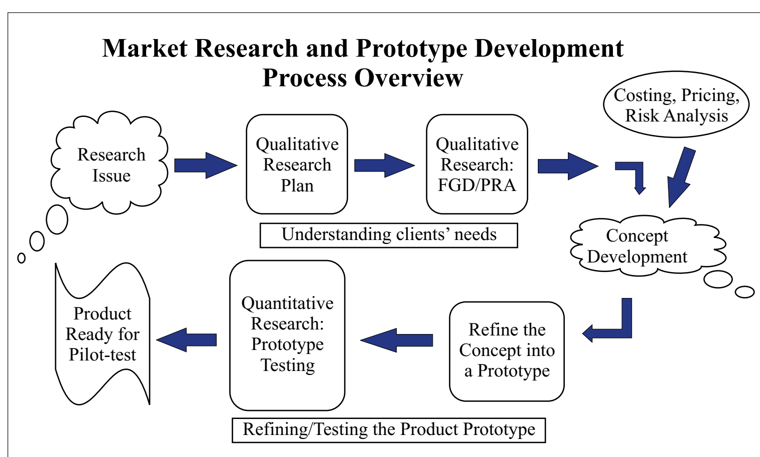
MicroSave and the Population Council have been managing The Nike Foundation's Safe and Smart Savings Products for Vulnerable Adolescent Girls (SSSVAGs) project implemented in Kenya and Uganda. The project, among other objectives, seeks to extend financial services and build financial capability amongst young girls 10 – 19 years of age.

This chapter presents key lessons learned from this project, on youth-inclusive financial services using the "8Ps of marketing" as a framework. The lessons, derived from the success and challenges experienced, offer an opportunity to inform future YIFS programmes.

***MicroSave's* 8Ps of Marketing**	
• Product Design	• Place
• Price	• People
• Process	• Promotion
• Physical Evidence	• Positioning

Product Design

Careful product design is critical to ensuring product uptake and usage. Under this project, savings products were designed specifically for the adolescent girls using *MicroSave*'s ***systematic product development*** approach which begins with market research to understand the target clients' current financial behaviour, needs, coping mechanisms, gaps and preferences.



This approach helps design products that are appropriate to the target group. Since the product responded directly to the needs of the girls, the uptake far exceeded expectations. As of October 2011, over 6,000 girls' accounts had been opened with savings totalling to

slightly over $60,000. In addition, partner financial institutions (FIs) found the process of product development invaluable as it gave them a chance to understand this unique and new target market, and further use the approach to develop their other products.

Another success factor was the integration of ***non-financial services***, which included financial education, social and reproductive health training and fun days with activities such as plays, drama, and debates. These activities helped build financial capability and self-esteem amongst the girls while also motivating them to participate in the programme and continue saving.

However, while their importance was appreciated, these activities were costly, and the FIs felt that they went beyond their scope of operations and expertise. New approaches to manage this component were explored. These included forming strategic partnerships with school clubs and youth serving organisations that were then supported financially by the project.

One challenge for the product design, however, was the ***regulatory requirements***. The regulatory environment in both Kenya and Uganda states that no-one below the age of 18 years can open and transact an account on their own or enter into any formal contract. Furthermore, it requires that all children's accounts be operated by the parents and/or the legal guardian, with sufficient supporting documentation to identify both the child and the parent/guardian. This serves to minimise risk and to boost confidence that they will be acting in the best interest of the child while operating that account. This posed a challenge on several fronts, particularly in Kenya where KYC (Know Your Customer) requirements are more stringent.

First, the vulnerable children living in the slums, more often than not, did not have any sort of identification documentation such as a birth certificate, which delayed account opening. Secondly, guardians living with orphaned children had no formal documentation showing that they were the legal guardians or foster parents to these children. Most such relationships are not formalised with the government and this meant excluding some of the most vulnerable children – the orphans. Thirdly, while the age restriction did not impact directly on making deposits, there was less convenience in making withdrawals as this was dependent on the adult's availability. This was however not a major challenge as most of the girls rarely made withdrawals.

Various options to overcome these challenges were explored. These included: parent's/guardian's written consent for the young person to use a financial mentor that she trusts and can be relied upon to help them make withdrawals; use of alternative identification documents for the youth such as immunisation and baptism cards; and obtaining letters from national authorities that confirm guardianship. This partly worked but in some instances, but FIs were reluctant to go against the norms.

The model adopted needs to conform to the regulatory requirements in each country. At the same time, deliberate effort needs to be made to ensure that YIFS programmes bring about change at policy level where real needs exist.

Price

The product was tailor-made as a social product for economic empowerment of the girls. This meant that they were not subject to any charges on the account, which in turn meant that the FIs did not get direct revenues from offering this account. The cost of delivering the account with the augmented services was also very high, but this was supported by donor funding for the project period.

Initially, all the FIs embraced the non-profit making product. Some took it up as part of community social responsibility and brand building, while others saw the potential of creating a loyal clientele for the future once the young people graduated to the adult products. There was also the opportunity to cross-sell existing products to the girls' parents/guardians. But, when it came to actually operationalising the product, some institutions, particularly those going through institutional restructuring, had a hard time focusing their energies on a product that would do little for their bottom lines, preferring to direct their energies towards other products.

The cost of running such a programme is high and donor money is helpful to underwrite the initial stage. However, any FI which wants to carry out such a programme in the long term must have a strategy for its sustainability in the post donor period. A costing exercise and careful analysis of institutional objectives are essential to ensure such products are priced right for them to bring in income and contribute to the bottom line, even if in a small way and on a marginal costing basis.

Process

The FIs struggled with the decision whether to mainstream the product or to have it handled as a special account. Most institutions chose not to mainstream it as a totally new product, but instead had it piggy back on an existing product on the MIS system. This brought about some unique challenges where other bank staff became confused about how to handle its various exclusions and special features. It was also subjected to the automated prompts of the "old" product, which made some of the girls' accounts go "dormant" and even subjected them to un-intended fees.

Another critical challenge was the account opening process. The main issue was obtaining the requisite documentation, in particular the birth certificates for the case of slum dwellers. Where this was a problem, a grace period has been provided whereby accounts were opened while the documentation was being prepared. The process of seeking legal guardianship however still remains a problem, leading to exclusion of orphans without legal guardians.

Physical Evidence

Girls who opened the accounts were provided with branded t-shirts, scarves, a home bank and a passbook. These items helped the girls to identify with the account and encouraged them to keep transacting on it.

Other items provided to the girls were in form of gifts (such as branded mugs, books, key holders, and sanitary pads) during the fun days as rewards to those who were regular savers and for regular attendance at group meetings.

So far we have analysed the YIFS in the context of product, price, processes and physical evidence. It further extends the analysis into an additional 4Ps of marketing, namely, Place, People, Promotion and Positioning.

Place

The girls were provided with a "Safe Space" to meet during group meetings. These were public or private places in the community, that were safe for girls to congregate and conduct their weekly group meetings. Here the girls were able to build social support networks by interacting with each other, while also being taught financial education (FE) and social and reproductive health (SRH). In Uganda,

mentors, who were generally older women, opened up their homes for the girls to meet, while others met in their schools. In Kenya, community halls were most commonly used and were rented for the duration of the meeting.

People

The key players in the project implementation included: mentors, project officers, field officers, product champions.

Mentors: There were two types of mentors – financial mentors to help with the account transactions particularly withdrawals, and social mentors to facilitate group meetings and conduct trainings.
The criteria for the financial mentors differed depending on the financial institution (FI) and country. For instance, one of the institutions insisted that financial mentors needed to be parents or legal guardians, while some of the other FIs were more flexible and allowed the girls to select their own mentors. The financial mentors engaged with the girls on a voluntary basis.

The social mentors were recruited directly from the community or through community based organisations. They were paid a stipend of approximately $35 each per month from the programme funds and received intensive training from *MicroSave* and Population Council on handling groups, the account and conducting training. Retention of the social mentors was a challenge in some instances as many of them had alternative employment opportunities and others were not committed to the rigorous work involved.

Project Officers: Project officers from both *MicroSave* and the Population Council were instrumental in providing technical assistance to the FIs and ensuring the smooth running of the project in the community. *MicroSave* provided technical assistance in the areas of market research, product development and refinement and pilot testing; while the Population Council brought in their expertise in programmes for adolescent girls. Project officers' work in the community included mobilisation of girls, training the girls and their mentors, and monitoring the programme to ensure it was running smoothly. They were also involved in the relationship management between all the partners in the project; and were instrumental in designing the FE curriculum and contextualising it for the Kenyan and Ugandan environments in order to suit the girls in the two countries. The project officers were supported and supervised by project managers from both Population Council and *MicroSave*.

Field Officers: The FIs, with support from the project funds, hired field officers to facilitate project implementation. Their roles included: facilitating account opening for the girls, monitoring the field activities and tracking product performance.

Product Champions: The product required different departments from the head office and the branches to work together on implementation and monitoring. All the departments were coordinated by a product champion. The product champions were youth-friendly, middle management staff members who were instrumental in coordinating all the day to day programme activities. They were at the centre of reporting on the project performance, as well as collecting and consolidating qualitative and quantitative information to enhance the product delivery. Support from top management coupled with the passion and enthusiasm of product champions, allowed the project to succeed. A few institutions however struggled to get reports and support from all the departments involved, causing some unnecessary delays.

An FI implementing such a programme needs to ensure buy-in across the whole institution for it to be successful. In particular, senior management's involvement is vital to ensure that key decisions are made quickly, and thus the smooth execution of programme activities. Remuneration for all those involved should also be carefully considered.

Promotion

The programme made a deliberate decision to put emphasis on continuous community marketing and awareness, as opposed to using mainstream media such as TV or radio. This took the shape of:

- Community meetings with parents, key stakeholders from schools, religious institutions and local leaders;
- Awareness walks with product branded banners and T-shirts;
- Local entertainment through popular artistes that the youth identify with; and
- Pitching tents at the local markets and personal selling.

These forums provided opportunities for awareness-building, to help explain what the account was all about and/or to provide FE sessions for all to see the value and need for such a product. This served to:

- Alleviate their initial fears and help them understand the features and benefits of the product and how to actually use it;
- Create ownership of the product by the community;
- Make it easier to get consent and approval for the girls' participation in savings and group activities; and
- Create an opportunity for FIs to cross-sell other products such as the junior accounts for the boys, and savings products for adults.

The FIs used this programme as a platform to cross-sell their adult products to the parents of the girls and other stakeholders in the community. This was done at the community forums with direct selling by the bank staff. The FE provided to the girls also had a trickledown effect to their parents. Once they saw the value that their young children derived from a savings account, particularly to cushion them against emergencies, help cater for their day to day needs and fulfil their future aspirations, parents began seeing the need to also have a savings account themselves.
Leveraging existing social structures in the community ensures that community buy in is achieved quicker and uptake follows soon after.

Positioning

The partner FIs were seen to cater for the less privileged members of society because they chose to work with this vulnerable target group. In addition, all the activities happened at the community level and thus the benefits were clear to all. Fraudulent pyramid schemes had increased community fear about interacting with any institution offering financial services, but the SSSVAG programmes' hard work helped allay such fears.

A well-designed programme with community involvement helps build trust and confidence which are critical for success.

Summary of Lessons & Key Considerations

- Understanding the needs of the target market and using a systematic approach to product development helps develop suitable products and increase chances of higher uptake.
- Successful adoption of YIFS by FIs is highly dependent on their institutional goals and objectives. Institutions with a strong profit focus and little or no social orientation will struggle to extend financial services to youth as the financial benefits take a long time to accrue.
- Integration of non-financial services helps empower youth and acts as a motivation for continued participation. Strategic partnerships are a good way to facilitate these.
- Physical branded items representing the product help the young people identify with the product and also act as a motivator.
- Buy-in across staff, particularly those to be involved in delivering the product, is critical to increase product uptake.
- Community involvement and community based marketing are more effective methods of building trust and confidence and enhancing participation, rather than mainstream marketing media.
- The legal framework governing financial services should be reviewed to better accommodate the youth.

Conclusion

Youth between 10 – 24 yrs of age constitute 1.77 billion (27% of the total global population).[1] This represents a huge potential market for FIs as they form the next wave of new clients. It is however important that appropriate products and policies are put in place for YIFS to succeed.

[1] Rachel Nugent, Population Reference Bureau, 2006

Understanding Demand for Financial Products among the Youth of Central Java

Premasis Mukherjee, Neeraj Lal and Sonmani Choudhary

Background

Indonesia has the world's fourth largest youth population, of over 38 million.[1, 2] But over 20% of this youth are neither in school nor employed, and over 50% of youth in the labour market are unemployed or underemployed.[3]

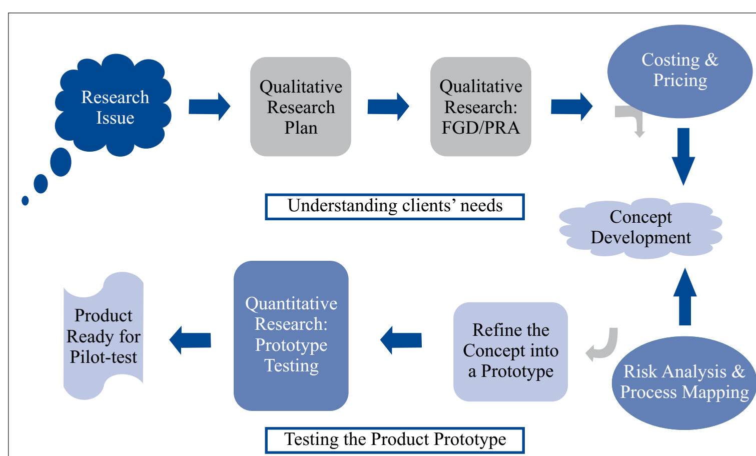
MicroSave was contracted by Plan Indonesia to conduct research to better understand youth and their financial needs.

Research Objective

MicroSave conducted exploratory market research to understand the needs for financial products, and the perceptions of existing financial products, amongst the youth of central Java and to suggest suitable client-responsive product(s).

Framework of Product Development

MicroSave's product development framework was used to prepare a mix of products responding to a range of market segments.



Research Plan

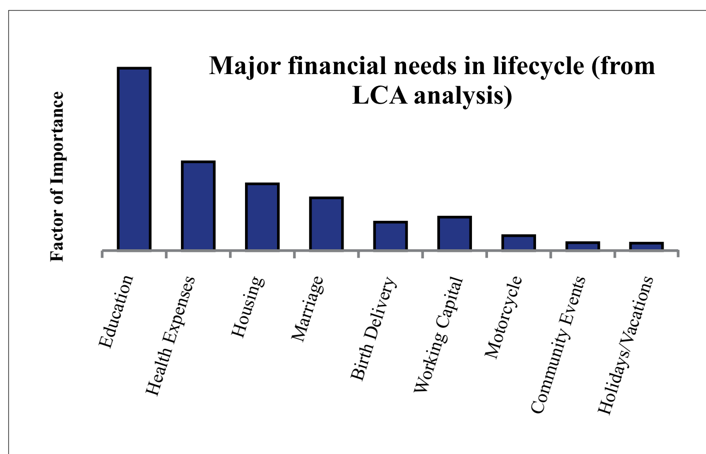
The research was conducted with the sample size of 400, primarily women, across 6 villages of Grobogan district, using PRA Tools (LCA, PAR, RPR)[4] and individual interviews.[5]

Key Findings

The following lifecycle needs emerged as predominant financial stress points in the life of the youth:

Education: own education for the younger population (substantial amounts are required to enroll in higher education) and children's education for older population.

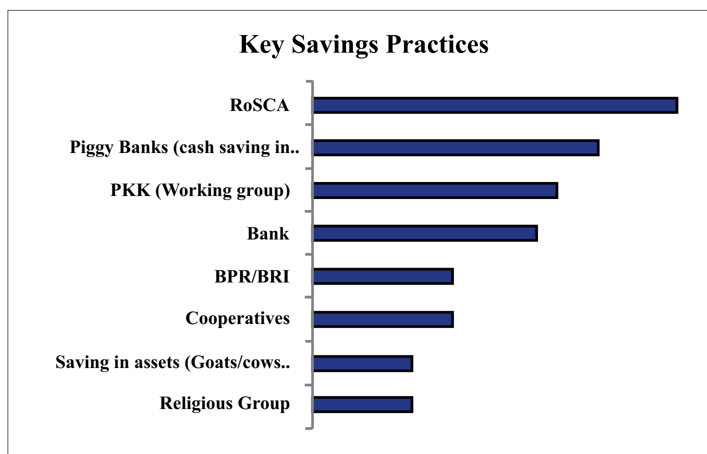
Health Expenses: important due to the uncertainty.



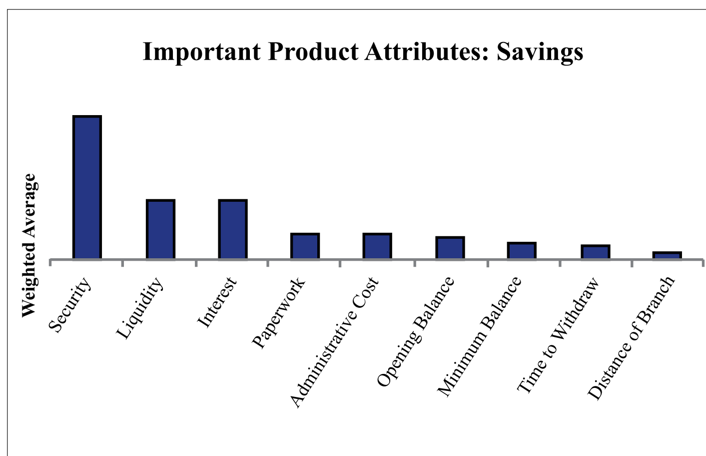
[1] Young women and men between the ages of 15 and 24
[2] Unlocking the Potential of Youth—Indonesia Youth Employment Action Plan. An initiative of the Indonesia Youth Employment Networks supported by the Ministry of Manpower and Transmigration and ILO, 2005
[3] Ibid
[4] PRA: Participatory Rapid Appraisal; LCA: Life Cycle Analysis; PAR: Product Attribute Ranking. RPR: Relative Preference Ranking
[5] Refer to *MicroSave*'s MR4MF toolkit for details

Housing: significant, especially in the 20-25 age group. The respondents save both in cash and kind using various mechanisms to meet these needs. However there is an aversion towards formal savings because of account maintenance charges, minimum balance requirements, and the distance of financial institutions from the villages.

Some of the key saving mechanisms are given in the graph below:



The important attributes sought by the youth in savings products are tabulated below:



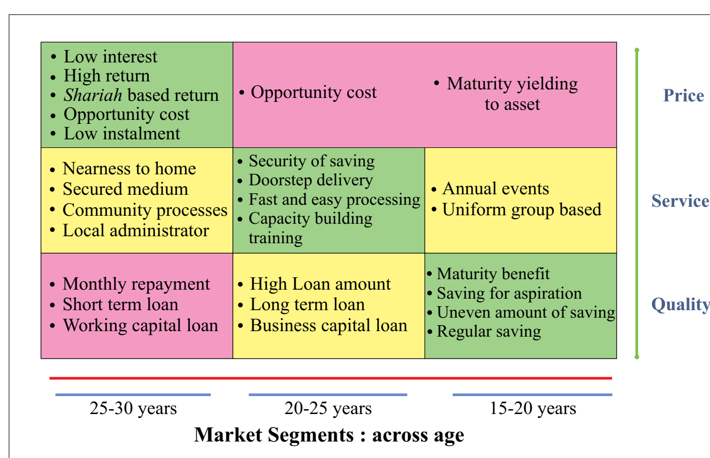
Security is the key attribute. Any institute offering savings must be viewed as trustworthy by clients; this is often tied in with the community focus (level of involvement of the community) of the organisation. Liquidity is expected to take care of regular (quarterly/annual) requirements for religious events and other annual expenses. While saving for long term purposes, clients prefer a lock-in mechanism, otherwise they might withdraw/misuse the money.

Market Segmentation

The following youth segments emerged from the research:

Segment	Key Characteristics
Segment I: Age group 15-20	- Mostly students - Unmarried - Dependent on parents - Financial needs linked to aspirations - Need for regular finance: primarily savings - Financial transactions happen around "Youth Clubs"
Segment II : Age group 21-25	- Newly married 1-2 child of 1-2 years age - Aspirations to start businesses and/or build houses - Mostly dependent on husbands - Husbands often are migrating labourers - More credit oriented
Segment III : Age group 26-30	- Married - Have 2-3 children of 5-6 years of age - High affinity towards community based institutions - Aspirations for child's future - Often are self-dependent - Mostly in shared goat/cow raising activity

Segment Preference Matrix



Green: Most important product positioning attribute (amongst price, customer service and product quality)
Amber: Moderately important product positioning attribute
Pink: Not so important product positioning attribute

Each of the three segments showed different sensitivities towards quality of product, customer service and price. The Segment Preference Matrix highlights the preferences of the segments.

Conclusion

The market research highlighted some important characteristics:

- There is a general lack of financial literacy and awareness among the people;
- The youth is more inclined towards savings than credit;
- The community based savings and credit practices are predominant;
- Education and religious/community events are the main reasons for financial pressure for youth; and
- The financial behaviour of youth is further segmented based on their age and marital status.

Based on the findings, the following suggestions related to products were proposed:

Product	**Two Concepts** • **Flexible Weekly Savings** product with long term maturity yielding a lump sum to buy higher education or assets; and • **Short Term Recurring Deposits** to create a savings culture and meet regular aspirational and festival expenditure needs. **Challenges** • Ensuring long term trust; • Managing long-term funds; and • Switching savings from RoSCAs.
Price	• Savings return explained in terms of maturity amount and Shariah based return would be popular.
Promotion	• Ensure visibility of the programme in village; • Creating culture around the programme; and • Village heads to be made integral part of the programme.
Place	• Collection of money in villages for accessibility and presence of an office in a hub (of 5-6 villages) to ensure trust.
Positioning	• Positioning of the products needs to match the preference of the target segment according to segment preference matrix.
Physical Evidence	• Identity card or member card might be issued; • Creative merchandise in the villages; and • Physical record books should be issued.
People	• Local persons to be field executives; • Finding competent persons locally and managing potential compliance and fraud risks would, however, be challenging.
Process	• Collection of regular cash should be done in the villages. • Group based savings collection system and • Some level of internal rotation of the savings fund can be encouraged.

However, it is also identified that all products cannot be launched immediately and the implementing organisation needs to follow a systematic product development process to yield deep impact in the community.

Appendix

Social Performance Management Toolkit Summary

Overview

Microfinance began as a desire to help the world's poor and vulnerable, and since then it has matured from largely a development concept to a sustainable business model. This paradigm shift has been characterised by advent of financial systems approach with enhanced focus on professionalism, financial reporting and gaining access to debt and investment funds. The commercialisation and increasing profile of microfinance, although widely considered a positive development, has also increased the risks to the industry and its clients. This has given rise to the need for greater accountability and attention to both aspects of an MFI's double-bottom line. In this context, effective Social Performance Management (SPM) which leads to stronger alignment of systems and processes with organisation's mission can yield real value-add for MFIs.

MicroSave's SPM toolkit is participatory, quick, low-cost and actionable in order to foster improvement in overall performance. It is designed to assist the MFIs and their stakeholders – Board, management, staff, clients, financial institutions, potential investors and others – to conduct a rapid diagnostic of an MFI and determine how well its processes and outcomes are aligned with its mission and social objectives. *MicroSave*'s SPM methodology has a strong emphasis on client / staff surveys and feedback, and participatory processes which leads to the formation of an action plan. Actionable information on client / staff needs and perceptions in turn leads to increased staff and client retention – thus improving both social ***and*** financial performance.

Ultimately, the goal of SPM is to improve MFIs' ability to serve and meet the needs of their target clients. By aligning key systems – strategic planning, human resources, staff incentives, audit, MIS etc. – an MFI can better achieve the objectives of both its Business Plan ***and*** its Mission:

- *Strategic Planning:* to ensure that a business plan contains social as well as financial targets
- *MIS:* to adjust MFIs' information systems to collect and report on those indicators of value to all stakeholders
- *Human Resources:* to better align functions of training, appraisal and incentives with an organisation's mission
- *Operations:* to ensure that products, client targeting, outreach and policies and procedures are appropriate
- *Audit:* to ensure adequate safeguards are in place, to protect both clients and the MFI from fraud and abuse

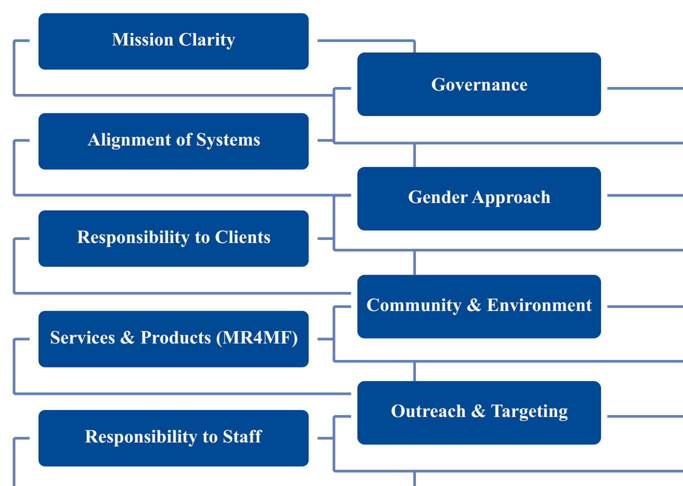
The toolkit includes:

- Detailed questionnaires and checklists for members of the Board and senior management team, designed to complete a preliminary diagnostic of social performance across a range of indicators.
- Focus group discussion guides for branch managers, staff and clients to check understanding of social performance at different levels and gather client and staff feedback.
- Focus group discussion guides and participatory rapid appraisal tools (based on *MicroSave*'s Market Research for MicroFinance, customer service, internal audit and HR management toolkits) to guide discussions with clients around needs, preferences, reasons for joining, dropouts, and perspectives on competing financial service providers.
- Quality of service/customer satisfaction tools administered to a diverse range of clients.
- Staff satisfaction tools to assess an MFI's responsibility to its staff - a key determinant of productivity.

BENEFITS

As mentioned, the toolkit includes several low-cost social performance management tools that aim to enable MFIs to improve their social ***and*** business performance through 'quick wins' identified and developed in a practical action-plan. The guiding principles of the tools are that the approach should:

Important Aspects of Social Performance Management



- Be quick, low-cost, and flexible for MFIs of differing missions, contexts, and methodologies;
- Involve checklists/tools for both internal use by the MFIs staff and for external use by independent agencies – the latter including some tools based on *MicroSave*'s market research for microfinance toolkit; and above all,
- Be focused on providing valuable and usable information that will improve the core business of the MFI – by improving its products and services as well as the systems that will deliver them, thus yielding improved customer satisfaction and loyalty.

By using *MicroSave*'s SPM methodology, MFIs are able to identify practical ways to improve both business and social performance, as well as to institutionalise better management towards the goals and objectives contained in their mission. The SPM toolkit has been designed to be flexible and is tailored to MFIs of varying sizes, models and geographies. It has already been used successfully in a range of *MicroSave*'s partner MFIs, including:

BWDA (Tamil Nadu, India)	Chaitanya (Maharashtra, India)	Village Financial Services (West Bengal, India)
Nirantara (Karnataka, India)	Svasti (Maharashtra, India)	TSPI (the Philippines)
Grameen Sahara (Assam, India)	RGVN (Assam, India)	BURO (Bangladesh)
Sambandh (Orissa, India)	Utkarsh (Uttar Pradesh, India)	SANASA Development Bank (Sri Lanka)

To help MFIs to assess their Social Performance Management, a team from *MicroSave* visits the organisation over 5 days – involving an MFI's own staff during interviews with key stakeholders and field/ branch visits. In a competitive environment, *MicroSave* believes that the SPM report and action plans produced during a visit assist MFIs to better achieve their mission and to become the preferred partners for their clients. Some of the benefits identified by MFIs where *MicroSave* has implemented its SPM toolkit include:

Managers / Board
- Improved balance between financial & social goals
- Clarity of understanding on Mission achievement
- Improved overall performance
- Improved and better aligned systems, HR, etc
- Mitigation of political risk

Clients
- Better customer service
- More appropriate products
- Improved client protection
- Greater 'voice' in programme

Outreach, Services & Products
- Improved client targeting
- Clarity on portfolio segmentation
- Ability to monitor how clients use services
- Innovation in product and delivery system design
- Verification of results of programme changes

Financial performance
- Improved retention of clients
- Enhanced programme growth
- Lower operational costs and higher profitability
- Improved loan repayment and portfolio quality
- Ability to attract further funding

"We are really boosted up and filled with vigour by the new perspective you gave to our team. SPM is a beacon for every MFI" - **Mr Bimal Lakra, HR Manager Sambandh**

Who should attend Social Performance Management Training

The training course is three days long. This training should be attended by the Board members and senior managers responsible for aligning the strategies/actions with mission/vision of the organisation. It may be the Chief Executive Officer, Operations Director/ Manager, and any other senior management person who will be involved in following up in detail and implementing the tools for assessing and monitoring social performance of the MFI.

Better social performance through improved services, delivery system, products and customer service will lead to higher repayment and retention and thus higher growth and profits for your organisation.

Our Service Offerings

Organisational Strengthening and Risk Management

- Policy Development and Documentation
- Product and Process Re-engineering
- Improving Portfolio Quality
- MIS
- Internal Audit and Control Systems
- Risk Management Framework
- HRM

Strategy Development and Governance

- Strengthening Board Governance
- Institutional Change
- Strategic Business Planning
- Financial Planning
- Strategic Marketing
- Corporate Brand and Identity

Product and Channel Innovations

- Market Research (Qualitative and Quantitative)
- Costing and Pricing
- Pilot-Testing
- Roll-Out
- Product Marketing
- E/M-Banking Solutions
- Agent Network Development, Monitoring and Management

Investment and Donor Services

- Institutional Assessments
- Due Diligence
- Equity Valuation and Capital Structuring
- Loan Portfolio Audit
- Evaluation/Impact Assessments

Research and Dissemination

- Microfinance Policy Research
- Product & Service Delivery Research
- Feasibility Studies
- Industry Mapping
- Publications (IFNs, BNs, OPE Series, Research Papers, etc)
- Podcasts

Trainings and Workshops

- Retail Trainings
- Customised Training for Institutions
- AMI
- CEOs Workshop
- Webinars and Virtual Conferences
- E-/Distance Learning
- Exposure Visits

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