WHAT DO MICROFINANCE CUSTOMERS VALUE?

Women’s World Banking (WWB) network members believe that microfinance should work for poor women, and be financially sustainable. Over the last four years, the WWB global team has worked with network leaders to undertake customer surveys and focus groups to better understand what poor women and men value as customers of microfinance services. This research is used to improve existing products and services, and to design new product offerings.

This What Works note is based on the key findings regarding customer needs and satisfaction levels from research conducted between 1999 and 2001 with four microfinance institutions (MFIs), all affiliates of WWB. The findings represent the opinion of over 3,000 individual customers, located in three countries: Bangladesh, Uganda and Colombia. This research was conducted as part of WWB’s Strategic Positioning Program (SPP), which incorporates industry and competitive analysis, diagnosis of the organization, and statistically valid surveys of existing and past clients. Survey questionnaires asked about the importance and satisfaction of clients with a variety of loan attributes, in absolute terms and relative to other service providers. Clients were also asked open-ended questions, including what additional products and services they wanted.

WWB affiliate leaders who worked with the WWB global team have used the results of these surveys to improve their existing products and delivery systems, and to design new products. WWB has shared the results with network leaders from the regions surveyed and globally. Some clear patterns emerge across regions. They are summarized in Table 1.

<table>
<thead>
<tr>
<th>Table 1: What Clients—from Latin America, Asia and Africa—Tell Us</th>
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<tbody>
<tr>
<td>Microfinance clients want more, faster and better</td>
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<tr>
<td>• Value speed and convenience</td>
</tr>
<tr>
<td>• Want access to larger loans</td>
</tr>
<tr>
<td>• Want respect and recognition</td>
</tr>
<tr>
<td>• Care about interest rates</td>
</tr>
<tr>
<td>Poor people prefer individual loans over group loans</td>
</tr>
<tr>
<td>• As their experience grows, clients of group loans want different loan amounts, and resent the need to guarantee repayment by other members of the group</td>
</tr>
<tr>
<td>Low income women and men define microfinance broadly</td>
</tr>
<tr>
<td>• Want business loans</td>
</tr>
<tr>
<td>• Want to be able to deposit voluntary savings</td>
</tr>
<tr>
<td>• Want housing and education loans</td>
</tr>
<tr>
<td>• Want health and life insurance</td>
</tr>
<tr>
<td>• Willing to pay what it costs for responsive, sustainable services</td>
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</table>

This note aims to make comparisons across institutions to illustrate the areas in which customers from different countries and institutions employing diverse methodologies have similar and varying levels of satisfaction. While it can be difficult to make direct comparisons across countries, due in part to the local realities of each country’s microfinance market, the trends in the data provide insight to managers regardless of location.

LOWER TRANSACTION COSTS

Turn-around Time

Time is the scarcest resource customers have, whether they are corporate banking customers or microentrepreneurs.2

1 The MFIs concerned are: two group lenders, Shakti Foundation for Disadvantaged Women (Shakti) in Bangladesh, which follows a Grameen approach, and Uganda Women’s Finance Trust (UWFT), which employs a modified Grameen/Village Banking methodology that is common to East African MFIs; and two individual lenders, Corporación Mundial de la Mujer (CMM) in Medellín, Colombia and Corporación Mundial de la Mujer (CMM) in Bogotá, Colombia. Both MFIs follow a modified IPC approach.

Some MFIs have considered lengthy turn-around time—the period of time a customer must wait between loan application and disbursement—to be an unfortunate but unavoidable result of lending to the poor. The loan process is labor intensive, and many clients lack credit histories and collateral. However, as markets have become more competitive, and concessional funding scarce, innovative institutions have begun to turn reduced waiting time into a real competitive advantage.

Individual lenders measure turn-around time in days; in Medellín and Bogotá the average time from loan application to disbursement is five days, but can be as low as two. Customers of these institutions ranked turn-around time the most important attribute when considering taking out a loan. They also expressed the highest level of satisfaction with turn-around time of all the loan product attributes surveyed: 99% satisfaction in Medellín and 100% satisfaction in Bogotá.3

Group lenders continue to measure turn-around time not in days but in weeks, which is reflected in lower customer satisfaction levels. For the group lenders in WWB’s research, the average turn-around time ranged from one to two weeks in the Ugandan affiliate to three to six weeks in Bangladesh.4 About 78% of customers from both Uganda and Bangladesh expressed satisfaction with the turn-around time for the first loan, leaving 22% dissatisfied.

Dissatisfaction levels were lower with subsequent loans: 12% level of dissatisfaction in Uganda and 17% in Bangladesh. The dissatisfaction rates dropped with subsequent loans because the MFIs’ turn-around times were faster since borrowers had completed group formation and training processes.

Customers of Medellín ranked “requirements that are easy to comply with” as the second most important attribute when considering taking out a loan. Both Medellín and Bogotá require collateral equivalent to the loan amount. In addition, Bogotá’s clients must have one guarantor for loans higher than US$500, and Medellín’s clients must have one guarantor or a facsimile of their house title for loans under US$500, and two guarantors for loans in excess of US$500. Despite these high guarantees, the customers of individual lenders in the SPP research had very high satisfaction rates with the loan requirements—97% and 98%, respectively.

Whereas individual loans of greater amounts necessitate greater commitment demonstrated by the client to repay, they also necessitate greater risk management and due diligence on the part of the institution. Collateral on individual loans continues to act more as a symbol of a client’s commitment than a real mitigation of risk. MFIs should make sure that guarantees on individual loans are coupled with thorough due diligence and client education about the importance of paying back the loan.

### Group Lender Guarantees and Requirements

The group lending model aims to reduce the high transaction costs and potential risks of microfinance by forming groups of customers who have similar financial needs and having the group assume a portion of the costs and risks. Through the use of the group guarantee, which acts as a collateral substitute, group lenders are able to target lower income clients than those reached by individual, collateralized loans. Some group lenders have since modified their use of the group guarantee, reinforcing it with additional, more traditional forms of collateral.

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3 The WWB research team used a five-point scale in Medellín to rank importance and need, and a four-point scale in Bogotá. Survey results are shown in percentages.

4 All loan product and service delivery mechanism attributes are stated as at the time of the survey. In some cases, modifications to the loan product and service delivery have been made since the surveys were conducted.
1. Group Guarantee

The group guarantee, the defining characteristic of many group lending models, consists of some combination of joint liability and contingency renewal, both of which require group members to share responsibility for loans received.

In WWB research, satisfaction levels with the joint liability mechanism were determined by asking how clients felt about paying for others and how they felt about others paying for them. In Bangladesh, 52% of clients expressed dissatisfaction with paying for others, and 51% expressed dissatisfaction with having others pay for them. In Uganda, 65% of clients expressed dissatisfaction with paying for others, and 67% expressed dissatisfaction with having others pay for them. Such high dissatisfaction for both aspects of joint liability is a clear indication that customers prefer to assume responsibility for their own debt. This issue was tested further through the question: “Which do you prefer, to have the security that the group will help you out when you are not able to pay back each week, or to assume complete responsibility for your own loan and not having to pay for someone else’s loan?”

Table 3: Evaluation of the Group as Collateral

<table>
<thead>
<tr>
<th></th>
<th>Assume responsibility alone: Self-dependent</th>
<th>Needs group security: Group-dependent</th>
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<tbody>
<tr>
<td><strong>Shakti, Bangladesh</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>Dropout</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td><strong>UWFT, Uganda</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>87</td>
<td>13</td>
</tr>
<tr>
<td>Dropout</td>
<td>84</td>
<td>16</td>
</tr>
</tbody>
</table>

Most customers of both institutions indicated a desire to be independent and to forsake the security of the group. In Bangladesh, 76% of the affiliate’s current borrowers and 82% of dropouts answered that they would want to assume total responsibility for their own loan. In Uganda, 87% of the affiliate’s current borrowers and 84% of dropouts expressed a similar desire for independence.

In recent years, some group lenders have begun to modify use of the group guarantee, acknowledging that it can and does break down in later loan cycles. ASA in Bangladesh dropped group guarantees over ten years ago; Grameen Bank has recently dropped the group guarantee. In such cases, the groups are used mainly as a means to facilitate organization, distribution and collection of loans. Group meetings still create some peer pressure to repay, and groups can still have education, empowerment and social capital benefits with or without the peer guarantees.

Modification of the group guarantee has important effects on how group lenders choose to indemnify against default and, in turn, how many additional guarantees are required from the client. In most cases, group lenders that have dropped the group guarantee have chosen to mitigate risk with a range of different individual guarantees. Institutions must be careful not to rely too heavily on these additional guarantees, and use them as a substitute for appropriate risk assessment.

The WWB affiliate in Bangladesh does not require additional guarantees or collateral from customers; the group guarantee is reinforced by compulsory weekly meetings that aim to improve the group members’ knowledge of each other’s businesses and abilities to repay. The effectiveness of the group guarantee relies heavily on group members’ access to information and their willingness to share that information with the institution. In theory, customers who meet regularly to repay their loans can more closely monitor the repayment of their fellow group members.

5 Joint liability means members of a group are responsible for the repayment of other group members’ loans. Contingency renewal means that access to subsequent loans is denied to the entire group after one member’s default. For more on joint liability and contingency renewal, see: Thierry van Bastelaer, “Imperfect Information, Social Capital and the Poor’s Access to Credit,” 2000.

6 ASA does not use joint liability; instead the repayment commitment is reinforced by the husband’s co-signature and rapid follow-up by loan officers. Grameen II’s design includes the elimination of joint liability, thereby removing “the unpleasant task of putting unfriendly pressure on a friend.” (Grameen II.)

7 Marr, Microfinance and Poverty Reduction, 2.
The WWB affiliate in Uganda places less emphasis on the group guarantee and relies more heavily on additional, individual guarantees. While attendance at group meetings is voluntary, UWFT does require customers to have the signature of their local councilor, two guarantors and to pledge an asset as collateral. Dissatisfaction with these requirements was noticeable and increased in all cases for dropout customers.

When asked why they chose to leave the Ugandan affiliate, 34% of dropouts named the guarantees as one of the primary reasons.

For those institutions that impose additional guarantees or requirements, it is evident that they should be set within a reasonable range for low income entrepreneurs.

### 2. Compulsory Savings

Compulsory savings—intended to teach clients financial discipline, act as collateral and increase client retention—can also be a significant source of dissatisfaction. The opportunity cost of compulsory savings can be prohibitively high; customers can gain significantly higher returns by investing capital in their businesses rather than depositing savings in non-interest bearing savings accounts.

The data on compulsory savings from Uganda and Bangladesh indicate three areas of customer dissatisfaction with this loan requirement: lack of interest earned, long waiting periods before gaining access, and lack of transparency on the part of the institution about these accounts. Dissatisfaction with the lack of interest on compulsory savings was the highest of all the loan attributes and requirements surveyed for current and dropout customers of UWFT.

In the Ugandan affiliate, compulsory savings comprised 30% of the principal at the time of the survey. Clients expressed significant levels of dissatisfaction: 45% of clients were dissatisfied with the amount of compulsory savings, and 85% were dissatisfied with not earning interest. Dissatisfaction levels for dropouts were similarly high: 47% dissatisfaction with the required amount and 90% dissatisfaction with the lack of interest.

At the time of the survey, compulsory savings in Bangladesh included: a group tax of 5% of the principal that could be withdrawn if the client left after five years; and a weekly compulsory savings of 10 Taka, 50% of which was held as personal savings with unlimited access, 50% of which was contributed to the Centre Fund and available if the client left the organization after five years. While only 13% of current borrowers expressed dissatisfaction with the five-year waiting period, dissatisfaction jumped to 40% for dropouts, a reflection of the fact that dropouts lost their compulsory savings since they left before five years.

Throughout the industry the interest rate paid, if any, on compulsory savings “is usually lower than the return earned by borrowers if the savings were put into their businesses or other investments.” MFI s that consider raising the interest rate on compulsory savings to a competitive rate and maintaining the required amount at a reasonable level (e.g., 10%) are more likely to retain their customers. When compulsory savings levels are set too high, customers begin to borrow their own money back after a certain number of loan cycles. Clients expressed this sentiment during WWB’s survey work conducted in March 2002 with Kenya Women’s Finance Trust (KWFT). A member of one KWFT focus group stated clearly: “I borrow Ksh100,000 and save Ksh30,000. It is my money. I am paying double for my money.”

The restrictions on withdrawals from compulsory savings accounts can act as exit barriers but can also encourage customers to leave. For example, a client may choose to drop out, allowing her compulsory savings to pay off the balance of her loan.

Finally, the idea that compulsory savings teaches or reinforces financial discipline was refuted by findings from the survey work that indicate that many clients are unclear about the balance, terms and conditions of their compulsory savings account and, as mentioned earlier, see the requirement as an

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<table>
<thead>
<tr>
<th>Table 4: Dissatisfaction with Group Guarantees</th>
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<tr>
<td></td>
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<tr>
<td>Signature of local councilor</td>
</tr>
<tr>
<td>18%</td>
</tr>
<tr>
<td>22%</td>
</tr>
<tr>
<td>Two guarantors</td>
</tr>
<tr>
<td>19%</td>
</tr>
<tr>
<td>25%</td>
</tr>
<tr>
<td>Pledge an asset as collateral</td>
</tr>
<tr>
<td>19%</td>
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<tr>
<td>40%</td>
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</tbody>
</table>

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additional tax rather than as a long term savings opportunity. If MFIs hope to instill stronger financial discipline in their customers, customers must have access to information about their accounts. For customers to view this requirement as something other than an additional cost of the credit, MFIs should consider designing a compulsory savings product that is similar to more traditional savings schemes such as rotating savings and credit associations (ROSCAs) and savings clubs. Rather than imposing an automatic percentage deduction, MFIs could design a weekly savings scheme that would better suit traditional savings patterns.10

3. Group Meetings

<table>
<thead>
<tr>
<th>Table 5: Views on Group Meetings</th>
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<tbody>
<tr>
<td><strong>“Why do you like coming to group meetings?”</strong></td>
</tr>
<tr>
<td>UWFT:</td>
</tr>
<tr>
<td>• “I learn how to use money and business”</td>
</tr>
<tr>
<td>• “I'm learning new ideas from members”</td>
</tr>
<tr>
<td>• “I learned a lot of things about running a business and saving money”</td>
</tr>
<tr>
<td>• “I like discussing about the development of ordinary women”</td>
</tr>
<tr>
<td>• “I like to maintain a relationship with others”</td>
</tr>
</tbody>
</table>

Responses were positive from clients of both group lending institutions on the issue of group meetings: 98% of clients of the Ugandan and Bangladeshi affiliates like coming to meetings. However, meetings were a factor for clients who dropped out: 28% of Shakti dropouts left in part because of the frequency of the meetings, and 11% of UWFT clients.

 Asked what they liked best about the group meetings, the largest group of Uganda clients (65%) indicated that they liked the opportunity to share ideas and learn from each other. In Bangladesh, the most often cited reason clients liked the meetings was the social aspect (43%). This is telling, given the Bangladeshi context where societal norms have traditionally placed limits on the extent to which women can participate in the public sphere. Though group meetings represent a cost in additional time to the customer, the responses of clients in Uganda and Bangladesh indicate that cost is “outweighed by the benefits of building social assets, developing new skills, and gaining other benefits through participation in credit groups.”11 These benefits represent the social capital that can be built and maintained in group meetings.

Given the high rate of satisfaction from customers and the important role that group meetings can play, some would argue that the group meeting mechanism should not be altered. But to low income entrepreneurs the cost remains very high. To address this, MFIs could work to reduce the time spent in meetings or the frequency of meetings. And group lenders could become more efficient in borrower selection, group formation and client training processes.

Innovations such as “pay and leave” used in the Association for Social Advancement (ASA), a WWB associate, are another way to minimize time and administration costs. In this scheme clients do not have to stay at the meeting until all transactions are complete. Creative methods of managing attendance that respect the value of clients’ time and the transactional need for mandatory attendance, allow clients to use the non-administrative, voluntary portion of the meeting to greater effect.

Overall, it is clear that customers of individual lenders expressed higher satisfaction levels than customers of group lenders. It is evident that customers are willing to comply with higher requirements to receive the faster service, larger loans and greater flexibility available with individual lending methodologies.

### Loan Features

#### Loan Amount

Dissatisfaction levels with loan amounts were 13% for customers of the WWB affiliate in Medellín and 8% for customers of the WWB affiliate in Bogotá. Customers from these institutions ranked loan size as the third and fourth most important characteristics of the loan, respectively. The dissatisfaction levels for the group lenders were higher: 34%

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10 Wright, Moving the Mountains, 9.

11 Cohen and Sebstad, Microfinance, Risk Management and Poverty, 112.
of clients in Bangladesh and 27% of clients in Uganda were dissatisfied with the loan amounts.\textsuperscript{12}

When customers who dropped out were asked if they would include small loan amounts as one of the reasons for leaving the institution, 58% in Bogotá, 40% in Uganda, 38% in Medellín, and 33% in Bangladesh said yes. Insufficient loan sizes were the single biggest reason for dropouts in Colombia and Bangladesh. In Uganda, dissatisfaction with loan terms, interest rates and installment amounts ranked higher.

There are possible hazards to client-driven loan product design. For example, in the case of loan size, customers may want larger loan sizes than they are able to manage. Institutions should consider mission, competitive position, and lending methodology when determining range of loan sizes to offer. Loan size, for instance, determines in large part what population segment an institution will serve. MFIs with missions to serve the very poor offer the lowest loan sizes; the maximum loan size is developed to fit what these MFIs view as suitable to very poor people’s debt capacity. In some markets, competitive position may provide a convincing rationale for keeping loan sizes small and therefore continuing to serve poorer segments of the population. In the case of Medellín, while larger loans are more profitable, it is also true that in the institution’s experience, customers who take out smaller loans on average are more loyal—since they have fewer alternatives. By contrast, to stay competitive with a growing number of other MFIs that offer larger loan products, Bogotá increased its loan amounts.

Because most group lenders rely on the members of a group to evaluate and monitor each other’s capacity to repay, these institutions assume a greater risk when offering larger loans. Also, when group guarantees are in place, if members of a group have loans of different sizes, those with smaller loans are forced to carry a disproportionate amount of risk.\textsuperscript{13}

Offering larger loans is essential to retain growth-oriented clients, and is often a strategic decision in competitive markets. However, MFIs need to recognize that offering larger loans often requires different methodologies and means to evaluate risk. Without these changes in methods and institutional capabilities, larger loans can lead to overindebtedness of some borrowers. Keeping loan sizes very low, on the other hand, can lead clients to borrow from multiple sources, which can again lead to overindebtedness.

Incentive systems for loan officers can lead to inappropriate loan amounts. The effort to retain customers can lead them to lend too much to individuals and to groups. In addition, the “stepped lending” approach used in group lending, where loan size is automatically determined by cycle rather than debt capacity, can lead to inadequate amounts for some customers and overindebtedness for others.

**Loan Pricing**

Loan pricing actually incorporates the loan’s term, installment frequency, amount of compulsory savings, fees and commissions, and the interest rate. Across the three markets examined, clients have different levels of understanding and awareness of the various elements affecting price.

In the case of Medellín and Bogotá, the basic loan products are identical; however, customer responses were not the same. Customers of Medellín expressed higher levels of dissatisfaction than the customers of Bogotá. Competition in the local market may be a factor. Medellín’s one main rival, an NGO, provides loans with lower interest rates. Bogotá, on the other hand, faces four large competitors with larger product ranges, higher average loan sizes and more diversified funding bases, but Bogotá’s loan pricing remains competitive.

Shakti’s general loan is similar to many of the other microfinance providers in the Bangladesh market: it provides small loan amounts with an annual term and weekly

\textsuperscript{12} It is difficult, however, to compare loan size satisfaction across countries, given the different levels of economic development and Gross National Income (GNI) in the countries surveyed. When average loan size was measured as a percentage of GNI, Medellín’s loans were 21%, Bogotá 13%, Shakti 19% and UWFT 36%. The dissatisfaction levels do not correlate consistently with the loan size as percentage of GNI.

\textsuperscript{13} Wright, Microfinance Systems, 55.
Of the loan attributes affecting the price, customers were least satisfied with the amount of the loan (34% dissatisfaction) and most satisfied with the loan term (7% dissatisfaction).

Dissatisfaction was most pronounced among the Ugandan affiliate's customers. At the time of the survey, UWFT's group loan was characterized by a short loan term (16 weeks) and a high effective interest rate, which resulted in large installments that many customers found difficult to repay. When asked about the terms and conditions of the loan, 76% of customers were dissatisfied with the fees and commissions, 53% with the interest rate, 45% with the level of compulsory savings, and 42% with the loan term.

All elements of the loan price affect both borrowers and the institution. Loan terms need to be suitable to the economic activities of the customer, and the interest rate and installments need to reflect what microenterprise activities earn. The impact of compulsory savings as well as fees and commissions on effective loan prices need to be made explicit to each customer, as should other elements of price.

As markets become more competitive, the prices of loans are expected to fall. The stickiness that is now characteristic of many microfinance markets is due in part to uneven competition and market distortions, often caused by the availability of concessional funds from donors. This is changing rapidly. While MFIs will undoubtedly have to lower prices, experiences in several markets have illustrated that customers are willing to make certain trade-offs for example, paying a higher price for speed or convenient access. In the case of Bolivia, customers were attracted to a consumer lending product that was more expensive but had faster turn-around and lower requirements. As MFIs try to lower costs to the customer to remain competitive, they will need to consider all elements affecting price as well as the non-financial transaction costs mentioned earlier in this note.

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**Customer Service**

Some elements of customer service such as responsive and knowledgeable staff are basic, but special recognition, personalized attention and other ways to reinforce loyalty are important for customer retention. Loan officers and all staff need to recognize that they are managing long-term relationships and that the client is a customer, paying for a service.

Client levels of satisfaction with customer service were not a central component of the WWB survey work, but preliminary results from the survey, based on questions about clients' relationship with their loan officers and clients' feelings about the institution's brand, indicate that customer service can be an important differentiator in competitive markets.

Customers in Medellín and Bogotá were asked to rank the importance of three attributes of customer service—level of knowledge of the analyst about loans, advice from the loan officer on business, and service by one loan officer throughout the course of the customer's relationship with the institution. Customers were most concerned with the loan officer's level of knowledge about the loans, giving it an importance of 82% in Medellín (satisfaction: 84%) and 97% in Bogotá (satisfaction: 96%). They were least concerned that the loan officer remain the same during their dealings with the institution, giving it an importance of 72% in Medellín (satisfaction: 78%) and 92% in Bogotá (satisfaction: 94%). While customers may not view this last attribute of customer service as being as important as the other attributes questioned, institutions know that maintaining continuity in this relationship is important to minimizing arrears.

In Bogotá, customers ranked “recognition for being a good client” as the most important attribute of the loan delivery system. One way that MFIs can reward good customers is with continued access to enhanced, more tailored products and services. In Medellín, “people speak well of the institution” was ranked fourth among important loan delivery attributes.

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14 It should be noted that UWFT’s effective interest rate is within the industry norms in Uganda.

15 WWB will conduct future market research to more fully understand the link between client satisfaction with customer service and client retention/ institutional sustainability.
by customers. Customers feel proud to be associated with an institution that has a good reputation.

Clients in Uganda expressed high levels of satisfaction regarding the service received from credit staff (97%), cashiers (96%), and the branch manager (97%). When asked how helpful they found staff members in solving problems, only 47% of customers thought staff members were “very helpful,” and 24% stated that the staff was “somehow helpful.” The most common positive opinion (21%) was that staff members were helpful because they enforced repayment and discipline in the group; the most common negative opinion (10%) was that staff members were insensitive about the loan being too expensive. This data could be interpreted to mean that customers appreciate that loan officers enforce repayment when others default, but find the enforcement insensitive when they themselves have difficulty with repayment.

Shakti clients were not asked to rate customer service. When clients who dropped out were asked in an open-ended question why they left the institution, 3% named poor communication with the loan officer. Responses included “program officer behavior was not good,” and “did not get recognition as a member.” Clients can and do generalize about an entire organization based on interactions with one staff member. Most microfinance institutions rely on word-of-mouth as their primary marketing strategy.

**NEW PRODUCTS AND SERVICES**

An important element of the survey was aimed at measuring customer demand for new products and services. Responses in previous sections indicate how managers of MFIs might modify existing products and services to better serve customers. In addition, managers might consider addressing unmet demand by creating new and more flexible products and services.

Demand for new products and services was assessed using both open- and closed-ended questions. Responses to the following question are below: “Which would be the most important service that (name of MFI affiliate) should include or modify?”

<table>
<thead>
<tr>
<th>Table 6: Demand for New Products and Services</th>
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<td>------</td>
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<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
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</tbody>
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Respondents were also read out a list of product modifications and new products and asked if they had access to them (penetration). Customers who did not have access to these products were then asked whether they would use such products if they had access to them (demand). In order to assess unmet demand, these results were plotted on a two-axis grid. (See Annex 2.)

Comparisons of unmet demand across surveys can only be done on a directional basis for two reasons. First, the list of product modifications and new products read out by the surveyors differed by survey. Second, the positioning of each product modification/new product on each grid is relative to penetration levels and demand in each survey. With that in mind, there are a couple of points worth noting. For the affiliates in Medellín and Bogotá, there is high unmet demand for business development services (BDS)- training,

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16 A survey question is either a closed-ended or an open-ended question. A closed-ended question is sometimes called a forced choice question because the respondent chooses an answer from a pre-selected list. With open-ended questions, respondents answer with the first thought that comes into their minds. They are useful for identifying the most popular responses before presenting a question as a closed-ended question.

17 The scale used in Medellín, was 1= would certainly not use, to 5= would certainly use. In all other surveys, a 1= would certainly not use, to 4= would certainly use, scale was used.
discount cards for accessing cheaper raw materials, marketing- and for loans for housing and education. On the other hand, there is low unmet demand for group loans, credit cards and pawn loans.

In the group lenders, there is high unmet demand for individual loans, as well as the modifications to the core loan product that customers had mentioned in other parts of the surveys. In addition, there is high unmet demand for BDS. In both Bangladesh and Uganda, there is low unmet demand for consumption loans.

**Conclusion**

The data gathered through the SPP process has shown that MFI customers want higher loan amounts, faster turn-around times, lower loan requirements and lower prices. Long-term customers want preferential treatment. To remain competitive, MFIs will have to continuously chip away at their transaction costs and the time and costs they impose on customers. MFIs will need to offer more tailored loan products to better meet the needs of individual customers, while maintaining sufficient standardization to keep costs down. Microfinance markets are moving toward price competition. MFIs will need to lower interest rates, and build additional value that customers will pay a premium for. To respond to evolving customer demand, MFIs will need to offer voluntary savings, housing finance, education loans and consumer finance as part of an integrated financial services solution. Good customer service is becoming increasingly important.
ANNEX 1: CUSTOMER SATISFACTION

Satisfaction with Loan Attributes and Requirements to Get a Loan: Medellín, Colombia

- **Attributes of the Loan**
  - Amount of the loan (Range: US$100 to US$10,000)
    - 13% Unsatisfied
    - 87% Satisfied
  - Interest rate (43.6% effective)
    - 28% Unsatisfied
    - 72% Satisfied
  - Installment amount
    - 13% Unsatisfied
    - 88% Satisfied
  - Term (4 mths to 3 yrs)
    - 33% Unsatisfied
    - 68% Satisfied

- **Requirements**
  - Approval requirements
    - 4% Unsatisfied
    - 97% Satisfied

Satisfaction with Loan Attributes and Requirements to Get a Loan: Bogotá, Colombia

- **Attributes of the Loan**
  - Amount of the loan (Range: US$100 to US$10,000)
    - 8% Unsatisfied
    - 93% Satisfied
  - Interest rate (43.6% effective)
    - 7% Unsatisfied
    - 94% Satisfied
  - Installment amount
    - 3% Unsatisfied
    - 97% Satisfied
  - Term (4 mths to 3 yrs)
    - 3% Unsatisfied
    - 97% Satisfied

- **Requirements**
  - Approval requirements
    - 2% Unsatisfied
    - 98% Satisfied

Satisfaction with Loan Attributes and Requirements to Get a Loan: Bangladesh

- **Attributes of the Loan**
  - Amount of the loan (Range: US$75 to $189)
    - 34% Unsatisfied
    - 66% Satisfied
  - Interest rate (21.5% effective)
    - 23% Unsatisfied
    - 77% Satisfied
  - Installment amount
    - 6% Unsatisfied
    - 94% Satisfied
  - Term (12 months)
    - 7% Unsatisfied
    - 93% Satisfied

- **Requirements**
  - Approval requirements
    - 13% Unsatisfied
    - 86% Satisfied

Satisfaction with Loan Attributes and Requirements to Get a Loan: Uganda

- **Attributes of the Loan**
  - Amount of the loan (Range: US$98 to $327)
    - 27% Unsatisfied
    - 73% Satisfied
  - Interest rate (75% effective)
    - 53% Unsatisfied
    - 47% Satisfied
  - Installment amount
    - 28% Unsatisfied
    - 71% Satisfied
  - Term (4 months)
    - 42% Unsatisfied
    - 58% Satisfied

- **Requirements**
  - Approval requirements
    - 76% Unsatisfied
    - 24% Satisfied

- **Fees and commissions (4% upfront)**
  - Compulsory savings (30% of the loan)
  - Pledge an asset
  - Two guarantors
  - Signature from local councilor

- **Approval requirements**
  - 45% Unsatisfied
  - 55% Satisfied
  - 19% Unsatisfied
  - 82% Satisfied
ANNEX 2: USE AND DEMAND OF NEW PRODUCTS AND SERVICES

**Use and Demand of New Products and Services: Gap Analysis - Medellín**

<table>
<thead>
<tr>
<th>DEMAND</th>
<th>USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>- Solidarity group loans - Loans backed by gold</td>
</tr>
<tr>
<td>Medium</td>
<td>- Credit lines - Discount card to buy cheaper raw materials - Support for commercializing products / services</td>
</tr>
<tr>
<td>High</td>
<td>- Life and health insurance - Savings - Faster loan approval</td>
</tr>
</tbody>
</table>

**Demand**
- Reduce interest for advanced payment
- Training on personal development
- Discount card to buy cheaper raw materials
- Support for commercializing products / services
- Unrestricted loan
- Life insurance during the loan

**Demand**
- Savings

**Use**
- Credit cards

**Use and Demand of New Products and Services: Gap Analysis - Bogotá**

<table>
<thead>
<tr>
<th>DEMAND</th>
<th>USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>- Lease with option to buy - Credit cards</td>
</tr>
<tr>
<td>Medium</td>
<td>- Loan for purchase of fixed assets</td>
</tr>
<tr>
<td>High</td>
<td>- Technical training - Support for commercializing products / services</td>
</tr>
</tbody>
</table>

**Use**
- Credit lines

**Use**
- Credit cards

**Use and Demand of New Products and Services: Gap Analysis - Shakti**

<table>
<thead>
<tr>
<th>DEMAND</th>
<th>USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>- Loans for consumption</td>
</tr>
<tr>
<td>Medium</td>
<td>- Prepay loans to speed up next loan - Loans for education - Maternity insurance - Long-term savings</td>
</tr>
<tr>
<td>High</td>
<td>- Leasing - Marketing support - Short-term savings - Loans for 6 months, not 12 months</td>
</tr>
</tbody>
</table>

**Use**
- Leasing - Marketing support - Short-term savings - Loans for 6 months, not 12 months

**Use**
- Loans for consumption - Loans for consumption - Loan recovery (death) - Fixed deposits

**Use and Demand of New Products and Services: Gap Analysis - UWFT**

<table>
<thead>
<tr>
<th>DEMAND</th>
<th>USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>- Loans for peak seasons in business - Loans for peak seasons in business</td>
</tr>
<tr>
<td>Medium</td>
<td>- Loans for emergencies - Health insurance - Leasing</td>
</tr>
<tr>
<td>High</td>
<td>- Loan for more than 6 months - Individual loan without group guarantee - Fixed asset loan - A ‘top-up’ loan in the middle of the normal cycle - Marketing support</td>
</tr>
</tbody>
</table>

**Use**
- Loans for peak seasons in business

**Use**
- Loans for peak seasons in business - Loans for peak seasons in business
ANNEX 3: SATISFACTION WITH SERVICE DELIVERY MECHANISM ATTRIBUTES

Bangladesh

Group Guarantee
- Pay for others
  - Very unsatisfied: 52%
  - Unsatisfied: 51%
  - Satisfied: 48%
  - Very Satisfied: 50%
- Others pay for me
  - Very unsatisfied: 22%
  - Unsatisfied: 17%
  - Satisfied: 83%
  - Very Satisfied: 78%

Turnaround Time
- Time before first General Loan
  - Very unsatisfied: 22%
  - Unsatisfied: 10%
  - Satisfied: 90%
  - Very Satisfied: 98%
- Time between loans
  - Very unsatisfied: 12%
  - Unsatisfied: 2%
  - Satisfied: 88%
  - Very Satisfied: 98%

Group Meetings
- Time spent at Kendro Meetings
  - Very unsatisfied: 5%
  - Unsatisfied: 5%
  - Satisfied: 95%
  - Very Satisfied: 95%
- Like coming to Kendro Meetings
  - Very unsatisfied: 1%
  - Unsatisfied: 1%
  - Satisfied: 98%
  - Very Satisfied: 98%

Uganda

Group Guarantee
- Others pay for me
  - Very unsatisfied: 67%
  - Unsatisfied: 33%
  - Satisfied: 36%
  - Very Satisfied: 33%
- Pay for others
  - Very unsatisfied: 65%
  - Unsatisfied: 35%
  - Satisfied: 36%
  - Very Satisfied: 36%

Turnaround Time
- Time before first loan
  - Very unsatisfied: 22%
  - Unsatisfied: 12%
  - Satisfied: 77%
  - Very Satisfied: 88%
- Time between loans
  - Very unsatisfied: 1%
  - Unsatisfied: 1%
  - Satisfied: 98%
  - Very Satisfied: 98%

Group Meetings
- Coming to group meetings
  - Very unsatisfied: 1%
  - Unsatisfied: 1%
  - Satisfied: 98%
  - Very Satisfied: 98%
ANNEX 4: METHODOLOGY

WWB Customer Research Methodology

The objectives of the surveys were threefold:
- To help managers of MFI affiliates make strategic choices; for example, which product or service delivery mechanism attributes to modify and how, and what new products to introduce, with the overall goal of improving customer satisfaction and retention.
- To confirm/disconfirm managerial paradigms; for example, ‘the reason we are not growing is due to unfair competition’ or ‘clients like the group guarantee.’
- To gain new insights.

The test of the surveys’ strength was their ‘actionability,’ i.e., how much managers could use them to make decisions.

Survey Design

Surveys were designed once the key strategic issues facing each affiliate were identified, i.e., after the industry analysis and internal capabilities diagnostic. Affiliate management and board were presented with the key findings of these analyses and asked to think about what they wanted to learn from their customers. Focus groups were then conducted with credit officers and branch managers to understand what they perceived to be the main issues facing customers when they dealt with their institution and with competitors. Once the main issues were identified, WWB worked with market research experts and statisticians to design the actual surveys. All surveys were pilot tested for comprehension, length and overall user-friendliness.

Areas tested in all surveys included:
- Awareness
- Needs when taking out a loan
- Satisfaction with MFI’s product and service offerings
- Use and demand for new products and services
- Demographics- gender, business activity, poverty indicators
- Mental models, Medellín only
- Impact of the loan

Additional areas only asked of former borrowers (dropouts) were:
- Reasons for leaving
- Knowledge and use of competitors
- Comparative advantages of affiliate vis-à-vis competition

Survey Methodology

In all cases, two populations were surveyed: active and former borrowers (dropouts). Potential borrowers were not surveyed because it was known that there was still plenty of unmet demand in each MFI’s catchment area. To ensure that the results were representative of the total population, a ‘stratified, random’ sample was used.

A ‘strata’ is a criterion that divides the population under study in a way that affects the opinion of such a population. There has to be a minimum number of cases of each of these strata to have representative conclusions. In all surveys two strata were used:
- Number of clients per branch (region/ geography).
- Number of clients by loan amount (individual lenders) and loan cycle (group lenders). Loan cycle is a good proxy for loan amount in group lenders.

Respondents were selected on a random basis. A sufficient number of interviews was conducted to give a margin of error of +/- 4% to 6%. If the margin of error is +/- 4% and if 60% of respondents thought that loan amount was insufficient then it can be inferred that between 56% and 64% of the total population have the same opinion. Therefore, we have a high degree of confidence in the data.
<table>
<thead>
<tr>
<th></th>
<th>CMM, Medellín</th>
<th>CMM, Bogotá</th>
<th>Shakti, Bangladesh</th>
<th>UWFT, Uganda</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date of surveys</strong></td>
<td>Feb./Mar ‘99</td>
<td>Aug./Sept. ‘99</td>
<td>Feb. ‘00</td>
<td>July ‘00</td>
</tr>
<tr>
<td><strong># Of active borrowers</strong></td>
<td>5,006</td>
<td>5,316</td>
<td>49,900</td>
<td>15,244</td>
</tr>
<tr>
<td><strong># Of active borrowers interviewed</strong></td>
<td>494</td>
<td>372</td>
<td>515</td>
<td>507</td>
</tr>
<tr>
<td><strong>Margin of error</strong></td>
<td>+/-4.5%</td>
<td>+/-5%</td>
<td>+/-4%</td>
<td>+/-4%</td>
</tr>
<tr>
<td><strong># Of former borrowers interviewed</strong></td>
<td>171</td>
<td>131</td>
<td>541</td>
<td>500</td>
</tr>
<tr>
<td><strong>Margin of error</strong></td>
<td>+/-6%</td>
<td>+/-6%</td>
<td>+/-4%</td>
<td>+/-4%</td>
</tr>
</tbody>
</table>

Trained college graduates, fluent in local languages, conducted the interviews after rigorous training. Each survey was pilot tested to ensure that respondents understood what was being asked and that surveys were not too long (it is known that the quality of respondents’ answers tends to decrease for surveys longer than 30 minutes).

A five-point scale was used for the first survey that was conducted, in Medellín, and a four-point scale was used thereafter. Visual aids were used to ensure that respondents understood the scale.

Closed-ended and Open-ended Questions
A survey question is either a closed-ended or an open-ended question. A closed-ended question is sometimes called a forced choice question because the respondent chooses an answer from a pre-selected list. With open-ended questions, respondents answer the first thought that comes into their mind. They are useful for identifying the most popular responses before presenting a question as a closed-ended question.

Survey Interpretation: A Cautionary Note
When making comparisons across cities, continents and countries readers will notice that the most satisfied customers are in Colombia, followed by Bangladesh and then Uganda. There may well be cultural differences between how customers in each country interpret the scales.
ANNEX 5: BIBLIOGRAPHY

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This document was prepared by Inez Murray, WWB Manager of Market Research, and Elizabeth Lynch, WWB Executive Assistant to the President, based on research conducted by the WWB global team. Pro bono inputs were provided by Monitor Company.

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