Client Information Needs of MFIs
A Case Study of ASA Bangladesh

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Abstract

Title: Client Information Needs of MFIs: A Case Study of ASA Bangladesh

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Purpose: To enrich the knowledge base of client’s needs of financial services and assessing the tools MFIs used to collect clients’ information and how they utilized the information for developing new products and services or modifying existing products and services or their terms and conditions to meet the needs of financial services of their clientele. Also how MFIs organized and managed the information and how they categorized their clients using that information.

Method: The investigation conducted from both a theoretical and an empirical point of view. The deductive approach\(^1\) used for the study and the case study method deployed. I studied ASA which is an MFI renowned in Bangladesh and beyond. At first, I had gone through a secondary research for collecting a number of successful methods and standard types of information used by successful MFIs from existing literature. In primary research, I interviewed 10 Managers (Assistant Directors) for ASA to determine which of the methods found in the literature were more effective for collecting clients’ information for them and also asked them to add their ideas to the list. At last I asked interviewees to rate the methods and results presented in this paper.

Theory: This study was an exploratory one where I discussed the related aspects for the study - Microfinance, Client Assessment, Clients of Microfinance, Information needs and Management Information System.

Findings: The study showed that ASA utilized client information for developing their credit products and services and based on number of loans taken by the clients they categorized their clients and modified or developed new products and services for each category of clients. Although ASA executed several tools for collecting client information but the managers think that their staffs’ collection of information from regular meeting with clients was more effective than others for modifying products’ terms and conditions and modifying or developing new products and services to their women and small enterprise clients. The conducted study also revealed that in ASA impact study was necessary to know clients’ overall level of satisfaction but management needed specific information on what aspects of ASA and its credit products and services clients

\(^1\) In deductive approach, researchers consider and study, first of all, theory, then generate hypothesis and this hypothesis is tested by the help of empirical data that resulted in conclusion drawn. Conclusion depends on data and information which is available during research (Bryman, 2004).
preferred and did not prefer and the reasons of the preferences. Also they needed action plan to address clients’ specific concerns, so they needed the information on a continual basis and they were successful to achieve this continuous flow of information. For ASA, the best way to get this type of information would be through client satisfaction Focus Group Discussions (FGDs), although they utilized several tools but not often as discussed in part 3 in chapter 5. ASA owned an MIS (AMMS) for monitoring and managing clients’ information and they utilized this to categorize their clients based on the collected information about their number of loans.

**Conclusion:** This study revealed that ASA served only women and small enterprise clientele that included the vulnerable non-poor and could contribute to the profitability of ASA. There was no attempt to diversify the products to include all poor that should be the goal of microfinance to alleviate poverty. Moreover client treated as individual client but the loans used to fulfill household or family needs of the clients. There were tools for collecting information on household about impact of credit programs participation but they took seldom effort for collecting information of the household money management or in other words how they utilized the loans for variety of household needs. There is lack of access to a variety of financial services for poor clients, even though MFIs are mostly serving vulnerable non-poor instead of taking consideration of all categories of poor.

It revealed from the study that MFIs could gain long term success by serving specific market segment but it should not be only focus of MFIs, their initiative should be to include all poor in their clients profile with a priority to a specific market segment. This could help them to become sustainable and to minimize risks by spreading it in different market segments.

The study found that ASA considered FGDs as an effective tool for collecting clients’ information as their staffs and managers were familiar with this tool, moreover it was cost effective for them. It observed that they seldom followed Tool Selection Process and it was the top management that decided over the tools, the decision might influence by internal and external interest groups and the competition.

MFIs should organize client information in a way so that they could be able to manipulate the specific client information to serve client better and to take effective decision, although it is imperative to argue that they may like to serve the wealthier clients.

This research paper is also presenting some important findings from existing literature of microfinance and a number of recommendations based on the study experience and scholars opinions from existing microfinance study that may help MFIs to prepare themselves to adopt client-oriented approach by utilizing client assessment tools to fulfill the needs of financial services of their clients that may hopefully include all poor irrespective of their categories.

**Key Words:** Client, Information, Microfinance, Microcredit, Savings, Client Assessment, Client Assessment Tools, MIS, Microfinance Institution, NGO, Bangladesh, ASA, Client Intelligence
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Juber Ahmed
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Dedication

TO MY PARENTS

Mr Mohammad Abdul Quadir
&
Ms Shamsunnahar Begum

The priceless support I have in all my ways from you, I could not help myself to utter in words. I Love You Amma-Abba more than I say.
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Chapter 1: Background and Research Problem

Introduction
My sympathy for the poor and their badly needs of financial services developed the determination inside me to carry out research work on Microfinance and Microfinance Institutions, furthermore, as understanding clients situation is the focal point to the delivery and designing of affordable products and services to the poor inspired me to study the needs of client information for MFIs. The concept of commercialization of MFIs increases the competition among MFIs, though possess different methods and models they have chance to become sustainable to be a follower of this concept. For this reason, now a days there exists an increasing needs to develop Business Intelligence (BI) capability to most MFIs. Business Intelligence demands various kinds of information regarding industry, competitors, clients and stakeholders, but for the study I preferred client information as a main concentration cause BI is a vast area to investigate and it might restrict my understanding of clients situation by broadening the scope of study that was not be possible to maintain for the very reason of time constraint.

The focus of this research work was to assess better ways of collecting client information for MFIs. “Better ways” is identical here as better tools/methods of collecting client information for the specific needs (credit/loan products and services) of the organization and assessed based on existing research work on successful MFIs in using these methods and compared with the methods of ASA for the study.

Importance of the Study and Research Problem
To ascertain the importance of the study I came across a variety of perspectives related to Microfinance in existing literature such as informational imperfections of financial markets, argument for a market-driven agenda for microfinance, analysis of the industry and competitors, real challenge facing the microfinance industry today, emerging microfinance movement, market conditions and opportunities and boundaries between microfinance and the formal financial sector that focuses on the needs of collecting client information by MFIs for offering low-cost affordable financial services to the poor irrespective of their category.

There is no universal definition of microfinance. It varies by country and can take different forms depending on a particular economy’s level and structure of development. Broad regional variations can be observed in loan sizes, types of services, target clientele, outreach, and delivery methodologies. However, in general terms, microfinance caters to the poor and underserved segments of the population by providing "small-scale financial services . . . to people who farm or herd; operate small or micro enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing economies, in both rural and urban areas” (World Bank and Open Society Institute, 2003)\(^2\)

In the early 1990s, the term “microfinance” rather than “microcredit” began to be used to refer to a range of financial services for the poor, including credit, savings, insurance, and money transfers. To reach ever larger numbers of poor clients, MFIs and their

\(^2\) As cited in Bossoutrot, 2005
networks increasingly began to pursue a strategy of commercialization, thus transforming themselves into for-profit corporations that could attract more capital and become more permanent features of the financial system. An emphasis on creating and growing strong institutions (as opposed to channeling credit to specific groups) is a core element of this recent history (Helms, 2006).

The statement of UN Secretary General demonstrate the importance of microfinance, as he argued that “Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go school, enabling families to obtain health care, empowering people to make choices that best serve their needs.”

According to the Asian Development Bank, microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises. Microfinance services are provided by three types of sources:
- Formal institutions, such as rural banks and cooperatives;
- Semi-formal institutions, such as non-government organizations; and
- Informal sources such as money lenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semi-formal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services (ADB, 2000).

The core reasons of collecting client information for MFIs is differ from any other business domain, while all businesses need clients information to make profit or in other words to maximize shareholder value with standard products and services, MFIs needs it to alleviate poverty with the delivery of right kinds of products and services.

Some of the informational imperfections of financial markets make it difficult for commercial financial corporations to assess the creditworthiness of poor borrowers, including poor entrepreneurs. These imperfections or barriers include physical remoteness, the lack of tangible assets to serve as collateral, the lack of property rights, and the cost of contracting. All of these factors tend to exclude poor people from basic financial services. What are now called microfinance institutions (MFIs) have evolved over the last few decades to fill these gaps in commercial finance. An MFI is an organization that provides financial services of any kind to the poor. At present, they provide such services to poor individuals, including entrepreneurs. MFIs overcome financial market imperfections through group lending practices in which a borrower’s associates become co-signers to the loan. Along with group lending, MFIs use a number of other mechanisms to facilitate effective credit provision. These include creative incentives such as progressive lending, tailored repayment schedules, collateral substitutes, and a focus on women who typically have significantly better repayment rates. In addition, MFIs are beginning to offer noncredit financial services such as savings arrangements to poor people (Charitonenko and Campion undated; Morduch 1999; and World Bank 2001).

Most people in the developing world— that is, the majority of the world’s population— do not have access to formal financial services. Very few benefit from a savings account,
loan, or convenient way to transfer money. Those who do manage to, say, open a bank account, are often faced with sub-optimal services (Helms, 2006).

Microfinance allows poor households to move from everyday survival to planning for the future, investment in better nutrition, and improved living conditions, children’s health, and education. If microcredit alone offers this kind of impact, then access to a broader range of services likely improves the lives of poor people even more dramatically (ibid).

Microfinance is unique as a development tool because of its potential to be self-sustaining. Successful microfinance institutions have proven that providing financial services to the poor can be an effective means of poverty reduction and be a profitable business. Dozens of institutions have proven that financial services for poor people can cover their full costs, through adequate interest spreads, relentless focus on efficiency and aggressive enforcement of repayment. A large and growing proportion of today’s microfinance services are being provided by institutions that are profitable, even after adjusting for subsidies that they may have received.\(^5\)

The argument for a market-driven agenda for microfinance takes place within a framework of long-term institutional sustainability. Without losing sight of the discipline of best practice financial performance, one needs to also go beyond defining the industry only in terms of the financial ratios which dominate today’s measures of success. We should think in terms of how to efficiently gather client information, how to store it in a MIS, and how to use it effectively for clearly operational objectives (Cohen, 2002).

The importance of client information study is well established by the argument of Dellien et al (2005), as they argued that understanding your clients’ profiles and portfolio composition is key to designing better products and determining your growth strategy. A clear understanding of clients’ needs will help management design attractive products tailored to different client segments.

According to Cohen (2000), “In view of our limited knowledge about clients, it is probably fair to argue that what microfinance institution managers think clients want is not always what they want. To change this requires a means of gathering client information.”

The design of products and services should focus on clients’ demands of financial services. As noted by Daley-Harris (2002), Services need to be designed to address the perceived needs and wants of clients. If this is done properly, clients will then use and pay for these needs and wants, resulting in good financial performance for the MFI. In addition, MFIs should understand the underlying needs of the poorest so that the services will reduce their vulnerability and poverty.

A new and significant challenge facing many microfinance institutions is increased competition, which forces an MFI to focus on differentiation while maintaining low-cost products and services. Clients are also beginning to demand a greater variety of products and services, especially as markets mature. MFIs, however, may not have the capability or core competency to meet this customer demand (Women’s world banking, 2005).

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5 Wikipedia Website
An analysis of the industry and competitors provides only half of the story of the market in which an institution operates. WWB\(^6\) proposes two research tools to help MFIs deepen their understanding of client markets:

1. Client segmentation—classify the type of clients the institution currently serves in order to understand which percentage of the current clientele could afford to take on larger loans and would be eligible for individual loans; and  
2. Assessment of market potential—identify new individual loan clients and understand the loan product attributes that better serve the financial needs of their different types of businesses (trade, manufacturing, service and agriculture).

Customer analysis can be a useful way to orient an institution toward client data collection. Because in-depth analysis of clients’ businesses is not a part of most groups lending methodology, systematic collection of data on clients may not be strength of a group lending institution (Dellien et al, 2005). Clients’ information could help MFIs to deliver low cost appropriate services which could build up sound relationship between the institutions and the customers. As greater realism enters the microfinance market place, the notion of being customer friendly is increasingly being accepted as good business. Indeed, it is difficult to see how the MFIs as they now operate will stay in business if they are not responsive to their clients. Just as all businesses in the last two to three decades have moved from product to market-led approaches so to must MFIs. If nothing else competition will force their hand. For the institution sustainability must be the objective goal. Having institutions that provide low cost appropriate services with a measure of certainty are what will keep the customer happy (Cohen, 2002).

The real challenge facing the microfinance industry today is scaling up services to reach the estimated three billion people in developing countries who still lack access to formal financial services.\(^7\) With a broad array of informal financial services available to them, how can it be said that poor people lack access to financial services? The problem is that these informal services, while appealing and useful for many reasons, have serious drawbacks. First, they can be expensive (especially in the case of the individual providers like moneylenders or pawnbrokers). Second, they are often rigid. All informal financial services are vulnerable to collapse or fraud, where people can lose their money, whether because of corruption, lack of discipline, or collective shocks like a natural disaster or a bad harvest. Finally, borrowing from family and friends can be associated with stigma or a loss of dignity, especially if borrowers become dependent on others (Helms, 2006). These statements demonstrate the badly needs of financial services to the poor as a part of their day to day living.

It is now recognized that providing efficient microfinance services to poor and low income households is important for a variety of reasons. For instance, ADB (2000a) notes that:

(i) Microfinance can be a critical element of an effective poverty reduction strategy by enabling the poor to smooth their consumption, manage risks better, build their assets gradually, develop their micro-enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

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\(^6\) Women’s World Banking (WWB).  
\(^7\) Wikipedia Website
(ii) Microfinance can provide an effective way to assist and empower poor women.  
(iii) Microfinance can contribute to the development of the overall financial system through integration of financial markets (ADB, 2000).

The emerging microfinance movement demonstrates institutional innovations that appear to greatly reduce the risk and cost of providing financial services to poor households. Innovations include contracts that give borrowers incentives to exclude bad credit risks and monitor other borrowers’ activities, schedules of loans that increase over time conditional on successful performance, and weekly or semi-weekly loan repayment requirements (Morduch, 1997). The movement is now global, and leaders at the World Bank, United Nations, and other international organizations have joined in pushing to reach 100 million households around the world by the year 2005 (Microcredit Summit, 1997).

The microfinance industry landscape has begun to change significantly in recent years. Yet, the outreach of the industry remains well below its potential in the Asia and Pacific region. If the full potential of microfinance for poverty reduction is to be realized, it is essential to expand its outreach substantially (Charitonenko & Rahman, 2002). In the past, two features characterized microfinance: (1) a focus on micro enterprise credit (small loans to meet working capital needs of entrepreneurs), and (2) an approach to delivering credit that was largely supply driven. As a result, a fairly narrow range of credit services attracted an equally narrow range of clients. Today, there is a growing recognition that not all poor people are necessarily entrepreneurs, but all poor people do need and use a variety of financial services. The challenge is to understand and meet this demand among increasingly poor and remote populations (Helms, 2006).

Market conditions and opportunities should be taken into account if an MFI give importance to collect client information and to be competitive in designing and delivering products and services. As stated by Dellien et al (2005), MFIs need to have clear understanding of market conditions and opportunities to guide their product development and marketing strategy. There are three levels of market research:
1. Assess the scope for potential new clients, estimate effective financial demand for individual loans (what do people need and what can they afford?).  
2. Analyze the competition (what credit products are currently available and under what terms?).  
3. Assess the operating environment in current and potential regions (what are economic conditions and trends affecting clients’ businesses?). All three aspects are essential and interconnected. Assessment of the competition and operating environment are readily available and should be monitored on an on-going basis by members of the operations teams both at head office and field levels.

MFIs could redesign their products or services with the proper information of their clients’ needs. If an institution cares about poverty reduction and understands the impact of its services on its clientele, then it can take steps to adjust its current services or introduce new ones to meet these objectives— and ultimately improve performance.

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8 As cited in Morduch, 1998  
9 As cited in Helms, 2006
Helping clients improve their economic condition can make good business sense (Helms, 2006).

The boundaries between microfinance and the formal financial sector are finally breaking down. In some areas, microfinance is now an inherent part of the financial system. In other areas, new and innovative financial delivery methods are being developed to overcome the barriers of sparse population and large distances between settlements, as well as poor infrastructure. Technology can play an important role, but we may have to accept that for the moment, some areas truly are not bankable.\(^{10}\)

To the extent that microfinance institutions become financially viable, self sustaining, and integral to the communities in which they operate, they have the potential to attract more resources and expand services to clients. Despite the success of microfinance institutions, only about 2% of world’s roughly 500 million small entrepreneurs are estimated to have access to financial services (Barry et al. 1996).\(^{11}\) By systematically gathering information about the market context, competitors and their products, and the characteristics of the client segments they intend to serve, MFIs will make informed decisions about defining the vision and setting the strategy for product diversification (Dellien et al, 2005).

The logical ground of this study is well establish from the argument made by the Nobel laureate Dr Muhammad Yunus (Yunus, 2003), “Microcredit data are compiled and published by different organizations. We find them useful. I propose that while publishing these data we identify the category or categories of microcredit each organization provides. Then we can prepare another set of important information number of poor borrowers, and their gender composition, loan disbursed, loan outstanding, balance of savings, etc. under each of these categories, country-wise, region-wise, and globally. These sets of information will tell us which category of microcredit is serving how many poor borrowers, their gender break-up, their growth during a year or a period, loans disbursed, loans outstanding, savings, etc. The categories which are doing better, more support can go in their direction. The categories which are doing poorly may be helped to improve their performance. For policy-maters this will be enormously helpful. For analysis purpose this will make a world of difference. I urge Microcredit Summit Campaign secretariat to present the information that they already collect on number of clients, number of the poorest among them, number of poorest clients that are women, number of clients that have crossed the poverty line broken down for each of the categories of microcredit. This will help donors to select the categories they would like to support. This sorting out is very important for the donors, as well as the policymakers.”\(^{12}\) Though his emphasis on categories of microcredit, we could easily understand the importance of clients information for MFIs from his citation as well.

Financial services for the poor, often referred to as microfinance, cannot solve all the problems caused by poverty. But they can help put resources and power into the hands

\(^{10}\) Wikipedia Website
\(^{11}\) Tiwari and Fahad (n.d.)
\(^{12}\) Yunus, 2003
of poor and low-income people themselves, letting them make those everyday decisions and chart their own paths out of poverty. The potential is enormous, and so is the challenge (Helms, 2006).

From the above citation of different scholars we can easily realize the indispensable role microfinance plays to alleviate poverty and to improve the standard of living of deprived people all over the world. Thus there is no disputing fact that microfinance as a strategy to alleviate poverty has been very successful for most countries and as such has been universally acclaimed. To consider its substantial outreach and the increasing competition among MFIs, the needs of client information study is a demand of the prevailing Microfinance industry.

Research Areas
This research attempted to take into consideration the management of information in respect of clients and microfinance products and services especially microcredit and loan products. The focus was to investigate information collecting methods for the effective use of developing microcredit and loan products and services of MFIs.

Problem Statement and Motivation
To develop and design affordable and suitable products for the poor is important for MFIs so to collect client information to understand their needs of the services offered. This research attempted to help MFIs to choose effective methods of collecting client information for designing and delivering products and services to satisfy the needs of their clients.

The motivation of this research work came from Client-centered approach to MFIs which is highly suggested by scholars to meet the market-driven demands of MF clients. In order to succeed under increasingly competitive conditions, it is not enough for microfinance institutions (MFIs) to know their products and to offer their products efficiently. MFIs also must know who their clients are and understand how their clients use and benefit from their products. Armed with a better understanding of the ways that financial products are integrated into clients’ financial and economic strategies, MFIs can develop better products and services while simultaneously improving the financial sustainability of their organizations. In other words, the creation of value for the clients and financial sustainability of the MFI are mutually compatible objectives (Dunn, 2002).

Product-centered approach has led to both financial and social disadvantages for MFIs. Some MFIs have experienced unprofitably low rates of client retention, as their products lag behind the changing demands of their current clients. Other MFIs have been surprised to discover limitations in their depth of outreach, as their products fail to match the financial realities of their target populations. In these cases, the product-centered approach, with its lack of information about clients and its reliance on a standardized product, has limited the financial and social performance of MFIs (ibid).

A client-centered approach focuses on identifying and meeting the effective demand from both current and future clients. A client-centered MFI may offer a variety of financial products and services aimed at a variety of customers. In order to be successful, a client-centered MFI must place a strong emphasis on marketing activities and on gathering information about its customers. Instead of assuming that it meets the needs of an ‘average client’, a client-centered MFI focuses on understanding clients’
financial practices and responding to client preferences and demands in order to strengthen its customer base and expand its market (ibid).

**Objectives of the Study and Research Hypothesis**

The Main objective was to identify the methods of collecting clients’ information of the MFI for developing products and services to satisfy their clients’ needs. Another purpose was to give a picture of the scenario of poor people’s needs of credit products and services in Bangladesh and help MFIs to develop low-cost affordable products and services with a focus on clients’ state of affairs (how they use the loan). To track these broad objectives the following hypothesis proposed for the study:

H1: ASA has information about their clients’ needs of credit products  
H2: ASA is using methods of collecting information of their clients that are successful for this purpose  
H3: ASA is using clients’ information for developing their products and services  
H4: ASA has a system of managing the clients’ information that best support their use of the collected information  
H5: ASA can categorize their clients’ using collected information and diversify their offers of products and services to women and small enterprise clients

**Organization of the Study**

This study is organized in 6 chapters as outlined under with their disposition:

In chapter 1, I have presented importance of the study and research problem, motivation and problem statement, research areas, objectives of the study and research hypothesis.

Chapter 2 includes nature of the study, data collection, sample size, literature review, research methods, and design of questionnaire.

In chapter 3, I have discussed Microfinance and its different terms and perspectives and the conceptual landscape of Client Information needs of MFIs.

Chapter 4 is comprised with two parts: one is “Microfinance and Bangladesh” and another is “ASA – A Case Study”

Chapter 5 focuses on the result of the study and comprises in three parts, part one is presenting the scenario of clients’ needs of financial services in several Client Cases, part two comprise with important findings from existing literature and part three is covering with ASA’s attitude to their needs of Clients’ information and tools used for this purpose and concludes with the findings in respect to proposed research hypothesis.

In chapter 6, I have compared the results of the study with the theoretical background (comparing theory with practice), the recommendations I have for MFIs, the limitations of the study and suggestions for further research may be possible.
Chapter 2: Research Methodology

Nature of the Research
To get insight about the scenario of poor people’s needs of financial services and how MFI’s collect clients’ information and use the information for developing affordable credit products and services to the poor, I proposed initially to conduct a field study but due to financial and time constraints and other personal obligations, I decided to carry out the research based on literature review, telephone and email interviews and case study as methodological tools. According to Woller (Woller et al., 2005), Qualitative tools aim for depth of information. Unlike quantitative data, qualitative data is non-representative by nature and thus not meant to be generalized to the client population. Qualitative data includes narrative expressions of beliefs, attitudes, experiences, perceptions, feelings, and emotions. Broadly, quantitative data tells us what clients do and qualitative data tells us why they do it and what they think or feel about it. Common qualitative tools include focus group discussions (FGDs), in-depth individual interviews, participatory rapid assessment (PRA) tools, or any kind of formal or informal group meeting. I had in-depth interviews with 10 Managers (Assistant Directors) of ASA and most of the clients cases I found out from existing literature and study in Bangladesh were in-depth client interviews.

Data Collection
I utilized both primary and secondary sources in the data collection process.

Primary Data
Primary research focused on understanding clients’ information needs of ASA for the delivery of affordable microcredit and loan products and services. I prepared two different structured questionnaires for Managers and Clients but as I could not conduct the clients’ interviews I would keep it for future study. Managers contacted through telephone for interview but they were willing to receive the questionnaire by email also and filled it up at their convenience, so these were both telephone and email interviews. The participants (Assistant Directors) were responsible for product development and clients’ information for ASA. Sample of Managers questionnaire are attached in the appendix section and answers are presented in the analysis part in chapter 5, although some answers were not complete hence not included in the paper, however those answers were not mandatory to prove the hypothesis.

Secondary Data
Secondary research explored clients’ state of affairs, in other words those aspects that have an effect on clients living and financial situation were pointed out. As I was unable to conduct a field research, it was inevitable to rely mostly on relevant literature review and case studies. I performed extensive literature review on existing research based on clients’ interviews, books, scientific journals on Microfinance, related websites and microfinance publications in Internet, reports, articles and publications of MFIs and service providers in the industry, like CGAP, World Bank, SEEP, the Microfinance Network, Women's World Banking, ACCION, FINCA, the Grameen Trust and CASHPOR, among others.
Sample Size of the Study
Samples for the study selected randomly from ASA’s central mid level managers with the help of Assistant Director, International Affairs; 5 Assistant Directors, Department of Operation (responsible for proposing ideas on product modification and new product development) and 5 Assistant Directors, Department of Finance and MIS (responsible for Client Information and other information management and/or Product Development) for ASA.

Literature Review
Over the past 25 years, microfinance has involved a tremendous movement from informal toward formal providers. Specialized MFIs have proven that the poor are “bankable.” Today, formal institutions are rapidly absorbing the lessons learned about how to do small-transaction banking. Many of the newer players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly, links among different types of service providers are emerging to offer considerable scope for extending access (Helms, 2006).

The microfinance agenda is now increasingly client or market driven. Much of the current interest in clients is driven by the industry’s focus on competition and dropouts. Competition, together with MFI policies of requiring clients to take increasingly large loans each cycle, has tempted some clients to take out multiple loans, to assume too much debt and at times end up defaulting on some of their microfinance credit. Dropouts have raised operational costs, a situation few MFIs can afford. As a result, new attention is being given to clients and products, how to attract and keep clients. As this market-driven microfinance agenda emerges, its component elements are taking shape. While the client–product nexus is important, it is only part of the agenda. It also includes linkages between clients and institutions and the client’s financial landscape. Thus, we can discern three levels which define the new framework: the client, the institution and the market.

- The client–product nexus cuts across the issue of customer access to appropriate products and services. The agenda moves from one in which the institutional approach to clients was ‘catch as catch can’ to a market focus with specific products attracting particular market niches.
- Institution–client linkages differentiate between the internal need for mechanisms to provide institutions with a client database that can be used for product development, marketing or service delivery and the larger question of what the appropriate institutional mechanisms are for serving large underserved markets like Brazil or Nigeria, and the self-excluded (both the extreme poor and vulnerable non-poor) 13.
- The client financial landscape challenges the attitude among many MFIs that they are the only game in town. The client’s portfolio of financial services, formal and

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13 As cited in Cohen (2002) with Notes: “The vulnerable non-poor are clients who are above the poverty line but vulnerable to slipping into poverty; moderate poor clients are in the top 50 percentiles of households below the poverty line; the extreme poor are in households in the bottom 10 to 50 percentiles of households below the poverty line; and the extreme poor are in households in the bottom 10 percentiles of households below the poverty line (Sebstad and Cohen, 2001).”
informal, determines not only how the client uses microfinance but also the role of microfinance within the financial market (Cohen, 2002).

The definition of microfinance clients is expanding to incorporate everyone without access to financial services. Available information on current clients indicates that a relatively narrow range of clients are being served by specialized MFIs. Most clients concentrate around the poverty line, with representation from the very poor and some vulnerable non-poor. Current microcredit clients are largely entrepreneurs in the informal sector. Many potential clients remain excluded (Helms, 2006).

When one asks many newer microfinance institutions if, how, and why they collect information about clients, the frequent answer is either ‘we don’t’ or ‘we include 4–10 indicators in our MIS system’. While we have moved beyond the scant client monitoring documented by Dearden and Hyman (1996) confusion remains. In many client MIS, much of this information sits idle in databases, with ill-defined objectives for the use of the data. Moreover, the more data there is, the more difficult the data are to manipulate (Cohen, 2002).

As MFIs core objective is to alleviate poverty, so it is necessary to point out the nature of clients with respect to their poverty level. In the literature of microfinance it is defined in various contexts by different scholars. The practice of poverty-reduction has developed in recent years has been through attempts to identify and assist those who experience the greatest deprivations. These have been variously described as the poorest, the poorest of the poor, the ultra poor, the hardcore poor, the destitute, the extreme poor, the highly dependent poor and, in this volume, the chronic poor. While “common sense” might suggest that these are all describing the same group of people a number of different criteria are used to identify these groups—the severity of poverty, the duration of poverty and the number of dimensions of poverty that are experienced (for a full discussion see Hulme et al., 2001). Conversely, some who are only a little below the income poverty line may stay there throughout their lives as they are adversely incorporated (see Wood, this issue) suffer other forms of deprivation intensely, and lack an asset base that would permit them to escape poverty (Matin & Hulme, 2003).

A better understanding of clients’ needs is critical, but it is not sufficient. Client demand will be met only when this understanding is translated into high-quality, affordable, and convenient financial services offered by a range of providers (the micro level). Financial service providers come in all shapes and sizes—from informal moneylenders and neighborhood savings clubs to commercial banks and everything in between. To reach large numbers of poor clients on a permanent basis, these financial service providers must cover their costs of doing business. In fact, according to available data, although they are a relatively small proportion of the total number of institutions, those financial institutions that are sustainable reach the majority of clients served (at least among privately owned financial institutions) (Helms, 2006).

Programs and policies to assist poor people and overcome deprivation are underpinned, either implicitly or explicitly, by ideas about “who” is poor and “why” they are poor.

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14 As cited in Cohen (2002)
15 As cited in Matin & Hulme, 2003
Such ideas have deep historical roots but they are also shaped by the dominant discourses of their time and by the emerging knowledge base about the causes of poverty and how these can be tackled. In recent years there have been three significant advances in the ideas that inform poverty reduction policies and programs. First, is the recognition that the poor are not a homogeneous group, such as small farmers or landless people, but have many different characteristics and thus they will need different forms of assistance. This recognition was initially associated with regard to the poverty that women experience but has also led to attempts to identify and assist the poorest (Lipton, 1988; Sen & Begum, 1998) and the chronically poor (Hulme, Moore, & Shepherd, 2001). Second, the “promotion approaches are best” versus the “protection approaches are best” argument is increasingly recognized as sterile. It is now clear that effective poverty-reduction requires both a promotional component (that increases the incomes, productivity or employment prospects of poor people) and a protectional component (that reduces the vulnerability of the poor). Third, is the understanding that the agency of poor people has to be seen as central to the goal of poverty-reduction: policies and programs that seek to decree exactly what poor people are to do are likely to fail because they are infeasible to implement and show a fundamental misconception of what poverty-reduction is about (Matin & Hulme, 2003).

Poor people in developing countries, like everyone else, need access to a wide range of financial services that are convenient, flexible, and reasonably priced. This simple observation has transformed the thinking and practice of microfinance over the past decade. A better understanding of clients’ (and potential clients’) demand has driven the shift from microcredit to microfinance and most recently, to inclusive financial systems (Helms, 2006).

Broadening and deepening outreach, as well as retaining more of the existing clientele, means attracting both new and old customers with products and services that better correspond to their preferences. That is, client preferences with regard to cash flow cycles across the year, their need for diverse sources of cash flow as well as their need for lump sums of cash for anticipated and unanticipated expenses (Rutherford, 2000a; Sebstad and Cohen, 2001).

Financial services, and especially credit, are not usually appropriate for the destitute (for instance, those who go hungry or without a cash income). It is sometimes forgotten that the other word for credit is debt. Loans to the destitute may in fact make the poor poorer if they lack opportunities to earn the cash flow necessary to repay the loans. Basic requirements like food, shelter, and employment are often more urgently needed than financial services and should be appropriately funded by government and donor subsidies (Robinson, n.d.).16 Microfinance should not be seen as a substitute for investments in basic education, health, and infrastructure (Helms, 2006).

Microcredit is not appropriate for the destitute and hungry who have no reliable income or means of repayment. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate for destitute people. The challenge moving forward is to better understand

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16 As cited in Helms, 2006
the financial service requirements of those who are currently excluded from the financial system and ways to respond to these needs that have the potential to be self-sustaining. But better understanding is not enough. This understanding needs to be translated into permanent access to high-quality, affordable, and convenient financial services offered by a range of financial service providers. Only when supply begins to meet demand will poor people have the means to take control over their financial lives and chart their own paths out of poverty (ibid).

By providing financial services to the underserved, microfinance has emerged as a vehicle to fight poverty by stimulating economic development and social inclusion. At the same time, it has been noted that microfinance should not be misconstrued for a welfare or social assistance tool. Poverty alleviation also depends on the poor having access to food, shelter, basic social services, a stable political environment, and market opportunities. Microfinance is thus not the appropriate instrument for all segments of the poor. It is generally most appropriate where some forms of economic activity already exist as it may otherwise create an excessive debt burden for the destitute (CGAP, 2002).

Poor clients need a variety of financial services, not just short-term working capital loans. Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit but also savings, cash transfers, and insurance (Helms, 2006).

An important initiative over the last 15 years has been the spread of micro-finance institutions geared to meeting the needs of the poor for funding both to smooth consumption (that is, to maintain expenditure in periods of economic crisis) and to build up productive assets. The Grameen Bank in Bangladesh is the best-known example of this initiative, but similar institutions now exist in a range of countries and it is estimated that currently roughly 10 million households are served by such institutions (Kanbur and Squire, 1999).

The consequence of the scarce availability of appropriate savings services is that most poor people save in informal ways—by tucking cash under the mattress, buying animals or jewelry that can be sold off later, joining village savings circles, or giving money to neighbors for safekeeping. The problem with these methods of saving is that they are risky—cash can be stolen, animals can get sick, the neighbor can run off. They can also be fairly illiquid. It is impossible to cut off the leg of a cow and sell it if only a small amount of cash is needed (Helms, 2006).

The banking problem in reaching the poor is one of finding a way to lend at close to commercial rates to those without security and operating in intrinsically high-risk economic environments, whilst at the same time securing an acceptable rate of loan repayment. A variety of mechanisms have been used by micro-finance institutions as a means of overcoming these difficulties; these include using borrower groups to screen

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17 As cited in Bossoutrot, 2005

loan applicants and to monitor repayment, using local officials or dignitaries to screen applicants, offering progressively larger loans to good borrowers, either groups or individuals, and requiring compulsory savings deposits as partial insurance against default. The group nature of many of these initiatives has appealed to the donor community, since it is recognized that the costs of collecting information on borrowers and monitoring their activities after the loan has been granted can be greatly reduced if this is done by group members, with an incentive to do so, whilst the reduced cost of such activities can be passed on to borrowers in lower interest charges. In general, the view is that such micro-finance schemes, whilst no simple panacea against poverty, have been useful both in offering short-term finance to the poor in crisis situations and in providing finance to purchase assets, both physical and human, that can raise their productive potential (Potts, 2003).

The Microfinance Development Strategy of the Asian Development Bank (ADB), approved in June 2000, provides a framework for supporting the development of sustainable microfinance systems that provide diverse high-quality services to traditionally underserve low-income or poor households and their micro enterprises. One element of this strategy is support for development of viable microfinance institutions that can set in motion a process of commercialization of microfinance services (Charitonenko & Rahman, 2002).

Microfinance has an impact on more than just the income levels of poor clients. It also reduces their vulnerability to shocks and allows them to make investments in better health and education for their families (Helms, 2006).

Microfinance can be a powerful instrument against poverty. Existing evidence on the impact of microfinance probably understates the value of financial services for poor people, because studies focus only on one piece of the puzzle: microcredit. Studies show that permanent access to sustainable microcredit enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks (ibid).

Greater access to financial services and increased incomes allow poor people to invest in their children’s future. Studies on the impact of microfinance on children’s schooling show the following: In Bangladesh, nearly all girls in Grameen Bank client households received schooling, compared with 60 percent of girls in non-client households. Basic education competency (reading, writing, and arithmetic) among 11- to 14-year-old children in BRAC client households doubled in three years (from 12 percent in 1992 to 24 percent in 1995). Of course, these programs specifically focus on education as a core value and service for clients.

In Uganda, Foccas clients spent one-third more than non-clients on their children’s education. How does access to financial services improve the health of children and women? Access to financial services allows clients to seek health care services when needed, rather than wait until an illness has reached crisis proportions.

Studies show that financial services have had a strong positive impact on the health of women and children, especially in those programs that combine credit with training on health issues:
In Bolivia, Credito con Educación Rural (CRECER) clients had better breastfeeding practices, responded more readily with dehydration therapy for children with diarrhea, and had higher rates of diphtheria, pertussis, and tetanus (DPT3) immunization among their children.

In Uganda, 95 percent of Foccas clients benefited from a microcredit program that combined financial services with education practices to improve the health and nutrition of their children, compared with 72 percent for non-clients. In addition, 32 percent had tried an AIDS prevention technique, twice the percentage for non-clients (Littlefield, Morduch, and Hashemi, n.d).

The past 10 years have shown two (somewhat opposing) trends among microfinance NGOs: commercialization and pushing the poverty frontier. Some leading NGOs are increasingly behaving in a “commercial” way. The rationale for this approach, often referred to as seeking sustainability, is to become independent from unpredictable donor financing and tap commercial sources of funding to fuel growth and reach more poor people. In fact, data from the MIX Market suggest that sustainable institutions (those that cover their costs through revenues) reach much larger numbers than unsustainable ones. Of the 146 NGOs reporting data for 2003 to this database, only half (53 percent) are sustainable, but those sustainable institutions reach more than 90 percent of the total reported number of clients (MIX Market, 2005). Successful NGO commercialization has demonstrated to formal financial institutions that microfinance is a good and profitable business. But commercialization means different things to different NGOs (Helms, 2006).

Microfinance professionals worldwide, however, are increasingly using the term to include “the application of market-based principles to microfinance,” with the realization that only through achievements in sustainability can MFIs achieve levels of outreach commensurate with demand. There is a growing realization that commercialization allows MFIs greater opportunity to fulfill their social objectives of providing the poor with increased access to an array of demand-driven microfinance products and services, including not only credit but also savings, insurance, payments and money transfers. As competition increases, MFIs are becoming more responsive to client demand by diversifying their product offerings to include larger individual loans, leasing, savings products and microfinance. Those that can best satisfy client demand while ensuring financial self-sufficiency will be the most likely to survive (Charitonenko & Rahman, 2002).

Profitability is a key objective for any licensed financial institution. Some assert that the only way to do microfinance on a profitable basis is to focus on easier-to-reach, wealthier clients who take out larger loans and make larger deposits. The evidence on mission drift seems mixed. In some cases, average loan sizes increase as MFIs mature and become more commercial, which could be a sign that more wealthy clients are being served, but this does not necessarily mean that poorer clients are being abandoned. Larger loan sizes might also mean that existing clients are increasing their capacity for

19 As cited in Helms, 2006
20 As cited in Helms, 2006 with Notes: Sustainability is defined as those institutions covering at least 110 percent of their costs with revenues. Note that MFIs reporting to the MIX Market are on average more profitable than other MFIs, and findings should not be generalized to the entire universe of financial institutions serving the poor.
debt. Over time, a larger proportion of clients are repeat borrowers (as opposed to first-time borrowers who typically have smaller loans). This phenomenon will increase the average loan size even if there is absolutely no change in the MFIs strategy for reaching a certain poverty level among its clientele (Helms, 2006).

CGAP’s Pro-Poor Innovation Challenge, a competition among smaller and younger MFIs, has uncovered a number of NGOs involved in reaching poorer and more remote clients. For instance, the International Justice Mission (IJM) helps former bonded laborers in India access financial services, through a pilot program linked to a local MFI, including help to open individual savings accounts at local banks to manage the reintegration funds they receive from the government upon their release (ibid).

Using information collected in four countries, Sebstad and Cohen (2001) argued that if microfinance services are to be more effective in helping the poor manage financial risks, then we need to think in terms of:

- matching products to clients’ needs
- matching repayment amounts and cycles to clients’ needs
- matching loan size to clients’ needs, and
- matching financial flows and repayment cycles.

A better understanding of these factors provides a firmer basis for determining how old products might be tweaked or new products designed (Cohen, 2002).

Commercialization has demonstrated that poor people are viable customers, created a number of strong institutions focusing on poor people’s finance, and begun to attract the interest of private investors. But despite these achievements, there is still a long way to go to extend access to all who need financial services. Specifically, three major challenges define the frontier of financial services for the poor:

1. Scaling up quality financial services to serve large numbers of people (scale);
2. Reaching increasingly poorer and more remote people (depth); and
3. Lowering costs to both clients and financial service providers (cost).

The question is: How do we overcome these challenges? The answer: By making financial services for the poor a part of every country’s mainstream financial system (Helms, 2006).

There are a range of approaches that can be used to collect information on how clients use financial products and services. To start with, MFIs should not overlook the knowledge that credit officers can collect informally through their day-to-day contact with clients. An experienced and perceptive credit officer may gain considerable insight into clients’ financial management practices (Dunn, 2002). Delivering more client-responsive financial services to broader segments of the populations may require more than simply different products; it may also call for rethinking the existing organizational models in terms of built-in mechanisms for listening to clients. Creative options can also be explored with respect to different institutional delivery models which can lower operational costs (Cohen, 2002).

Most studies of microfinance programs in Bangladesh indicate that the poor, and especially poor women, have been effectively targeted, and that microfinance programs have been successful in opening up economic opportunities for their clients, increasing
access to resources and contributing to their confidence and well-being (Khandker, 1998; Hashemi and Schuler, 1996; Hossain, 1998).21

MFIs need to consider providing a range of products and services in addition to credit that act to help stabilize and increase income, and are based on an understanding of how financial services are used by very poor people (Daley-Harris, 2002).

Determining where the MFI is and where it wants to go are necessary to determining the MFI’s information needs, which in turn are necessary to select the appropriate assessment tool. Without clarity about mission, strategic objectives, and information needs, the MFI has no reference points for tool selection (Woller et al, 2005).

MFIs weigh several criteria when selecting tools. Broad criteria include familiarization with a tool or tools, reaction to internal or external events, opportunism, and strategic considerations. Tool selection should be driven by need and context; although the assumption is that as MFIs move up the assessment learning curve they will show an increased tendency toward strategic selection criteria (ibid).

Integrating client assessment into strategic planning is the ideal, but the reality is that MFIs embark on client assessment for a variety of reasons. One reason is not necessarily more valid than another. Over time, moreover, the reasons for doing client assessment will change (ibid).

MFIs must carefully consider their data management capacities and resources for MIS development in planning the client monitoring system. The expense and time of MIS development must be factored into the plans. Absence of a good MIS need not dissuade MFIs from implementing a client monitoring system, but it does require that they simplify their monitoring system commensurate with their MIS capabilities. As they develop their MIS over time, they can develop their monitoring system accordingly (ibid).

Research Methods

To identify the methods of collecting clients’ information in place and management of the information for the effective use of developing microcredit and loan products and services, I interviewed 5 Assistant Directors, Department of Operation (responsible for proposing ideas on product modification and new product development) and 5 Assistant Directors, Department of Finance and MIS (responsible for Client Information and other information management and/or Product Development) for ASA.

Scope of this research work was extensive literature review and interviews with Managers on clients’ information needs of Microfinance institutions and the ways they collect clients’ information.

I studied ASA which is an MFI renowned in Bangladesh and beyond. At first, I had gone through a secondary research for collecting a number of successful methods and standard types of information used by successful MFIs from existing literature. The goal of this stage was not to develop a comprehensive list of existing methods of collecting

21 As cited in CGAP, 2001
information and types of information but it was to generate guidelines for next step which was primary research. 

In primary research, I interviewed 10 Managers (Assistant Directors) for ASA to determine which of the methods found in the literature were of more effective for collecting clients’ information for them and also asked them to add their ideas to the list. At last I asked interviewees to rate the methods and results presented in this paper.

**Questionnaire Design**

I took help from several studies for preparing the questionnaire; MFC (Microfinance Centre) and SEEP (Small Enterprise Education and Promotion) Network studies were most useful for this purpose. I selected these to develop a questionnaire that could represent MFI’s information needs from better client assessment.
Chapter 3: Theoretical and Conceptual Framework

In this chapter, I have discussed Microfinance and its different terms and perspectives and the conceptual landscape of Client Information needs of MFIs.

Part 1: Microfinance and its related Terms and Perspectives

Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers" (Christen, Rosenberg & Jayadeva, 2004). Those who promote microfinance generally believe that such access will help poor people out of poverty. Microfinance programs focus on expanding local economic activities and improving the standard of living of their clients by providing financial services needed to establish small businesses. Microfinance can be defined as “the provision of banking services such as savings, credit and money transfer to poorer people who cannot access ordinary mainstream banking services” (Wilson, 2003). While the primary goal of most microfinance institutions (MFIs) is improving the economic status of poorer segments of the population, most service providers aim for a broader impact of enhanced well-being. Because households function as social and economic units, microenterprise programs have a unique opportunity to impact the economic, social, and general well-being of households (Doocy, Norell, Teffera, & Burnham, 2005).

Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks. Poor people usually address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market. Different types of financial services providers for poor people have emerged - non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale - offering new possibilities. These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans, and their desire to save. In many institutions, there are multiple loan products providing working capital for small businesses, larger loans for durable goods, loans for children’s education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients, but in some countries NGO microfinance institutions are not permitted to collect deposits. Remittances and money transfers are used by many

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22 As cited in Wikipedia website
23 CGAP website
poor people as a safe way to send money home. Banking through mobile phones (mobile banking) makes financial services even more convenient, and safer, and enables greater outreach to more people living in isolated areas. Financial services for poor people have proven to be a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress.\footnote{ibid}

**Microcredit**

Microcredit is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor.

Microcredit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh (Cons and Paprocki, 2008).\footnote{ibid} It has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as pre-bankable; thus, microcredit is increasingly gaining credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun. The United Nations declared 2005 the International Year of Microcredit.\footnote{ibid}

**Savings**

Saving is central to poor people’s economic management strategies: their current income is rarely sufficient to manage crises (a sudden illness or flood, for example), to invest when an opportunity appears, or to pay for large lifecycle expenses such as school fees, a wedding, or even a new roof. Poor people want savings accounts to help them manage, as shown by the 1.3 billion “accessible” savings accounts worldwide (i.e. those which have a low average balance, and carry low costs)

Around the world, institutions have developed innovative mechanisms to provide useful deposit services to poor clients while minimizing the expense associated with small balance savings accounts. Also, they are experimenting with product mix, client segmentation, and the business case for small savings. As microfinance providers increasingly recognize the potential market for savings, and obtain appropriate legal status to offer access to deposit services, we expect that the demand side to respond positively.\footnote{ibid}

**Insurance**

Losses due to natural disasters, fire or death of a family member can be devastating for anyone. For micro entrepreneurs and other low-income populations, even common illness can wipe out a lifetime of work, leaving them without any resources to start over.\footnote{C GAP website}
Micro insurance products can help mitigate the effects of losses on clients and their families so that they can retain and build on the gains they have worked so hard to achieve and continue on the path out of poverty.

Micro insurance is a nascent industry, which has made significant strides in the last few years. Products are specially designed to meet the needs of poor clients: premium payments are kept to a minimum, terms and conditions are clear and simple, and exclusions and requirements such as medical examinations are avoided to the greatest extent possible. Micro insurance includes but is not limited to: Life, Health, Accidental Death and Disability, and Property products.  

Money Transfer

Remittances are the earnings sent by immigrants in countries like the United States and Spain to families in their countries of origin. Remittances flows around the world continue to increase each year. Funds sent from the United States to Latin America, from Europe to Africa, or from the Middle East to the Philippines are examples of corridors where the volume of remittances and the impact that these funds have in recipient countries is significant. Domestic remittances between urban and rural areas also play an important economic role in developing countries.

Among low-income households, remittances have a positive correlation with increased savings rates and a positive impact in education and the health of children. Remittances can increase access to financial services for recipient households helping channel these funds towards productive uses and leveraging their economic impact.

Microfinance Models

There are a number of distinctive models of microfinance, reflecting the fact that microfinance has evolved differently in different environments. Some countries tend to rely on one particular model or method, while others exhibit considerable diversity in the range of models used.

In a number of countries, including Bangladesh (and, to a lesser extent, Nepal and the Philippines), the great majority of MFIs use one or another variant of the Grameen model of microfinance and in most if not all countries, there are at least some MFIs using the Grameen model. This model, developed in Bangladesh, has thrived in a variety of physical, cultural, and institutional settings and has a number of distinctive features. These include careful targeting of the poor through a means test; the use of self-selected groups of borrowers, generally consisting of five members, who guarantee each other’s loans; compulsory savings mobilization, with generally little or no emphasis on voluntary savings; intensive motivation and supervision of borrowers (including the use of weekly meetings); and decentralized operations (McGuire & Conroy, 2000).

Nevertheless, the model is not static. In Bangladesh, in particular, some MFIs are modifying it significantly. For instance, a number of MFIs have introduced voluntary savings schemes, and one leading institution, the Association for Social Advancement (ASA), has dispensed with the group guarantee. This and other modifications suggest that ASA is developing a set of procedures sufficiently differentiated from those of Grameen Bank as to constitute a new model (ibid).

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28 ibid
29 As cited in Wikipedia website
In India, a range of microfinance models exists. An important model is self-help groups (SHGs). These are larger (around 20 members) and much more autonomous than borrower groups in the Grameen model. SHGs are based primarily on the principle of lending their members’ savings but they also seek external funding to augment these resources. A number of nongovernment organizations (NGOs) specialize in promoting and motivating SHGs, with an important distinction between NGOs which operate as financial intermediaries and those which confine themselves to social intermediation. Variants of these approaches also exist in a number of other countries, including Indonesia, Nepal, Pakistan, and Sri Lanka.

These examples serve to illustrate the diversity of models of microfinance, both within and between Asian countries. This diversity is to be encouraged. It is clear that no one model is suitable for all situations. As noted by Pischke et al. (1997)\(^\text{30}\), retaining and even supporting diversity is important. Successful models cannot simply be replicated in social and economic environments that may differ greatly. Thus, no single model offers a panacea.

Moreover, these models are not static. Leading MFIs tend to be innovative and to adopt a client focus. They monitor the economic, social, technological, and other environments to improve existing products and develop new products that serve the poor better (ibid).

**Clients of Microfinance**

Microfinance clients are often described according to their poverty level - vulnerable non-poor, upper poor, poor and very poor. This can obscure the fact that microfinance clients are a diverse group of people – and require diverse products. While women clients make up a majority of clients - and in some instances comprise 100 percent of an MFI’s clientele, 33 percent of all microfinance clients are men. These clients operate small businesses, work on small farms, or work for themselves or others in a variety of businesses – fishing, carpentry, vegetable selling, small shops, transportation, and much more. Some of these microfinance clients are truly entrepreneurs – they enjoy creating and running their own businesses. Others become entrepreneurs by necessity when there are few jobs available in the formal sector.\(^\text{31}\)

According to Otero (1999), Clients of microfinance institutions are poor city dwellers housed in slums or squatter settlements, often living in appalling overcrowded settings, lacking access to basic services such as health. Their survival tool kit lacks education or skills that are essential to enter the mainstream economy. Many of them are women, poorly trained and playing dual roles of provider and caregiver. These poor people are more exposed to the threats of contamination, bad sanitation, and disease than the rest of the population. When disaster strikes, in the form of inflation, earthquakes, or other outside forces, they are the most exposed. Rural clients are landless or land poor; their land is often unproductive or lies outside irrigated areas. Many farm in arid zones or on steep-hill slopes land that are ecologically vulnerable. Opportunities for off-farm employment are few and must be self-generated, with many rural poor mixing; many earning activities to generate the cash they need to survive. They live in large households, their children are especially susceptible to disease, and many suffer from

\(^{30}\) As cited in McGuire & Conroy, 2000  
\(^{31}\) CGAP website
malnutrition. Many poor depend on their children for work and must weigh the opportunity cost of sending children to school today against present and future benefits.

To answer the question “Who are the clients?” Cohen (2002) argued that even though most MFIs serve a wide range of clients, the majority are clustered just above and just below poverty line (see Figure 1). While poverty targeted programs tend to reach a higher per cent of lower income clients, significant poorer populations self-exclude or are denied access. They include the destitute and to a lesser extent, the extreme poor (Sebstad and Cohen, 2001).

![Figure 1. Defining the clients](image)

**Figure 1. Defining the clients**

**Women as MF Clients**
Overall, women made up the overwhelming majority (64 per cent) of the clients. Even when women-only MFIs are taken out of the sample, the survey shows that women constitute 52 per cent of microfinance customers, which reflects major progress in terms of gender equitable outreach. However, women were less conspicuous in programs with larger loan sizes supporting higher levels of business development, suggesting persistent cultural obstacles that act to limit women's ability to grow their businesses (Deshpande & Burjorjee, 2002).

**Factors that hamper the development of women’s enterprises**
Although legal ownership was not generally seen as an obstacle to women’s self-employment, respondent institutions reported many other factors that did hamper the development of women’s enterprises. The most frequently cited of these was women’s responsibility for domestic work, which leaves them very limited time and energy to put into a business. Other barriers listed by respondents included:

- Lack of regard for women’s informal sector activities;
- Spousal consent problems;
- Lack of decision-making power;
- Financing difficulties, especially with regard to high interest rates and obtaining repeat loans;
- Lack of self-esteem/confidence;

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32 As cited in Cohen (2002)
• Lack of information and access to markets;
• Illiteracy or lack of education;
• Poorly developed business skills; and
• Exploitation by middle men.

Opinions about women’s single greatest need with regard to enterprise varied as widely as this list of obstacles. They ranged from development of the formal economy, lessening of traditional values, and implementation of social security schemes, to creativity and self-esteem, marketing opportunities, and management and technical training. Perhaps not surprisingly, however, these diverse opinions seemed to coalesce around the availability of financial services. Several institutions stressed that such services would be of little help unless they were designed to compensate for the other finance-related constraints from which women suffered, particularly a lack of collateral, formal guarantees, and credit awareness. Flexibility, accessibility, and ease of operation were also emphasized as important traits in any financial service aimed at women micro-entrepreneurs (ibid).

**Advantages of working with female clients**

Despite the many challenges of working with women clients, the MFIs that responded to this survey find that serving this market niche is well worth the effort. A question about the advantages of working with female clients elicited voluminous responses focusing on three main areas:

1. **Women make better customers from an institutional point of view.** Respondents said their women clients were more reliable and timely in repaying loans and also better savers than men. Several institutions also mentioned that women were more loyal as customers, and that this loyalty motivated staff to deliver services more efficiently. Furthermore, one institution reported that women were more likely to use loan proceeds for the purpose intended by the program.

2. **Women are more easily mobilized for social goals.** Among the adjectives used for women in this regard were “serious, focused, and sincere,” “cooperative,” “open,” and “active.” MFIs indicated that women responded better to calls for organization around social issues than did men, and were more receptive to new ideas once they were convinced about these goals.

3. **Women’s success benefits more than one person.** Several institutions confirmed the well-documented fact that women are more likely than men to spend their profits on household and family needs. Assisting women therefore generates a multiplier effect that enlarges the impact of the institutions’ activities.

One institution wrote a veritable paean to its all-female clientele, describing them as displaying “sincerity, honesty, single-minded devotion and selfless leadership, [and] exemplary courage against all odds to pursue their business, make profits, save and build assets” – a laundry list, in fact, of the attributes of an ideal microfinance customer (ibid).

**Positive consequences of microfinance activities for female clients**

All of the institutions that responded to the question about outcomes described positive consequences of their microfinance activities for their female clients. These included increases in women’s:

- Awareness, self-development, and leadership skills;
- Income;
Client Information Needs of MFIs: A Case Study of ASA Bangladesh

- Decision-making power within the household;
- Business growth and development;
- Organizational capacity; and
- Access to financial services (ibid)

**General characteristics of microcredit borrowers**

Being poor means spending what little you have on essential products like food, shelter, and fuel (Rutherford 2003). If a larger expenditure or investment opportunity arises and there is no cash or savings available, which may be a likely situation for poor individuals, credit is needed (ibid). Ideally, to sidestep current budgets and enable inter-temporal budgets, people borrow money, pay it back with future pay-off from investments, and grow economically. The characteristic low-income borrower demands working capital to make continuous investments in productive activities like buying up a stock of goods that can be sold in the short term (Ray 1998). Capital may also be demanded to cover private consumption if for example sales are temporarily low for an entrepreneur (Ibid). In start-ups or expansions of production there is the further possibility of capital being demanded for the longer term to be invested in machinery or other fixed inputs (Ibid). Microcredit borrowers are typically poor individuals that lack access to formal bank loans, and that may not be sufficiently served by informal sources of micro-sized credit (National Strategy for Microfinance). They are often self-employed and household-based shopkeepers, service providers and street vendors in urban areas, and small farmers, food processors or traders in rural areas (Ibid). The microcredit clients represent an often otherwise excluded financial market segment (Ibid). However, all poor individuals are not necessarily suitable for microcredit borrowing. For example, having undependable incomes or not having an identified economic opportunity may mean that one is unsuitable as a microcredit client, at least for the existing array of credit products (Ibid). These people may need financial aid, social safety nets, and technical assistance to start with instead (Ibid). This is not to say that not everyone can become suitable clients. To find the preferable microcredit borrowers it is again instrumental to have a screening process. Key for the microcredit phenomenon is that it tries to apply another form of screening process to get around information problems that cause formal banks to avoid lending to poor individuals. This particularly concerns getting around the problem of collateral requirements and higher cost per loan for smaller-sized loans, while at the same time maintaining the formal lender capacity that informal alternatives may lack (Gonzalez-Vega, n.d). The higher costs of the microcredit endeavor is often reflected in higher interest rates at sustainability-oriented MFIs compared to formal bank loans, but frequently it is proven by today’s MFIs that poor borrowers can pay relatively high interest rates due mainly to quite high profit margins and low absolute interest rate payments. There is usually a relatively high level of defaults in developing countries’ formal financial sectors (Ray 1998). Risky activities or investments in education that are hard to turn into monetary means may be reasons for this. Developing countries also often experience shocks like bad weather conditions and changed commodity prices, and this can be another explanation for higher defaults (Besley 1995). When default occurs the borrower has either involuntarily or strategically defaulted (Ray 1998). If the borrower values his or her collateral, reputation, and future access to credit, the borrower will only default if he or she does not have any money (Bell 1988). This is involuntary. On the other hand, the strategic defaults occur if default is voluntary. Here enforcement of contracts becomes a key factor as it reduces moral hazard problems and thereby the potential for strategic defaults being profitable (Ray 1998). It is also
important to realize the differences between rural and urban areas, especially with regards to the geographical access to formal financial sources and the fact that formal lenders require often illiterate, potential borrowers to provide detailed and relatively costly documentation (Adams et al, 2003). Rural borrowers are typically disadvantaged with regards to access to suitable and more formal sources of credit (Ibid). Another important issue is the gender bias at home and in the workplace. The skills women possess have often led them to public sector employment, informal sector employment, or unpaid labor like some agricultural activities (Ghazaleh, 2004). This together with lack of enough gender-sensitive projects is a natural explanation for a gender bias against women’s borrowing in many places (Ibid).33

### Distinct features of microcredit

<table>
<thead>
<tr>
<th>Category</th>
<th>Traditional Banking</th>
<th>Microcredit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership and Governance</td>
<td>• Profit-maximizing and individual shareholders &lt;br&gt;• Centralized decision-making</td>
<td>• Mainly non-profit institutional shareholders &lt;br&gt;• Decentralized decision-making</td>
</tr>
<tr>
<td>Client Characteristics</td>
<td>• Diverse formal business and salaried individuals &lt;br&gt;• Geographically dispersed clients</td>
<td>• Low-income entrepreneurs with rudimentary family businesses and limited formal documentation &lt;br&gt;• Located in a specific geographic area</td>
</tr>
<tr>
<td>Lending Methodology</td>
<td>• Collateral and formal documentation &lt;br&gt;• Salary incentives are a minor part of loan officer compensation</td>
<td>• Character and cash flow analysis through on-site inspections &lt;br&gt;• Salary incentives are a major part of loan officer compensation</td>
</tr>
<tr>
<td>Product Characteristics</td>
<td>• Larger amount &lt;br&gt;• Longer terms &lt;br&gt;• Lower interest rate &lt;br&gt;• Monthly repayments</td>
<td>• Smaller amounts &lt;br&gt;• Shorter terms &lt;br&gt;• Higher interest rate &lt;br&gt;• Weekly and bi-weekly repayments</td>
</tr>
</tbody>
</table>

![Table 1 Distinct features of microcredit (Janson, Rosales, & Westley, 2004)](image)

### Classification of different form of microcredit

Yunus (2004) divides microfinance into ten different classifications.35

- a) Traditional informal microcredit, such as money lenders’ credit, pawnshops and from friends and families.
- b) Microcredit based on traditional informal groups, such as tontin and susu.

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33 As cited in Fridell, 2007  
34 As cited in Hercules, 2006  
35 Grameen Website as cited in Hercules, 2006
c) Activity-based microcredit through conventional or specialized banks (for example agriculture credit, livestock credit, or fisheries credit).

d) Rural credit through specialize banks.

e) Cooperative microcredit, such as cooperative credit, credit union, savings banks.

f) Consumer microcredit

g) Bank-NGO partnership based microcredit.

h) Grameen type microcredit

i) Other forms of NGO microcredit.

j) Other types of non-NGO non-collateralized microcredit

**Schools of Thought about Microfinance**

There are three schools of thought about microfinance; they are as follows (Edward and Olsen, 2006):[^36]

<table>
<thead>
<tr>
<th>Financial Sustainability</th>
<th>Poverty Alleviation</th>
<th>Empowerment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neo-liberal market growth</td>
<td>Poverty alleviation and community development</td>
<td>(Feminist) critique of capitalism</td>
</tr>
<tr>
<td>Entrepreneurial poor</td>
<td>Poorest of the poor</td>
<td>Typically poor women (but here expanded to include marginalized people)</td>
</tr>
<tr>
<td>Efficiency, high female repayment rate, increasing economic activity of women</td>
<td>High levels of female poverty, women’s responsibility for household well-being</td>
<td>Equality, human rights and social justice</td>
</tr>
<tr>
<td>Economic, expansion of individual choice and capacity for self-reliance</td>
<td>Community development, well-being and self-sufficiency</td>
<td>Transformation of power relations in society</td>
</tr>
<tr>
<td>Consultation and group formation to decrease costs of service delivery and increase commitment and innovation</td>
<td>Development of self-owned and self-managed peoples’ organizations for community development</td>
<td>Empowerment to articulate their collective interests and organize for change in social (and gender) relations</td>
</tr>
</tbody>
</table>

Adapted from Box 1. Edward and Olsen 2006

**Table 2: Schools of Thought about Microfinance (Edward & Olsen, 2006)**

**Camps of thought on the issue of financial services for the poorest**

There are three camps of thought on the issue of financial services for the poorest. The first camp rejects the hypothesis that the poorest can be reached with financial services on a sustainable basis. The second camp advocates that the poorest of the poor can be reached not only on a sustainable basis but also on a large scale. The third camp recognizes that the potential for reaching the poorest on a sustainable and a large-scale basis is limited but that the search for innovative approaches to expand the outreach to the poorest must be continued.^[37]

[^36]: As cited in Jörgensen, 2009
[^37]: Cited with modification from Fernando, 2004
First Camp: The poorest cannot be reached on a sustainable basis. Those who belong to this camp simply argue that the poorest cannot be reached with microfinance services on a sustainable basis. When credit is extended, the recipient should have an ability to service the debt, in addition to having an intention to do so. If the borrowers are unable to service the debt for some reason, credit becomes a burden. Credit is unlikely to help the poorest if they do not have the capacity to service the credit. As Robinson (2001, p.20) pointed out, “for example, extremely poor households living in small, isolated communities in areas that lack basic infrastructure and markets may be unable to use credit in any way that would enable them to repay loan principal and interest.” There are many such people in the poorest category. To address the needs of these people, other interventions—and not microcredit—are required. Robinson (ibid.) concludes that “The poorest of the poor should not be the responsibility of the financial sector. The food, employment, and other basic requirements needed to overcome desperate poverty are appropriately financed by government and donor subsidies and grants. These tools are properly the responsibility of ministries of health, labor, social welfare, and others, as well as of donor agencies and private charities.”

This camp’s views are based on three interrelated assumptions. First is that there is very little effective demand for financial services among the poorest. Second, the cost of providing services to the poorest is too high. Third, the poorest cannot afford to pay the prices that sustainable microfinance service providers are likely to charge for their services.

Second Camp: the poorest can be reached on a sustainable and large-scale basis. This camp holds an opposite view from that of the first camp. First, it assumes there is a vast effective demand among the poorest for microfinance services, particularly microcredit. It is claimed that this enormous demand is evident from the reliance of the poorest on informal sources of credit. Second, it is argued that increasing numbers of microfinance institutions (MFIs) with a focus on the poorest have achieved successful results and the required knowledge on delivery mechanisms is widely available. According to this group, if funding agencies and MFIs target the poorest and if funding agencies make more funds available to these MFIs, outreach to the poorest can be rapidly increased.

Third Camp: potential for reaching the poorest on a sustainable and large-scale basis is limited. This camp does not totally reject the potential for reaching the poorest with microfinance services on a sustainable basis. However, it does not accept that there is a vast effective demand for microcredit among the poorest or that there is a great deal of existing knowledge about the requirements of sustainable microfinance for the poorest. As a result, this group does not consider that the major constraints to large scale outreach to the poorest are the lack of support from the donor community and inadequate funds for the expansion of credit operations of MFIs. The third camp’s view is that the search for sustainable models to deliver financial services for the poorest must continue; funding agencies have an important role to play in promoting innovations toward this end. However, mere increases in funds for lending do not address the problem for various reasons. This camp also recognizes that subsidies have an important role to play in developing sustainable mechanisms to reach the poorest.
Microfinance Institution (MFI)

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. During the 1970s and 1980s, the microenterprise movement led to the emergence of nongovernmental organizations (NGOs) that provided small loans for the poor. In the 1990s, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.\(^{38}\)

Characteristics of MFIs

Formal providers are sometimes defined as those that are subject not only to general laws but also to specific banking regulation and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries). Formal providers may also be any registered legal organizations offering any kind of financial services. Semiformal providers are registered entities subject to general and commercial laws but are not usually under bank regulation and supervision (financial NGOs, credit unions and cooperatives). Informal providers are non-registered groups such as rotating savings and credit associations (ROSCAs) and self-help groups. Ownership structures: MFIs can be government-owned, like the rural credit cooperatives in China; member-owned, like the credit unions in West Africa; socially minded shareholders, like many transformed NGOs in Latin America; and profit-maximizing shareholders, like the microfinance banks in Eastern Europe. The types of services offered are limited by what is allowed by the legal structure of the provider: non-regulated institutions are not generally allowed to provide savings or insurance.\(^{39}\)

Outlook of MFIs

It is evident that the MFIs around the world are diverse in their structure and practices. Following are some of the factors that differentiate MFIs from each other (Ahmad, n.d.):

1. Type of organization:
   - NGO
   - MFI (non-regulate)
   - Regulated MF Institution
   - Microfinance banks

2. Type of Products and Services:
   - Minimalists (those who offer only credit services)
   - Loans as well as savings services
   - Full range of products (including loans, deposits, remittance, insurance, leasing and social services)

3. Organizational Structure:
   - Branch setup (small, medium and large)

\(^{38}\) CGAP website
\(^{39}\) ibid
4. Size:
- Branch network
- Portfolio size
- No. of employees
- Sections and departments
- Growth

5. Geography:
- Area specific (operations are limited to a small area)
- Country specific (operations are spread over an entire country)
- Global operations (operating in multiple countries)

6. Operational Environment:
- Rural areas
- Urban areas
- Other

7. Processes and procedures:
- Models (associations, cooperatives, credit unions, Grameen, etc.)
- Methodologies (individual, group, village banking, community banking etc)

8. Regulatory environment

9. Reporting:
- Management reporting
- Stakeholder reporting
- Microfinance networks and peer group reporting

**Current scale of microfinance operations**

No systematic effort to map the distribution of microfinance has yet been undertaken. A useful recent benchmark was established by an analysis of ‘alternative financial institutions’ in the developing world in 2004 (Christen, Rosenberg & Jayadeva, 2004).40 The authors counted approximately 665 million client accounts at over 3,000 institutions that are serving people who are poorer than those served by the commercial banks. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172 million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Regionally the highest concentration of these accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin American and the Caribbean (14 million accounts representing 3% of the population).

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40 As cited in Wikipedia website
total population) and Africa (27 million accounts representing 4% of the total population). Considering that most bank clients in the developed world need several active accounts to keep their affairs in order, these figures indicate that the task the microfinance movement has set for itself is still very far from finished. By type of service “savings accounts in alternative finance institutions outnumber loans by about four to one. This is a worldwide pattern that does not vary much by region (ibid).”

An important source of detailed data on selected microfinance institutions is the MicroBanking Bulletin. At the end of 2006 it was tracking 704 MFIs that were serving 52 million borrowers ($23.3 billion in outstanding loans) and 56 million savers ($15.4 billion in deposits). Of these clients, 70% were in Asia, 20% in Latin America and the balance in the rest of the world (MIX, 2007).

Financial needs of poor people

‘Need’ is the language of advocacy and rent seeking, sales or marketing, politics, and psychology: it has nothing to do with finance. The use of the term conveys that the user, at best, has little appreciation of the fundamentals: value, risk and confidence; term structure, transaction costs and valuation; and the design, objectives and functions of credit technologies. Credit needs are subjective (in the same sense that what you think you are lending against is subjective), and in effect infinite. When all credit needs are met, the financial sector will have been destroyed by default. The superior alternative to worry about is the creation of debt capacity, defined as the amount a borrower can borrow on a sustainable basis. Financial innovation is one way in which debt capacity it created. Factors outside financial markets, such as legal systems and macroeconomic stability, are also important determinants of debt capacity.

In developing economies and particularly in the rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. Almost by definition, poor people have very little money. But circumstances often arise in their lives in which they need money or the things money can buy.

In Stuart Rutherford’s recent book The Poor and Their Money, he cites several types of needs (Rutherford, 2000):

- **Lifecycle Needs**: such as weddings, funerals, childbirth, education, homebuilding, widowhood, old age.
- **Personal Emergencies**: such as sickness, injury, unemployment, theft, harassment or death.
- **Disasters**: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- **Investment Opportunities**: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

Poor people find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewellery and precious metals.

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41 ibid
42 ibid
Microfinance as a Development Strategy

Development may be characterized as the application of better and smarter ways of dealing with key challenges. As a leading growth economist Paul Romer (1993a) has written, “Nations are poor because their citizens do not have access to the ideas that are used in industrial nations to generate economic value”. Development marks the evolution of newer and more effective ideas that replace those that no longer reflect the opportunities and policy choices available to individuals and societies. The acceleration of growth and poverty reduction requires a more rapid evolution and dissemination of ideas. The challenge is the identification and assimilation of what works (and what does not work) in the fight against poverty, with local ideas addressing the uniqueness of local problems drawing on the full richness of global knowledge (Goldin, 2006). There are three points at which development and microfinance intersect, and that it is microfinance’s ability to connect in all three of these points that make it so compelling as a development strategy. (Otero, 1999)

Reaching the Poor

Conceptually, microfinance addresses one constraint faced by the poor: their shortage of material capital (i.e., the input necessary to generate income). Capital investment, from savings or borrowed money, takes a critical place in the economy of all human actors, regardless of their level of income. Microfinance creates access to productive capital, which together with two other forms of capital—human capital, addressed through education and vocational training, and social capital, built through creating representative, local organization building, promoting democratic systems, and strengthening human rights—enables people to move out of poverty. Microfinance enables poor self-employed people to create productive capital, to protect the capital they have, to deal with risk, and to avoid the destruction of capital. It attempts to build assets and create wealth among people who lack them. For the very poor, microfinance becomes a liquidity tool that helps smooth their consumption patterns and to reduce their level of vulnerability. (ibid)

Building Institutions

The second point of intersection between microfinance and development occurs at the institutional level. Microfinance seeks to create private institutions that deliver financial services to the poor. These institutions become part of the infrastructure of the country; that is, they are distribution channels for deploying services that respond to the material capital needs of poor. Creation of such distribution channels that provide access to services to the poorer sectors is one of the greatest challenges that governments face. Even governments that want to allocate increased resources to address the needs of the poor encounter a daunting challenge: the lack of effective distribution channels or the infrastructure necessary to convert economic growth into improved well-being among the poorer sectors. In this setting, microfinance proposes to create private, sustainable institutions that specialize in delivering financial services to the poor. Against a broader development backdrop, these institutions become a means to an end, not an end in and of themselves. They constitute part of the not-yet-attained and long-sought-after instrumentalities needed to incorporate the poorer sectors into the economy. They put

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43 As cited in Goldin, 2006
44 As cited in Vernhagen, 1999
capital in the hands of those who otherwise would not have it, and they enable people with few assets to save. (ibid)

**Deepening the Financial System’s Reach**

The final intersection between microfinance and development occurs at the intersection between microfinance and the financial systems in a country, accomplished when a microfinance institution becomes a regulated institution that is part of the financial system. This connection is made possible by the recognition in the last decade that healthy financial systems are an important piece of the development puzzle, and that financial sector improvement and reform should be a priority in all developing countries. When microfinance institutions become part of the financial system, they can access capital markets to fund their lending portfolios which allow them to increase dramatically the number of poor people they reach. They can also capture savings, providing another important financial service to the poor, and access deposits as another source of capital. (ibid)

By inserting themselves into the financial systems of their country, microfinance institutions deepen dramatically the reach of financial systems to populations previously excluded from banks and other financial institutions. One essential means of alleviating poverty becomes the creation of a broader and deeper financial system which does not restrict the allocation of capital to a tiny group of elites, but instead integrates the poor as a market segment and reallocates resources from other sectors. This last intersection with development is, in relative terms, a recent one for microfinance, made possible only after attaining the creation of financially viable institutions. Once it was demonstrated that microfinance institutions could manage risk effectively and that they would not become a systemic risk to the system, their incorporation into financial systems became possible. When microfinance intersects with development at the three points suggested above, it has the capacity to create structural changes in the way in which capital is made available to a population. It is addressing the seemingly intractable problem of creating the infrastructure to reallocate resources and to create wealth among poorer sectors. More than that, it is changing the dimension of a system within an economy—the system that moves and reallocates capital in the economy. Microfinance operates at its best when it intersects with development in these three points. Many microfinance institutions, either because they have not become sustainable, or because they operate in an unfriendly regulatory environment, are not able to complete these three points of intersection. (ibid)

**Critics of microfinance**

Even though there are strong supports for microfinance there are also advocates arguing there are problems with microfinance and this is important to examine in order to try to avoid them (Norrlander & Anell, 2001).

- Even if microfinance reaches many poor that other banks have failed to reach, there are those who argue that microfinance cannot reach everybody. In a situation where the lack of credit access is due to government regulation or failure instead of poorly working financial market, microfinance cannot help the situation (Buss, n.d.)

45 As cited in Norrlander & Anell, 2001
Far from all poor people can successfully start and maintain a business. For these people microfinance is a potential dept trap. The microfinance can result in that a person has to meet payments that he or she cannot meet. The microfinance can therefore result in a person being worse off after the credit than before (ibid).

Microfinance organizations are founded by public or donor capital, they are therefore eager to prove that the financial market where they are operating has failed. If they cannot show this they have to compete, for the founding with other social programs that for different reasons are more attractive for both governments and donor organizations. In order to prove the failure of the financial markets, microfinance organizations often turn to showing that formal capital sources do not reach the poor. The incapacity of formal capital sources to supply poor people is not necessarily a proof of market failure. Critics often point out that many micro-enterprises started with capital from non-formal sources, e.g. savings, friends and loan sharks, and the informal credit market is working quite well. Which would largely lessen the importance of microfinance and the money might be better spent elsewhere (ibid).

There are substantial difficulties in measuring the impact of microfinance programs. There are several different ideas of how the impact should be measured. This creates a situation where the result is heavily dependent of the method used to control the results of a program. Critics therefore argue that one should take reports of microfinance programs success with some doubtfulness (ibid).

MIS and Microfinance

To manage clients’ information MFIs are using several MIS, this section focuses on proper selection of an MIS for an MFI.

What is a management information system (MIS)?

A management information system, known as an MIS or simply IS, involves all aspects of gathering, storing, tracking, retrieving and using information within a business or organization. Thanks to the development of computers and the software applications that run on them, much of this work can now be automated and the information more readily accessed. However, the software application itself is not the information system. All the policies, procedures, and practices that direct an organization’s operations and the staff that interact with the information, combined with the software and hardware, comprise an information system.

When implemented and managed well, a sound information system can help MFIs...

- Make informed decisions. Timely, accurate data enables managers to continually evaluate performance, better predict cash needs, and anticipate and respond to crises.
- Improve reporting; Reliable, standardized reports enable MFIs to follow accounting industry and national standards, and reduces time and effort spent generating reports for regulators, donors, and investors.
- Lower costs and improve customer convenience. A computerized IS can help data transmit between branches, improving operational efficiency and may reduce approval time for loans and other products.

So what are the keys to developing a good information system?

- Thorough identification of information needs. Managers, field staff, board members, and information system staff all have different information
requirements and seldom know all the information needs of their institution. Conducting a needs assessment to define the information requirements at all levels of the organization is a necessary prerequisite to identify appropriate software products and processes to meet information needs.

- Effective communication between management and systems people. Compartmentalized operations can prevent effective communication between financial institution managers and information systems staff. Each focuses on his or her own area of duty with limited interaction despite the fact that the two are intrinsically linked. This often results in a system that does not meet its users' needs. Consistent communication between these two departments will help ensure that the system works to the benefit of all users.

- Realistic expectations about information technology. Getting the technology right - from selecting appropriate software to a well managed data migration - is only half the battle. Equal attention should be paid to training users on the system, defining processes to manage information flows, and using the information to make operational decisions.\(^{46}\)

**Information Systems used by MFIs**

The microfinance sector is also quite diverse in its use of information systems. Generally there are the following three types:

1. **Manual System** Some MFIs still rely on manual systems, which involves maintenance of records in forms and ledgers. Organizations having manual systems are either small micro-credit programs or NGOs.

2. **Semi-automated System** More than 50% of MFIs are operating in a semi automated mode. Within this category, the spreadsheet is the common tool being used either in conjunction with a manual system or with an MIS application that does not fulfill the information requirements of the MFI. The majority of non-regulated MFIs have semi automated systems.

3. **Fully Automated System** Few MFIs are fortunate enough to have a fully automated and integrated MIS, fulfilling the whole information requirements of the organization. Such systems are existent with banks or regulated MFIs. (Ahmad, n.d.)

**Benefits of computerized MIS to Microfinance**

There is no doubt that “the right information” at “the right time” at “the right place”, is crucial in decision making. Therefore, information and data is considered among the most valuable assets fundamental to the success of an organization. The primary roles of the MIS are to capture information, create new information, store information, and convey information to the user. The two major objectives of MFIs are Outreach and Sustainability. MIS can add substantial value in achieving both the objectives:

- A major advantage of MIS is that it provides easy access to accurate and up-to-date information. For example, loan officers get information on loans that need follow-up, branch managers can monitor daily progress of the branch, and senior management can get a full picture of the portfolio performance and quality. Customers also get quick information on their accounts, payments and balances.

\(^{46}\)CGAP website
• Detailed information is captured on customers and their activities that can then be used to assess client business to assess impact. It is also useful in tracking historical information of clients.
• Activities, such as disbursements, repayments, deposits, withdrawals and money transfers are completed faster, better controlled and with minimum opportunity for errors.
• Information is produced in user-required formats, which facilitates better understanding, setting priorities, objectives and strategy.
• Key performance indicators provide an overview of the organization’s performance, efficiency and effectiveness of business procedures so that timely adjustments can be made.
• Use of ICT helps make MFI services more interactive, accessible and transparent.
• In terms of innovation, ICT provides full flexibility to structure products and services to the needs of its target group.
• Efficiency and productivity of staff is increased, as they are able to manage more products, customers, and transactions in less time.
• To meet target market needs, introduction of new products and setting procedures is easy and can be quickly applied throughout the branch network.
• It can also provide the flexibility to integrate with other applications and delivery mechanisms

MIS lowers transaction cost, increases productivity, reduces risk of failure, and pushes the boundaries beyond bricks and mortar infrastructure to carryout business (ibid).

Difficulties in Adopting MIS
A number of MIS solutions are emerging. Currently, there are 56 MIS applications listed on the CGAP website, although more are being used by various organizations that are not publicized. Despite the advances in MIS, practical experience shows that the acquisition of a suitable MIS is not simple. Many MFIs are struggling with their MIS. Some of the reasons for these difficulties are:
• Microfinance operations are unique and complex, compared to commercial, retail banking.
• The Microfinance sector is still evolving and lacks standardization in its procedures, methodologies, customer characteristics, type of transactions and reporting.
• There is no of-the-shelf software available that can address the requirements of every MFI.
• Those MIS that are available are complex and costly for adoption by MFIs.
• MFIs lack human and organizational capacity to develop or select an appropriate MIS.
• MFIs operate in remote and difficult areas where communication and power infrastructure do not exist, and are therefore constrained from using IT equipment required to run MIS applications (ibid).

Getting the Right Fit
MFIs face great challenges in choosing the right system solution that can best fit their business needs. An MIS for microfinance must have the following characteristics:
1. Cost effectiveness: Total ownership and lifetime system operations costs, including hardware, software, network, infrastructure and human resource.
2. **Functionality & flexibility**: Fulfill maximum of the current business requirement and flexible enough to incorporate future changes. Capture and generate relevant information on an individual, group, and at a consolidated level.

3. **Reliability**: Incomplete and unreliable systems are dangerously risky and can hamper the business. Such systems do not produce the right results and are unable to complete processes to the desired level. Users could be misguided by such systems.

4. **Simple to use**: Should be user friendly and easy to setup and operate. Activities can be performed in a systematic way and flow.

5. **Scalability**: System should accommodate changes to products, services and delivery channels. It should grow as the business grows. For example, if the system design is scalable, it can be run on an individual PC, Local Area Network (LAN) or Wide Area Network (WAN).

6. **Integration**: Combining data from multiple sources is of great importance to microfinance. Integration of branches to get single consolidated picture should be a priority. (ibid)

**Part 2: Client Information Needs of MFIs**

To be able to get up-to-date in case of Client Information MFIs should focus on client assessment to become a client-focused organization. This part of the chapter discusses Information needs and importance of client assessment which are the conceptual foundation of this research paper.

**Becoming a Client-Focused MFI**

Being client-focused means institutional structure, processes and services are driven by clients’ needs, preferences, and capacities in a given context. There is growing evidence that higher levels of market-orientation, for which client-focus is an integral part, lead generally to higher levels of institutional performance (Woller 2002). It is needless to say, that being client-focused also maximizes benefits from institutional offerings to its clients. Market intelligence is one of the elements of being a client-focused organization. It is about collecting and using client and market information. Market intelligence goes beyond understanding client needs and is extended by considering exogenous market factors affecting clients’ needs and preferences now and in the future (i.e. competition, regulations, etc.). It is crucial for decision-making regarding strategic and operational plans. However, an organization that does client or market research from time to time cannot be automatically defined as client-focused. If market intelligence efforts are not institutionalized they will not add much value in the move towards becoming a client-focused organization as institutions and markets are of dynamic nature (Matul et al, 2005).

**Definitions of Client-Centeredness**

To the banker it means ‘knowing your borrower’. To the client it is the existence of unused debt capacity, the ability to borrow a reasonable (additional) amount at reasonable cost reasonably quickly at any time. To the economist it means low transaction costs in obtaining a loan that can be used and repaid without compromising the welfare of the borrower or household. In a credit scoring strategy it means quantifying the probability of repayment. To many politicians and activists without much understanding of how finance works, it means responding to ‘credit needs’, a
concept as vacuous as it is dangerous because it provides no information on a loan applicant’s willingness or ability to repay in full and on time (Pischke, 2002).

Keith (1960) argued that our attention has shifted from problems of production to problems of marketing, from the product we can make to the product the customer wants us to make, from the company itself to the market place . . . . Every activity of the corporation—from finance to sales to production—is aimed at satisfying the needs and desires of the consumer . . . . Today the customer is at the center.

Market Researchers define a customer orientation as the “organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization-wide responsiveness to it.” (Kohli & Jaworski, 1990)

Researchers have also found a strong causal link between customer orientation and long-term organizational performance in areas such as profitability, sales, market share, innovation success, customer service, job satisfaction, staff morale, and staff turnover. (Woller et al., 2005)

Satisfying the needs and desires of customers presupposes knowledge about their needs and desires, which requires in turn a process such as client assessment to gather information about them. Picturing a truly customer-oriented institution that does not invest time and money in client assessment is difficult. (ibid)

Nature of Information

Information as a resource has been a topic of discussion of academics and practitioners in various subject fields - especially in the field of economics. Economists such as Machlup, Porat and Bell pioneered the ideas of information economy with information as the transforming resource for postindustrial society. Authors such as Horton (Marchand & Horton 1986) pioneered the view of information as a corporate resource, which like other resources such as people, money, raw materials, equipment and energy should be managed to give a competitive edge. These authors helped develop both the idea of information as a resource and the idea of information-resources management (Badendoch et al. 1994: 26). In the wake of information and communication technologies, Hawkins (1987) confirmed that information has become a commodity. Yet requirements for economic enhancement are not necessarily requirements for development in rural communities when it comes to the basic survival of people. (Meyer, 2005)

Attributes of Information

While investigating the validity of information as a resource, the natural approach would be to compare attributes of information with those of other resources, in order to find some commonality. A comparison of this nature necessitates a closer look at the attributes of the different resources. To this end, Burk and Horton give nine basic similarities between information and other traditional resources to fit into a resource-management framework, namely: Information is acquired at a definite, measurable cost. Information has a definite value, which may be quantified and treated as an accountable asset. Information consumption can be quantified. Cost-accounting techniques can be applied to help control the costs of information. Information has a clear life cycle:

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47 As cited in Woller et al. (2005)  
48 As cited in (ibid)
definition of requirements, collection, transmission, processing, storage, dissemination, use, and disposal. Information may be processed and refined, so that raw materials (e.g., databases) are converted into finished products (e.g., published directories). Substitutes for any specific item or collection of information are available, and may be quantified as more expensive, or less expensive. Choices are available to management in making trade-offs between different grades, types and costs of information. (Burk & Horton 1988; cited in Eaton & Bawden 1991: 160)

From this it is clear that Burk and Horton felt that information should be seen as something tangible, physical and concrete, while viewpoints from within the information profession emphasize the intangibility of information. Counter-arguments from authors such as Vickers (1985), White (1985), Cleveland (1985), Boulding (1968), Repo (1986), Cronin and Gudrim (1986) show that information differs from tangible things generally thought of as valuable resources. In classifying resources needed for development, Boon (1992: 66) distinguishes between material resources and know-how resources. Information, together with data and knowledge, is listed as a know-how resource. There is also the viewpoint of Boulding (1968) that information should be seen as a dynamic force, which constantly alters and extends a store of knowledge (Eaton & Bawden 1991: 162). Shannon (cited in Mark & Pierce 2001: 476) was probably the first to state that information can alleviate uncertainty - another intangible attribute.

In trying to identify those attributes of information that focus on its intangibility, Eaton and Bawden combine the viewpoints of various authors to come to the following key distinctions:

**Value of information:** Unlike other tangible resources, information is not readily quantifiable - that is, it is impossible to predict the ultimate value of information to its users. Also, over time, there is no predictable change in the value of information.

**Multiplicative quality of information:** The results produced by the use of information differ greatly from those produced by the use of other resources - for instance, information is not lost when given to others, and does not decrease when 'consumed': sharing information will almost always cause it to increase - that is, information has a self-multiplicative quality.

**Dynamics of information:** Information cannot be regarded as a static resource to be accumulated and stored within the confines of a static system. It is a dynamic force for change to the system within which it operates. It adds value to an organization through encouraging innovation and change without being tangible.

**Life cycle of information:** Information seems to have an unpredictable life cycle. Ideas come into, go out of, and finally come back into, fashion.

**Individuality of information:** Information comes in many different forms, and is expressed in many different ways. Information can take on any value in the context of an individual situation. This proves that, as a resource, information is different from most other resources. The very fact that information is characterized as a dynamic force, 'constantly altering and extending a store of knowledge' (Rogers 1992), corresponds with situations in development in which outside information is offered to focus groups to alter their understanding of certain practices, which in turn can help them solve

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49 As cited in Meyer, 2005
50 ibid
problems (such as improving food security or standards of living). (Eaton and Bawden 1991: 162-163)

Apart from the attributes identified by Eaton and Bawden, the following, also containing elements of intangibility, may be added to the list:

**Alleviation of uncertainty:** According to Mark and Pierce (2001), Shannon, as long ago as 1948, defined information as the resolution of uncertainty. This is perhaps one of the intangible attributes best known among a variety of researchers.

**Interdependency:** Information almost always forms part of technology - it is the "soft" part (Röling 1990: 12). Without its information component, technology has little value as a resource for potential users who are not familiar with its workings or its background. With regard to developing rural communities, one should bear in mind that it is not necessarily new technology that brings about these achievements. All outside technology applied for the first time could be viewed as new to the user group or that particular situation, and could have similar effects.

**Enhancement of economic growth:** A frequent complaint is that information is often denied its role as a resource (Neelameghan 1980; Boon 1992). Yet, when looking at the effect of information in development situations, there seems to be an underlying awareness of its importance. Kaimowitz et al., (1990: 238) refer to the impact of new technology (including information as the hidden component) in agriculture on the basis of such aspects as increased farm income, reduced risk, resource conservation, improved health, better (food) security, and overall economic growth.

**Extension of the knowledge base:** From a development point of view, there is more emphasis, first, on improving peoples’ lives socially and only secondly on economic improvement. In development, outside technology is often introduced with the help of education, training and visual demonstrations. Rogers (1992: 137) states that training helps people in rural communities to expand horizons, increase perceptions, enhance competencies, enlarge sense of perspective, and enhance self-esteem.

From the above, it is evident that information differs phenomenally from other resources needed for development - especially because it is intangible in nature. Although some of its attributes make it a suitable development resource (such as its ability to act as a dynamic force), others render it less suitable (such as its inaccessibility owing to its dependency on culture and media). As far as the requirements for rural development are concerned, it seems that the attributes can be divided into two categories, as indicated in the table below - those suitable for development, and those less suitable for development (Meyer, 2005):

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51 ibid
Attributes suitable for development
Dynamic force
Extends the knowledge base
Increases perceptions
Enhances competencies
Enhances self-esteem
Enhances growth
Multiplicative
Versatile

Attributes less suitable for development
Intangible
Interdependent
Culture dependent
Medium dependent
Content dependent
Conversion dependent

Table 3: A comparison of the attributes of information (Meyer, 2005)

Information use in rural development
Attributes suitable for development may improve developing people’s lives to such an extent that it is easy to see why information is regarded as a useful development resource, whereas attributes identified as less suitable for development can be regarded as limiting the usefulness of information. Because information is so crucial to almost all human activity, it seems obvious that developers would like to neutralize the negative impact in order to achieve their goals. So, to address the problem of information attributes less suitable for development purposes it would perhaps be worthwhile to take a closer look at the information behaviour of rural people used to the oral tradition. The reasoning behind this approach is that rural people used to the oral tradition have their own peculiar way of handling information that is closely related to their social and cultural background (Meyer 2003). As proved by an investigation of a case study (Meyer 2000), in which the information behavior of traditional people was unwittingly applied to encourage a group of traditional farmers to produce food for their own consumption, the incoming information was better understood and accepted by the group because the messages were communicated in a way with which they could identify. Background to this case study will reveal how the communication mechanisms of the indigenous knowledge system were skillfully applied to make the incoming information more palatable for the particular user group. Indigenous communication mechanisms were almost the only means by which the particular group exchanged information. Most members of the group had hardly, if ever, been exposed to modern society, whose way of communicating is based primarily on literacy.

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52 As cited in Meyer, 2005
53 Ibid
Information Needs
The information needs can be grouped into four action categories (as in the map presented in figure 6.)

**Figure 2: Map for Information Needs (Matul et al, 2005)**

DEVELOP – these are needs to be satisfied in a priority mode. This information is not available to respective users and is considered to be very important in the short and medium-term to realize institutional goals.

CONSOLIDATE – this information is currently collected and used in a satisfactory way.

DO NOT TOUCH NOW! – Even if not available this information is perceived to be not very useful. It does not make sense to invest at this stage in its development as it will not yield any significant returns in the near future.

CONSIDER ABANDONING – this information is available to users but at the same time is perceived as not so useful. One might consider abandoning the collection of this information for the sake of efficiency if a thorough analysis shows that it will not be useful in the future (Matul et al, 2005).

Mapping of Information Needs
Mapping of information needs is about analyzing the current availability of different types of information and their usefulness for the organization. The types of information needed are:

1. Target indicators allowing you to identify your target segments
2. Impact indicators allowing you to verify your social performance
3. Delinquency
4. Client satisfaction
5. Client exit
6. Client loyalty
7. Demand in current markets for other products
8. Demand in other markets for current products
9. Demand in other markets for other products
10. Competition
There are separate scales for measuring availability and usefulness, they are:

**USEFULNESS scale:** 1 - not useful; 2 – not so useful; 3 – potentially useful; 4 – useful; 5 – extremely useful

**AVAILABILITY scale:** 1 - not available at all; 2 – not so available; 3 – some available; 4 – available; 5 – extremely available (ibid)

To be able to fulfill information needs an MFI should focus on Client Assessment of their target market segments.

The weight of empirical evidence points to the unambiguous conclusion that client assessment is a core activity of successful businesses. Client assessment is not something to be done only if time and resources allow; this process is integral to how the organization operates. Client assessment is not simply another line item on the expense ledger but an investment in knowledge that, on balance, yields returns that far exceed its costs. (Woller et al., 2005)

**What is Client Assessment?**

*Client assessment* is the term that refers to the process of gathering information about clients, analyzing the information, and acting on the information. At least three generic approaches to client assessment are available: impact assessment, market research, and client monitoring. Although distinct in many respects, the three approaches share many elements, as described below:

- **Impact assessment:** The process of collecting information about clients’ well-being and experience with the program for the purpose of attributing (or proving) the impact of program participation on clients, clients’ enterprises, clients’ households, or the communities where clients live.
- **Market research:** The process of gathering information on clients’ needs and wants, behaviors, and perceptions for the purpose of improving market offerings and targeting effectiveness.
- **Client monitoring:** The process of tracking changes in clients’ profiles, well-being, and behavior for the purposes of monitoring changes in clients’ socio economic status and trends in market-related information (ibid).

**Client Assessment Process**

The client assessment process has the following nine steps:
1. Articulating the MFI’s information needs in the context of its mission and strategic objectives;
2. Assessing the MFI’s resources and technical capacity;
3. Developing the research design, including the selection of indicators and assessment tools;
4. Collecting data and instituting quality control;
5. Analyzing data;
6. Reporting;
7. Decision-making;
8. Communicating action plans to relevant stakeholders; and
9. Implementing action plans, including pilot testing. (ibid)
Importance of Client Assessment

Microfinance institutions are service organizations that provide formal financial (in some cases non-financial) services to customers belonging to defined market segments. These market segments include principally micro and small-business owners and low-income households that have not traditionally enjoyed access to formal financial services. In delivering financial services to these markets, MFIs have distinct objectives, which broadly fall under the categories of financial return and social return. The microfinance industry has put more than two decades of experience behind client assessment. One of the most important lessons learned is that achieving financial and social return requires knowledge about customers. Replication, product standardization, inflexible terms and conditions, joint liability, and forced savings may reduce the cost and complexity of delivering financial services to low-income entrepreneurs and households, but they have not necessarily proven effective in optimizing either financial or social return. In fact, in many cases, such elements may actually reduce financial or social return. The market for micro financial services consists of multiple and distinct market segments, each with a different set of needs and wants. A consensus is forming around the proposition that the MFIs that can best determine and serve the needs and wants of the market will be those that succeed over the long term, whether success is defined by financial return, social return, or both. (ibid)

Rationales for Embarking on Client Assessment

The CAWG research partners offered numerous rationales for embarking on client assessment, including the following:

• The need to attract donor support, even as the institution is being weaned away from traditional funding sources;
• The need to demonstrate program success to donors;
• The need to respond to pressure from internal and external stakeholders;
• The need to respond to problems with existing products, services, and policies;
• The need to increase focus on social performance when financial goals have been met;
• The need to understand the needs and wants of clients; and
• The need to assess fulfillment of social mission. (ibid)

Obstacles to Client Assessment
The lack of staff capacity can pose seemingly insurmountable obstacles to client assessment, but these obstacles can be overcome. Keys to overcoming capacity constraints include strategic planning, a realistic assessment of staff resources and technical capacity, adequate training, and hiring of staff with the appropriate technical skills. A few simple questions can help the MFI address staff capacity issues:
1. What technical skills, resources, and time are required to collect, manages, analyzes, and uses the client data?
2. What is the current level of staff technical skills and resources?
3. Is it possible to train staff to acquire the appropriate skills? If so, how, where and at what cost?
4. Can the client assessment processes be integrated into staff job descriptions and routines without unreasonably burdening staff? (ibid)

Most Influential Client Indicators
The choice of indicators also influences what the MFI Values. CAWG researchers asked 12 MFIs, some CAWG members and some not, the following questions:
1. Which is the single most important client indicator used in your organization?
2. Why is this indicator so important?
3. What other factors make this indicator useful? Table 2.1 shows the MFIs’ responses (ibid)
Most Influential Client Indicators for 12 MFIs:

<table>
<thead>
<tr>
<th>MFI</th>
<th>Most Important Indicator</th>
<th>Why Important</th>
<th>Factors that Make the Indicator Useful</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEMOS—Croatia</td>
<td>Number of livestock</td>
<td>• Measures depth of outreach.</td>
<td>Relatively easy to collect and monitor.</td>
</tr>
<tr>
<td>PRCA International—Washington, D.C.</td>
<td>Daily per capita expenditure (proxy for income poverty)</td>
<td>Critical indicator of social mission, both for internal and external purposes.</td>
<td>• Global challenges for MFIs to demonstrate that they are not guilty of mission drift.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Promotes comparability between country programs.</td>
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<tr>
<td>ENI—Bosnia</td>
<td>Whether clients are beneficiaries, refugees, or minority groups</td>
<td>• Highly correlated with vulnerability.</td>
<td>Relatively easy to track.</td>
</tr>
<tr>
<td>SEF—South Africa</td>
<td>Client dropout</td>
<td>Research shows that dropout is strongly correlated with other client-level indicators.</td>
<td></td>
</tr>
<tr>
<td>ASA—India</td>
<td>Respondents self-classify as a healthy or unhealthy household through use of pictorial diaries</td>
<td>Poor hygiene and health practices are important determinants of childhood diseases. Household income is drained by health-related problems.</td>
<td>Pictorial diaries are a valuable resource for clients and field officers to understand program impact.</td>
</tr>
<tr>
<td>FOCCAS—Uganda</td>
<td>Initial interest in a &quot;basic loan&quot; of US$50</td>
<td>Self-targeting indicator of socio-economic status and whether group loan is appropriate.</td>
<td>People can lie about other things, but loan amount is something they have to reveal.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Loan size was a key issue revealed in client-satisfaction studies.</td>
</tr>
<tr>
<td>NABW—Tajikistan</td>
<td>Income per capita</td>
<td>Central to institutional mission; poverty is a function of how many people have to share one salary or livelihood.</td>
<td>Influences decisions about how rapidly the client can repay.</td>
</tr>
<tr>
<td>ACF—Kazakhstan</td>
<td>Number of employees</td>
<td>• Links back to mission to focus on small- and medium-enterprise clients and poverty reduction through job creation. Program operates in areas with high unemployment.</td>
<td>Can be collected using standard loan application forms every 14 months and managed in management information system (MIS).</td>
</tr>
<tr>
<td>FORA—Russia</td>
<td>Beginning loan size and repeat business</td>
<td>• Beginning loan size indicates size of business and capacity of client.</td>
<td>In a competitive environment, repeat business is a key indicator of success.</td>
</tr>
<tr>
<td>SAT—Ghana</td>
<td>Client satisfaction</td>
<td>• Easily digested and integrated into decisions, even at loan-officer level.</td>
<td>• Can be collected from individuals and tested through focus groups.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Responsive indicator that can lead to quick specific changes.</td>
<td>• Easier for staff to see the relevance of this type of information.</td>
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<td></td>
<td></td>
<td></td>
<td>• Need indicators that are sensitive to rapidly changing environment.</td>
</tr>
<tr>
<td>Integra—Slovakia</td>
<td>Client savings, life insurance, pension policies, and new financial investments</td>
<td>Proxy of success in reducing vulnerability.</td>
<td>Part of a complex and comprehensive data collection and analysis system.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Proxy for strategic household risk management.</td>
<td>Linked to training and credit.</td>
</tr>
<tr>
<td>Prizma—Bosnia</td>
<td>Client poverty status</td>
<td>Measures outreach relative to mission.</td>
<td>Can be integrated into the loan application process.</td>
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<td></td>
<td></td>
<td></td>
<td>• Very flexible for analysis.</td>
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<td></td>
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<td>• Easy to collect: avoids complex questions.</td>
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<td></td>
<td></td>
<td></td>
<td>• Transparent in the organization at all levels.</td>
</tr>
</tbody>
</table>

Table 4: Most Influential Client Indicators (Woller et al, 2005)
Problem Indicators for MFIs:

Each MFI identified a different indicator as being the most important to the organization. Some indicators focus on client outcomes (e.g., number of livestock, expenditures, income), while others focus on service quality (e.g., client satisfaction, dropout). The information in Table 2.1 reinforces the point that the choice of appropriate indicators is peculiar to the context, history, mission, and objectives of the particular MFI. By way of contrast, Table 2.2 lists a number of indicators that some of the same MFIs reported they had abandoned. Note that some of the important indicators listed in Table 2.1 have also been abandoned by other MFIs (e.g., household income or jobs created). This abandonment does not mean one MFI is wrong and the other right. It simply means that the indicator is appropriate in the one context but not in the other.

Collecting indicators on a sample of clients rather than a census of clients may also simplify the process. Several CAWG research partners began collecting indicators from a census of clients only to find that it unduly taxed their field staff, stressed their data management capabilities, and overly complicated data analysis. Collecting indicators from a sample of clients also enables the MFI to collect a wider variety of indicators, because it can now either collect more indicators from fewer clients, while still keeping the workload manageable, or collect different indicators from different samples of clients. (ibid)

Judgment in Selecting the Indicators

MFIs must use their own judgment in selecting the indicators most useful to them, and different MFIs will consider different criteria in making this selection. This section recommends 12 selection criteria that MFIs may want to consider: (1) link to mission, (2) link to use, (3) reliability, (4) sensitivity, (5) scope, (6) simplicity, (7) comparability, (8) context specificity, (9) practicality and cost-effectiveness, (11) function, and (12) ability to operationalize. Each criterion is discussed below.

### Table 5: Problem Indicators for MFIs (Woller et al, 2005)

<table>
<thead>
<tr>
<th>Problem Indicator</th>
<th>Why A Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs created and sustained</td>
<td>• Very difficult to establish.</td>
</tr>
<tr>
<td></td>
<td>• Easily misunderstood (for example, does it refer to sustainable jobs?).</td>
</tr>
<tr>
<td>Household income</td>
<td>• Too difficult to measure.</td>
</tr>
<tr>
<td></td>
<td>• Response bias: people do not want to reveal household income.</td>
</tr>
<tr>
<td>Food, housing, children’s education, income, and expenditures</td>
<td>Useful to provoke discussion with staff, but dangerous to use for management purposes because changes fluctuate so widely and for so many purposes.</td>
</tr>
<tr>
<td>Children of school age not in school</td>
<td>Although education is an important indicator, it suffers from a lack of clarity about whose children belong to whom in context of extended family, orphans, and frequent changes in family composition.</td>
</tr>
<tr>
<td>Gender empowerment</td>
<td>Too costly and time-consuming. Sufficient now just to monitor number of women in database.</td>
</tr>
<tr>
<td>Number of dependents</td>
<td>• Difficult to define and interpret.</td>
</tr>
<tr>
<td></td>
<td>• Less relevant for larger businesses.</td>
</tr>
<tr>
<td>Business income</td>
<td>• Too complex and requires too much work.</td>
</tr>
<tr>
<td></td>
<td>• Answers were quite arbitrary and inaccurate.</td>
</tr>
<tr>
<td>Household unemployment</td>
<td>Too difficult to define precisely (e.g., students, those working part-time, the elderly)</td>
</tr>
</tbody>
</table>
Link to Mission: *Link to mission* means that the indicator is linked directly or indirectly to the MFI's institutional mission. Indicators that satisfy external accountability requirements are also important but should not distract the MFI from its own mission.

Link to Use: *Link to use* requires that the MFI think carefully ahead of time about how the indicator will be used. Linking an indicator to specific uses is necessary to create relevance and legitimacy for the indicator in the organization.

Reliability: *Reliability* means that the indicator measures what it is intended to measure. In the case of social performance indicators, the reliability criterion requires the MFI to conceptualize a plausible causal chain between indicators and expected social changes.

Sensitivity: *Sensitivity* has two components: sensitivity of the underlying variable the indicator is trying to measure and sensitivity of the indicator itself. Sensitivity of the underlying variable refers to how much the variable is expected to vary over time. Useful indicators measure underlying variables that are expected to show reasonable variation over time, particularly as a result of program participation.

Scope: *Scope* refers to comprehensiveness, or range, of outcomes being measured. Client indicators measure client outcomes at one of four levels: individual, household, enterprise, and community.

Simplicity: *Simplicity* means the indicator should be simple to collect and simple to understand. More specifically, simplicity requires that (1) data collection take only a minimum amount of time, (2) data collection not require detailed computations by clients or staff, and (3) staff can easily explain, and clients can easily understand, the indicator.

Comparability: *Comparability* means that the indicator is comparable across MFIs, contexts, countries, and other entities. Comparability is a necessary condition to compare financial or social performance to other institutions or to performance benchmarks.

Context Specificity: *Context specificity* refers to how relevant the indicator is to the specific context of the MFI. The obvious danger of generally comparable indicators is that indicators developed for one purpose and in one context will not be helpful in another.

Practicality and Cost-Effectiveness: *Practicality* refers to the feasibility of collecting an indicator given the MFI’s resources and capacity. *Cost-effectiveness* compares the usefulness of an indicator with the costs of collection. Often, practicality and cost-effectiveness converge, but not all the time. An indicator that is feasible and inexpensive to collect may or may not provide useful information to the MFI.

Function: *Function* refers to how the indicators are used. Outcome and segmentation are two general types of indicators that serve two distinct purposes. Outcome indicators (discussed above) measure the outcomes the MFI hopes to achieve. These are the crucial indicators of interest linked to the MFI’s strategic objectives. Segmentation indicators
are not of strategic interest to the MFI but rather are used to segment clients into different groups for analysis.

Ability to Operationalize: Ability to operationalize refers to the ease of taking an indicator from the abstract to the concrete. For example, many MFIs include female empowerment as part of their institutional mission and objectives. Empowerment is an abstract concept that can be operationalized using a variety of indicators, such as contraceptive usage, participation in household decisions, or the frequency of spousal abuse. (ibid)

Key Contextual Considerations

Key contextual considerations include the MFI’s mission and strategic objectives, the MFI’s resources and technical capacity, and the environment in which the MFI operates. Neither an “ideal” indicator nor an ideal number of indicators exists. Rather, the objective is to identify and select the indicators that best meet the MFI’s information needs given the MFI’s unique context. What constitutes the best indicators will thus be different for different MFIs. (ibid)

Types of Client Assessment tools

Quantitative Versus Qualitative Assessment Tools

The most basic distinction in assessment tools is that between quantitative and qualitative tools. Quantitative tools aim for breadth of information that can be generalized to all clients or to selected client groups. Quantitative data is used to compute central tendencies, frequencies, or distributions and to demonstrate relationships among variables. The most common quantitative tools are pre-coded surveys and checklists. Qualitative tools aim for depth of information. Unlike quantitative data, qualitative data is non-representative by nature and thus not meant to be generalized to the client population. Qualitative data includes narrative expressions of beliefs, attitudes, experiences, perceptions, feelings, and emotions. Broadly, quantitative data tells us what clients do and qualitative data tells us why they do it and what they think or feel about it. Common qualitative tools include focus group discussions (FGDs), in-depth individual interviews, participatory rapid assessment (PRA) tools, or any kind of formal or informal group meeting. Different MFIs will have different preferences for quantitative versus qualitative tools, depending on their information needs, resources, and technical capacities. Many, however (including most CAWG research partners), use both. Sometimes breadth of information is important, but sometimes depth is important. MFIs are generally advised to use both kinds of tools. The client assessment tools used by the CAWG research partners fell generally under one of three categories: market research, impact assessment, and client monitoring. (ibid)

Market Research Tools

Market research tools make up the overwhelming majority of assessment tools used by the CAWG research partners. Each of the research partners implemented one or more market research tools. The market research tools used most frequently were client satisfaction FGDs and exit surveys. In nearly every case, the client satisfaction FGDs were based on the MicroSave market research tools or (less frequently) the SEEP/AIMS tool, while most client exit surveys were based on the SEEP/AIMS tool. Research partners also implemented several variations to the client satisfaction FGD and exit
survey, such as client satisfaction surveys, staff satisfaction FGDs, exit FGDs, and exit interviews.

**Impact Assessment Tools**
Impact assessment tools include the set of tools used to attribute social impact to program participation. Attribution typically entails a large-scale survey with statistically valid treatment and control groups. Early on, the focus of client assessment in microfinance was disproportionately focused on proving impact.

**Client Monitoring**
Client monitoring typically involves quantitative data, although it may also include qualitative data. It emphasizes the generation of timely information about client behavior, client well-being, or institutional performance that informs management decision-making. Client monitoring makes no pretense about attribution. The routine collection of data in a client monitoring system requires an MIS capable of storing large volumes of data, performing data analysis (or exporting data to a data analysis program), and generating reports. Some MFIs overlook MIS development, only to bog down on finding they are not capable of managing the data collected. The MIS may be simple or it may be complex. It can be a separate MIS or it can be integrated into the principal MIS. The characteristics depend on the needs of the system and on the MFI’s resources for MIS development. (ibid)

**Tool Selection Process**
Tool selection is a process that includes several steps, including (but not necessarily limited to) the following:
1. Appraisal of information needs,
2. Appraisal of organizational capacity and resources,
3. Establishment of criteria for tool selection,
4. Identification of potential tools,
5. Comparison of potential tools to selection criteria, and
6. Selection of tool or tools. (ibid)

**New Client Assessment Tools**
FFH developed a new assessment tool called the “credit association and education learning checklist,” which assesses the quality of education services delivered by MFIs. FFH pilot-tested the checklist tool with its partner institutions CARD, CRECER, and FOCCAS. The checklists are pre- and post mini surveys of client knowledge and practice conducted with small samples of clients (typically 19) using the Lot Quality Assurance Sampling approach. The specific objectives of the checklist are to clarify standards for village bank meetings and group facilitation, provide feedback to field agents, appraise staff performance, and identify areas for further in-service training and discussion. The results of the surveys can also be used to compare client knowledge and practices between branches offering and not offering education services. FOCCAS also created its own tool to gather client feedback, as described in Box 3.8. The Asian Credit Fund (ACF) and K-Rep developed a tool that uses in-depth client case studies to assess program impact. At ACF, business development specialists prepare case studies at least four times a month that describe the changes in clients’ lives and businesses and ACF’s role in these changes. At K-Rep, the research team conducts case studies across a range of locations to obtain a qualitative portrait of how the program is working at the grassroots level, what people perceive about the program, and what the impacts, or lack of impacts, have been.
Nirdhan Utthan Bank Limited (Nirdhan) has developed two qualitative assessment tools: the client workshop and the public interaction meeting. Client workshops are day-long participatory workshops attended by Nirdhan center chiefs, branch managers, and central office representatives. Public interaction meetings are organized by branch offices when and where needed. The meetings are attended by local leaders, teachers, other prominent community members, and local Nirdhan managers. The purpose of client workshops is to review programs, policies, and products and discuss areas for change and improvement. The purpose of the public interaction meetings is to disseminate information on Nirdhan programs and policies and to get feedback on the program from community members. (ibid)

Reasons why an MFI might choose one Assessment Tool over another
The experience of the CAWG research partners demonstrates five reasons an MFI might choose one assessment tool over another: familiarity, external pressure, and opportunistic, reactive, and strategic reasons. These reasons are by no means exhaustive or mutually exclusive, and none are wrong or right. The correct reason for selecting a tool depends on the circumstances at the time, although the presumption is that over time MFIs will become more strategic in tool selection. (ibid)

Linking Data Analysis to Information Needs
In articulating what information the MFI wants and why it wants the information, the research objectives should make explicit the level of understanding needed to answer the research questions. The following four levels of understanding have important implications for data analysis:

1. **Descriptive understanding.** At the most basic level, the research objective is to describe (or profile) client characteristics using basic demographics (e.g., gender, age, marital status, location, or poverty status) or indicators of program participation (e.g., number of loan cycles, length of time with the program, client status, or repayment record).

2. **Understanding of association.** At this level, the research objective is to determine which client behaviors or characteristics are associated with other behaviors or characteristics. For example, the MFI may want to know whether default rates are associated with being poor.

3. **Understanding of causation.** At this level, the research objective is to determine whether a causal relationship exists between observed associations and, if so, its direction and strength. For example, the MFI may want to know if being poor causes higher default rates. Information about causation is particularly useful if the cause is a factor under the MFI's control.

4. **Ability to explain causation.** At the most advanced level, the research seeks to explain causation. It may not be enough to know that being poor is a causal factor of low repayment rates. The MFI may also want to know why being poor causes low repayment rates. No statistical methods can tell the MFI why A causes B; it must formulate hypotheses based on its own knowledge and experience. Obviously, the action the MFI takes to address low repayment rates among poor clients depends on which hypotheses the MFI determines to be most valid. (ibid)
Segmenting Clients for Data Analysis

Segmenting clients refers to dividing clients into different groups for analysis. Implicit in any segmentation category is the assumption that outcomes or behaviors of interest are associated with or caused by membership in a particular group. Examples of possible segmentation categories include gender, location, client status, socioeconomic status, ethnicity/tribe, caste, or enterprise sector. Segmenting clients for analysis is recommended for quantitative and qualitative data. Most of the CAWG research partners opted to use only a few broad segmentation categories. The most common were client location and enterprise sector. Other segmentation categories used included client versus non-client, age, education, literacy, number of loans, loan size, enterprise size, migrant status, loan product, client status, poverty status, loan purpose, caste, group function, and living status. (ibid)

Usefulness Criteria for Client Assessment Information

For client information to be useful for decision-makers, it must meet the following five criteria:

1. **Accuracy.** Client information should accurately portray the characteristics, perceptions, and behaviors of clients. Although 100-percent accuracy is an unrealistic expectation, client information should be as accurate as possible, given resource and capacity constraints. Accuracy requires that indicators measure what they are supposed to measure, tools are appropriate and implemented correctly, samples are representative, data analysis is thorough, findings are interpreted correctly, staff is well-trained, and the assessment process is monitored carefully.

2. **Clarity.** Client information should be structured and presented in such a way that its key findings are readily understandable. The methodologies used to collect and analyze information and findings should be transparent, understandable, and presented at a level of sophistication relevant to the primary audience.

3. **Friendliness to users.** Client information should be presented in a format that is readily accessible. Major findings, key implications, and important recommendations should be easy to locate and understand. Information should be presented in a format that assumes key decision-makers have limited time to review and process the findings. Tables, figures, charts, and bullet points are preferable to narrative text, where feasible. Short reports are preferable to long reports.

4. **Timeliness.** The data collection, analysis, and reporting cycles should be timed to coincide with decision makers’ information needs. The process, however, should retain sufficient flexibility to generate information on an as-needed basis. Client assessment activities implemented by CRECER in response to the Bolivian currency devaluation provide a good example of a flexible and timely use of client assessment that had a significant impact of management decision-making and action.

5. **Practicality.** Client information should be presented at a level of generality that makes clear broad organizational implications, but also at a level of specificity that allows applications to specific cases. Information that is too general or too specific has little practical decision-making relevance. Information that is too general does not provide enough information to enable the MFI to take appropriate action. For example, information that clients are generally dissatisfied with the loan size (a common complaint) gives management no guidance on how to respond. To be useful, additional or follow-up information is needed on what aspect of the loan size clients do not like and why. Often, quantitative information on clients’ behavior, perceptions, or attitudes is
general in nature and requires follow-up with qualitative tools to determine the underlying reasons. (ibid)

**Benefits of Clients Assessment**

The widespread evidence of management action in response to client information suggests strongly that management finds client information useful, implying in turn the next and final link in the causal chain. Overall, the 17 CAWG research partners reported 64 program changes over the two-year project based directly or indirectly on client assessment information. Program changes made fell into one of three broad categories: (1) product and service innovations, (2) modifications to product terms and conditions, and (3) modifications to institutional policies and practices. (ibid)

**Product and Service Innovations**

A principal benefit of client assessment is that it yields information that enables MFIs to assess the strengths and weaknesses of current market offerings, how market offerings are used by clients, how clients benefit (or do not benefit) from the market offerings, the level of client satisfaction with market offerings, and client demand for new market offerings. Such information is useful for improving existing market offerings or developing new ones. (ibid)

The CAWG research partners made numerous product innovations in response to information gathered from FGDs with clients and staff (See Table 5.1.):

<table>
<thead>
<tr>
<th>MFI</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACF</td>
<td>Introduced residential mortgage loan</td>
</tr>
<tr>
<td>ASA</td>
<td>Introduced two insurance products²</td>
</tr>
<tr>
<td>Avance Chacao</td>
<td>Introduced credit life insurance</td>
</tr>
<tr>
<td>CARD</td>
<td>Consolidated three loan products into a single product</td>
</tr>
<tr>
<td></td>
<td>Introduced emergency loans</td>
</tr>
<tr>
<td>DEMOS</td>
<td>Introduced two loan products²</td>
</tr>
<tr>
<td></td>
<td>Introduced three animal husbandry loans³</td>
</tr>
<tr>
<td></td>
<td>Introduced individual loans in urban areas</td>
</tr>
<tr>
<td>FASL</td>
<td>Introduced hybrid loan with attributes of Susu and solidarity loans</td>
</tr>
<tr>
<td>FOCCAS</td>
<td>Introduced individual loan</td>
</tr>
<tr>
<td>Integria</td>
<td>Introduced new loan product</td>
</tr>
<tr>
<td>NABW</td>
<td>Introduced “middle-level” loan</td>
</tr>
<tr>
<td>Nirdhan</td>
<td>Introduced credit life insurance</td>
</tr>
<tr>
<td></td>
<td>Introduced housing loan</td>
</tr>
<tr>
<td></td>
<td>Introduced microenterprise loan</td>
</tr>
<tr>
<td>Partner</td>
<td>Introduced agriculture loan</td>
</tr>
<tr>
<td>SAT</td>
<td>Introduced solidarity loan</td>
</tr>
</tbody>
</table>

Table 6: Product Innovations (Woller et al, 2005)

---

a. Counted as two program changes.
b. Counted as three program changes.
The CAWG research partners also made a number of service innovations based on assessment information (Table 5.2 summarizes the service innovations): (ibid)

<table>
<thead>
<tr>
<th>Table 5.2</th>
<th>Service Innovations</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI</td>
<td>Innovation</td>
</tr>
</tbody>
</table>
| FOCCAS     | - Improved various learning modules  
              - Developed malaria-control learning module  
              - Developed other non-financial services |
| Integra    | - Introduced training for advanced entrepreneurs  
              - Introduced business mentoring program |
| K-Rep      | - Organized gender-dynamics training workshops for staff |
| SAT        | - Developed time-management training |

Table 7: Service Innovations (Woller et al, 2005)

**Modifications to Product Terms and Conditions**

Client assessment is also an effective method to evaluate the strengths and weaknesses and the level of client and staff satisfaction with the terms and conditions of current market offerings. Such information is useful in turn for modifying existing terms and conditions. The CAWG research partners made numerous modifications to existing terms and conditions based on client information. (Table 5.3 summarizes these modifications.) (ibid)

<table>
<thead>
<tr>
<th>Table 5.3</th>
<th>Modifications to Product Terms and Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI</td>
<td>Modification</td>
</tr>
</tbody>
</table>
| ASA        | - Reduced interest rate on loans from 24 percent to 20 percent  
              - Linked number of loans to program savings  
              - Linked clients with commercial banks for larger loans  
              - Reduced loan sizes |
| Avance Chaico | Terminated voluntary savings  
              - Clarified policies regarding stock ownership  
              - Introduced training program for current clients  
              - Introduced training program (Bakk CARD) for ex-clients who wanted to rejoin  
              - Introduced more flexible savings withdrawal rules  
              - Based loan size on CARD’s repayment rates and group-meeting attendance  
              - Changed policy regarding renewal of emergency loans  
              - Changed other terms and conditions |
| CARD       | - Reduced interest rate on loans               |
| CRS/Benin  | - Accelerated loan disbursement  
              - Reinstated six-month loan cycle for clients past the fourth loan cycle |
| FOCCAS     | - Increased initial and subsequent loan sizes  
              - Adopted more flexible loan terms and conditions |
| Integra    | - Reduced interest rate on loans               |
| NABW       | - Eliminated obligatory savings  
              - Reduced minimum group size  
              - Reduced frequency of loan payment from every two weeks to monthly  
              - Decreased maximum loan size for group loan from US$1,000 to US$760  
              - Simplified rules for qualifying for individual loans  
              - Made savings withdrawal rules more flexible |
| Nitchan    | - Raised interest rate on loans from 20 percent to 25 percent |
| Partner    | - Introduced more flexible collateral requirements for repeat clients |

Table 8: Modifications to Product Terms and Conditions (Woller et al, 2005)
Modifications to Institutional Policies and Strategies

Client assessment can also yield useful information about institutional policies that serve as the basis for institutional reforms and strategic decisions. The experiences of the CAWG research partners provide several examples in which client assessment informed major strategic decisions (see Table 5.4). On observing the program methodology of ASA Bangladesh, CARD management and staff were so impressed with its simplicity and cost-effectiveness that they initiated a process to investigate ways to integrate the ASA methodology into CARD's lending program. Toward this end, CARD undertook a number of assessment activities, including staff workshops, client FGDs, and a staff satisfaction survey. Based on the findings from these activities, CARD pilot-tested the ASA methodology in new branches and started a process of adopting ASA principles in existing branches, where appropriate, with the eventual objective of implementing the changes organization-wide. (ibid)

<table>
<thead>
<tr>
<th>MFI</th>
<th>Modification</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACF</td>
<td>Switched from group lending to individual lending</td>
</tr>
<tr>
<td></td>
<td>Switched target market from microenterprises to SMEs</td>
</tr>
<tr>
<td>CARD</td>
<td>Increased middle management spending authority</td>
</tr>
<tr>
<td></td>
<td>Rolled out ASA methodology in all new branches</td>
</tr>
<tr>
<td></td>
<td>Changed internal conflict-resolution policies</td>
</tr>
<tr>
<td></td>
<td>Simplified and streamlined various administrative policies</td>
</tr>
<tr>
<td></td>
<td>Hired more branch managers</td>
</tr>
<tr>
<td></td>
<td>Split single branch into two branches</td>
</tr>
<tr>
<td>CRECER</td>
<td>Accelerated repayment of internal account loans</td>
</tr>
<tr>
<td>DEMOS</td>
<td>Decided to not introduce microloans but to introduce SME loans</td>
</tr>
</tbody>
</table>

Table 9: Modifications to Institutional Policies and Strategies (Woller et al, 2005)

Concluding Remarks

The desire to understand clients is expanding practitioners’ agenda beyond impact as they look from what has occurred in the past to what should change in the future. Gaining an understanding of how clients interact with microfinance products and services will help practitioners evolve their programs in response to clients’ preferences and needs. Achieving this end involves more than identifying change and linking it to program participation; the process of understanding clients spans a continuum from impact assessment to market research (Nelson et al., n.d.).
Chapter 4: ASA Bangladesh – A Case Study

This chapter is comprised of two parts: one is “Microfinance and Bangladesh” and another is “ASA – A Case Study”

Part 1: Microfinance and Bangladesh

Typology of NGOs (MFIs) in Bangladesh

Based on their funding, NGOs can be categorized between those that are fully self-funded, fully external funded, or partially self and partially externally funded. There are NGOs that are funded locally by big NGOs; BRAC’s Education Support Program is one such example. Based on their activity, the following diagram divides NGOs between first generation mainstream NGOs and the others which I have called modern second generation NGOs. The second generation’s NGOs are both service and non-service oriented. The diagram shows how different types of NGOs fall into these categories (Alam, 2007).

![Typology of NGOs (MFIs) in Bangladesh](Alam, 2007)

Figure 4: Typology of NGOs (MFIs) in Bangladesh (Alam, 2007)
Matrix of microfinance (and related) institutions in Bangladesh

In order to represent program diversity, examples of Bangladeshi MFIs can be placed on a matrix (Figure 1). On the horizontal axis is the continuum between pure credit provision and broader financial service provision; on the vertical access we find the continuum between only credit and finance, credit or finance plus business-related services, and credit or finance plus social programs (Hulme & Moore, 2006)\(^{54}\).

![Figure 1: Matrix of microfinance (and related) institutions in Bangladesh, 2006](image)

**Figure 5 Matrix of microfinance (and related) institutions in Bangladesh (Hulme & Moore, 2006)**

MFIs in Bangladesh

According to data gathered from the Microcredit Summit Campaign at the end of 2004, 330 verified Bangladeshi MFIs (which include the Grameen Bank, NGOs, MFI networks, government bodies, and commercial banks offering some form of microfinance) had 24.4 million active clients, three-quarters of whom were poor and two-thirds of whom were poor women (see Tables 10 and 11 below). The majority of borrowers are clients of the handful of very large organizations: the Grameen Bank, BRAC, ASA and Proshika. Of the remaining organizations, only twelve have over 100,000 borrowers, but many of the smaller MFIs join ASA, BURO Tangail and TMSS as the most profitable MFIs in South Asia (Tazi 2005)\(^{55}\).

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\(^{54}\) As cited in Hulme & Moore (2006) with Notes: An important third axis is the continuum between programs oriented to the individual, and those with a more collective focus - this distinction is far from straightforward.

\(^{55}\) As cited in Hulme & Moore, 2006
Table 10 Bangladeshi MFI data verified by Microcredit Summit, in global context (Daley-Harris 2005)\textsuperscript{56}

<table>
<thead>
<tr>
<th>Verified Bangladeshi MFIs</th>
<th>Number of MFIs</th>
<th>Number of poorest clients (millions)</th>
<th>Number of active clients (millions)</th>
<th>Proportion of active clients who are ‘poorest’</th>
<th>Number of poorest who are women (millions)</th>
<th>Proportion of poorest who are women</th>
</tr>
</thead>
<tbody>
<tr>
<td>103 (31%)</td>
<td>18.4 (31%)</td>
<td>24.4 (29%)</td>
<td>75%</td>
<td>18.1 (33%)</td>
<td>88%</td>
<td></td>
</tr>
<tr>
<td>Total verified MFIs</td>
<td>330</td>
<td>58.5</td>
<td>77.9</td>
<td>75%</td>
<td>49.2</td>
<td>84%</td>
</tr>
<tr>
<td>Total reporting MFIs</td>
<td>3,164</td>
<td>66.6</td>
<td>92.3</td>
<td>72%</td>
<td>55.6</td>
<td>84%</td>
</tr>
</tbody>
</table>

Table 11: Top 10 Microcredit Summit-verified Bangladeshi MFIs, based on number of poorest clients (Daley-Harris 2005)\textsuperscript{57}

<table>
<thead>
<tr>
<th>NGO (MFI)</th>
<th>Number of poorest clients (31/12/04)</th>
<th>Number of active clients (31/12/04)</th>
<th>Proportion of active clients who are ‘poorest’</th>
<th>Number of poorest who are women</th>
<th>Proportion of poorest who are women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grameen Bank</td>
<td>4,080,000</td>
<td>4,960,000</td>
<td>100%</td>
<td>3,897,800</td>
<td>98%</td>
</tr>
<tr>
<td>BRAC</td>
<td>3,630,000</td>
<td>3,990,000</td>
<td>91%</td>
<td>3,830,000</td>
<td>100%</td>
</tr>
<tr>
<td>Bangladesh Rural Development Board (BRDB)*</td>
<td>3,528,041</td>
<td>3,713,728</td>
<td>96%</td>
<td>2,369,088</td>
<td>68%</td>
</tr>
<tr>
<td>ASA</td>
<td>2,490,000</td>
<td>2,770,000</td>
<td>90%</td>
<td>2,390,400</td>
<td>96%</td>
</tr>
<tr>
<td>Proshika</td>
<td>1,236,104</td>
<td>1,545,130</td>
<td>80%</td>
<td>803,468</td>
<td>65%</td>
</tr>
<tr>
<td>Sonali Bank**</td>
<td>3,500,000</td>
<td>3,800,000</td>
<td>13%</td>
<td>365,000</td>
<td>73%</td>
</tr>
<tr>
<td>Caritas</td>
<td>251,273</td>
<td>284,947</td>
<td>86%</td>
<td>173,378</td>
<td>68%</td>
</tr>
<tr>
<td>Thenamara Mohila Sabuj Sangha (TMSS)</td>
<td>250,664</td>
<td>278,516</td>
<td>90%</td>
<td>238,131</td>
<td>95%</td>
</tr>
<tr>
<td>BURO Tannail</td>
<td>221,266</td>
<td>221,386</td>
<td>100%</td>
<td>219,152</td>
<td>99%</td>
</tr>
<tr>
<td>Rangpur Dihaipur Rural Service (RDSS)</td>
<td>175,713</td>
<td>228,199</td>
<td>77%</td>
<td>140,570</td>
<td>80%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>16,343,161</td>
<td>20,891,388</td>
<td>78%</td>
<td>14,256,767</td>
<td>87%</td>
</tr>
</tbody>
</table>

NGO (MFI) Activities under Different Regimes in Bangladesh

There has been robust growth of NGOs with a visible and positive impact on the economy and society of Bangladesh. It is difficult to concisely represent the growth of NGOs within a timeline which sometime overlaps. However an attempt is made below to briefly describe the growth of NGOs in different periods of Bangladeshi history starting from the pre-colonial period up to the present (Alam, 2007):

\textsuperscript{56} As cited in Hulme & Moore, 2006 with \textit{Notes}: Figures pertain to the end of 2004; figures in parentheses represent the proportion of total verified MFIs made up by Bangladeshi verified MFIs; poorest clients are those estimated to have been living on less than US$1/day, or in the bottom half of those below the national poverty line when they took their first loan; active clients are those with an outstanding loan; figures do not take into account membership overlap - those who borrow from more than one MFI.

\textsuperscript{57} As cited in Hulme & Moore, 2006 with \textit{Notes}: *Government body acting as a network of MFIs not included elsewhere; **nationalized commercial bank.
## Box 3: NGO Activities in Different Regimes

<table>
<thead>
<tr>
<th>Periods</th>
<th>Regime</th>
<th>Growth of NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colonial Period</td>
<td>British Rule</td>
<td><strong>Voluntary, Philanthropic and Informal in Nature:</strong> Activities were centred on Christian missionary organisations and Hindu and Muslim philanthropy. Many schools, colleagues, orphanages and religious schools were established through individual effort. No organised and clear cut trend.</td>
</tr>
<tr>
<td>1947-1971</td>
<td>East Pakistan</td>
<td><strong>Service-Oriented but Charitable Approach:</strong> Christian Missionary and other Voluntary Organisations focused on poverty reduction in communities that included religious, ethnic minorities and disadvantaged groups. Some NGOs and charitable organisations provided relief in the aftermath of the 1970 cyclone.</td>
</tr>
<tr>
<td>1972-1975</td>
<td>Sheikh Mujibur Rahman (the Awami League)</td>
<td><strong>Emergence of NGOs with Expanding Focus:</strong> Post independence Bangladesh: Activities of relief, rehabilitation and reconstruction. Roles of INGOs became visible. Developmental roles of NGOs in agriculture and rural development; Establishment of ADAB in 1974.</td>
</tr>
<tr>
<td>1970-1981</td>
<td>Ziaur Rahman (Military Rule and the BNP)</td>
<td><strong>Large scale growth of NGO sector at Local, Regional and National levels:</strong> Expanding activities by NGOs: micro credit gradually grew; service delivery became an important orientation with activities in the health and education sectors becoming important. Growing interest of donors in funding NGOs; Foreign Donation (Voluntary Activity) Regulation Ordinance, 1978 (FDR) enforced. Conscientisation approach, and early social mobilisation, relief work, flood and disaster management programmes, cyclone shelters. GO-NGO collaboration operates in limited areas, such as, agriculture, immunisation, family planning and social forestry.</td>
</tr>
<tr>
<td>1982-1990</td>
<td>Hussein Md. Ershad (Military Rule and the Jatiyo Party)</td>
<td><strong>NGOs’ Role in Political Advocacy and Social Transformation:</strong> Expansion of micro-credit continues; focus on human rights, social reform, land rights, health and population, nutrition, training, poultry and livestock. Anti-autocratic stand by some NGOs. Important role in the formulation of drug policy. Differences within NGO sector over its role in political issues began to emerge. Split in ADAB; Foreign Contribution (Regulation) Ordinance, 1982 (FCO) promulgated; establishment of NGOAB as one stop service to NGOs.</td>
</tr>
<tr>
<td>1990-1996</td>
<td>Begum Khaleda Zia</td>
<td><strong>Professionalism and Credibility of NGOs Established:</strong></td>
</tr>
</tbody>
</table>
Table 12: NGO (MFI) Activities under Different Regimes in Bangladesh (Alam, 2007)

<table>
<thead>
<tr>
<th>Period</th>
<th>Leader/Party</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-2001</td>
<td>Sheikh Hasina (Awami League)</td>
<td>Growing Tension regarding NGOs' Role in Political Advocacy and Social Mobilisation:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest in governance; political advocacy heightened; agitation for democracy; voter education and election monitoring. Continuation of previous activities, some new activities include minority rights issues, legal aid, public interest litigation, policy advocacy around budget. Focus on basic service provision in health, education and water and sanitation. GO-NGO partnership: Emergence of contracting out to NGOs for service provision.</td>
</tr>
<tr>
<td>2001-2005</td>
<td>Begum Khaleda Zia (BNP)</td>
<td>Split in the NGO Community: Controversy over political advocacy; voter education and political role of NGOs; split in NGO community; blacklisting of some NGOs; Ministerial Committee to review NGOs' role in the 2001 general election and for more regulations; establishment of new apex body (FNE). ADAB became almost non-operative. New service developments e.g. water supply and sanitation, fragmentation of NGO community, new ultra-poor approaches.</td>
</tr>
</tbody>
</table>

Source: Based on DFID 2005:16, expanded by the author.

It can be discerned from the above table that NGOs have grown under different regimes since independence. Generally, the policy environment has been favourable, but NGOs have split over the issue of politicization.
Government-NGO Mutual Concerns in Bangladesh

Several areas of concern and tensions of GO-NGO relations are summarized in Box 2.

<table>
<thead>
<tr>
<th>Box- 2 Government-NGOs Mutual Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What government thinks of NGOs:</strong></td>
</tr>
<tr>
<td>- Lack accountability.</td>
</tr>
<tr>
<td>- Practice insufficient inter-NGO coordination leading to overlapping and unnecessary spending.</td>
</tr>
<tr>
<td>- Spend too much money on their operations.</td>
</tr>
<tr>
<td>- Rely too much on foreign funds.</td>
</tr>
<tr>
<td>- Charge high interest on credit.</td>
</tr>
<tr>
<td>- Have an insignificant impact.</td>
</tr>
<tr>
<td>- Their success stories get unduly positive coverage in the local and international media.</td>
</tr>
<tr>
<td>- Contract DPs without the knowledge of government.</td>
</tr>
<tr>
<td>- Undertake programs which are sensitive and have political implications.</td>
</tr>
<tr>
<td>- Get involved in political activities in the name of non-party politics.</td>
</tr>
<tr>
<td><strong>What NGOs thinks of government:</strong></td>
</tr>
<tr>
<td>- It is rigid, bureaucratic and tries to over-regulate NGO activities.</td>
</tr>
<tr>
<td>- Unnecessarily requires prior approval for foreign funded projects.</td>
</tr>
<tr>
<td>- Lacks appreciation of the differences in approach and style of NGOs’ project management.</td>
</tr>
<tr>
<td>- Does not differentiate between NGOs with a proven record of performance and less-committed NGOs.</td>
</tr>
<tr>
<td>- Does not differentiate between politically biased and unbiased NGOs.</td>
</tr>
<tr>
<td>- Harasses NGOs due to their claimed political activity.</td>
</tr>
<tr>
<td>- Has different mission and vision from government.</td>
</tr>
<tr>
<td>- By comparison with government, NGOs are poor, environmentally friendly and work in the remote areas of the country.</td>
</tr>
</tbody>
</table>

Sources: World Bank 2006, Asian Development Bank 1993, and Author's own work

Table 13: Government-NGO Mutual Concerns in Bangladesh (Alam, 2007)
Regulatory Framework and Establishment of NGOAB

Until the 1990s NGOs worked more or less independently without interference, hindrance or any serious regulation from government. NGOs were only required to register under the Societies Registration Act and Social Welfare Registration and Control Ordinance 1961 to act legally. These laws have a colonial legacy and did not demand much oversight of the activities of voluntary organizations. The state's role was "passive" and it maintained a kind of a wait and see policy. However, the 1990s saw a significant proliferation in the number of NGOs. Their role in relief and rehabilitation established their credibility as recipients of foreign funding. NGOs became very popular as development actors at the grassroots and large and small NGOs started to receive foreign grants and support from donors and INGOs. Some NGOs expanded their activities and some even started profitable ventures like departmental stores, printing presses, dairy products, garments, transport, hotels and universities. This led to questions being raised not only by the state but also within civil society about NGOs’ real objectives and whose interest they are actually serving. Are they really nonprofit voluntary organizations?

The state has felt the necessity to bring NGO activities into order and make them accountable and transparent. Indeed it was felt by policy-makers and administrators that NGOs were in danger of becoming a state within a state. The decision was made that NGOs should be guided by rules and guidelines formulated by the state.

In Bangladesh non-profit organizations can incorporate under any one or more of the following ordinances/acts. These ordinances define their operational domain and framework for operations.

- Societies Registration Act of 1860 (SRA)
- Social Welfare Registration and Control Ordinance 1961 (SWR)
- Cooperative Societies Ordinance, 1964 (CSO).
- Trust Act of 1882 (TA)
- Companies Act of 1923 (CA)
- The Mussalman Wakf Act, 1923


During the 1980s the government found that NGOs had been receiving large amount of money from different DPs without government knowledge. The government did not know how the funds had been received and spent. There were allegations of misappropriation and mismanagement of funds. So government thought it important to formulate laws to regulate and register nonprofit organizations receiving funds from DPs, INGOs and other foreign sources. The following two laws were enforced to monitor the inflow of funds to NGOs from external sources.

- Foreign Donation (Voluntary Activity) Regulation Ordinance, 1978 (FDR)
- Foreign Contribution (Regulation) Ordinance, 1982 (FCO)

NGOs’ view is that these laws have resulted in lengthy bureaucratic procedures, harassment by officials leading to corruption and delaying the release of funds and the implementation of projects. In response to these criticisms, in 1990 the government created the NGO Affairs Bureau under the Prime Minister’s Secretariat to eliminate cumbersome bureaucratic procedures and also to provide a one stop service.
Government considers this as a step towards improving relations with NGOs and to facilitate their activities in the country. NGOs see the rules and regulations stipulated in the act as complicating problems and enhancing delays rather than relieving them. Flaws which are often cited by NGOs are (World Bank 2006:22-23; Ahmad 2000; Ahmad and Morshed 2000):

- The registration of NGOs is valid for five years which has to be renewed with a new application for registration submitted to the Bureau six months prior to the expiry date.
- The Bureau has the power to cancel registration before the NGO can present its case.
- The Bureau has the power not to renew or to cancel registration.
- In undertaking approval of foreign funded projects an NGO has to go through a succession of four stages and needs approval of NGOAB. These are: to register so as to entitle it to receive foreign funds; to obtain prior approval for every project for which funding is sought from a foreign donor; to receive the foreign funds; and to disburse the funds (ibid).

**Growth of NGO (MFI) in Bangladesh**

The laws, rules and regulations that were enforced to make NGOs transparent and accountable to the state cannot be considered as restrictive. In all these and in the role of NGOAB, there is no attempt to restrict the registration of new NGOs or their activities, and nor was this their effect. Since 1990, the number of indigenous NGOs increased from 395 to 1223 in 1999/2000, an increase of 309% and during the same period the number of INGOs increased from 99 to 147, an increase of 148%, as shown in the following figure. The level of grants and aid to NGOs has also increased significantly, from US$ 106.6 million in 1990-91 to US$ 310 in 2003/4, an increase of 190%. During the same period NGOs’ share of total aid to Bangladesh increased from US$ 180.0 million to 379.4 million, an increase of 111% (World Bank 2006). During the last two decades NGOs have also expanded their range of activities and their program areas. They are undertaking numerous activities ranging from the social to the economic and from human rights to governance and political advocacy. This is indicative of the robust growth of the NGOs sector which appears not to have been limited by the various supervision and control mechanisms enforced by government (ibid).
Mechanisms of NGO (MFI) Financing

There are various mechanisms of donor support to NGOs. With respect to each NGO recipient, aid comes through adhoc project grants, longer term program grants, and long term institutional funding via consortia (Stiles 2002:838). An important development in the mechanism of donor support to NGOs is the formation of donor consortia for the large NGOs like BRAC, Proshika, Nizera Kori, Samata and others. These donor consortia sit once or twice a year to discuss and decide their aid commitment. Other mechanisms of donor funding of NGOs are as follows (World Bank 2006: 44-48):

- The simplest form of funding consists of project funding to provide specific services. In case of large projects which require large funds, donors involve large NGOs and donor liaison offices provide an interface between the donor and NGO. This leads to better management, lower transaction costs, better understanding and harmonization.

- Direct support is also provided to certain NGOs based on “a shared vision of change”. This support is provided to large NGOs like Proshika, Nizera Kori, Samata, quasi government organization like Palli Karma Shayak Foundation (PKSF) and Palli Daridro Bimochan Foundation (PDBF).

- Donors have created a number of “wholesale vehicles” for managing pools of money for smaller NGOs (World Bank 2006:44). An international NGO or consulting firm can act as donor agent to provide funds to smaller NGOs for projects in which the objectives are set by the donor.

NGOs also received funds from donors which are routed mostly through a particular line agency. The partnership and contracting arrangements for social service provision has both merits and demerits. For example, PKSF, an autonomous nonprofit apex body in micro finance, offers a number of lessons about how to design a successful partnership between, donors, NGOs and government. A bad case was contracting to NGOs for NFE through the Directorate of Non-formal Education established in 1995. There were widespread allegations of wrong selection of NGOs, mismanagement, corruption, weak supervision and monitoring which ultimately led to the shutdown of the department in
2003. The following Box-4 gives an idea about the different sources of funds for NGOs in Bangladesh (ibid).

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Box 4: Different Source of NGO Financing</strong></td>
</tr>
<tr>
<td><strong>Internal Source</strong></td>
</tr>
<tr>
<td>Fees collected from members (e.g. interest on credit)</td>
</tr>
<tr>
<td>Service charges (e.g. for training)</td>
</tr>
<tr>
<td>Sale of publications</td>
</tr>
<tr>
<td>Transfer from commercial ventures</td>
</tr>
<tr>
<td>Other (e.g. earnings from investments and endowment funds)</td>
</tr>
<tr>
<td>Donations</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

| | Others | • Offshore NGO funding | • Offshore funding for NGO Training |
| | | • Contract research | • Embassy discretionary funds |

Table 14: Different sources of funds for NGOs (MFIs) in Bangladesh (Alam, 2007)

There is a donor coordination group known as the “Local Consultative Group” (LCG) comprising both multilateral and bilateral donors. There are about 24 sub-groups of LCG which cover sectoral and cross-cutting issues. Different BDPs chair LCG meetings. The LCG has regular consultations with the different line ministries of the Government of Bangladesh.

Finally it should be pointed out that DPs and INGOs in Bangladesh operate within the rules and regulations set by the Government of Bangladesh. Therefore, any funds coming from the outside are routed through the government following the mechanism stated above. The aid modalities and the dynamics of relations have changed overtime but assistance to NGOs has been increasing which confirms the importance of NGO as actors in the socioeconomic advancement of Bangladesh (ibid).

**Activities of borrowers financed by MFI in Bangladesh**

Of the various employment activities (mainly self-employment), small-scale business/trade is the most important, accounting for more than 40 percent of fund disbursed by the MFIs. On the other hand agriculture, food processing, transport, housing and livestock sectors were getting relatively small portions of fund. This is shown in Table III. The table shows that a transformation is taking place in the economic activities of the poor households in the rural areas. In the initial years of microfinance operation during the 1980s, the traditional sector including fisheries and poultry accounted for a larger segment of self-employment activities of the poor. Surveys, conducted during 1997-2000 on PKSF funded MFIs, show the predominance of small-scale trade in the earlier years and of medium- and large-scale trade in the later years. There are, however, some weaknesses of the non-farm sector; many of its activities are unable to accommodate a workforce round-the-year and also over a period of two or more years (BIDS, 2001). This aspect combined with the market constraints to the expansion of self-employment
has prompted the efforts of MFIs to finance microenterprises for the borrowers graduating from IGAs.\textsuperscript{59}

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>% disbursed up to June 2000 (476 MFIs)</th>
<th>% disbursed up to December 2000 (469 MFIs)</th>
<th>% disbursed up to June 2001 (468 MFIs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>12.63</td>
<td>12.77</td>
<td>12.23</td>
</tr>
<tr>
<td>Fisheries</td>
<td>4.74</td>
<td>4.48</td>
<td>4.91</td>
</tr>
<tr>
<td>Food processing</td>
<td>6.99</td>
<td>7.11</td>
<td>3.78</td>
</tr>
<tr>
<td>Small business</td>
<td>41.31</td>
<td>41.81</td>
<td>43.02</td>
</tr>
<tr>
<td>Cottage industries</td>
<td>3.03</td>
<td>3.08</td>
<td>3.03</td>
</tr>
<tr>
<td>Transport</td>
<td>3.42</td>
<td>3.49</td>
<td>2.78</td>
</tr>
<tr>
<td>Housing</td>
<td>1.28</td>
<td>1.30</td>
<td>1.16</td>
</tr>
<tr>
<td>Health</td>
<td>0.39</td>
<td>0.37</td>
<td>0.45</td>
</tr>
<tr>
<td>Education</td>
<td>0.02</td>
<td>0.02</td>
<td>0.08</td>
</tr>
<tr>
<td>Livestock</td>
<td>20.91</td>
<td>20.53</td>
<td>18.11</td>
</tr>
<tr>
<td>Others</td>
<td>5.28</td>
<td>4.71</td>
<td>10.45</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Sources: CDF statistics, various volumes

Table 15: Sub-sector-wise microfinance disbursement of NGO-MFIs\textsuperscript{60}

Clients' Ways to Spend Money in Bangladesh

Rutherford (2003) argued that we analyzed 515 accounts of how lump sums were formed and used. Although this is only a selection of data, based on cases that we believe to be very accurate, all 42 sample households are represented. He further stated that obviously, we assumed that there would be relationships between the value of the lump sum and its use. This is shown in Table 16.

Table 1. 515 sums by value and use category

<table>
<thead>
<tr>
<th>Sums analyzed Number</th>
<th>Sums under $10 Number</th>
<th>Sums between $10 and $100 Number</th>
<th>Sums over $100 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>All sums 515 100%</td>
<td>290 56%</td>
<td>177 34%</td>
<td>48 9%</td>
</tr>
<tr>
<td>used for life cycle</td>
<td>322 63%</td>
<td>232 45%</td>
<td>83 16%</td>
</tr>
<tr>
<td>used for emergencies</td>
<td>59 11%</td>
<td>24 5%</td>
<td>29 6%</td>
</tr>
<tr>
<td>used for opportunities</td>
<td>134 26%</td>
<td>34 7%</td>
<td>65 13%</td>
</tr>
</tbody>
</table>

Table 16: Clients' Ways to Spend Money in Bangladesh

\textsuperscript{59} Ahmed, 2009
\textsuperscript{60} As cited in (ibid)
**Impact of microfinance program on poverty in Bangladesh**

The main objectives of the microfinance programs are to increase employment opportunities and to enhance income adequate to lift the poor above the poverty line on a sustainable basis. A summary of the findings of some impact assessment studies is presented in Table 17. (Ahmed, 2009)

<table>
<thead>
<tr>
<th>Source</th>
<th>Economic indicators</th>
<th>Type of change</th>
<th>Social indicators</th>
<th>Type of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hossain (1988)</td>
<td>Return on investment</td>
<td>+</td>
<td>Social investment</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Household income</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Working capital</td>
<td>+</td>
<td>Social investment</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Non-agricultural investment</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Agricultural investment</td>
<td>?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Labor force participation rate</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIDS (1990)</td>
<td>Income</td>
<td>+</td>
<td>Child woman ratio</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Expenditure</td>
<td>?</td>
<td>School enrollment</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Land purchase</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMEC (1995)</td>
<td>Economic empowerment</td>
<td>+</td>
<td>Social empowerment</td>
<td>+</td>
</tr>
<tr>
<td>Pitt and Khandker (1995)</td>
<td>Various labor supply</td>
<td>+</td>
<td>Girl's schooling</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Men's labor supply</td>
<td>-</td>
<td>Contraceptive use</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Household expenditure</td>
<td>+</td>
<td>Women's non-land asset</td>
<td>+</td>
</tr>
<tr>
<td>Rahman (1996)</td>
<td>Household expenditure on consumption</td>
<td>+</td>
<td>Number of meals taken by men</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Human capital and fixed investment</td>
<td>+</td>
<td>Number of meals taken by woman</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>+</td>
<td>School enrolment rate</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Attitude to education</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pure drinking water</td>
<td>+</td>
</tr>
</tbody>
</table>

**Table 17: A summary of the findings of Impact Assessment Studies**

---

61 As cited in Ahmed, 2009
The PKSF commissioned a survey (1997-2001) through the Bangladesh Institute of Development Studies (BIDS) covering 3,026 sample households from 91 villages. An overview of the findings from the survey is reported in Table 18.62

<table>
<thead>
<tr>
<th>Broad category</th>
<th>Indicators</th>
<th>Type of change</th>
<th>Cause of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic impact</td>
<td>Income</td>
<td>+</td>
<td>Self-employment activities</td>
</tr>
<tr>
<td></td>
<td>Food security</td>
<td>+</td>
<td>Greater access to cultivable land through the rental market</td>
</tr>
<tr>
<td></td>
<td>Wage (land poor)</td>
<td>+</td>
<td>Transport and other non-agri activities support by microcredit</td>
</tr>
<tr>
<td></td>
<td>Employment (land poor)</td>
<td>+</td>
<td>• Better access to the land rental market</td>
</tr>
<tr>
<td></td>
<td>Assets (land poor)</td>
<td>+</td>
<td>• Wage employment in non-agri sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Av. low land size than non-participants</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Larger operational holding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Impact of MF (poultry, livestock, bi-cycles, rickshaw/van)</td>
</tr>
<tr>
<td>Social and other</td>
<td>Fertility and</td>
<td>+</td>
<td>• Program participation</td>
</tr>
<tr>
<td>development impacts</td>
<td>contraceptive use</td>
<td></td>
<td>• Female methods dominate</td>
</tr>
<tr>
<td></td>
<td>Health and nutrition</td>
<td>+</td>
<td>• Program placement effect</td>
</tr>
<tr>
<td></td>
<td>Sanitation and</td>
<td>+</td>
<td>• Program participation</td>
</tr>
<tr>
<td></td>
<td>drinking water</td>
<td></td>
<td>• Program participation</td>
</tr>
<tr>
<td></td>
<td>Literacy and school</td>
<td></td>
<td>• Program participation</td>
</tr>
<tr>
<td></td>
<td>enrollment of children</td>
<td></td>
<td>• Program participation</td>
</tr>
<tr>
<td></td>
<td>Social mobility</td>
<td>?</td>
<td>• Do not vary significantly</td>
</tr>
<tr>
<td></td>
<td>Women participation</td>
<td>+</td>
<td>• Participation in a microcredit program</td>
</tr>
<tr>
<td></td>
<td>and HH welfare</td>
<td></td>
<td>• Increasing women’s income</td>
</tr>
</tbody>
</table>

**Source:** BIDS (1997-2001) study

**Table 18: Impacts of microfinance (compared to nonparticipants)63**

The survey found the average annual income of participant households to be higher than that of the non-participants. Self-employment activities had more than 50 percent contribution to total income for the participants as against 43 percent in case of nonparticipants. Also, the nominal household income increased by 19 percent in program villages and by only 13.5 percent in control villages. Compared to non-participants the participant households were better able to cope with flood, sustain their income and attain higher purchasing power and consumption level. The BIDS study reports that the program participants, due to greater access to sharecropping, had better food security and about 26 percent of rice consumption out of own production (after sale), which was also marginally higher than the non-participants. Wage earning contributed about 23 percent of total annual income for the land-poor households. Microfinance helped participant households to earn about 8 percent higher income than that of the non-participants. The participant households are better able to ensure more employment on own farms due to their better access to the land rental market. Wage

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62 As cited in Ahmed, 2009  
63 As cited in (ibid)
and self-employment in non-agricultural sector is also higher for the participant households due to their access to microfinance program. Average size of land owned by participant households is lower than the non-participants; 91 decimals compared to 149 decimals. The BIDS study, however, suggests that the eligible participants’ mortgage or rent-in more land than the non-participants, and therefore, have larger operational holding. Higher percentage of program participants own poultry, goat/sheep and cows compared to non-participants. A higher percentage of the participants own more bicycles, boat, irrigation equipment, radio and rickshaw/van compared to those owned by nonparticipants, thus showing higher asset ownership of the participants.

The impact study shows that there is positive program placement effect on nutrition status. The BIDS study finds small positive influence of participation on waste disposal and use of sanitary toilets among the land-poor households with no clear evidence of program impact on hand washing. The use of pure drinking water from hand tube well was found universal. Adult literacy rate is significantly higher among the eligible participants. The BIDS study also found that program participation increases the chance of both boys and girls to be enrolled in schools. There are strong evidences that, microfinance programs contribute to women’s empowerment. One consistent finding is the increased self-confidence and increased self-esteem. Another is women’s increased participation in decision making in the areas of family planning, children’s marriage, buying and selling of properties and sending daughters to school. There have been some evidences that members of MFIs are able to stop domestic violence due to personal empowerment and through group action. In Bangladesh, microfinance programs have also increased women’s participation in the activities of local government. Some women microfinance clients have been elected as Chairpersons and Members of various Union Parishads, the lowest and most vibrant tier of local government. Now women microfinance clients take greater roles in community activities for social change. (ibid)

**Achievements of microfinance in Bangladesh**

- About 1,500 MFIs currently operate, with another 500 soon to join; ≈ 90% are clients of 4 big MFIs. Most MFIs consistently report repayment rates of 98%+.
- Microfinance reaches ‘significant population of otherwise disadvantaged people’ (low/unstable incomes, little/no land/assets, low social status, few/no alternative sources of financial services):
  - 20+ million active clients (≈ 86% women)
    a. **(under)estimate:** 15% are members of more than 1 MFI
    b. **(over)estimate:** 75% of clients are poor
- between 10 and 14 million poor households have access to microfinance
- Evidence is mixed, but on balance suggests ‘tangible enhancement of their capabilities’, through asset enhancement and positive effects on socio-economic environment:
  - On average, positive economic effect on clients (e.g. building non-land assets, consumption smoothing), though effects are often small, and all may not benefit equally
  - On average, microfinance and associated MFI activity have had positive social effects (e.g. ‘women’s empowerment’, education; health; fertility)
- Studies suggest significant village-level spill over effects
- National pride - Bangladesh now renowned for ‘invention’ of microfinance; commitment and insight of Yunus+; vast cadre of competent, honest field staff ...
not just poverty, floods etc.; now exports model of microfinance globally (including ‘developed’ countries)

- Employment creation - at least 50,000 credit officer-type positions across the country whose households derive their livelihood from provision of microfinance
- Next generation of social entrepreneurs (Hulme & Moore, 2006)

**Microfinance comes of age as public policy in Bangladesh – PKSF**

PKSF is a parastatal that loans donor/other funds to partner organisations (POs) for on-lending as microcredit. It is the largest, most successful apex organization globally.

- 15% of total Bangladeshi microfinance industry and 24% of on-loanable funds available to NGO-MFIs from PKSF
- In 2003-4, PKSF provided over US$58 million in loanable funds to 206 POs: 3 ‘big’ MFIs (ASA, BRAC, and Proshika); 195 small/medium MFIs; 8 ‘pre-PKSF’ organisations.
- Success of PKSF based upon:
  a. Large, stable microfinance industry preceded its establishment
  b. Strong and independent decision-making that management able to pursue, attributed to prominence and commitment of board members (ibid)

**Critiques of microfinance in Bangladesh**

- Recognised trade-offs between different goals: e.g. alleviation of economic poverty; empowerment; provision of broad range of financial, other services to diverse clientele; financial self-sufficiency of MFIs
- Neo-Marxist discrediting of microfinance less common, but arguments around radical social movements remain – e.g. Nijera Kori
- We know far less about defaulters and drop outs – does microfinance = micro debt?
- High costs to donors and to poor people – alternative means of spending donor money?
- Also, MFI failures do exist, even in Bangladesh – e.g. GSS, Federal Savings (ibid)

**Microfinance’s Success in Bangladesh**

- Innovations in targeting; screening out ‘bad’ (non-poor and non-viable) clients; ensuring repayment; reducing costs; administrative efficiency
- Central role of public and non-governmental organisations in transforming private sector models
- Scaling up by the Grameen Bank
- Adoption, adaptation of Grameen model by other MFIs
- MFI innovation outside of the Grameen Model
- high population density and basic infrastructure - low service delivery costs
- regular supply of new university graduates with few other employment opportunities
- levels of law and order mean that fieldworkers and bank branches are relatively secure
- foreign aid donors with large budgets available to support viable projects
- exceptional commitment, ability and performance of leaders
Millions of ‘little’ women (in terms of social status as well as height and BMI) have shown extraordinary agency and capacity to use microfinance to improve the well-being of their households and repay their loans.

However, in many ways, success of microfinance in Bangladesh is based on poor women’s agency (to empower themselves and care for their households) and poor women’s lack of agency (not ‘access for women’, but ‘women are accessible’).

Post-war burst of human agency, energy, creativity created capital (knowledge and institutional capacities), upon which the country continues to draw today.

Skilful management of socio-political position, so that now both embedded in Bangladeshi society and able to leverage changes in society

Internationally, foundational in creating global image of microfinance as a policy appealing to ideologies both right of centre (markets, private sector, breaking dependency) and left of centre (agency, participation, empowerment)

Effective management of opposition from Islamic groups, leftist media, Grameen Bank staff (ibid)

Savings as New Form of Micro-financial Service Provision in Bangladesh

Households in Bangladesh rarely save for life cycle events such as retirement; instead they expect their children to take care of them in old age (Rahman, 1998). The savings are small relative to the size of income and used frequently to close the gap between consumption and uncertain income (Rutherford, 2002). Evidence (Wright, 1998; Kabeer, 1998) suggests that once the means of depositing savings are available, poor people like to save a great deal. Moreover, respondent’s definition of income, consumption and saving are not always consistent with the enumerator’s or textbook definition. ‘If a farmer buys tin (corrugated iron) for his roof it is consumption, according to normal economics. But the farmer certainly considers it also as a savings for emergency, and will always say that in time of crisis he can sell it. Women save in cash as well as in-kind and they hide this from husbands and other relatives. Women actively seek to hedge against patriarchal risk in other ways as well. With the collusion of a young son a women may sell grain without her husband’s knowledge and accumulate savings. There are cases of women surreptitiously purchasing land (usually outside of the village), or engaging in money-lending activities without their husband’s knowledge’ (Cain et al., 1979).

There was also considerable confusion about the target market for the various savings products—both among the staff and the clients. Initially the decision was to sell the current account and long term saving products to non-credit clients, the ‘associate members’, with the new CWS for the credit clients. Given the setting up of targets for each field staff and the difficulty of marketing saving products to non-credit clients, the field staff sold the associate member saving products to other members of their credit clients’ households. (Matin, 2002)

64 As cited in Dowla & Alamgir (2003).
65 ibid
66 ibid
67 ibid
Part 2: ASA – A Case Study

About ASA
ASA has emerged as one of the largest and most efficient Microfinance Institution (MFI) in the world and has been working relentlessly to assist the poor since its inception in 1978. The major drive behind ASA is to gradually eradicate poverty from society. During its early years, ASA undertook various development programs like awareness building for social action, training local birth attendants, capacity building of journalists, etc. In the mid-80’s it introduced new programs working in the sector of health and nutrition, education, sanitation, etc. It was at this stage that ASA introduced microcredit as a pilot project.

From its hands on experience in the field, and by evaluating the impact of development assistance, ASA realized that financial solvency, to a great extent, is what the poor need to bringing positive changes in their lives. In 1992, this paradigm shift led ASA to focus solely on microfinance as its tool in fighting poverty.

ASA wanted to evolve its operations to become self-reliant and move away from depending on donor funding and grants - ASA’s Microfinance Model gradually transformed itself to become the globally renowned "ASA Cost–effective and Sustainable Microfinance Model."

Following this model, ASA became self-sustainable within a short span of time and the organization declared itself a "donor free MFI" in 2001. This model, that has been practiced and perfected in the field by ASA, has proved effective in making a branch self-reliant within 12 months. Any MFI that adopts this model for operations becomes sustainable within the shortest possible time. It has been adopted by many MFIs around the world to get result within the shortest possible time. As of December 2009, ASA has successfully extended its outreach in Bangladesh through 3,236 branches and its 24,021 staff works relentlessly to serve more than 5.50 million clients.

Profile of ASA

<table>
<thead>
<tr>
<th>Institutional Profile as of December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Founded</strong></td>
</tr>
<tr>
<td><strong>Legal status</strong></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

68 This part is incorporated and modified from ASA website, ASA’s published materials and study (references of study are provided where required) on ASA
## Organization

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Branches:</td>
<td>3,236</td>
</tr>
<tr>
<td>Number of Villages/wards:</td>
<td>70,480</td>
</tr>
<tr>
<td>Number of Active Client:</td>
<td>5,498,292</td>
</tr>
<tr>
<td>Number of Household:</td>
<td>4,782,722</td>
</tr>
<tr>
<td>Number of Borrowers:</td>
<td>4,000,401</td>
</tr>
<tr>
<td>Average Loan Size:</td>
<td>US$178</td>
</tr>
<tr>
<td>Average Loan Size on Per Capita GDP(%):</td>
<td>30%</td>
</tr>
<tr>
<td>Percentage of Female Client:</td>
<td>88%</td>
</tr>
<tr>
<td>Total Staff Members:</td>
<td>24,021</td>
</tr>
<tr>
<td>Total Loan Officers:</td>
<td>13,266</td>
</tr>
</tbody>
</table>

## Area of operations

<table>
<thead>
<tr>
<th></th>
<th>% Urban:</th>
<th>% Rural:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15%</td>
<td>85%</td>
</tr>
</tbody>
</table>

## Financial Profile (Amount in US$)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio size (USD)</td>
<td>$2,996,761</td>
<td>$79,213,963</td>
<td>$265,000,414</td>
<td>$457,604,091</td>
</tr>
<tr>
<td>Savings Balance (USD)</td>
<td>$753,451</td>
<td>$31,975,066</td>
<td>$48,093,105</td>
<td>$118,991,965</td>
</tr>
<tr>
<td>Cost per Unit Money Lent</td>
<td>0.166</td>
<td>0.043</td>
<td>0.033</td>
<td>0.068</td>
</tr>
<tr>
<td>Portfolio per Loan Officer (in million)</td>
<td>0.13</td>
<td>1.14</td>
<td>1.78</td>
<td>2.36</td>
</tr>
<tr>
<td>Portfolio at Risk</td>
<td>0</td>
<td>0.88</td>
<td>1.22</td>
<td>4.67</td>
</tr>
<tr>
<td>Average Portfolio Yield</td>
<td>0.00%</td>
<td>25.95%</td>
<td>28.87%</td>
<td>22.72%</td>
</tr>
<tr>
<td>Effective Yield on Average Asset</td>
<td>11.94%</td>
<td>24.65%</td>
<td>24.53%</td>
<td>19.66%</td>
</tr>
<tr>
<td>Operating Cost Ratio</td>
<td>21.89%</td>
<td>7.70%</td>
<td>6.54%</td>
<td>11.56%</td>
</tr>
<tr>
<td>Financial Self</td>
<td>47.03%</td>
<td>124.90%</td>
<td>169.73%</td>
<td>112.49%</td>
</tr>
</tbody>
</table>
Client Information Needs of MFIs: A Case Study of ASA Bangladesh

<table>
<thead>
<tr>
<th>Sufficiency (FSS)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Self Sufficiency (OSS)</td>
<td>53.17%</td>
<td>136.60%</td>
<td>275.24%</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>-11.44%</td>
<td>8.97%</td>
<td>10.71%</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>-14.00%</td>
<td>22.88%</td>
<td>19.66%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Offering (as of December, 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Small Loan (female)</td>
</tr>
<tr>
<td>Small Business</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Small entrepreneur</td>
</tr>
<tr>
<td>Agri-business &amp; Short term</td>
</tr>
<tr>
<td>Savings</td>
</tr>
<tr>
<td>Security fund (Life Insurance)</td>
</tr>
</tbody>
</table>

Table 19: Profile of ASA
ASA Organogram

Clients of ASA
In common with almost all Bangladeshi MFIs, ASA refers to its clients as *members*. This reflects not only their organization into groups, but also the continuing preference, stemming from microfinance’s origins in social development NGOs, to think of the relationship between microfinance institutions and their client as more than a merely commercial one.
The surge in the number of non-borrowers in 2005 (and the dip in the proportion of borrowers who are female) occurred because in that year ASA started recruiting the husbands and fathers of its women clients as 'guardian members'. They are eligible for small loans that act as supplementary loans to those held by their wives and daughters. They do not need to attend the weekly meeting, and they repay their loans monthly. By no means have all of them chosen to borrow, but the proportions that do have steadily increased, to half of them in 2007. In common with all Bangladeshi MFIs, the turnover of clients is extremely high. In an average month in mid 2007, for example, ASA was recruiting about 150,000 new clients but losing about 130,000, for a net gain of 280,000 in the year. Many of the 'new' clients are not new to microfinance: many have been clients of MFIs in the past, or still are – having an account in several MFIs is very common. Indeed, many of the 'new' clients held accounts one or more times in ASA itself, but dropped out. (Rutherford et al., 2008)

Corporate identity and resource acquisition of ASA
In 1992 ASA became one of the first NGOs to borrow from PKSF, a government-owned wholesaler of microcredit funds that used both government money and large grants from the World Bank. Indeed for sometime ASA was the biggest single taker of PKSF funds. A little later, in 1995, ASA became the first Bangladesh NGO-MFI to take a loan at commercial rates (9% a year) from a bank, when it took $250,000 from the Agrani Bank, secured by its Dhaka head office. This deal – hard to bring off and helped along by USAID’s Financial Sector Reform program – further established ASA as an unusually ‘businesslike’ NGO. (ibid)

Credit Management of ASA
New clients receive a first loan of a set value. Clients in good standing (with up-to-date loan repayments) are automatically eligible for a follow-up loan as soon as they repay the previous one. The value of the first loan, and of the subsequent increment, is set by directors, for each district or in difficult areas for each branch. Unless the loan officer has spotted something unusual (preparations by the household to leave the area, for example), no further underwriting tasks are carried out. The loan term and the repayment schedule are fixed and non-negotiable. A notional ‘loan use’ is recorded but rarely taken very seriously: staff know that these loans, which are small relative to household income (rarely more than a quarter’s income and usually much smaller) enter the household cash flow and get repaid from it. The repayment record is a much better indicator of ability to pay than any other, which is why clients who do fall behind are dealt with quickly – usually by being chivvied to repay their current loan and then being eased out of membership of the client group. We have seen that, to an increasing extent, loans are backed in part by savings and security fund deposits, so in many cases a troubled loan can be cancelled, and the client removed from the list, by simply debiting the loan from the deposits. Each month in ASA, between 120,000 and 150,000 clients exit, with somewhat more (about 140,000 to 170,000 at present) joining. Staffs work hard to prevent the tell-tale over dues from occurring in the first place. Loan officers may use their superior status to pressure clients to pay at the weekly meeting, sometimes using techniques that come close to social collateral – for example by keeping

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69 As cited in Rutherford et al., 2008 with Notes: More and more, joiners are ex-clients. Such clients may drop out and rejoin for all sorts of reason, but it is not uncommon for a client to climb the loan-value ladder, get into trouble, drop out, and then start again with a small loan. These days, even those who are not ex-ASA clients, are current or past clients of other NGO-MFIs.
everyone sitting in the meeting until someone lends the overdue client enough money to make at least a token repayment. If that fails, the loan officers make home visits, and if they still have no success, two or more of them will go to the field again, after dark, and camp on the doorstep of an overdue client until they get the cash. This is the main reason for the very long hours that branch staffs work – often up to 10 or 11 at night. ASA is not alone in this: it is standard procedure for MFIs in Bangladesh. These ‘bicycle calls’ are perhaps more effective than the call-centers and payment-reminder calls made in wealthier environments, because they are done in public, and for Bangladeshis it is particularly shaming to show inattention to guests on the doorstep. For a small number of loans – the SEL or ‘small entrepreneur lending’ loans that account for about 10% of portfolio and less than 4% of clients – there are appraisal formats that record business inventory, cash flows, and credit lines, and ASA takes pre-signed advance-dated repayment cheques drawn on other banks. By and large, ASA is not yet as good as doing this kind of business as it is at the small loans sector, as poorer portfolio performance numbers show. (ibid)

Product strategy of ASA
ASA is a microcredit provider and its core product has not changed very much over 16 years of business: a high-volume low-value basic general-purpose loan, repaid in weekly installments. Though ASA has experimented with other loan types, none looks set to replace the small loan. The experiments have not much disrupted ASA’s business, and the same can be said of its experiments with savings. Savings are used largely to protect the small loan product, by providing some de facto security against default, rather than as a way of raising capital. (ibid)

ASA’s Microcredit and Loan Program

Basic Loan Products

i. Small Loan for Female Clients; accounts for 78% of total portfolio

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest Rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economically active poor to undertake or strengthen income generating activities</td>
<td>BDT 10,000-20,000 or US$ 150-300 depending on the economic potential of area and client’s capacity as well</td>
<td>12.5% (flat)</td>
<td>45 weeks</td>
<td>Weekly (37 equal weekly installments)</td>
<td>BDT 4,000 or US$ 60 (maximum) in each loan cycle</td>
</tr>
</tbody>
</table>

ii. Hardcore Poor Loan; accounting 1% of total portfolio

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial</th>
<th>Interest</th>
<th>Loan</th>
<th>Repayment</th>
<th>Incremental</th>
</tr>
</thead>
</table>

70 ASA Website
<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>iii. Small Business loan; accounts for 12% of total portfolio</td>
<td>BDT 50,000 or US$ 735</td>
<td>12.5% (flat)</td>
<td>One Year</td>
<td>Flexible; Weekly or Monthly</td>
<td>BDT 7,000 or US$ 100 (maximum); in each loan cycle</td>
</tr>
<tr>
<td>iv. Small Entrepreneur Lending (SEL); accounts for 6.5% of total portfolio</td>
<td>BDT 400,000 or US$ 5,900</td>
<td>12.5% (flat)</td>
<td>12/18/24 months</td>
<td>Monthly</td>
<td>Not fixed; depends on projects</td>
</tr>
<tr>
<td>v. Agri-business Loan; account to 1.5% of total portfolio</td>
<td>BDT 400,000</td>
<td>12.5% (flat)</td>
<td>12/18/24 months</td>
<td>Monthly</td>
<td>Not fixed; depends on projects</td>
</tr>
</tbody>
</table>
### Client Information Needs of MFIs: A Case Study of ASA Bangladesh

<table>
<thead>
<tr>
<th>agribusiness related activities</th>
<th>or US$ 5,900</th>
<th></th>
<th></th>
<th>projects</th>
</tr>
</thead>
</table>

Table 20: Basic Loan Products

**Special Loan Products**

**i. Small Loan for Male Client (Spouse or Family Head of Female Client)**

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A special loan product designed for the spouse or family head of ASA’s female client to cater to the need for strengthening supplementary/main income generating activities of the family by injecting some working capital. It also intends to support rural households for their agricultural activities during seasons</td>
<td>BDT 4,000 or US$ 60</td>
<td>12.5% (flat)</td>
<td>One Year</td>
<td>Monthly (12 equal monthly installments)</td>
<td>BDT 1,000 or US$ 15 (maximum); annual</td>
</tr>
</tbody>
</table>

**ii. Business Development Loan (part of BDS)**

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defaulters who lost projects due to factors beyond their control and have willingness to pay. Mainly to cater to the need of small and small business loan clients’</td>
<td>BDT 5,000 or US$ 75</td>
<td>12.5% (flat)</td>
<td>One Year</td>
<td>Flexible; Weekly or Monthly</td>
<td>Not fixed; depends on progress and capacity</td>
</tr>
</tbody>
</table>

**iii. Rehabilitation Loan**

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loan product for clients’ affected by natural disasters e.g., flood, cyclone etc</td>
<td>BDT 1,000 or US$ 15</td>
<td>Interest free</td>
<td>12 months</td>
<td>Flexible; Weekly or Monthly</td>
<td>NA</td>
</tr>
</tbody>
</table>

---

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iv. Short Term Loan

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest Rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loan product of short duration for clients' having business activities in need during seasons</td>
<td>BDT 100,000 or US$ 1,470</td>
<td>12.5% (flat)</td>
<td>3 months</td>
<td>Flexible; Monthly or at a time</td>
<td>NA</td>
</tr>
</tbody>
</table>

v. Scarcity Loan

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest Rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loan product for clients’ in scarcity during lean season; Loan can be used for both asset building before the lean season and consumption during the lean season</td>
<td>BDT 3,000 or US$ 45</td>
<td>12.5% (flat)</td>
<td>3 months</td>
<td>Flexible; Monthly or at a time</td>
<td>NA</td>
</tr>
</tbody>
</table>

vi. Education Loan

<table>
<thead>
<tr>
<th>Eligible Criteria</th>
<th>Initial Maximum Loan Size</th>
<th>Interest Rate</th>
<th>Loan Term</th>
<th>Repayment Mode</th>
<th>Incremental increase of loan size</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loan product to support clients’ children studying in 8th grade and above</td>
<td>BDT 3,000 or US$ 45</td>
<td>10% (flat)</td>
<td>One Year</td>
<td>Weekly</td>
<td>NA</td>
</tr>
</tbody>
</table>

Table 21: Special Loan Products

ASA’s Other Programs

Savings Products

i. Mandatory Savings

<table>
<thead>
<tr>
<th>Category of Client</th>
<th>Deposit rate (minimum)</th>
<th>Interest rate</th>
<th>Term</th>
<th>Deposition Mode</th>
<th>Withdrawal Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients belonging to basic loan category except SEL and Agri Business loan are</td>
<td>BDT 10 or US$ 0.15</td>
<td>Re-arrange in every year on the basis of</td>
<td>Continue throughout the membership</td>
<td>Depends on Loan repayment mode</td>
<td>Clients can withdraw anytime but need to keep 5%</td>
</tr>
</tbody>
</table>
required to deposit a fixed amount

<table>
<thead>
<tr>
<th>Category of Client</th>
<th>Deposit rate (minimum)</th>
<th>Interest rate</th>
<th>Term</th>
<th>Deposition Mode</th>
<th>Withdrawal Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients who participate in mandatory savings is optional</td>
<td>Any amount above mandatory deposit</td>
<td>Re-arrange in every year on the basis of bank rate</td>
<td>Continue throughout the membership</td>
<td>Depends on Loan repayment mode</td>
<td></td>
</tr>
<tr>
<td>ii. Voluntary Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category of Client</th>
<th>Deposit rate (minimum)</th>
<th>Interest rate</th>
<th>Term</th>
<th>Deposition Mode</th>
<th>Withdrawal Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any client can participate in this product; an installment based deposit with fixed return usually higher than regular savings but close to fixed rate of return</td>
<td>50/ 100/ 200/ 300/ 400/ 500</td>
<td>For 5 years duration 9% and for 10 years duration 12% at maturity</td>
<td>5 or 10 years</td>
<td>Monthly</td>
<td></td>
</tr>
<tr>
<td>iii. Long Term Savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 22: Savings Products

Insurance/Security Fund Product

i. Loan Insurance

<table>
<thead>
<tr>
<th>Category of Client</th>
<th>Premium in each loan cycle</th>
<th>Insurance Payment</th>
<th>Term</th>
<th>Deposition Mode</th>
<th>Management of Insurance Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any client can participate in this product; an installment based deposit with fixed</td>
<td>Tk. 10 per thousand loan disbursement</td>
<td>Non-refundable but in case of death of Borrower or Borrower’s</td>
<td>Continue throughout life as borrower</td>
<td>Cash before disbursement</td>
<td>ASA</td>
</tr>
</tbody>
</table>
return usually higher than regular savings but close to fixed rate of return

Table 23: Insurance/Security Fund Product

<table>
<thead>
<tr>
<th>Category of Client</th>
<th>Premium</th>
<th>Insurance Payment</th>
<th>Term</th>
<th>Deposition Mode</th>
<th>Management of Insurance Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Basic Loan</td>
<td>BDT 10 or US$ 0.15 per week, BDT 50 or US$ 0.72 per month but BDT 10 or US$ 0.15 per month for Hardcore Poor Loan</td>
<td>Refundable with 4% interest but 6 times the amount of balance paid in case of client’s death</td>
<td>Eight Years</td>
<td>Cash with loan installment</td>
<td>ASA Manages its insurance program</td>
</tr>
<tr>
<td>Spouse or Family Head of Female clients’ may participate in this product</td>
<td>BDT 10 or US$ 0.15 per week</td>
<td>Refundable with 2% interest but 3 times the amount of balance paid in case of client’s death</td>
<td>Four Years</td>
<td>Cash with loan installment</td>
<td>ASA</td>
</tr>
</tbody>
</table>

Health Assistance

i. ‘Health Assistance Grant Fund’ for ASA Client from the Central Pool
Clients’ sufferings from serious illnesses that need to undergo major treatment are entitled to receive a one-time grant, free of cost.
No premium or any fees is associated with this grant - rather the fund is created from the surplus of ASA’s cost-efficient operation.
Implementation Guideline

The following chart is provided to implement the health assistance program at field level.

<table>
<thead>
<tr>
<th>Name of Disease</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancer (Blood, Lungs, Bone, Stomach, Neck)</td>
<td>BDT 80,000-100,000 US$ 1,175-1,470</td>
</tr>
<tr>
<td>Acid Burnt</td>
<td>BDT 16,000-20,000 US$ 147-294</td>
</tr>
<tr>
<td>Other form of Cancer</td>
<td>BDT 16,000-20,000 US$ 147-294</td>
</tr>
<tr>
<td>Brain Tumor/Hemorrhage</td>
<td>BDT 60,000-75,000 US$ 880-1,100</td>
</tr>
<tr>
<td>Stone Removal</td>
<td>BDT 16,000-20,000 US$ 147-294</td>
</tr>
<tr>
<td>Kidney transplant</td>
<td>BDT 160,000-200,000 US$ 2,350-2,940</td>
</tr>
<tr>
<td>Heart Related Surgery e.g., valve change, Bi-pass etc</td>
<td>BDT 64,000-150,000 US$ 940-2,205</td>
</tr>
<tr>
<td>Backbone Surgery</td>
<td>BDT 80,000-100,000 US$ 1,175-1,470</td>
</tr>
<tr>
<td>Orthopedic Related Surgery including Patella change</td>
<td>BDT 20,000-25,000 US$ 294-370</td>
</tr>
</tbody>
</table>

Table 24: Health assistance program

ii. ‘Health Assistance Grant Fund’ for ASA Client for minor illness

Clients’ sufferings from minor illnesses are also entitled to receive a one-time grant support free of cost. No premium or any sort of fees is associated rather the fund is created from the surplus of ASA’s operation.

Budget
An average of BDT 11,000 or US$ 160 per branch is allocated annually for the purpose.

Implementation Guideline
The following chart is provided to implement this program at field level.

<table>
<thead>
<tr>
<th>Name of Disease</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cataract operation</td>
<td>To be spent in accordance with need and as per</td>
</tr>
</tbody>
</table>
Elements of Effective and Fast Scaling up of ASA’s Program

Effective Organizational Management

Fast scaling up is best understood as meeting unique challenges of effective organizational management that characterizes fast expanding programs. These relates to:

A. Ensuring effective decision making by an ever expanding work force. The following features of ASA policies ensure effective decision making in the face of its fast expansion:
   - Minimize decision errors through minimal decision making load on new and less experienced employees by the reliance on simplified and standardized service procedures;
   - Simplified administrative and accounting approval and decision making process;
   - Unambiguous indicator-based performance review;
   - Quick and close-to-field problem solving;
   - Responsive, not participatory decision making.

B. Managing organizational and staff learning. ASA employs the following four policies to bring this about:
   - Minimize information carrying and analysis load;
   - Limited needs of complex group/institutional development skills;
   - Guided decision making based on a manual;

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71 Rutherford et al., 2008 as cited in ASA’s website
Officer presence in the field

C. Management of resource acquisition. Two of ASA policies are crucial in this regard, namely

- Strategic viability and positioning on the basis of cost-efficiency and not on novelty;
- Tapping existing non-political institutional resources.
D. Management of organizational development. Developing organizational capability in the form of technology, systems and culture, constitute a great challenge in a fast expanding organization. ASA adopted a multi-pronged approach to organizational development that reduced demands of complex organizational development process. The followings are the outline in this regard.

- Absence of complex group development;
- Start simple and grow elaborate;
- Market competitive staff incentive policy;
- Insulating staff from social pressures.

ASA program policies can be seen as responses to effectively manage the above four demands of effective organizational management. These policies, thus, constitute a managerial agenda for scaling up in fast expanding programs.
### Key Strategies for Rapid Growth

<table>
<thead>
<tr>
<th>MOST IMPORTANT FACTORS</th>
<th>KEY ACTIONS TAKEN IN EACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralized and simplified staff recruitment procedures and short duration on-the-job staff training.</td>
<td>Staff recruitment process is decentralized at field level. Staff selection process focuses on mediocre qualifications but potential for rigorous fieldwork. No written examination are taken for hiring rather hiring undergo through group interview by judging physical fitness, presentation, quick and appropriate response, attentiveness etc. Newly recruited staffs are undergoing a 9-days on-the-job training at the field office. Each new staff is assigned with an old lion officer for hands-on experience.</td>
</tr>
<tr>
<td>Guided operation based on written working manual</td>
<td>All sorts of administrative and program policies are documented in details in a working manual, which is kept at each field office. All approvals as per this manual are deemed as given requiring no reference to or permission from the higher authority. Complete division of work among all ASA staff level.</td>
</tr>
<tr>
<td>Cost effective and decentralized operation / management system.</td>
<td>Field office structure and expenditure is structured and standardized with a cost ceiling for all sorts of expenditure. Delegation of administrative and program related decision-making power to the field office. Filed office used as an office cum residence and is equipped with minimum, simple furniture and collective use of all utilities and facilities. Simplified and self-maintain accounts and MIS system without provision for an accountant and MIS personnel. No separate office setup and secretarial staff for mid level supervisor. Quick loan disbursement and fund transfer from surplus to deficit areas by field level staff due to decentralization.</td>
</tr>
<tr>
<td>Targeting optimum number of clients per loan officer and supervisor.</td>
<td>Number of clients per loan officer is fixed based on financial viability of the operation and working area. Number of loan officer per supervisor is also set accordingly. All working days in a week is used for field work.</td>
</tr>
</tbody>
</table>
Breakthrough Strategies to Growth and Cost Reduction at Different Stages

**Figure 14: Growth of ASA**

<table>
<thead>
<tr>
<th>Breakthrough Strategies</th>
<th>START-UP</th>
<th>ACHIEVING SUSTAINABILITY</th>
<th>MAJOR REACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single focus program, which concentrates on providing financial services. ASA operation does not mix with other non-financial services. Establishing branch as</td>
<td>Cost effective and decentralize operation with reduced overhead and administrative cost. Fast formation of groups of eligible</td>
<td>An ASA branch becomes financially viable within 9 to 12 months of operation. Fast expansion of ASA program. Within 7 years of its micro-</td>
<td></td>
</tr>
</tbody>
</table>
a centre for providing financial services with very simple and small structure. Small and simple branch structure allows filed offices to locate close to clients' homes. Simplified and easy non-conventional record keeping, accounting and MIS systems without provision for an accountant and MIS personnel.

<table>
<thead>
<tr>
<th></th>
<th>clients and fast provision of loan. Maximum utilization of loan fund through daily loan disbursement and immediate transfer of excess funds to other branches or central office. Increase of clients and loan portfolio per loan officer.</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit operation, ASA reached a million clients. Cost per unit of money lent constituted a very cost effective micro-credit operation in the world.</td>
<td></td>
</tr>
</tbody>
</table>
ASA has emerged as one of the largest, cost-effective and financially sustainable MFIs in the world. These successes can be attributed to the inherent willingness of all ASA staff to experiment with innovative and simplified management systems. The following summarizes the key success factors along with the actions/process that contributed to

**Efficiency and Key success factors of ASA**

ASA Growth from 1992-2009

- Disbursement in million (during the year): 4.35
- Performing assets in million (end balance): 4.93

ASA Growth from 1992-2009

- Number of total staffs (end balance): 24,021
- Number of staffs: 1,239

**Figure 15: Growth of ASA**
the success in improving efficiencies.

![Cost per Taka (money lent)](image)

**Figure 16: Cost per Taka (money lent)**

<table>
<thead>
<tr>
<th>Key success factors</th>
<th>Actions/process in each key factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear mission, vision, and principles that guide and motivate</td>
<td>Clearly defined and carefully formulated statements of mission, vision and principles as the underpinning of the organization, strategy and programs.</td>
</tr>
<tr>
<td>Strong leadership</td>
<td>Dynamic leadership with a view to build responsive and competent decision-makers at all levels of the organizations with responsive guidance from the top management.</td>
</tr>
<tr>
<td>Capacity to change, innovate and motivate</td>
<td>During implementation of micro-finance services, organizations face various problems at different stages. In such cases, policy flexibility and modifications are required. Feedback from the field for problem identification and possible solutions is guiding principle for taking new policies or modifications. This flexible policy atmosphere, which allows for continuous improvements and adaptation to new situations, is the core of organizational development and dynamism and this eventually improves the organizational capacity to change, innovate and motivate.</td>
</tr>
<tr>
<td>Specialization</td>
<td>As an MFI, ASA concentrates only on providing financial services and thereby there is no mission drift to other non-financial services. Moreover, ASA follows a single loan policy per client in accordance with its policy of specialization.</td>
</tr>
<tr>
<td>Client Information Needs of MFIs: A Case Study of ASA Bangladesh</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Targeting financial self-sufficiency with debt fund / capital</strong></td>
<td>Gradual decrease on dependency on grants for funds and at the same time leveraging debt funds leads to greater control and autonomy for ASA while leading to cost-effective operation.</td>
</tr>
<tr>
<td><strong>Simple organization</strong></td>
<td>ASA’s simple organizational set-up is represented by its two tier office structure - head / central office and branch office. Branch office is the centre of providing financial services. This represents ASA as one of the least hierarchical organization in the world.</td>
</tr>
<tr>
<td><strong>Decentralized and standardized guided operation</strong></td>
<td>All sorts of administrative and program policies are documented in details in a working manual, which are kept at each field office and with each ASA staff. All approvals in this manual are deemed as authorised requiring no permission from the higher authority. This essentially delegates administrative and program related decision-making power to the field office.</td>
</tr>
<tr>
<td><strong>Simplified, understandable and transparent operational procedures</strong></td>
<td>Simple and easily understandable methods in all aspects makes ASA operation a transparent one. Some examples are: Client selection and loan processing is simplified with nominal paper work, focusing mainly on informal analysis through practical observation ASA follows a totally non-conventional and self-maintained accounting system and MIS with less paper work All formats are self-explanatory and designed to provide at-a-glance overview Simplicity and transparency is also ensured through the provision of working manual which clearly states all sorts of administrative discipline, job responsibility and approval levels along with the interpretation of policies, guidelines and procedures at all levels.</td>
</tr>
<tr>
<td><strong>Cost-effective management</strong></td>
<td>Expenditure at a branch level is structured and standardized with a cost ceiling for all expenditure. The ceilings are stated in the manual that is updated every year. Branch office is used as an office-cum-residence which leads to collective utilization of resources and doing away with the need for a guard. No secretarial staff are required in the field office leading to an assistant-less mid-level management. Simplified and self-maintained accounting and MIS systems leads to effective monitoring without the need for an accountant or MIS personnel.</td>
</tr>
<tr>
<td><strong>Effective organizational management that relate to:</strong></td>
<td><strong>Effective decision-making</strong> Reduce decision errors through minimal decision load on</td>
</tr>
</tbody>
</table>
less experienced staff, this is achieved by relying on simplified and standardized service, administrative and accounting procedures. Quick, and close to field, problem solving. As its capital includes a large share of borrowed money rather than grants, ASA’s decision-making becomes self guided rather than guided by the donors.

**Managing organizational and staff learning.**
Minimal information analysis is needed in the field and there is a limited needs of complex institutional development skills. Guided decision-making is based on a manual supplemented by an officers’ presence in the field.

**Management of resource acquisition.**
Tapping existing non-political institutional resources and alternative resources other than grants. Due to decentralization, field level managers can transfer fund from surplus to deficit areas in order to ensure efficient fund utilization.

**Management of organizational development**
Absence of complex group development and a policy of "Start simple and grow” causes ASA to manage its internal development effectively. ASA also follows a market competitive staff incentive policy.

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**Innovative middle management**
As ASA follows a two-tier office set-up, middle management in ASA is office less, residing in a middle unit in their jurisdiction. Instead of working with documents in the office, they supervise, checks, monitor and guides operation by visiting field units.

**Decentralized and simplified staff recruitment procedures and short duration on-the-job staff training**
Staff recruitment process is decentralized at the field. Staff selection process focuses on mediocre qualifications but potential for rigorous fieldwork. No written examination are taken for hiring, rather potential employees undergo group interview by judging physical fitness, presentation, quick and appropriate response, attentiveness etc. Newly recruited staff undergoing a 1-month long on-the-job training at the field office. Each new staff is assigned with an old loan officer for hands-on experience.

**Adequate MIS to trace key performance indicators and help manage operations**
Simple and informative monthly MIS reports that are received on time, is ready for top management within third week of the month.

**Rigorous monitoring from the upper level**
As ASA’s branch is the only center for providing its services, rest of the management is closely involved in monitoring side by side with implementation.
Figure 17: Performance of ASA
ASA Microfinance Management System (AMMS)

ASA has been working very hard for the last three years to fully automate its MIS and FIS reporting for all branches and district offices. Despite wide geographical locations, lack of resources and inherent implementation hazards its steady progress is significantly visible. This article summarizes ASA software solution details, its present implementation status and future plans.

ASA Microfinance Management System (AMMS) is an integrated software solution to automate ASA's micro-credit program. Followings are major features of AMMS:

- It records day to day financial activities in electronic format and then produces management monitoring reports at required frequencies
- It is flexible enough to cater the needs of MFI operations in different countries yet produces standardized MIS and FIS reports for each level of users
Its unique feature is customizable micro-credit program parameters (e.g. interest rate, amortization, duration etc), which allows countries to offer products without any additional development work.

AMMS is divided into two major parts: Branch AMMS and Central AMMS. Following diagram shows how these two parts work together to form a complete software solution.

![Diagram of Branch AMMS and Central AMMS](image)

Figure 19: Branch AMMS and Central AMMS

There are two modules in AMMS. They are Micro-finance and Accounts. Followings are brief feature list of each module.

**Micro-finance Module:**
- Captures daily loan/savings/security disbursement and collection information
- Client and group management
- Produces loan officer and branch performance measure / monitoring reports

![Diagram of Micro-finance Module](image)

Figure 20: Micro-finance Module

**Accounts Module:**
- All transactions performed in micro-finance module is automatically posted to accounts module
- Specific accounting transactions (e.g. office expenses, bank receive/payment) can be managed separately
Tracks fixed assets with configurable depreciation rate
- Produces branch wise income expense report and balance sheet

**Figure 21: Accounts Module**

AMMS is designed as N-tier enterprise solution and special care has been taken to adopt frequent change of business process and methodologies. It has been developed utilizing Microsoft C#.NET, ASP.NET and Microsoft SQL Server technology. In addition, JIRA (task management system) and SVN (source code repository control system) have also been used in the development life-cycle.

**Present status of AMMS implementation at branch level**
- Implementation completed successfully for 3157 branches
- 88 Assistant Support Engineer (ASE) looks over the AMMS operation
- Loan Officers (LO’s) enter their daily transactions into AMMS and daily, weekly, monthly and yearly branch reports are prepared from AMMS, reducing complex calculation required to prepare manual summary reports

**Present status of AMMS implementation at country level**
AMMS country consolidation module (produces summary reports of all branches) is released on Feb 28th 2010. Initially Dhaka, Mymensingh and Rangpur district data was brought to Head Office to test consolidated reports. Based on the initial experience it is decided that Rangpur and Dhaka district data will be brought to Head Office via RM Office modem at the end of each month and based on the success of those two districts. They will eventually expand the scope of the project by December 31st 2010 and include as many branches as possible.

**ASA Sustainable and Cost-effective Microfinance Model**
ASA's microfinance model, known as the 'ASA Sustainable and Cost-effective Microfinance Model' is different from other models and has already been proven as one of the best in the world. This model is simple as well as cost-effective. This cost effective method, from Branch Office to the Central Office ensures ASA’s dedication towards its mission for reducing poverty.
Each Branch is managed by a Branch Manager (BM), One Assistant Branch Manager (ABM), 4 Loan Officers (LO) and a Peon who are responsible to conduct all activities of the branch smoothly. On an average a mature ASA branch caters to around 2,000 group members and every new branch demands Bangladeshi Taka 6 (six) million (USD 88,000) to start its activities.

Once a branch starts operations, it takes (9-12) months for it to break even and become self-sustainable:

![Figure 22: Income and Expenditure of a typical ASA Branch in Bangladesh](image)

The key assumptions in this model are:
- There are 4 Loan Officers per branch, each with a 500 client target achieving a total of 2,000 clients within a year for the branch
- Each client receives BDT 10,000 (USD 147) as their initial loan
- Loan loss Provisioning is at 0.5% on disbursement
- Service Charge (interest rate) is 15% flat, calculated for a 46 installment loan spread over 12 months
- Each member deposits BDT 20 per week as savings and pays BDT 20 as membership fees when joining ASA

**ASA’s Contribution to Microfinance Sector**

**Result of an Impact Assessment**

An impact assessment of the ASA microfinance programs has recently been carried out from the ASA Research and Documentation Cell. The assessment covered the long-term members, we continued minimum 3 years membership (from 2005 to 2007), in the credit program of ASA.

The assessment was carried out to gauge the impact of the ASA microfinance programs in the lives of its clients, that is, changes brought about in their day-to-day lives through utilization of microfinance facilities provided by ASA.
With a view to selecting a sample size, multi-stage sampling of management units from the administrative divisions to members has been done. From all of the 6 administrative divisions of Bangladesh, 12 districts were taken by selecting 2 districts from each division. Then 4 ASA branches from each district were selected. Among the branches, 2 were taken from rural and 2 from urban areas. 4 Loan Officers from each branch were taken, i.e., 4x48=192 Loan Officers were selected and 4 groups of each Loan Officer were taken. At this 4x192 = 768 Groups came under the study. Each group has 20 members on average, that is, 768 x 20=15,360 members in total. 5 (25%) Members from each Group, i.e. 5x768 = 3,840 Members were taken as the sample size.

Selection process: Members were selected for interview through a systematic sampling of odd numbers such as 1, 3, 5, 7, 9 and so on.

Method of data collection: Interview method (individual) and tool for data collection was structured questionnaire.

Time: September to December 2007.

Impact of credit & Savings Program

Business Capital
ASA implements its microfinance programs with the objective to reduce poverty of the poor and make them self-reliant. Along with the savings and credit amount, members’ business capital has increased gradually through years. According to the findings of the study the business capital of 3,269 (85.13%) members have increased, but it was negative in the case of 571 (14.87%).

![Figure 23: Business Capital](image)

Income through Income Generation Activities (IGAs)
Clients use their loans in various income generating activities (IGAs). Through its implementation, they have been successful in increasing their income during the last years. The findings of the assessment reveal that about 3,352 (87.29%) out of the total 3840 clients have agreed that their income have increased. Only 488 (12.71%) said that they have failed to increase their respective incomes. Findings of the assessment reflect that in 2005, their monthly income on average was Tk.4,778/- . The amount increased in 2006 and became Tk.6,731/- . Next year, in 2007, the amount of income further increased and stood at Tk.10,384/- . From the data it was found that their income has increased by Tk.1,953/- and Tk.3,653/- in 2006 and 2007 respectively.
Food Quality
On the question of quality of food about 3,330 (86.72%) of the respondents reported that the quality of food intake has improved in their family. It has been possible due to increase in income through proper use of loans in IGAs. About 510 (13.28%) answered that they were not able to improve the quality of food in the family.

Education
About 3,207 (83.52%) of the clients agreed that the rate of literacy has increased among them. But 633 (16.48%) of the responding clients opined that the rate of literacy did not increase.
Figure 27: Education

Employment Generation
Among the respondents about 3,413 (88.88%) stated that they were able to create employment opportunities for others at their projects. But 427 (11.12%) participants said that they could not.

Employment Opportunity

Figure 28: Employment Generation

Treatment
The group members of ASA have become more aware of their health. With gradual increase in their income they are found visiting the doctors more often to seek medical treatment. Findings of the assessment reveal that the percentage of going to the doctor increased gradually during the last three years, that is, 83.33% in 2005, 89.77% in 2006 and 96.74% in 2007.

Figure 29: Visiting the Doctors for Treatment

Drinking Water
Through the assessment it was found that the percentage of Clients taking fresh water has increased during the last three years. In 2005 this percentage was 85.78%, in 2006 it became 93.02% and in 2007 it was 96.02%.
Sanitation
It was found that the percentage of the users of sanitary and pit pucca latrines among the clients have increased year by year. In 2005 the percentage was 60.23%, in 2006 it was 71.79% and in 2007 the percentage was 80.16%.

Asset Increase
The Clients were asked whether their family assets have been increased or not. About 49.95% informed that they could increase their landed property; about 57.71% said that the number of their domestic animals increased and 41.88% reported that they could increase their ornaments.
Dwelling House Condition
The responding clients reported that condition of their dwelling houses have improved considerably. Data shows that the percentages of increasing number were 15.26% and 26.41% respectively in 2005. In 2006, their percentages were 19.38% and 32.53%. In 2007, the percentages further increased and stood at 23.18% and 35.42% respectively. On the other hand, the percentages of thatched house of those years have decreased gradually. These have been 58.33%, 48.10% and 41.41% in 2005, 2006 and 2007 respectively.

<table>
<thead>
<tr>
<th>House Type</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>15.26%</td>
<td>19.38%</td>
<td>23.18%</td>
</tr>
<tr>
<td>Tin Shed Building</td>
<td>26.41%</td>
<td>32.53%</td>
<td>35.42%</td>
</tr>
<tr>
<td>Thatched House</td>
<td>58.33%</td>
<td>48.10%</td>
<td>41.41%</td>
</tr>
</tbody>
</table>
Chapter 5: Empirical Analysis of the Study

The chapter focuses on the result of the study and comprises in two parts, part one is presenting the scenario of clients’ needs of financial services in several Client Cases, part two comprise with important findings from existing literature and part three is covering with ASA’s attitude to their needs of Clients’ information and tools used for this purpose and concludes with the findings in respect to proposed research hypothesis.

Part 1: Scenario of Clients’ Needs of Financial Services

It is challenging to know clients’ real situation of financial needs by conducting one study in Bangladesh, so I have gone through several empirical studies conducted in Bangladesh and tried to get insight about their real needs of financial services and incorporated and modified existing clients’ cases of ASA and other MFIs in this part and presented the findings here under.

Client Cases

Client Case: 1
Anjuman Begum hails from a village called Dighi of Singra under Natore district. She came of a very poor family. Anjuman is a deserted woman. After much trials & tribulations, she had obtained her M.A degree from Rajshahi University and tried her best for an employment either in a Government sector or NGO. But all went in futile. Finding no other alternatives, she learnt the art of tailoring at a professional tailoring shop adjacent to Singra Bus stand. After completion of the art of tailoring, Anjuman happened to meet a Loan Officer of ASA, Singra branch and got a clear concept about ASA’s flexible savings & loan services, which impressed her much. A few days later, Anjuman enrolled her name as one of the ASA group members. She received 1st loan of taka 5000 in 2003 which she used for the purchase of a sewing machine and started tailoring at her residence. Subsequently, with the expansion of her professional work, the BM of ASA allowed her a small business loan of taka 20000. Anjuman used the loan money for purchasing 02 sewing machines. Later, she used to take loan every year and with that amount she purchased an embroidery machine and also two more sewing machines.

Afterwards, she began to impart training in tailoring to the poor girls of her village and thus earns taka 500 from each of the trainees in each month. Every day, about 15-20 women undergo training over there. Thus Anjuman earn around 9000 taka per month. Sometime in the year 2006, Anjuman took loan of taka 40000 (small business loan) from ASA Singra branch and started a "Beauty parlor" side by side of her own profession (Tailoring). At this, the daily income enhanced, and since then Anjuman began to earn around 15000 per month (net income) excluding all other expenses. As a result, she has now become a solvent one. Her living conditions, daily food habits, prestige in her society improved significantly.

72 Client Cases incorporated and modified from ASA’s published materials and related study (references of study is provided where required) on ASA and Bangladesh
Client Case: 2
A very innocent as well as simple girl "Soneka" by name of a village Chandidashgati under Sirajgonj District could not make much progress in her education. In order to getting rid of the burden of the family, her father arranged marriage of Soneka at an early age with a boy Jibu Miah by name. Although, Soneka began her family life with hope and dream with a view to overcoming the appetite & poverty, but in fact, the "Almighty God" did not allow her to enjoy such a desirable life. Soneka gave birth a baby boy almost within a year. At one side, Soneka was passing her days with serious hardship and at this time she was very thoughtful and in darkness finding the Newcomer i.e. in what way and how she will manage the food of her baby.

At this moment, one of the nearest neighbors of Soneka introduced her with the Worker of the "Women and Child Welfare Organization". Having learned about the various advantageous she enrolled her name in that organization. Soneka purchased a weaving machine for her husband having loan of taka 5000. Since then she has succeeded her mission and she is now the owner of the eight weaving machine. Apart from her husband, the other seven weaving machines are being operated by the professional weavers. Sonia herself also keeps busy in assisting her husband's day to day activities. It produces various items including sharee, lungi, Gamsa etc. Soneka recently received a loan of taka 20000. By this time, she has purchased a three decimal homestead land at a price of taka 40000 out of the income she received by using her preceding loan values.

She has now two daughters and one son. The eldest daughter is in class VIII. Soneka keeps extremely busy all day long. She remains so busy with her daily routine activities that she finds no time to talk to other people. Soneka is passing her days with her husband and children with happiness.

Client Case: 3
Mrs. Murshida Begum, wife of Kamal is one of the permanent residents of Village Karachmaria under Singra, Upazila of District Natore. Murshida's husband owns 12 decimals of land. Her husband Kamal is a professional day laborer who sells labor in the crop field as well as his own small garden. Kamal also helps her wife in their poultry farm. They have two daughters, both are in school. The elder one is 12 year old, who is in fifth grade and the other one is 10 who is in fourth grade.

Murshida took membership of the ISDCM on 1st October 2004. She heard about the name of this development organization from one of his neighbors who inspired Murshida in joining ISDCM. However, afterwards, she paid a visit to ISDCM's branch office and became happy on observing their activities. She took membership of a group in ISDCM immediately.

In reply to a question, Murshida told that making savings and taking loan were the major purposes of her joining ISDCM. She took 1st phase loan of Tk. 5,000 on 4th November 2005 and invested the full amount of loan in poultry business. She was also dealing in fish business. Murshida made a good profit in her poultry buying & selling business and repaid the first loan nicely and then took 2nd loan of taka 8000 on 16th November 2006 and invested the entire amount in the same business, as stated above. After repaying the 2nd loan regularly, she took the 3rd loan of taka 13000 on 12th February 2007 which she used in fish as well as poultry business.

Murshida informed that before joining this NGO, her living condition was very poor even the quality of their daily food item was also poor due to meager income. But in last couple of years especially after making financial transactions with the ISDCM, the lifestyle has been changed significantly. Murshida is just not a saver and borrower in ISDCM...
but she also saves at her house in an earthen bank by selling eggs of ducks & hens almost regularly. Why do you save at your house? In response, she said" This savings might be of good use in future. I am planning to buy a small piece of land using my personal savings and profits out of my running business. I also save a handful of rice in every meal every day. My husband always encourages me to save as much as possible. Besides, I have two daughters. It would require lot of money to settle their marriage. This is the best time to make savings as we are now active and energetic. I am also planning to open a five year term SDPS in any of the commercial banks for our old age. Because, we have no son so when we will get older, there will be nobody to look after us, so this would be very useful in future".

Client Case: 4
Shajadi is one of the regular members of "Anamika Landless Women's Group" in Rasulpur area of Saidpur under the district of Nilphamari, who joined a local NGO called "DNB" with a view to changing her fate by utilizing the loan in income generation activities. At first Shajadi took a loan of taka 5,000 and used it for buying a sewing machine. As the borrower Shajadi had good skills in the field of garment manufacturing items, she started making children garments.

The People of the locality liked her cutting & designs of the garment and as a result, her garment items gradually became popular. After repaying the 1st loan, Shajadi took 2nd loan of taka 8,000 and invested the loan money in her running business. With the expansion of her mini garment industry, the number of her worker and helpers also increased. As a result, her daily income enhanced gradually. At the beginning of the said mini garment industry, the husband of Shajadi used to work as day laborer in different sectors on no work no wages basis and the rate of daily wages was very low and it was very difficult to maintain their family. But for the last one year, her husband does not do any work elsewhere except her wife’s garment industry. Her husband mainly remains engaged in marketing affairs. They have two kids and both are in school. It is to be noted here that the owner of the garment factory told "I give preference to those candidates who are widow, divorced and destitute, because those women are really helpless and I try to employ them. I am planning to take bigger loans from DNB to expand my business, so that I can create more employment opportunities in course of time. The NGO DNB is a blessing for me".

Shajadi claimed that her prestige in her society has been upgraded than before. As the daily income increased, her living standard has also been changed gradually.

Client Case: 5
Ali Hasan of Satkhira sadar Thana, Satkhira, completed his graduation in 1994 and started looking for a job. His parents also expected that Hasan would get a job and help the family to some extent. They spent their last penny to educate Hasan properly and didn’t think about their future. Hasan thinks this and tries his best to manage a job just to run the family but fails. Then he decides to do some income generating activities. But he falls in problem again and that is concerning fund which is needed to start the business. This time his parents fail to help him as they have already spent their assets for his educational purpose. Hasan tries to manage money from his relatives but does not get a good response from them. He becomes frustrated to think about his future. During this time he becomes introduced with a local ASA staff and he informs Hasan in detail about ASA Loan Programs. He could not believe that ASA would provide him loan without collateral.
Hasan was provided Tk. 30,000 as the first loan under The Small Entrepreneur Lending program (SEL). He bought 400 chickens and a milch cow with this money. After a certain period he starts to sell the products and earns a good profit. He pays the installments properly from the profit. After one year Hasan gets the second loan of TK. 70,000 to expand his business. This time he buys more 3 cows and invests the rest amount in establishing a Dairy and Poultry Farm. Later on he employs three persons in his firm. He has also built a better living place for the family members. Besides, he is planning to establish a bio-gas plant from profit of the business.

The following client cases are incorporated and modified from a study conducted in Bangladesh:

Client Case: 6
A woman has taken 7 times loan for fish business, dowry payment of daughter, leased out land, meet the informal loans for dowry payment and set up flower shop for son. Official cause for taking loan is business and the source of payment is husband’s fishing business (catching fish in nearby river and ponds and sell to local market).

Client Case: 7
A woman has taken 8 times loan. Official purposes of all the loans are business. First time, has taken loan to buy medicine for husband’s medicine shop in the nearby market (two times), and then for leased in pond for fishery project, given to elder son to set up hear cutting saloon (two times), and to send another son abroad (3 times). Almost all the installments are paid by the husband (medicine shop). Only very few cases the husband was not able to pay, that time son has paid the money.

Client Case: 8
Taken first loan for cultivation and paid from the vegetables business in the nearby market. Second loan was taken to invest in the vegetables business, third loan for buying rickshaw and rent it out to a neighbor. Now, has taken fifth loan for setting up a poultry firm. All the loans are paid initially from vegetables business and then from the rent of rickshaw.

Client Case: 9
First loan taken for husband’s unmarried brother as there is no female family member for him to take loan. Husband’s brother paid the loan regularly. Other loans are taken to repay loans from local moneylenders, to take lease land for cultivation, to set up grocery shop for son, to set up tube well for safe drinking water and to buy sewing machine for husband. Husband is a dressmaker and work in a local shop. Except for the first loan, all the loans are paid by the husband. Sometimes, she paid from her own income such as selling eggs, fish, vegetables, fruits or food grains.

Other cases:
Most people usually take loans once a year. Only few take loans twice a year. Some loans are taken to buy or repair rickshaw, buy sewing machine for husband, to buy cycle for use and rent out, to invest as running capital in small business like vegetable, rice, fish business for male family members etc, to construct or repair house, to lease in land, to

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73 As cited in Mamun, 2005
repay loans previously taken from local money lenders or relatives and to pay dowry payment for their daughters or sisters. 
In few cases, loans are taken to send any family member abroad as labor. But in most cases, the official purpose is business or something else. 
In the paper work, most members have no choice. The field officers write whatever they like and inform the proposed borrower about the official purpose so that she can tell it when the micro finance manager arranges an interview before sanctioning a new loan. The common trend is that first few loans are taken to invest in income generating activities. The next loans are not invested for income generation, rather they are used to develop living conditions such as house construction or repair, setting up tube well for drinking water or to buy or lease in land or pond or to pay dowry etc. Perhaps, the poor are capable of setting up small businesses enterprise, handicraft making, buying rickshaw and other vehicles for rent out or selling service etc. 
NGOs do not have much care whether loans are used in proper place. But all the members pay installments regularly. In some cases, if any member does not need an immediate loan, other members or neighbor take loan using her membership. Those who are more than 6-8 years old member, sometimes take loans to create new employment for son, or for dowry payment of daughter. But in most cases loans are paid by the husband or the enterprises set up in the early years. All the loans are not used locally. (Mamun, 2005) 

**Clients’ Reasons behind Joining an MFI**

We can better understand clients’ needs of financial services by identifying the reasons why they join an MFI. Here is a study result that identifies the different needs of joining an MFI. 
Most of the women that are members of the social mobilization program told that they decided to become members after hearing from relatives, neighbors and their mothers about their memberships and the organization’s activities. One activity that the women found positive and a reason for joining the organization was that the women’s group in the village saved money in a fund, from which the women could loan money when they need to. Another inspiration to become a member was the songs of the organization that works with social mobilization programs. The songs were not about love but about society and about people like themselves, the poor people’s conditions and problems. Some of the women answered that they became members of the social mobilization program since they wanted to gain new knowledge. In contrast to these reasons mentioned one of the women told us that *my husband, my mother-in-law and my father-in-law and both families tortured me very much, and I became a member of Nijera Kori to get rid of the torture and to be united against them* (Jamila, 32 years). 
Most of the women who are members of the microfinance organizations have taken more than one loan; some of the women are members of several, up to four, different organizations. All of the respondents, except one, have taken loans. We found out about the women’s different reasons for deciding to become members of the microfinance organizations. A minority of the women took loans for their husband’s businesses, for example tea stall businesses. Some of the women told us that they told the microfinance organization that they would spend the money on income generating activities, for example buying cattle, goods for a shop or land property, but actually spent the money on other things. These women told us that many women tell the organization a purpose that they know will grant them a loan but then spend it on, for example, their daughters marriage, which is a purpose that is not acceptable for getting a loan. We asked if the
organization follows up and controls these purposes and received the answer that the women sometimes borrow a goat from a neighbor and claim that it belongs to them when the fieldworkers from the microfinance organizations come to visit. A majority of the women told us that they took the loans when they were in a difficult situation, for example one woman who told us that she spend the money on her husband, who was sick and paralyzed, and on her daughter who suffered complications when giving birth. Other reasons that several of the women mentioned were that they needed money for dowry or for their daughters’ weddings. Some of the women spent the money on buying cattle, land property and agriculture. Few of the women took loans for their children’s school, to pay the school fee, or to pay for books and examinations. Several of the women told us that they became members when the fieldworkers from the microfinance organizations came to their houses and advocated for new members. Through these women we heard the following examples of what the fieldworkers had said while coming to their houses advocating for the loans; that it would be good for them to become members and take loans in their organization, and that their repayment would be facilitated and that the organization would be indulgent if the woman was not able to repay the loan one week. Furthermore, the fieldworkers had told them that if they became members in their organization they would not be poor, but rich. Only few of the women told us that they joined the organizations not only because of the loans but for the opportunity to keep savings. One of them said that she started by just saving money in the organization and after seeing the benefits of that she took a loan. Another of the women said that one reason for her membership, except for the loan, was to save money in DPS - Deposit Pension Schemes; pension savings with monthly fixed amounts. Opposite the reasons mentioned above one of the women told us that she felt habituated to take loans. She said: *I get an amount of money so I do something with the money and relax and when I have to repay the money I am in problem, but when I repaid the money I think I can take a loan again* (Motijan, 30-35 years). (Lindström & Liljeberg, 2007)

**Comments on Client Cases**

The cases illustrate that the needs of financial services are not an individual clients’ needs; it is the needs of household or family and their management of economic and social activities. To start a business is for the majority of the women not a realistic desire while they are in a situation where they focus on satisfying the physiological needs, and also do not have the knowledge of how to start a business. (Lindström & Liljeberg, 2007) Rural poor people take loans to meet their economic crisis and pay loans by using available income generating activities. Sometimes, they start new income generating activities for their sons, where in most cases loans are paid by the husband or by some other member of the family. (Mamun, 2005)
Part 2: Important Findings from Existing Literature and Empirical Study

Important Findings from the Existing Literature on Client Assessment

MFI may consider the following factors for effective Client Assessment:74

1. Collect data from a sample of clients rather than from a census of all clients.
   Samples are easier and cost less but still provide reliable results if done well
2. Pilot-test all product innovations prior to introducing them organization-wide
3. Program staff are capable of implementing CA provided they are trained adequately and implementation imposes a minimum disruption to their normal work load
4. Select, if possible, universal indicators that can be applied to all clients
5. Match CA tools to the information needed
6. Avoid collecting too many CA indicators—this imposes burdens on staff and clients, does not yield useful information, and complicates the process of focusing on the most important indicators
7. Investigate different CA methodologies before selecting one
8. Adapt CA to clients’ reality
9. Know in advance how information will be used. Information that will not be used should not be collected
10. Carefully word and organize surveys and questionnaires
11. Giving staff several opportunities to implement the tools helps them gain confidence and competence and to internalize the value of the tool
12. Staff communicates to clients only those messages they themselves thoroughly understand and appreciate
13. Provide field staff adequate training in all aspects of CA
14. Using participatory sessions to design focus group discussion guides and client questionnaires helps staff internalize and understand research objectives

Important Findings from the Existing Literature on Product Development

There are several process steps in product development that may consider MFI:s:75

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74 Incorporated and modified from Woller et al. (2005)
75 Wright et al. (2001)
Table 27: Steps in Product Development Process

<table>
<thead>
<tr>
<th>Process Step</th>
<th>Resources Available</th>
</tr>
</thead>
</table>
| **Useful websites**            | *MicroSave-Africa: www.microsave-africa.com*  
*CGAP: www.cgap.org*  
*MBP: www.mbp.org*  
*AIMS: www.mips/componen/aims.htm*  
*Bank Akademie: www.international.bankaademie.de* |
Important Observations from Existing Literature and Empirical Study presented as Comments

**Comment: 1**
Developing new products and institutions requires refocusing on clients, listening to their demands and preferences, and learning about their financial strategies. Understanding client behavior requires an awareness of the economic goals of poor households, of how poor people manage resources and activities, and how they deal with risk (Sebstad and Cohen, 2001). Microfinance needs to be fundamentally re-examined, not simply fine tuning the existing approaches. The entire industry must overcome its institutional inertia of simply replicating current models.

**Comment: 2**
MFI may provide credit to the vulnerable non-poor to create employment opportunities for the poorest. This Comment is concluded from a citation of Fernando (2004), as he argued the potential market for microfinance includes a wide range of clients in low-income groups, not just the poorest. If MFIs exclude the vulnerable non-poor from their services because of target-related or other reasons, this group may even fall into poverty, thus defeating the objective of poverty reduction. Also, providing credit to the vulnerable non-poor can create employment opportunities for the poorest.

**Comment: 3**
MFI may need to serve a broad spectrum of clients rather than exclusively focus on the poorest. As Fernando (2004) argued that if MFIs are to serve the poorest, they must be allowed to serve a broad spectrum of clients rather than exclusively focus on the poorest. Financial institutions need to diversify the risks they take and adopt an appropriate risk-return approach. MFIs with an eye on risk management may want the freedom and flexibility to spread risks geographically, across various economic activities, and also across clients in different socioeconomic categories.

**Comment: 4**
MFI may need to segment the market and design products according to market segments. As Wright et al. (2002) argued that competition and overlapping are inevitable consequence of expansion of large number of NGO-MFIs. The effects of overlapping are not yet fully understood. NGO-MFIs may need assistance to segment the market and design products according to market segments. Smaller NGO-MFIs may need further technical and financial assistance in the competitive environment to determine their niches. In addition, creation of local information bureau, more transparency in performance of MFIs, and continued research and monitoring of the state and effects of competition may help understand and reach a desirable situation.

**Comment: 5**
Besides credit, poor people may have different problem in specific situation or any region MFIs operating their service. As Karlan (2001) argued that imagine that individuals join after coming to an epiphany that they must grow their business in order to pull themselves out of poverty. Or perhaps participants join when everyone in their household is healthy, and hence does not need constant care in the home. Such a situation suggests that perhaps access to credit is not the problem, but rather access to

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76 Meyer, 2002
good health care. If ample opportunities exist for credit and savings in their community, then attributing the improvement in their lives to the microfinance institution would be erroneous. Their epiphany or their family’s health should get full credit.

**Comment: 6**
MFI should offer the poor the services they value that may necessitate reengineering what they do. Wilson (2001) argued that we must offer not just a product, but a solution. When we solve a customer’s problem, we become an integral part of that customer’s life. Focusing on customers may necessitate reengineering what we do. It may mean developing new systems to give frontline staff more latitude in making decisions. It may mean investing in different MIS to manage loans and savings that support the full complement of a household’s financial needs. Whatever it means, if we manage the process well, we will most likely see an increase in growth. Customers will stay with us longer. They will refer new customers to us. We will spread initial marketing costs over more and more people. We will hold on to our more profitable customers, those with higher balances, and will benefit from the revenues they bring. But most important, focusing on our customers places our mission front and center, giving us a greater promise of offering the poor the services they value.

**Comment: 7**
MFI should pay special attention to staff satisfaction. As Wilson (2001) argued that the concept of the service-profit chain may apply to microfinance services. The following checklist may help to determine whether a program might be able to put these concepts into practice.

- What do our staff value? Empowerment? Autonomy?
- What is our program’s span of control? Can we increase this ratio?
- Do staffs have the latitude to solve customer problems?
- Do they have the training, ground rules, and guidance they need to respond to customer issues?

**Comment: 8**
MFI may need to reduce the rates charged for repeat customers and larger loans. To improve sustainability, the industry should strive to raise average interest rates, while at the same time reducing the rates charged for repeat customers and larger loans. This would align the interest rates charged to clients with the costs of serving them and would increase the incentives for repeat borrowing (Meyer, 2002).

**Comment: 9**
Sustainable Micro finance organization could better serve the poor client and could promote and grow the Microfinance services. Therefore, Rhyne proposed that the financial development program needed to be evaluated at two levels: 1. Outreach at the client level. 2. Profitability at the level of financial institution. Rhyne argued that market tests would be the most relevant indicator of performance showing the client willingness to pay for the micro finance services and the financial self Sufficiency of the financial institution.77

77 As cited in Rehman, 2007
Comment: 10
MFI should follow several steps for managing client information. As Cohen (2003) argued, there are eight steps of the feedback loop: information collection, information consolidation, analysis, reporting, decision-making, delegation, communication, and implementation.

Comment: 11
In my opinion, MFIs should provide necessary training to their customers for starting up business with the knowledge gathered from their existing customers who have been successful in the specific business before sanctioning loans.

Comment: 12
How customers manage money to solve their problems and looking for opportunities for new business is greatly influenced by their lack of education and lack of training services from MFI. Wilson (2001) argued that how well our customers manage their money has great bearing on how well they will manage those problems and opportunities.

Comment: 13
How customers use the money is very important to understand their needs of financial services. Rutherford (2000) observed that only some of the financial resources used by the poor are dedicated to business opportunities. Other resources are applied to household needs, ranging from emergency needs to long-term asset acquisition, such as better housing.

Comment: 14
Rutherford (2003) observed that thirty-three varieties of financial instrument were found to be in use by the sample households during their research year. As well as using a wide variety of instruments, most households engaged in multiple uses of the instruments: on average each household initiated a new money management arrangement every two weeks. The sums of money involved are large, both absolutely and relative to incomes. The average “turnover” (the total transaction flows of money through financial instruments) per household was $ 8 3 91 in the year—a sum equal to about three-fifths of their annual income. The total value of the microfinance market for poor people in Bangladesh probably exceeds $10 billion. Households appear to be using financial instruments of all kinds to build lump sums of money for immediate expenditure rather than to build up long-term, large financial assets or to hold high value, long-term debt. These sums were overwhelmingly formed in the informal sector. The role of the MFIs is thus somewhat contradictory. Their outreach into these households is excellent but their share of the total money management activities of the households is small.

Comment: 15
Hulme (2000) argued that MFIs are not a cure for poverty. However, MFIs could create and provide a broad range of micro-financial services that would support poor people in their efforts to improve their own prospects and the prospects of their families. Effective microfinance makes these agencies designed to help the poor more likely to achieve the goals that poor people seek to achieve.  

Comment: 16
MFI may focus on the factors to be considered for collecting Client Information:

1. Reasons for Non-Participation
There are potential clients who refuse to join programs even though the products offered were supposedly designed for them. This has led MFIs to re-evaluate their business plans and pay closer attention to product flexibility. Focus groups and marketing studies are being used to better understand client preferences. MFIs are experimenting with more flexible products designed to retain existing clients and attract new ones, especially in markets where competition among MFIs is becoming most intense (Meyer, 2002).

Evans et al. (1999) listed five sets of client-related barriers to participation: insufficient resources, ill health or vulnerability to crisis, being a female head of household, lack education, and individual and household preferences.79
In a 1997 study, the Association for Social Advancement (ASA) reported on interviews conducted with staffs and clients to determine why its programs did not reach many of the poor. The most frequent responses included the lack of minimum clothing required to attend meetings, discouragement and threats from local elite, and age requirements (ages 18–50). By setting a relatively low maximum age requirement, ASA excluded old people who are often poor.80
Wright (2000) argued that product design is one of the most important factors affecting participation. In addition to the evidence presented in the Hashemi study, he cited a study by Alamghir (1997) who found that about 25 per cent of non-participants did not join because they were unable to make weekly savings installments, about 15 per cent could not make weekly loan installments, 7 per cent were not interested in getting a loan, and another 7 per cent did not want to attend weekly meetings.81

2. Only Capital is not enough
Producing and selling goods requires more than capital. It requires skills, other materials, information, connections, transportation, etc. Since richer households tend to have more of these inputs, marginal returns to capital are often far higher for them than for poorer households. These richer households will thus be willing to pay far higher interest rates than poorer households. (In fact, the basic principle is unclear even when controlling for other inputs, since scale economies alone can yield higher marginal returns to later increments of capital than earlier increments). (Morduch, 2000)

3. Informal Finance
Yet there is widespread evidence that MFI clients widely use informal finance as part of their financial management strategy. For example, Zaman (1999) reported that during the 1998 flood, the main source of cash for loan repayments by BRAC borrowers was interest-free loans from relatives.82
Sinha and Matin (1998) conducted a case study that collected detailed information on all credit transactions in a sample of households in northern Bangladesh in a region where

79 As cited in Meyer, 2002
80 ibid
81 ibid
82 As cited in Meyer, 2002
several MFIs compete. Almost all households (87 per cent) reported borrowing from informal sources and the proportion was higher for MFI clients than for non-clients. Household consumption and payment of other loans were the two most frequently reported uses of the informal loans.83

4. Delinquencies
Matching repayment schedules with expected cash flow is an obvious way to reduce delinquencies and client fears that they will not have income when needed to repay loans. (Meyer, 2002)
Even borrowers highly motivated to repay occasionally become delinquent because of emergencies, unexpected problems and shortfalls in income. (ibid)

5. Overlap
Wright (2000) reported that multiple memberships can be as high as 40–50 percent in areas where many MFIs are operating. Part of the explanation is over-borrowing by members who borrow from one source to repay another. But part of the explanation is that the rigidity of some MFIs forces clients to manage their finances by working with several organizations simultaneously. Moreover, if credit ceilings are low and all group members receive the same size loan, a dynamic borrower may need to borrow from several MFIs to obtain the total amount desired. Multiple memberships can also arise when members shop around prior to switching from one MFI to another to obtain more attractive services. (ibid)

6. Dropout
Dropouts (persons who stop being clients) are a concern for an MFI because of the cost of recruiting and training new members or clients to replace dropouts. Because of the cost of making the first small loan to new clients, lending usually does not become profitable in many programs until the third or fourth loan to a client. Retention, therefore, is key to profitability and sustainability. Of course, dropping out may be an advantage for a client if better services are obtained by switching to another MFI. A sample of dropouts was asked to report their reasons for leaving. The largest number (33 per cent) reported the loan amount was too small, followed by too many meetings (28 per cent), meetings are too long (25 per cent), did not want to pay for a defaulting member (25 per cent), and loans were too expensive (22 per cent). (ibid)

7. Loan Portfolio quality
The MFI’s branch office was threatened with closing down unless it improved the portfolio quality. It is much easier for MFIs to find new clients than to get money back from clients in arrears, but credit officers must focus on the latter. By focusing on poor loan decisions, credit officers and the entire MFI can learn from mistakes. The risk of limiting loans until the Portfolio at Risk (over one day) rate meets certain targets is that portfolio growth could stagnate, which could discourage credit officers. In fact, arrears may increase because the portfolio (denominator in the statistics) is dwindling. The MFI managers will need to balance the follow-up on the collection of late loans with the review of some new loans (Norel, 2001).

83 ibid
For very late loans (group loans over five weeks without a payment, individual loans at sixty days without a payment) credit officers should visit each late payer. The credit officer should classify the client into one of the four following categories: (1) willing and able to repay, (2) willing but unable to repay, (3) unwilling but able to repay, and (4) unwilling and unable to repay (ibid).

8. Repayment capacity of clients' businesses
MFIs should ascertain the repayment capacity of clients’ businesses by collecting data on sales and assets. It could be maintained that loans should be given solely on the basis of character, since microcredit is often called “character-based lending,” but loans create debt for the client (ibid).

Part 3: Respondents’ Responses and Analysis of Responses
To get insights about who are ASA’s clients, what are their needs of financial services (especially Credit), which types of information they have been seeking from clients, how they are collecting clients’ information, how ASA use clients’ information for developing products and services and what steps should be taken to improve the information gathering process, I conducted several interviews with Information and Product Managers in ASA. The respondents’ responses are presented in the following subsections:

Sample of Respondents
To collect the primary data, 10 Assistant Directors selected from ASA. The following table shows the distribution of the respondents:

<table>
<thead>
<tr>
<th>Respondent Categories</th>
<th>No. of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Directors (Operation)</td>
<td>05</td>
</tr>
<tr>
<td>Assistant Directors (Finance and MIS)</td>
<td>05</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

Assistant Directors (Operation) and Assistant Directors (Finance and MIS) selected randomly from ASA consulting with ASA’s Assistant Director (International Affairs). Out of the 10 respondents, 5 were Assistant Directors (Operation) and 5 were Assistant Directors (Finance and MIS).

Experiences of the Managers in their respective field are as follows:

<table>
<thead>
<tr>
<th>Experiences in Years</th>
<th>No. of respondents</th>
<th>% of the respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Around 10</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Around 7</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Between 3 and 5</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
Information System for Managing Clients’ Information
ASA has an MIS that was developed by their own software developer, it is called AMMS (ASA Microfinance Management System) and it is using by several MFIs in the world. They were keeping track with the industry and their changing client information needs to make it up-to-date. (For more info, please read: ASA Microfinance Management System (AMMS))

Effectiveness of the Information Collecting Methods
The following table shows the opinion of the respondents on the effectiveness of information collecting methods; most of the managers (80%) think that ASA’s information collecting methods were effective:

<table>
<thead>
<tr>
<th>Scale Respondents</th>
<th>Strongly Effective (7)</th>
<th>Effective (6)</th>
<th>Fairly Effective (5)</th>
<th>Neither effective nor ineffective (4)</th>
<th>Fairly ineffective (3)</th>
<th>Ineffective (2)</th>
<th>Strongly Ineffective (1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents Percentage of Respondents</td>
<td>08 80</td>
<td>01 10</td>
<td>00 00</td>
<td>01 10</td>
<td>00 00</td>
<td>00 00</td>
<td>00 10</td>
<td>10 100</td>
</tr>
</tbody>
</table>

Attitude toward the Role of Collecting Information for Product Development
Most of the managers (70%) think that there was no better alternative without client information for new product development or improve the existing products.

<table>
<thead>
<tr>
<th>Scale Respondents</th>
<th>Strongly Agreed (7)</th>
<th>Agree (6)</th>
<th>Fairly Agreed (5)</th>
<th>Neither agreed nor disagreed (4)</th>
<th>Fairly Disagreed (3)</th>
<th>Disagreed (2)</th>
<th>Strongly Disagreed (1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents Percentage of Respondents</td>
<td>7 70</td>
<td>00 00</td>
<td>01 10</td>
<td>00 00</td>
<td>02 20</td>
<td>00 00</td>
<td>00 10</td>
<td>10 100</td>
</tr>
</tbody>
</table>

Attitude toward the client Information Collection to Develop the MIS
The following table shows the responses of the question “Do you think client information is a must to develop MIS?”

<table>
<thead>
<tr>
<th>Scale Respondents</th>
<th>Strongly Agreed (7)</th>
<th>Agree (6)</th>
<th>Fairly Agreed (5)</th>
<th>Neither agreed nor disagreed (4)</th>
<th>Fairly Disagreed (3)</th>
<th>Disagreed (2)</th>
<th>Strongly Disagreed (1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of respondents Percentage of Respondents</td>
<td>8 80</td>
<td>00 00</td>
<td>01 10</td>
<td>01 10</td>
<td>00 00</td>
<td>00 00</td>
<td>00 10</td>
<td>10 100</td>
</tr>
</tbody>
</table>
The majority of the respondents constituting 80 percent strongly agreed that to develop the MIS client information is a must.

**How successful are ASA’s methods of collecting client information?**

In respond to this question, one of the Managers told that ASA’s methods of collecting client information have been successful for their purpose and they develop a credit methodology based on that information. So MFIs worldwide adopted ASA’s methodology in their offerings. For example, he referred me to a study of Woller (Woller, 2005), on observing the methodology of ASA, CARD management and staff were so impressed with its simplicity and cost-effectiveness that management began a process to investigate ways to integrate the ASA methodology into CARD’s lending program. Toward this end, CARD has implemented a number of assessment activities, including staff workshops, focus group discussions assessing clients’ perceptions of CARD and satisfaction with CARD’s current policies, client participatory discussions assessing CARD’s market positioning relative to competitors, and a staff satisfaction survey. Basing its decision on assessment findings, CARD pilot-tested the ASA methodology in new branches and started a process of adopting ASA principles in existing branches where appropriate, with the eventual objective of implementing the changes organization-wide.

**How does Client Monitoring System (CMS) work in ASA?**

ASA involved mid-level and senior management in a variety of assessment-related activities for Client Monitoring System (CMS), although it is still using Excel Spreadsheet for data entry before processing the data in their AMMS. It organized meetings with management to discuss client assessment strategy, discuss about CMS in regular management meetings, provided management with regular reports on the progress of CMS development. Operations manager are always in field for direct contact with clients, senior loan officers are also involved in planning meetings and data collection activities. CMS is a regular part of management and staff meetings. ASA always try to take immediate action on client information.

**How does line staff involve in the Client information collecting process (CICP)?**

Line staff has always continuous contact with clients in ASA, because ASA think it makes practical and strategic sense to use line staff as the focal point for data gathering. It helps ASA to create a customer-oriented organizational culture.

**How do you generate information from clients?**

ASA collects information on clients in regular course of operations, including information on client demographics (gender, location, household size), households (income, expenditures), enterprises (sales, profits, employment, sector), and program participation (loan cycles, repayment record, loan products). Much of this information is valuable for client assessment purposes. ASA have also established formal or informal procedures for generating information from staff or clients, such as regular or periodic meetings with staff or clients, suggestion boxes.
How does ASA segment (categorize clients) clients based on collected information?
ASA segments clients according to the number of loans taken. Using that information from MIS, ASA can determine the number of borrowers for any month which ASA uses to estimate the absorption capacity of clients for a particular time period.

How do you evaluate the impact of client information? Does it influence management decision and financial and social performance in ASA?
ASA thinks client information needed to be useful. Client information helps ASA in informed management decision-making, it also leads to organizational change, and that it definitely improves ASA’s financial and social performance.

How do you improve group lending program using clients’ information?
ASA monitors client issues at all monthly branch meetings where field officers can raise and discuss client concerns and feedback about loan products. ASA found that the improved group lending product had allowed women to secure reasonable amounts of funding for their enterprises.

Please tell us about the tools you have been using for client information and client assessment?
ASA utilized several tools for client information and client assessment but it demands funds to execute these tools, so mostly it used FGDs. Some of the tools ASA used so far are as follows:
1. entry and exit interviews, short client surveys, FGDs for assessing who is poor
2. impact survey, FGDs, exit interviews for assessing the household-level impact of program participation
3. exit interviews, FGDs for assessing whether clients’ well-being is improving
4. impact survey, FGDs, exit interviews for assessing the individual-level impact of program participation
5. exit interviews, FGDs, impact survey for assessing whether client dropout is significant and why

What product and service innovations you have made from client information?
1. The introduction of an emergency loan to address short-term client needs, such as school fees, utility bills, or medical bills and special loan products
2. offer training for advanced entrepreneurs and start a business mentoring program
3. reviewed and improved selected education modules
4. introduce Health and family planning services,
5. provide learning/instructional materials, and other nonfinancial services
6. ASA developed a training unit to teach clients how to manage their time more effectively

How do ASA’s MIS support your needs of client information? How do you track market or impact-related variables through MIS?
ASA’s client monitoring emphasizes the generation of timely information about client behavior, client well-being, or institutional performances that help us informed
management decision-making. For this purpose ASA created a completely new MIS (AMMS) that included client assessment information. ASA designed the monitoring systems to track market or impact-related variables related to participation in lending programs.

**Overall Opinions of the Respondents on Information Collection**

A summary of the respondents’ overall opinions on information collection is presented in the following table:

<table>
<thead>
<tr>
<th>Factors</th>
<th>Number of frequency</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Fairly Agree (%)</th>
<th>Neither agreed nor disagreed (%)</th>
<th>Fairly Disagree (%)</th>
<th>Disagree (%)</th>
<th>Strongly disagree (%)</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information collecting tools are sufficient</td>
<td>08 (80)</td>
<td>01 (10)</td>
<td>00 (00)</td>
<td>01 (10)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>6.6</td>
<td></td>
</tr>
<tr>
<td>Client information can play strong role in ASA</td>
<td>06 (60)</td>
<td>01 (10)</td>
<td>02 (20)</td>
<td>01 (10)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Effectiveness of MIS</td>
<td>07 (70)</td>
<td>02 (20)</td>
<td>01 (10)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>00 (00)</td>
<td>6.6</td>
<td></td>
</tr>
<tr>
<td>Need more tools for collecting information</td>
<td>02 (20)</td>
<td>02 (20)</td>
<td>03 (30)</td>
<td>01 (10)</td>
<td>00 (00)</td>
<td>02 (20)</td>
<td>00 (00)</td>
<td>4.9</td>
<td></td>
</tr>
</tbody>
</table>

We can observe from the above table, there is agreement among managers in most of the information collection factors (more than 6 mean score) and the opinions about information collecting tools (mean score 4.9) is in between fairly agree and neither agreed nor disagreed. This is for, in my opinion and experience of the study, tools are mostly selected by top management and the decision were influenced by several factors both internal and external.

We can argue from the above analysis and discussion, the proposed hypotheses are true for ASA, hence we can conclude:

1. ASA has information about their clients’ needs of credit products
2. ASA is using methods of collecting information of their clients that are successful for this purpose
3. ASA is using clients’ information for developing their products and services
4. ASA has a system of managing the clients’ information that best support their use of the collected information
5. ASA can categorize their clients’ using collected information and diversify their offers of products and services to women and small enterprise clients
Chapter 6: Conclusion and Recommendations

In this chapter, I have compared the results of the study with the theoretical background (comparing theory with practice), the recommendations I have for MFIs, the limitations of the study and suggestions for further research may be possible.

Conclusion

Clients of microfinance should include all poor irrespective of their category, as Helms (2006) argued that the definition of microfinance clients is expanding to incorporate everyone without access to financial services. Available information on current clients indicates that a relatively narrow range of clients are being served by specialized MFIs. Most clients concentrate around the poverty line, with representation from the very poor and some vulnerable non-poor. Current microcredit clients are largely entrepreneurs in the informal sector. Many potential clients remain excluded. This study revealed also the same as we found that ASA serving only women and small enterprise clientele that includes the vulnerable non-poor and could contribute to the profitability of ASA. There was no attempt to diversify the products to include all poor that should be the goal of microfinance to alleviate poverty. Moreover client was treated as individual client but the loans were used to fulfill household or family needs of the clients. There were tools for collecting information on household about impact of credit programs participation but they took seldom effort for collecting information of the household money management or in other words how they utilized the loans for variety of household needs.

Moreover, Poor clients need a variety of financial services, not just short-term working capital loans. Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit but also savings, cash transfers, and insurance (Helms, 2006). The study revealed that ASA were providing mainly credit but also savings services were limited and mostly as a defense mechanism to minimize risk of ASA in response to credit. Also restrictions on savings services came from Government as private MFIs are not allowed to offer savings services to the poor as like private bank in Bangladesh. Besides insurance were mandatory and all Basic Loan Clients‘ must contribute and participate in this product, this might also a safeguard to the credit program and money transfer were not an offering. We can conclude that there is lack of access to a variety of financial services for poor clients, even though MFIs are mostly serving vulnerable non-poor instead of taking consideration of all categories of poor.

According to Woller (2005), the market for micro financial services consists of multiple and distinct market segments, each with a different set of needs and wants. A consensus is forming around the proposition that the MFIs that can best determine and serve the needs and wants of the market will be those that succeed over the long term, whether success is defined by financial return, social return, or both. This proposition well suited with ASA as they succeed to serve women and small enterprise clients over the long term. It revealed from the study that MFIs could gain long term success by serving specific market segment but it should not be only focus of MFIs, their initiative should be to include all poor in their clients profile with a priority to a specific market segment.
This could help them to become sustainable and to minimize risks by spreading it in different market segments.

Tools for collecting client information is differ significantly for MFIs depending on their purpose and mission to serve the poor or to become sustainable. The experience of the CAWG research partners demonstrates five reasons an MFI might choose one assessment tool over another: familiarity, external pressure, and opportunistic, reactive, and strategic reasons. These reasons are by no means exhaustive or mutually exclusive, and none are wrong or right. The correct reason for selecting a tool depends on the circumstances at the time, although the presumption is that over time MFIs will become more strategic in tool selection (Woller et al., 2005). The study found that ASA considered FGDs as an effective tool for collecting client information as their staffs and managers were familiar with this tool, moreover it was cost effective for them. It observed that they seldom follow tool selection process and it was the top management that decided over the tools, the decision might influence by internal and external interest groups and the competition.

According to Cohen (2002), when one asks many newer microfinance institutions if, how, and why they collect information about clients, the frequent answer is either 'we don’t’ or 'we include 4–10 indicators in our MIS system'. While we have moved beyond the scant client monitoring documented by Dearden and Hyman (1996) confusion remains. In many client MIS, much of this information sits idle in databases, with ill-defined objectives for the use of the data. Moreover, the more data there is, the more difficult the data are to manipulate. Although ASA utilized their MIS (AMMS) for information management, they were also using Excel Spreadsheet for data entry before processing data in the AMMS, so there might have possibilities of human error. They focused mostly on the number of loan taken by their clients to categorize their clients that helped them to offer high or low size of loans to each category of women and small enterprise clients, but other information remained idle or hard to manipulate client specific information needs. This tendency of loan size also support an argument of Helms (2006), as he argued, “Average loan sizes increase as MFIs mature and become more commercial, which could be a sign that more wealthy clients are being served, but this does not necessarily mean that poorer clients are being abandoned”. Thus we can conclude that MFIs should organize client information in a way so that they could be able to manipulate the specific client information to serve client better and to take effective decision, although it is imperative to argue that they may like to serve the wealthier clients.

**Recommendations for MFIs**

With the experience of the study and the microfinance literature I have come across, I would recommend the following for MFI to utilize for their client information needs and product development:

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84 As cited in Cohen (2002)
Recommendations on Client Information

MFI may consider the following factors for managing client information:\(^85\)

1. Client information should accurately portray the characteristics, perceptions, and behaviors of clients.
2. Client information should be structured and presented in such a way that its key findings are readily understandable.
3. Client information should be presented in a format that is readily accessible. Major findings, key implications, and important recommendations should be easy to locate and understand.
4. The data collection, analysis, and reporting cycles should be timed to coincide with decision makers’ information needs.
5. Client information should be presented at a level of generality that makes clear broad organizational implications, but also at a level of specificity that allows applications to specific cases.

Recommendations on Client Indicators

MFI may consider the following factors for effective selection of client indicators:\(^86\)

1. Indicators should be collected on a sample of clients rather than a census of clients to simplify the process of collection.
2. The indicator should be linked directly or indirectly to the MFI institutional mission.
3. MFI should think carefully ahead of time about how the indicator will be used.
4. The indicator should measure what it is intended to measure.
5. Useful indicators should measure underlying variables that are expected to show reasonable variation over time, particularly as a result of program participation.
6. Client indicators should measure client outcomes at one of four levels: individual, household, enterprise, and community.
7. The indicator should be simple to collect and simple to understand.
8. The indicator should be comparable across MFIs, contexts, countries, and other entities.
9. The indicator should be relevant to the specific context of MFI.
10. The indicator should be feasible and inexpensive to collect and should provide useful information to MFI.
11. Indicators should measure the outcomes MFI hopes to achieve and should be used to segment clients into different groups for analysis.
12. Indicators should have the ability to smooth the progress of the abstract concept of MFI to their concrete results.

\(^{85}\) Incorporated and modified from Woller et al. (2005)

\(^{86}\) Incorporated with modification from Woller et al. (2005)
Recommendations on Product Development

To meet and exceed clients’ needs of financial services, MFI may consider the following aspects for product development:

1. For effective product development, MFI needs an organizational structure and philosophy that encompasses and encourages both a customer service orientation and a culture of innovation.

2. Organizational structure will require effective and efficient internal communications at all levels. Good communication allows MFI to enforce conformity to standard procedures in branches (through the development and use of procedures manuals) with clear authority levels and successful delegation by management.

3. MFI will need a management culture of, and systems for, listening to its front-line staff with a view to optimizing client service.

4. MFI’s board must have the commitment to customer service and the will to follow the product development process in a systematic and structured manner.

5. Effective product development should be driven by MFI’s desire to become client responsive and not by external factors.

6. If MFI is serious about client-responsive product development they will need to focus on marketing—to track progress of existing products, formally assess competition on a regular basis, and understand their strengths and weaknesses relative to their competition.

7. MFI simply need to change the way their staff talk about or describe an existing product to bring in new clients or retain those who might otherwise leave.

8. Greater loan size usually means more profitability for the lender but less depth of outreach for the borrower. Poorer borrowers cannot demonstrate and guarantee their creditworthiness as well as less-poor borrowers; however, efficient lenders must trade off depth of outreach against profitability. (Schreiner, 2001)

9. MFI should consider the following variables when evaluating the most common needs among their clients:
   a. Time scale/duration/maturity of the product — short, medium or long term.
   b. Nature of deposits/repayments — small regular, small irregular or single/few lump-sums.
   c. Liquidity — the ease of access to savings/speed of disbursement of loan.
   d. Access issues — branch proximity/opening hours and numbers of withdrawals/concurrent loans (ibid)

10. One product can be marketed in many different ways to meet a variety of clients’ needs. MFI can market the same short-term emergency loan as an education loan to meet periodic school fees, a health loan to meet doctor’s fees and medication, or a loan to allow clients to take advantage of an unexpected opportunity, to name but a few (ibid)

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87 Incorporated and modified from Wright et al. (2002).
Recommendations on MIS

To manage effectively clients’ information it is obvious for an MFI to have an MIS. MFI may consider the following factors for having an efficient MIS:\(^88\)

1. MIS should meet target market needs so that introduction of new products and setting procedures is easy and can be quickly applied throughout the branch network.
2. It should be able to provide the flexibility to integrate with other applications and delivery mechanisms.
3. It should have the total ownership and lifetime system operations costs, including hardware, software, network, infrastructure and human resource.
4. It should fulfill maximum of the current business requirement and flexible enough to incorporate future changes.
5. It should be able to capture and generate relevant information on an individual, group, and at a consolidated level.
6. System should accommodate changes to products, services and delivery channels.
7. It should grow as the business grows. For example, if the system design is scalable, it can be run on an individual PC, Local Area Network (LAN) or Wide Area Network (WAN).
8. It should be able to combine data from multiple sources. Integration of branches to get single consolidated picture should be a priority.

Limitations of the Study

I proposed to conduct client interviews for 100 current and 100 potential clients and several interviews with responsible managers for clients’ information and product development, but unfortunately I could not visit ASA office and clients’ area in Bangladesh for this purpose, due to lack of time and fund; Although I interviewed Responsible Managers by telephone and email. So I tried my best to go through existing studies on microfinance in Bangladesh to gain insight of clients’ situation and their financial services needs. As a matter of fact, this study mostly relies on secondary data, which of course cannot be substituted for the value of direct human interaction and field experience. Therefore, the data source improved, deepened or widened. The literature sources selected on the basis that they were coming from organizations with good reputation for being trustworthy and having a goal that was in line with the thesis objectives.

\(^{88}\) Incorporated and modified from Ahmad, n.d.
Suggestions for Further Research

MFIs have their unique preferences of using tools for collecting clients’ information and it also depends on the size, mission of the MFI. Even though there are tools for specific type of information collection, may be it is possible to execute further research to better understand the household needs of financial services instead of individual client’s needs, the very reason is poor people use the loan not only for establish business but also for different purposes of their household’s or family members’ day-to-day and fundamental needs and more than one of the members of household directly or indirectly involve in the decision of using the loan. Also further study may be possible to identify “client preferences with regard to cash flow cycles across the year, their need for diverse sources of cash flow as well as their need for lump sums of cash for anticipated and unanticipated expenses (Rutherford, 2000a; Sebstad and Cohen, 2001)".
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Interview Questionnaire (Telephone)

1. How successful are ASA’s methods of collecting client information?
2. How does Client Monitoring System (CMS) work in ASA?
3. How does line staff involve in the Client information collecting process (CICP)?
4. How do you generate information from clients?
5. How does ASA segment (categorize clients) clients based on collected information?
6. How do you evaluate the impact of client information? Does it influence management decision and financial and social performance in ASA?
7. How do you improve group lending program using clients’ information?
8. Please tell us about the tools you have been using for client information and client assessment?
9. What product and service innovations you have made from client information?
10. How do ASA’s MIS support your needs of client information? How do you track market or impact-related variables through MIS?

Interview Questionnaire (Email)

Interview Questionnaire

This Interview Questionnaire is designed to know about ASA’s Clients, Clients’ Information Needs and Tools of Collecting Clients’ Information. Answered questions will aid in better understanding of Clients’ Information Needs of Microfinance Institutions. I would highly appreciate your time and opinions.

Questions about Clients, ASA’s MIS and Managers’ Comments

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<th>Numbers</th>
<th>Questions</th>
<th>Answers and Comments</th>
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<td>What are the levels of clients in terms of poverty?</td>
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<td>2</td>
<td>Are clients benefiting from participation in the program?</td>
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<td>3</td>
<td>What are the benefits they are getting?</td>
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<td>4 (a) How do you use clients’ information for product and services development?</td>
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<td>5 Information flow and involvement of different departments (which are the departments involved in the information gathering process and uses of the information?)</td>
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<td>6 What is the Information System for Managing Clients’ Information in ASA?</td>
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<td>7 What are the Information Collecting Methods Undertaken in ASA?</td>
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<td>8 Please Comment on the MIS of ASA</td>
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<td>9 Please comment on the Effectiveness of the Information Collecting Methods of ASA</td>
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<td>10 What is the attitude of ASA toward the Role of Collecting Information for Product Development?</td>
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<td>11 What is the attitude of ASA toward the Information Collecting Methods to Develop the MIS?</td>
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<td>12 What is the level of importance given to client’s information?</td>
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<td>13 How to reduce Information Asymmetry in Microfinance by ASA?</td>
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<td>14 Please rate the Methods/Tools you use for collecting clients’ information</td>
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**Please follow the Scale:**

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**Please follow the Scale:**

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Please tell us your experience in this field

Types of Information are collecting by ASA and their Availability and Usefulness (Mapping of information needs)

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<th>Availability(^{91})</th>
<th>Usefulness(^{92})</th>
<th>Comments (Opinion of Responsible Managers)</th>
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<td>Target indicators allowing you to identify your target segments</td>
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<td>Impact indicators allowing you to verify your social performance</td>
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<td>Delinquency</td>
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<td>Client exit</td>
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<td>Client loyalty</td>
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<tr>
<td>Demand in current markets for other products</td>
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<td>Demand in other markets for current products</td>
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\(^{91}\) The availability refers to high-quality, complete information of given type. This means that the ASA have information that is ready to act on (collected, analyzed, reported). Usually, it means that the ASA has both figures to describe the issue and understanding of it. **AVAILABILITY scale:** 1 - not available at all; 2 – not so available; 3 – some available; 4 – available; 5 – extremely available

\(^{92}\) The usefulness relates to current challenges and opportunities regarding operationalization of strategy. **USEFULNESS scale:** 1 - not useful; 2 – not so useful; 3 – potentially useful; 4 – useful; 5 – extremely useful
Methods/Tools used by ASA for Collecting Clients’ Information

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<td>How?</td>
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<td>By whom?</td>
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Thank you very much for your participation and comments.

Your Sincerely,
Juber Ahmed

MSC Business Administration
School of Management
Blekinge Institute of Technology
Sweden
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