A CLIENT PERSPECTIVE ON PRODUCTS, INSTITUTIONS AND MARKETS.

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Presentation at AIMS Conference, Washington D.C.
May 31-June 1, 2001

Introduction

When AIMS started six years ago microfinance clients were a given. The general attitude among many of the experts was that we have the products, demand is unlimited and the clients would come. Experts saw clients as statistics, measured in terms of repayment and repeat borrowing rates.

Clients entered the discourse, if at all, through impact assessments that were largely the domain of the donors and researchers. These two partners formed an alliance, the former funded the impact assessments, the latter did them. MFIs and their clients were the objects of these studies but they were rarely owners of the results.

Today much of this has changed. The microfinance agenda is now increasingly client or demand-led. Client assessment can be broadly defined as a continuum extending from impact assessment to market research and including client monitoring. This conference has covered this whole range. Important in shaping this client-led agenda have been a group of practitioners, applied researchers and donors who have focussed on action research to demonstrate how poor people use financial resources, formal and informal, and how these resources fit into their lives. They are shedding increasing light on clients' capacity to assume debt, to bear risk, and effectively to use financial resources to generate a stable income flow and build assets.

Currently much of the interest in clients is driven by the industry's focus on competition and dropouts. Concern focuses on the client-product nexus, and the implications for attracting and keeping clients. However, I also feel that the debate on clients should not stop here. We should also consider the linkage between clients and institutions as well as the client's financial landscapes. My discussion will explore all three.

Moving beyond the Average product

Microfinance is a limited product industry. The dominant products are short-term working capital loans and involuntary savings. Some programs provide voluntary savings services, some loan insurance and a very few others address other insurance needs, such as health, disability, life or property insurance.

- Microfinance loans have been seen as leading to microenterprise development. However, we know that credit is fungible within the household and used for a wide range of purposes among them home improvement, education fees and health expenses, activities which might be better met with more appropriate or finely tuned products;
- Current MFI products and services are limited in their capacity to permit a client to respond to a demand for a chunk of money when faced with a crisis, life cycle event, emergency, or opportunities as they arise.
- As already noted the 'average' product fails to provide for a reality in which the need for and the use of financial services change over time – it's not just one thing.
- Financial services (loans, savings, and insurance) need to be more responsive to client and household cash flow in terms of size, timing, seasonality, repayment amounts and cycles. In Zambia the MFIs have noted that arrears rose January through April. One MFI asked me to find out why. The clients were quick to answer and propose a solution: there is a major decline in disposal income during that period. Why not, they asked, offer smaller loans during that time period, larger loans for their peak business season May through August and medium size loans August through Dec. It would work better for them, parallels their business cycle and the total amount lent by the MFI to clients would still grow on an annual basis.

Adaptation of the universal or 'average' products or the introduction of new products targeted at particular niche markets means matching different products and particular client markets. This should make microfinance services more attractive to a wider range of range of clients and lower the risk of lending to poorer clients. At the same time product development should not be confused with product proliferation, a road that some MFIs seem to be embracing, possibly to their peril.

The Client Assessment Toolkit.

In view of our limited knowledge about clients it is probably fair to argue that what MFI managers think clients want is not always what they want. To change this requires a means of gathering client information. As the conference has shown we are beginning to build up a set of tools appropriate to the task. We already have the AIMS/SEEP Practitioner-led Client Assessment Tools and MicroSave's Market Research for Microfinance qualitative tools. The two are complementary.

The Ford Foundation has recently funded an Impact project that is managed by IDS in England and is providing support to about 30 MFIs. In response to the priorities of microfinance managers, the project will develop and test practitioner-led approaches to client assessment. Some will involve the adaptation and refinement of the AIMS tools, some will use participatory techniques, many will place their organization's learning agenda front and center. The Ford project offers an opportunity for much innovation in this area.

Generally information gathering on clients is the focus of most of the tools discussions. The subsequent issues, how the data are used appropriately and regularly and how the voices of the client become institutionalized have been less discussed. One answer is through the new product development process. But that can concentrate a client understanding to the client-product nexus and can limit attention to clients to the marketing department of the institution, to the extent that it exists. An alternative approach focuses on the importance of more client sensitive institutional management. I would like to touch on that next.

The Client-Institution Linkage

I am struck among the many institutions I have visited how many are largely top down in their flows of information. In such institutions the opportunity for the client to be heard or the client to participate in institutional decision making is constrained. My experience tells me that if the voice of the client is heard and is used to influence how an MFI functions it can improve the effectiveness of services significantly. Take the example of SEWA Bank which we heard about yesterday. Members of its Board are clients. SEWA organizers offer another vehicle for its members to be heard. A specially trained Bank team reaches out to the individual clients to advise them on financial management practices, particularly when times are tough. Taken together these mechanisms permit SEWA Bank management to hear what the clients have to say and the management is held accountable for decisions that directly and indirectly affect the clients. At the same time a basic premise of SEWA and Friends of Womens World Banking in India is the need to organize and empower women as a necessary step in enabling them to get their demands heard and by extension recognized.

SEWA is not unlike the many older MFIs which, at least informally if not formally, continue to work at keeping bottom up lines of communications open. When I ask many newer MFIs if, how and why they collect information about clients the frequent answer is either we don't or we include 4-10 indicators in our MIS system. While we have moved beyond the scant client monitoring noted by Dearden and Hyman in their AIMS paper several years ago, confusion remains. Much of this information just sits in databases going nowhere, the objectives for the use of the data remain ill defined and the more data, the more difficult they are to manipulate. Two important exceptions are FFH and ADEMI. The FFH client monitoring system discussed by Barbara MkNelly and Chris Dunford earlier today speaks to one approach. Since the early eighties ADEMI has been regularly collecting three enterprise indicators from their clients: enterprise revenues, assets and employment. This information is used to determine the size of a repeat loan and when business advisory services might be appropriate.

In some MFIs learning from clients, both informally and formally has retreated into the background. Having learned the mechanics of microfinance and having adopted client-tracking systems as part of their MIS, many MFIs, particularly the newer ones have omitted the next step, integrating mechanisms for listening to clients. Maybe for the older MFIs it was so intuitive that it was never written down in the recipe book.

Some MFIs like PRIDE Tanzania have set up client/customer consultative groups, which typically involve regular consultations with group leaders. CETZAM, a new but very successful MFI in Zambia is considering another approach. Run by two ex-Bankers, they recognize that a successful financial services provider, like all businesses, must be in tune with its customers. They wish to change CETZAM's organizational culture which is directive and in which it is difficult to question top down lines of authority. They are exploring institutionalizing focus group discussions around client satisfaction and other issues. They will train loan officers and field managers in interview techniques and legitimize the channels of communication that flow from the bottom up to senior management. At the same time regular market research/ customer surveys will be outsourced on a regular basis.

I have discussed the institutionalization of listening to clients because I feel this has fallen off the screen for many MFIs. I believe nothing can replace the voices of the clients and the importance of ongoing and upward flows of information to enable institutions to be more responsive. This probably requires greater staff interface with clients and teaching the staff appropriate listening skills; it may mean changes in how business is done, something institutions may be reluctant to consider; it can be costly; it can require new systems for the careful collection and transmission of information. However, it can also bring benefits that can improve the bottom line.

I am no organizational expert but I would hate to see the discourse on understanding clients be limited to the client-product nexus only. I hope it will be the next issue to be considered for those institutions that wish to move to a more client-led agenda.

Before ending I would like to make one other observation about the client-institution linkage. Much of what is being discussed in terms of clients and products presumes the introduction of new products or relaunching of old products in existing institutions. I think it is time to think also whether we need to restructure existing institutions or introduce new delivery systems to attract non-clients, the poorer ones who self exclude, the dropouts or others who have chosen not to access microfinance services. I hope we can open the debate on the client-institution linkage to include these issues.

The Client's Financial Landscape

We have talked about clients in relation to products and institutions. I should like to end with a brief mention of the financial services market as seen from the perspective of the client, the client's financial landscape. Graham Wright (2001) has noted that a common belief among MFIs once established or wishing to enter a market is that they are or will be the only game in town. This is rarely the case. Most clients see microfinance services as but one of a range of financial alternatives. While some are more attractive than others none of these services is used in isolation. Indeed, as the AIMS studies have shown, the clients as well as the lenders everywhere in juggling the options exercise ingenuity.

The data suggest that in these mosaics of financial services microfinance has a niche. Rarely, if ever, does it displace other financial services. Microfinance adds to the clients' range of financial services offering the user both benefits and costs. Clients mesh these financial services in a way that best minimizes risks and enables them to better manage their money. Getting access to an affordable lump sum is one significant advantage of microfinance. This is particularly so for the poor who find themselves faced with a major shock, a major life cycle event or the need to purchase assets, a roof for the house or equipment for an enterprise. For those times when such major expenditures can not be deferred transaction costs can be very high. For those with access to a microfinance loan the amount is often insufficient. Thus, clients still find themselves forced to 'patch' together the loan with small units of money from different sources.

The need to have many financial services which one can tap quickly and easily never seems to disappear. Take the example of a young boy whose mother was a SEWA Bank member and his need for 70,000 RS for a heart operation. She took a 25,000 RS loan from SEWA Bank, borrowed 5,000 RS from relatives and 5,000 RS from a moneylender at 60% interest per annum. The son raised the balance over several months from charities.

Maybe this documentation of the client's financial landscape is old news but I suggest revisiting such pictures from a different perspective. A client-led agenda must bear in mind that microfinance loans are only one component of the debt burden of many households. Indeed, initial insights suggest that they might be small percentage of the total owed by many households. Examination of a client's financial landscape can help to inform an MFI about the gaps in the market, client behavior, service delivery and product design.

Is it old news or just forgotten in the continuing microfinance high. Recently I shared a chart depicting the financial landscapes of clients of a SCO in Nepal with MFI managers attending an Association meeting in Zambia. Clients within this limited area in Nepal have access to a range of 13 formal and informal financial services. Those present at the meeting represented MFIs operating in Lusaka, offering similar products to similar clients. The subsequent discussion was very revealing. They admitted to have forgotten about all the 'other' players and what that means for the debt carrying capacity of their clients. This was particularly salient given the problems of repayment they are encountering and the riskiness of an environment in which poverty is pervasive and one adult in four is HIV positive. This financial infrastructure was also ignored by the MFI's donors who had justified their investments in microfinance by arguing that there was a large untapped market for working capital loans based on some guestimate.

Conclusion

Let me conclude by acknowledging the openness of the discussion around clients compared to six years ago. It is encouraging that the client led agenda is entering the mainstream. Maybe it is none too soon. Unless we follow this route it is hard to see how this industry, which has so long been supply and product led, will survive. The key to the survival of any business, the microfinance industry included, is responsiveness to the market. As a consequence client assessment can no longer dismissed. And by that I mean the continuum that extends from impact assessment through market research, including client monitoring.

As the discourse around clients expands it would be a disservice to our clients if attention limited itself to only the client-product nexus. Just as the product line of this business is evolving so too can we expect institutions to change. If they are to attract new clients, particularly those that are currently excluded, a client responsive MFI will inevitably be one that employs different approaches to learning from clients. However, integrating client indicators into the MIS will probably not suffice, There will have to be some 'hanging out' with clients, either formally or informally, to make sure that microfinance managers are in tune with their market. But the client-institution linkage should not only be limited to putting new and old products in the same boxes, it should also explore putting these items in new boxes, links to different types of organizations which already reach our clientele and those that reach potential new markets.

Just as competition has stimulated the emerging interest in clients, so to is it breaking down the often 'self imposed' perceived isolation of the MFI within the market. The reality is that for the clients this will always be one among a range of financial services they use. The don't necessarily distinguish between formal, semiformal and informal financial services. Rather each serves a particular purpose within their financial landscape. Taken together they help to mitigate risk and grow incomes and thus are an essential component of the panoply of services the poor need to climb out of poverty.