MAKING MICROFINANCE MORE CLIENT-LED

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Six years ago the microfinance industry viewed its clients as a given. The general attitude among many of the experts was that 'we have the products, demand is unlimited and the clients will come.' Experts saw clients as statistics, measured in terms of repayment and repeat borrowing rates. Clients entered the discourse, if at all, through impact assessments that were largely the domain of the donors and researchers. These two partners formed an alliance: donors funded the impact assessments, researchers performed them. Microfinance institutions (MFI) and their clients were the objects of these studies but they were rarely owners of the results.

Today, much of this has changed. The microfinance agenda is now increasingly client or market driven. Much of the current interest in clients is driven by the industry's focus on competition and dropouts. Competition, together with MFI policies of requiring clients to take increasingly large loans each cycle, has tempted some clients to take out multiple loans, to assume too much debt and at times end up defaulting on some of their microfinance credit. Dropouts have raised operational costs, a situation few MFIs can afford.

As a result, new attention is being given to clients and products, how to attract and keep clients. As this market-driven microfinance agenda emerges, its component elements are taking shape. While the client-product nexus is important, it is only part of the agenda. It also includes linkages between clients and institutions and the client's financial landscape. Thus, we can discern three levels which define the new framework: the *client*, the *institution* and the *market*.

- The *client-product* nexus cuts across the issue of customer access to appropriate products and services. The agenda moves from one in which the institutional approach to clients was 'catch as catch can' to a market focus with specific products attracting particular market niches.
- *Institution-client linkages* differentiate between the internal need for mechanisms to provide institutions with a client database that can be used for product development, marketing or service delivery and the larger question of what the appropriate institutional mechanisms are for serving large underserved markets like Brazil or Nigeria, and the self-excluded (both the extreme poor and vulnerable non-poor)[1].
- The *client financial* landscape challenges the attitude among many MFIs that they are the only game in town. The client's portfolio of financial services, formal and informal, determines not only how the client uses microfinance but also the role of microfinance in within the financial market.

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* The views here are those of the author and do not reflect those of USAID. The author wishes to acknowledge the contributions of Ayesha Nibbe.

[1] The vulnerable non-poor are clients who are above the poverty line but vulnerable to slipping into poverty; moderate poor clients are in the top 50 percentiles of households below the poverty line; the extreme poor are in households in the bottom 10 to 50 percentiles of households below the poverty line; and the extreme poor are in households in the bottom 10 percentiles of households below the poverty line. (Sebstad and Cohen, 2001)

The Average Client and the Average Product.

The client-driven microfinance agenda has moved the industry discourse from its traditional focus on quantity to one that includes both quantity *and* quality of the services delivered. (Chao-Beroff, 2001) This requires a greater in-depth understanding of clients, something that until now many MFIs have ignored or relegated to impact studies and dismissed as having no operational relevance. While impact studies have been primarily focussed on seeking to determine if microfinance makes a difference to clients, today's renewed interest in clients begins with two other, equally basic questions:

- Who are the clients?
- How do the clients use financial services?

Turning to the first question, it is clear that even though most MFIs serve a wide range of clients, the majority are clustered just above and just below poverty line. (see Figure 1) While poverty targeted programs tend to reach a higher percent of lower income clients, significant poorer populations self-exclude or are denied access. They include the destitute and to a lesser extent, the extreme poor (Sebstad and Cohen, 2001).

The similarity of clients, which extends across a wide range of methodologically different institutions, has been paralleled by a similarity of products. Indeed, microfinance can be viewed as a limited product industry, whose principal products are short-term working capital loans and involuntary savings. A few programs provide fixed asset loans. These features have been at the core of the "microcredit for enterprise" approach that has dominated microfinance for the last two decades. A fewer number of MFIs offer voluntary savings services, some loan insurance, while an even smaller minority have attempted to address other insurance needs, such as health, disability, life or property insurance.

Not pressured to be responsive to demand, the industry has been able to deliver products that have worked in what until recently have been largely monopoly markets. The average product - the peer lending working capital loan - was an appropriate first choice for an industry in its infancy: homogeneity keeps costs down, simplifies management systems and can be readily replicated. Moreover, short term lending to existing businesses reduces risk to the MFI. In what was judged as a large untapped market, it was a safe bet to go for as many clients as possible.

Absent from this picture was a recognition that poor people often do not want to borrow all the time nor automatically increase their loan size. By misjudging these factors, which were assumed to be incentives for clients staying with a program, credit-focused MFIs never bothered to develop other ways of retaining contact/interaction with their clients, for example voluntary savings..

For the clients with no alternative sources of formal finance, MFIs fill a clear niche. It is cheaper than much informal finance, it is accessible, and it offers a relative certainty of supply over time. With little influence over the design of the products, the borrowers simply adapted the financial service to the most appropriate need at the time. Loans, ostensibly borrowed for microenterprise development, are many time used to meet a multiplicity of other needs. (Sebstad and Cohen, 2001).

Clients are demonstrating the imperfect nature of the products by voting with their feet. Dropout rates of anywhere from 13% to 60% in Uganda attest to this. Some clients, after participating in microcredit programs, often choose to ‘rest’ and/or look for alternative services because the transaction costs are found to exceed the benefits (Wright, 1999). While a minority dropout for reasons of default, the preference is to repay at all costs so that future access will not be denied, if and when the need arises. (Sebstad and Cohen, 2001) These trends suggest that this industry is clearly not in tune with its clients. Furthermore, competition and client dissatisfaction is putting pressure on institutions to be more responsive to demand. MFIs have much to gain from designing new products and services or refining old ones. Among the benefits are an increase in market share, higher levels of client retention and lower operational costs.

However, such innovation is not readily realized. As Hulme and Mosley (1997) have noted this requires designers of financial services for poor people to acknowledge that "the poor" is not a homogeneous group with broadly similar needs. However, recognizing the heterogeneity of the poor clearly complicates matters for scheme designers. Homogeneity may be good for keeping delivery costs low, but is it not necessarily good for institutional sustainability if high dropout rates result.

Broadening and deepening outreach, as well as retaining more of the existing clientele, means <u>attracting</u> both new and old customers with products and services that better correspond to their preferences. That is, client preferences with regard to cashflow cycles across the year, their need for diverse sources of cash flow as well as their need for lump sums of cash for anticipated and unanticipated expenses (Rutherford, 2000; Sebstad and Cohen, 2001). Furthermore, a look at the household’s demand for financial services over its lifetime is a reminder that for clients (or potential clients) the use of financial services can take many forms, serve many purposes and also changes significantly over time. Figure 2 not only illustrates this, but also emphasizes the limited product range offered by most MFIs. The imperfect fit between products and clients is obvious. Is it so surprising that people manage their finances using whichever products are available to them? As the industry matures it is clearly time to direct attention to product differentiation, albeit cautiously. (Wright et al, 2001)

The argument for a market-driven agenda for microfinance takes place within a framework of long-term institutional sustainability. Without losing sight of the discipline of best practice financial performance, one needs to also go beyond defining the industry only in terms of the financial ratios which dominate today’s measures of success. We should think in terms of how to efficiently gather client information, how to store it in a MIS, and how to use it effectively for clearly operational objectives.

Much of the current discourse on new products for existing clients (as well as new clients) assumes products will be delivered within existing organizational structures. But are these products and institutional structures necessarily the path to expanded scale and low cost service delivery? Delivering more client-responsive financial services to broader segments of the populations may require more than simply different products, it may also call for rethinking the existing organizational models in terms of built-in mechanisms for listening to clients. Creative options can also be explored with respect to different institutional delivery models which can lower operational costs.

Lastly, a client-led agenda for microfinance should recognize the role of MFIs within the larger financial system. The distinction between formal, informal and semi-formal institutions may make sense when we consider the regulatory environment for financial services, but does this differentiation matter in terms of the client’s reality? For most of the poor, access to microfinance services are but one of a range of financial services, formal and informal, which are available to them. None of these services is used in isolation. On the contrary, clients mesh these financial services in a way that best minimizes risk and enables them to better manage their money. Seen from this perspective we can gain an understanding of the niche market occupied by "the average product" that MFIs deliver.

At this point, we shall examine in greater detail a few key aspects of the three levels described above: the client-product nexus, client-institutional linkages and the financial system from a client's perspective. We will explore how each can influence the design and implementation of a client-led or market-driven microfinance agenda.

Client-Product Nexus

In advocating for a more client-oriented microfinance system, the need for more flexible financial services has become a mantra. Rutherford's documentation of SafeSave, made the case for flexible financial services, services that more effectively respond to the cyclical flows and cash requirements of poor households. (CGAP(18), 2001) Outside of Rutherford's work, the argument for flexible financial services has been typically limited to support for savings as a complement to credit. However, flexible services are more than new services like savings and insurance. They could also include money transfers or mutual funds which are currently still at a very experimental stage within the industry. They should also cover the refinement of existing products and the introduction of different credit products such as housing or emergency loans. Such an approach has been followed by some of the more creative MFIs such as SEWA Bank and BURO-Tangail.

To identify more appropriate and flexible financial products, one can argue, as Wright does, that product design begins with understanding client use of financial services. Sebstad and Cohen's (2001) report on 'Microfinance, Risk Management and Poverty' draws directly on the poor's experiences with microfinance to demonstrate how the industry's financial services are used by clients to manage risk. The use of loans to expand the household's sources of income, to build and diversify assets, and to improve money management are global strategies pursued by the poor to mitigate risk prior to a shock. By contrast, the current array of microfinance services is less likely to be used to cope with losses after they occur. What is offered by most MFIs are products that lack the capability to respond to emergencies by delivering small amounts of cash quickly in the face of crisis. It is worth noting that when an institution does offer emergency loans for the poor, this product has proven to be immensely popular. This was the case for the CVECA programs in the Dogon region of Mali[2]. (Cohen and Sebstad, 1999)

In a field in which attention to clients has been limited, poor people's financial behavior has been an enigma for too long. Using information collected in four countries, Sebstad and Cohen (2001) argue that if microfinance services are to be more effective in helping the poor manage financial risks, then we need to think in terms of:

- matching products to clients' needs
- matching repayment amounts and cycles to clients' needs
- matching loan size to clients' needs, and

[2] Caisses Villegoises d'Epargne et de Credit Autogerees.

- ❖ matching financial flows and repayment cycles.

A better understanding of these factors provides a firmer basis for determining how old products might be tweaked or new products designed**.** From the recent AIMS[3] study conducted in India, it is apparent that the poor, including those fortunate enough to be SEWA Bank clients, are highly indebted. When expenditures and borrowings over a year are compared for twelve SEWA Bank clients, only 45% of their needs are met from cash flow and savings. The balance of their annual requirements (55%) is met by borrowing from the formal and informal sectors combined. However, only one-third of borrowed funds come from SEWA Bank. (Chen and Snodgrass, 2001)

Clearly these poor live in a world of debt. It is also shows the limited contribution of microfinance. SEWA Bank offers its clients one product – a 2-3 year loan with a maximum of 25,000 RS. This is a sizeable amount of money relative to income and represents the Bank's upper limit of what they think their clients can afford. However, because it is often less than what they need the informal finance sector remains a big player in clients' lives.

Rutherford (2000) has noted that poor people need lump sums of money to reduce their vulnerability, to meet anticipated and unanticipated needs, and to take advantage of opportunities as they arise. Household cash flow is rarely sufficient to cover big expenses, health costs, school fees or basic recuperation after a shock. Despite the repeated stated purpose of a loan for microenterprise development, client behavior attests to their tendency to use loans for these purposes. But is this the same as flexibility? Let's look again at SEWA loan product. On the face of it there seems to be a lack of flexibility - the loan period is long and the size of the loan provides only partial coverage for the big expenses such as marriage costs and housing, the two dominant uses of SEWA loan. However, from the clients' perspective, maybe the picture looks different. This loan works when clients have a sizeable expenditure. This is where the general market offers few, if any, alternative options. However, because the largest loan size of 25,000 RS will not cover the full amount of the cost of most weddings, acute illnesses, accidents, housing or business investments, the clients must still resort to 'patching' funds together. Yet the SEWA loan does give the borrower an important advantage. It lowers transaction costs by reducing a clients need to access a multiplicity of informal sources for big anticipated expenses.

> A young boy whose mother was a SEWA Bank member needed 70,000RS for a heart operation. His mother took a 25,000RS loan from SEWA Bank, borrowed 5,000RS from relatives, and accessed an additional 5,000RS from a moneylender at 60% interest per annum. The son raised the balance over several months from charities (Chen and Snodgrass, 2001).

With their average loan term of 6-months the product line of ProMujer, a communal banking institution in Bolivia, is weakest in providing its clients with a means to access significant lump sums of capital. (see Box).

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[3] This is the acronym for the USAID project Assessing the Impact of Microenterprise Services.

Maria, a vendor who sells food at fiestas and outside her house, used her eighth loan (7000 Bos) to facilitate the purchase of a car for her husband. As a deficit still existed the balance was funded with savings. From renting a taxi, her husband now drives his own taxi, thus he has been able to increase his net income as a chauffeur by 50%.

Anna produces and sells knitted goods. She has used her loans primarily as working capital to build up her business. However, her fifth and sixth loans (4-5000 Bos) were invested in the materials and labor to construct her family's new house. This complemented the heavy dollar debt they had already incurred for the initial investments by borrowing US$1000 and US $500 from family and friends. Repayments were stressful but feasible because the loan enabled them to save money by no longer paying rent and using their home as their place of business (Cohen, 1999)

Typical of many clients' behavior, Anna and Maria must cope with available financing options provided by the MFI and the market at large. These women live in a world of where they must 'patch' together scarce sources of attractive and accessible funds. Clients must incur high charges and transaction costs to invest in long term assets. Indeed, in a country where there are multiple microfinance institutions such larger loans relative to demand have been a relatively scarce commodity.

At the same time the shortness of the loan term can also play to a client's advantage. (Cohen, 1999) Among 11 Pro Mujer clients, only three consistently used the loan funds for a single purpose, in all cases to purchase stock or inputs for their micro-enterprises. Others split the use of their loans between inventory or partial investment in assets (including investments such as education fees, improvements to a market stall, land acquisition or the purchase of the husband's taxi). For these clients, the loan works much like a consumer loan. As long as repayment capacity exists within the household the funds are completely fungible. The internal account of the village bank, which can be (and is) accessed by members in good stead, can be used to cover outstanding debt and unanticipated expenses, such as health costs or funeral costs. (Cohen, 1999) However, for some households, even a 6-month term is too long, and repayment creates even more stress when household repayment capacity is constrained. The same pattern has been seen in Africa amongst Uganda Women's Finance Trust clients (Wright et al., 1999)

A client with two businesses, snack food sales and the production and sales of border for polleras took her first ProMujer loan of Bs. 500 in 1996. At the time of her fifth (1,000) loan, eighteen months later, her son, who had helped her in her business, died and her husband, formerly salaried, was paralyzed. Her business, which had generated a steady return with profits of about Bs. 200/month over the intervening period, was totally decapitalized. She was forced to draw down the inventory to pay for the funeral as well as the medical needs of her spouse. In addition, she withdrew funds from the internal account to pay off her loan balance. Six months later, clear of debt, her association gave her a second chance to get on her feet by giving her a Bs. 500, her initial loan size. This was divided between 60% for borders for polleras, 20% for the purchase of used clothes for resale and the balance allocated to her property taxes. Slowly she is rebuilding the business and her income is rising (Cohen, 1999)

<u>Client-Institutional Linkages</u>

It is striking how many microfinance institutions are largely top-down in their flows of information. In such institutions, the opportunity for the client to be heard or the client to participate in institutional decision making is constrained**.** Yet if the voice of the client is heard and then further utilized to influence the functions of a microfinance institution, it can significantly improve the effectiveness of services. Again, take the example of SEWA Bank, in which the clients also serve as members of its Board. In addition, SEWA organizers in their regular interaction with clients offer another vehicle for its members to be heard. A final mechanism is the specially trained Bank team that reaches out to individual clients to advise them on financial management practices, particularly when times are tough. Taken together, these conduits of information permit SEWA Bank management to gain client input and managers are held accountable for decisions that directly and indirectly affect the clients. Institutionalizing such information flows fit well with the basic developmental approach taken by SEWA Bank and other similar organizations throughout South Asia. Priority is placed on organizing and empowering women as a necessary step in enabling them to get their demands heard and, by extension, recognized.

SEWA is not unlike the many older microfinance institutions which informally (if not formally), continue to work at keeping bottom-up lines of communications open. When one asks many newer microfinance institutions if, how, and why they collect information about clients, the frequent answer is either ‘we don’t’ or ‘we include 4-10 indicators in our MIS system.’ While we have moved beyond the scant client monitoring documented by Dearden and Hyman (1996) confusion remains. In many client MIS, much of this information sits idle in databases, with ill-defined objectives for the use of the data. Moreover, the more data there is, the more difficult the data are to manipulate. Two important exceptions are Freedom From Hunger (FFH) and ADEMI. The client monitoring system being developed by FFH to track program movement towards the achievement of both sustainability and social goals has clear operational objectives. Since the early 1980’s ADEMI, in the Dominican Republic has been regularly collecting three enterprise indicators from their clients: enterprise revenues, assets and employment. This information is used to determine the size of a repeat loan and to ascertain at what time business advisory services might be appropriate.

In some microfinance institutions, learning from clients, both formally and informally, has retreated into the background. Having learned the mechanics of microfinance, some have adopted client-tracking systems as part of their MIS. However, some MFIs, particularly the newer ones, have omitted means to integrate mechanisms for listening to clients. Maybe for the older microfinance institutions it was so intuitive that it was never written down in the operations manual!

Many microfinance institutions have set up client/customer consultative groups, which typically involve regular consultations with group leaders, e.g. Pride-Tanzania; LAPO-Nigeria; BURO-Tangail, Bangladesh. However their effectiveness in both transferring information up through the chain of command *and* having managers act on the information does not always take place. CETZAM, a relatively new microfinance institution in Zambia is considering another approach. Run by two ex-Bankers, they recognize that a successful financial services provider, like all businesses, must be in tune with its customers. They wish to change CETZAM’s organizational culture, which is top-down and directive. This plus the prevailing culture make it difficult for lower level staff to question top-down lines of authority. CETZAM is exploring the institutionalization of focus group discussions around client satisfaction and other issues. Loan officers and field managers will receive training in interview techniques and steps will be taken organizationally to legitimize the channels of communication that flow from the bottom up to senior management. At the same time, regular market research/customer surveys will be outsourced on a regular basis.

The institutionalization of listening to clients appears to have disappeared from view for many microfinance institutions. Yet, nothing can replace the voices of the clients and the importance of ongoing and upward flows of information to enable institutions to be more responsive. This practice will require greater staff interface with clients, as well as staff training in appropriate listening skills. This shift creates changes in how business is conducted, something institutions may be reluctant to consider. It is costly, and requires new systems for the careful collection and transmission of information. However, it also brings benefits that can improve the bottom line.

In 1999 Pro Mujer in Bolivia undertook a client assessment using the AIMS/SEEP Tools. Findings from the application of the client satisfaction and other tools suggested that the clients found the MFI staff to be patronizing. The staff tended to decide what was 'good' for the clients and ignored any client input which could have ensured that the services were more responsive to the clients. Upon review of the assessment results Pro Mujer set about restructuring its human resources system, introducing new loan officer incentives which would encourage listening to clients and result in greater client loyalty and in turn retention.

Much of what is being discussed in terms of clients and products presumes the introduction of new products or refinement and relaunching of old products in existing institutions. But is it sufficient to assume that the existing institutions are the only ones that can deliver microfinance sustainability? The time has come to consider the restructuring of existing institutions or even the introduction of alternative delivery systems to attract non-clients, the poorer ones who self exclude, the vulnerable non-poor, the dropouts or others that have chosen not to access microfinance services.

The Clients' Financial Landscape

Wright (2001) has noted that a common belief among MFIs once established or wishing to enter a market is that they are 'the only game in town.' Yet, this is rarely if ever the case. Many clients simultaneously belong to informal financial institutions such as ROSCAS or savings clubs that deliver lump sums of cash at regular intervals. Donors also have a long history of projects intended to increase the poor's access to financial services using banks and cooperatives. Whatever the financial institution, inevitably it will influence how clients use any new financial services that are introduced into the mosaic. For most clients microfinance appears to have a clear niche and rarely, if ever, displaces other financial services. An understanding of this panoply of services (i.e. the competition) is key to any client-led agenda.

In the research undertaken to determine the market and design of an insurance product in Nepal, the financial landscape of a group of savings and credit organization (SCO) clients was reviewed. (see Table 1) The financial landscape in rural Nepal is composed of formal and informal sources of finance, each with a different advantage. Ease of access varies, as do entry requirements. However, aside from the charges assessed by moneylenders and landowners, interest rates across services show little variation. SCO members have access to a range of funds – savings and credit from cooperatives, mothers' groups, women's groups, money lenders and Banks. While many of these institutions deliver small units of cash in a timely manner, transactions costs are high, especially when a large expenditure requires combining multiple sources of funds. (Box 1)

> Early in 2001 I shared the Nepal table with MFI managers attending a meeting of the Association of Microfinance Institutions in Zambia. All operate in Lusaka offering similar products to similar clients. The ensuring discussion was very revealing. They admitted to have forgotten about all the 'other' players and what that means for the debt carrying capacity of their clients. This was particularly salient given the problems of repayment they seem to be encountering. So had the donors that had justified their investments in these MFIs by arguing that there was a large untapped market for working capital loans based on some guestimate of the size of the informal sector. (Simkhada et al. 2000)

Getting access to a lump sum of money when a crisis occurs brings with it one set of stresses, but the process of repayment creates other strains. Loans from moneylenders have extremely high interest rates and are very risky for the poor, especially when a house or land is required as collateral. In addition, loans are hard to come by if the family is already indebted. Some require mortgaging assets, which are hard earned gains for the poor that take a long time to replace. In general, poor women find it difficult to obtain "lump sums" of money which are needed when the poor find themselves faced with a large loss, a major life event or the purchase of major assets, for example, a roof for the house or equipment for farming or an enterprise. In times when a major expenditure can not be deferred, the poor are forced to 'patch' together small units of money from different sources. Hence, there exists a need to have many financial services into which one can tap. (Simkhada et al. 2000).

> When someone dies in Nepal, community members donate a small amount of money and rice which families use during the 13-day mourning period. However, this covers no more than 25% of the likely costs. To cover additional costs related to death (Rs. 5,000-35,000) people use savings, or sell grain or other small assets. (Simkhada et al. 2000

The importance of having access to multiple financial sources, formal and informal, is never lost on the clients. A review of clients' financial landscapes elsewhere is proof of this. Discussion with the poor in Peru, India and Zimbabwe suggest that both active and inactive accounts are maintained carefully, each having its particular use (see Table 2). Ingenuity in juggling various options is exercised by clients as well as lenders everywhere. For example, informal traders in Peru provide services to their clients that permit them to have the use of the cash installments until the product is paid in full. Only then do the traders go out and purchase the product for their clients.

Perhaps the documentation of the clients' financial landscape is old news. Still, a client-led agenda must bear in mind that microfinance loans are only one component of the debt burden of many households. Indeed, initial research suggests that microfinance debt might consist of a percentage of the total owed by many households. Examination of a client's financial landscape can help inform MFIs about the gaps in the market, client behavior and product design.

The Client Assessment Toolkits.

In view of our limited knowledge about clients, it is probably fair to argue that what microfinance institution managers *think* clients want is not always what they want. To change this requires a means of gathering client information. Fortunately the microfinance industry has begun to build up a set of tools appropriate to the task. We already have the AIMS/SEEP Practitioner-led Client Assessment Tools and MicroSave-Africa's Market Research for Microfinance qualitative tools. The two are complementary (see Annexes 1 and 2).

However, gathering the information on clients is only part of the process, albeit the one that has received the most attention. The subsequent issue, whether the data are used appropriately and regularly is less discussed. One answer is through the new product development process. But that means that most of the attention within an institution is primarily focussed on the client-product nexus and by extension the marketing department of the institution, to the extent that it exists. However, as this paper has suggested a broader perspective is needed, one that integrates client information across an institution and may involve not only changes to the products but also to the systems used to deliver these products.

Conclusion.

The ideas presented in this paper are designed to direct the arena of discourse towards a more holistic market driven or client focussed microfinance agenda. Currently, the debate on market-driven microfinance is primarily framed by the 'problems' of competition and dropouts among established MFIs. The solutions to the problems are defined in terms of more responsive products, the creation of new products, and the restructuring of existing ones. Appropriate products will not only benefit the operations of an institution they will also have a positive impact on the wellbeing of the client, reducing the risk of borrowing and the poor's vulnerability.

This client-product nexus is a necessary part of the client-led agenda, but it is not the only part. It is critical to clarify the role of the institution within an integrated financial system, which extends from the formal to the informal; the next priority is thinking through alternative institutional options that will internalize a client-led agenda at all management levels.

In presenting current thinking on a client-led agenda, this paper finds itself in a precarious position in the midst of this debate. Client-led models are still in their infancy, and the fact that this topic is the theme of this special edition of the Journal of Development Studies is itself an important milestone. When this author began to focus on clients in microfinance six years ago, the notion that clients deserved a voice in the design and delivery of services was dismissed out of hand. High repayment rates were thought to confirm client satisfaction with the product on offer. It was a time when there was little, if any, concern with drop out rates. They were masked by the high growth of demand or simply ignored.

As greater realism enters the microfinance market place, the notion of being customer friendly is increasingly being accepted as good business. Indeed, it is difficult to see how the MFIs as they now operate will stay in business if they are not responsive to their clients. Just as all businesses in the last two to three decades have moved from product to market-led approaches so to must MFIs. If nothing else competition will force their hand.

Practitioners of microcredit must move forward towards further exploration and formulation of a truly client-led microfinance paradigm. However, in doing so they must step with caution balancing carefully costs and benefits of moving in this new direction. For the institution sustainability must be the objective goal. Having institutions that provide low cost appropriate services with a measure of certainty are what will keep the customer happy.

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Figure 1: Defining the Clients

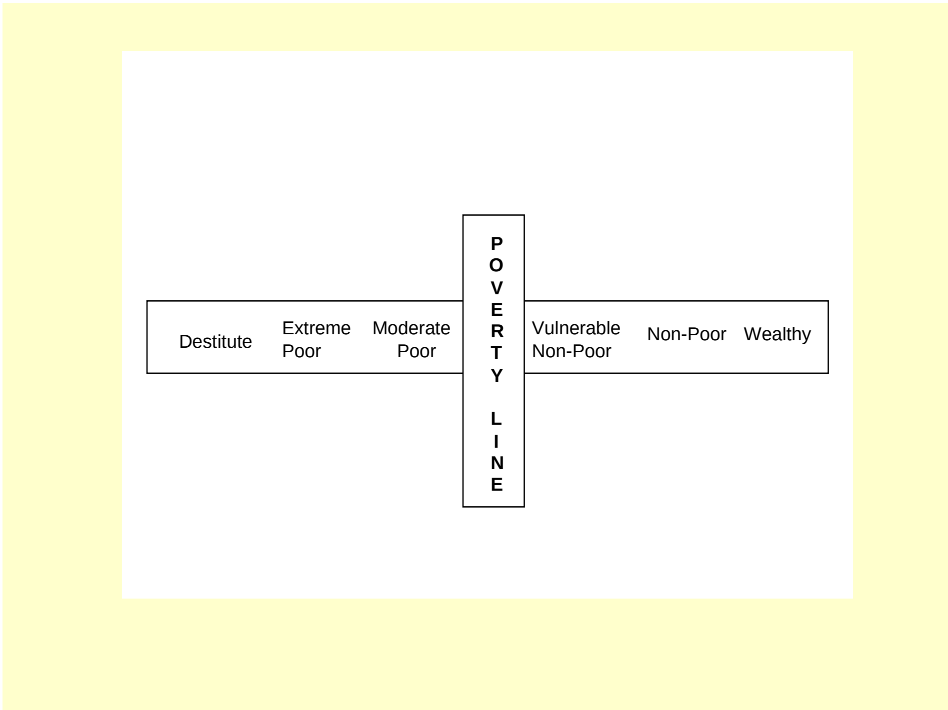

Figure 2: Household Life Cycle Financial Needs

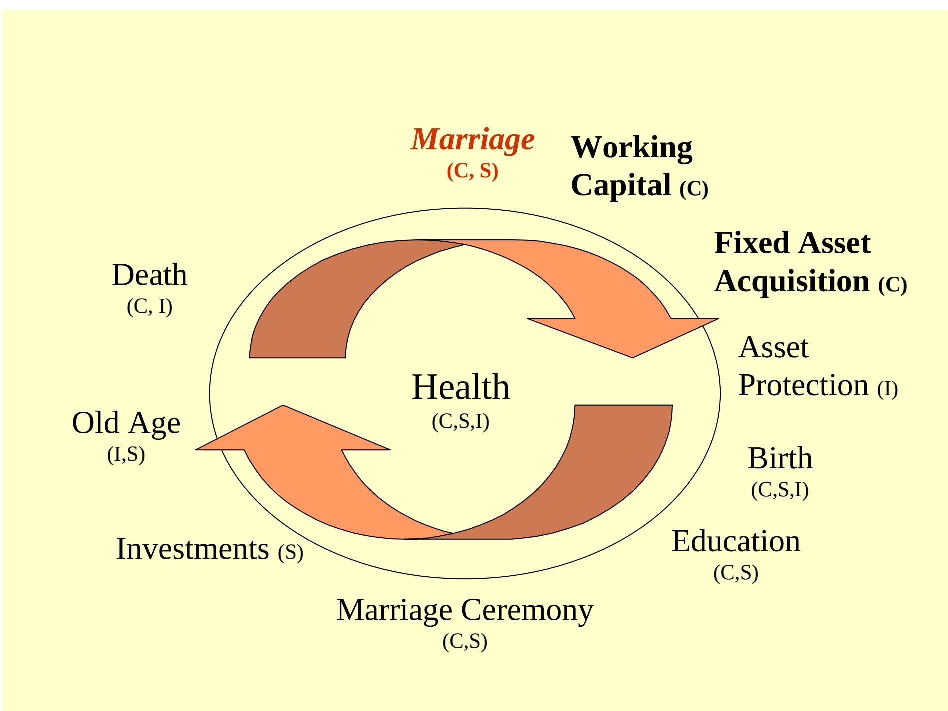

Table 1: Rural Women's Financial Landscape, Nepal (Kavre District)

Financial service	**Number of members**	**Interest rate per annum**	**Loan size (Rs.)**	**Term of loan**	**Repayment rate**	**Ease of access to funds**
Nepal Bank						
Savings[4]	n.a.	5%	n.a.	n.a.	n.a.	n.a.
Savings and Credit Organization (SCO)						
Credit[5]	1,700	15-17%	Starts at 5,000	1-2 years	96%	High
Savings		5-11%[6]	n.a.	Festival savings are for one year only	n.a.	Low
Revolving funds[7]	n.a.	n.a.	n.a.	n.a.	n.a.	High
Social sector loan	n.a.	16%	15,000 – 17,000[8]	Up to 2 years	n.a.	High
Emergency fund	n.a.	5%	5,000	3 months	n.a.	n.a.
Mother's group						
Credit	45	20%	600-5,000	2 months	n.a.	High
Savings		No interest	50/mo	n.a.	n.a.	Very timely
Landowner						
Credit[9]		50% of crop share	n.a.	n.a.	n.a.	High
Money lender						
Credit	n.a.	24-36%[10]	Loan amount based on trust and asset base	Short term and long term	n.a.	High
Women's Group						
Credit	12	18%	10,000-18,000	1 year	100%	n.a.
Family and friends						
Credit	n.a.	No interest		Less than 1 week	n.a.	High

Source: Simkhada et al. 2000

[4] Women had opened these accounts as part of a donor project in the nineties. When the SCOs were established many groups preferred not to close the accounts but retain minimum balances that could be activated in time of emergency.
[5] Includes group loan at 15% interest and individual loan at 17% interest
[6] Includes: Festival savings at 9%; Daily savings at 10%; Education savings for children up to 16 years at 5%
[7] This fund is used to buy back member's shares when they leave the Cooperative
[8] Minimum Rs. 5,000 and maximum Rs.50,000
[9] The role of sharecropping is declining in this area
[10] For loans of less than Rs. 100, a 5% service charge is deducted at the time of the loan

Table 2: Financial Landscapes of Clients In Peru. India and Zimbabwe, 1999

	Peru	**India**	**Zimbabwe**
Number			
Informal financial Services	ROSCAs (juntas)	ROSCAs (VCs)	ROSCAs
	Layaway for customers		
	Money lenders	Money lenders	Money lenders
		Pawning	
Formal Credit	MiBanco	SEWA Bank	Zambuko Trust
	Other Banks	Other Banks[1]	Banks
	Other MFIs		Other MFIs
	Communal Bank		
	Cooperative		
			Hire purchase
	Consumer credit		
	Housing materials bank		
Other sources of credit	Supplier credit	Supplier Credit	
		Employer credit	Employer credit
Family	Spouse	Family and friends	Family and friends
Savings	Cooperative Bank	SEWA	Banks
			Building Societies
			POSB

Source: Dunn and Arbuckle, 2001, Chen and Snodgrass, 2001; Barnes and Keogh, 2001

1 Three participants only

Annex I

Participatory Rapid Appraisal for MicroFinance
- From the *MicroSave-Africa* Market Research for MicroFinance Toolkit –

Assembled and Developed by Graham A.N. Wright, Shahnaz Ahmed and Leonard Mutesasira
with help from Stuart Rutherford, Monique Cohen and Jennefer Sebstad

1. ***Seasonality Analysis of household income, expenditure, savings and credit*** is used to obtain information on seasonal flows of income and expenditure, and the demand for credit and savings services. This analysis also provides insights into some of the risks and pressures faced by clients and how they use MFIs' financial services to respond to these. This tool also provides insights into the financial intermediation needs of the community and what products the MFIs can design in response to these.
2. ***Seasonality Analysis of migration, casual employment and goods/services*** provided by the poor looks at the availability of cash to the people in the community - and examines how far they might have to migrate to find work (when it is available). This has important implications for their ability to make regular savings and loan repayments.
3. ***Life-cycle Profile*** to determine which of the events require lump-sums of cash; to examine the implications of these for household income/expenditure; to establish current coping mechanisms; and then finally to discuss how access to MFI financial services can help the household respond to these. The information gathered is useful designing financial products that match the various needs expressed at different milestones during a person's life cycle.
4. ***Venn\Chapati Diagram*** allows analysis of financial service groups/organisations within the community and their roles and to understand more about the social capital accumulated by participants.
5. ***Simple Ranking*** can be used to a explore a wide variety of issues when an understanding of the relative importance/desirability etc. is needed (e.g. for understanding the relative importance of different elements of products – interest, rate, opening balance, grace period etc.)
6. ***Relative Preference Ranking*** is used to see how clients and potential clients perceive the financial service providers and components of the financial services they provide.
7. ***Pair-wise Ranking*** is used to examine in detail how clients and potential clients compare and contrast critical components of financial services, and why those elements are important for them.
8. ***Simple Wealth Ranking*** provides a rapid way of segregating a community into three basic categories, and is useful in situations where there are many households in a community. This is useful for targeting. This exercise can also be useful in impact assessment, and for examining the socio-economic characteristics of people who chose to join (or don't join) the MFI and also those who leave or whose accounts become dormant.
9. ***Detailed Wealth Ranking*** provides an understanding of in what way and why rich people are wealthy and the poor are poor, and a 'ranking' of the households in the

village, from the most wealthy to the least wealthy, as seen by the members of the community.

10. ***Cash Mobility Mapping*** provides an understanding of where the community goes to acquire or spend cash (markets, waged labour, co-operatives, informal financial organisations etc.) and to lead into discussions of which financial service institutions they trust or value and why. The exercise also provides initial insights into potential income generating ventures/projects that the clients might get involved in.
11. ***Time Series of sickness, death, loss of employment, theft, natural disaster etc.*** (this year, last year, 5 and 10 years before) provides an opportunity to learn from the community about how it views change overtime in various areas related to a series of crisis. It also allows the research team to integrate key changes into the community profile, which will simplify problem identification; and to begin to organise the range of opportunities for improved delivery of financial services.
12. ***Time Series of asset ownership*** (this year, last year, 5 and 10 years before) is useful in determining what “productive” and “protective” assets (in a broader sense) are valued the most and thus the potential for designing or refining corresponding financial products including leasing, contractual savings deposits (e.g for housing, education, health insurance etc).
13. ***Financial Services Matrix*** is useful in determining which financial services are used by which socio-economic or socio-cultural strata of society and why, and thus the potential for designing or refining appropriate financial products.
14. ***Financial Sector Trend Analysis*** is useful in determining which financial services have been used over time by which socio-economic or socio-cultural strata of society, and thus for understanding the changes in the use/ availability of a variety of financial services over time, and why participants used them.
15. ***Financial Landscape Analysis*** is useful in determining the types of competition are operating in the area as well as the rates they charge/offer etc. The tool also provides insights into the use/ availability of a variety of financial services and why participants use them. It can also provide important insights into how poor people’s perceptions of financial services sometimes vary substantially from the actual terms and conditions being offered.

Annex II

Learning from Clients: Assessment Tool for Microfinance Practitioners

-The AIMS/SEEP Tools-

Candace Nelson, Barbara Mknelly, Carter Garber, Elaine Edgcomb, Nancy Horn, Gary Gaile, Karen Lippold.

1. ***Impact Survey***: the objective of the survey is to assess the impact of micro-enterprise programs at the community, household, enterprise and individual levels. This quantitative tool which comprises 7 modules that can be combined in different ways in response to specific program hypotheses, takes between 45 and 60 minutes. It uses standardized questions and pre-determined answer categories. Sample sizes have ranged from 140 – 490. The design is cross-sectional and calls for a comparison group of income clients who have not received any program service.

2. ***Exit Survey*:** the tool seeks to determine ***why*** and ***when*** clients leave the program, ***what*** clients think about the program (strengths and weaknesses) and ***what*** they perceive to be the program's impact. As above this quantitative survey uses standardized questions and pre-determined answer categories. However, the individual interview requires no more than 15-20 minutes to administer and sample sizes are smaller, ranging from 30-140 ex-clients.

3. ***Use Of Loan, Profits and Savings Over Time*:** Using individual interviews this tool demonstrates how micro-entrepreneurs use financial resources to carry out their economic strategies for their businesses and their households. It can also provide insights into how clients cope with crisis. This qualitative tool takes 60 minutes to administer and uses a sample size: of 15-30 clients.

4. ***Client Satisfaction Tool.*** This qualitative tool not only identifies areas of client's satisfaction and dissatisfaction with the program but also provides MFI managers with suggestions for change. The focus group discussion can use an optional group voting process, takes 60 minutes to administer. The recommended sample size ranges from120 clients/10 groups to 214 clients/19 groups

5. ***Empowerment tool.*** The objective of this tool is to identify changes in women's self esteem, control over resources, skills, household relationships, and status within their communities. A qualitative tool it explores the client's perception of how s/he has changed since joining the program. It is best used with mature clients who have participated in the program for at least 2 years. Three methodological options are offered, administration takes 1-2 hours and the sample size is in the range of 25-48.