

Client Satisfaction In Microfinance Program

Produced by

**S. M. Rahman
Microfinance Specialist**

Commissioned by

**INCOME III Project
CARE Bangladesh**

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CARE Bangladesh
Pragati RPR Center (11th Floor)
20-21, Kawran Bazar
Dhaka-1215
Bangladesh

City/City Code: 88-02

Telephone: 8114207, 9112315
Fax: 8114183

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Produced by

S. M. Rahman
Microfinance Specialist

Edited by

Upul Batagoda
Farrukh Ahmed
Zaki Ahmad

Designed by

Kamrun Nahar
Aparajita
Mobile: 01712750190

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FOREWORD

CARE Bangladesh through its microfinance project called INCOME III aims to increase access to financial services for the poor in Bangladesh. Improved access allows the poor to save and borrow money to meet their investment and consumptions needs. Access to microfinance has a strong correlation with poverty reduction. The INCOME III project operates in urban and per-urban areas of three big cities viz. Dhaka, Chittagong and Khulna with more than 30 partner MFIs, which provide financial services to the poor. The project builds capacity of these MFIs and provides them with capital to expand their operations. The impact of the project has been positive, reaching more than 250,000 clients. In addition, the project has provided training combined with technical assistance to build the capacity of the partners that include corporate governance, financial accounting, product development, framing business plan development, carrying out participatory institutional assessment and mainstreaming gender issue. As a result of this support, the efficiency of service delivery and financial sustainability of the partner MFIs have significantly increased.

Despite all these things, very little could be known from the client side. It occurred to the project management that so far no research or study has been carried out to know the feedback of the clients, their likes and dislikes on the products & services that are being offered to them. There is no denying that the clients are at the focal point of the microfinance program but their reactions have indeed remained largely unknown. In order to enable the MFIs to know what the clients think about the programs, what the MFIs' role should be in this context, the project management has decided to galvanize the MFIs on the issue by commissioning the study on Client Satisfaction. We believe that client satisfaction is the essence of market competition that will lead to providing quality products and services. The objective of the study was primarily to know the likes and dislikes of the clients using SEEP Tools and gathering institutional experiences of the partner MFIs and other best practices at the national level contributing to client satisfaction.

We are very grateful to have enlisted support from our partner organizations. They have been very cooperative. We heartily thank the CEOs, senior officers and all other staff who helped us in carrying out this study. We are also grateful to other important personalities who lent their precious time in granting interviews. Their positive cooperation has added a great value to this research work and we are hugely inspired. Thanks are due to ASA, BRAC, Buro, Grameen Bank, SafeSave and MicroSave, India, among others.

We also thank Mr. S M Rahman our Consultant for undertaking the challenging task in carrying out this study.

Upul Batagoda
Team Leader
INCOME III Project, CARE Bangladesh

EXECUTIVE SUMMARY

1. Background

INCOME III project of CARE Bangladesh has provided loans to MFIs to expand their microfinance programs for the urban and peri-urban poor during the project period 2001-2005. The project is at its third and concluding phase. In addition, it has provided training with technical assistance to build capacity of partner MFIs in a variety of areas identified by the MFIs. As a result of this support, the efficiency of service delivery and the financial sustainability of the partner MFIs have significantly increased. However, very little was known so far from the client side. In order to enable the MFIs to know what the clients think about the programs, what the MFIs' role should be in this context, the project management has decided to sensitize the MFIs on the issue by commissioning the study on Client Satisfaction

2. Objective of the Study

The objective of the study is primarily to know the likes and dislikes of the clients based on SEEP Tools and shop around the institutional experiences of the partner MFIs and other best practices at national level contributing to client satisfaction.

3. Methodology

The methodology involves SEEP Tool for conducting focused group discussion with the clients. 29 FGDs were conducted in 15 MFIs of varying sizes in three regions viz. Dhaka, Chittagong and Khulna. A total of 456 clients in 29 groups was covered. The average size of the FGD was 15 clients.

Four Partner MFI case studies and three external MFI cases on client satisfaction were done. Also eight individual client case studies were primed. The CEOs and senior staff of all partners were interviewed. In addition, some individuals of importance were interviewed from a number of MFIs that include ASA, BRAC and Grameen Bank. Besides, viewpoints of three eminent persons were taken who are known worldwide.

4. Microfinance Landscape in Bangladesh

Bangladesh is teeming with NGO MFIs. The NGOs carry a variety of activities that include health, education, water & sanitation and microfinance, among others. Microfinance happens to be the flagship program of all NGOs. By the year 2000, more than 90% of rural communities had some NGO presence. Around 16 million mainly poor women are now reached through microfinance programs, some 8% of primary employment is provided by NGOs schools, and there are nationwide health and sanitation programs that involve NGOs. It is estimated that about 2000 development NGOs are currently operating in Bangladesh. ASA, BRAC, Proshika and the Grameen Bank are the big players. Except Proshika, each one of these organizations has exceeded 6 million clients – greater than the total population of many countries in the world.

5. Competition in the Industry Affecting Client Satisfaction

The microfinance sector in Bangladesh is dominated by four institutions that include three mega NGO- MFIs viz. ASA, BRAC, Proshika and the Grameen Bank resulting in monopolistic competition. The sector is highly lopsided in that only a handful of organizations (not more than 2%) have strong presence in the sector. In the NGO led microfinance sector, the aforesaid three MFIs account for more than 70% client outreach, loans outstanding and net savings. If the first top 20 MFIs is considered, then the combined share will be more than 90%. Most MFIs have mono savings and credit product. However, efforts are seen stronger than in the past in mobilizing local resources by bringing in various savings instruments. The MFIs are gradually becoming more responsive to the demand for credit facilities. Over time, the credit products have been considerably diversified.

More than 300 MFIs have some kind of insurance practices. All MFIs charge different rates and mostly these are not refundable. Only exception in the industry is BRAC where the clients are not required to pay any fees or premiums to avail of the death benefit of the client.

Pricing in the industry is not based on cost of operations. This is based on rule of thumb and going price. The MFIs charge a variety of lending rates. However, most MFIs charge interest rates within the range of 12.5%-15% on flat basis. Interest rebate is given to BRAC loan clients for *Dabi and Unnati* for early payment. In ASA, small business loan clients are entitled to pay 12.5% interest instead of 15%, if the clients pay the loans coming to the branches. Grameen Bank charges 20% in declining method (i.e. is 10% in flat), which is presumably the lowest rate in the industry.

Loans are disbursed from branches. The old clients get loans within 7-15 days from the date of paying the last installment. The new comers get loans within 1-2 months of membership. Some MFIs disburse loans even on the very day the clients pay off the last loan payment.

6. INCOME Partners' Role on Client Satisfaction

All Partner MFIs provide non-financial services in varying degree along with financial services to cajole the clients and retain them. This includes health, children & adult education, sanitation & hygiene, etc. To attract the clients they also hold group meetings with social leaders and explain their products and services and the accompanying benefits. They provide modicum healthcare services by hiring the services of qualified doctors and providing them with medicine. Medicine and diagnostic tests are given at discounted prices. Some MFIs are running school programs for the children, which the clients like most. The staffs are known to behave nicely with the clients. Some MFIs give loans to the clients early i.e. within seven days of repaying the last loan installment. Partial savings withdrawal is allowed by some MFIs. Micro insurance has been introduced by almost all MFIs with various rates. Interest on savings is given at 5%. Higher rate of 6% is sometimes given on the voluntary savings. A few MFIs do not provide interest to the general savers. Flexible savings is liked by most clients but it is seldom seen to be practiced. The interest on loan is 12.5% - 15%.

No customer survey and indeed no customer analysis are done to formally know the feedback on the products and services offered to the clients. A baseline survey is conducted once in a blue moon to identify the target clients. Lost customer analysis is done rather perfunctorily. Clients generally leave the MFIs as there is no savings withdrawal policy in many MFIs and that sometimes stepped loans cannot be given to them as per their needs. Some clients leave in search of jobs elsewhere.

7. Likes and Dislikes of the Clients in the Study

A total of 24 issues has been identified that are believed to be critical for knowing the reaction of the clients. These include overarching current program practices. These also include some defunct practices and other new issues that the clients aspire most for introducing in the MFIs. These are the issues the practitioners generally confront day in, day out. The liking and disliking generally hinge on the current program elements, defunct practices and new issues of interest. Findings on selected issues of importance are depicted below.

Client Selection Criteria

The clients are aware of the economic segments, which the MFIs are intended to serve. The clients overwhelmingly like the client selection criteria of the MFIs as most people came from the uniform social strata. They claim that they are like minded. The findings show that 93% (27) of the client groups say they like the present client selection criteria while 7% (2) groups say that the selection criteria needs modification to make it time-tuned incorporating changes in selecting the right type of clients.

Group Methodology

The clients widely liked the group approach as opposed to individual approach. In this context, they adduce that group approach encourages solidarity among them, develop fellowship and in knowing each other closely than before and helps improve outlook and attitudes. The findings show that 100% (29) groups say they have no problem with group methodology and they like it to continue.

Joint Liability or Group Guarantee

The findings show that 100% (29) groups strongly voiced against the joint liability provision. Most MFIs enforce joint liability. There are 3-4 MFIs where there is no joint liability, while a few others lightly enforce it.

Male Field Worker Engagement Issue

There is a preponderance of male credit staff or field worker in the microfinance industry where about 77% are male, while the rest 23% are female. Most clients said that it bothered little to them if they are male or female. "They are like our brothers or sons, sisters or daughters. They do their jobs and we discharge our responsibilities." A few clients, however, do not like male field officers and prefer

females instead. The findings show that 66% (19) groups say they do not feel any problem with the male field workers, while 34% (10) groups indicated their dislikes on the engagement of male field workers.

Savings Withdrawal Facility

In most cases, savings from the mandatory account cannot be withdrawn until the client ceases membership. In terms of management version, the clients can withdraw savings but all these seem paper saying. In reality, it is not. The clients are not even aware of product rules. The credit staffs deliberately do not apprise and update the clients. The findings in the FGD show that 21% (6) groups can presently withdraw some savings under certain restrictions. Mostly withdrawal is not allowed from this savings account. 79% (23) groups voted for a change in the current practice of non-withdrawal provision.

Interest on Savings Products

The interest on general savings is mostly 5%. A few MFIs sometimes pay 6%. The interest rates are set in line with commercial bank practices. The voluntary savings carry 8%. The findings show that 100% (29) groups feel that they are not being paid the right interest rate. All the groups overwhelmingly vote for increased interest rate of 8%. Some MFIs do not provide any interest on savings.

Adequacy of Loan Sizes

The findings show that 28% (8) groups say they are satisfied with current loan sizes. They say loan size increases over the years. Some groups say they get loans according to their demands and needs. On the contrary, 72% (21) groups say the given loans hardly meet their needs. Consequently, they have to shop around for the additional money from other sources. The clients say that they cannot do any business or productive work meaningfully with small loans. They are not happy with current provisions of loans and think that it should increase at least by 50% than what they are getting now.

Interest Rates on Loan Products

In microfinance, interest calculation is made usually in flat system as opposed to declining method, which is customary in the banks. As for instance, 15% interest in flat system is congruous to 30% in declining method. Mostly the interest rate is 15% independent of other financial costs. The PKSF funded branches of the MFIs, however, charge interest at 12.5% for the moderate poor and 10% for the hard-core or ultra poor clients. There are some MFIs found among the INCOME partners that are providing health services to the clients who charge 17% or even 18% interest against the loans using the flat method. The findings show that 100% (29) groups say they do not like the current rates of interest charged by the MFIs. Overwhelmingly the clients recommend 10% flat or 20% declining at Grameen Bank standard.

Loan Disbursement Quickness

There are two types of rules regarding loan disbursement. The new clients have to save for sometime say 8 weeks and sometimes a certain volume of savings has to be made before they qualify for loans. The findings indicate that 52% (15) groups like the current pace of loan disbursement in the MFIs, while 48% (14) groups do not like the practices existing in their organizations. The clients say they need money quickly and cannot brook longer time.

Periodical Passbooks Verification

As a rule, the field worker collects savings and loans installments and puts signature on the passbooks of the clients. To ensure internal control and safety of financial transactions, the branch manager and/or the account verifies each and every passbook with the official documents 2-3 times a year to avoid any fraudulence. This is almost a common practice in the industry. The FGD revealed that this is being done in all MFIs and the clients appreciate this system. The findings show that 100% (29) groups like the prevailing practice and they want its continuation in the days ahead.

Insurance Products

Insurance appears in various names and premiums are collected in different modes. Two kinds of insurance are common that include loan insurance and health insurance. The aim of insurance is chiefly to cover the risk of life. Mostly premium is related with loan amount in the loan period. Some MFIs charge a fee equal for all clients. The benefits generally cover the waiver of the outstanding loans and savings is also returned to the nominee. Health insurance is offered by some MFIs. The MFIs providing this facility charge a certain percentage against the loan. The benefits include free medical prescription by qualified doctors or paramedics, discounted medicine cost and pathological tests, etc. Those who take higher loans have to pay increased amount of premium compared to others regardless of availing the facility.

To many clients the concept and practice of this type of insurance is sheer exploitive and funny. They argue that insurance should be for a long term ranging 8-10 years instead of one year for which they will pay an agreed premium. The findings show that 100% (29) groups do not like current insurance practices. The clients argue that in current practices, they lose a good sum of money. They are not even aware of that premiums are being docked off for health insurance as it is embedded in the lending rate. Many borrowers say they do not avail of healthcare facilities and prefer going to private doctors of their choices.

Multiple Borrowing by the Clients

The client overlapping issue is quite known in the industry. Like in the past, nobody now- a-days bothers about this aspect. A study of PKSF shows that, the overlapping rate is 33% on an average. Many MFIs cogitate that as long as the clients can pay off their dues, they are not worried. The clients' view is that a single MFI cannot usually meet their financial requirements. Failing which they approach many lenders to

optimize their basket of credit needs. The findings show that 100% (29) groups vote for going to multiple sources of funds, if the MFI cannot fulfill the requirement.

Behaviour of the NGO Staff at All Levels

The clients have no complaint about the behaviour of the NGO staff at all levels. They find them amenable and cooperative. No single shred of evidence was found in this regard. The findings show that 100% (29) groups say they are impressed with manners of staff and their mood of cooperation.

8. Legal Barriers Affecting Client Satisfaction

The small MFIs' big source of financing is the clients' savings. Contractual and fixed term savings are not freely allowed by law. Professional insurance for long term is difficult to introduce by MFIs due to legal problems as demanded by the clients. Access to bank finance is hard for many MFIs as the banks demand collateral. Lack of microfinance regulation is affecting the growth of savings as well as the loan portfolio. Again, accessing foreign loans and equity is immensely difficult in view of the foreign exchange regulation in force. On the other hand, the MFIs' current capital structure does not allow for any equity investment and paying dividend.

9. Conclusion and Recommendation

9.1 Conclusion

The conclusion is largely restricted to the study covering the Partner MFIs of INCOME III project of CARE Bangladesh. The main focus of client satisfaction pivoted on the methodological and operational practices. That includes current practices, some defunct practices and others, which the clients aspire most to be incorporated in the policies of the MFIs.

- i. The clients generally like the methodological current practices relating to group methodology. However, the borrowers with larger loans or enterprise loans prefer individual lending approach with different terms e.g. loan period, grace period, rate of lending, quality training, etc.
- ii. The clients growing demand of loan does not match with the ability of the partner MFIs. The INCOME Partners are generally small barring a few that are mid-level MFIs. The clients want various services. They cherish an expectation, which the MFIs do not or cannot meet. The clients do not like joint liability or group guarantee that is still in force. Many client groups do not like male field worker, it is also in practice. The clients want to withdraw savings from the mandatory account but it is denied. Some MFIs cut a percentage point from the loan as forced savings, which the clients do not like. Loan cannot be adjusted with savings even if the clients are in dire crisis. They want additional loans (top-up loans) to support the diminishing capital because of the nature of weekly loan repayment system. Loans are considered by many as grossly inadequate.

- iii. Cutthroat competition is prevailing in the sector. High dropout rate and overlapping of clients signal this competition. Some MFIs are beginning to change their products and rules. The staff behaviour with the clients has enormously improved. Hardly anybody could be found who said otherwise about the behaviour of the MFI staff.
- iv. The ingrained mindset of the MFI is that they work for the poor, the distressed and the disadvantaged communities. They have remained largely ignorant maybe inadvertently in treating their members with respect like customers. The clients want so many other services, which the MFIs cannot provide and turn a blind eye to these. Today the creditworthiness of the client is beyond question. The clients buy the service at a price and are paying for it. Some clients in the MFIs are saving but MFIs are not paying any interest to them, rather using their savings for more profit earning. This shows a lack of respect to the clients.
- v. The concept “Customer is the King or the Boss” is not widely popular or known in the MFI circle. This is due to the fact that the clients are seen with a bit condescending view consciously or unconsciously. The clients are very often termed as beneficiary. They seem to live on the mercy of the benevolent MFIs. This is why the culture of customer service has not grown. No seminar and indeed no workshop were ever heard to have been organized on the client satisfaction issue. Clients’ reactions were never listened to. It seems nobody wanted to open the Pandora’s Box.
- vi. Many clients do not like to save small amount of money as mentioned by some MFIs. Many do save a good amount through contractual savings – an instrument used by the banks. The mid-level and small MFIs of INCOME III partners cannot match the bank’s ability in providing client satisfaction. The crux of the MFI problem in meeting client satisfaction is the problem of money. The small MFIs are not able to cope up with the growing credit demand of the clients. This is an overall system fault – government policies, regulation, shyness of the banks and the foolhardy ambition of the MFIs, above all, etc.
- vii. The clients have problems too. They have problems in understanding the ability of the MFIs. They do not understand that the funding capacity, image, and policies & procedures of all MFIs are not same. It seems that the small MFIs have started an unending journey with microfinance. Like the big MFIs, the smaller ones also want to do the same things. They have undertaken a task, which presumably they cannot perfectly accomplish. They are not aware of where to stop in financing the clients. They do not think what they should do or not do. With limited resources at hand, it is incredibly difficult for them to attract and retain the clients. In other words, the clients will continue to remain dissatisfied.
- viii. The clients expressed their utter dislikes on the critical program practices. They want sweeping changes in existing policy to satisfy their needs. No customer survey is done to know the feedback on products and services. What is important is to note that the clients do not get the desired

satisfaction because of the service provider's inability. All MFIs do not have the same capacity, solvency and customer friendly policy to serve them. What a big MFI can do for client satisfaction, the smaller ones cannot do that. Client satisfaction is not an airy service. Satisfying the clients will involve significant costs and the clients will have to bear the brunt eventually.

- ix. The clients disliked the lending rate saying it was too high for any productive purposes. They want a rate at par with Grameen Bank level i.e. 10% in flat. Saving interest was also considered low and suggested that it should be about 8% instead of 5%. The MFIs provide loans as per their policy. They are not flush with funds. How can they cope with the growing needs of the clients? In the financial service, it is very hard for the small MFIs to satisfy the client's ever growing needs. The clients do not get what they bargained for. The overlapping figure of 33% worked out by PKSF shows that clients are availing loans from more than one MFI. The small MFIs, at best can meet part of the needs of the clients.
- x. Insurance appeared as the most unwanted service. The clients overwhelmingly suggested dropping such service. The clients do not consider insurance worthwhile for short-term. The MFIs need to devise good insurance policies in 'savings mode' so that the deposited premiums can be returned to the clients – the practices of Sajida Foundation and DSK are cases in point.
- xi. The MFIs need to understand that the clients are not captive or perpetual customers. The clients may kowtow for the time being but will soon switch over, if they are not satisfied with the services. They need to be nurtured as loyal clients. A good client with a good portfolio is an asset for the MFI. Loss of a customer is loss of income and thus loss of bread & butter for the employees. The existing practices and the cry of the clients indicate that the MFIs generally look at their own interest rather than the client's perspective. All policies are taken to fortify the MFI's interest. Customer's rights and convenience are seldom seen. There are MFIs with good policies just in their books. The clients are not aware of. The MFIs do not adequately inform the clients on policy issue in advance. Fetching policies exist merely in documents with sloppy implementation in the fields. The client case studies demonstrate some of these stark facts.

9.2 Recommendation

- i. Microfinance is a quasi banking service. It is a business and indeed a commercial business. However, the social mission is also embedded in microfinance as this service is meant for the low-income segment of the community who have no access to formal financial services. The present microfinance methodology and legal framework is not suitable for small and mid-level MFIs to serve the clients and their needs swimmingly. It is recommended creating new breed of MFIs or a new kind of microcredit banks other than the conventional banks authorized in taking deposits

from the general public through a new legislation. The new MFIs have to be staffed with qualified professionals with training in banking technology and customer satisfaction.

- ii. Long term insurance policy is desired by the clients as they have no interest in the short –term. Barring a few exceptions, they do not get back the premiums they had deposited once the loan term is over. The clients are highly exasperated on the current insurance products. The clients argue that the MFIs can set aside part of their profits (or surplus) whatever if they sincerely like mitigating the debt liabilities of the deceased clients. The MFIs cannot introduce proper insurance policy as they are not allowed by law. The MFIs need to home in on this issue at the earliest.
- iii. The MFIs should ensure the clients’ ‘rights’ to know. Clients are not largely aware of product rules. They should be informed beforehand about the changes in policies and program practices. Besides, a culture of customer service has to be gradually promoted keeping in mind that the customer is the boss and that we got to serve them. The field worker or any other senior staff should clearly explain the product rules and features to the clients. They should not hide anything from public view.
- iv. The MFIs are not used to doing any customer survey. Periodical formal research should be undertaken to know the clients feedback on products and services. This activity should be taken as a continuous activity.

BACKGROUND OF THE STUDY

INCOME III project of CARE Bangladesh has provided loans to MFIs to expand their microfinance programs for the urban and peri-urban poor during the project period 2001-2005. The project is at its third and concluding phase. Currently, the project is reaching over 250,000 clients through its 32 partner MFIs. In addition, it has provided training with technical assistance to build capacity of partner MFIs in a variety of technical areas identified by the MFIs. These include corporate governance, participatory institutional assessment, business development plan, financial accounting, product development and mainstreaming gender. As a result of this support, the efficiency of service delivery and the financial sustainability of the partner MFIs have significantly increased. The project has also supported the piloting of innovative microfinance products, such as a flexible savings and credit approach for the ultra poor and micro health insurance scheme for poor women and their families. Despite all these things, very little could be known from the client side. It occurred to the project management that so far no research or study has been carried out to know the feedback of the clients, their likes and dislikes on the products & services that are being offered to them. The clients are at the focal point of the microfinance program but their reactions have indeed remained largely unknown. The commissioning of the study has emanated from this idea.

Objective of the Study

The objective of the study is primarily to know the likes and dislikes of the clients based on SEEP Tool and shop around the institutional experiences of the partner MFIs and other best practices at the national level contributing to client satisfaction.

METHODOLOGY AND APPROACH

The Study Methodology

INCOME –III has 32 partners that are working in three major cities that include 16 in Dhaka, 11 in Chittagong and 5 in Khulna. Of them 19 are full partners and 13 limited partners. A total of 15 MFIs was selected for the study that comprises 8 from Dhaka, 4 from Chittagong and 3 from Khulna. The 15 MFIs include 12 full partners and 3 limited partners (**Annex-5**). Size of the MFIs was also given due consideration in terms of medium and small for right representation.

SEEP Tool Used Devised by CGAP

The SEEP Tool¹ for client satisfaction study is a focused group interview tool that helps the users learn the extent to which clients are satisfied with the program and what specific changes would better meet their standards. This tool focuses on client satisfaction and provides information targeted to improving the program rather than identifying its impact. It is a qualitative tool. The purpose of client satisfaction tool is to determine the client satisfaction with the program products and services; and solicit client suggestions for

¹ Learning from Clients: Assessment Tools for the Practitioners, The SEEP Network, Washington D C

improving the program. It is the onus of the MFI what improvement and changes they deem worthwhile keeping in mind the competitive environment in the industry.

Interviewing the Clients Using a FGD Method

Questions were asked in the FGD on methodological and critical operational practices. The questions were not only asked on the existing program practices but also on defunct practices or issues. It also took into account what other practices they aspired for in order to be satisfied.

The following steps were used in conducting the focused group discussion (FGD).

Step-1: Introducing the Session

Step-2: Warming Up

Step-3: Defining the Topics of Discussion

Step-4: Describing the Program Elements

Step-5: Determining the Likes and Dislikes, Recommendations for Improvement

Step-6: Summarizing

Step-7: Focus Group with Nominal Voting Process

Overall the following process was applied to glean information from various sources:

FGD with Clients Group

Two focus group discussions were conducted with clients for each MFI. On average an FGD consisted of 15 clients who were all women leading to 29 FGDs involving 456 clients. In case of one MFI called PMK, only one FGD was held as it was not possible for them to arrange the second one. The FGDs were facilitated by S M Rahman, the consultant for the study assisted by his associate S K Sinha. The consultant did not allow any MFI staff to remain in the FGD. It was done in order to create an open, free and frank atmosphere so that the clients can provide the right information at ease. The clients generally supported or disagreed on issues almost unanimously. They voted for a change of existing practices or reintroduction of some defunct practices or introduction of new practices by raising their hands. Before the consultant proceeded for conducting the FGDs, he updated himself thoroughly on financial and non-financial services of the MFI by the branch managers and other staff.

Mr. Upul Batagoda, the INCOME Team Leader and Mr. Farrukh Ahmed PDO (M& E) and Mr. Zaki Ahmed PDO (Partnership) provided valuable input in rational selection of partners. The INCOME Team Leader also updated the consultant on SEEP Tool and with various international literatures on the topic.

PMFI Client Case Studies

Discussions were held with individual clients in the three districts to prime cases on client satisfaction. A total of 8 cases have been prepared highlighting the key reactions. Some cases of clients have been incorporated who have left their organizations on myriad grounds. The cases focus light on their departure, while other clients are still remaining

with the same organizations. In most case studies, the clients tend to give their spontaneous reactions on many issues confronting them. The individual clients include from IDF, ANNESHA, BANAFUL, PSS, ADAMS, BRIDGE, SUS and NARI MAITREE.

Institutional Case Studies of the Partner MFI

Four partner MFIs of medium sizes have been found playing a relatively positive role in contributing to client satisfaction. They seem to be increasingly chary about the clients' mindset what they like and do not like. They are also found responsive about their competitors move in the industry. Their cases have been incorporated so that others can learn and emulate them. These MFIs are DSK, IDF, MSS and SAJIDA FOUNDATION.

Institutional Case Studies of External MFIs of the Country

The study is the first of its kind in the country. There is no denying that there are MFIs outside the CARE partnership program, which are client responsive. The study intends to tap the experience of others as well so that the stakeholders can be immensely benefited. Two MFIs have been identified. One is ASA – the largest MFI in the world. ASA has been termed by ADB in one of its Quarterly Newsletter as the Ford in Asia. The other one is Buro (the erstwhile BURO, Tangail – a mid-level national MFI quite known at home and abroad) for providing high quality financial services. In addition, the case of Grameen Bank has been chosen as it has brought about a revolution in microfinance technology to satisfy the growing needs of its clients.

Views of Some Top Level Practitioners on Client Satisfaction

The study has attempted to listen to the erudite views of the leading personalities in the country and the globe on client satisfaction perspective (**Annex-4**). Approaches were made to many. But responses were enlisted from a few as others were busy with no time to spare. The views of the microfinance magnate Mr. Md. Shafiqul Haque Choudhury, President of ASA have been taken who has made his organization as one of the largest and efficient one in the world. One of the important features of his organization is that it does not take any grants since a long time. Mr. Graham A N Wright is another top-notch microfinance practitioner in the microfinance arena, who is now the Programme Director of MicroSave, India and worked on client satisfaction based on SEEP Tool, while he was with MicroSave, Kenya. His thoughts and experience on client satisfaction have been taken. Mr. Stuart Rutherford is the Chairman of SafeSave, a cooperative doing microfinance in urban slums of Dhaka. It follows a banking approach of highly flexible savings and loan services. He is known internationally as a renowned researcher in microfinance. They have commented on the role of MFIs with regard to their role on client satisfaction.

Discussion with CEOs and Senior Staff of the Partner MFIs

The consultant had separate discussions with almost all the CEOs and other senior staff of the partner MFIs in question (**Annex-3**). The discussions pivoted on their role as to how they are contributing to client satisfaction.

Limitations of the Study

The study has covered about 50% of the partner MFIs with a sample of 456 clients. The clientele coverage could be increased more. However, due to time and budget constraints it was not possible. Admittedly, there is a dearth of literature in microfinance on client satisfaction in Bangladesh context. Informed professionals on this subject, particularly in microfinance are also difficult to come by.

MICROFINANCE LANDSCAPE IN BANGLADESH

Bangladesh is teeming with NGO-MFIs. The MFIs carry a variety of activities that include health, education, water & sanitation and microfinance, among others. Microfinance happens to be the flagship program of all NGOs. By the year 2000, more than 90% of rural communities had some NGO presence. Around 16 million mainly poor women are now reached through microfinance programs, some 8% of primary employment is provided by NGOs schools, and there are nationwide health and sanitation programs that involve NGOs. It is estimated that about 2000 development NGOs are currently operating in Bangladesh². ASA, BRAC, Proshika and the Grameen Bank are the big players. Except Proshika, each one of these organizations has exceeded 6 million clients – greater than the total population of many countries in the world. In addition, there are many government programs that have undertaken microfinance. The NGOs' clients totaling 16 million have saved Tk 17.81 billion. The outstanding borrowers stood at 12 million with Tk 44 billion as loan portfolio. During the last five years (2000-2005), the growth of borrowers has occurred at the rate of 12% on average³. PKSF has continued to be the largest supplier of funds to more than 200 MFIs at a very cheap rate of interest.

Interestingly, efforts are spotted stronger than in the past in mobilizing local resources by bringing in various savings instruments. The savings products of MFIs now include daily savings, mandatory savings, forced savings, contractual savings, and time deposits. Some MFIs are introducing flexible rules for typical loan products. There are also some, who commit to provide interest on normal savings, if the clients do not withdraw deposits before a specified period of time. But if they do, they are denied any interest. Some do not get any interest at all. In most cases, the savings cannot be withdrawn. The progressive organizations that are few in number, however, are allowing savings withdrawal but these are sporadic cases.

A few MFIs are trying to become more responsive to the demand for credit facilities. Over time, the credit products have been diversified. Today there exists more than 15 credit products including daily credit, lease financing, housing loans, credit for old aged people and community-based credit (e.g. for fisherman), etc. In addition to savings and credit, insurance service is also being provided by MFIs. Insurance product appears in various names and has different mode of applications. It covers mostly the risk factor due to death of the client. In some cases, healthcare and livestock insurance are noticed.

² Economics and Governance of Non-Governmental Organizations in Bangladesh, Bangladesh Development Series Paper No:11, The World Bank Office, Dhaka, April 16, 2006

³Microfinance Statistics, Volume 17, December, 2004, CDF providing information on 721 NGOs, published in August 2005

UNDERSTANDING CLIENT SATISFACTION

What does client satisfaction really mean from theoretical⁴ perspective? Going into retrospect over 35 years ago, we learn Peter Drucker observed that a company's first task is "to create customers". But today customers face a vast array of product and brand choices, prices and suppliers. How do customers make their choices?

In fact, customers estimate which offer will deliver the most value. Customers are value maximizers within the bounds of search costs and limited knowledge, mobility and income. They form an expectation of value and act on it. Whether or not the offer lives up to the value expectation affects both satisfaction and repurchase probability. Our premise is that customers will buy from the firm that they perceive offers the highest customer delivered value. Customer value is the difference between total customer value and total customer cost. The total customer value is the bundle of benefits customers expect from a given product or service. The customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using and disposing of the product or service. Whether the buyer is satisfied after purchase depends on the offer's performance in relation to the buyer's expectation. In general, satisfaction is the person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations.

As this definition makes clear, satisfaction is a function of perceived performance and expectations. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches with the expectations, the customer is satisfied. If the performance exceeds expectations, the customer is highly satisfied or delighted.

Many firms are aiming for high satisfaction because customers who are just satisfied still find it easy to switch when a better offer comes along. Those who are highly satisfied are much less ready to switch over. High satisfaction or delight creates an emotional bond with the brand/product. Not just a rational preference. The result is high customer loyalty and that has to be created.

COMPETITION IN THE INDUSTRY AFFECTING CLIENT SATISFACTION

The microfinance sector in Bangladesh is dominated by four institutions that include three mega NGO- MFIs viz. ASA, BRAC, Proshika and the Grameen Bank resulting in monopolistic competition. The sector is highly lopsided in that only a handful of organizations (not more than 2%) have strong presence in the sector. During the last few years, these organizations have achieved dramatic clientele outreach. In the NGO led microfinance sector, the aforesaid three MFIs account for more than 70% client outreach, loans outstanding and net savings. If the first top 20 MFIs is considered, then the combined share will be more than 90%⁵. Most MFIs have mono savings and credit product. A few MFIs are providing highly flexible savings services. There are MFIs that

⁴ Marketing Management, Philip Kotler, 1999

⁵ The consultant has reckoned the figures from Microfinance Statistics, CDF, 2004

are providing semi-flexible savings services. Some MFIs are gradually becoming more responsive to the demand for credit facilities. Over time, the credit products have been considerably diversified. Normally general loan ranges from Tk 3000-50,000 for moderate poor. Enterprise loans range from Tk 20,000-500,000. There are very few MFIs that can support the credits needs of the clients adequately⁶. In some MFIs, the clients are now allowed to pay off several installments in advance to qualify for the next stepped up loan. The experience from the field shows that the money that is given to a client by a particular MFI falls short of the needs. The average loan size of the MFI has increased from Tk 2700 in 2000 to Tk 3700 in 2004 based on outstanding loan that shows a rising trend⁷. The bigger MFIs start with Tk 8000-10,000 as the first loan (Tk 70 = US \$1). In addition to savings and credit services, insurance services are also being provided. More than 300 MFIs have some kind of insurance practices⁸. All MFIs charge different rates and mostly these are not refundable. Only exception in the industry is BRAC where the clients are not required to pay any fees or premiums⁹.

Pricing in the industry is not based on cost of operations. This is based on rule of thumb and going price. The MFIs charge a variety of lending rates¹⁰. However, most MFIs charge interest rates within the range of 12.5%-15% on flat basis. The PKSf supported branches of the MFIs charge two types of interest that include 12.5% for general and enterprise loan and 10% for the ultra poor. Interest rebate is given to BRAC loan clients for *Dabi and Unnati* for early payment. In ASA, small business loan clients are entitled to pay 12.5% interest instead of 15%, if the clients pay the loans coming to the branches. Grameen Bank charges 20% in declining method (i.e. is 10% in flat), which is presumably the lowest rate in the industry. With regard to savings, most MFIs provide interest rates within the band 5-6%, while a few others including the Grameen Bank provide more¹¹. In Bangladesh, microfinance has had more than one decade's experience. Like the formal financial sector, the microfinance industry has not yet made any practical efforts to promote the financial products through concerted promotional campaigns. This task needs high professional sophistication and introspective thinking. The rules and regulations need to be further relaxed and simplified to foster competition for client satisfaction¹².

⁶ The clients avail loans from more than one MFI to optimize their needs. One study "Maps on Microcredit Coverage in Upazilas of Bangladesh" carried out by PKSf in 2004 has identified 33% overlapping of clients.

⁷ Microfinance Statistics, CDF, 2004

⁸ Discussion with Credit and Development Forum (CDF)

⁹ BRAC calls it death benefit. The nominee of the client under *Dabi* (general and extreme poor) is entitled Tk 3000 and that of *Unnati* (Agriculture) are entitled Tk 10,000. The clients of *Progoti* (Micro enterprise) do not get anything. This was disclosed by Mr. Sabbir Ahmed Chowdhury Director, Microfinance when he was interviewed.

¹⁰ Microfinance Statistics, CDF, 2004

¹¹ Interview with Mr. Dipal C. Barua, Deputy Managing Director, revealed that Grameen Bank provides 8.5% interest on general savings and 12 % on Deposit Pension Scheme (DPS). He added that unlike the MFIs, the Grameen clients are the owners of the bank. This is a great satisfaction for them. They get loans as per needs and loans can be taken for any purpose and any period. There is housing loan at 8% interest and education loans at 5% interest. More than 600,000 clients got housing loans. No repayment of education loan during the study period. No loan cut, no forced savings, no extra fee, no group guarantee and no group tax. In case of repayment problem there is provision of rescheduling.

¹² Mr. Zakir Hossain, Executive Director, Buro said that the clients want to get loan easily. They do not like any complexities. The MFIs frame rules and regulations suiting their own needs and impose those upon

The microfinance activity has, in fact, originated from Classic Grameen Approach as spin off product for the NGO sector. Grameen Bank follows group methodology. The MFIs have adopted the basic Grameen methodology with some modifications and change. Loans are disbursed from the branches. The old clients get loans within 7-15 days from the date of paying the last installment. The new comers get loans within 1-2 months of membership. Some MFIs disburse loans even on the very day the clients pay off the last loan installment. Loan repayment starts after 7-15 days of getting the loans, while the micro enterprise starts after one month. If the clients want to give hefty deposit, for their safety they have to come to the branches instead of center meeting. The clients' passbooks are periodically audited by the branch manager and/or the accountant to see if the passbooks transactions tally with the collection sheet of the field worker. The field worker has to take the onus of the discrepancy in transactions, if any.

Evidence shows that the clients of microfinance all over the world generally express dissatisfaction on similar design issues like that of Bangladesh that includes important aspects like compulsory savings as they cannot withdraw as and when necessary. Loan size is not adequate as it does not meet their requirement. Lending rate is said to be extremely high. Grace period of loan is less than expected. The joint liability remains enforced and they eternally grumble about it. The behaviour of the field worker is not customer friendly and so forth¹³.

Another notion is that the MFIs virtually work for more profits and try to cut down expenses as much as possible. They never see if the income of the clients is going up or not. There is no client satisfaction but exploitation. They do not look into client's perspective. They charge various types of fees making the effective rate of interest awfully higher. There are MFIs that drum up saying that they have the lowest cost of operations but this has no reflection on the reduction of the lending rate. The customers are held as captive. They talk about customer satisfaction in the mere interest of their organization¹⁴.

Way back in 1996, a study was carried out on "Users Perspective: The Financial Services for the Urban Poor". Arguably the microfinance sector at that time did not have the professional status as it is today. Anyway, the study was conducted with 400 borrowers from five different slums. The borrowers regarded the NGOs as "Credit Businesses". They felt that their operations were skewed in favour of the organization, not the user. The findings indicated that there was a high level of dissatisfaction with the financial services available to them¹⁵.

them due to lack of orientation in client satisfaction and forgetting that they are at the core of our service. He further said the staff's behaviour could be an important factor in attracting and retaining the clients.

¹³ Graham A N Wright is Programme Director, MicroSave, India. Earlier he was Programme Director, MicroSave Kenya. He is well-versed on the microfinance sector in Bangladesh

¹⁴ Dr. Ahsan Ali, Director of Ashrai. It operates microfinance and other social services including education of children and adult of the very poor families in the Northwest of Bangladesh

¹⁵ Ms Dee Jupp Ph. D conducted the study for UNDP on behalf of PromPT, September, 1996

INCOME PARTNERS' ROLE ON CLIENT SATISFACTION¹⁶

Microfinance is the main program of almost all MFIs of INCOME Project. The MFI staffs exchange views with the potential clients about the benefits of the financial services and the differences with other MFIs in order to attract them. All Partner MFIs provide non-financial services in varying degree along with financial services to cajole the clients and retain them. This includes health, children & adult education, sanitation & hygiene, etc. Some MFIs give priority to the local women for employment so that the villagers understand that the MFI has a good motive of working. To attract the clients they also hold meetings with social leaders and explain their products and services and the accompanying benefits. They provide modicum healthcare services by hiring the services of qualified doctors and providing them with medicine. Medicine and diagnostic tests are given at discounted prices. Some MFIs are running school programs for the children, which the clients like most. The staffs are known to behave nicely with the clients. The president, secretary and the cashier of the group are given increased loans to use them as strong motivators to woo the clients. Motivation is also done by the field workers and branch managers. The grievances of the clients are sometimes listened to and efforts are taken to remedy the issues. The clients mostly migrate to other areas in search of jobs. Loans are given as per policy with little annual increment. Some MFIs give loans to the clients early i.e. within seven days of repaying the last loan installment. Partial savings withdrawal is allowed by some MFIs. Micro insurance has been introduced by almost all MFIs with various rates and modes. The nominee of the client gets the benefits after the death of the client. Loan outstanding is waived and savings returned. A few MFIs return the premiums deposited with accumulated interest¹⁷.

Interest on savings is given at 5%. Higher rate of 6% is sometimes given on the voluntary savings. A few MFIs do not provide interest to general savers¹⁸. Flexible savings is liked by most clients but it is seldom seen to be practiced. The interest on loan is 12.5% - 15%. Interest rate is noticed unchanged for several years. Loan from PKSF warrants a change in the interest rate in the branches of the MFIs that it plans to support. Loan size is increasing over time at a slow pace. Practice of slashing loans for forged savings exists in some cases.

No customer survey and indeed no customer analysis are done formally to know the feedback on the products and services. A baseline survey is conducted once in a blue moon to identify the target clients. The dropout is calculated by MFIs regularly and the lost customer analysis is done rather perfunctorily. Clients generally leave the MFIs as there is no savings withdrawal policy in many MFIs and also that sometimes stepped loans cannot be given to them as per their needs. The dropout rates of some MFIs vary from 20%-30% in a year. The MFIs cannot retain the clients as they cannot give loans to the clients timely and as per their demand. Micro enterprise has been introduced to meet

¹⁶The outcome is the interview of the CEOs and other Senior Staff of the Partner MFIs.

¹⁷ Sajida Foundation, a partner of INCOME III charges Tk 3 for each Tk 1000 loan as premium. In case of death of the client, the nominee gets Tk 3000 cash with all savings returned. On the other hand, if the client does not die within six years, all premiums with interest are returned to the client. In case of DSK another partner, the client gets back all premiums plus interest at 6%, if there is no death within three years.

¹⁸ Nari Maitree and DSK do not provide interest to the general savers. DSK has made it a current account which is flexible and there is no restriction on savings and withdrawal.

the credit needs of the graduated clients. Few MFIs do this financing and that also in a limited way. Loans in a few MFIs are given quickly, while others take more time to dispense the credit. Loan ceiling has increased over time but it does not cater to the needs. A percentage point from the loan is knocked off as loan insurance and sometimes health insurance, which the clients do not like. There is no formal system of receiving complaints from the clients. Sometimes these are orally received by the staff when they meet the clients on sundry occasions. However, the clients mostly refrain from complaining out of fear lest they might not get loans.

LIKES AND DISLIKES OF CLIENTS IN THE STUDY

What do the clients indeed like or dislike?

Background

A total of 24 issues has been identified that are believed to be critical for knowing the reaction of the clients. These also include overarching current program practices. Some defunct practices were voted for reintroduction. Also there are issues that the clients aspire most for introducing in the organizations. Many of these issues emanated from an informal FGD with some adroit microfinance practitioners working in different MFIs organized by the consultant. Others were put forward by the clients themselves. These are the issues the practitioners generally confront day in, day out. The liking and disliking generally hinge on the current program elements, defunct practices and future issues of interest, which they underscore most (**Annex 1, 2**). The findings of the study appear below.

1. Client Selection Criteria

It is a common practice for all MFIs to have well defined criteria for client selection. Generally the clients are selected based on socio-economic circumstances. Assets position, monthly average income and housing conditions dominate the selection. But sometimes policy aberration is noticed whereby well heeled people in the community forge entry to the MFIs for membership. The clients are aware of the economic segments, which the MFIs are intended to serve. The clients overwhelmingly like the client selection criteria of the MFIs as most people came from the uniform social strata. They claim that they are like minded. The findings show that 93% (27) of the client groups say they like the present client selection criteria while 7% (2) groups say that the selection criteria needs modification to make it time-tuned incorporating changes in selecting the right type of clients.

2. Group Methodology

The microfinance industry in Bangladesh largely follows modified classical Grameen Bank approach. The bedrock of the approach is formation of group. In most of the MFIs a center has 20-25 clients and within this broader group there are small groups of five. This small group has one president, one treasurer and one secretary. There are some MFIs where there is no small group of five. In the group approach, financial transactions are carried on in the group rather than following an individual approach. The clients assemble

in a particular place at given time in the week where they deposit their savings and weekly loan installments. The field worker collects these from the group.

The clients widely liked the group approach as opposed to individual approach. In this context, they adduce that group approach encourages solidarity among them, develop fellowship and in knowing each other closely than before and helps improve outlook and attitudes. The findings show that 100% (29) groups say that they have no problem with group methodology and they like it to continue.

3. Joint Liability or Group Guarantee

The concept of joint liability sprang from the classical Grameen approach. The Grameen II approach has already renounced the joint liability requirement in view of their practical experience. Most of the MFIs under the study were found to follow the joint liability barring a few who no longer enforced it on the clients. The essence of the joint liability is that in the smaller groups (or sometimes the bigger group), if one client, say, does not repay the loan installment on time or the client flees away without paying the outstanding loans, other clients have to compensate the whole from their own kitty. Most MFIs enforce joint liability. There are 3-4 MFIs where there is no joint liability, while a few others lightly enforce it. The findings show that 100% (29) groups strongly voiced against the joint liability provision.

4. Weekly Meetings

From the genesis of this approach, meetings are being held weekly where financial transactions are being carried out weekly in a place called Center or Kendra. Some clients were come across where they aired on the necessity of holding fortnightly or even monthly meeting. The idea emanated in view of stepped up loan handling by the clients in various businesses. The findings show that 97% (28) groups like the current weekly system of meeting. The reason is that they can quickly do savings and pay off the loan installments; otherwise the money at their hands will soon dissipate. Small borrowers like this system more. On the other hand, 3% (1) groups say that they like the monthly payment of loan installments. The clients with larger loans generally make this argument. They find it difficult to pay weekly installments as the loan capital dwindles rapidly sapping the business capacity from earning more.

5. Traditional Sitting Arrangement

When the clients assemble in the Center they traditionally sit on the floor mats in a house or in the courtyard. In most cases the clients have no problem in this regard. Sometimes, they do not sit on the floors as they come in the meeting for a fleeting period. Change in the outlook was also noticed in a few groups who do not like sitting on the floor and suggest chairs or benches instead. The argument was that they do not sit on the floors in their home. They do not feel comfortable sitting with others coming from lower economic strata and lounge about in the meeting venue. The findings show that 86% (25) groups like the current practice, while 14% (4) do not like this system. Those who do not like seemed to come from better economic segments of the society. They want to sit in tools and chairs instead of floor mats.

6. Male Field Worker Engagement Issue

There is a preponderance of male credit staff or field worker in the microfinance industry where about 77% are male, while the rest 23% are female¹⁹. Most clients said that it bothers little to them if they are male or female. “They are like our brothers or sons, sisters or daughters. They do their job and we discharge our responsibilities.” A few clients, however, do not like male field officers and prefer females instead. They say, “We are women, and they are women, we feel comfortable. We can sit freely and talk openly without any hesitation. We can also talk on many issues with a female worker what we cannot discuss with a male worker. Besides, all the time we have to sit very cautiously when we meet a male worker”. In Chittagong, which is a port city and the commercial hub of the country, almost all clients irrespective of religion did not like male workers. They argued in favour of the female workers citing social reasons. Interestingly all field workers were found to be women over there. The findings show that 66% (19) groups say they do not feel any problem with the male field workers, while 34% (10) groups indicated their dislikes on the engagement of male field workers.

7. Array of Savings Products and Savings Rate

Mostly the MFIs have mono savings product called general savings. This is, in fact, a compulsory saving. The clients deposit a small amount weekly. Sometimes the clients can deposit more than a minimum stipulated amount. In few MFIs, there is provision of voluntary savings. This is a flexible savings. Any amount can be deposited and any amount can be withdrawn. There are contractual savings whereby a client deposits a fixed sum of money in a particular mode to get a bigger amount after 3, 5 and even 10 years. Besides, a fixed amount can be deposited for a particular period, say 2, 3, 5 years, etc. The findings show that 38% (11) groups already have voluntary savings or such provisions and they like it to continue. On the other hand, 62% (18) groups have no voluntary savings. These also include groups where voluntary savings was introduced in some cases but were closed for reasons not known. All these groups like voluntary savings products to be introduced. Besides, there are some MFIs that introduced contractual savings similar to deposit pension scheme (DPS) and have closed them since. The clients were railing against the closure of the product and cherish the hope that these should be reintroduced soon. The clients of an MFI said that after continuing the DPS for three years they were denied any interest on the savings.

The findings show that 100% (29) groups like the mandatory savings which is the general savings. This is also called compulsory savings or personal savings. They also like the interest rates of this savings product. Many MFIs allow their clients to deposit in excess of the mandatory amount.

8. Savings Withdrawal Facility

In most cases, savings from the mandatory account cannot be withdrawn until the client ceases membership. In terms of management version, the clients can withdraw savings but all these appear to be paper saying. In reality, it is not. The clients are not aware of product rules. The credit staffs advisedly do not apprise and update the clients. One client

¹⁹ Microfinance Statistics, Volume 17, 2004, Credit and Development Forum (CDF).

remarked” We keep savings for meeting our needs and crisis. Savings is not a showpiece in the showcase just to see and not to use”. Another client said” My son is bedridden for a month. He is a dying patient. I cannot take him to the clinic. I badly need money but I cannot use my own savings kept with the MFI. They did not allow savings withdrawal as the rules do not permit. What is the use of staying in this organization then, he lamented?” The findings in the FGD show that 21% (6) groups can presently withdraw some savings under certain restrictions. Mostly withdrawal is not allowed from this savings account. 79% (23) groups vote for a change against the current practice of non-withdrawal provision.

9. Interest on Savings Products

The interest on general savings is mostly 5%. A few MFIs sometimes pay 6%. The interest rates are set in line with commercial bank practices. The voluntary savings carry 8%. The contractual and fixed term deposit yield more, say 9-14%. There are organizations that do not provide anything to the depositors and bilk of the clients’ interest gleefully. The findings show that 100% (29) groups feel that they are not being paid the right interest rate. All the groups overwhelmingly vote for increased interest rate of 8%. Some groups demand 10%. The clients argue that the MFIs pay them 5% whereas they lend (their savings) money at 30% (15% flat) and even more. They also cite the example of Grameen Bank that pays 8.5% to millions of its clients.

10. Loan Installment Adjustment with Savings

In the microfinance industry the practice of loan installment adjustment from the accumulated savings is very rare even in circumstances when the clients face problems. The situation sometimes plunges the clients into awful plight. They are again compelled to borrow from other sources exacerbating their indebtedness further. Only 3% (1) groups found who supported the current practice of not adjusting loans with their savings. On the contrary, 97% (28) groups have a disparate notion. They do not like the current practice and demand that they be allowed to adjust loans with savings whenever such situation crops up. They argue that they are creditworthy and there is no point in mistrusting them.

11. Adequacy of Loan Sizes

All MFIs have their own policy in giving loans. Initially loans start at small scale. Afterwards based on performance as well as needs, loans are enhanced. That too again is within certain principles or norms. There is nothing extra-ordinary for any client. But sometimes exceptions occur in modicum cases. In most cases, the clients grumbled that loans fall short of their demands. MFIs cannot meet their requirements adequately. They always suffer from capital crisis that hampers revenue generation. The findings show that 28% (8) groups say they are satisfied with current loan sizes. They say loan size increases over the years and they get loans according to their demands and needs. On the contrary, 72% (21) groups say the given loans hardly meet their needs. Consequently, they have to shop around for the additional money from other sources. It would have been better, “If we could manage from a single source”, they said. The clients say that they cannot do any business or productive work meaningfully with small loans. They are not happy with current provisions of loans and think that it should increase at least by 50% against what they are getting now.

12. Additional Loan

Additional or supplementary loans are generally unheard in the microfinance sector. A few organizations provide such loans, generally in small amounts for a shorter period in case of emergency needs of the clients. The clients say that most of the loan money dissipates fast through paying installments every week. When they pay the last installment, the loan capital is just zero. Such financing for businesses is not at all becoming, they maintained. To overcome the capital depletion, additional or some kind of supplementary loan at some stage of the loan period may help replenishing the lost capital in order to restore an equilibrium position. Most clients demand such a facility to be introduced in the MFIs. One MFI reportedly launched this product but later closed it. That MFI increased the general loan instead of giving an additional loan. The findings show that 7% (2) groups do not like the idea of additional loan as the loans will increase added risks in view of the provision of joint liability. However, 93% (27) groups like additional loans. They adduce that the loan capital begins depleting every week. The business loses the money rolling capacity that eventually leads to degeneration of income. To stem the shrinking capital, additional loan is needed by them with the same rate of interest. The clients recommend that Tk 3000-5000 should be given as additional loan for 6 months after 4/5 months of taking the first general loan.

13. No Interest Reduction on Loan Prepaid

In the NGO led microfinance industry, loan prepayment is discouraged. In case, loans are prepaid than the due date, no interest relief is provided to the clients. The clients say they have to take loans on high interest from the MFIs in view of hard realities. Sometimes they have good cash inflows and are willing to make advance payment but the MFIs will not allow and the debt burden cannot be reduced like the banks. If one client takes a loan today and offers to repay the entire loan the next day, the client has to pay the total loan along the whole year's interest reckoned on flat system. The findings show that 100% (29) groups say that in case the clients want to pay in advance, interest should be cut down accordingly. The clients feel that interest should be taken for the period for which the loan money is used. The clients unanimously recommend adopting a policy of allowing interest burden reduction following the payment of loan in advance. Those who took bigger loans were highly vociferous and critical.

14. Interest Rates on Loan Products

In microfinance, interest calculation is made usually in flat system as opposed to declining method as is customary in the banks. As for instance 15% interest in flat system is congruous to 30% in declining method. Mostly the interest rate is 15% independent of other financial costs. The PKSf funded branches of the MFIs, however, charge interest at 12.5% for the moderate poor and 10% for the hard-core or ultra poor clients. There are some MFIs found among the INCOME partners that provide healthcare services to the clients who charge 17% or even 18% interest against the loans using the flat method that is intended to cover the healthcare service costs. The findings show that 100% (29) groups say they do not like the current rates of interest charged by the MFIs. Surprisingly not a single client was found who said it was not high. In fact the clients regard the rate of interest as too high. They say it is difficult for them to make profits with such high interest rates. It gobbles all income creating difficulties for loan repayment.

Overwhelmingly the clients recommend 10% flat or 20% declining at Grameen Bank standard. A few clients said the rate could be maximum 12% in flat system.

15. Loan Disbursement Quickness

There are two types of rules regarding loan disbursement. The new clients have to save for sometime say 8 weeks and sometimes a certain volume of savings has to be made before they qualify for loans. On the other hand, those who are older clients with years of experience with the MFI are entitled of getting the next disbursement (after paying the last installment) within a much shorter time. Older clients in some MFIs were found getting loans even after 1-2 months. Again in some MFIs, the clients get loans within 2-3 weeks. 52% (15) groups like the current pace of loan disbursement in the MFIs. While 48% (14) groups do not like the practices existing in their organizations. The clients say they need money quickly and cannot brook longer time. For everyday delay, they incur loss and sometimes miss opportunities.

16. Loan Period or Total Installments

The loan period is generally 12 months that contain 45-46 weeks for financial transactions. This loan period was found to apply to both microfinance and micro enterprises. In some cases, mode of loan payment is monthly for micro enterprise, which is typically a large loan. No MFI was found where the loan period for micro enterprise is more than a year. The findings show that 66% (19) groups say they like the current repayment system in 46 loan installments in a year, while 34% (10) groups do not like the current practices and ask for reducing the number of installments. The argument is that they will have to pay less interest and at the same time it will enable them to avail of the next loan earlier. Some clients prefer monthly repayments, which is generally not in practice. They are, in fact, the type of clients who got bigger loans and want loan period longer extended up to 18 months.

17. Loan Grace Period

Grace period is virtually the gestation period allowing the clients some relief in paying the first loan installment. Microfinance loans which generally range from Tk 3000-30,000 in the MFIs do not have any adequate grace period. Loans have to be repaid within 8-12 days and this is nearly two weeks. This is sacrosanct. However, in case of micro enterprise, one month grace period was found to be given to the clients. The objective is to allow the enterprise to use the loan capital effectively in order to be able to pay the obligations smoothly.

Loan grace period is widely in practice. The findings show that 48% (14) groups like the present practices that are in vogue in the respective MFIs they belong to. While 52% (15) groups do not like the present practices. These clients say that they want to repay from the earnings of the business but if they have to pay within two weeks, they will have to pay virtually from the loan capital, which they have just borrowed. The clients with larger loans generally demand bigger grace period of three to four weeks. The small borrowers are found complacent with shorter grace period. They say there is no point in holding loan money. The clients further say, “Anyway, we will have to pay the loan, today or tomorrow - why not we pay off early?”

18. Restrictions on the Loan Money Use

Based on the proposal made by the client, loan is given for a specific use. The clients normally use loan according to their needs and convenience. The MFIs while giving loans advise the clients to use loan as per the approved purpose. In some bigger loan cases, the MFI investigates into the loan use, while in most cases not. The MFIs remain seemingly reticent on the issue. The findings show that 100% (29) groups say they do not face any problem. The clients appreciate the current practice of not nosing around by the MFIs.

19. Periodical Passbooks Verification

As a rule, the field worker collects savings and loan installments and puts signature on the passbooks of the clients. To ensure internal control and safety of the clients' transactions, the branch manager and/or the account verifies each and every passbook with the official documents 2-3 times a year to avoid any fraudulence. This is almost a common practice in the industry. The FGD revealed that this is being done in all MFIs and the clients appreciate this system. The findings show that 100% (29) groups like the prevailing practice and want its continuation in the days ahead.

20. Insurance Products

Insurance appears in various names and premiums are collected in different modes. There are mainly two kinds of insurances that include loan insurance and health insurance. The aim of insurance is chiefly to cover the risk of life due to death. Mostly premium is related with loan amount in the loan period. Some MFIs charge a fee equal for all clients. The benefits generally cover the waiver of the outstanding loans and savings is also returned to the nominee. Health insurance is offered by some MFIs. The MFIs providing this facility charge a percentage point against loan or a specified fee. The benefits include free medical prescription by qualified doctors or paramedics, discounted medicine cost and pathological tests, etc. Those who take higher loans have to pay increased amount of premium compared to others regardless of availing the facility. For distance problem and transport costs many clients cannot take this facility for which they are paying premiums.

To many clients the concept and practice of this type of insurance is sheer exploitive and funny. They argue that insurance should be for a long term ranging from 8-10 years instead of one year for which they will pay an agreed premium. After the stipulated period, they should get back all the money with interest they had deposited. They are of the view that in case the client dies, the nominee will get the claims as per insurance policy. It has nothing to do with loan amount, they said. Most clients were found resentful on the current insurance practices and want that the system should go forthwith. Some clients, however, like the practice of a few MFIs paying a small lump sum insurance fee (not related with loan) each time they take a loan, which they have promised to return with interest after certain years. The findings show that 100% (29) groups do not like current insurance practices. The clients argue that in current practices, they lose a good amount of money. They are not even aware of that premiums are being docked off for health insurance as it is embedded in the lending rate. Many borrowers say they do not avail of healthcare facilities and prefer going to private doctors of their choices. Some clients in a few MFIs like the fixed amount of premium, which the MFIs promise to give them back with accumulated interest earnings. Reasonably the poor clients (very small borrowers) tend to like healthcare facility but want it for free. Many clients in an MFI pay the healthcare insurance fee of 2.5% with the loan interest but cannot avail this

facility due to distance problem and transport cost. They do not like the healthcare insurance. No news of any death of any client was heard in 29 FGDs involving 456 clients in the last three to four years time.

One client in a FGD sprang up to her feet and said” I will not die this year and hopefully not even the next year; I do not need any insurance. I am not a captive client of the MFI. I must have freedom to exercise my choice and judgment. Insurance should be optional and not enforced – I may take or may not take. I am not a stupid. If I think it will benefit me, I will definitely buy insurance”.

One client of a Dhaka based MFI said,” Today, I went to take Tk 6000 loan but I was given Tk 5880 instead i.e. Tk 120 less from the sanctioned amount. I was surprised. I am not aware of why the deduction. I was told that a new insurance policy has been made effective henceforth”.

Another client in a relatively bigger MFI in the outskirts of Dhaka city charges Tk 10 per week for insurance. On top of that, the MFI charges Tk 5 per Tk 1000 loan as *Kallyan Tahabil* meaning a welfare fund. The death benefit is Tk 3000 in case the client dies. All clients in the group were very exasperated saying that the MFI is siphoning of their money forcibly. They threatened to leave the group en masse unless such policies are rescinded forthwith.

21. Discussion on Social Issues in the Weekly Meetings

Today life is faster whether it is rural or urban area. The clients who are overwhelmingly women remain busy doing numerous household chores. Experiences suggest that the clients are not willing to spare much time in the meetings. The field worker apart from doing the financial transactions routinely speak on various development issues affecting their lives. The clients said that they liked the issues and want continuation of the same. The findings show that 100% (29) groups like the varied discussions on the development topics as these enhance their knowledge and awareness. The clients do not feel any boredom.

22. Quality Training

Generally, the MFIs do not keep any training provision for upgrading the knowledge and skill of the clients. While a few clients like the idea of having quality training, most clients are not disposed to have any training as they cannot afford time. Given this scenario, the findings show that 38% (11) groups like some kind of training that would enhance their, knowledge, skill and managerial ability to improve their businesses. On the other hand, 62% (18) groups think that they understand the importance of training but they have no time to spare for it. So they do not like any training.

23. Multiple Borrowing by the Clients

The client overlapping issue is quite known in the industry. Like in the past, nobody now a-days bothers about this aspect. A study of PKSF shows that the overlapping rate is 33%. Many MFIs cogitate that as long as the clients can pay off their dues, they are not worried. The clients’ view is that a single MFI cannot usually meet their financial

requirements. Failing which, they approach many lenders to optimize their basket of credit needs. They seem to say that it is their right and MFIs should not have any say on this as long as they are not defaulters. The findings show that 100% (29) groups vote for going to multiple sources of funds, if the MFI cannot fulfill the requirement. The matter should be officially recognized for mutual satisfaction of the parties, they said.

24. Behaviour of the NGO Staff at All Levels

The clients have no complaint about the behaviour of the NGO staff at all levels. They find them amenable and cooperative. No single shred of evidence was found in this regard. The findings show that 100% (29) groups say they are impressed with manners of staff and their mood of cooperation.

INSTITUTIONAL CASES – INCOME PARTNERS

The Role of Sajida Foundation on Client Satisfaction²⁰

Sajida Foundation (SF) was established in 1987 and started microfinance program from 1993. It has a total of 43,000 clients that includes 41,000 borrowers. The organization provides both financial and non-financial services to its clients.

Change of Policies in the Last Five years

Initially loan was for Tk 4000 that has risen to Tk 7000-10,000. The rate of interest on loan was 16% earlier. Later it was reduced to 15% and then 12.5%. Micro enterprise was entitled to only female graduate clients but now this facility is given to the outside entrepreneurs as well. There was one saving product but now there are two products viz. mandatory and voluntary savings. Earlier interest on savings was 6% but now it is 5%. The rate is pegged at on the commercial banks' practices. 8% interest is given for voluntary savings. For collapse of building or fire incidents an amount up to Tk 3000 is given based on assessment. For HELP (Health, Education, Life Security and Legal Aid) an amount of Tk 2000 is given to the affected victim. In the past, health benefits were given to spouse only but now it is extended to five members in the family. In case of death of husband, son or daughter, some financial benefit is provided to the client. For doing good results, stipends are given to the meritorious students of the poor families. All these are done to keep the clients happy.

Addressing the Clients' Needs

Needs of the clients are assessed generally by door to door visits with a particular questionnaire. The questionnaire is intended to know the target clients, the income level of the household, health status of the family, education of the children, financial status, if there is any need of capital or whether the person is willing to do any income generating activity. Sajida Foundation shares policies and rules and regulations with clients and their opinions are taken.

²⁰ All information were gathered from Ms Zahida Fizza Kabir, Executive Director of Sajida Foundation and Mr. Md Rahamatulla, Senior Credit Coordinator while they were interviewed.

Attracting and Retaining the Clients

Motivation is given to the clients for changing the current life status and sending their kids to schools. SF provides education free and stipends are given to the meritorious students for faring good results in the examinations. Healthcare services are also provided for which Tk 150 is charged from the client every year for five members in the family. Doctor's consultation is free of cost. Only Tk 300 is charged for normal delivery of pregnant women. Diagnostic charge is at 50% discount rate. SF charges 12.5% interest that is lower than most MFIs operating in the area. Loan is generally given as per demand. In most cases, the first loan is Tk 10,000. The clients are not forced to save any given amount rather they are urged to save as per their affordability. Savings service is partially flexible. In the first year a client can withdraw all savings keeping Tk 1000 in the account and in the second year, the client needs to keep Tk 2000 and the rest can be withdrawn. If the client decides to cease the membership, the client is returned all savings within one week. Insurance is taken at the rate of Tk 3 per Tk 1000 loan. In case a client dies, cash amounting to Tk 3000 is given to the nominee, all savings is returned and the loan outstanding is waived. On the other hand, the client is returned all the premiums with accumulated interest after 6 years. Micro enterprise starts at Tk 30,000 -300,000 with 15% interest. The loan period is 12 -18 months with monthly repayment.

Lost Customer Analysis

The dropout rate is 25%. The rate is high as SF operates in the urban areas. Of the total dropout, about 70% occurs due to migration, 25% due to business failures, while 5% due to family quarrel and conflicts. Analysis is carried out to find the causes of dropout. Besides, meetings are also held with clients to ascertain the reasons of dropout and possible measures are taken contain the situation.

The Role of IDF on Client Satisfaction²¹

Integrated Development Foundation (IDF) was set up in 1992. It has 57,000 clients that include 53,000 borrowers. It works with the very poor and gives special emphasis on the tribal people in Chittagong Hill Tracts.

Change of Policies in the Last Five years

Initially, the average loan size was Tk 4000 and there was one loan product. The annual increment was small and slow. At present there are three to four loan products and the loan amount is considerably high. There was only one savings product before. Earlier clients deposited Tk 5 but they can now save any amount in the range of Tk 10-30. Voluntary savings has been introduced. Savings from mandatory account could not be withdrawn in the past but now 80% of it can be withdrawn once a year based on special circumstances. Also the clients can withdraw savings 140% of the principal installment five times. Earlier there was only death coverage but now the clients are getting coverage for injury, property damage in addition to death. The field staff can pay on the spot Tk 500 for the treatment of the ailing client and also for carrying out rituals owing to death.

²¹ All information were gathered from Mr. Zahirul Alam, Executive Director of IDF and Mr Dilip Mozumdar, Senior Program Organizer, when they were interviewed.

The clients who are with IDF for two years get Tk 1500 following the death of the client. Those who stayed more than two years get Tk 2000. This benefit is restricted for the clients having taken loan for Tk 5000. If loan is more than Tk 5000, then the benefit is outstanding loan plus Tk 500. The rate of interest of lending is 12%. The interest rate on savings is 5% and did not change. IDF grants 20% of the loan to micro enterprise clients as donation if the enterprise is significantly damaged by any catastrophes. Earlier insurance was 1% against the disbursed loan, which is now 1.5% that includes loan and disaster insurance.

Addressing the Clients' Needs

While addressing the clients' needs, IDF looks into what the clients want indeed. At the same time the clients also look into the products and features of other MFIs. There is also an auto process by which the clients vocalize their own problems that are genuine and are consequently met by IDF. These problems spring through discussions in the meeting center.

Attracting and Retaining the Clients

The clients play important roles who tell other fellow mates about the products and services of IDF. The field workers who meet the clients almost every day take the opportunity to coax others on the positive aspects of the products. The field worker also makes a comparison of the products of other competing MFIs so that the clients can choose without difficulty. Sometimes the IDF board members also visit the places and talk to the community leaders and the potential members. IDF provides healthcare services providing them with medicine and treatment. Home service is available for the ailing clients. IDF also provides medicine and treatment to AID patients. Training is given on awareness of AIDS. IDF is committed to meet the gaps of the clients. Loans are given based on needs and demand. Loans are given in increased amount to a new client, if the amount asked for is justified. Sometimes seasonal loan is given to some clients as for instance in agriculture, animal hides purchase during Eid Festival and selling garments during such occasions. During this time certain activity increases that needs money. Besides, when IDF cannot meet the loan demands of the clients as per policy, then the clients are advised to take money up to 80% of their savings to meet the shortfall.

Rate of interest is 12% for the moderate poor and 10% for the extreme poor. All poor in Chittagong Hill Tracts will be treated as extreme poor henceforth and they will be charged 10% interest instead of 12%. Beggar program has been introduced. Interest free loan is provided up to Tk 3000. No loan period, no repayment schedule. Rehabilitation loan is given interest free for the displaced tribal people based on their needs. Seasonal loan is given with one time loan repayment up to Tk 8000.

Lost Customer Analysis

Lost customer analysis is done on monthly basis. The percentage of dropout is hardly three percent. The clients' dropout is mostly small and it is due to migration. There is a small percentage point, which dropouts as they have become well up meanwhile and no more willing to take any loans. There is also a section, which cannot profitably use the loan money. Their businesses go bust and they eventually do not stay with IDF.

The Role of DSK on Client Satisfaction²²

Dustha Shasthya Kendra (DSK) was legally set up in 1989. There are now 92,000 clients of which 65,000 are borrowers. Its focus is moderate poor and the extreme poor. Currently it is working with 25% extreme poor.

Change of Policies in the Last Five years

Initially, loan size of DSK was Tk 2000 that has risen to Tk 5000-200,000. Micro-enterprise loan has been introduced of late. Earlier, the rate of interest on loan was 10% that has upped to 12.5%. There was one loan product that has eventually increased to four loan products. There was one insurance product viz. health insurance. Now there are three insurance products – health insurance (2.5% against loan), livestock insurance (3% against loan) and loan insurance (1% against loan). In the past, there was a general savings product that carried 8% interest. There was no provision of savings withdrawal. The general savings has been replaced by a new current savings account that carries no interest. The savings has been made fully flexible.

Addressing the Clients' Needs

To identify clients, DSK staffs primarily hold meetings with people in the impoverished communities. They collect information about their professions, assets, income level and the activities they are involved with. The needs are assessed from the discussion by the field worker and branch managers. They also use secondary information like research and studies that are available to know about the client's economic position.

Attracting and Retaining the Clients

The staffs map out the products and services and their accompanying features to the target people. They also tell the clients that DSK provides both financial and non-financial services like primary education and water & sanitation, etc. Their selling point is the integrated healthcare with microcredit. This has been in practice from the beginning. There is no joint liability, so no worry of the clients compensating for others defaulting. However, the clients are requested to assist DSK in loan recovery drive. DSK has also a fetching insurance policy to attract the clients. It provides micro loan insurance that constitutes 1% of the loan amount. Loan insurance is taken separately. In case of death of the client, the outstanding loan is waived and the savings is returned to the nominee. If there is no death within three years, the client gets back all premiums along the interest (6%). It has livestock insurance where 3% is charged against the loan. Free medicine and treatment are provided. The cost of the animal is refunded, if the animal dies.

Four types of loans are given that include general loan Tk 5000-20,000, seasonal loan Tk 5000-15,000, micro enterprise loan Tk 50,000 – 200,000 and emergency loan Tk 2000-

²² All information were provided by Dr. Masudul Quader, Director Program while he was interviewed by the consultant.

3000 for sickness, flood and other disaster, etc. Unlike the general loan, micro-enterprise has two years' loan duration. Loan repayment mode is monthly. Advance payment is allowed that reduces the interest on loan. Interest rate is 3% per month on declining balance. Loan installment starts after one month of disbursement. The grace period of general loan is two weeks. All loans carry 15% interest including 2.5% health insurance premium. Those micro entrepreneurs who do not like the health insurance are exempted from it and only charged 12.5%. Loans are disbursed within one week for the old clients and 10 weeks for the new ones. Healthcare benefits include medicine at 50% discounted price, pathological and other diagnostic tests at 50% knocked down prices than the market price and free consultation above all.

In the current savings account, Tk 50 has to be deposited monthly (through all weekly savings) in the urban area and similarly, Tk 20 in the rural area. There is no interest on current savings as the clients can withdraw any amount any time. Savings can be withdrawn regardless of loan outstanding. Contractual savings can be made for 1-10 years. Minimum requirement is Tk 50 per month. This savings is semi-flexible. 10% of it can be withdrawn regardless of any loan outstanding. Interest is paid in the band 6-18%.

Lost Customer Analysis

Dropout analysis is done monthly. Overall the yearly dropout rate is 30%. Generally 50% dropout occurs due to not giving stepped up loans as per their demand. DSK believes the clients take loans from multiple sources so it is chary in giving loans. 30% dropout occurs due to business failures and the rest 20% due to migration. Of the total dropout, 60% of the total dropout occurs in the urban areas while 40% in the rural areas.

The Role of MSS on Client Satisfaction²³

Manabik Shahajya Sangstha (MSS) started in 1974. It has 70,000 clients that include 67,000 borrowers. MSS is the first replicator of Grameen Model in the urban areas. It works mostly in the slums with impoverished communities.

Change of Policies in the Last Five Years

Loan was initially for Tk 2000-3000 that has risen to Tk 5000-10,000. The rate of interest on loan did not change and has remained at 15%. There was one savings product called general weekly savings but now there are four savings products. The clients used to deposit Tk 10 per week but now they deposit Tk 20. There is a disaster loan. In the past, Tk 600 was given to the affected victim but now Tk 2000 is provided. Earlier healthcare service was available only in one branch but now this service is available in all 35 branches of MSS

Addressing the Clients' Needs

It conducts a baseline survey to identify the target clients. Interaction is made with the clients to assess what the clients need.

²³The information were collected from Mr A N Md. Emam Hasanath, Executive Director, when he was interviewed by the consultant.

Attracting and Retaining the Clients

The clients are usually roped in to join MSS by providing them with both financial and non-financial services. Financial services include general loans and micro enterprise loans. There are four savings products called personal savings (closed savings, with 6% interest), weekly voluntary savings (with 8% interest), monthly voluntary savings (interest comes to 12%) and special voluntary savings (interest comes to 13-19%). There is a disaster fund (may be called insurance). Tk 30 is taken as premium per loan. In case of death of the client, savings is returned; cost of funerals performed and the outstanding loan is waived. Cash money up to Tk 2000 is given in case there is any injury of the client or her property got damaged. There is a committee set up from the clients and they take all decisions on this issue. The field workers, branch managers and the area managers play the key role in motivating the new and the old clients.

The non-financial services that are provided include daycare service for the kids of the clients in three slum areas. Food and doctor's visits are provided for which Tk 15 is taken per month. Healthcare service is provided by qualified doctor in each branch. The doctor sits a day every week in the branch. Prescription is given free. Referral services are provided. There is also provision of non-formal primary education up to class V, which is running in five schools. Stipends are given to the meritorious students for one year. Water and sanitation services are provided including tube-well supply. Eye camps are organized regularly every month for the treatment of the slum dwellers. So far 3000 clients were treated including 1000 clients who were operated upon surgically.

Lost Customer Analysis

Lost customer analysis is done regularly. Dropout rate is about 25%. Most drop-out occurs due to normal migration who leave the places in quest of jobs. This percentage will be about 70%, while the rest accounts for 30%. There are many clients who have accumulated huge savings and withdraw membership to get all the savings assets at one go. Normally, a few clients flee away without repaying the loan money.

EXTERNAL INSTITUTIONAL CASES

The Grameen II Revolution on Client Satisfaction²⁴

The Grameen II system represents a revolution in the way that Grameen Bank does business. It is the culmination of years of hard work to assess the aspirations and needs of the poor in Bangladesh and re-design the “classical” Grameen system to respond to those needs. The bank’s success (and the success of many Bangladeshi MFIs who copied it) reflects how well the basic working capital loan repayable over one year met one of the core requirements of the poor in Bangladesh. But those requirements have been evolving and there has been a growing recognition that credit alone does not meet the needs of the poor. With its new range of products, the Grameen II system reflects and meets many of the diverse needs of Grameen’s target market and is therefore “market-led”.

And, as a consequence, the results have been extraordinary. After a difficult period of stagnation and compromised portfolio quality, the bank has grown significantly both in terms of the number of customers served and its profitability. “Grameen took 27 years to reach 2.5 million members – and then doubled that in the full establishment of Grameen II.” Even in Bangladesh’s fiercely competitive environment Grameen continues to grow at a remarkable rate attracting around 140,000 new members every month – a staggering 1.7 million new members every year. In the three years to December 2005, Grameen’s deposit base trebled and its loans outstanding doubled. In the same period the bank has introduced a much more conservative provisioning policy and built up a formidable loan provision for its troubled housing loan portfolio. At the same time the quality of the loan portfolio has improved very significantly. As did profitability: “... despite much heavier loan loss provisioning, profits soared from around 60 million taka in 2001 to 442 million taka (about \$7 million) in 2004”. Drop-outs are returning, defaulters are repaying and re-joining. Market-led Grameen II is yielding exceptional results.

Rutherford et al.’s work shows that the Grameen customers are using the Grameen II products in a wide variety of ways, to meet a wide variety of needs and challenges that face them. The introduction of current account and contractual or programmed savings products allows them to save “up” as well as “down”²⁵, and increases the range of financial instruments and options that they have to manage their complex household budgets. The top-up loans allow members to maintain the capital in their businesses or to manage unforeseen challenges/shortfalls and extend repayment periods in a structured (and carefully tracked) manner where necessary. Indeed, there seems to be increasing evidence that Grameen is meeting most of the needs of some of its members, to such an extent that they are using the services of the informal sector and other MFIs less and less. In short, “Grameen II shows that as the breadth of products on offer increases, the utility to the users increases dramatically²⁶.” It is this increased utility that is encouraging drop-outs to return and defaulters to repay and rejoin Grameen – access to a range of market-responsive products is a valuable asset. It is not unfair to surmise that with the increased

²⁴ MicroSave – Market-led Solutions for Financial Services.

²⁵ See Rutherford Stuart, “The Poor and Their Money”, Oxford University Press, UK and India, 2000, for a detailed description of saving “up”, “down” and indeed “through”.

²⁶ For many years BURO, Tangail was able to charge a 60% higher interest rate on its loan products because it offered a range of credit and savings products that were greatly valued by its membership.

utility and ability of the poor to manage their meagre financial resources, the developmental impact will be higher too.

In short, the Grameen II's responsiveness to the market has created an astonishingly positive response from the market – both the clients and the institution have benefited enormously from the change.

Looking forward it is possible to predict interesting times ahead for Grameen Bank. As it moves forward with its successful range of products it may face some difficult cultural adjustments. At present centre managers are very close to their customers, and in many cases determine the products they believe are most suitable for their clients. However, the gradual spread of product knowledge among Grameen members is putting much greater visible control with customers than has been the case in the past. This implies the role of the centre manager as “teacher” may evolve to that of an officer who supplies information and provides financial advice to clients, who then determine the products and services they require. Grameen Bank might want to explore the impact of these changes, by providing detailed marketing information to clients in a selected pilot test area.

The gradual spread of product knowledge and increased transparency of services may in turn have consequences for the delivery of products, with customers expecting more consistent levels of service across the institution. Greater consistency need not mean a lack of flexibility, if flexibility is designed into products and services, indeed consistency should enable easier identification of problems and consequent improvements in service levels. Moreover, greater consistency in delivery may be a prerequisite for the beneficial use of information technology. As Rutherford posits “*The potential is waiting to be explored.*”

Grameen Bank, as one of the flagship institutions of microfinance, has been shown to have responded so positively to the needs of the market – and emerged all the stronger and larger for having done so.

**Stuart Rutherford, David Cracknell and
Graham A.N. Wright**

The Role of ASA on Client Satisfaction²⁷

ASA was established in 1978 and attained specialization in microcredit from early 1990s. It is the largest MFI that is growing fast with lowest cost of operation in the world. It has 6.5 million clients and 4.65 million borrowers all over the country. Both male and female could take loans. The organization has many management committees and tiers who are constantly going to the fields and scouting around problems and needs of the clients. The top management is always updated on the client issues. The organization always explores looking for ways and opportunities serving the clients' needs. Many external volunteers frequently come to ASA and undertake various researches for 3-6 months. Their findings also help ASA in improving its operations and quality of service. Besides, the visitors who come, off and on, also give a lot of suggestions and feedback on the development of the programs. The top management is open and accepts any brilliant idea. The clients are also free to send any written complaints or suggestions and these are taken in cognizance.

Taking loan from ASA is simpler and very inviting. Policies and rules are changing every month suiting the clients' convenience and needs. A household can get three loans – both husband and wife can take two loans plus a disaster loan. There is no joint liability. The clients need not worry for others defaulting problems. Loan ceiling varies in terms of capacity of the clients and geographical areas. The first loan in the rural area is Tk 6000, while in the urban area it is Tk 8000. A new client can take Tk 20,000 loan just opening a saving account with Tk 10. An existing client gets loan on the very day he or she repays her last loan installment. If a client wishes, she can repay 4-5 installments in advance in order to avail of the next loan. It may so happen that the client needs urgently more money for the business. If money is denied, the client may economically suffer. ASA has considered this issue seriously. The ceiling of loan is two times higher than any other larger MFIs in the country. Short-term loan is given for two months to the marginal farmers in order to enable them to buy seeds, fertilizer and irrigation for agriculture so that they can invigorate the rural economy. Loan installments in such cases are monthly. Loan is given two times a year amounting Tk 4000 each time. Loan increases by Tk 1000 each year. About 600,000-700,000 clients have received such loans. Enterprise loan ranges from Tk 30,000 -200,000 with 12, 18 and 24 months' loan duration. Repayment is in monthly installment. In the past, there was one loan product but now there are nine products. Categories of clients also expanded that include moderate poor, middle-income class, marginal framers and hard-core poor. In case of disaster 100% savings can be withdrawn. During disaster, payment of loans is suspended for 2-6 weeks till restoring normalcy. Rehabilitation of loan Tk 500-1000 is given free of interest. Transparency is maintained in savings accounts, interest payment and all calculations. No hide and seek. No cost cut from the loans, no extra levy. Everywhere there is transparency. There is no standard requirement of number of people to form a samity or group. It is done with any number of clients available in the target community.

The size of the general loan is Tk 4000-10,000 to be repaid in 46 weekly installments in a year. The hard-core poor are given loan that ranges from Tk 600-5000. There is no savings requirement. They can however save after three months of taking loan with Tk 10

²⁷ The information were provided by Mr. Md Enamul Haque, Executive Vice President of ASA when he was interviewed.

as monthly saving. Loan can be repaid in any mode say 3, 6, 9, 12 months as they prefer but minimum monthly. The entire loan has to be paid off within the year. Loan carries 12% interest that may dip in the coming days. Small traders loan range from Tk 20,000-50,000. Loan can be paid monthly or weekly. Interest rate varies. Those who come to the group meeting to make the repayment, interest is charged at 15%, while those who pay coming to the branch office are charged 12.5% (as field level collection cost is not involved). Interest rate for general and small loans both carry 15% interest which will come to 12.5% effective from January 2007. There are two types of savings. The general savings where one can save minimum of Tk 10 weekly that carries interest at the level of Sonali Bank - the largest public sector bank in the country. It comes to 4-5% per annum. The savings is flexible; the client can withdraw savings in case of need. There is also another saving called LTS meaning long-term saving done in the mode of 5 years or 10 years. Interest on 5-year LTS comes to 9%, while that of 10-year LTS about 12%. The clients can repay loan withdrawing savings.

ASA' rate of interest is not static for years like many MFIs in the country. The lending rate was 15% in 1991 that fell to 12.5% in 1997. It was raised again to 15% in 2000. Lately it has been decided to bring it down to 12.5% from January 2007. Similarly, the rates on the deposits also vary from time to time with changing of the commercial banking rates.

Insurance covers 6.5 million clients in ASA. Incredibly though, on an average, 400 women clients and 500 male clients die every month from a population of 4.5 million women and 2.0 million men. ASA has been providing loan insurance since 1993. The premium of loan is Tk 3 per Tk 1000 loan. It was Tk 20, Tk 10 and Tk 5 in the preceding years. The rate has been dramatically reduced so that the clients do not feel it burdensome. The deceased client's inheritors get the amount equal to the current principal loan after the death of the client. They have to pay the outstanding loan to get this benefit. Clients of small and small business programs compulsorily have to maintain insurance. ASA operates life insurance program for the clients as a security fund besides its loan program. The family of the deceased client gets 6 times the amount deposited in case of the client's unexpected death. Small and small business loan clients deposit weekly Tk 10 and SEL (small entrepreneur lending) clients deposit Tk 50 monthly as premiums. The clients get back the deposited premiums, if they leave the institution within 50 weeks of starting the premium. The client receives the total premium added with 3% interest in case the client leaves within 51-399 weeks and gets total amount with 4% interest, if the client leaves after more than 400 weeks.

Dropout rate of clients is about 18%. This is known to occur due to manifold reasons including migration and clients' weird strategy, which has remained largely enigmatic. Interestingly, about 10% of the dropped clients again join the program. These clients are not treated as new clients, rather given stepped up loans, which they had obtained earlier. If a client fails to repay 3-4 installments, she is not dropped from the group. Loan installments are not taken during two religious festivals giving them respite to enjoy the occasions. ASA does not do its marketing. The vast army of clients are said to be doing the marketing themselves on their behalf.

The Role of Buro on Client Satisfaction²⁸

The erstwhile BURO, Tangail is a mid-level fast growing national level MFI and widely known in the microfinance global industry. Buro was set up in 1991. It has now 350,000 clients, of which 300,000 are active borrowers. Each branch has a consultative group consisting of 7-11 kendra / center chiefs. They meet at least two times a year with the manager. Meeting minutes are written and sent to the head office. The chiefs discuss problems facing the clients' likes and dislikes on products and services. Once a year, a workshop is organized with all Kendra chiefs in a branch and day-long discussions are held. All senior staffs of the organization attend the workshop. A monthly coordination meeting is held that reviews these issues threadbare and posits changes for EC's nod.

Formal and informal researches are undertaken. A product development review of the organization was conducted²⁹. After the devastating flood of 1998, a sweeping reform program was carried out in the organization where client satisfaction was a major issue. Periodical research is carried out three to four times a year on the likes and dislikes of the clients. Following the clients feedback existing products are redesigned, new products are launched and product rules & features are chopped and changed or modified. The product rules are regularly updated and circulated to the branches.

The organization is very popular for its highly flexible quality financial services. Loan is not linked with savings at all. All savings can be withdrawn any time bit by bit or at a time just leaving Tk 10 to keep the account operative. The service delivery is quick. The old clients can get the new loan just on the day she pays the last installment. The new clients get loans after four weeks of savings. It has three savings product that includes general savings (flexible), contractual savings and time deposits. Buro's experience indicates that voluntary and open access savings can attract more net savings than compulsory locked in savings. In case of higher deposits, the clients can deposit the money at the branches for safety and satisfaction.

There are nine loan products to meet the diverse needs of the clients. Taking loan from Buro is optional. The clients can enjoy prepayment facilities in order to qualify for new and larger loans. The size of loans hinges on the capacity of the clients and the geographical locations. In addition to the existing loans, the clients can have short-term loans for meeting any emergency needs. It also provides micro-enterprise loan coupled with modicum business development support. The loan products include general loan, supplementary loan, business loan, micro-enterprise loan, line of credit, hand loan, disaster loan, sanitary and tub-well loans. The new client gets the first loan of Tk 10,000 in Dhaka and adjoining areas, while such clients get Tk 5000 loan in the rural areas. The old client gets loan up to Tk 50,000. The micro enterprise loan is up Tk 200,000. The experience of the organization suggests that the poor clients prefer flexible financial

²⁸ The information were provided by Mr. Zakir Hossain, Executive Director and Mr. Mosharrof Hossain, Finance Director of Buro when they were interviewed.

²⁹The review was carried out by Mr Stuart Rutherford commissioned by DFID Bangladesh in 1997 and later in 2001.

services. All loans carry 15% interest now that was 20% in 2004. Savings carry different interest rates. General savings carry 4.5% that was 7.5% before. Three years' contractual savings carry 7%, 8% and 10% now which were 9%, 12% and 14%. So Buro is changing both savings and lending rates based on circumstances and competition.

Buro has introduced insurance since 2003 called Clients Security Funds. The poor and the vulnerable non-poor clients have to pay in the range of Tk 50 and Tk 100 respectively, while the very poor clients are required to pay Tk 30 as premium. The premiums are one-time payment in a year. The premiums amounting to Tk 30, 50 and 100 yield cash benefits of Tk 3000, Tk 5000 and Tk 10,000 respectively. The savings of the deceased are returned to the nominee and the entire loan outstanding is waived. After the death of the principal guarantor, the family of the guarantor also receives half of the cash benefits accordingly.

VIEWS OF PRACTITIONERS ON CLIENT SATISFACTION

Role of MFIs on Client Satisfaction

Excerpts from Interview³⁰ with the President of ASA
A First Rate MFI in the World

Candidly speaking, almost all MFIs in the world do not think seriously on client satisfaction. Everybody puts stress on safeguarding the interest of the MFIs and satisfying themselves. In Bangladesh, the MFIs cannot launch varied useful flexible savings instruments and insurance schemes legally. They also cannot collect defaulted loans from the clients legally. All MFIs in the country conduct operations based on their own framework. I won't say anything whether it is good or bad for the clients. In fact, carrying out microfinance would have turned severe had there been no competitive situation obtaining in the industry. A competitive environment has emerged in order to sustain existence or survival. The clients are seen leaving one MFI and joining another. This is happening day in, day out. To attract and retain them, products and services are being innovated, redesigned and modified by many. Sometimes products are being discarded that are not liked by the clients in order to tackle the exodus. Such initiatives are gradually loosening the stiff roles of the MFIs. All things considered, the client satisfaction is not still being looked into from real perspective.

The microfinance industry has become competitive in view of the fact that loan size has substantially increased. Now there is flexibility of services in many MFIs. Various savings products have been introduced. Different types of insurance practices are spotted that includes some scientific ones as well. Non-financial services like health, education, etc, are being provided by many for sustaining a competitive edge. Frankly, we do not go beyond that. Monthly repayment system works well in other parts of the globe in small loan even but it is not practiced here. Dropout of clients rises if loan size does not adequately increase and savings cannot be withdrawn to meet the emergencies of the clients. Only in such situations, the MFIs pop up to the sense for client satisfaction. They do it just for their existence by effecting some changes. The vast multitudes of clients do not like any rigid microfinance system.

But it is difficult for us to work on the mere whims of the clients and no MFI indeed can run operations ensuring client satisfaction according to them. If an MFI exclusively wants to follow the clients' satisfaction, the cost of operations will remarkably go up. Staff corruption will increase and eventually the clients' interest will be hampered. Therefore a reasonably tight standard system is seemingly worthwhile for this kind of service industry.

Md. Shafiqul Haque Choudhury

³⁰ Mr. Shafiqul Haque Choudhury, President of ASA was interviewed by the consultant.

Role of MFIs on Client Satisfaction

Excerpts from Interview with the Chairman of SafeSave³¹

Client satisfaction is not actually very much known in the microfinance sector in Bangladesh. There are, however, several reasons for that. Donors were traditionally involved in funding MFIs. They had never shown interest in client satisfaction and did not spend money to know about it. The reason is because of perception of the donors. What is the purpose of microfinance? To them the purpose is poverty reduction and not providing quality financial services to the low income clients. When they give money, they give it for poverty reduction, not for client satisfaction whether the clients like it or not. The purpose of microfinance was seen to eliminate poverty, not providing quality financial services to the poor. One exception is that way back in 1996, Ms Dee Jupp carried out a client satisfaction study on microfinance in Bangladesh for PromPT/UNDP. The findings revealed a great deal of dissatisfaction among the clients.

It is indeed very hard to know the client satisfaction in microfinance, if they are satisfied or not as the MFIs do not provide them with written rules of business. This shows a lack of transparency in MFI policies and practices. When the clients do not know the services, how they will say if they are satisfied or not? The fact that MFIs do not have clear, transparent and simple rules shows that they are not much interested in client satisfaction. If the MFIs thus do not care about client satisfaction, then they do not provide the means of knowing it. If the clients do not know the rules, how they know they are satisfied or not?

Frankly, nobody has spent much money to promote client satisfaction. MFI environment is not yet client satisfaction oriented. As for instance, in the Kendra or Center meeting, the clients call the MFI staff as 'sir' but not the other way round. The staff also address them as *tumi* (*tumi* in Bangla is sometimes used as a denigrated version of you). There is no customer orientation. Until and unless, the MFIs themselves will be interested in client satisfaction, the client satisfaction is not going to be meaningful. Many, many field workers think they are giving privileges rather than selling services to the clients. There is no culture of service, there is culture of patronization. This has largely been due to the fact that monopoly power is in the hands. The sector is however ready for competition and this is beginning to happen, e.g. lending rate is changing, the newcomer is getting the first loan just joining the samity that used to take four months earlier, the first loan is now even much bigger than before. This will affect customer services sooner or later and service oriented attitude will eventually come.

I am pleased that CARE, Bangladesh has initiated the study on client satisfaction.

Stuart Rutherford

³¹ Mr. Stuart Rutherford, Chairman of SafeSave was interviewed by the consultant. SafeSave is a cooperative that operates highly flexible financial services on individual approach in Dhaka urban slums using a system of daily collection of savings with withdrawal and provision of small loans going to the doorstep of the clients. Loan could be paid in lump sum or at any time within a period of 6 or 12 months. There is no loan repayment schedule.

The Role of MFIs on Client Satisfaction

Excerpts from the interview with Graham A N Wright
Programme Director, MicroSave, India

In positioning themselves in the market, simplistically put, MFIs have three key variables to focus on: price, quality/range of products and customer service. Frankly, for all the lip service and talk, few MFIs deliver customer service to their clients.

Customer service³² is much, much more than smiling at the customer – it involves:

- **Product/service range** - not only the core products and services offered, but also the additional services (such as customer rewards and incentives).
- **Customer knowledge** to anticipate and meet customers' needs and expectations to retain and grow the customer base through customer relationship management.
- **Delivery systems** need to be efficient, effective, responsive and reliable: mass services are typified by limited contact time and a product rather than service focus.
- **Service delivery environment** in terms of the location of branches and their opening hours, their physical layout and design, as well as the atmosphere – space, colour, lighting, temperature, maintenance, etc. – in the branches.
- **Technology** is often integral to a product – for example ATMs, hand held computers or card-based savings accounts.
- **Employees'** role in customer care cannot be overstated – employee relationship management and staff incentive schemes³³ can play a key role to optimize this key component of customer service.
- **Culture of customer service** - created and delivered by staff throughout the organization as a living value.

MFIs truly committed to customer service will seek to constantly monitor and understand customer needs/perceptions/satisfaction by sending staff in the fields to conduct market research every three to four months. They should care for the customers and consider every customer to be a valuable asset.

This concept will gradually percolate through the microfinance industry of Bangladesh. The majority of clients may not be literate, but they reasonably expect good behaviour and service from the service delivery staff. Generally speaking, the products in the Bangladesh microfinance industry are not still designed to meet the needs of the MFIs, and remain not very customer oriented. Most MFIs have only compulsory savings and a single loan product. The need of the clients to withdraw savings is ignored. Recently, however, some important changes in product development and service delivery are taking place in Bangladesh – particularly at Grameen Bank, ASA and BURO, Tangail. This reflects what is happening in the outside world where MFIs are galloping ahead in product development, technology and customer service.

In Bangladesh, many MFIs staffs still see clients as beneficiaries. They were beneficiaries long time ago when they used to get grants from community development organizations – many of which transformed into MFIs. They are now these MFIs' customers and are buying service at a not inconsiderable price. They should be treated as customers and be duly respected. The field workers often do not explain the products and rules to them clearly, and behave as if big brothers talking to little sisters. But, because of the success of microfinance, many of the previously poor and illiterate clients have become relatively sophisticated business people. They understand, and require, better quality customer service and products tailored to their needs. In the long term, those MFIs that respond to these requirements will thrive and dominate the market. The Grameen II revolution illustrates this particularly well.

Graham A N Wright³⁴

³² See *MicroSave's* "Customer Service" toolkit.

³³ See *MicroSave's* "Developing Staff Incentive Schemes" toolkit.

CASE STUDIES ON CLIENTS OF THE MFIS VOICING THEIR REACTIONS

Ms Anowara Begum of IDF Says “I Always Got Loans as per My Demand”

Ms. Anowara Begum aged about 30 years is one of the active members of IDF in West Nasirabad area of Chittagong City. She expressed her deep satisfaction regarding IDF's financial services. Anowara has been doing financial transactions for last eight years. Her husband Delowar deals in timber. He buys the wood from the forests and sells those in various places in the city area. Anowara is not associated with any other MFI except IDF. She has taken the membership of IDF mainly to take loan and doing savings.

Anowara and her husband said that they got altogether six loans from IDF (i.e. Tk 5,000, Tk 10,000, Tk 10,000, Tk 20,000, Tk 20,000 and Tk 40,000). Anowara said “I always got loans according to my demand”. Of the total loans so far received, they invested Tk 65,000 for merchandising timber and the rest for repairing their house. IDF is also giving health services to her family members regularly. In order to avail of such services she opened a health card by paying Tk 30 annually.

Anowara and her husband are quite happy with IDF. She said, as this MFI fulfilled our loan requirement, we did not feel necessary of taking membership from other nearby MFIs. Mr. Delowar said, “Before joining IDF, I was running shortage of capital. Finding no other alternative, I took loan from Sonali Bank. In order to have loan from Sonali, I had to submit the main deed of my landed property and fooled around my days. I had to pay speed money also. As soon as my wife took IDF membership, she got the loan according to our demand. We have made very good progress using the IDF loans since then”. The capital of their business has considerably increased from the timber selling.

Ms Sabura Khatun left Annesha to Join ASA - the Largest MFI “I Joined ASA for Larger Loan and Flexible Terms”

Ms. Sabura Khatun aged 38 was a very poor housewife. She had joined Annesha – a tiny MFI in Chittagong about three years back with a view to taking loans for changing the lifestyle of her family members. Sabura's husband Faruque Ahmed has also come from a very poor family. He sells tea and biscuits for the roadside pedestrians. He earns Tk 150 to Tk 200 everyday. Not all days go alike, though. They have been living on a plot of land owned by the grand father of Sabura Khatun.

Sabura said, “I have taken so far three loans Tk.3000, Tk 5000 and Tk 7000, which my husband used in running his business. Annesha did not provide loan according to my demand. I am sure the worker of this MFI did not give value to my creditworthiness noticing our vicissitudes. We are landless and our daily income is very low. Nevertheless, I never failed to repay my weekly loan installments. I got assurance from the field worker of raising loan according to my demand. This is why I had chosen Annesha. I thought that taking loan from Annesha would help my husband in expanding his business and we were hoping to buy a small piece of low cost homestead land. But our fate still remained

³⁴ Mr. Graham A N Wright has been interviewed by the consultant in Dhaka.

unchanged”. Sabura also became unhappy because the MFI charged Tk 10 per Tk 1000 loan every time when she received a loan. The field worker said that they were taking this extra amount to meet up their office expenses. She was ignorant of this practice. She also said that if any of the borrowers of Annesha failed to repay a portion of the weekly loan installments, the field worker gets furious and would not budge from the homestead till 100% dues were realized. Annesha does not allow its member to withdraw their savings.

When Sabura became certain that it would not be possible to get loan according to her needs, she closed her account with Annesha and joined ASA – the largest MFI in the country. She has so far taken loan three times from ASA. She holds the view that ASA dispenses loan according to her demand. It also allows its borrowers to repay their weekly loan installments by adjusting their savings account. This sometimes eases her financial hurdles.

Ms. Lila Akhtar of Banaful Says
“High Lending Rate Gobbles All My Income”

Ms. Lila Akhtar aged 30 years read up to class VIII in a school. She is the mother of four children – three sons and one daughter. The children are reading in schools. Her husband works in an insurance company. She joined Banaful – a small MFI in Chittagong four years back and has taken 5th loan since. The initial loan that she took was Tk 5000. Then the loan size gradually increased. She always demanded higher loans but the MFI could not match her expectations. The second loan was for Tk 15,000 and the third loan was Tk 20,000. She is also saving with the MFI and depositing increased amount. The current loan is Tk 50,000. Lila asked for Tk 100,000. She says that interest rate on savings is 6%, which is low that needs to be enhanced.

Lila set up a small parlour for the women and it is running. She has an assistant to help her in this beauty care profession. In addition, she has a confectionery. She is using the loan money in the confectionery. A total of five workers are employed there. Lila says that she finds huge difficulty in paying weekly installments. Monthly payment would have eased her situation, she added. She said that the rate of interest i.e. 17.5% coupled with other costs is too high for running small business. She says that lending rate should not be more than 10%. She does not like the insurance practice whereby 1.5% is charged against the loan. Again, 2.5% has to pay against the loan amount for healthcare services. She says” We do not take this healthcare service from here. We go to other doctors of our choice”. Lila thinks that the loan repayment period of one year no longer suits her growing business. She thinks that 18 or 24 months would be suitable for stepped up loans.

She favours voluntary savings for introduction as she can meet her emergencies. She also favours introduction of additional loan for six months to replenish the diminishing loan capital. She also likes that MFIs should introduce the practice of advance loan payment so that interest is reduced like banking system.

She got a prize for her entrepreneurship flair and participated in the trade fair in Chittagong organized by Banaful. Lila said” I will approach other institutions for increased financial assistance to meet the growing needs of my business; I have the right to do that as I have economic freedom”. She appreciated the initiative of Banaful to help her despite their limited financial capacity.

Ms Rehana Left ADAMS to Join an Islamic MFI called Islamia

“Traditional MFIs give less interest on savings and charge high interest on loans, this is why I have left”

Mrs. Rehana Begum aged 50 years joined ADAMS in Khulna district in 2004. She made savings regularly and took two loans from this organization. The first loan and the second loans were for Tk 5000 and Tk 8000 respectively. She lost her husband long ago. Rehana has two sons and two daughters. The sons are engaged in business. They have a fish and poultry business in the nearby bazaar from her residence. To expand her business she needed more money. For the third loan, she sought Tk 15,000. ADAMS said that they have a policy and cannot give so much loan. They wanted to give her Tk 10,000 instead.

She then left the organization and joined another new MFI called Islamia. She got Tk 8000 from this MFI as a first loan. She said that loan would increase afterwards. Ms. Rehana said “Here I save Tk 52 per week and get more benefits. The rate of interest is much less on lending”.

Islamia gives rewards for good performance and gives everybody fruit plants free of cost. There is no link of loan with savings. If she cannot pay one loan installment timely, she can repay the two installments at a time. She said “Islamia field worker does not chase for loan installment collection. They do not keep sitting at her doorstep for hours like ADAMS field worker”. She says there is a future in Islamia. She hopes “Islamia will meet her growing needs of money”.

Ms Ranjita of PSS Says

“I had to Sell off My Two Cows to Meet the Shortfall of Loans”

Ms. Ranjita is a housewife and her husband Arup Biswas is a field worker in an MFI called PRODIPON. About two years ago, Ranjita joined PSS – a small MFI in Khulna district mainly for a loan. She has so far taken loan twice amounting Tk 10,000 each time, which her brother-in-law used for setting up a rice husking mill. Ranjita informed they required around Tk 50,000 for this new business venture. She had requested PSS worker to sanction loan in such a way so that she could start this business. But PSS field worker said that it was not possible to sanction that much loan as per rules. As a result, Ranjita decided to sell off two cows and some valuable timber in consultation with her brother-in-law.

The rice mill began operations recently. They are now earning Tk 200 per day. She told that the loan received from the PSS was useful to a great extent in starting the mill. Her brother-in-law whose name is Protap said that from now on, it would be possible to maintain their daily family expenses out of the income from this paddy-breaking mill. She is not associated with any other MFI. Her brother –in- law told that as PSS was not in a position to sanction loan according to the growing demand of their borrowers, he would advise Ranjita not to take any more fresh loans from PSS. Protap also said that if PSS had sanctioned loan according to their demand, they would not require selling off their two cows and the timber resources.

Ms Jahanara of Nari Maitree Says
“I Demand Interest on Savings”

Nari Maitree is a small MFI based in Dhaka and working with 3500 members that includes 3000 borrowers. Its main focus is not microfinance and implements many development projects funded by the donors and the government. Jahanara Hossain is a borrower of its Goran branch in Dhaka city. Her husband works in the Bangladesh Railway Department. She has been associated with Nari Maitree for last three years. Meanwhile, she has saved Tk 2,755. She resents that the organization does not give any interest on the general savings that she is doing every week. The savings figure remains same at the close and the beginning of the year, she remarked. Jahanara got three loans i.e. Tk 8000, 10,000 and 15,000. “I have invested this money in handicrafts products”, she said. She has no complaint about the loan amounts that she got. She termed this generally as per her needs. But she griped about the lending rate. She said that it is difficult to make profits with 15% interest rate and suggested that it should be maximum of 12%. She favours introduction of Long Term Deposit Scheme (DPS) where Tk 200-500 could be deposited. She thinks that sometimes they find difficulty in paying off weekly installments. The clients would be benefited; if such installments are sometimes adjusted with savings that they have made.

Shikha Rani of SUS Says
“The Policy of the MFI is not Consistent with Growing Needs of Clients”

Ms. Shikha Rani aged 30 years joined a samity of SUS called Rupali five years ago. The samity is located in Savar – the outskirts of Dhaka city. She is a house wife. Her husband works in the Bangladesh Army as a constable. She has taken two loans so far. The first loan was Tk 7000 by which she purchased a cow. Ms Rani has used some money from their own sources as well in this regard. The second loan was Tk 12,000 but she asked for Tk 14,000 from SUS. She completely used the money in the construction of their house where they are living now. Meanwhile, she saved more than Tk 3000. The third loan will be due after 3 months. Rani says “I will propose Tk 20,000 for the third loan”. She is fancying of buying a small plot of land in the neighborhood. “I will be able to repay without any difficulty”, Rani says. She is, however, skeptical if SUS will ever grant her the given money as the organization follows a policy. The policy is not consistent with the growing needs of the clients, Rani says. She says that the lending rate (12.5%) is pretty high that should be lowered to 10%. Rani is generally satisfied with the services of SUS.

Ms Ajijon Nessa left BRIDGE and Joined BRAC
“I Left the MFI as I was charged Insurance fee without my knowledge. I preferred BRAC it does not charge any insurance fee.”

Ms. Ajijon Nesa had taken membership in “BRIDGE” in early 2000. Ironically she had to close her account in late 2005 as she did not like the terms of loan size, product rules, etc. BRIDGE is an MFI headquartered in Khulna district. The main purpose behind her joining “BRIDGE” was to have a loan for expanding her husband’s running business. Ajijon is a housewife and her husband Amir Hamja is a butcher by profession and sells meat in the bazaar.

She said that just before offering the membership, BRIDGE workers had assured her giving loans according to her demand but they did not do so. Ajijon also said that there were some reasons for which she had decided to leave the organization. The field workers of “BRIDGE” did not sanction loan according to their commitment. The workers had promised to give loan within seven days but she had to wait for up to one month. They did not tell her anything about the rules of “Borrowers Insurance Policy” but started deducting Tk10 for every Tk 1000 loan beyond her ken. Ajijon had complained about the aforesaid issues to some of the senior officials of “BRIDGE”, which the officials reportedly did not relish according to her. On the contrary, the high officials reprimanded Ajijon saying “We do not want to listen to any of your complaints. We have nothing to do for a borrower like you. You had better leave the organization ASAP”. At this, Ajijon became crestfallen and closed her account forthwith. Afterwards, she took membership of BRAC wherefrom she is having much bigger loans than before. She appreciated the BRAC’s insurance policy saying a client is not required to pay anything for the death benefit.

LEGAL BARRIERS AFFECTING CLIENT SATISFACTION

Contractual and Fixed Term Deposits Not Allowed by Law

Innovative savings products like fixed term deposit and contractual savings (DPS) in particular has good demand among the clients. They are inclined to save through these instruments. A few partner MFIs are still doing that. Others do not do lest they might be penalized by the central bank. The PKSf partner organizations are not allowed to launch such instruments in view of the central bank’s alleged tacit prohibition. The INCOME – III has 12 PKSf partners out of 32 who have stopped such savings services resulting in the dissatisfaction of the clients.

Professional Insurance is Absent in the Industry

Most partner MFIs have some kind of insurance practices under different names. These are not termed as insurance in order to avoid any legal hassle. The clients of the MFIs were grossly resentful on the existing modus operandi of the insurance practices. Premium is usually collected by slashing a fixed percentage against the sanctioned loan. The clients aired the idea that insurance should be long term ranging 8-10 years for which they will pay affordable premiums. But there are legal tangles for which these may not be possible. Such insurance should be mulled over considering the interest of the poor clients.

Bankrolling the MFIs is Hard

The MFIs cannot meet the demand of loans of their clients as they are plagued with shortage of with capital. Donor funding in microfinance has declined long before. Accessing PKSf fund is pretty difficult and time consuming. Some banks are providing

limited funds to the MFIs. When this is the case, the MFIs have no other way but raising deposits from the general public. This may be done to pave the way for solving fund-crisis based on the merits of the MFIs by the upcoming Microfinance Regulatory Authority or the Central Bank. In giving loans, the commercial banks demand collateral from the MFIs, which cannot be met by the small and medium MFIs. The central bank may adopt a policy of encouraging the commercial banks to provide more loans to the good performing MFIs without any collateral following some kind of credit rating. The growing demand of fund may also be met by setting up more wholesale microfinance institutions to foster competition. This would eventually lead to providing quality financial services to the satisfaction of the clients.

Lack of MFI Regulation Hindering the Growth of Savings and Loan Portfolio

The Bangladeshi microfinance sector has been so far characterized without any regulation. The microfinance market has remained outside the periphery of formal financial system. Due to the lack of integration into the formal system, the MFIs' entry in Call Money Market or MFI Market has been constrained. MFIs' revolving loan fund (RLF) accounts for about 30% clients' savings and maybe more. There is enormous potential of its further growth that will lead to augmenting credit. There is no other way out. The clients cannot trust the MFIs fully like the banks, as these are semi-formal and unregulated institutions. No protection of clients' savings is ensured by any law. The clients fear that they will not get back the savings like the bank's clients (as they are protected during the bankruptcy), should the MFIs face bankruptcy or disappear anytime.

Accessing Foreign Loans and Equity is Difficult and Uncertain

The MFIs have also an option for overseas borrowing though it is presumably bleak. There are many foreign financing agencies that are interested to provide loans to the local MFIs but the MFIs cannot avail of such loans as capital repatriation with interest is difficult under the Foreign Exchange Regulation Act of the country. On the other hand, the MFIs' current capital structure does not allow for equity investment and paying dividend.

CONCLUSION AND RECOMMENDATION

Conclusion

The conclusion is largely restricted to the study covering the Partner MFIs of INCOME III project of CARE Bangladesh. The main focus of client satisfaction pivoted on the methodological and operational practices. That includes current practices, some defunct practices and others, which the clients aspire most to be incorporated in the policies of the MFIs.

- i. The clients generally like the methodological current practices relating to group methodology. However, the borrowers with larger loans or enterprise loans prefer individual lending approach with different terms viz. loan period, grace period, rate of lending, quality training, etc.
- ii. The clients growing demand does not match with the ability of the partner MFIs. The INCOME Partners are generally small barring a few that are mid-level MFIs. The clients want various services. They cherish an expectation, which the MFIs do not or cannot meet. The clients do not like joint liability or group guarantee that is still in force. Many client groups do not like male field worker, it is also in practice. The clients want to withdraw savings from the savings account but it is denied. Some MFIs cut client's loan as forced savings, which they do not like. Loan cannot be adjusted with savings even if the clients are in dire crisis. They want additional loans to support the diminishing capital because of the nature of weekly loan repayment system. Loans are considered by many as inadequate.
- iii. Cutthroat competition is prevailing in the sector. High dropout rate and overlapping of clients signal this competition. Some MFIs are beginning to change their products and rules. The staff behaviour with the clients has enormously improved. Hardly anybody could be found who said otherwise about their behaviour of the MFI staff.
- iv. The ingrained mindset of the MFI is that they work for the poor, the distressed and the disadvantaged communities. They have remained largely ignorant maybe inadvertently in treating their members with respect like customers. The clients want so many other services, which the MFIs cannot provide and turn their blind eyes to these. Today the creditworthiness of the client is beyond question. The clients buy the service at a price and are paying for it. Some clients in the MFIs are saving but MFIs are not paying any interest to them, rather using their savings for more profit earning. This shows lack of respect towards the clients.
- v. The concept "Customer is the King or the Boss" is not widely popular or known in the MFIs circle. This is due to the fact that the clients are seen with a bit condescending view consciously or unconsciously. The clients are very often termed as beneficiary. They seem to live on the mercy of the benevolent MFIs. This is why the culture of customer service has not grown. No seminar and indeed no workshop were ever heard to have been organized on client satisfaction. Clients' reactions were never listened to and that remained largely arcane. It seems that nobody wanted to open the Pandora's Box.

- vi. Many clients do not like to save small amount of money as mentioned by some MFIs. Many do save a good amount through contractual savings – an instrument used by the banks. The mid-level and small MFIs of INCOME III partners cannot match the bank’s ability in providing client satisfaction. The crux of the MFI problem in meeting client satisfaction is the problem of money. The small MFIs are not able to cope with the growing credit demand of the clients. This is an overall system fault – government policies, regulation, shyness of the banks and foolhardy ambition of the MFIs, above all, etc.
- vii. The clients have problems too. They have problems in understanding the ability of the MFIs. They do not understand that the funding capacity, image, and policies & procedures of all MFIs are not same. It seems that the small MFIs have started an unending journey with microfinance. Like the big MFIs, the smaller ones also want to do the same things. They have undertaken a task, which presumably they cannot perfectly accomplish. They are not aware of where to stop in financing the clients. They do not think what they should do or not do. With limited resources at hand, it is incredibly difficult for them to attract and retain the clients. In other words, the clients will continue to remain dissatisfied.
- viii. There are also many legal barriers affecting the client satisfaction in the sector. The fund suppliers are limited. It is very hard to establish new funding institutions to serve the growing needs of the clients. Also receiving loans from overseas countries is immensely difficult in view of stringent foreign exchange regulation obtaining in the country.
- ix. The clients expressed their utter dislikes on the critical program practices. They want sweeping changes in existing policy to satisfy their needs. No customer survey is done to know the feedback on products and services. What is important is to note that the clients do not get the desired satisfaction because of the service provider’s inability. All MFIs do not have the same capacity, solvency and customer friendly policy to serve them. What a big MFI can do for client satisfaction, the smaller ones cannot do that. Client satisfaction is not an airy service. Satisfying the clients will involve significant costs and the clients will have to bear the brunt eventually.
- x. The clients disliked the lending rate saying it was egregiously high for any productive purposes. They want a rate at par with Grameen Bank level i.e. 10% in flat. Saving interest was also considered low by the clients and they suggested that it should be about 8% instead of 5%. The MFIs provide loans as per their policy. They are not flush with funds. How can they cope with the growing needs of the clients? In the financial service, it is very hard for the small MFIs to satisfy the client’s needs. The clients do not get what they had bargained for. The overlapping figure of 33% worked out by PKSf shows that clients are availing loans from more than one MFI. The small MFIs, at best can meet part of the needs of the clients.
- xi. Insurance appeared as most unwanted service. The clients overwhelmingly suggested dropping such service. The clients do not consider insurance worthwhile for short-term. The MFIs need to devise good insurance policies in ‘savings mode’ so that the deposited premiums can be returned to the clients – the practices of Sajida Foundation and DSK are cases in point.

- xii. The MFIs need to understand that the clients are not captive or their perpetual customers and the clients may kowtow for the time being but soon will switch over, if they are not satisfied with the services. They need to be nurtured as loyal clients. A good client with a good portfolio is an asset for the MFI. Loss of a customer is loss of income and thus loss of bread & butter for the employees. The existing practices and the cry of the clients indicate that the MFIs generally look at their own interest rather than the client's perspective. All policies are taken to fortify the MFI's interest. Customer's rights and convenience are seldom looked into. There are MFIs with good policies just in their books. The clients are not aware of. The MFIs do not adequately inform the clients on policy issue in advance. Fetching policies exist merely in documents with sloppy implementation in the fields. The client case studies demonstrate some of these stark facts.
- xiii. There are 32 partner MFIs of CARE Bangladesh that includes 19 full partners and 13 limited partners. Not only that 12 of its partners also happen to be the partner organizations (PO) of PKSF. These MFIs are largely well trained with 5-10 years training in three phases of INCOME project. Many senior staffs of the partner MFIs were also trained at home and abroad. Despite all these facts, there is hardly any reflection on the client satisfaction in these MFIs.

Recommendation

- i. Microfinance is a quasi banking service. It is a business and indeed a commercial business. However, the social mission is also embedded in microfinance as this service is meant for the low-income segment of the community who have no access to formal financial services. The present microfinance methodology and legal framework is not suitable for small and mid-level MFIs to serve the clients and their needs swimmingly. It is recommended creating new breed of MFIs or a new kind of microcredit banks other than the conventional banks authorized in taking deposits from the general public through a new legislation. The new MFIs have to be staffed with qualified professionals with training in banking technology and customer satisfaction.
- ii. Long term insurance policy is desired by the clients as they have no interest in the short-term. Barring a few exceptions, they do not get back the premiums they had deposited once the loan term is over. The clients are highly exasperated on the current insurance products. The clients argue that the MFIs can set aside part of their profits (or surplus) whatever if they sincerely like mitigating the debt liabilities of the deceased clients. The MFIs cannot introduce proper insurance policy as they are not allowed by law. The MFIs need to zero in on this thorny issue.
- iii. The MFIs should ensure the clients 'rights' to know. Clients are not largely aware of product rules. They should be informed beforehand about the changes in policies and program practices. Besides, a culture of customer service has to be gradually promoted keeping in mind that the customer is the boss and we got to serve them. The field worker or any other senior staff should clearly explain the product rules and features to the clients. They should do not hide anything from public view.
- iv. The MFIs are not used to doing any customer survey. Periodical formal research should be undertaken to know the clients feedback on products and services. This activity should be taken as a continuous activity.

**Summary of “Likes – Dislikes”
Reporting on Client Satisfaction**

Sl #	Program Practices include current, defunct and Aspired	Likes of the Current, Defunct or New Practices. Groups (Clients)	Vote for Change for Dislikes on Current Practices, Introduction of New and Reintroduction of Defunct Practices. Groups (Clients)
1	Client Selection criteria: widely in practice	27 (422) 93%	2 (34) 7%
2	Group Methodology: widely in practice	29 (456) 100%	-
3	Joint Liability or Group Guarantee: widely in practice	-	29 (456) 100%
4	Weekly Meeting; widely in practice	28 (439) 97%	1 (17) 3%
5	Traditional Sitting Arrangement on the Floor: widely in practice	25 (392) 86%	4 (64) 14%
6	Male Field Worker Engagement Issue: widely in practice	19 (303) 66%	10 (153) 34%
7	Savings Withdrawal Facility in Mandatory Savings: generally not in practice	6 (88) 21%	23 (368) 79%
8	Loan Adjustment with savings: Not in practice	1 (18) 3%	28 (438) 97%
9	- Mandatory weekly savings/Rate: widely in practice -Voluntary savings generally not widely in practice	29 (456) 100% 11 (180) 38%	- 18 (276) 62%
10	Interest on Savings is generally given at a uniform rate	-	29 (456) 100%
11	Adequacy of Loan Size	8 (128) 28%	21 (328) 72%
12	Additional Loan; Not in practice	2 (32) 7%	27 (424) 93%
13	No Interest Reduction on Loan being Prepaid ; Not in practice	-	29 (456) 100%
14	Loan Disbursement Quickness	15 (236) 52%	14 (220) 48%
15	Loan Period or Total Weekly Installments: 46 installment generally in practice	19 (299) 66%	10 (157) 34%
16	Loan Grace Period : widely in practice	14 (225) 48%	15 (231) 52%
17	Restriction on Loan Use: widely in practice	29 (456) 100%	-
18	Interest on Loans	-	29 (456) 100%
19	Periodical Verification of Passbooks of Clients by the Branch Manager or Accountant: widely in practice	29 (456) 100%	-
20	Insurance ,Rates/ Lump Sum Fee’s Appropriateness: widely in practice	-	29 (456) 100%
21	Discussion of social /development issues in the meeting: widely in practice	29 (456) 100%	-
22	Quality of training (existing training or future need of any training): Not in practice	11 (182) 38%	18 (274) 62%
23	Borrowing from multiple MFIs/banks: widely officially not encouraged	-	29 (456) 100%
24	Behaviour of NGO Staff at All Levels	29 (456) 100%	-

Summary of Reporting Matrices on Client Satisfaction

Total number of MFIs: **15**

Total Number of Groups Interviewed: **29**

Total Number of Participants: **456**

SI #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
1	Client Selection criteria	The clients are mostly selected from low income segments of the community. There is no significant differences in terms of social and economic variables.	27(422) 93%	In some cases, clients are selected who are not creditworthy.	The MFI staff should discreetly select clients by gathering more information about them.	2(34) 7%	The good clients eventually have to bear the unpleasant circumstances.
2	Group Methodology	The clients like the group methodology in view of its cohesiveness and solidarity.	29(456) 100%	Nothing opposing views on the group approach was heard.	The clients favor continuing the group approach.	-	The clients do not face any problem.
3	Joint Liability or Group Guarantee	-	-	Joint liability is in practice in most MFIs. The clients do not like shouldering others liabilities.	The clients generally want a complete change of this practice.	29(456) 100%	Problems occur when some cannot repay loans timely. Situations also occur when clients flee away. The other clients in the group have to make up or compensate the loss. Because of such practice, spouses get into scrap that hampers family peace.
4	Weekly Meeting	The clients like the weekly meeting in most cases as they can save quickly and regularly. They can also pay off the loans early.	28(439) 97%	The clients with bigger loans and / or micro enterprises do not favour weekly meeting on the premise that frequent payment of loan is difficult.	While the majority of small clients like to continue this practice, some clients with larger loans want monthly meetings.	1(17) 3%	The loan installment is not a burden for the majority small borrowers so they want to continue this practice, while the bigger ones face difficulty in repayment as loan capital shrinks fast resulting in lower income.

Sl #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
5	Traditional sitting arrangement on the floor	Most clients like traditional sitting arrangement. They do not mind sitting on the floor as they spend very short time in the meeting and has been used to such culture.	25(392) 86%	Some clients seemingly economically as well as socially better off have a condescending feeling on the issue and want better arrangement.	Most clients favour continuing this practice.	4(64) 14%	Most clients think that they gather for a moment and do not think it a problem. Besides, any alternative will involve cost which they are not ready to bear.
6	Male field worker engagement issue	In most MFIs there is provision for male field workers. Most clients have a neutral feeling as to male or female workers. They do not have any problem with the male field workers.	19(303) 66%	In some MFIs clients tend to like the female workers and dislike the male field worker engagement.	Majority clients want to continue with male worker provision while some want to continue with the existing female provision.	10(153) 34%	The majority regards the male field workers like their younger brothers and sons and do not ask for any change. While a few others think that they are women and it is better if women field workers are there. They feel comfortable and can sit with ease with women field workers. While they sit being alert with male field workers. They also argue that they can talk on many women issues freely.
7	Savings withdrawal facility	Limited savings withdrawal facility exists in some MFIs. In some MFIs there is no withdrawal in case there is loan outstanding. They are satisfied with current practices.	6 (88) 21%	There is no normal savings withdrawal practice in most MFIs when there is a loan outstanding. In some MFIs there is however limited provision of withdrawal but the clients are not aware of it. The reason is that the staff did not disclose this matter to them.	Most clients want a sweeping reform in the policy and want a flexible saving service.	23(368) 79%	The clients maintain that they are good borrowers and repay timely. Problems occur when they need money urgently. They say their savings is not a 'show piece' and is for use in times of need. There is no reason to block savings at their crisis period.

Sl #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
8	Loan installments adjustment with savings	A few clients did not like the adjustment of loan with savings. They like the current practice.	1(18) 3%	There is no provision in the MFIs. They overwhelmingly want this provision to be introduced.	The clients widely recommend introducing this provision forthwith.	28 (438) 97%	The clients say that it is a fact that they repay loans on time but sometimes they find it hard to pay loan installments and borrow from elsewhere for this purpose. A provision to adjust loans with savings would be helpful for them.
9	Mandatory weekly savings/Rate Voluntary savings	There is mandatory savings with a minimum deposit rate of Tk 20. Clients can deposit more should they wish. In some MFIs there is provision of voluntary savings along with mandatory savings. The clients can deposit or withdraw any amount as per their choices. The clients like it.	29(456) 100% 11(180) 38%	There is no dislikes with rates of mandatory savings. Only thing is that it cannot be withdrawn in case of need. The clients favour the introduction of voluntary savings in tandem with mandatory savings as Most MFIs do not have this practice. In a few MFIs, voluntary savings was introduced but later closed.	The clients recommend introducing voluntary savings. They urged to reopen voluntary savings where those where closed.	- 18(276) 62%	In all MFIs there is provision for mandatory savings. The clients want withdrawing facility from this account in case of need. There are MFIs having policy of withdrawal up to a certain level but the clients are not aware of this as the branch managers advisedly did not inform them. The clients are keen for voluntary savings in addition to the mandatory one.
10	Interest on savings	Most clients like the practice that interest on savings is being paid.	-	The clients in general do not like the current rates of interest. Mostly interest is paid @5%. Some are giving 6% for the mandatory savings.	The clients recommend enhancing the rates. They want it at 8%-10%.	29(456) 100%	The clients argue that they get less compared to what the MFIs are charging using their resources. They cited the cases of some MFIs, which are giving such rates.

Sl #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
11	Adequacy of Loan Size	There are very few clients who say that loans that are given are adequate to meet their needs.	8(128) 28%	Most clients say the loans are not adequate both for the new comers as well as the old clients, though loans increased every year.	They say that the loan amount should increase by 50% on average.	21(328) 72%	The clients say that they cannot do any business or productive work meaningfully with small loans.
12	Additional loan	There is no provision of additional loan, which they like most. A few clients did not like additional provision which is not in practice.	2(32) 7%	Most clients resent the absence of additional loans. The clients did not like current MFI policy of not providing such loan.	The clients recommend that Tk 3000-5000 should be given for 6 months after 4/5 months of taking the general loan.	27(424) 93%	The clients argue that the loan capital begins depleting every week and becomes zero at some stage. The business loses the money rolling capacity that leads to degeneration of income. To support the capital shrinking, additional loan is needed with same rate of interest as that of the general loan.
13	No interest reduction on loan prepaid	The MFIs generally do not allow any prepayments. In case, they allow it, there is no provision of reduction of interest.	-	Almost all clients do not like the current practice.	The clients overwhelmingly recommend changing the policy allowing reduction of interest following payment of principal. Those take bigger loans were highly critical against current policy.	29(456) 100%	The clients feel that interest should be taken for the period of loan money use. They say if they take loan and repay the whole principal the next day, even then they will have to pay the whole year's interest and that's funny.
14	Loan disbursement quickness	About half the clients in the FGDs like the current practices at which speed the loans is disbursed and want it to continue.	15(236) 52%	The old clients get fresh loans after 15 days. The new clients get after 4 weeks of admission. The clients regard this as excessive delay. About half the clients did like the present speed of disbursing loans.	The clients say they should get loans within 7 days and new ones within 21 days of admission and no savings proviso.	14(220) 48%	The clients say they need money quickly. For each day delay, they incur loss and sometimes they miss opportunities

Sl #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
15	Loan period or total weekly installments	Mostly the clients like 46 installments in one year loan period.	19(299) 66%	There are some clients who like less installments and think that it should be 44.	These clients recommend reducing the installment size.	10(157) 34%	The argument is that they will have to give less interest and that they will get the new loan early.
16	Loan grace period	Almost 50% clients like the current grace period, which is nearly 2 weeks.	14(225) 48%	About 50% clients do not like the current practice. Clients with larger loans want higher grace period of 4 weeks instead of 2 weeks	The larger borrowers recommend changing the current practice.	15(231) 52%	The clients say that they want to pay loan from the earned income. If they have to pay in 2 weeks time, they have to pay from the loan capital, which they think is not desirable.
17	Restriction on loan use	There is verbal restriction on loan money use. In case of larger loans there is close supervision. The clients appreciate the practice and want to continue the practice.	29(456) 100%	-	-	-	-
18	Interest on loan	-	-	The MFIs charge mostly 15%-18%. The PKSF financed branches of some MFIs charge 12.5% in flat system. Not a single client or group was found who liked such rates. They regard the interest rate too high.	Most clients recommend fixing it at 10% equivalent to Grameen Bank standard. A few however say it should be maximum 12%.	29(456) 100%	The clients say it is difficult to make profits with such high interest rate. It gobbles all income and leaves little surplus.
19	Periodical Verification of Passbooks by the branch manager or accountant	All clients like this practice. All MFIs follow this system. Every year passbooks are checked by the branch manager or accountant 2-3 times to reconcile with Collection Sheet of the field workers. This creates a confidence among the clients.	29(456) 100%	-	-	-	-

Sl #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
20	Insurance premium rates/ amount's appropriateness	-		There are two types of insurance practices – one is loan insurance, the other one is health insurance. Loan insurance is common. While those who provide health services charge health insurance. Insurance is commonly charged in terms of a percentage against loan for the loan period that also covers the health premium. In some cases, premium is collected as token amount for both loan and health insurance. The clients generally do not like any such insurance practices.	The clients want that insurance practices of current nature should be discarded by MFIs. There are others who favour 8-10 years voluntary insurance (like professional life insurance) at affordable premium. Such insurance will enable them to get back the premiums so far deposited in case there is no death.	29(456) 100%	<p>The clients argue that in most current insurance practices, they lose good amount of money. Besides they are not aware of the premiums docked off for health insurance as it is included in the lending rate.</p> <p>Many larger borrowers say they do not avail of health insurance facilities. They go to private doctors of their choices.</p> <p>The small impoverished borrowers take this health insurance facility positively. They would have loved to get it free. There are clients who cannot enjoy this facility due to distance problem and hence do not like it since they are paying for no service.</p>
21	Discussion of social/development issues in the meeting	The field workers discuss a wide range of development issues apart from microfinance. The clients unanimously like it. They think these enhance their awareness and upgrade knowledge.	29(456) 100%	-	-	-	-

SI #	Current Practice	What clients like about it?	# of groups	What clients dislike about it?	Recommendations to improve	# of groups	Why
22	The issue of quality of training (existing or if imparted)	There is no provision of training. There are many who think that training is necessary to increase skill and expertise in certain trades.	11(182) 38%	There are clients who do not like any training if given to them.	They do not recommend for any training.	18(274) 62%	The clients say that they remain very busy with small businesses and various household chores and virtually have no time to spare.
23	Behaviour of NGO staff with the clients	All clients like the general behavior of the staff at all levels. They are impressed with their manners and mood of cooperation.	29(456) 100%	-	-	-	-
24	Multiple borrowings from NGOs	-	-	There is no open policy of the MFIs allowing the clients for multiple borrowing. All clients do not relish the absence of such policy.	The clients maintain that they are free to borrow from anywhere provided an MFI cannot fulfill their demand.	29(456) 100%	The clients think that it is their right to borrow from whatever sources they have access. They also hold the view that they borrow as per their needs and capacity to repay. In the absence of a policy they have to hide facts and tell lies as to the sources of borrowing.

Partner MFI Professionals Consulted

SL	Name of MFIs	Region	Persons Consulted
1	ANNESHA	Chittagong	Mr .Zahiruddin Babar, Credit Coordinator Mr. Dulal Kanti Das, Program Officer Mr. Ershadul Anowar, Field Supervisor
2	BANAFUL	Chittagong	Ms. Rezia Begum, CEO Ms. Kohinur Begum, Manager, Microcredit Ms Shanta Bhattachargee, Unit Manager
3	IDF	Chittagong	Mr. Zahirul Alam CEO Mr.Dilip Mozumdar, Senior Program Organizer Ms. Shirin Sultana, Manager
4	YPSA	Chittagong	Mr. Arifur Rahman CEO Ms. Nilufar Banu, Program Officer
5	ADAMS	Khulna	Mr. S M Ali Aslam, CEO Mr. Sabirul Anam, Program Coordinator Mr. Liton Mollah, Project Coordinator Mr. Asif Mahmud, Internal Audit and Monitoring cell
6	BRIDGE	Khulna	Mr. Zahirul Islam Bali CEO Mr. Maksudul Alam, Asstt. Director Mr. Sk Solaiman Hossain, Area Manager Mr. Md Hafizur Rahman, Area Manager
7	PSS	Khulna	Mr. Sadhan Kumar Das, Credit Coordinator Mr. A. Kuddus, Branch Manager Mr. Mohitosh Biswas Branch Manager
8	ARBAN	Dhaka	Mr. Muhammad Kamaluddin CEO Mr.Md Khademul Islam, Program Coordinator Ms. Masammat Nasrin, Technical Officer Ms. Rosina Akhtar, Area Coordinator Ms. Nahrin Sultna, Monitoring Officer Mr Salien Biswas, Area Coordinator Mr. Emdadul Haque, Member, Monitoring
9	BASTOB	Dhaka	Mr. Ranjit Chandra Das, Senior Credit Coordinator
10	DSK	Dhaka	Dr. Masudul Quader, Program Director Ms. Razia Sultana, Manager
11	MSS	Dhaka	Mr. A N Md Emam Hasanath, CEO Mr. Selim, Program Officer
12	NARI MAITREE	Dhaka	Ms. Shaheen Akhtar Dolly CEO Ms. Shamim ara Begum, Credit Coordinator
13	PMK	Dhaka	Ms. Kamrun Nahar CEO Mr. Nazem Uddin, Program Manager
14	SAJIDA FOUNDATION	Dhaka	Ms. Zahida Fizza Kabir CEO Mr. Md Rahmatullah Sawpan, Senior Credit Coordinator
15	SUS	Dhaka	Mr. Rafiqul Islam Mollah, Director (Program) Mr. Mridul Chakraborty, Chief Accounts Officer

Persons outside CARE INCOME Consulted

1. Mr. Md. Shafiqul Haque Choudhury
President, ASA
2. Mr. Stuart Rutherford
Chairman, SafeSave
3. Mr. Graham A N Wright
Programme Director, MicroSave, India
4. Mr. Dipal C. Barua, Deputy Managing Director, Grameen Bank
5. Mr. Zakir Hossain, Executive Director, Buro
6. Mr. Sabbir Ahmed Chowdhury, Director, Microfinance, BRAC
7. Mr. Md. Enamul Haque, Executive Vice President, ASA
8. Mr. Mosharrof Hossain, Finance Director, Buro
9. Dr. Ahsan Ali, Director, AHRARI

**Partner MFIs Studied in terms of Region
and Nature of Partners**

SL	Name of Partner MFIs	Region	Nature of Partner
1	ANNESHA	Chittagong	Limited Partner
2	BANAFUL	Chittagong	Full Partner
3	IDF	Chittagong	Full Partner
4	YPSA	Chittagong	Full Partner
5	ADAMS	Khulna	Full Partner
6	BRIDGE	Khulna	Full Partner
7	PSS	Khulna	Limited Partner
8	ARBAN	Dhaka	Full Partner
9	BASTOB	Dhaka	Limited Partner
10	DSK	Dhaka	Full Partner
11	MSS	Dhaka	Full Partner
12	NARI MAITREE	Dhaka	Full Partner
13	PMK	Dhaka	Full Partner
14	SAJIDA FOUNDATION	Dhaka	Full Partner
15	SUS	Dhaka	Full Partner

About the Author

S. M. Rahman

Mr. Rahman had his early education from Chittagong Collegiate School in the port city of Chittagong district and Maulvibazar College in Sylhet district- home of major tea gardens. He holds Master Degree in Business Administration (MBA) from the Institute of Business Administration (IBA) and M.Sc in Statistics, both from Dhaka University, Bangladesh.

Experienced in development banking, microenterprise and microfinance. He worked in the Bangladesh Shilpa Bank (Industrial Development Bank), MIDAS (a SME development and financing organization), and Credit and Development Forum (CDF) – a national network of microfinance institutions in Bangladesh.

He is specialized in microfinance program development, viability, reviews, research, training and advanced business plan. He reviewed microenterprise and governance issues of MFIs for joint donor strategy in Bangladesh. He authored articles on microfinance regulation in international publications viz. SED Journal ITDG, London and ICFAI University Press, Hyderabad, India. He co-authored a book on commercialization of microfinance by Asian Development Bank (ADB), the Philippines. It has been translated in Japanese and Russian languages as spotted in Google's website (www.google.com). Mr. Rahman has written extensively on critical issues of microfinance in the national leading English Newspapers in the country. Many of his works are available in the website of microfinance gateway (www.microfinancegateway.com).

Mr Rahman has carried out consultancies in the field of microfinance and SME for DFID, USAID, CIDA, SDC, ADB, Danish Embassy, Oikocredit, CORDAID, CARE Bangladesh, Stromme Foundation, Buro, Tangail, Novib, United Commercial Bank Ltd, etc.

Contact Email Address: smr@bangla.net

Dhaka
Bangladesh