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Market Research for MicroFinance – Letting Demand Drive Product Development

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The origins of the ***MicroSave*** "Market Research for MicroFinance" approach to product development lies in the belief that any organisation that is serious about serving clients starts by assessing their needs. This is approach has origins in both:

- a commercial approach to microfinance (all successful businesses in the modern economy are market- not product-driven) and
- the participatory approach to development as proposed by Robert Chambers which insists that poor people's reality is what counts (and that it is this reality and the needs that spring from it that we must seek to address).

It was back in 1990 that Shahnaz Ahmed and I first used *Focus Group Discussions* to analyse the impact of two urban microfinance programmes on women's empowerment and related issues – the power of qualitative research to understand clients' issues (as opposed to our constructs of their issues) became very clear. At around the same time, I was working with BURO-Tangail to develop a system to deliver financial services that included a savings product to complement a traditional Grameen-inspired loan product. The staff of BURO, Tangail and I spent months discussing clients' realities and needs, and I had the privilege and joy of visiting over 100 villages as part of that process. Using this approach, together with a systematised method to pilot-test new products and systems, BURO, Tangail has developed and implemented six different loan products including:

- a general loan (the traditional Grameen 50 week loan),
- a supplementary loan to protect working capital (which, of course declines as the general loan is repaid over the 50 weeks),
- a loan to finance the construction of tubewells/sanitary latrines,
- an emergency loan,
- a business loan (for more entrepreneurial, successful clients seeking to expand established businesses), and
- an overdraft facility
  and three savings products
- an open access current account,
- a contractual savings account, and
- a fixed deposit account.

These products and the process used to developing them is discussed in more detail in "BURO, Tangail's Approach to Product Development: A Case Study". It is interesting to note that as a result of the client-responsive nature of these products, BURO,Tangail is able to charge above market rates for their loan products and has achieved impressive results where many MFIs of similar size (around 80,000 members) and age struggle to do so.

In 1997, I took a job to establish a rural finance system in the Philippines and thus moved from the densely-populated flood plains of Bangladesh to the very sparsely populated, remote mountains of north Luzon. I had to unlearn all I had learnt in Bangladesh and think a long way outside the box and paradigm I had spent nine years working with. It was an excellent opportunity. Ironically, I was faced with a project document that recommended a form of Grameen-replication: something that was clearly unworkable in the circumstances. There was a pressing need for some creative thinking and some market research to ground the proposed rural financial system in the socio-economic and cultural environment in which we were to operate. We needed to know how people were managing their money in the absence of the rural finance system in order to build on existing norms and informal finance systems. As a result Shahnaz and I adapted several "Participatory Rapid Appraisal" (PRA) tools to help explore the financial landscape:

- *seasonality analysis of income, expenditure, savings and credit* to look at the seasonality patterns of financial flows and behaviour,
- *seasonality analysis of the availability of wage labour and of patterns of migration*,
- *cash mobility mapping* to explore from where people got their money and where they spent it, and
- *venn/chapti diagrams* to examine the nature and inter-relationships between financial services/institutions (informal and semi-formal) in the communities.

Stuart Rutherford suggested that we add *wealth-ranking* to ensure that the rural finance system included and addressed the needs of the poorer people in the villages.

The results obtained from the use of these PRA techniques were then used to probe more deeply into issues related to the availability of cash and financial services in the villages, as an integral part of the process of preparing to form self-help groups in each village. The staff members (or Rural Finance Officers – RFOs) were required to submit a detailed report on each area where they initiated work following a carefully defined format.

Every two/three months, we held week-long training workshops to discuss what had been learnt in the field. These workshops not only assisted the process of making important improvements to the rural finance system and implementation methodology, but also allowed me to see the perceptions and prejudices of the RFOs (who were from the area and thought they knew all about the client group) changing. By the second workshop they returned amazed by the desire and ability of the poor to save and save weekly. Their previous beliefs about the poor lacking money to save and their beliefs that wage labour was only very seasonal, were revised as they continued to hold focus group discussions and perform PRA. By the third workshop, the RFOs were not only convinced of the high level of socio-economic stratification in the villages, but also of the relatively constant availability of wage labour - particularly if the labourer was willing to travel outside his/her village.

This process of designing a rural finance system is described in more detail in the chapter entitled "CECAP System Design Process – In Progress" of "MicroFinance Systems: Designing High Quality Financial Services for the Poor" published by University Press, Dhaka and Zed Books, London.

By 1999, when I was asked to prepare a background paper for the World Development Report 2000/1, I had started working in Uganda. The paper was to look at the impact of microfinance services on poverty and vulnerability. I was more than a little concerned – I was used to conducting market research, but had no experience of conducting impact assessment studies, and the leader of the four-country project was Monique Cohen who had been working on impact for years. In addition to discussion guide-driven focus groups, we used a variety of the PRA tools including four new ones designed for the study:

- *time series of sickness, death, loss of employment, theft, natural disaster etc*. to look at crises and vulnerability of households this year, last year, 5 and 10 years before,
- *time series of asset ownership* to examine the changes in asset ownership in households this year, last year, 5 and 10 years before,
- *time series of empowerment and asset control* to examine the changes in these factors by women this year, last year, 5 and 10 years before, and
- *financial services matrix* to look at the differences between financial services used by rich, middle and poor households.

Not only was the resulting paper, "Risk, Vulnerability, Assets and Empowerment: The Impact of MicroFinance on Poverty Alleviation", well received, it also provided us the information to provide some important recommendations to Uganda Women's Finance Trust, the MFI that had so kindly volunteered to participate in the study. These recommendations encompassed both systems and product design changes that they might consider both to improve the organisation's efficiency and their clients' satisfaction with the financial services it was offering.

I added another tool in preparation for some of the studies of the use of financial services by poor people in East Africa. The *life-cycle profile* tool is used to look at the important life events that occur in communities, the level of financial pressure associated with each and how poor people typically manage each of these.

As part of the finalisation of the "Market Research for MicroFinance" course, I added several more product focused PRA tools to the toolkit. These tools included:

- *product attribute ranking* to introduce the concept of simple ranking in general (since it can be put to so many valuable uses) and specifically look at how the clients view the components or attributes of products being offered by MFI,
- *relative preference ranking* to allow MFIs to understand how clients compare their products with those of the competition, and
- *pair-wise ranking* to allow detailed comparison of the key components of products in order to refine products in the optimal way.

Leonard Mutesasira's work looking at the financial landscape in Uganda and Tanzania had led him to develop another new tool that became an important part of the toolkit – the *financial sector trend analysis* to look at how preferences and user patterns have changed over time and why.

It was with this toolkit that we trained the "action research partners" selected under *MicroSave*'s first phase. The action research partners included two post office savings banks – in Kenya and Tanzania, and three community-based savings and credit systems. It was interesting to discover that none of these institutions had ever conducted market research to design products before – they had simply copied ideas from other institutions. They set about conducting market research with great enthusiasm and a level of commitment that was further enhanced as the results began to come in and they gained many, many important insights into how their clients behaved and how their institutions were perceived within the communities they were serving.

Almost all the institutions were amazed and horrified to discover that their products were poorly understood and that their communication strategies for reaching their clients and potential clients needed significant improvement. The post office savings banks discovered that many people thought that their minimum balances were up to ten times the rate that had actually been set – and thus that they were losing many potential clients. They re-worked some of their marketing materials in order to rectify this. Similarly two of the community-based organisations discovered that they were simply unknown in several of their communities they thought that they were serving and both started marketing campaigns in these villages to attract new customers.

As a result of the market research, both post office savings banks discovered that one of the greatest barriers to people using their services was the length of time they had to wait for service with the passbook-based system and the limits on the amount and frequency that customers were permitted to withdraw. They also discovered that clients were willing to pay withdrawal fees in order to have a prompt, open-access system. Both chose to design and pilot-test a computer–based current account with fully open access to the balances. These products have been pilot-tested, and subject to revisions to increase revenue and to refine marketing techniques are now being rolled-out in a controlled manner throughout the branch networks. There is optimism that these new products will revolutionise the operations of these post office savings banks since they offer an opportunity to make very significant savings on the "back-office" costs associated with administering the passbook-based ordinary savings scheme accounts that have, for so long, been the basis of the banks' operations. Not only do they seem set to make operations in the back-office more efficient and cost-effective, but also the clients love the flexibility and speed of the service offered – and are now opening new accounts at the rate of around 10 per day in each branch where the product is being offered. In one pilot-test branch, despite very limited marketing efforts:

- 4 in 5 clients coming in to open new accounts chose the new open access current account over the old passbook account,
- over 2,700 accounts were opened during the first year of the pilot-test, and
- nearly $500,000 had been mobilised in net deposits.

For details of this experience see the case studies of Kenya Post Office Savings Bank and Tanzania Postal Bank, which will be published ***MicroSave*** in 2001. Check our website: www.***MicroSave***.org.
The community-based organisations also found important market niches for savings products – particularly for fixed term deposits for savings arising from coffee harvests. These are also discussed in Leonard Mutesasira's "Savings and Needs: An Infinite Variety", which is also available on the ***MicroSave*** website.

MicroSave's initial action research partners were savings-led institutions, but the project's work with microcredit institutions in East Africa demonstrated the applicability and appropriateness of the "Market Research for MicroFinance" tools for these institutions too. Faulu-Uganda's market research demonstrated a huge unmet need amongst their older, higher value clients for larger individual loans, and that they were losing many of these clients to Centenary Bank. In addition, the programme's locked-in compulsory savings system was driving many emergency/crisis-struck clients to leave in order to realise their savings. Faulu-Uganda is now pilot-testing a new individual loan product and ways of giving its clients limited access to their compulsory savings.

Work with FINCA-Uganda demonstrated that the packaging of the premium for the loan-life-accident insurance product in with the interest rate (despite strenuous efforts by the head office team) had been very poorly communicated to the clients by the front-line staff. The clients were angry and confused by what they saw as an interest increase that took FINCA-Uganda's monthly rate much higher than that of its competitors. Using "Market Research for MicroFinance" tools, FINCA-Uganda was able to detect and define the problem and to start the process of selling the change in policy to its clients.

At around the same time, FINCA-Uganda also introduced a series of changes to its basic loan product in response to the issues raised in the ***MicroSave*** paper "Drop-outs Amongst Ugandan MFIs". This report was also the result of research largely based on the "Market Research for MicroFinance" tools and examined the high (25-60%) drop-outs amongst MFIs throughout East Africa. As a result, each participating MFI received a confidential report recommending the types of changes they might consider making to their systems. FINCA was wise and bold enough to respond and then asked ***MicroSave*** to examine the clients' perceptions of and satisfaction with results of the changes made. The research indicated FINCA-Uganda's laudable efforts to introduce more client responsive loan products/systems had received a mixed reception from its clients. Some aspects of the new systems were greatly appreciated, others less so. The ***MicroSave*** report was extremely well received by FINCA management and FINCA-Uganda is now one of ***MicroSave***'s new action research partners. Working in collaboration on a systematic process of product development, FINCA—Uganda and ***MicroSave*** will refine the existing loan product to respond to the expressed needs of the clients and start to develop new products.

MicroSave's "Market Research for MicroFinance" tools are perhaps most commonly used to examine the causes underlying drop-outs – to such an extent that we have developed a generic protocol/research plan specifically for this issue. This protocol must, of course be modified to respond to the local conditions and needs of the MFIs using it, but it has now been used by many organisations all over the world to gain insights into which clients are leaving and why.

One of the most powerful aspects of the tools is that they can be changed, combined and adapted to examine specific of interest to the researcher. In this way, the toolkit continues to expand as the tools are used to address new issues. Thus, for example, the *lifecycle profile tool* has been adapted to understand the steps[1] poor people have to go through in order to set about making housing improvements – and how each of these steps are being financed. Similarly, Monique Cohen and Jennefer Sebstad recently developed the *financial landscape analysis* tool to examine the terms and conditions governing the savings and credit systems available to poor people in Nepal.

With the training of international networks that took place in 2001, the ***MicroSave*** "Market Research for MicroFinance" tools have been used in an increasing diversity of organisations and locations. From South America and South Africa to develop housing loans, from the Philippines to Southern and West Africa to look at opportunities for MFIs wishing to offer savings services and from Eastern Europe to India to refine/develop new loan packages to support business development.

One MFI recently used the tools to address a problem that is common throughout the microfinance industry. It had identified a need to increase its interest rates, but wanted to do so in a way that would cause the minimum of dissent amongst its clients. The tools were perfectly suited to allow the MFI to assess how best to increase the effective interest rate (through raising the rate, shortening the term, increasing the fees, deductions at source or adjusting the repayment schedule) and what aspects of the loan product could be adjusted to make the increase in effective interest rate more palatable to the clients (introducing grace periods, increasing the flexibility in loan amounts, reducing the frequency of meetings, extending the period of the loan/number of repayments etc.) The tools allowed the MFI to make these important changes with the maximum of knowledge and minimum of disruption.

The tools have also been used extensively in exploratory studies to look at the potential demand for and product design of such diverse products as:

* Money transfers	* Funeral funds	* Health insurance
* Leasing	* Housing finance	* Emergency loans
* Fixed or Term deposits	* School savings accounts	* Contractual savings agreements

We believe that the ***MicroSave*** "Market Research for MicroFinance" toolkit offers not only an important set of new tools to understand clients' perspectives and needs but also an invaluable guide to the process of systematic product development that minimises the risk of this complex activity for MFIs. This belief is shared by the growing numbers of MFIs that are committed to transforming into client/demand-led institutions and have used the toolkit to assist them to do so.

The microfinance industry is changing, MFIs are discovering the importance of responding to their clients in order to achieve sustainability … and that they are unlikely to break-even if their clients are dissatisfied and leaving in large numbers. Forward thinking MFIs are now refining their products and developing new ones to better respond to the needs of their clients: they are letting demand drive product development. Those that do not become market-led will be unable to compete.

[1] Buying additional land (if necessary), buying materials, digging and laying foundations, hiring craftsmen: carpenters, masons, plumbers etc., completing facing/paintwork etc.

"Market Research for MicroFinance"

"the best course on microfinance client demand available to MFIs in the world today, by a large margin"

1. What is the workshop/toolkit?

Following recent developments in understanding the needs of clients and the growing competition amongst MicroFinance Institutions (MFIs), and in the light of growing numbers of "drop-outs" or "exits" from MFIs' programmes, there has been increased interest from MFIs in improving their product development skills. Developing MFIs' capacity in market research is the first, all-important step. The qualitative skills and tools in this workshop can also be used for a wide variety of activities that are critical for a successful MFI. These include:

- developing new products and modifying old ones,
- understanding clients and their perceptions of the MFI and its services/products,
- developing/refining marketing programmes,
- analysis of clients' risks/vulnerability opportunities and how people use (formal and informal sector) financial services,
- understanding the "financial landscape", or environment, within which the MFI is operating,
- analysing problems such as drop-outs and growing trends loan default,
- impact assessment and evaluation,
- analysis of relative depth of outreach,
- detecting fraud/rent-seeking, and
- running strategic planning/staff meetings.

The workshop is run over six days and followed by in-the-field hands-on training by ***MicroSave*** certified trainers working with participating MFIs in their own field areas. The outline of the course is as follows:

Classroom-Based Course

Day 1 Overview of Product Development and Market Research
Session 1: Introduction
Session 2: Background to Market Research for MicroFinance Institutions
Session 3: Product Development Cycle
Session 4: Introducing Market Research 1: The Market Research Process and Methods (Qualitative v. Quantitative Research)
Session 5: Introducing Market Research 2: Secondary v. Primary Data Sources from within and outside the MFI

Day 2 Understanding Customer Needs and Opportunities Using Focus Group Discussions
Session 6: Market Research Using Focus Group Discussions
Session 7: Group Moderation
Session 8: Analysing and Presenting FGD Results
Day 3 Understanding Consumer Needs and Opportunities Using Participatory Rapid Appraisal (PRA)
Session 9: Introducing Participatory Rapid Appraisal (PRA)
Session 10: The PRA for MicroFinance Toolkit (see Appendix1)
Session 11: Analysing PRA Results
Session 12: It Really Works !

Day 4 Field Day
FGDs and PRA exercises in the field: Full day

Day 5 Feedback From the Field and Concept/Prototype Development
Session 13: Feedback from the Field
Session 14: Developing the Product Concept

Session 15: Refining the Product Concept into a Product Prototype

Day 6 Prototype Testing, Pilot-Testing and Planning
Session 16: What is Prototype Testing ?
Session 17: Pilot Testing and Launch
Session 18: Action Planning for On-site Assistance

Field Follow-up Programme
Design Research Plan
Conduct Qualitative Research
Conduct Analysis and Prepare Report
(all with the assistance of ***MicroSave*** certified trainers)

2. How and by whom is it being used?

The tools covered in the workshop have been used by a wide variety of MFIs (from Postal Banks to small community-based organisations) in East Africa and have also been used in Bangladesh, the Philippines and Nepal. Several MFIs are conducting full-fledged market research activities to develop new and/or refine existing products using the tools outlined here.

3. Estimated cost/time (personnel commitment) to use the tool

The cost/time taken to use these tools depends on the depth into which the MFI wants to go and the purpose for conducting the market research. A typical medium-sized MFI seeking to develop new products would want to commit to around 25-35 personnel days to the process (planning through to report generation), of which the majority would be sitting in the field with the clients learning from them. The research should be conducted by senior staff.

4. Estimated total time to complete the entire process entailed in the tool

This depends on the speed with which the MFI acts. At full speed, the planning process would take 3-5 days, the field work 10 days (with one team of two researchers – this could be truncated to 5 days with two teams) and 5-10 days for analysis and report writing.

5. Benefits/results (why should MFIs get excited about the tool?)

" … this course gathered extremely strong accolades from all participants interviewed.

> "*For the first time we thought about what our clients wanted*."
> "*It has changed this bank forever*."
> "*It let in the light*."

Comments such as these came from nearly every institution exposed to the course, and there were numerous examples of how the results were being used, from Elgon Village Bank's recognition that it needed to launch a promotional campaign to FINCA's recognition that it needed to revise its client exit survey for tracking dropouts.

The evidence is clear that the MFIs using the course:

- Have experienced significant shifts in the way they think about their clients
- Have learned to talk with their clients more effectively
- Are applying lessons about clients and using the specific techniques in a variety of ways.

The course appears to be a very powerful tool for changing perceptions inside MFIs, and inducing MFIs to act on those changes."

It is "*the best course on mirofinance client demand available to MFIs in the world today, by a large margin*."

- Marguerite Robinson, Elizabeth Rhyne and Patricia Mwangi in their Mid Term Review of *MicroSave*

This course/toolkit offers a unique opportunity for MFIs to develop critical qualitative research skills/techniques that can be used in a wide variety of settings. These skills/techniques have been tested and used over a period of eight years and allowed many of the market leaders in microfinance to develop new products in response to the needs of their clients. In the increasingly competitive environment in which MFIs operate, MFIs must improve the quality of financial services being made available to clients. This is the challenge for the future. The eventual impact of MicroFinance on poverty and the sustainability of MFIs will ultimately depend on organisations' systems and products. The more appropriate and the higher the quality of financial services on offer, the better business will be both for MFIs and for their clients.

Appendix 1

Focus Group Discussions and Participatory Rapid Appraisal for MicroFinance
- A Toolkit -

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

1. ***Seasonality Analysis of household income, expenditure, savings and credit*** is used to obtain information on seasonal flows of income and expenditure, and the demand for credit and savings services. This analysis also provides insights into some of the risks and pressures faced by clients and how they use MFIs' financial services to respond to these. This tool also provides insights into the financial intermediation needs of the community and what products the MFIs can design in response to these.
2. ***Seasonality Analysis of migration, casual employment and goods/services provided by the poor*** looks at the availability of cash to the people in the community - and examines how far they might have to migrate to find work (when it is available). This has important implications for their ability to make regular savings and loan repayments.
3. ***Life-cycle Profile*** to determine which of the events require lump-sums of cash; to examine the implications of these for household income/expenditure; to establish current coping mechanisms; and then finally to discuss how access to MFI financial services can help the household respond to these. The information gathered is useful designing financial products that match the various needs expressed at different milestones during a person's life cycle.
4. ***Venn/Chapati Diagram*** allows analysis of financial service groups/organisations within the community and their roles and to understand more about the social capital accumulated by participants.
5. ***Simple Ranking*** can be used to a explore a wide variety of issues when an understanding of the relative importance/desirability etc. is needed (e.g. for understanding the relative importance of different elements of products – interest, rate, opening balance, grace period etc.)
6. ***Relative Preference Ranking*** is used to see how clients and potential clients perceive the financial service providers and components of the financial services they provide.
7. ***Pair-wise Ranking*** to examine in detail how clients and potential clients compare and contrast critical components of financial services, and why those elements are important for them.
8. ***Simple Wealth Ranking*** provides a rapid way of segregating a community into three basic categories, and is useful in situations where there are many households in a community. This is useful for targeting. This exercise can also be useful in impact assessment, and for examining the socio-economic characteristics of people who chose to join (or don't join) the MFI and also those who leave or whose accounts become dormant.
9. ***Detailed Wealth Ranking*** provides an understanding of in what way and why rich people are wealthy and the poor are poor, and a 'ranking' of the households in the village, from the most wealthy to the least wealthy, as seen by the members of the community.
10. ***Cash Mobility Mapping*** provides an understanding of where the community goes to acquire or spend cash (markets, waged labour, co-operatives, informal financial organisations etc.) and to lead into discussions of which financial service institutions they trust or value and why. The exercise also provides initial insights into potential income generating ventures/projects that the clients might get involved in.
11. ***Time Series of sickness, death, loss of employment, theft, natural disaster etc***. (this year, last year, 5 and 10 years before) provides an opportunity to learn from the community about how it views change overtime in various areas related to a series of crisis. It also allows the research team to integrate key changes into the community profile, which will simplify problem identification; and to begin to organise the range of opportunities for improved delivery of financial services.
12. ***Time Series of asset ownership*** (this year, last year, 5 and 10 years before) is useful in determining what "productive" and "protective" assets (in a broader sense) are valued the most, and thus the

potential for designing or refining corresponding financial products including leasing, contractual savings deposits (e.g. for housing, education, health insurance etc).

13. ***Financial Services Matrix*** is useful in determining which financial services are used by which socio-economic or socio-cultural strata of society and why, and thus the potential for designing or refining appropriate financial products.
14. ***Financial Sector Trend Analysis*** is useful in determining which financial services have been used over time by which socio-economic or socio-cultural strata of society, and thus for understanding the changes in the use/ availability of a variety of financial services over time, and why participants used them.
15. ***Financial Landscape Analysis*** is useful in determining the types of competition are operating in the area as well as the rates they charge/offer etc. The tool also provides insights into the use/ availability of a variety of financial services and why participants use them. It can also provide important insights into how poor people's perceptions of financial services sometimes vary substantially from the actual terms and conditions being offered.

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