

***Improving the Impact of
Microfinance on Poverty***

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Working Papers

**Managing Client Information:
Feedback Loop Lessons from Latin America**

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Imp-Act

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Abbreviations

AHH	<i>Asociación Hermandad de Honduras</i> (Association of the Brotherhood of Honduras)
AIMS	Assessing the Impact of Microenterprise Support
CAME	<i>Centro de Apoyo al Microempresario</i> (Centre for the Support for Microentrepreneurs)
CODI	<i>Comité de Dirección</i> (Management Committee)
COLEGIO	<i>Colegio de Postgraduados</i> (School of Postgraduates)
COVELO	A first-tier MFO and network– (the letters refer to the founder, José Miguel COVELO).
FAMA	<i>Familia y Medio Ambiente</i> (Family and Environment)
FGDs	Focus Group Discussions
LO	Loan Officer
MD	Managing Director
MFO	Microfinance Institution
MIS	Management information systems
ODEF	<i>Organización de Desarrollo Empresarial Feminino</i> (Organisation for Women's Business Development)
PILARH	<i>Proyectos e Iniciativas Locales para el Autodesarrollo Regional de Honduras</i> (Projects and Local Initiatives for the Regional Development of Honduras)
PROMUC	<i>Promoción de la Mujer y la Comunidad</i> (Promoting Women and the Community)
TA	Technical Assistance

I. Introduction

Today, the microfinance agenda is increasingly client or market-driven. Much of the renewed interest in clients is driven by the industry's focus on competition and dropouts. Competition, together with MFO 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, occasionally, default on some of their microfinance credit. Significant dropouts raise operational costs, a situation that few MFOs can afford.

These changes plus other concerns for a more business like approach to microfinance, have led to a growing interest in a more market-led approach to microfinance, and a greater awareness that the customer matters. 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. Until recently most client information could be found in the many impact studies which have primarily sought to determine if microfinance makes a difference to clients.

Today's renewed interest in clients addresses two basic questions:

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

While still new, the elements of this client-focused microfinance are emerging. They include:

- 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 intended to service particular market niches.
- The *client financial* landscape challenges the attitude among many MFOs that they are the only game in town. The client's portfolio of formal and informal financial services determines not only how the client uses microfinance but also the role of other microfinance resources available within the financial market.
- *Institution-client linkages* refer to the organisational mechanisms that need to be in place to ensure the effective integration of client information into MFO operations (Cohen 2002).

This paper focuses on the last of these three elements the institution-client linkages. Key questions addressed are:

- Who needs what information, from whom and in what form to make decisions?
- How are the resulting decisions conveyed so that actions are implemented in a timely and efficient manner?
- How is the effectiveness of these resulting changes assessed?

Answering these questions represents a shift in emphasis away from the practices observed in the majority of microfinance institutions where flows of information are largely top-down and products are developed with little attention to the dynamics of the market. The new focus calls for opening up the

opportunities for the client to be heard or for the client or the front line staff to participate in institutional decision-making.

For many MFOs this will require changes in how business is conducted. Giving clients a voice requires significant staff interface with clients as well as staff training in appropriate listening skills. It also calls for the introduction of systems for gathering and integrating client data within an organisation.

This paper grapples with the institution-client linkages associated with a more client-led microfinance agenda by reviewing the experience of both MFOs and networks in a building capacity toward market-led microfinance. A few key questions are explored:

1. How is information on clients collected?
2. How are the results conveyed to management?
3. How are changes in operations conveyed to frontline staff who implement them and clients whom they affect?

The findings lead us to propose some tentative guidelines for the industry to consider as it moves towards a more client-driven approach to microfinance.

The framework for this study was the Feedback Loop paper presented at the Global Meeting of the *Imp-Act* programme in Sheffield in May 2002. Its focus on a process for enhancing institutional responsiveness to clients attempts to come to grips with the problem of client data overload or "what do we do with all this client data?" (McCord 2002). Many MFOs already collect client data on application forms and through surveys. Some is entered in a client MIS. However, the objectives for the use of the data are often ill-defined, with the result that much of the data sits idle. The challenge is to better manage client data, to collect only what is needed and to use it effectively and efficiently.

Visits to CAME in Mexico, ODEF in Honduras and two networks, COVELO, a national MFO membership organization in Honduras and PROMUC, a village banking network in Peru, provided the context for a closer examination of these assertions and the research questions pose above. All are partners in the *Imp-Act* programme. Each has received support for the integration of the process of client data collection and the use of this information into the operations of MFOs.

The next section of the report outlines the research design for the paper. This is followed by a discussion of the objectives of the study and background elements. The Feedback Loop is examined in greater detail and the objectives of the *Imp-Act* programme and the AIMS/SEEP Client Assessment Tools are reviewed.

Sections IV and V present the findings of the field visits to the two institutions, CAME and ODEF and the two networks, COVELO and PROMUC. The discussion of capacity building within the MFOs is reviewed first from the perspective of two microfinance institutions, CAME and ODEF and then in terms of the role of the networks as they seek to achieve these same goals.

The concluding section of the paper returns to the questions posed in this introduction to examine the value of the different approaches to organisational learning and to consider the elements that define a more market-led microfinance agenda.

II. Research Plan

To obtain understand how client information is used by MFOs and integrated into the operations of their organisations, a two-person team visited Mexico, Honduras and Peru over a two-week period early in October 2002.

Only three days were spent with each institution. However, this information was supplemented by regular reports submitted by the partners to the *Imp-Act* programme and on-going monitoring of the activities by the University of Bath over the previous two years.

A. Approach

With each MFO and Network a similar approach was followed. The team sought to assess how the work being done with support from the *Imp-Act* programme fitted into each institutions' objectives. The key questions are indicated in Table 1.

Table 1: Key Questions

1. What is the goal of the project?
2. Who is the audience?
3. Why do they need this information?
4. Who will collection the information?
5. How will the information be reported?
6. What decisions are made using this information?
7. How will the information be used in implementation?

The framework for the questions was the feedback loop. The team met with managers, frontline staff and clients to review its components. The inclusion of these different players within the MFOs meant that not only could the different voices be heard both separately and together, but it also maximised the opportunity for generating internal learning, an objective of the *Imp-Act* programme.

The format for the meeting emphasised participatory learning. The managers' time was spent exploring the components of the feedback loop. Information-gathering took the form of workshops and focus group discussions with managers and loan officers. The discussions of the loop centred on the priorities and problems of the MFOs as identified by the staff. At the end of each visit group meetings were held with senior staff, the team's observations were shared, alternative solutions to problems were discussed and recommendations were made.

B. Institutions

CAME (Centro de Apoyo al Microempresario) is one of the major NGOs providing microcredit services in Mexico. Established in 1990, it serves low-income clients in four municipalities in the State of Mexico, principally in Chalco. To date it has 33,000 active borrowers, and about 80 % are women. The lending methodology is primarily village banking. CAME tried to eliminate the internal account but faced opposition from the clients who prefer its greater flexibility and larger loans sizes. CAME recently introduced individual loans to “graduating” clients. To date individual loans account for less than 0.5 per cent of their 35,000 clients.

ODEF (Organización de Desarrollo Empresarial Femenino) was founded in 1985. A leading MFO in Honduras, it has just under 10,000 clients. Its client group includes urban microentrepreneurs and smallholder farmers. It offers a wide range of products including short-term working capital delivered through communal banks, agricultural loans for farmer’s groups and individual loans. ODEF is an affiliate of the Katalysis network.

COVELO is both a retail lender in Honduras and a MFO network. For this review we were concerned only with the network. Members of the network include: FAMA, Asociación PILARH, FINSOL, Asociación Hermandad de Honduras (AHH), HOPE, INHDEI, ODEF, WRH, Fundación Covelo, CARANA Corporación, Banco Centroamericano de Integración Económica (BCIE). Aside ODEF the partners who participated in this review were:

- **FAMA**, established in 1993, has an outreach of nearly 8,000 clients and a portfolio outstanding of L.19 million. It offers communal loans, individual loans and agricultural credit to a customer base that is 98% women. FAMA is an affiliate of the Katalysis network.
- **AHH** was established in 1977 as an agricultural based organisation. However, it only initiated its microcredit programme in 1992. Its client base is small, with 2,500 borrowers, of whom 67% are women. The organisation offers both solidarity group and individual loans for agricultural credit.
- **PILARH** was founded in 1994. It has an outreach of only 2,000 clients and a portfolio outstanding of L.14 million. It offers credit to both rural and urban clients, 35% of whom are women.
- **PROMUC** (Promoción de la mujer y la comunidad) is a network of seven MFOs and five franchisees¹ that share the village banking methodology. It has grown slowly and today serves 14,000 clients. The largest service provider is Arariwa with just over 4,000 borrowers.

¹ The franchisees contracts are due to lapse very soon and they will subsequently become associates. By May 2003 all the MFOs in the network will be associates, which gives them the right to vote on future policies of the consortium.

III. Objectives of the review

A. Objectives

The objective of this study was to gain a better understanding of how MFOs integrate client information within their institutions. There is a lack of documented information in the microfinance industry on how information flows within institutions. While MFOs have long collected data on financial performance, their attention to client data is recent. Current concern about product design and refinement, improvements in service delivery and other institutional changes have generated an interest in a more systemised use of client data. The institutions visited provided valuable insights into how this might be done and into the features of a more market-led microfinance process at the institutional and network levels. The study sought to mirror for Latin America the function that the feedback loop study is performing for the East Africa component of the project, an assessment of how the *Imp-Act* programme is contributing to organisational learning and how this contribution can be enhanced.

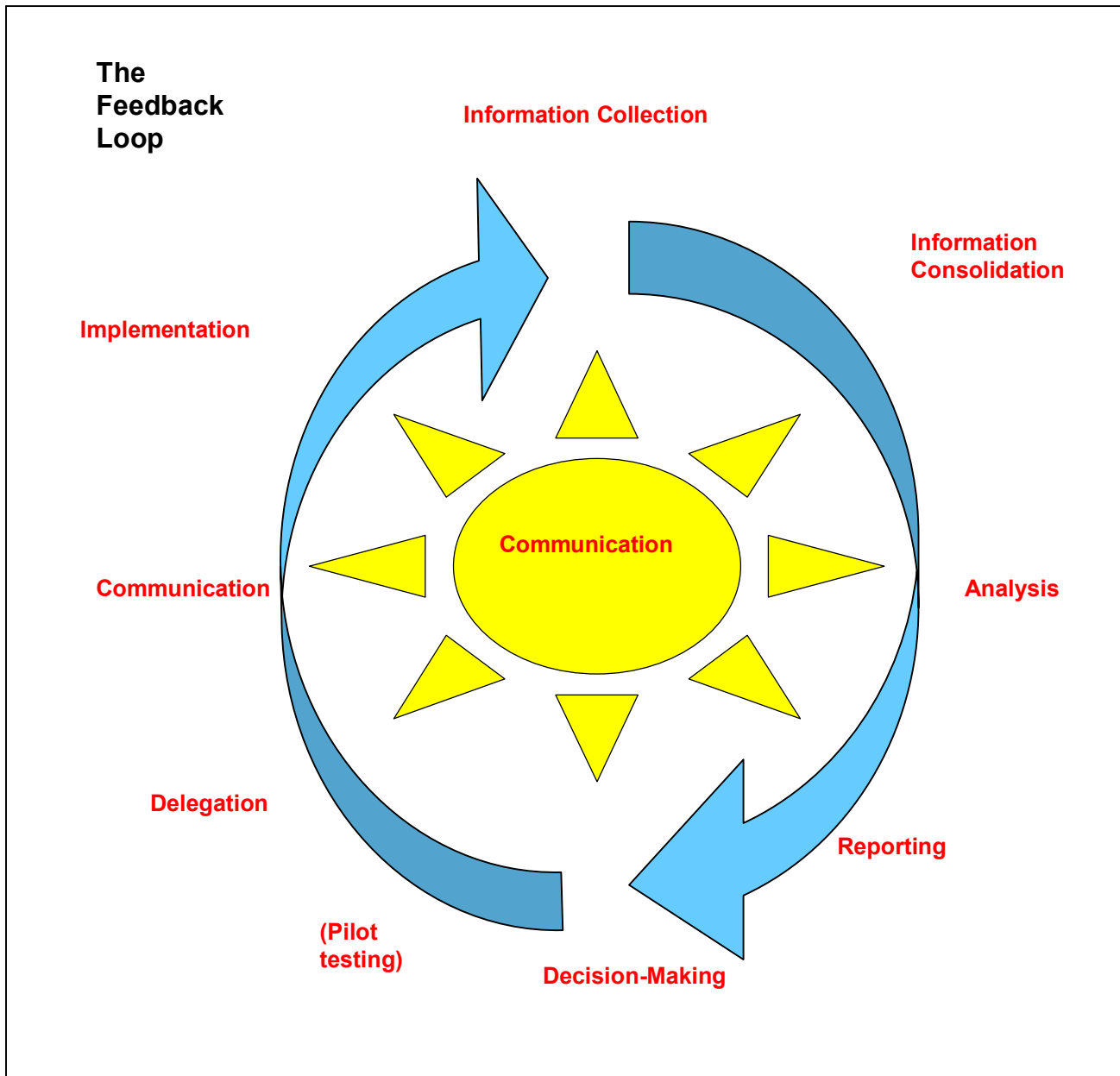
The majority of the participating institutions are 18 months into their partnership with the *Imp-Act* programme. This mid-term point also permitted the site visits to meet a secondary *Imp-Act* programme objective, to evaluate progress to date.

B. The framework: The Feedback Loop

Increasingly MFOs are looking to or have generated significant amounts of client data without focusing on how it will be used for a variety of tasks including how it can lead to products and services that better match their clients' needs or increased efficiency of the operating systems. The result is that much of the information goes into a "black box".

The feedback loop represents a way that MFOs can maximise the use of these volumes of client data. It is designed to enable MFOs to collect and use customer information in order to make responsive decisions as they proceed through the steps of innovation adoption; the feedback loop defines a continuous process (see figure 1). It starts with the collection of information, passes through to the data consolidation and analysis phase and next uses the data to make, communicate and implement decisions. It is thus a continuous and repeated process applicable to different contexts and useful for resolving a range of different issues. By following the different phases within the loop, an MFO is more likely to consider all the issues involved in decision-making and implementation, and make more effective use of the data collected from clients (McCord 2002).

Figure 1: The Feedback Loop



The nine inter-related phases of feedback loop are reviewed briefly below:

1. Information collection

This encompasses formal quantitative or qualitative approaches (using, for example, surveys or focus groups). Alternatively, informal mechanisms such as from discussions between managers, their staff and clients may be used. This first stage of the feedback loop can generate important client data as well as operational information, such as the need to train staff to listen to clients or, similarly, the need to train managers to listen more carefully to their staff. Information collected in a credible way can be consolidated and analysed more easily.

2. Information consolidation and analysis

This involves converting raw data into a more useable form for analysis. While responsibility for the analysis of the formal data is usually assigned to someone in the institution, the work itself may be undertaken either internally or by outside contractors. The choice will depend on the skill level of the staff and the budget. Informally collected data is also often reviewed at staff meetings. When appropriate, client data analysis should be supplemented by an assessment of the financial implications of responding to client and institutional needs.

3. Reporting

Once the information is consolidated, focused reports are prepared for decision makers. These reports of the findings will vary in length and style depending on the user. For senior management, short may be best so that they can take in key findings "at a glance".

Summary data should be structured around the following four key points for every potential decision:

- An explanation of the issue and why it is important;
- A description of the recommendation;
- A synthesis and summary of the analysis;
- A framework for presenting the plan.

To facilitate the decision-making process the next step in the loop, the summary should be short, preferably one and no more than two pages.

4. Decision-making

Decision-making is based on the reports. Attention here focuses on who takes the decision and how lower-level staff members are informed of the decisions made. All too often, decisions are only taken by managements that are highly centralised. While decentralising decision-making warrants consideration, this calls into issue the capabilities of staff to make decisions.

Since the outcome of the decisions will be actions affecting the MFOs' operations, they must provide a sufficient basis for the next phase of

implementation. Content as well as designating responsibility for the action to a focal point within the MFO are important components of this process.

5. Piloting

The process of pilot-testing the recommended actions also needs to be thought through at this stage of the cycle. For some innovations this is a required step; for others it may be bypassed and the actions taken are implemented across the institution. The latter applies particularly to minor refinements that do not require the organisation to make major policy changes.

6. Delegation

As noted, once a decision is taken, an individual within the organisation is charged with implementing it. Effectiveness will, to a large extent, be a function of the clarity of guidance with which s/he is provided. Integral to this delegation of responsibility is a mechanism to hold the focal point responsible for results.

7. Communication

Effective communication here refers to the preparation that must go into the implementation of an innovation. This includes conveying the decisions to staff, the board, management and clients as well as the training, marketing and development of implementation plan to ensure success.

8. Implementation

Actions are taken at the implementation stage. Getting feedback on the implementation process is crucial. This can be through suggestion boxes or focus group meetings. In the light of this, management also needs to assess the costs and benefits of the change implemented. At this point the loop comes full cycle.

This feedback loop has proven to be a valuable framework for two main reasons. First, it is a simple tool to use and highly flexible for different contexts. The framework components serve as focal points for group discussions and to get multi-perspectives on information flows. Second, the framework provides a good basis for understanding how the MFOs integrate client information for a range of purposes, including product design. Third, visually the feedback loop is easy to understand. By drawing participants' attention to the stages of information flows, it helps people focus on problem areas. Fourth, it works for people at different levels of the organisation. It is used first to get the manager's view and subsequently to get the LOs perspectives of the same process. All too often there can be a discrepancy between the two.

The feedback loop was used to examine the quality of learning taking place within MFOs and to focus on ways of embedding the client information within institutions. This was done through convening meetings with a range of staff, including senior management and LOs in each MFO. The major elements of the feedback loop were explained and staff were able to use this framework to discuss issues relevant to their work.

C. The *Imp-Act* Programme

Imp-Act is a three-year action/ research programme designed to improve the impact of microfinance interventions on poverty alleviation. Historically, impact assessment has not helped organisations learn and improve their work as it has simply been carried out to meet donor needs and justify funding. *Imp-Act* is intent on empowering organisations to actively develop their own learning systems, based on their own priorities. The programme is organised around several thematic and regional groupings. These include: (i) deepening understanding of the role of financial services in the livelihoods of the very poor; (ii) understanding the wider impacts of microfinance which go beyond poverty alleviation and extend to indirect impacts at community, regional and national levels; (iii) developing systems and processes relating the integration of impact and client assessment into the routine activities of MFOs. This study centres on two key issues for the *Imp-Act* programme. First, it concentrates on obtaining and using client information to improve products and services. Second, it suggests that the process of conducting client and impact assessment can lead to an improvement in internal organisational learning systems.

d. AIMS/SEEP Learning from Clients: Assessment Tools for Microfinance Practitioners.

Developed under the sponsorship of USAID this suite of five assessment tools² can be used by practitioners to gather information about their programmes – information that is useful for impact assessment, market research, and improving products and services. Designed and tested by the SEEP Network together with their southern partners the tools were intended to be used by practitioners and, as a result, respond to the particular needs and challenges they face in determining how their programmes and services affect their clients.

Adopted, adapted and used by more than 60 MFOs world wide, the tools were the primary client assessment tool implemented by CAME, ODEF and members of the COVELO network as part of the *Imp-Act* programme. The survey provided also an opportunity to understand the diverse applications of the tools by the various MFOs and to assess the strengths and weaknesses associated with their implementation by practitioners.

² The five tools include an impact survey, an exit survey, a loan/savings use semi-structured interview, a client satisfaction qualitative framework and an empowerment assessment.

IV. Building Capacity Within MFOs

The systemisation of client information in an MFO has the ultimate goal of improving the sustainability of the service provider. Both institutions reviewed here are well along this path but offer plenty of scope to reduce operating costs and improve efficiency ratios. It is the underlying premise of this paper that adoption of a more market-driven microfinance agenda can do this, but it will require changes within microfinance institutions, including re-tooling staff and changes in how some aspects of business are conducted.

A. MEXICO: CAME

1. Project objective

Prior to participating in the *Imp-Act* programme CAME had previously done small surveys to assess client demand but they had not been very successful. Aware of the shortcomings of this work CAME was interested in finding a way to generate more credible client data, to develop a more systematic way of doing this and to build capacity within CAME to undertake client assessment on a long-term basis.

Operations and administration managers were clear that credible client data on how the poor use financial services and the impact of participation in CAME on the lives of the clients and their households was crucial for CAME as it moves forward and seeks to improve the delivery of services to clients. They recognised the importance of being able to reconcile their financial mission with their social role as a poverty-alleviation agent. Delivery of services to the very poor is an integral part of the CAME agenda. There is a growing fear among senior management that they were becoming distanced from this original mission of serving the poor.

Although the frontline staff were not involved in the decision that CAME participate in the *Imp-Act* programme, they welcomed this activity as an opportunity to gain a better understanding of the clients so that they can improve their relationships with their customers. Interviewed separately, their primary goals in participating in the client assessments were:

- To identify and empower clients who could be group leaders;
- To understand the impact of the CAME programme on poverty alleviation. They were keen to find out which were the main benefits experienced by the clients. In part this was because LOs wanted validation of their role in alleviating poverty;
- To understand client-LO relationships.

Clearly, the objectives of the managers and their frontline staff tie together. By being more in touch with client needs, both groups hoped that CAME can have a greater impact on poverty alleviation.

2. Players

The project can be seen as an arranged marriage³ between two very different but complementary partners – the MFO ‘CAME’ and the *Colegio de Postgraduados* (Postgraduate School). Both were “forced” to work together despite their very different perspectives.

The challenge has been to get the academics to enter the world of the microfinance practitioners. At the same time, CAME needed to accept the rigours demanded of academic work to ensure the credibility of the findings from this action research. CAME also struggled initially to grasp the conceptual underpinnings of the work. What emerges is a gradual learning process over time as compromises were made by both sides.

An institutional partnership is usually as successful as the collaboration of the principal investigators of both organisations. Isabel Ramos, a new technical advisor in CAME and Emma Zapata, the gender studies director at *Colegio* were the drivers of this match. Ramos, as a consequence of her participation at a workshop conducted by Carter Garber in Nicaragua at the time of the beginning of the project, pushed CAME to apply the AIMS tools. For Ramos this was something very “new”; the staff of *Colegio* were less dazzled by the AIMS tools. Their day-to-day work involves working with this mix of social science research methodologies. New to microfinance, the AIMS impact survey served as a way for *Colegio* to get a handle on the industry’s concerns.⁴

3. Phases in the loop

a. Information collection

The focus of the CAME/Colegio collaboration was the implementation of the AIMS/SEEP suite of five tools. To date they have completed the impact survey and the client satisfaction focus groups.

Under the AIMS impact survey 450 clients were interviewed. Those surveyed fall into three main groups:

- Clients who have been on the programme for over seven years;
- Clients in the programme for one to one and a half years;
- The control group (comprising 79 new entrants).

The implementation of the AIMS client satisfaction tool involved four focus groups. Three were conducted in poor areas in Mexico City including Chalco and Los Reyes. The focus groups were structured around the following questions:

- i. How did clients view CAME’s financial services programme?
- ii. How did they use their loans?
- iii. What was the impact of microcredit on poverty?
- iv. What did clients like and dislike about CAME?

³ A Ford foundation project officer in Mexico was instrument in bring these two institutions together.

⁴ As part of her previous work on low income populations in Mexico Zapata and her colleagues had recently completed an assessment of the role of rural finance. Otherwise they have had little exposure to microfinance until they began working with CAME.

CAME also started implementing the AIMS exit survey but faced a major hurdle when they sought to identify ex-clients. Lacking a reliable management information system, CAME staff were unable to identify which clients were dropouts and which had defaulted. This came as a surprise to CAME, which had never previously valued this information. Furthermore, lacking full personal information there were difficulties in locating those who had left the programme. Both these weaknesses emphasise a key issue in all data collection: the type of information collected and its quality is intimately linked to the use of the information and who collects it.

b. Who collected the information?

Colegio managed the design and direction of the information collection process within the project although the hiring of surveyors was the responsibility of CAME. Various approaches were tried:

- Initially CAME had hired students at a local university in the department of social work to conduct the surveys. This did not work well. The students understood neither microfinance nor the objective of CAME as a service provider.
- Ten of the most experienced loan officers were trained in survey techniques. However, seven left the programme. When interviewed the remaining three indicated that they acted essentially as facilitators between the interviewers and the clients. They did not conduct any of the interviews themselves.

The LOs' very limited role in data collection severely constrained Ramos' goal of building an in-house capability in client assessment within CAME. Discussions with the LOs highlighted many of the challenges that management face in building capacity in new areas within MFOs. These new skills need to be recognised and rewarded as an integral part of a LO's job. Until now neither CAME management nor the LOs consider conducting focus groups to be an integral part of such a front line job.⁵

The matching of trainers and trainees is not always easy as indicated by the rocky road that both *Colegio* and CAME faced in implementing the tools. As noted *Colegio* staff conducted training workshops for CAME personnel on the implementation of quantitative and qualitative methods. Although the CAME staff viewed the quantitative methods workshop as useful, the qualitative training was judged to be weak. Zapata found that the CAME staff lacked the basic conceptual grounding to undertake surveys and focus groups. With the benefit of hindsight they concluded that they had erred in probably pitching the qualitative training at too high a level. Perhaps reflecting the weak base within CAME, it is no surprise that the pilot testing of the questionnaire took one and a half months rather than the two weeks originally planned. This inevitably delayed data collection and analysis.

⁵ They reported that though in theory they would like to do focus groups every 6 months, they would need to be liberated from their other commitments in order to have time for this activity.

c. Collection and analysis

Two partners with very different backgrounds collaborating on a project together inevitably generate tensions. This was visible in the conduct of the focus group discussions. *Colegio* noted that CAME did not pay sufficient attention to the problems of response-bias. Rightly they viewed the presence of Ramos as biasing client responses: clients felt constrained in speaking frankly about CAME. Sample selection was hindered by the lack of a good database with information on the names and gender of clients. Lastly, the LOs were not integrated into the data analysis process and thus felt slighted and undervalued. They interpreted this as a reflection of a management that did not seem to have valued their contribution.⁶

An important tension and a contrast in perspectives presented itself in the failure of the clients to show up at the focus group sessions. CAME saw this as the non-responsiveness of clients and a cause for concern. In CAME's eyes it reflected a lack of loyalty to their institution beyond the client financial transaction. *Colegio* saw this as simply part of doing social science research. Despite this difference in perspective, both sides found ways to analyse the results together.

A period of eight months ensued between data collection and analysis. The survey data was analysed using the computer packages SPSS and Access.

The analysis of the focus group discussions involved the transcription of taped discussions and the use of the computer programme 'Hyper Research' for the word analysis. Problems of data analysis of the FGDs were both practical and conceptual in nature. Practical problems included the lack of clarity of the tape recordings of the discussions because of excessive background noise. The version of the computer programme 'Hyper Research' was outdated and tiresome to use. *Colegio* felt that the analysis of the qualitative data was too subjective a process, and was being overly influenced by the educational background of the analyst.

The application of the AIMS tools to date has been an important learning experience for *Colegio* and CAME. By implementing these tools together, they have had to overcome differences based on their particular backgrounds, missions and institutional outlooks. *Colegio* has learned more about the needs of practitioners and the interests of the industry as a whole. CAME has learned to be more patient and rigorous in its methods.

d. Results

CAME and *Colegio* reviewed the results together and identified key findings. This brought to the fore other areas of tension between the two institutional perspectives.

⁶ This may be connected to the high turnover of staff (many leave within the first year). However, staff departure may also be attributable to the fact that CAME represents an opportunity for training, a resource which staff can use elsewhere.

- **Timeliness of results:** The managing director of CAME, Alfredo Hubard, wanted the results immediately whereas *Colegio*, as typical of academics, wanted to take more time.
- **Credibility of qualitative findings:** The CAME MD was wary of focus groups. Only after *Colegio* conducted an interview with Alfredo, which was published in CAME's bulletin⁷, did he begin to gradually recognise their value and become more supportive.
- **Significance of the findings for different audiences:** A major result was that most people in the sample do not use savings or loans for their microenterprises:
 - 30% of loans were used for savings and consumption;
 - 30% of loans were used for production only; and
 - 39% of loans were used for both consumption and production.

Interestingly, *Colegio* was very concerned about the political implications of the results and what they said about how CAME presently delivers microfinance and its failure to combat poverty.⁸ CAME, on the other hand was not at all concerned. This difference reflects the more political concerns of the academics versus the more practical realism of practitioners. This last point also highlights an issue raised by the feedback loop, "what data for what use?"

For managers, some important results of the focus group discussions were that:

- Opportunities exist to improve the productivity of frontline staff.
- Clients valued CAME's work but were dissatisfied with the LO's performances. Many LOs were not regularly attending the weekly village bank meetings.⁹
- The opportunity cost of client time is much higher than MFOs often acknowledge. For example, clients felt their time was being wasted by having to receive explanations of the methodology every cycle.
- CAME clients requested training on self-esteem raising and empowerment. This is not currently offered by CAME.¹⁰

At the level of the frontline staff, the findings not only matched their objectives for this exercise but also reaffirmed their social mission in working with CAME and the use of this type of information to do their job better.

For the loan officers the benefits of the client satisfaction discussions were:

- a better understanding of client priorities, problems associated with high levels of indebtedness and gender issues;
- a closer relationship with clients;
- a broader view of the users of the programme beyond simply 'clients' to a more holistic view of them as individuals with different needs and preferences;

⁷ This was an initiative of Emma Zapata of *Colegio*.

⁸ For *Colegio*, the value of this work goes beyond the learning of tools and microfinance. These results also need to be seen in the context of Mexican politics and Fox's promotion of microenterprise development. This made the *Colegio* nervous of finding themselves in the middle of a political furnace.

⁹ One group had lost access to money because of a defaulting member. She felt that the problem would have been solved had the LO been present at the meeting.

¹⁰ CAME, a minimalist microfinance organisation, felt strongly that this is not their role.

- recognition that materially clients were better endowed than they had previously thought but that other needs such as support for health and housing investments were not being met. In the light of this they asked CAME whether financial services to meet these demands could be provided;
- reaffirmation of the importance of the savings element of the programme;
- learning that the more successful businesses were those that clients has started prior to joining the programme;
- appreciating that CAME's clients did not consider themselves to be poor. For the clients, poverty was associated with laziness.
- acknowledgement of the value of FGDs in providing clients with a 'voice' to express opinions (air frustrations) on programmes;
- learning about group dynamics permitted the LOs to better manage the group conflict that frequently arises in Village Banking.

f. Reporting

Different audiences and objectives require different forms of reporting. In CAME:

1. A detailed report of the study was jointly prepared by CAME and *Colegio* (CAME and *Colegio de Postgraduados*, 2002).
2. A Power Point presentation condensed this report into a presentation made to CAME's management committee, CODI (*Comité de Dirección*).
3. A final report based on the discussions within the management committee of key issues was sent to the board. The board was not convinced by the qualitative data and requested numbers. This led to a repeat of some of the focus group exercises and in due course extending the length of time for the data collection process.

The preparations of these reports created another set of tensions between CAME – the consumers of the information and the *Colegio* – the analysts. One area of friction focused on the credibility of qualitative data. Initially, the CAME project manager rejected the focus groups findings. The absence of numbers in the qualitative results was viewed as not convincing. She saw percentages as more rigorous and therefore more credible. With encouragement from Zapata at *Colegio*, Ramos gained confidence in focus group discussion as a source of valid and rich insights that could inform operational issues of concern to CAME. For example, one finding was that LOs were not attending their meetings with clients and therefore clients were not feeling sufficiently supported by CAME. This led CAME to set up a free-phone number so that clients could complain if a LO was absent from their meeting. This in turn helped CAME track the performance of LOs.

No written reports were shared with LOs. The view of management was that staff meetings were the appropriate mechanism for disseminating information to frontline staff and discussing issues with them. LOs saw things differently. They argued that these meetings are not always open and they were reluctant to speak frankly. In addition, information shared was not acted upon systematically by senior management. Most exchanges were verbal. When information is recorded, primarily the minutes, it was perceived to go into a black box. In the absence of a system in place to routinely collect and act on the LOs contributions there was a sense of powerless and marginalisation within the organisation

beyond their basic role as money handlers. Their vision of their role, as suggested earlier, was that of agents of change, particularly poverty alleviation.

g. Decision-Making

The results of the report led to the CODI team initiating a series of operational changes in operations.¹¹

1. Wishing to lower the default rate (which currently stands at 2.3% for the communal banks), CAME made branch managers and the LO responsible for working with clients on this issue. Previously operational staff had felt this was not their role, but rather, the responsibility of the lawyer.¹²
2. To reduce clients' transaction costs associated with repayment CAME set up support kiosks outside the Bank's to screen client's paperwork before entering the Bank,
3. Making LOs accountable for their attendance at the clients' group meetings was made a priority.
4. Steps were initiated to adapt the new MIS system so it could include new client data.

h. Implementation and Pilot testing

Actions were piloted or simply implemented without piloting depending upon the perceived level of urgency by management.

Among the piloted actions was the reclassification of loan officer job descriptions into junior and senior levels. An assistant to the operations manager was given the responsibility for supervising branch managers and LOs. Actions implemented without piloting included setting up a free phone line to hear the client's complaints.¹³ Responsibilities at the levels of the branch managers and loan officers were redesigned. Lastly, three-monthly bulletins were written to inform staff about meetings.

To deal with the lack of attendance of LOs at communal bank meetings, greater responsibility was assigned to branch managers for supervision of LOs. Managers were tasked with identifying problems and discussing solutions with LOs. The LOs responsibilities were redefined so that each LO had fewer groups and all of them concentrated in the same location. They then tracked the LOs attendance to identify patterns of absence. Penalties were introduced for LOs who were absent from meetings.

¹¹ *Colegio* never had access to the CODI and felt that the CODI did not take them seriously

¹² Actions taken relating to default included: (i) Dividing the programme into north and south to track default. (A second lawyer was hired to deal with this); (ii) Branch managers and LOs were trained about preventative measures for default and on methods for tracking default; (iii) Branch managers were sensitised to legal procedures for addressing default.

¹³ Loan officers explained however that there was a need to log the date of the complaints on this free phone number so that they could be responded to more effectively.

i. Communication

CAME is a highly centralised institution with top-down flows and no integration of LOs into decision-making processes. Staff are also poorly informed of decisions that affect the implementation of new policies. Staff members described the trickling down of information as a “chance encounter”. Informing clients about changes is slow and inefficient. This project marks an important first step in changing this situation. Senior management now recognises that the diffusion of information to all stakeholders, clients as well as frontline staff, plays an important role in a successful MFO.

4. Lessons learned

i. Using client information needs to be learned by LOs and management.

As partners with different perspectives, the challenge for CAME and *Colegio* has been to co-operate successfully. CAME and *Colegio* both learned that they had to make compromises in order to work together. CAME had to be brought around to a recognition that generating data and analysing takes time and that focus group information does not lend itself to quantification. *Colegio* realised that the demands of academic research need to match the practitioner’s needs for timely information.

ii. External versus internal resources

There is a need to empower MFOs to allow their staff to be more engaged in the client data collection and analysis processes. The role of *Colegio* in this project was to use their position as an external resource to build this internal capacity. They have done this well. However, CAME is gradually recognising the benefits of training frontline staff in these skills. To date the LOs’ roles have been restricted to facilitators of the surveys. Their training as interviewers could have been exploited more fully. The high turnover of loan officers made the training even more costly. Including the market research as an incentive for successful loan officers and integrate it into their work programme may help to stem this outflow of LOs.

iii. Operations people need to be part of the team.

CAME is a top-down institution. Prior to their participation in this project, meetings between senior managers and branch managers and/or loan officers had been purely based on the need to inform lower-level staff. This is slowly changing. Branch managers have been given greater responsibility in supervising LOs and the meetings with the LOs are beginning to be more focused.

Senior management may need other vehicles to hear the voices of their front line staff. One recommendation is that focus group discussions be held for LOs so that the CODI can hear their perspectives.

There is a need to set up an in-house client assessment/ market research team, which would include members of the operations, and financial teams. CAME responded positively to this and will explore this option.

iv. Reporting needs to be simple

Management are also beginning to recognise that they need to have a way to get the information when needed. They are becoming aware of the integration of client assessment as a process within CAME. More decisions should be piloted before implementation. There is a need to find a mechanism to shorten the time between analysing their results, making decisions and implementing them.

v. The process takes time and is messy

A main challenge for CAME is to institutionalise client assessment. This will require time, but CAME seems to be moving in this direction. Initially CAME staff did not seem to appreciate that the survey did not mark the end of the process but rather a part of it.

Operational staff initially thought that the number of clients and the number of loans were good enough indicators of success. Now they are recognising the need for broader client information. The next step is the institutionalization of this demand. This has already begun.

1. CODI is planning to conduct focus group discussions on client satisfaction annually (every May). The results will feed into CAME's strategic workshops.
2. CAME has expressed an interest in entering client data into its MIS on a regular basis. Data might be collected during the client application process. This would be instead of occasional small surveys. The costs/benefits of these alternatives need to be carefully assessed.

vi. Communication needs to be open

Communication within the organisation needs to be changed. Information flows are horizontal at a senior level. There is a need for a more vertical flow in both directions.

Increasing the engagement of LOs in the discourse needs to be improved. As noted earlier this in turn might lead to lower staff turnover, a major problem in CAME. Beyond training the LOs in listening and reporting skills, systems need to be put in place so that the loan officers' views are recorded in such a way that the information can be passed up to management.

Aside from FGDs with LOs there is also a need to explore ways that LOs could be part of a decision-making process.

B. HONDURAS: ODEF

a. ODEF, a market-led institution

ODEF is an important example of a client-led organisation. As the pilot test site for the AIMS Tools in 1997¹⁴ ODEF learned not only how to adapt and implement the suite of tools but also many lessons that are now integrated into the operations of the MFO. They include:

- a. Frontline staff have the capacity collect and analyse client information;
- b. The regular conduct of market research can generate findings that can be used for operational change and the improvement of the institution's bottom line;
- c. Integrating staff at all levels into the feedback loop brings with it openness in the flows of information. This can improve efficiency of operations and effectiveness in serving clients with appropriate products and services;
- d. For LOs participation in client satisfaction and other survey makes it easier for them to do their job.

b. Phases in the feedback loop

a. Information collection

During the pilot phase of the AIMS/SEEP tools in 1997 ODEF learned to implement the five tools. They include:

1. The impact survey, a quantitative instrument that involves interviews with clients;
2. A client exit interview, a short quantitative questionnaire that can be used as a one off survey or to routinely monitor why participants leave the programme;
3. Semi-structured in depth interviews with clients on loan and savings use strategies over time;
4. Participatory interviews to ascertain perceptions and manifestations of empowerment among clients;
5. Focus group discussions to ascertain client programme satisfaction. These are repeated on a regular basis.

b. Who collected the information?

LOs and branch managers are primarily responsible for most of the data collection. For LOs this work is tied to the staff incentive structure. Only the better and more senior LOs carry out focus groups. This also has an important indirect empowerment effect, it gives frontline staff a "voice" in the organisation

Clients have learned to talk frankly about their experiences. When managers are present at the focus group sessions it permits them to gain valuable insights. It

¹⁴ See Edgcomb, Elaine and Carter Garber 'Practitioner Led Impact Assessment: A Test in Honduras' (AIMS, 1998) Washington, D.C: The Small Enterprise Education and Promotion Network.

also provides them a base for assessing recommendations that stem from focus group discussions.

Only the more mature clients with more than five loan cycles and who have repaid on time regularly were invited to participate in the focus groups.¹⁵ No more than two representatives from each solidarity group were selected.

c. Collection and analysis

Focus groups were used to understand client preferences. Though the client particular LOs were not present during this process, information was triangulated with them through their survey work. Miguel Navarro, the finance director of ODEF, argued that the LOs know their own clients best and can tell if they are cheating and can challenge them.¹⁶ Other ways of checking the validity of data include longitudinal studies. The management voiced an interest in conducting them.

d. Results

A wide range of results resulted from the client assessment process. Many of the innovations implemented reduced the client's transaction costs and the microfinance institution's costs (see box below). One staff member commented that many of the emerging changes were unanticipated by the frontline staff and pointed to the very different perspectives of clients and loan officers about what worked best, and what are 'appropriate' products and services.

Among the changes resulting from the various client assessment activities were:

- a. Previously if one member defaulted, the other members could not get access to a new loan. Clients felt that this was extremely unfair. A decision was implemented that clients who paid on time could get a loan.
- b. The focus group sessions clarified for ODEF the reasons for default on agricultural loans. The high interest rate together with a recent drop in agricultural prices led many members to not repay.
- c. ODEF determined that it was important to differentiate between old and new clients more clearly. Older clients had felt that they were forced to waste time on training. In response ODEF introduced a system whereby older clients train newer clients. In addition, older clients are given a graduation certificate entitling them to a decrease in interest rates by 2-4 per cent.
- d. The loan guarantee required for each individual loan has been replaced by a 5-year legal document. This lowered transaction costs for ODEF and its clients.
- e. Flexibility was introduced by changing repayment schedules to match the clients' business cycles.
- f. The number of documents requiring signatures by the client was decreased, thus reducing time and cost for both client and staff.
- g. Clients were also given more options as to where they could bank their repayments to ODEF.
- h. Specific dates were introduced for disbursements in order to make the loan servicing easier and faster.

¹⁵ There may thus have been some selection bias as the focus was on retention of clients rather than attraction of new clients.

¹⁶ Interestingly, he assumes that LOs have sufficient capacity to do this.

e. Reporting

ODEF has developed a well-defined reporting format for the FGDs. The steps are clear and well understood by everyone involved:

1. Loan officers enter the results into a spreadsheet (see table below).
2. This information is subsequently synthesised into short, readable reports.
3. Before the report is sent to the management, it is reviewed and approved by clients.

Table II: Report of Results of Client Satisfaction Discussions

Present Policy	What clients like about existing policy	What clients dislike about existing policy	Recommendation
Customer service	Good treatment; kindness		
Terms of loan	Flexible terms, short reimbursement periods	There is no grace period	In cases where necessary, grace periods should be given
Loan Amount	The initial repayment amount is small; the loan amount is negotiable	When the loan amount requested is not given; the "quick" loan takes the same amount of time as the normal ones	The amount requested should not be changed; "quick" loans should be disbursed faster.
Process of qualifying for a loan	They have a guarantee; loans are given according to capacity to repay	Form-filling for each credit solicited; no exact date or time when loans are disbursed; ODEF will not accept vehicles as a guarantee.	The same details will be added by ODEF staff to the next credit form; to inform the exact hour and date of loan disbursement; ODEF should examine the possibility of using vehicles as guarantees.
Savings services	This serves as an asset to get a larger loan and also can be used in lieu of paying the loan in case of inability to repay	N/a	N/a
Frequency of repayments	It's good to choose whether you want to pay weekly, biweekly, every four weeks or monthly	Dislike it when the loan is not disbursed on the day it is promised or when it is not sent to the bank used by the client.	Make sure the loan is disbursed on the same day and time as was agreed with the LO
Training	We have learned new things	Dislike having to leave the business to go to the training; dislike training that takes up much time	The training should be modified to the needs of the business

4. These reports are then analysed by the management who in turn report back to the LOs.
5. Currently under consideration is monitoring the results with monthly reports produced by branch managers.

f. Decision-Making

The LOs meet with senior management who then make the major operational decisions. Some smaller operational decisions however can be implemented by LOs without needing the approval of senior management.

g. What decisions/ major actions recommendations

ODEF is an example of an organisation that has embedded the client assessment process. LOs identify issues and advise management who in turn decide which decisions to address. Decisions acted on were largely prompted by the results of the focus group discussions.

h. Implementation

The majority of actions stemming from the various client assessment studies over the last few years have not required major policy decisions which call for the board's approval. In addition, few of the changes introduced were piloted before implementation across ODEF. While ODEF currently lacks a systematic way to monitor the results of actions taken, there is one built-in check. The presence of the managers in FGDs often ensures the follow-up of corrective actions.

i. Communication

ODEF has created a much more open management structure, which allows for horizontal and vertical information flows. This is reflected in a number of ways:

- Prior to the focus groups, clients are informed that only some changes will occur as a result of these meetings. The objective is not to raise false expectations;
- Managers sit on FGDs and can hear problems. In this way they can also observe staff performance;
- Monthly meetings are held with clients to explain the changes;
- As a result of the engagement of LOs in the survey work, LOs view clients more holistically.

c. Lessons learned

i. The operational use of client information needs to be learned

ODEF has acquired a deep understanding of how to implement the tools for best effect. It has been a gradual process during which the tools have been

adapted to the institution's needs. At one point the impact survey, which calls for individual interviews, was transformed into a group survey instrument (Personal Communication 2000).

ii. External versus internal resources

ODEF has used different mechanisms to build capacity and empower their LOs. For example, it has embedded the building of their client assessment capacity into the staff incentive structure.

iii. The process needs a product champion

A key factor in ODEF's change into a client-led institution has been its finance manager, Miguel Navarro, who has served as product champion. He has been involved with the AIMS/SEEP tools from the time of the first pilot test. At that time he quickly saw the value of the tools for improving operations and management of the MFO. He has guided ODEF in the development of its institutional capacity to integrate client assessment procedures across the institution.

iv. Reporting needs to be simple

ODEF has tried to keep their reporting systems transparent and simple which has lowered the costs of doing market research and impact assessment. This has added to the effectiveness of their organisation.

v. The process takes time and is messy

It should be noted for ODEF, time has been important in the learning process. This is apparent in ODEF's successful management of focus groups and incorporation into routine client monitoring. Early on they realised that they could tie LO participation in market research into the staff incentive system. Lastly, client confidence in the FGD process has grown and clients have been able to link these discussions to positive changes within ODEF.

vi. Communication needs to be open

By opening lines of communication, ODEF has given the staff and clients a "voice" that has led to "choice". Initially LOs were concerned that the criticisms that emerged from the focus groups were personally directed. They feared this would lead to job loss. Gradually, however they began to realise that the objective was improving programme management and gained the confidence to accept client critiques not as a reflection of bad job performance but as a means to do their job better. This attitude helps to maintain service quality, with management seeing the cost of this process as part of their operational costs.

Similarly, over time, clients have gradually learned to see the value of the focus groups as a means of communication. They have learned that if they participate they will see change and this has overcome an initial reluctance.

In a country like Honduras this process has given the disenfranchised poor a “voice”, it has empowered them to argue for change.

V. Building Capacity Across MFOs: The Networks

Networks have received increasing attention as institutional vehicles for the dissemination of information and the training of large numbers of MFOs on a long-term sustainable basis. The two networks reviewed below provide interesting contrasts. COVELO is country-based and encompasses a wide range of MFOs. Training has long been part of its agenda. COVELO brings in outside resources to address particular needs, e.g. business planning with MICROFIN. Participation in the *Imp-Act* programme represents a new role for COVELO. It will provide both technical training to MFOs using outside trainers as well as build technical capacity within COVELO so that it can provide this training on a fee for service basis to its members.

PROMUC is a specialised network with membership limited only to village banking institutions. Participation in the *Imp-Act* programme was envisaged as an opportunity for PROMUC to continue its mandate of building capacity amongst its members.

By nature of the networks’ mandates, discussion of the feedback loop only includes three phases: information collected (phase 1), consolidation and analysis (phase 2) and reporting (phase 3), and communication.

A. HONDURAS: COVELO

1. Project objectives

The COVELO network incorporates 22 MFOs from all over Honduras.¹⁷ One of the strategic objectives of their activities as part of the *Imp-Act* programme has been to adapt (“tropicalise”) the AIMS tools to the needs of their members and train them in the implementation of the tools.

The objectives of the COVELO network engaged in this activity are to:

- Understand the correlation between the services offered by the network and the changes in quality of life of clients;
- Evaluate the level of client satisfaction with the financial services and training offered by the members of the network;
- Identify the main reasons for client desertion of the programmes or organisations;
- Redefine the services offered according to client needs in order to attract new members or re-attract clients who have left the scheme.

¹⁷ COVELO works both as a network and as a first tier-lending organisation. For the purposes of the report, we focused upon COVELO as a network. However, it should be noted that COVELO works as a retailer and was a customer for the AIMS training.

2. Players

Eleven institutions participated in the training: Banco Centroamericano de Integración Económica (BCIE), CARANA Corporation, FAMA, PILARH, FINSOL, Hermandad de Honduras, Project HOPE, INHDEI, ODEF, WRH and Fundación COVELO. Each institution sent one or two of their management staff to the training workshops.¹⁸

Other important stakeholders who have influenced the direction and implementation of this project include Miguel Navarro and Carter Garber. Navarro, the director of ODEF, has played a key role as product champion. His work with ODEF has given him credibility both domestically and internationally, in the area of client and impact assessment. He has been and continues to be instrumental in the design and implementation of this COVELO activity.

Another key player has been the co-developer and trainer of the AIMS/SEEP Tools, Carter Garber. Garber and his team (including Salvador Muñoz) designed the training for COVELO. This comprised training in quantitative and qualitative tools. To date the training in quantitative tools has included the exit survey and in the qualitative tools the client satisfaction survey.

3. Phases in the loop¹⁹

a. Information collection

To date COVELO has conducted two training sessions, one on the exit tool the other on the conduct of client satisfaction FGDs. For the exit survey the MFOs agreed on a core set questions that were asked by all members. In addition, individual MFOs drew up supplementary questions according to the specific interest and mission of the MFO. In implementing the surveys all MFOs faced the same hurdle, namely the absence of a client list for the identification of dropouts. This made tracing clients in a systematic way proved extremely difficult. The MFOs were also trained in the use of focus group discussions to examine questions relating to client satisfaction including level of satisfaction with interest rates, loan disbursement and level of support received from LOs.

b. Who collected the information?

Carter Garber and his team provided the training. 22 participants attended the training in exit surveys and 19 attended training in the client satisfaction tool. Each institution sent one or two of their staff to the training workshops. Of the two courses, nine institutions were represented at the first course and eight at the second course.

Upon return to their institutions, each participant was required to train the staff in their own MFO in these techniques. At FAMA a single participant trained five

¹⁸ The observations that follow are based on the four institutions that met with the authors of this report. The fuller responses of these selected members of the COVELO network are summarised in annex 2.

¹⁹ The process at the national level lags behind that at the MFO level. As a result the steps in the loop after reporting are not discussed.

staff; at AHH the two participants trained eight staff²⁰, and at PILARH the one participant trained 26 staff from across the MFO, including secretaries and accountants.

c. Consolidation and analysis

Information was subsequently analysed by individual MFOs. Next the results were submitted to COVELO. In trying to consolidate the data into a national report sampling problems emerged. Since the participant institutions self selected the consolidated data incorporated geographical biases that raised questions about the data's representativeness. An outside consultant was brought in to advise COVELO. Once the sampling problem had been resolved a national report was prepared and presented at a national level in Honduras. The sampling issue was correctly addressed in subsequent exercises.

d. Results

The preparation of institutional reports and the presentation of results was an integral part of the training programme.

Table III: MFO Actions as a Result of the Market Research

Institution	Result
FAMA	Shift from group loans to individual loans for selected clients.
	Became conscious of the weaknesses in LO performance. Measures taken to correct absenteeism.
PILARH	Decided to offer larger loans on longer terms.
	Decided to track clients who withdraw from the programme by requesting them to fill in form stipulating their reasons.
	Client data on desertion will be entered on their MIS.
AHH	Realisation that clients were not paying back their loans not due to an inability to pay but in protest to the short terms set down by AHH. Decision by AHH to lengthen loan terms.

e. Reporting

Strategies for reporting results were introduced at the network level. For example, at the beginning of each training session results of the previous exercise were reported by all MFO trainers and donors.

f. Communication

The existence of the network has proved to be important for information sharing, collaboration and the provision of services to its members. The network has provided MFOs with an opportunity to share their concerns on the

²⁰ One was a computer expert.

implementation of tools and an informal forum for the discussion of solutions. The opportunity to meet in this way has helped to spark innovative ideas among members and represents a means of exchanging important information and forging links between their institutions.

4. Lessons learned

The learning model used by the COVELO network deserves consideration by other networks. First, it serves as an important learning tool by facilitating both internal learning within individual MFOs and also as a means of collective learning across the entire network. Second, the model is a particularly cost effective way of providing training to staff in different institutions. It is much cheaper to provide training to multiple users in this way rather than staff being trained on an institution-by-institution basis. Perhaps the greatest long-term value of the model is that it has permitted the building of an in-country training capacity that has the potential to be sustainable.

i. The use of information needs to be learned

In general, the MFOs had found the quality of the training to be of high quality and of practical use. In particular it was the “learning by doing” element of the training and the fact that the lessons learned could be easily adapted to their different institutional settings that were most appreciated.

But the process has also been constrained by lack of T/A support to the MFOs. The director of FAMA observed that one week was insufficient for a staff member to learn everything needed to ensure the successful implementation of the tool. At the level of the network many challenges remain. Much has been learned about consolidating information. While developing a national database remains a challenge, national level data of this type is invaluable in enhancing the role of COVELO in the policy arena.

PILARH viewed the client assessment work as a valuable investment since the results can bring about operational changes and already the process has motivated the LOs to improve their performance. This has led to improved productivity and default and drop out rates have declined. Some MFOs expressed the view that they are now offering better services based on client demand and that overall institutional performance has improved.

ii. Building capacity within COVELO.

A key reason for the success of this activity is the forcefulness of its product champion, Miguel Navarro of ODEF. In addition, ODEF’s experience in this area has provided a positive demonstration that learning from clients pays off. But equally important has been the role of the expatriate training team in providing quality training.

For COVELO the development of the capacity to provide client assessment training represents an important departure from the traditional approach where most training has been oriented towards solving a particular problem, e.g. how to decrease default rates. COVELO sees this project in terms of a new approach

that involves building capacity internally to train the MFOs in their network, providing them with technical assistance. They are fortunate since they are able to draw on the resources of members to provide some technical assistance. Other resources they will purchase from outside.

iii. Leveraging Resources

COVELO has been particularly effective in using the *Imp-Act* resources in a careful and imaginative manner to leverage funds from other donors. In fact the *Imp-Act* funds only account for a small percentage of the training costs and to date have only been used to cover participant per diems. They have recently submitted a new request to FORD in order to fund related work and to supplement the cost of the remaining trainings scheduled for later in 2003.

iv. National Level Reporting

COVELO has generated written reports and made good use of multimedia (e.g. through Power Point presentations) to diffuse results at a national level. This in turn has given them a more effective voice in the political discourse about the microfinance industry within Honduras and beyond.

B. PERU: PROMUC

1. Project objectives

PROMUC is a network of 12 NGOs promoting village banking under a common brand, *La Chanchita* ("The Piggy-bank") established in 1995. It currently has a presence in eight out of Peru's 24 departments, with approximately 25% of its banks located within the city of Lima, 55% in other urban areas and 20% in rural areas. Each member NGO manages its own network of communal banks (CBs) independently, and retains flexibility to vary the way these operate and the services they offer.

There is also wide variation in the size and character of the member NGOs, as illustrated in the table below. A small central office, with four full time staff, produces unified statistics and publicity material for the whole network. It promotes communication between members and organises joint activities, such as training. It also seeks and manages funds for activities of common interest.

Table IV: Selected Characteristics of PROMUC Members (March 2002)

Name	Date of origin	Voting member	Urban /rural	No of VBs	No of members	Value of savings (\$'000)	Loans outstanding (\$'000)
Alternativa	1980	Yes	U	147	2,522	128	251
Arariwa	1984	Yes	U&R	180	4,217	501	847
Caritas	1994	Yes	U	71	1,401	176	165
IDEAS	1978	Yes	R	6	247	22	76
Solidaridad	1980	Yes	U&R	36	1,847	12	132
Cenca	1980	No	U	26	487	30	23
Afider	1996	No	U&R	13	181	5	9
Sea	1998	No	U	55	1,163	79	122
Tacif	1980	No	U	40	566	15	56
GCOD	1993	No	U&R	68	1,874	84	136
Total				642	14,505	1,051	1,817

Source: PROMUC (2002) "Reporte Financiero" Lima: Promuc, March.

PROMUC was interested in participating in the *Imp-Act* programme as a way to develop a common methodology for impact assessment among members, and to test basic hypotheses. These include that village bank programmes encourage women microentrepreneurs to move out of subsistence activities by increasing their access to credit, household income and social interaction in the community.²¹ Since PROMUC's organisational mission is to encourage the empowerment of women they have used the opportunity to examine the premise that women's participation leads to:

- increased involvement and control in decision making;
- Improved management of the business (increased sales and diversification);
- leadership and greater involvement in the community.

2. Players

A number of people have played different roles in this project. They include:

1. PROMUC staff: Maria Alvarado (director), and Jose Loayza (a member of the managing directors committee).
2. External consultants: Jorge Bernedo (research); Carlos Jaramillo (programmer); Edgar Flores (data analysis and report writing).
3. Staff of network members.

Initial discussions led to a decision to embark on an ambitious "classical" longitudinal survey with two rounds of interviews including members and non-members, as well as complementary key informant interviews and focus groups.²² The survey instrument was adapted from the SEEP/AIMS *Imp-Act* survey and other sources.

²¹ One manifestation of this is that when members cannot repay their loans, they hold parties ("polladas") whereby guests pay an entrance fee that includes a dish of fried chicken. The proceeds go to increase the funds in the internal account or are given directly to the member who is late in her repayments.

²² A client satisfaction study has also been carried out (not funded under *Imp-Act*), based on focus groups with clients from Alternativa. Maria Alvarado, the director of PROMUC served as facilitator.

3. Phases in the loop

PROMUC is still at quite an early stage in completion of its *Imp-Act* work, with their ambitious choice of methodology resulting in a long lead-time from data collection to production of impact findings. A number of problems, (such as lack of clarity in the report) have also emerged.

Information collection

Baseline surveys comprising members and a control group of non-members were conducted. In 2001, 308 members and 248 non-members were interviewed. Fourteen months later in 2002, 257 clients were interviewed and 117 non-clients. The first round helped to refine the questions in the second survey in 2002.

Who collected the information?

The questionnaires and surveys were developed with network members and then piloted. Maria Alvarado (PROMUC), José Loyzada (Alternativa), and two external consultants identified the key variables and developed the schematic tables. They also hired five surveyors who were trained by staff from the central office. One methodologist/ statistician was hired to develop the questionnaire, enter the data and do the analysis. One report writer was also hired.

It is not clear how far the MFO operational staff were involved in the implementation of the survey. For example, in Cuzco no mechanisms were in place to ensure skill transfer to the team of interviewers. Rather the process appears to have been top-down and externally managed.

Consolidation and analysis

Separate consultants were employed to tabulate and to report on the baseline data. This fragmentation of effort and the consultants' lack of direct knowledge of microfinance and gender have been problematic. In the absence of clear hypotheses about what could be learnt from the data, the two reports lacked clarity and did not bring out findings of immediate operational value. However, some statistics (for example, on the poverty status of clients) have been extracted and have provided both Alternativa and Arariwa with a more reliable profile of their clients.

These focus groups were based on the following themes: organisation of communal banks, savings services, performance of the LOs, conditions and terms and size of loans and training of clients in using the village banking methodology.

Results and reporting

The main findings on impact will not be available until the second round studies have been completed and analysed. Hence, apart from intermediate findings from the baseline studies, no feedback on impact has yet been generated. In view of the weak reporting of the baselines, there is cause for concern about how effectively this will be done. The fourteen month time period between two data collection rounds is also too short for many of the proposed impacts to manifest themselves.

PROMUC is aware of these problems and committed to resolving them. Maria Alvarado would like to ensure that the system of reporting in future is less hierarchical, and that staff in the lower echelons are included in the process. PROMUC's *Imp-Act* programme proposal also envisages following up the initial more rigorous impact study, with more cost-effective methods that could be managed by member NGOs themselves.

4. Lessons learned

It is not possible to draw out the full lessons of PROMUC's work, as the full feedback cycle from their main activity to date has not yet been completed. However, several weaknesses in the approach they have adopted can already be identified.

1. While the MFOs in the network recognise the value of the *Imp-Act* programme they do not themselves have any great sense of ownership of the work carried out date. Nor has any effort been made so far to use the *Imp-Act* programme to build capacity within these organisations.
2. The "classical" model of impact assessment adopted is both technically ambitious and also focused largely on generating findings of long-term strategic value rather than more immediate operational value.
3. Partially as a consequence of the above, data collection and analysis has been left to a large degree to external consultants, making it unlikely that organisational learning within MFOs will stem from this process. These consultants also have limited experience in this particular field. This has also limited the flow of information to staff.

VI. Conclusions

The framework provided by the feedback loop was used to examine how market-led microfinance can be institutionalised at the level of the MFO. Attention focused on how training in client assessment can build capacity in MFOs to gather client information and how the use of such data effectively can lead to improvements in the delivery of products and services.

This analysis was conducted at two levels, MFOs and Network organisations. The two approaches offer viable alternatives for building capacity within MFOs. Factors contributing to the success of both have been the presence of product champions and the time for institutions to learn. All institutions indicated that the conduct of client assessments had lead to institutional changes that had lowered transaction costs for clients and the MFOs, and had raised staff productivity.

VI. a. MFOs and Client Assessment

The CAME model is based on an institutional partnership involving research and practitioner institutions. The successful process of building capacity in both has been gradual. While tensions arose, their resolution has been a positive part of the learning process. Senior management at CAME have now bought into the value of client assessment as an operational tool and are on their way to identifying ways to institutionalize the market-led approach to microfinance. The staff of *Colegio* have developed expertise that is now being tapped by others in the industry.

The ODEF model benefited from the training received as part of the pilot test of the AIMS/SEEP Tools under the AIMS project. It subsequently used this experience to develop client assessment tools to respond to their institutional needs. Over time ODEF has been able to build its capacity to do client assessment cost effectively. Much was learned 'on-the-job'. The result of this process is a client-led institution. The success of this model highlights the importance of giving an MFO tools and letting them proceed at their own pace and allowing the process to take its own course.

VI. b. Using Networks to Build Institutional Capacity

The focus of the COVELO model is on building client assessment capacity among network members. First, it serves as an important learning tool by facilitating both internal learning within individual MFOs and also a body of collective learning that goes across the entire network. Second, the model is a particularly cost-effective way of providing training for staff in different institutions. It is much cheaper to provide training to multiple users in this way than train staff on an institution-by-institution basis. Third, the serialisation of the training with technical assistance between workshops fits well the demands on staff time and an incremental process of learning by doing.

While still in its early stages the training programme, followed by the COVELO network, suggests a valuable model for building an in-country training capacity that has the potential of being sustainable. The training capability is spread among the staff of various MFOs as well as COVELO. This model also offers a cost-effective model for going to scale, particularly in terms of training and promoting organisational learning. Part of its success has also stemmed from having ODEF as a successful model that integrated client assessment into its operations advantageously and also its use of experienced trainers who had previously worked with ODEF.

The experience of PROMUC reflects the limitations of a classical approach to impact assessment and of over-reliance on external consultants. It is difficult to see how the capacity to undertake client assessment will take hold unless the programme is refocused.

VII. Recommendations

- **CAME**

CAME has used an institutional partnership to build its capacity to conduct client assessments. The most important next step will be to gradually get operations staff on board as to the value of making client assessment and monitoring routine in their organisation. This is beginning to happen as the senior staff have seen how such information can help CAME to improve the quality and range of the services and products that they currently offer. CAME would also benefit from some interaction with ODEF at the management as well as loan officer levels. The former would offer a vision of what the integration of client assessment into the institution can achieve. An exchange visit by CAME loan officers to ODEF could provide a valuable skills training opportunity.

- **ODEF**

ODEF has gradually built up the capacity to do client assessment. It has become integrated into operations and ODEF is emerging as a significant client-led organisation. ODEF, along with other MFOs in Honduras now faces the challenge of becoming a fully-fledged formal financial institution. The immediate task will be to bolster financial sustainability while at the same time maintaining its client-centred approach and its commitment to poorer clients.

- **COVELO**

The *Imp-Act* programme has given COVELO an opportunity to expand its role as a builder of a network capacity. As it proceeds with the implementation of the remaining components of its *Imp-Act* programme COVELO needs to consolidate its capacity to repeat this process over time. It should seek to train Hondurans with the client assessment skills so that they can provide long-run training and technical support to their peers. Building up a national data based using client data should remain an objective. This in turn will give the industry in Honduras more credibility and thus more leverage and influence in the national policy arena.

Institutionalisation implies that COVELO has the capacity to provide these services in the long-term on a sustainable and fee for service basis. Important changes will be needed to achieve this goal. The current project leaders are no longer able to devote the time required to the management of the project. They have begun to realize this and the value of hiring a coordinator for the project. Steps should be taken to make these changes.

COVELO realises that it must drive the training agenda. This means taking over from the external training advisors who have served them very well in the past. In the immediate future the external training advisor should remain involved but should be held responsible for training Hondurans who can work with network members over the long run in the adaptation and implementation of the Tools.

- **PROMUC**

PROMUC needs to be realistic in terms of how much it can achieve in the time remaining. One useful task would be to rework the results of the baseline survey in order that it should reveal more meaningful data on impact. But a more urgent priority is to organise a workshop to be attended by all stakeholders.²³ The objective would be to redefine the work plan in the direction of what can be achieved within the capacity of the MFOs and the remaining project period. This should entail piloting more flexible and timely data collection methods in which NGO staff and clients themselves can be more closely involved.

²³ This workshop has already been scheduled for January 2003.

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Annex 1: MFOs in the study

MFO	Background
CAME	Est. 1990. Portfolio: US\$4.1 million No. of clients: 36,499, 80% women. Products: individual loans and solidarity group loans.
ODEF	Est. 1985 Portfolio: US\$ 5.8 million No. of clients: 9,587, 80% women Products: individual loans and solidarity group loans.
COVELO network	Est. 1991 MFO network comprising the following institutions: FAMA, PILARH, FINSOL, Hermandad de Honduras, HOPE, INHDEI, ODEF, WRH, Fundación COVELO, CARANA Corporation, Banco Centroamericano de Integración Económica (BCIE).
PROMUC	Est. 1985 Consortium of MFOs using the communal bank methodology.

Annex 2 : Selected MFOs in the COVELO network

		FAMA	AHH	PILARH
History		Est. 1993. 43 employees. Portfolio: L19 million No. of clients: 7773, 98% women Products: Credit - communal bank and individual loans, agricultural credit	Est. 1977. Started giving microcredit in 1992. Portfolio: L26 million No. of clients: 2500, 67% women. Products: Credit - group and individual agricultural credit	Est. 1994. Portfolio: L14 million No. of clients: 2000; 35% women Products: Credit: agricultural and non-agricultural.
Information	What collected	Exit survey and client satisfaction	Exit survey and client satisfaction	All AIMS tools
	Who collected the information?	1 person trained; then trained 5 loan officers; exit work done by social work students; Executive committee of FAMA trained students but undertook client satisfaction	2 trained (Elmer computer expert – only one among MFOs) then trained 8.	1 trained and then trained 26 staff at all levels, including the secretaries. All trainees have copy of AIMS manuals. Then adapted all the tools to institutional needs

		themselves.		
	Collection and Analysis	Trainees had problems with data analysis of exit. Noted that training was insufficient. Focus groups were easy to apply. Did 10 focus groups. Did additional questions on demand for savings services.		48 FG on client satisfaction. Did 453 impact surveys; 55 loan use, 37 exit surveys. Now doing data analysis. Used exit before AIMS training – did it when clients withdrew. Now institutionalised and setting up database. Wrote their own manual for training staff
	Results	Client demand for savings services.		Dislike of group meetings. Loan amounts too small. Wanted longer terms. Liked the simple nature of the documentation for getting loans.
Decision-making	Who made decisions	Board - only policy decisions.	Board	Board – but do not need to go to Board in terms of customer services changes and flexibility
	What decisions/ Major actions/ recommendations	Policy decisions need to go to Board, operational decisions made by director. Meeting with Board to increase loan ceiling, loan term, shift from weekly to monthly repayments Manager introduced shortening time to get loan from 7 to 3 days. Reduced meetings	1.Reduced interest rate for agricultural loans because of high default among coffee producers and decline in coffee price. 2. Shift from SG to individual loans	Distinguished between short-term actions. Medium terms and things that they would not do

		from weekly to biweekly Will record info. On exit clients and review at supervisors meeting once a month		
Actions implemented		All actions implemented, no piloting	Readjust downwards the financial services to fit the decline in coffee revenues as a result of drop in coffee prices. – Consequence of exit study.	

Annex 3: Order of interviews

1. Meet **CEO** (Chief executive officer) / senior staff.
Explain we are here to serve his interest. He can use this opportunity to ask advice, problem solving over methodological issues etc.
What are his/ her key concerns beyond financial performance?
Raise the value of the project
Ask what he/she wants to get out of it
Evaluate the extent to which impact information is getting through to them, being valued and acted upon.
2. Meet **Imp-Act collaborators**
Gripes session
What stage are you up to in terms of impact monitoring and assessment work?
Where do you perceive the value of this work?
How are you integrating *Imp-Act* work within the institution? Where do you think it fits?
What do you see as the objectives of the CEOs?
Do you give them regular reports about *Imp-Act* work?
KW: See which qualitative tools they are using and what stage they are at with them.
3. Field trip to meet **Loan officers**
What do they understand about *Imp-Act*?
Are they involved? What's the added value?
Perception of *Imp-Act* and its utility: What is the role of this?
What are the main issues for clients? How are they conveyed?
Take one weak and one strong group of clients. Does their group methodology work? Would they prefer individual loans?
How they use the information they have and their sense of how it is communicated to the organisation and the flow of information within the institution.
What are their concerns in collecting qualitative data?

What is the usefulness, credibility, cost effectiveness, timeliness and replicability of the tools in use?

4. Meet **one person from the board, one CEO, one regional manager**

Report observations

Make recommendations that will change processes

Annex 4: Itineraries²⁴

ODEF

Place: Head office of ODEF, San Pedro Sula

Date: 3-4th October, 2002-11-11

Activity	Participants	Time
Meeting in ODEF to meet and advance the project and get perspectives on the project	Monique Cohen, Katie Wright, Aníbal Montoya, Débora Santos, Miguel Navarro.	Thursday 3 rd October 1-3pm
Visit to the clients and LOs of ODEF	Choloma agency: Aníbal Montoya, Débora Santos, Miguel Navarro, Monique Cohen, Katie Wright, supervisors from ODEF.	3.30pm-5pm
Meeting in ODEF with the directors and participants in the course	Monique Cohen, Katie Wright, Santa Euceda, Eloisa Acosta, Rómmel López, Aníbal Montoya, Débora Santos, Dania González, Elmer Sagastume, Francisco Mercadal, Fabio Matute, Miguel Navarro	Friday 4 th October 8.30 – 10.30
Meeting to analyse plans and possible changes	Monique Cohen, Katie Wright, Aníbal Montoya, Débora Santos, Miguel Navarro.	10.30 -12.00
Lunch		12.00 – 2.00
Visit to the clients and LOs of COVELO	Medina Agency: Aníbal Montoya, Débora Santos, Monique Cohen, Katie Wright and LOs of COVELO.	2.00 - 4.00

PROMUC

Wednesday 7 th October 2002	Thursday 8 th October 2002	Friday 9th October 2002
9am PROMUC meeting with Maria Alvarado 10am Presentation of the report held at Alternativa	10am Alternativa, meeting with LOs	10am PROMUC Meeting with observations and recommendations by Monique Cohen and Katie Wright
3pm Meeting with the management of PROMUC	3pm Meeting in PROMUC with <i>Imp-Act</i> collaborators	Meeting with clients at a communal bank in Ate

²⁴ The itinerary for CAME changed considerably and it was not possible to include it here.

Annex 5: MFO Use of Qualitative Data

	Tools used	Stage in data analysis	Interest in QUIP
CAME	Semi-structured interviews for manifestations of empowerment among clients; focus groups for client satisfaction study.	Have realised data analysis and have got managers on board. Now need to reflect on what was useful and not useful about these studies, with a view to moving to more cost-effective routine assessment activities.	Yes
ODEF	Semi-structured interviews for loan use strategies over time and to ascertain perceptions and manifestations of empowerment among clients; focus groups have been used to ascertain client programme satisfaction.	ODEF have already implemented corrective measures as the result of using focus groups. Having lengthy experience of operating focus groups and using it as a mechanism to empower LOs, they have much useful experience to teach other MFOs such as CAME and PROMUC.	No
PROMUC	Focus groups in Alternativa and Ariwara based around the following themes: organisation of communal banks, savings services, performance of the LO, conditions and terms and size of loans and training of the clients in using the programme; Testimonies (life histories) used routinely as part of impact-assessment work. Semi structured interviews for manifestations of empowerment among clients	PROMUC is at the stage of converting the raw qualitative data on empowerment issues gathered from focus groups in Cajamarca, Chimbote, and Huancayo into reports on impact. TA from the UK team (Katie Wright and James Copestake) will facilitate this process.	Yes- will be implementing QUIP in January with TA from the UK team