


Client Voices Synthesis Report

Flexibility, Empathy, and Knowledge: What Clients Want From Microfinance in Benin, Pakistan, Peru, And Georgia

October 2015

LEAD AUTHORS

Sushmita Meka and Caitlin Sanford

CONTRIBUTORS

Justin Grider, Laura Cojocaru, Wajiha Ahmed

WITH INPUT FROM

Alexandra Rizzi, Elisabeth Rhyne,
Isabelle Barrès, Pablo Anton Diaz

BFA Bankable Frontier Associates

the smart campaign

Keeping clients first in microfinance

Acknowledgments

Elisabeth Rhyne, Managing Director of the Center for Financial Inclusion at Accion, devised the need for a client voice project in 2012 as a critical but missing data point for the Smart Campaign's work. The project was commissioned and managed by Alexandra Rizzi, Deputy Director of the Smart Campaign, who provided intellectual guidance through all phases of the project. Alexandra also convened groups of distinguished industry leaders both for cross-country and country-level guidance and managed the process of iterative feedback. This project would not have been possible without her. Isabelle Barrès, Director of the Smart Campaign, provided inputs throughout the project. We are grateful to Smart Campaign staff Daniel Balson, Laura Galindo, Nadia van de Walle, and Pablo Anton Diaz for participating in country research and for making essential contributions that advanced the methods and conclusions of the Client Voices research. The Smart Campaign communications team was also instrumental in the professional finalization and presentation of all project deliverables.

A group of international experts in financial inclusion, microfinance, and consumer protection provided intellectual guidance throughout the project by participating in the Client Voices International Advisory Council. In addition, industry leaders in each of the four countries provided essential market intelligence, guidance in selecting locations for the qualitative research, key inputs to questionnaires, and feedback on findings, among other essential inputs. Please see Annex 1 for a list of members of the International and National Advisory Councils, all of whom contributed substantially to the Client Voices project.

BFA would like to thank our highly competent and dedicated research partners in the four countries: CEDA Benin (qualitative and quantitative), TNS Pakistan (qualitative), Gallup Pakistan (quantitative), Datum Peru (qualitative and quantitative), IPM Georgia (qualitative and quantitative). Most importantly, we are profoundly grateful to the respondents in each of the four countries who candidly shared their experience with the goal of improving microfinance for others.

Client Voices Synthesis Report

Flexibility, Empathy, and Knowledge: What Clients Want From Microfinance in Benin, Pakistan, Peru, And Georgia

October 2015

LEAD AUTHORS

Sushmita Meka and Caitlin Sanford

CONTRIBUTORS

Justin Grider, Laura Cojocaru, Wajiha Ahmed

WITH INPUT FROM

Alexandra Rizzi, Elisabeth Rhyne,
Isabelle Barrès, Pablo Anton Diaz

Bankable Frontier Associates

the smart campaign

Keeping clients first in microfinance

Figures and Tables

Foreword

"Getting into debt is almost like losing everything."
FORMER MFI CLIENT, LIMA, PERU

The microfinance industry began with the intent to help poor clients help themselves. That's one reason so many microfinance institutions have embraced the Smart Campaign, which strives to embed a set of client protection principles into the fabric of the microfinance sector.

But what do clients think about client protection? What kind of experiences do they have with their financial service providers? What happens when things go wrong?

We decided to ask them.

"They don't think that we can genuinely have problems…they don't try to understand."
CURRENT MFI CLIENT, SHEIKHUPURA, PAKISTAN

The Client Voices Project aimed to test the assumptions behind the client protection principles. The project, conducted over two years across four continents, asked clients themselves which aspects of their relationship with MFIs were most worrisome. The questions were posed in an open-ended way, not even presuming that the answer would be found among the seven client protection principles. The experience was both humbling and educational, and it has far-reaching implications for providers, regulators, and financial educators—in fact, anyone seeking to reduce the risks lower-income people encounter when they use financial services.

"We are farmers. The best arrangement for us is to be told, in relation to the amount of the loan, how much we actually have to repay… [this is] better than mixing us up with percentages."
CURRENT MFI CLIENT, PAOUIGNAN, BENIN

Overall, we discovered that across the four markets in our study (Pakistan, Benin, Peru, and Georgia), clients are generally satisfied with MFIs. (Microfinance critics, take heed.) Yet we also found troubling themes. Many microfinance clients enter into relationships with financial institutions where they are not adequately informed or prepared for when things go wrong. Whether it is currency fluctuations that change interest payments in Georgia, an unknown fee in Peru, or unreturned compulsory savings in Benin—clients are often surprised during transactions with MFIs. Regardless of whether these surprises are due to client misunderstanding or staff malfeasance—they damage client trust. Moreover, most clients do not feel empowered to voice their confusions or complaints. Both knowledge of and faith in grievance redressal mechanisms are limited.

We also observed that the risk of abuse is highest when clients have trouble repaying their loans. In Pakistan and Benin for instance, clients told us of the social and psychological pain they suffered from being publicly shamed for late payments. While extreme incidents were quite rare—the rigidity in loan collections can create a problematic and stressful cycle for clients, even those who pay on time.

"…Maybe it [the MFI] is not the best option, but it is the most appropriate option, despite the higher interest rate."
CURRENT MFI CLIENT, GURJAANI, GEORGIA

This synthesis report (*and its related four individual country reports*) presents the voices of low-income individuals who shared with us their opinions, hopes, and struggles. For the Smart Campaign, this is just the beginning. We will be working to ensure that these findings fuel further industry dialogue and action. If the microfinance sector is to fulfill its original promise and avoid future problems, listening and responding to client voices is critical. We have an agenda. Join us.

Alexandra Rizzi Deputy Director, the Smart Campaign
Pablo Anton-Diaz Lead Specialist, Latin America and the Caribbean, the Smart Campaign

Executive Summary

1

“[Microfinance providers] don´t inform you, they should give you complete information [about the loan charges]… There is an easier way: we should be able to understand, to see what our options are and what is best for us, to find the [product] that suits us best.”
WOMAN, JULIACA, PERU

“[With Microfinance providers] there are risks because most of us are illiterate and we don’t know who tells the truth.”
WOMAN, CURRENT CLIENT, PARAKOU, BENIN

These statements from microfinance clients in Pakistan and Peru highlight central themes of the Client Voices research. First, clients report that information from microfinance providers (MFPs) is overly complicated and difficult to understand. Clients are not well informed about loan terms and conditions, recourse, and credit bureaus. Second, empathy and flexibility in the case of emergencies remain important components of how clients define good treatment.

Client Voices: Why We Listened

The Smart Campaign, a global organization working to promote a set of Client Protection Principles in the financial inclusion sector, has long recognized that client perspectives were underrepresented in consumer protection discussions. With the Client Voices project, the Campaign questioned whether assumptions made about what constitutes problematic treatment rightly reflected what clients themselves worry about.[1]

To address this gap, the Campaign launched the Client Voices project, an ambitious research endeavor involving quantitative and qualitative research in Benin, Pakistan, Peru, and Georgia. The dual objectives of the project were (1) to solicit input from clients about what they consider good and bad treatment in their interactions with microfinance service providers; and (2) to assess the prevalence of consumer protection problems among microfinance clients using national quantitative surveys. The project is designed to act as a catalyst for local actors including regulators, microfinance associations, consumer advocacy groups, and others in each of the four markets to make improvements to client protection that is grounded in client feedback.

Findings

Transparency and Understanding: Clients lack essential information and disclosure-based approaches are not working

Clients in all four countries have an inadequate understanding of the basic attributes of their microfinance products. Although most clients do receive some information about their loan products from MFPs, they report low levels of understanding of their loan terms and conditions, regardless of education level. In Benin, Pakistan, and Peru, 50 percent, 49 percent, and 43 percent of respondents respectively report that they understood loan terms only somewhat or not at all at the time of taking out the loan. Self-reported understanding of loan terms and conditions is highest in Georgia (79 percent understood the terms and conditions).

Low levels of client understanding of compulsory savings in Benin and loans issued in U.S. Dollars in Georgia reveal the high stakes of a failure to communicate basic information to clients. In Benin, 9 percent of current clients and 17 percent of former borrowers report being unable to withdraw all of their savings with MFPs. We posit that this

Because transparency efforts have focused on complying with disclosure requirements, rather than making sure users understand, information provided tends to be copious, technical, and complicated.

problem is a combination of MFPs that are not sanctioned to operate cheating clients outright, and a failure to effectively communicate fees and other deductions that would be withdrawn from savings accounts on the part of legitimate institutions. In Georgia, 13 percent of clients were surprised to learn that they had borrowed in U.S. Dollars instead of Georgian Lari, a misunderstanding with considerable financial repercussions.

Because transparency efforts have focused on complying with disclosure requirements, rather than making sure users understand, information provided tends to be copious, technical, and complicated. Current disclosure methods in all four countries are not resulting in sufficient client understanding.

Respect, humane treatment, and flexibility are central to what clients view as good treatment

A basic demand from clients is for respectful and humane treatment. In Pakistan and Benin, clients complain that MFP staff lack human decency in dealing with clients who have problems paying their loans. Clients view the public shaming that is used in Benin and Pakistan extremely unfavorably. In Peru, 26 percent of clients report that MFPs do not treat clients equally, favoring those who are better dressed or who have personal connections to MFP staff. Poor service quality is not unique to financial services: respondents reported that nearly all formal institutions they interact with, such as schools, clinics, and police, treat them badly and like inferiors. In such environments, treating clients as worthwhile people with legitimate concerns goes a long way in meeting client's standards for good treatment.

Clients request the ability to build flexibility in repayment schedules in order to cope with emergencies. The research found that although families make sacrifices to keep up with loan payments, sometimes they cannot keep up. Nearly one-quarter of clients in Benin and Georgia took additional debt to make a microfinance payment, and 28 percent and 14 percent of respondents had reduced food consumption to do so in Benin and Georgia, respectively. Of respondents who have paid late, the majority report that they did so because they did not receive the salary/income they expected on time or because of medical or other emergencies. When clients view MFPs as overly harsh in the case of such emergencies, they report being less likely to continue with that institution in the future.

Recourse and complaints options fall short

In Benin, Pakistan, and Georgia clients report that there are few channels for filing a complaint beyond the loan officer. Across all countries, less than one-fourth of those who reported having a reason to complain actually filed a complaint. The 'complaints book' in Peru is one example of a complaints mechanism that clients view as largely symbolic and ineffective.

Where recourse channels exist, clients are not sufficiently informed about where to complain. In Benin, only 14 percent of respondents recall being told by MFPs who to consult in case a problem arose. Even in Peru and Georgia, which are known for having strong microfinance and consumer protection regulatory environments, only 25 percent and 38 percent of clients recall being told where or how to address concerns.

Credit bureaus likely make collections easier in Peru and Georgia, but we uncover aggressive sales and clients borrowing in other people's names in these markets

Credit reporting bureaus leverage clients' desires for continued access to credit to induce repayment. Credit reporting can reduce the need to rely on social pressure and shaming to force clients to repay, practices that clients find objectionable in Benin and Pakistan. Indeed, although credit bureaus are just one element of greater market development in Peru and Georgia, problems of shaming clients in collections that we found in Benin and Pakistan are almost entirely absent in these countries.

However, clients lack information about how credit bureaus work, and seem unaware that they can build a positive as well as negative credit history. In Peru and Georgia, clients report confusion about the consequences of having a negative record in the credit bureau, and how to clear one's name. With 20 percent of Peruvian MFP clients reporting that they had a negative record at some point, many are impacted by this system. The fact that clients in both countries are focused on the risk of being 'blacklisted' rather than the opportunity of building a positive record suggests that clients are not fully empowered to use credit bureaus to their advantage.

In Peru and Georgia we observed aggressive marketing techniques from certain MFPs. In Peru, about 50 percent of clients complained about regularly receiving calls and visits from MFPs offering credit. Ten percent of clients even reported that they have felt pressured by MFPs to take out a loan. Having the ability to identify the 'good' clients through the credit reporting system may lead to aggressive sales. In Georgia, clients report receiving prepaid cards that they can use to activate a new loan. Similarly, in Peru clients spoke about receiving checks in the mail with an automatic approval for a new loan that they could cash at any bank branch, increasing the temptation of taking out loans that they might not need.

When one's good credit history becomes an asset in the credit reporting system, some clients choose to borrow for family members or friends, sharing their privileged status of higher credit limits: 10 percent of clients in Georgia and 19 percent of clients in Peru reported either receiving a loan that was officially in someone else's name or taking out a loan and giving the disbursement to someone else. Regression analysis using the Peru data reveals a positive correlation between borrowing in another person's name and making late payments or defaulting.

Implications and Ideas for Action

Transparency and understanding

A regulatory compliance-based approach to consumer protection in which providers focus on meeting minimum disclosure requirements risks losing sight of the main objective—improved outcomes for clients. With clients inadequately informed about many facets of microfinance, even in countries like Peru and Georgia with good disclosure laws, the Client Voices findings demand a radical reframing of transparency and disclosure. Specifically, regulations, standards, and certifications should have improved client understanding, not simply disclosing information, as the goal. Initial ideas to address this problem include:

- Standards and certification efforts should use asking clients how well they understood the terms, not only whether MFPs disclosed the required information, for identifying organizations that perform well in transparency.

- Providers should present information in innovative ways, as Georgian microfinance banks have tried to do through the use of videos. Other ideas include calendars, songs, and simple infographics.

- Providers should ask clients to describe their understanding of their product, with staff correcting any misunderstandings. Institutions could even apply a short and easy quiz after presenting information to verify that clients have understood key details, such as the terms, how often payments should be made, late penalties, the currency of the loan, etc. with the goal of measuring improvements in their level of understanding.

- Simple, elegant products that can be described in one or two sentences may more effectively grasp client's attention. If it is impossible for clients to understand an insurance product, do not offer it.

- Indeed, bundled insurance with loans may deserve more attention from regulators, as client understanding of insurance—even whether they have a policy or not—is particularly poor.

- Regulators may wish to conduct surprise visits or question clients about high stakes information, such as the currency of the loan, and consider issuing fines to MFPs if a certain percentage of clients do not know this critical information.

- Clients should have better ways to select quality institutions. Having an international seal or sticker (such as the Smart Campaign Certification Seal) that could signify which institutions have made efforts to protect their clients, which the users could see when choosing financial providers, would go a long way to ensure that standards and certifications really do keep clients first. Currently, the Smart Campaign Certification Seal is well-recognized by investors, regulators, and financial providers in the industry, but not yet by clients. Further efforts should be conducted both by the Smart Campaign and certified institutions themselves to effectively promote the seal and its underlying meaning to their clients.

Respectful treatment and flexibility

Treating clients with respect and dignity is the first step to good treatment. MFPs should abolish practices that might incentivize collections agents to publically shame clients at home or at their business. Investors could also apply pressure for commissions or pay to not be tied directly to collections. For example, MFPs could solicit reviews of loan officers in terms of customer service, empowering them to express any dissatisfaction and rewarding staff members who treat clients respectfully.

Products that build in grace periods for a small number of repayments from the beginning would satisfy client's demand

> **Aggressive marketing should be monitored by financial regulators. We also recommend that aggressive marketing and sales gain prominence as a consumer protection issue, perhaps even becoming a new Client Protection Principle.**

for more flexibility and understanding of emergencies that inevitably come up. Variable repayment amounts could also be helpful for clients with irregular income sources.

Complaints

In countries like Benin, clients are unaware of any formal complaints resolution channels at MFPs, and formal complaints handling may not yet exist at many institutions. Investors and donors should demand that MFPs establish effective recourse channels to measure client satisfaction. Using resources to establish and train complaints-handling staff would be a good use of technical assistance.

Additionally, clients need easy access to phone numbers and contact information of customer service or complaints resolution personnel, and across all countries, MFPs should better inform clients of their options for recourse. The loan officer should not be their only option for voicing complaints, as the issue may be directly related with him or her.

Unless there is evidence that institutions are effectively resolving complaints written in complaints books (*Libros de Quejas*) in financial institutions in Peru, this system should be abandoned, as clients widely view it as a purely symbolic and ineffective tool. In contrast, Peru's government customer dispute resolution office, INDECOPI, is well known and the majority of the few clients who have used the service were satisfied. Other countries should also establish third-party dispute (or complaints) resolution bodies.

Credit bureaus

Although the Client Voices project was not designed to assess credit bureaus, we believe that more MFPs should share information through credit reporting systems, and that this will have benefits for clients. Donors and governments should continue to support the expansion of credit bureaus that give people a financial identity. However, clients need to be provided more information about how credit bureaus work, how to clear their name if they have a negative record, and the fact that clients are also developing a positive history through their timely repayments.

Aggressive marketing

Regulators and investors should be wary of products such as checks and prepaid cards that allow clients to access new loans without conducting a proper assessment of creditworthiness. Aggressive marketing should be monitored by financial regulators. We also recommend that aggressive marketing and sales gain prominence as a consumer protection issue, perhaps even becoming a new Client Protection Principle.

Embed the client voice

Just as the Smart Campaign should not go another six years without soliciting information from clients about their priorities, regulators and providers should also build in regular opportunities to receive structured feedback from clients. For example, regulators could conduct light qualitative research or an SMS survey campaign to gain input into new regulations. This will help minimize the existing gaps in how clients and those with the power to make most changes—providers, regulators, and consumer agencies—understand and speak about good treatment in financial services.

2 Introduction

Mariana's Voice

"A ciegas lo hacía… hacía mis préstamos a ciegas."

"I was blind…I took out the loans blind (without knowing the interest or fees)."

MARIANA

Mariana is a 42-year-old single mother living in the outskirts of Lima. Microfinance loans have helped Mariana to start a business, to put herself through school as an adult, and even to leave her philandering husband. When we met her, Mariana's main financial goal was to pay tuition for her daughter Yessica. One way she raises money is by hosting *polladas*, or chicken parties, in which she prepares a large barbeque dinner and charges her friends and neighbors per plate.

Mariana had fallen behind in her microfinance payments after the family was a victim of a fake kidnapping extortion scheme in which her daughter deposited most of the family's savings in a fraudster's account as supposed ransom. Mariana felt the MFP was indifferent to her situation, and was surprised to learn that there were late penalties associated with her loan. She said, *"They did not inform me very well… the girls [MFP employees] that call you for the loan say, 'Yes, we will give you this loan, and this and that,' and they don't explain in much detail… they give you the payment schedule, but then [if you have a problem] you will be surprised."*

Although she struggles with her existing credit payments, Mariana reports being constantly tempted by offers for new loans. She says that MFPs, banks, and retail stores often stop her in the street and call her cell phone offering different types of loans. Recently, Mariana bought an anti-theft insurance product on the street because the salesperson was persuasive, but Mariana does not know what the process is for submitting a claim if she ever gets robbed.

Mariana's case highlights three central themes from the Client Voices research findings. First, we see that although MFPs are complying with general disclosure requirements, clients like Mariana still do not understand key features of their products, such as the instances when late penalties apply. This lack of understanding is present in all four countries included in the research: clients lack information about terms, conditions, and interest rates, but also about recourse options and, in Peru and Georgia specifically, about how the credit bureaus work. Providers should be concerned when clients do not understand their products because such misunderstandings can lead clients to feel cheated and lose trust.

Second, like other respondents in Benin, Pakistan, Peru, and Georgia, Mariana wanted her microfinance bank to treat her with empathy and offer flexibility following a family emergency. A few months before our interview, Mariana's daughter Yessica received a call from a fraudster saying they had kidnapped her mother. The fake kidnapper knew personal information about Mariana, and since she could not reach her mother, Yessica went in a panic to deposit nearly all of the family's savings, including the money designated for microfinance repayment, in the scammer's account. This misfortune set the family back financially and led Mariana to miss two loan payments and incur fees. Although this is a specific type of emergency, across all four Client Voices countries clients are demanding more flexible products and requesting compassion in the face of emergencies and crises like these that punctuate life at the base of the pyramid.

Finally, Mariana struggles to say no to special offers on other credit products. In Peru and Georgia, the Client Voices research picked up on hints of aggressive selling practices. Some clients are bothered by receiving many offers for loans, and automatic renewals of loans could become problematic for both clients and providers if credit assessments are not updated accordingly.

The findings in this report are drawn from an aggregation of hundreds of stories like Mariana's captured through qualitative research and quantitative surveys in four countries. We hope that this effort to listen to users about their concerns and challenges motivates a new wave of advances in consumer protection for low-income clients worldwide.

BOX 1

Client Voices Research Questions

- What do microfinance clients view as their most important worries and most negative experiences in dealing with microfinance providers?
- How common are experiences of consumer protection problems at the national level?
- What attributes are most important to clients in determining a positive customer experience?
- How do these priorities compare to assumptions the industry has made about what clients want (especially as reflected in the Smart Campaign Client Protection Principles (CPPs))?

Overview of Methodology

The Client Voices project was designed to hear the unencumbered voices of microfinance clients, and through this research, elevate their concerns related to microfinance service and provision. To do so, the project's research methodology was developed jointly by Bankable Frontier Associates (BFA) and the Smart Campaign, with inputs from a distinguished committee of industry leaders,[2] to answer four key questions (Box 1).

Research was conducted in two phases. In phase one, BFA employed several qualitative research techniques[3] to gain a deep understanding of clients' experiences with MFPs and to identify potential harms to investigate in quantitative research. A central technique was the use of a ranking exercise to understand respondent perceptions of good and bad treatment from a wide spectrum of institutions that they interact with on a regular basis—schools, health clinics, government institutions, and local shops—and not just financial service providers. While the rankings were peripheral, the resulting conversation provided insights into the attributes of good service that resonate with clients, and why. In addition to interviews, we used skits and photographs taken by clients to allow the client voice to shine through. Based on findings from the qualitative research, we used quantitative surveys to validate the common concerns and priorities of clients in the four countries included in the Client Voices project: Pakistan, Benin, Peru, and Georgia. These findings speak to how common microfinance experiences and perceptions are in each country.

The Smart Campaign selected Pakistan, Benin, Peru and Georgia for the Client Voices project to represent the four regions that the Smart Campaign works in—Asia, Latin America and the Caribbean, sub-Saharan Africa, and Eastern Europe and Central Asia. The presence of strong regulators and/or active microfinance networks in these countries was another important factor in their selection. BFA and our research partners first completed the research in Pakistan and Benin in the initial phase of the project, followed by a refresh to reflect on the findings and adjust as needed for Georgia and Peru.[4]

Setting the Stage: Clients Seek Respect and Empathy From Service Providers of all Types

During qualitative research, BFA utilized a ranking exercise to determine the qualities that individuals associate with good and bad treatment among all institutions that they interact with on a regular basis, for

FIGURE 1

Client Perceptions of Good Service (Across All Types of Institutions)[5]

Attributes of positive treatment valued by clients in each market

BENIN:

- Thoughtful presentation
- The opportunity to negotiate
- A warm welcome
- Reciprocal trust in clients

PAKISTAN:

- Respect
- Humanity (*insaaniyat*)
- Compassion and dignity
- Interest in establishing a long-term relationship

GEORGIA:

- Clear explanation of information
- Long-term cooperation
- Reciprocal trust in clients
- Warmth

PERU:

- Extension of a helping hand
- Clear explanation of information
- Thoughtful presentation
- Genuine interest in clients

example schools, hospitals and clinics, police and government institutions, shops, and companies. We were not necessarily interested in the final ranking of these institutions; rather this exercise is a tool to elicit client preferences about what attributes respondents associate with being treated well and being treated poorly.

While many attributes resonate universally with clients in the four countries (rapid and efficient service, accessibility, honesty and politeness, and attentiveness), the unique attributes of good service that resonated with clients in each market are listed in Figure 1 and point to a common desire for humane, empathetic treatment by service providers.

These findings demonstrate that service quality matters to clients and is necessary to earn their trust and loyalty. Rather than cold, inconspicuous institutions, individuals wish to interact with institutions that make an effort, however small, to treat them as respected, valued customers—and as humans.

Level of Market Development and Links to Consumer Protection

Given the diversity of the Client Voices countries, the extent and severity of problems with client treatment differed considerably in each.[6] While this report seeks to synthesize these disparate findings, the results must be understood in the context in which clients and MFPs operate. This context includes the regulatory structure for financial services (and microfinance in particular) in each country and the level of financial sector development overall. While the scope of this project did not include an extensive review of regulatory context, the framework below attempts to condense this complexity for the purposes of contextualizing findings from the Client Voices research.

While this framework is basic, it provides a snapshot of 1) whether a given country has strong microfinance regulation and supervision in place along with financial sector consumer protection regulation, 2) whether a country has a credit bureau, 3) the level of financial inclusion,[7] 4) the level of competition for microfinance services in each, defined as the percentage of total loans outstanding by the top three MFPs in each country, and finally 5) the Economist Intelligence Unit's *2014 Global Microscope* score, which evaluates the regulatory landscape for financial inclusion in each country based on 12 indicators.

Among the Client Voices countries, Benin has the weakest regulatory structure. Regulation for MFPs is set at the regional level through the Central Bank (Banque Centrale des Etats de l'Afrique de Ouest—BCEAO) of the West African Economic and Monetary Union (WAEMU). Supervision and enforcement from the central BCEAO office rather than

FIGURE 2

Market Development Framework for Client Voices Countries[8,9,10,11,12]

	REGULATORY ENVIRONMENT	% OF ADULTS WITH A BANK ACCOUNT (2014)	MARKET SHARE OF TOP 3 MFPS (OF % LOANS OUTSTANDING)	GLOBAL MICROSCOPE SCORE
BENIN	Regulation set regionally for West Africa, weakly enforced. No credit bureau. No financial consumer protection regulation.	17%	67%	N/A
GEORGIA	Microfinance regulation. Robust credit bureau. Strong financial consumer protection regulation.	40%	80%	38
PAKISTAN	Microfinance regulation. Credit bureau, but incomplete credit reporting. Weakly enforced financial consumer protection regulation.	13%	45%	58
PERU	Microfinance regulation. Robust credit bureau. Strong consumer protection environment, including ombudsman with central bank.	29%	39%	87

national institutions has been challenging, and for the most part, lenient. In contrast, Peru is known for its sound regulatory and consumer protection environment, including a robust credit reporting system. Peru's Central Bank requires all regulated financial service providers, including MFPs, to have a complaints handling process and to report to the central credit bureau.[13] Similarly, Georgia has enacted microfinance regulations and consumer protection guidelines for the financial sector, and is especially strong in mandating disclosure. Finally, Pakistan sits in the middle: it is one of the few countries in the world to adopt a legal and regulatory framework for microfinance banks, but consumer protection guidelines for the financial sector are weakly enforced and credit information sharing does not appear to be robust. However, the microfinance industry recently established a credit information bureau for the sector.[14]

While few Beninois adults are formally banked (17 percent), the country is home to a large number of financial service providers offering microfinance services: although respondents in our sample reported over 100 MFPs, many of these are unlicensed institutions, making it difficult for clients to discern legitimate institutions. At the time of our research in June–September 2014, the microfinance network ALAFIA reported that only 56 MFPs were registered and sanctioned by the regulatory authorities. Despite the large number of MFPs, the market in Benin is quite concentrated, revealing that these

In order to avoid constraining client responses, the Client Voices research was designed to unearth consumer concerns related to microfinance, without prompting related to the existing Client Protection Principles (CPPs). Thus, we did not tie findings directly to the CPPs during initial research and analysis.

are very small institutions. The Client Voices research found consumer harms in Benin to be systemic in nature and speak to a need for greater supervision and enforcement of regulations. In Georgia, 40 percent of adults are banked, and a few former MFPs were acquired by or transformed into commercial banks.[15] Although the microfinance market is dominated by a few players in Georgia, there are several other licensed financial providers to choose from, in addition to a number of unlicensed providers, such as pawn shops and payday lenders. While consumers are generally satisfied with microfinance services in both Peru and Georgia, consumer protection issues identified during the research, such as concerns related to advanced marketing of credit, reflect the relatively advanced state of financial sector development in each.

Consumer protection principles and client voices

In order to avoid constraining client responses, the Client Voices research was designed to unearth consumer concerns related to microfinance, without prompting related to the existing Client Protection Principles (CPPs). Thus, we did not tie findings directly to the CPPs during initial research and analysis. However, clear signals emerged as priorities from client concerns, and these signals constitute important messages for the microfinance industry and regulators in each country. **Fair and Respectful Treatment of Clients** and **Transparency** emerge from this research as the two top consumer protection issues across these four countries. **Mechanisms for Complaint Resolution** (Pakistan and Benin) and **Prevention of Over-Indebtedness** (Peru and Georgia) also stand out as relevant issues.

FIGURE 3

Client Protection Principles That Resonate as Highest Priorities for Client Protection in the Client Voices Countries

BENIN:

- Mechanisms for complaint resolution
- Fair and respectful treatment of clients
- Responsible pricing
- Transparency

GEORGIA:

- Prevention of overindebtedness
- Appropriate product design and delivery
- Transparency (related to loans issued in US Dollars)

PAKISTAN:

- Mechanisms for complaint resolution
- Fair and respectful treatment of clients
- Transparency

PERU:

- Prevention of overindebtedness
- Fair and respectful treatment of clients
- Transparency

Key Findings

3

Transparency and Understanding: Clients Lack Essential Information and Disclosure-Based Approaches are Not Working

Despite different levels of education across the Client Voices countries,[16] understanding of loan terms is a widespread problem across the board.

While a greater percentage of Georgian respondents felt that they understood their loan's terms and conditions well (Box 2), one-fifth of respondents reported that they understood these terms only somewhat or not at all. In Benin, Peru, and Pakistan, 43 percent to 59 percent of respondents understood loan terms somewhat or not at all, with more than 10 percent of clients in the "not at all" category.

Client understanding should be the goal of transparency, rather than "checking the box" on disclosure

We found disclosure to take different forms in Benin and Pakistan, where respondents were largely illiterate,[17] versus in Peru and Georgia where literacy levels are higher.[18] In Peru and Georgia, regulations require written disclosure to all MFP clients, while in Benin and Pakistan, most respondents were explained terms orally (Figure 4). Seventy-five percent of respondents in Pakistan received some sort of explanation of terms as did 96.5 percent of respondents in Benin.

Although clients felt that they understood loan terms early on (Figure 5), this does not appear to translate into understanding of basic concepts related to loans, such as interest rates.

Even with written terms and conditions to reference, nearly three-quarters of respondents could not name their loan's interest rate even in Georgia (72 percent), and this proportion rose to 88 percent in Benin.[19]

BOX 2

Spotlight on Disclosure Practices by Georgian MFPs

In Georgia, MFPs employ fresh disclosure techniques: in addition to providing written contracts, they also provide brief summaries of client repayment schedules and one MFP shows a disclosure video. As a result, very few respondents do not recall MFPs providing them information on loan features such as the total amount to be repaid, penalties, and consequences of late payments.

FIGURE 4

Client Received Written or Verbal Explanation of Loan Terms

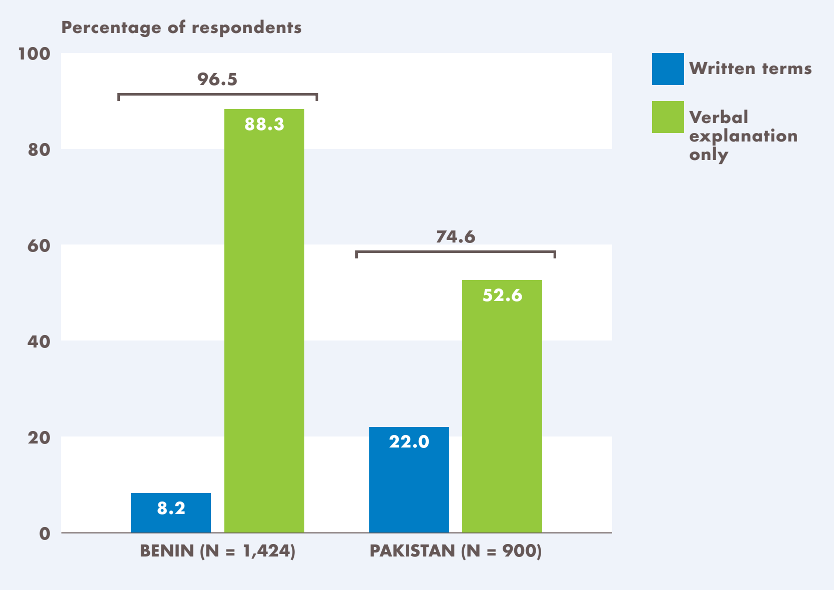


FIGURE 5

Self-Reported Client Understanding of Loan Terms and Conditions

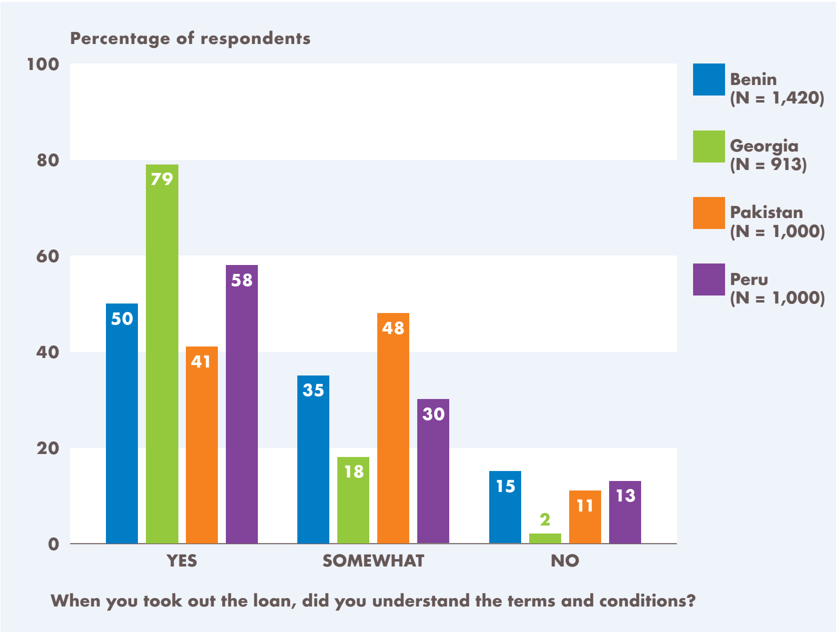
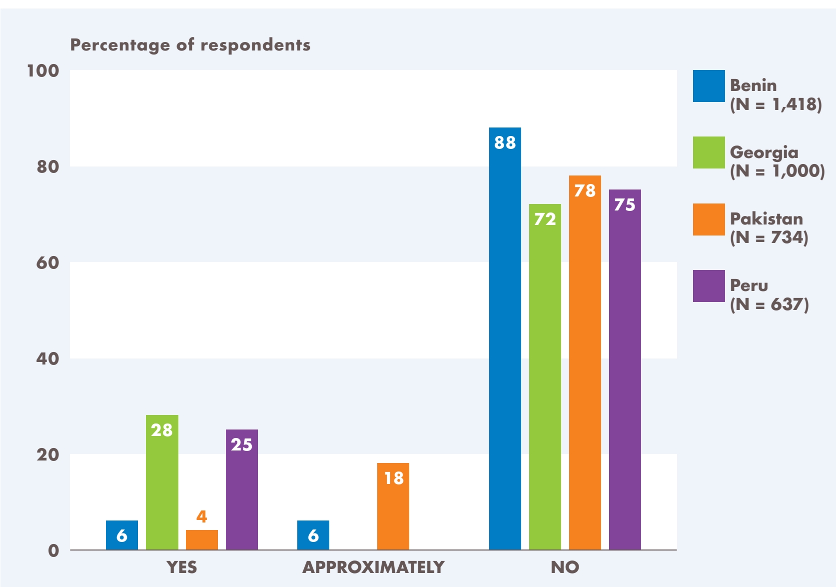


FIGURE 6

Client Understanding of Interest Rate on Most Recent Loan



Regardless of the level of literacy in the market (or of the respondent), some still have difficulty grasping interest rates:

MODERATOR (M): "Do you know all the rates of interests regarding your loans?"
RESPONDENT (R): "No, not in percentage… I don't understand, I just know how much I'm going to pay…"
MALE, CAJAMARCA, PERU

"Quite honestly, I can't tell you if [my loan] rate is 4 percent or 5 percent, honestly, I can't tell you…I can calculate the difference to be able to say that if I borrowed 400,000 CFA (U.S. $827), [I pay] 435,000 CFA ($899) or 425000 CFA ($878), but I don't calculate the percentage."
MALE WITH A MASTER'S IN LAW, COTONOU, BENIN

Having a standard interest rate allows clients to compare pricing from one product to another or one MFP to another. In addition, clients should be aware of the total amount that they will repay at the end of their loan. This does not appear to be the case yet. In Benin, for example, one-third of clients did not know how much they would have to repay in total, while in Georgia, 21 percent did not know this amount with certainty. MFPs should present this information to clients as well and look for other ways to simplify terms and conditions for clients. Many regulators require only that providers disclose annual percentage rates (APRs), for example, which these findings show may not be effective in helping clients to make informed comparisons among providers.

Lack of knowledge about insurance is worrying

In Benin, Pakistan, and Peru, further confusion exists around the concept of insurance bundled with microfinance loans. In particular, many Peruvian respondents (24 percent) did not know whether their loan had insurance or not, prohibiting these clients from benefiting from any insurance that they might have.

And even among clients with insurance, few respondents in Peru and Pakistan fully understand how their insurance policies work

(Figure 8). This can be particularly sensitive, since bundling unnecessary insurance products with credit loans can be considered as a malpractice that can lead to client abuse, if clients are not allowed to opt out of them voluntarily (something that becomes more difficult without a good understanding of how the product works).

When clients are surprised by loan terms or costs, the loss of trust also harms providers

Based on these findings, it is not unexpected that clients in each sample reported being surprised by something related to his or her most recent loan (Figure 9). Despite Georgia's strong disclosure practices,[20] a larger percentage (28 percent) of Georgian respondents expressed surprise after taking their loan than respondents in other Client Voices countries.[21]

There is reason to believe that this gap between client and MFP understanding of credit terms and conditions may facilitate broader client dissatisfaction as some customers came away feeling cheated or frustrated in their interactions with MFPs. In addition to confusion around the legitimacy of insurance products and related fees during qualitative interviews (Box 3), some respondents expressed a feeling that MFPs intentionally misled them during the loan application process, with numerous fees or unintelligible language:

M: "So did the MFP **explain the interest rate to you?"**
R: **"They explain, but when they see you are illiterate, they get you to sign papers which mean that you'll repay more than you should."**
MALE, PARAKOU, BENIN

"They provide different explanations in the beginning, but none of the creditors investigate the depth, because the interest rate is never what they tell you in the beginning. It is always more in the end…some is commissions, some life insurance, etc."
MALE, RURAL TELAVI, GEORGIA

FIGURE 7

Clients Required to Have Insurance on Most Recent Loan

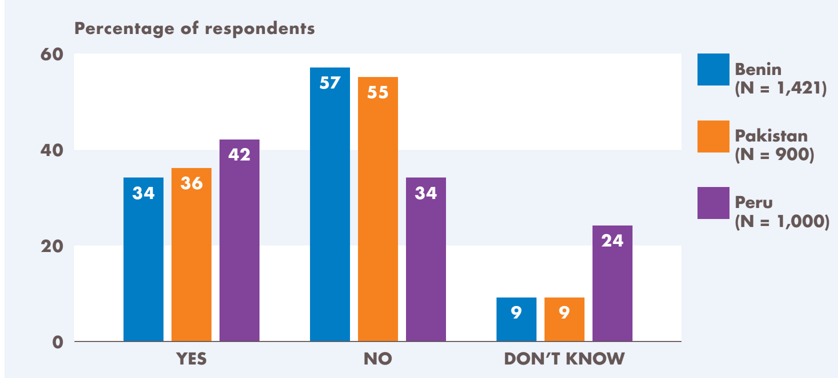


FIGURE 8

Client Understanding of How Insurance Works, Sample Level

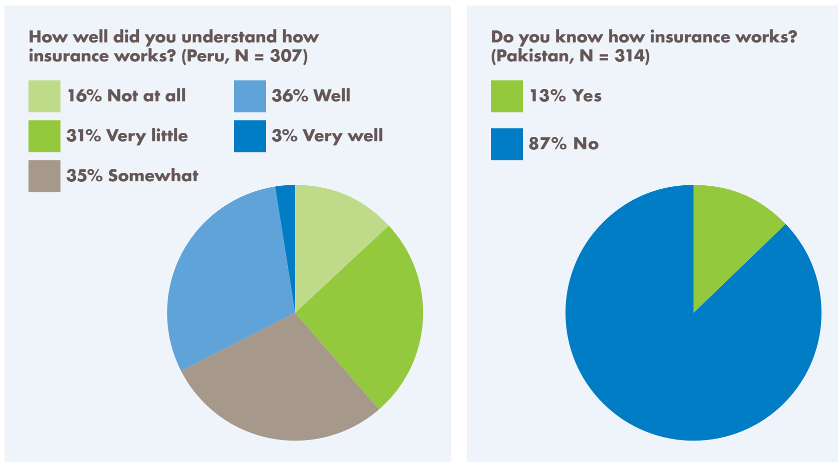
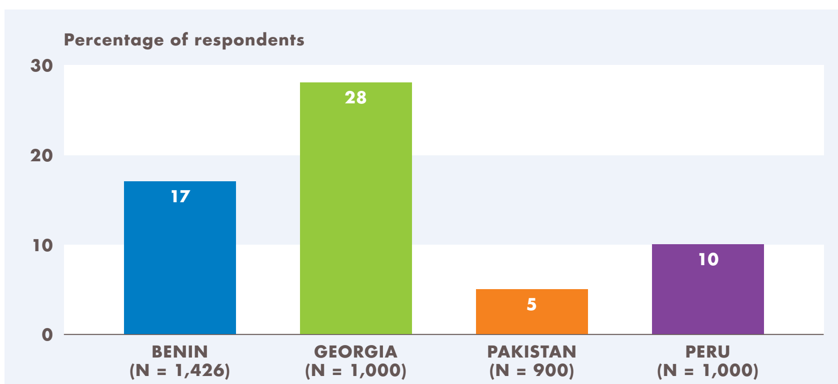
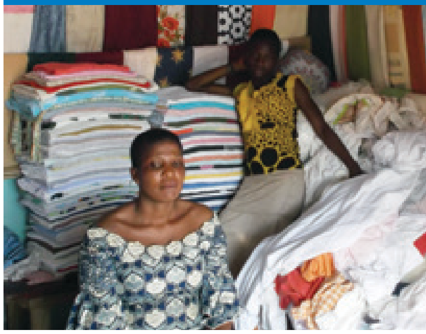


FIGURE 9

Respondent was Surprised by Something Related to Loan After Taking It



BOX 3



"But the problem with these MFPs is that there are some false charges called "insurance" in addition. Finally the amount to borrow becomes insignificant after such costs are deducted."

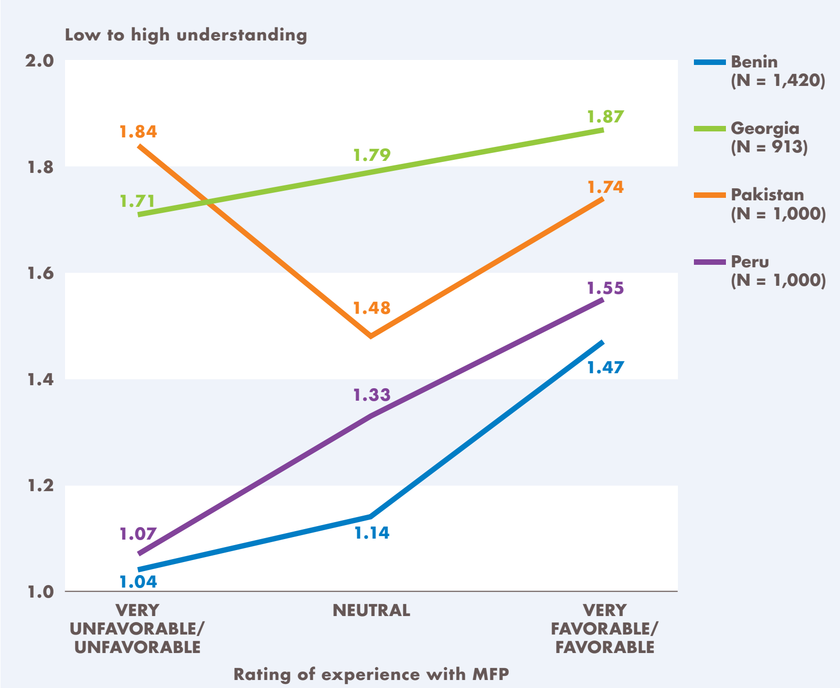
FEMALE, COTONOU, BENIN

"They tell you that you are eligible for the insurance of this thing and that other… They just give you a call—and you end up believing that it is going to come with the loan, but it's not. You accept when they call you, but you don't imagine that you are going to end up paying extra."

WOMAN, PERI-URBAN LIMA, PERU

FIGURE 10

Client Understanding of Loan Terms and Conditions Compared with Assessment of MFP Experience



With the exception of Pakistan, a clear correlation emerged between client understanding of loan terms and whether a client rated his or her experience with MFPs as favorable or not (Figure 10). Those clients with a strong understanding of loan terms and conditions were more likely to rate their MFP experience as favorable or very favorable. Those that did not understand terms well were more likely to rate their MFP experience as very unfavorable or unfavorable.

Better disclosure practices are not only good for clients; they make business sense.

Specific issues in poor disclosure and potential abuse: In Benin, compulsory savings elicited misunderstanding and concern

As in many markets where clients have limited collateral, MFPs in Benin commonly require clients to save over a period of a few months to demonstrate repayment capacity before the MFP issues an initial loan. These savings are often held as a guarantee during repayment in case of default.

Confusion between fees and savings used to guarantee loans was common. While some clients are aware of deductions from their savings balances, others are confused about which payments are compulsory savings and which are fees. A combined 31 percent of clients report that they would not get their savings back at the end of the loan cycle, that only a part will be returned to them, or that they were unsure if they could recoup savings at all (Figure 11).

There is additional reason to be concerned about this issue in Benin. Only 56 of over 100 MFPs mentioned by clients are registered, suggesting a proliferation of unapproved MFPs. Clients in Benin report stories of fraudulent MFPs. And because registered MFPs collect compulsory deposits as part of their operations, fraudulent MFPs take advantage of this practice to collect deposits from potential borrowers before disappearing with clients' money. One respondent photographed one such institution to demonstrate the sophistication with which they operate and the resulting difficulty of discerning legitimate institutions from fraudulent MFPs as a result (Figure 12).

FIGURE 11

Respondent Assessment of Whether They Will Be Able to Withdraw Savings or Not

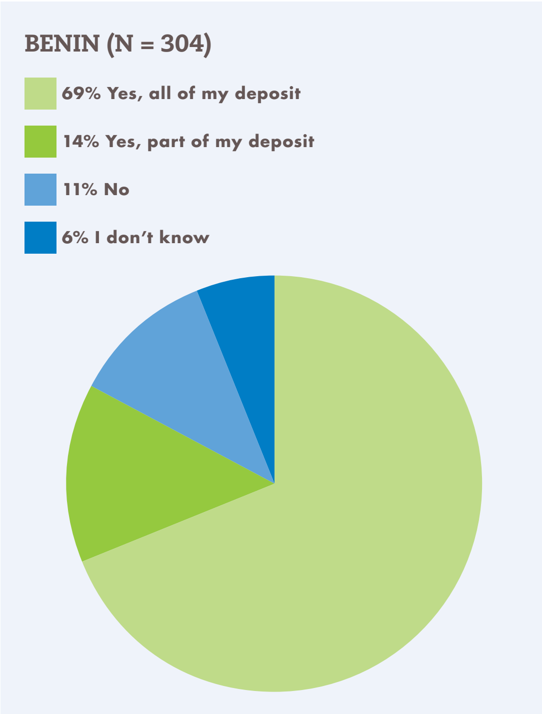


FIGURE 12

Photograph of an Unlicensed MFP Taken by a Respondent in Parakou, Benin

Specific issues in poor disclosure and appropriate products: in Georgia, loans issued in U.S. Dollars are subject to exchange rate fluctuations, a risk which is not clear to all clients

Many Georgian MFPs issue loans in U.S. Dollars (USD), rather than Georgian Lari (GEL), to protect themselves against currency devaluation, which has impacted the GEL dramatically since 2014. This practice is common; nearly one-third of current MFP clients surveyed have dollar-denominated loans. Large loans, especially, are issued in USD.[22] The currency risk of USD loans is passed entirely to clients.

Due to exchange rate increases over the past year, the monthly repayment of a client who took a dollar-denominated loan in January 2015 would be more than 25 percent larger by October. In qualitative interviews, one respondent voiced concerns that her loan had increased to nearly half of her salary. In addition, USD debt obligations pose challenges for clients as most Georgians are paid in Lari, and salaries are rarely recalculated to reflect currency fluctuations. Ninety-eight percent of respondents say they would prefer loans to be issued in Lari due to these risks:

"Those who have borrowed in Lari will have fewer problems. Lari [loans] are also expensive but [borrowing in] Dollars cause more losses."
FEMALE, URBAN TBILISI.

"[I chose Lari], because the Dollar is unpredictable. It may increase or decrease, [and] it may harm you seriously. I try to borrow in the same currency in which I get my salary."
MALE, URBAN TBILISI

Worryingly, 13 percent of respondents with USD loans claim that they were not aware of this when they took their loans. And 52 percent felt that the information provided on exchange rates was somewhat to not clear at all (Figure 15).

FIGURE 13

Photo Taken by a Client to Show Strain of Repayment of USD Loans

"[I took the picture of the] empty wallet to signify monthly expenditures, the increase of dollar rate…"

MALE, KUTAISI

FIGURE 14

Issuance of Loans in USD Versus Lari

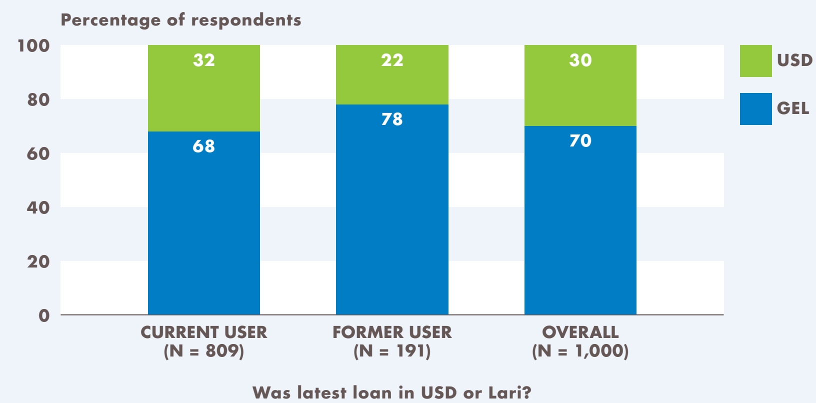
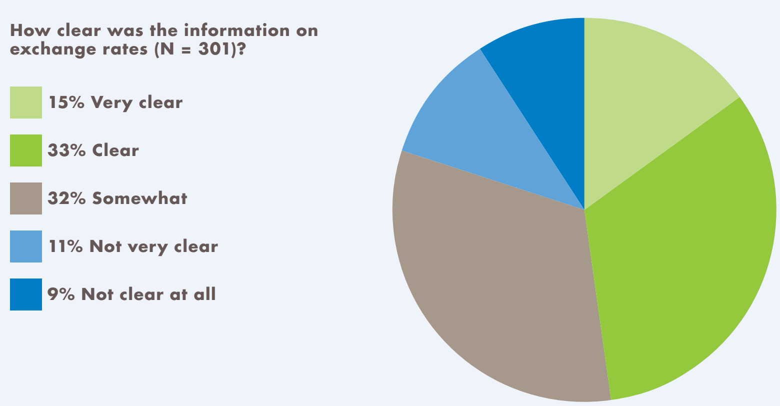


FIGURE 15

Clarity of Exchange Rate Terms



MFPs issuing USD-denominated loans should take efforts to inform clients of the realities of borrowing in a foreign currency. Eighteen percent of clients with USD loans did not know that they might pay more as a result, while 3 percent even thought that they would pay less.

Misunderstandings related to USD-issued loans can not only be financially devastating for clients but are likely to erode trust in MFPs:

"My neighbor had credit in [MFP] in Georgian Lari, and wanted to add a certain amount, so they mixed up and made the additional loan in USD. He knew that he had a loan in Lari, but finally had to pay back in USD. One takes the loan in Lari and has to pay back in USD. Of course you lose trust."

MALE, RURAL TELAVI, GEORGIA

These findings call for new models of client disclosure and new metrics for success that focus on what users understand as opposed to overloading them with information that satisfies disclosure requirements. Supervision of MFPs, whether by regulators, investors, or third parties, should focus on client understanding and comprehension, rather than disclosure alone. Clients, especially those that are new to an institution, may also require a refresh on loan terms several months into their first loans. The fact that clients with a better understanding of their loan terms are more likely to rate MFPs favorably speaks to the potential business benefits that would accrue from a refresh on disclosure.

Respect, Humane Treatment, and Flexibility are Central to What Clients View as Good Treatment

Clients universally seek empathetic treatment and flexibility in the case of legitimate emergencies.

Across the four markets, clients report viewing MFPs as unforgiving in the case of legitimate emergencies. For example, clients in all Client Voices countries reported that their MFPs do not accept late payments without penalty (fee) in case of emergencies (Figure 16).

Although this is not a new finding in the microfinance industry, it demonstrates that little movement has been made by MFPs to accommodate the precarious financial lives of clients at the base of the pyramid. Indeed, the reasons for late repayment are often out of clients' control: the majority report that they paid late because they did not receive the salary/income expected from their employer or because of medical or other emergencies (Figure 17). In Georgia, 23 percent of respondents that paid late did so due to exchange rate fluctuations.

Strict repayment schedules put particular strain on households with irregular income streams, and some clients appear to be taking extreme measures to make payments on time as a result. Nearly one-quarter of clients in Benin and Georgia took additional debt to make such a payment (Figure 18), and 28 percent and 14 percent of respondents had reduced food consumption to do so in Benin and Georgia, respectively. This may reflect the fact that Benin and Georgia have a high proportion of respondents earning self-employment and agricultural income, both of which can be highly irregular.

FIGURE 16

Whether Respondent MFP Accepts Late Payments in Case of Emergencies

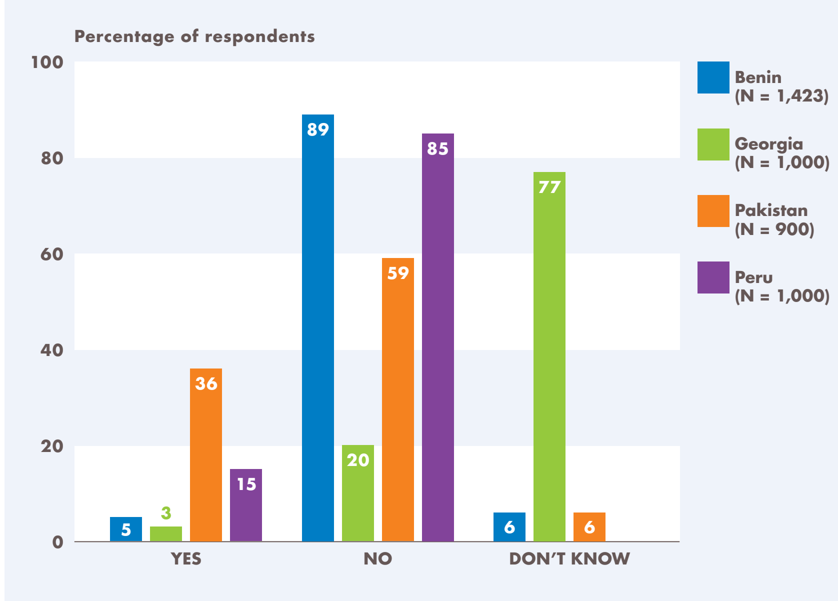


FIGURE 17

Reason for Making a Late Payment to MFP

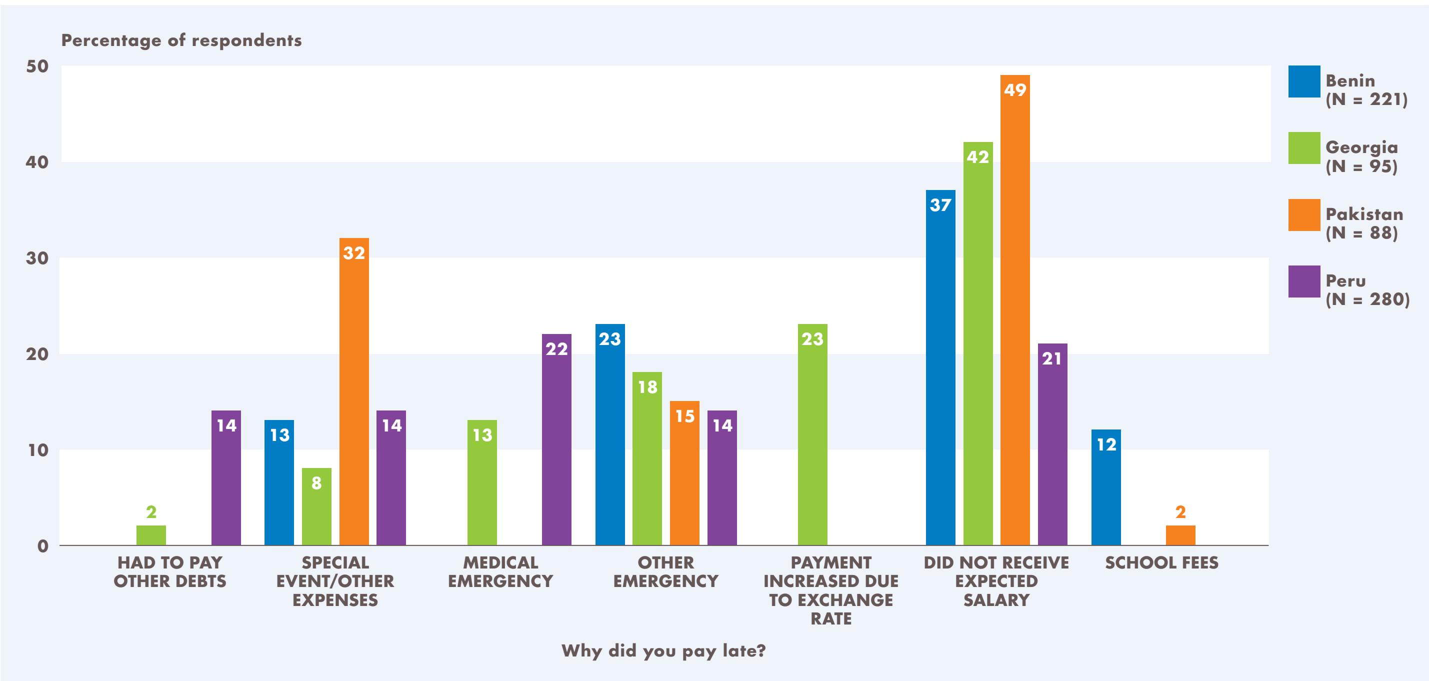
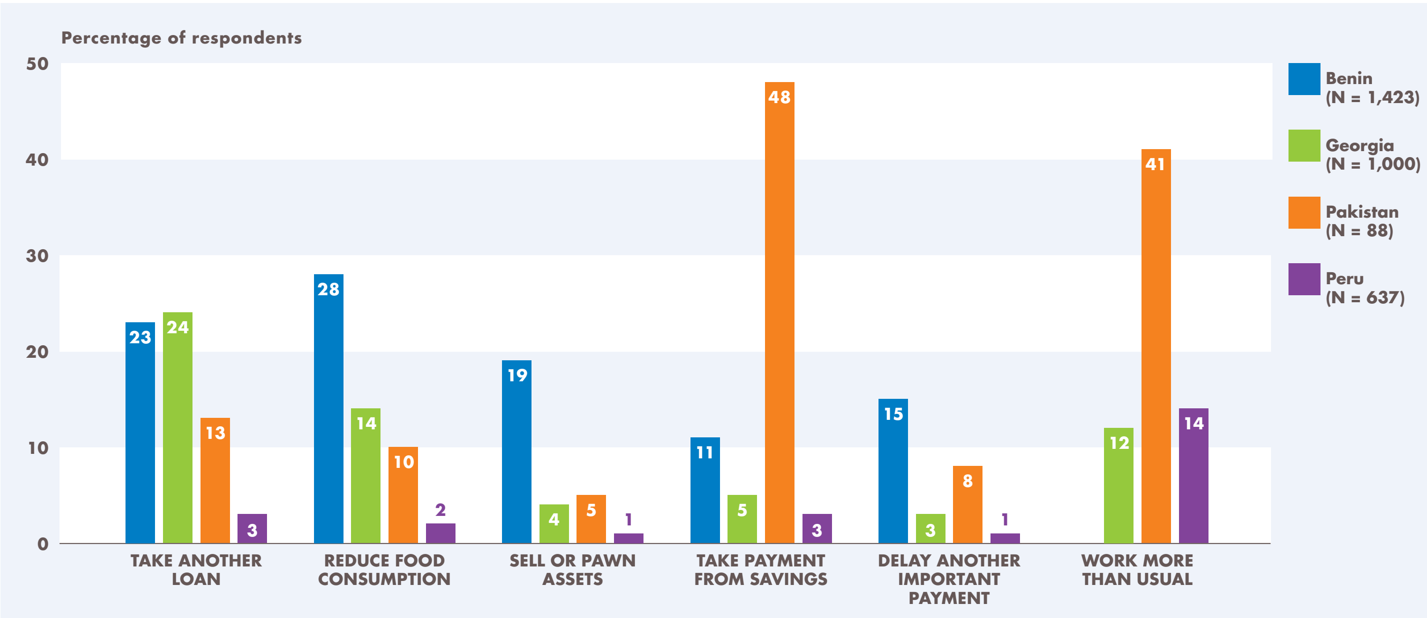


FIGURE 18

Actions Taken by Clients to Make a Microfinance Payment



BOX 4

"My younger sister's husband died. We told [the loan officer] it's her mourning period, and she can't come. Then she said if she will not come, then we will not give another loan. It's inhuman."

FEMALE, KARACHI, PAKISTAN

Other factors may also contribute to such measures. For example, in Georgia and Peru, there is some indication that aggressive sales practices may contribute to high levels of debt among clients (discussed below). Clients with high debt burdens may be more likely to take actions, such as borrowing additional debt, to manage repayments. One respondent from Georgia took the following photographs to illustrate her stress and fears related to microfinance borrowing:

Clients value the opportunity to develop long-term relationships with institutions, based on mutual trust and understanding, but building such a relationship remains elusive. The Client Voices findings suggest that some understanding of the exigencies that clients encounter may increase retention and loyalty by demonstrating empathy and concern. Many clients in Pakistan and Benin, in particular, were appalled by the lack of empathy of loan officers, even when dealing with extreme emergencies:

"In a group, someone can fall sick, and the only financial means they have is the money borrowed from the MFP…[so] they spend the money in question on curing the illness. Consequently, they can't make the repayment on the day. That's what the MFI staff just don't want to understand."

FEMALE, COTONOU, BENIN

This lack of empathy may negatively impact client retention. For example, while Pakistani clients report valuing long-term relationships with institutions, they feel that MFPs do not give them reason to stay. Current clients had been borrowing from their MFP for only one year on average, and only 22 percent of current clients had completed more than one loan cycle with their current MFP.

"[The MFP] offered me again to take loan but I didn't agree…I told them that just for being late once they have insulted me a lot."
MALE, LAHORE, PAKISTAN

"My son was suffering from cancer. He died. They did not leave. They said they just want their money. They insulted me so much. They did not even understand that one brother of five sisters had died—everyone depended on him! They had no sympathies. Then what's the use of this bank? They take money from us and on the top of that they insult us so badly."
MALE, KARACHI, PAKISTAN

Similarly, in Benin, of respondents that were surprised by something related to their loan, nearly one in four (24 percent) were surprised by the lack of flexibility in case of emergencies. Clients report a feeling of ill will towards MFPs that lack empathy:

"When someone who is known for being good in making repayments has just got into such a situation, they (the MFPs) ought to understand and be a bit flexible, giving a moratorium (delay) so that the person can straighten things out, but that's not often the case."
MAN, FORMER CLIENT, PARAKOU

However, it does appear that some clients, particularly those that have borrowed with an MFP for several rounds have this type of flexibility, which they value. For example, a long-term client in Benin on his fifth loan with an MFP described his relationship with the provider:

"Everyone can negotiate, you just have to be a client…The staff wanted me to repay each month. Because transport costs are so high, I therefore asked to pay every two months instead."
MALE, PAOUIGNAN, BENIN

And in Georgia, clients appear satisfied with their providers as evidenced by their borrowing habits. Approximately 60 percent of respondents had taken multiple loans with the same MFP over time, despite competition among microfinance and other financial service providers:

FIGURE 19

Images That Reflect Stress and Fears of Borrowing

"I [took these] photos based on my experience and [ideas]. I wanted to reflect biting, that I feel a bad feeling when I remember I have to pay the loan. Also the key is what can happen with me [being left without a key]…and the puddle shows that you are left with nothing and you are looking in dirty water, you see yourself left without any dreams. That's what I think could happen to me, that's what I heard happened with others."
FEMALE, KUTAISI, GEORGIA

"It's in their (MFP's) interest to treat you well when you are a client of that organization. If that changes, they will lose me as a client. The loan officer told me that if I need anything, I should call him. He told me that if I ever go somewhere else for a loan, they [the MFP] are ready to offer me a better loan [so I stay]."
MALE, RURAL TELAVI

Regardless of the circumstance, clients demand respect and privacy in their borrowing experiences. Public shaming techniques are damaging to client reputations.

The Client Voice research indicates that in countries with no credit bureau or ineffective credit information sharing, MFPs may engage in extreme collections practices to ensure repayment, including public shaming and humiliation.

BOX 5

"If ever you don't pay, you'll suddenly see the gendarme's vehicle in front of your house and you'll see them get out « djah djah. » Together with the recovery agents, they ordered me… to get into their pick-up truck. Even if you are in rags, even if you are not fully dressed, you have to get in. They drove me around the city before going to Dassa. Up to today I'm ashamed and it's as if I have lost all I'm worth."

FORMER FEMALE CLIENT, PAIOUIGNAN, BENIN

FIGURE 20

Photo Taken by Client to Reflect Lack of Flexibility in Repayment in the Case of Emergencies

INTERVIEWER: "Why did you take this photo?"
RESPONDENT: "Because the lady in the photo is an MFI client who took a loan for her activities. But …the car had an accident in which she lost all her tomatoes, which were broken or crushed by other cars overturned on the road….

Some risks can be avoided but not others. Can one really avoid a road accident? Not necessarily. It is a risk which the MFIs should understand and be flexible with us by giving us a few days extra."

WOMAN, FORMER CLIENT, PAOUIGNAN

While the prevalence of these issues in Benin and Pakistan is relatively low (13 percent of respondents in Benin and 9 percent in Pakistan experienced harm), the reputational consequences for borrowers that experience such practices are outsized and demand concern. In Benin, an environment with minimal microfinance supervision and multiple fraudulent lending institutions, we heard alarming stories of shaming, including public harassment in front of neighbors, photos being displayed in MFP offices or names being published in newspapers or on the radio, and holding clients hostage at MFP offices or police stations.

These techniques are employed not only on the borrowers who pay late but also for their fellow group members or guarantors of individuals that pay late. One woman took a photo of herself that had been posted in an MFP's offices after an individual that she had guaranteed had failed to pay. She explained:

"I took the photo because it's like an incurable wound… [from] my bad experience with [MFP]. I used the photo to be a guarantee for one of my friends who borrowed from the MFP. She finished repaying the loan and without telling me, took a second loan and then ceased repaying. One day, one of my clients came to tell me that my photo was pasted up on the CLCAM notice board in [Cotonou neighborhood], on the side of the street and that many people were looking at it. They went on to say that they were certain that I had borrowed money and had not repaid.

This situation took place in 2003, but I've never forgotten it. Every time I look at the photo, it upsets me and I remember the degrading remarks that my clients made."

FEMALE, COTONOU, BENIN (FORMER MICROFINANCE CLIENT)

In Pakistan, clients spoke of similar shame and an inability to preserve one's reputation when borrowing in groups:

"[With the MFPs] you have to be insulted in front of so many people. The whole world will get to know you have taken a loan. You cannot take the loan individually. It is always in groups. This kind of system should be abolished."

FEMALE, KARACHI, PAKISTAN (FORMER MICROFINANCE BORROWER)

"One bad member ruins the reputation of other member as well."
MALE, LAHORE, PAKISTAN (FORMER MICROFINANCE CLIENT)

For this reason, most borrowers prefer individual to group credit (Figure 21), with clients specifying that individual loans allow them to have a private borrowing experience and not be liable for other individuals (Figure 22).

In Benin, where access to formal banking services is low and likely out of reach for low-income borrowers, some clients feel that they have no choice but to borrow despite their dread of such practices:

"We are very bothered and very ill at ease each time we hear the names of debtors read on the radio. It's a very bad thing, and each time the radio plays and we hear the names, [we] just pray to God to protect us and that one day, we will no longer be obliged to look for loans from an MFP."
FEMALE, TOGBA, BENIN

Credit Bureaus Likely Make Collections Easier in Peru and Georgia, But We Uncover Aggressive Sales and Clients Borrowing in Other People's Names in These Markets

Although credit bureaus can be beneficial for clients and providers, clients lack information about how they work, and how to build their reputations

Extreme collections practices are not practiced in Georgia or Peru today, although Peruvian respondents do recall such stories prior to the installation of the national credit bureau that covers most of the microfinance sector.[23] Although credit bureaus are just one factor contributing to greater market development in Peru and Georgia, we hypothesize that the credit reporting system in these countries contributes to this improved environment, and facilitates individual lending, which clients prefer. However, we find a lack of understanding of how credit bureaus function in these markets.

For example, while 86 percent of microfinance clients in Georgia and Peru are familiar with the concept of the credit bureau, there is considerable confusion around the functions of these. While we did not probe into the issue of positive records, for example, clients did not mention this aspect of credit reporting.

FIGURE 21

Preference for Group or Individual Loan

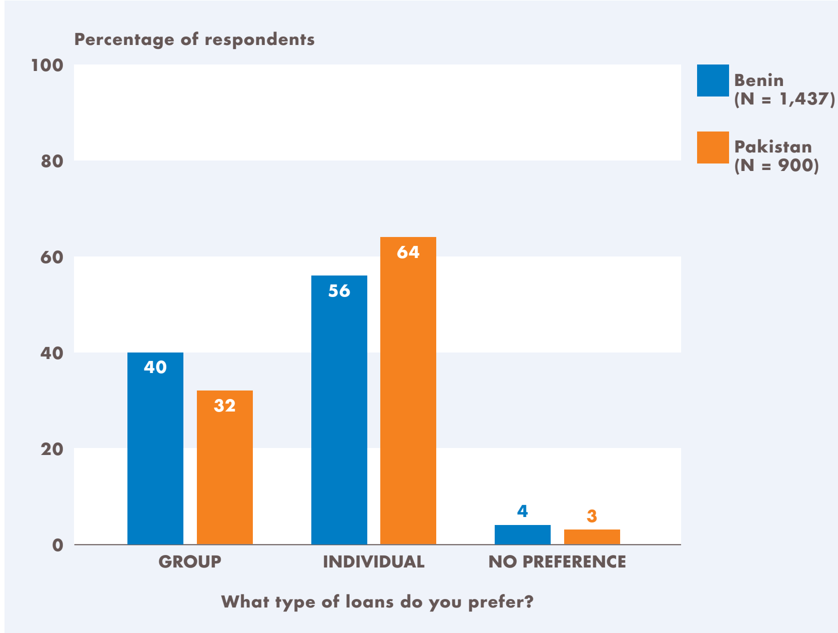


FIGURE 22

Reported Reason for Preferring Individual Credit

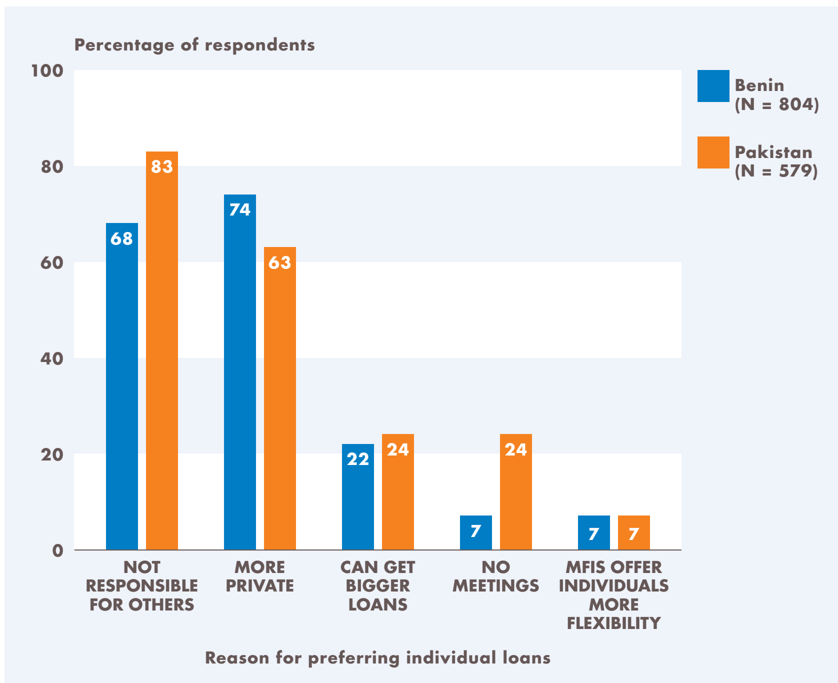


FIGURE 23

Why Clients Think They Develop Negative Records

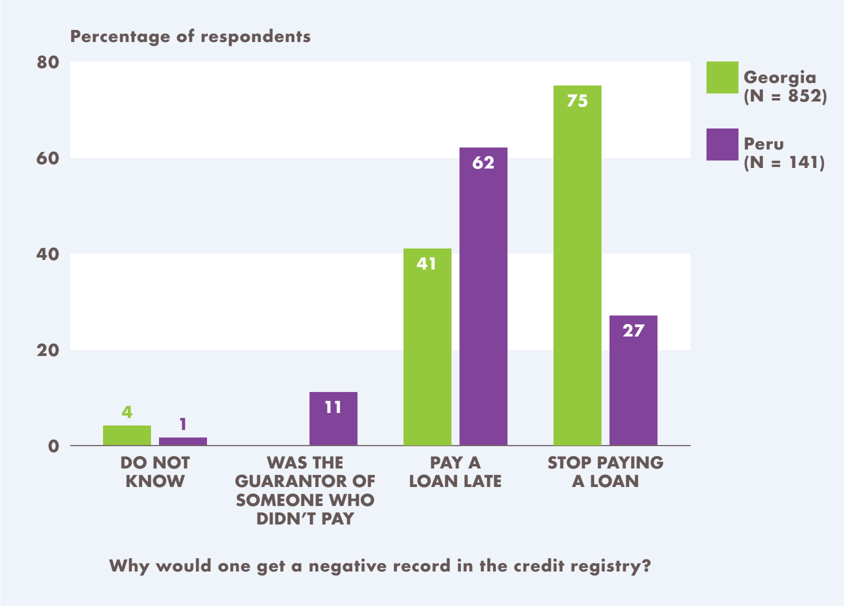
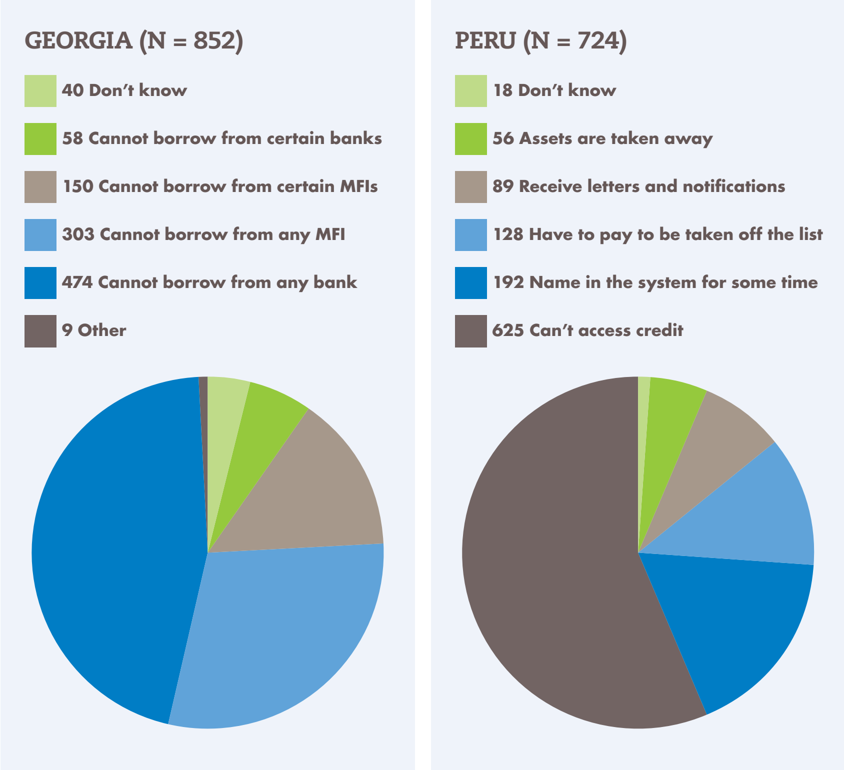


FIGURE 24

Consequences of Having a Negative Record With the Credit Bureau



Note: Multiple responses allowed

Instead, clients appeared preoccupied with negative reporting and the consequences thereof. For example, while Georgia's only credit bureau, CreditInfo Georgia, does not maintain a list of delinquent borrowers, clients spoke frequently of a "blacklist."[24] Despite this fear, clients in both Peru and Georgia were uncertain about which behaviors would result in a negative record with the credit bureau (Figure 23) or the resulting consequences (Figure 24).

In Peru, 20 percent have had a negative record in the credit bureau, so these challenges affect many people. Further, more than half of those who have had a negative credit report say that the experience was very stressful.

Information about how credit reporting functions is not readily available or easy for people to find. But individuals should have knowledge that their financial information is being collected, how, and that such credit information might impact their future borrowing abilities (positively or negatively). Information on the functions of credit bureaus is also a first step to ensuring that clients have the knowledge to enforce their rights in case of wrongful information or reporting.[25]

Some clients receive many credit offers and feel pressured to borrow

In Peru and Georgia, MFP clients reported receiving frequent offers for credit through mail, calls, text messages, or even visits to one's place of work. In Peru, 51 percent of clients report that they currently receive calls or in-person visits offering credit products. While the majority of those who receive calls or in-person offers receive these a few times a month, 10 percent reported receiving calls multiple times a week and 3 percent reported receiving calls every day. In Georgia, 61 percent of clients currently receive credit offers—60 percent receive these a few times per month, but 23 percent receive these weekly or several times per week.

We heard of frequent credit offers from respondents in both countries (Figure 25), offers which many respondents feel pressure to accept. Eleven percent of Georgian respondents reported that they are bothered by frequent credit offers from MFPs, and 53 percent of Peruvian clients that receive such offers feel pressured to accept loans.

Ten percent of Peruvian respondents reported receiving pressure to take a loan. These credit offers may be particularly tempting among borrowers that feel credit-constrained:

"My daughter was about to turn 15 [and have a quinceanera party], but I didn't want to ask for a loan. [The woman from the bank] kept following me everywhere. I was working, and she kept coming to my house offering me a credit card that I didn't want. She kept asking for my number for activating the credit card. At the end, I was very tempted because my daughter was turning 15, and I wanted to [throw a party]."

WOMAN, PERI-URBAN LIMA

There is some evidence that respondents in Peru and Georgia are burdened by debt

We found clients in Peru and Georgia to have high levels of debt. Debt-to-income ratios range from an average of one-quarter of monthly income spent on debt payments in Peru to half of all monthly income to debt payments in Georgia.[26]

While these debt levels are not attributed to microfinance credit alone, aggressive credit offers are worrying and deserve attention.

Those with good credit records may borrow for others, potentially increasing risk to institutions and clients.

In Peru and Georgia, there is also some evidence that individuals with good credit records may be more likely to borrow for other people (and vice versa), viewing these good records as a form of social capital. Ten percent of respondents in Georgia had borrowed in someone else's name along with 8 percent of respondents in Peru (Figure 26). In addition, 11 percent of Peruvian respondents admitted to borrowing for someone else. Most respondents in both countries admitted to borrowing for family members or friends.[27]

One respondent describes the borrowing arrangement with her sister:

FIGURE 25

Frequency of Credit Offers Reported by Respondents

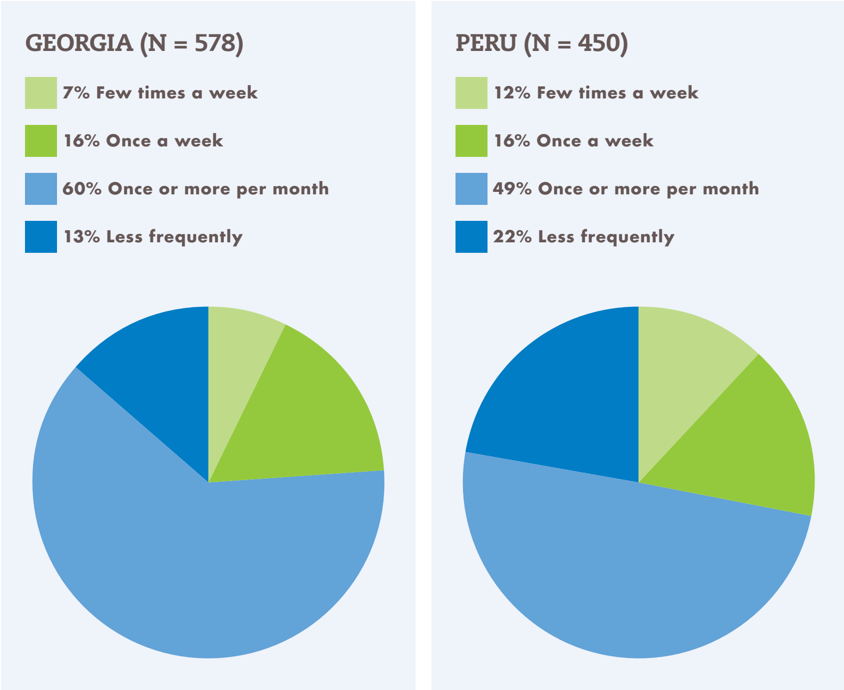


TABLE 1

Debt-to-Income Ratios Among Current and Former Microfinance Clients in Georgia and Peru[28]

GEORGIA

CLIENT TYPE	MEAN	MEDIAN
Current clients	50%	37%
Former clients	46%	31%

PERU

CLIENT TYPE	MEAN	MEDIAN
Current clients	26%	20%
Former clients	26%	18%

FIGURE 26

Whether Respondent Received a Loan Taken in Someone Else's Name

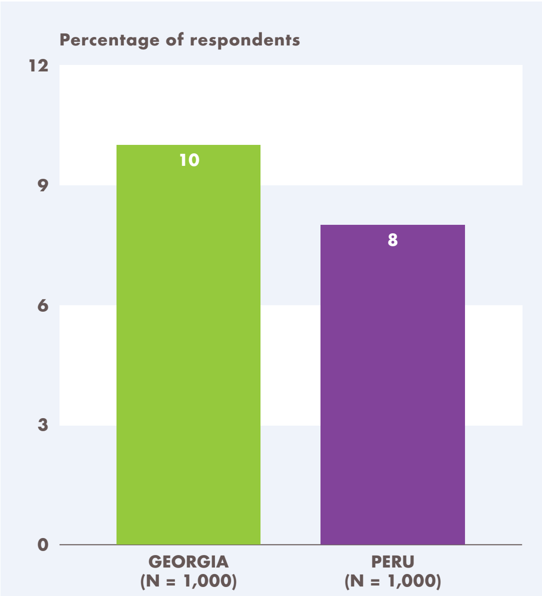
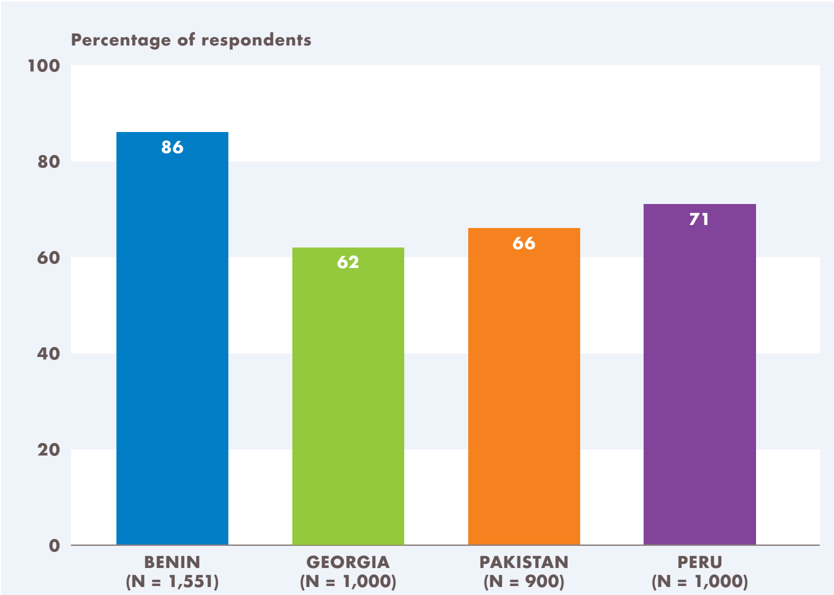


FIGURE 27

Proportion of Respondents That Were Not Informed Where to Go With Problems or Complaints, Sample Level



Respondents that replied 'no' to question: "Did MFP inform you where to complain?"

R: "Well, I've never asked for [a loan] directly. Since my sister is the one with the job and the credit card, she does me the favor, but I am the one who pays for it of course."
M: "So the loan is written to your name, but you pay it to your sister?"
R: "No, I pay the bank. I go with the receipt she gives me of my debt and I pay it."
M: "Ok, but the bank is aware of the agreement between you both?"
R: "No, it can't be like that. She gets the loan and lends it to me as if it were the bank. There is no problem with it as long as I pay on time. The one who must be on time with everything is me. I pay my debt, and her borrowing limit increases. So she benefits from it [too] as long as I'm on time."
WOMAN, URBAN LIMA

Some individuals may be borrowing precisely because they have a negative record in the credit bureau already. In Georgia, respondents that borrowed in someone else's name were significantly more likely to have had a negative record in the credit bureau than others. Similarly, regression analysis[29] in Peru finds that respondents who have shared loans are 23 percentage points more likely to make late repayments and 10 percentage points more likely to default or abandon loans than other borrowers.

While individuals may feel good about being able to help family members with credit opportunities, they may not fully understand the consequences to their own names and credit records if these family members are not able to follow through. This practice of sharing may also introduce system risk to the wider financial system.[30]

Clients are Not Aware of Communications Channels for Complaints, Grievances, and Queries, or Lack Such Options All Together

The Client Voices research unearthed a widespread lack of awareness about recourse channels in all countries. In Pakistan and Benin, clients often report that there are no channels through which microfinance clients can complain, ask questions related to loan terms, conditions, or procedures, or direct general queries.

The vast majority of respondents were **not** told how to address problems or complaints (Figure 27). In Benin, only 14 percent of respondents recall being told who to consult in case a problem arose. Even in Peru and Georgia, which are known for having strong microfinance and consumer protection regulatory environments, only 25 percent and 38 percent of clients recall being told where or how to address concerns.

Among clients that are given information on where to complain, the majority are directed to channel grievances to their loan officers or group leaders

Of those that were told where to complain, the majority were asked to contact either their MFP loan officer, a group leader, or another MFP staff member (Figure 28). With the exception of Pakistan and Peru, where 24 percent and 34 percent of respondents recall being given the contact information for a formal complaints department, minimal respondents in Georgia and Benin recall receiving such information.

While asking questions of the loan officer is helpful, using this channel could be problematic if the complaint involves this person. For example, in Benin 27 percent of clients had a complaint about a loan officer. In Peru, among the 19 percent of clients who had a reason to complain, 31 percent were dissatisfied with a poor explanation by MFP staff, and 22 percent wanted to complain about rude treatment by MFP staff. It is quite possible that these complaints are about the loan officer, with whom clients often have the most contact. This data suggests that complaints resolution is not yet considered vital to operations or customer service by MFPs in these markets, nor is it yet considered a principal component of consumer protection that should be communicated to clients. Peru is an exception. It has established and promoted strong complaints resolution and arbitration architecture, consisting of multiple channels (public and private), for consumer recourse.[31] Regulations mandate dispute resolution options at financial institutions, and the Central Bank established a Client Service Platform,[32] which works in cooperation with the government's consumer complaints institution (INDECOPI) to process and resolve

FIGURE 28

Where Clients Were Told to Direct Complaints (of Those That Were Told Who to Contact)

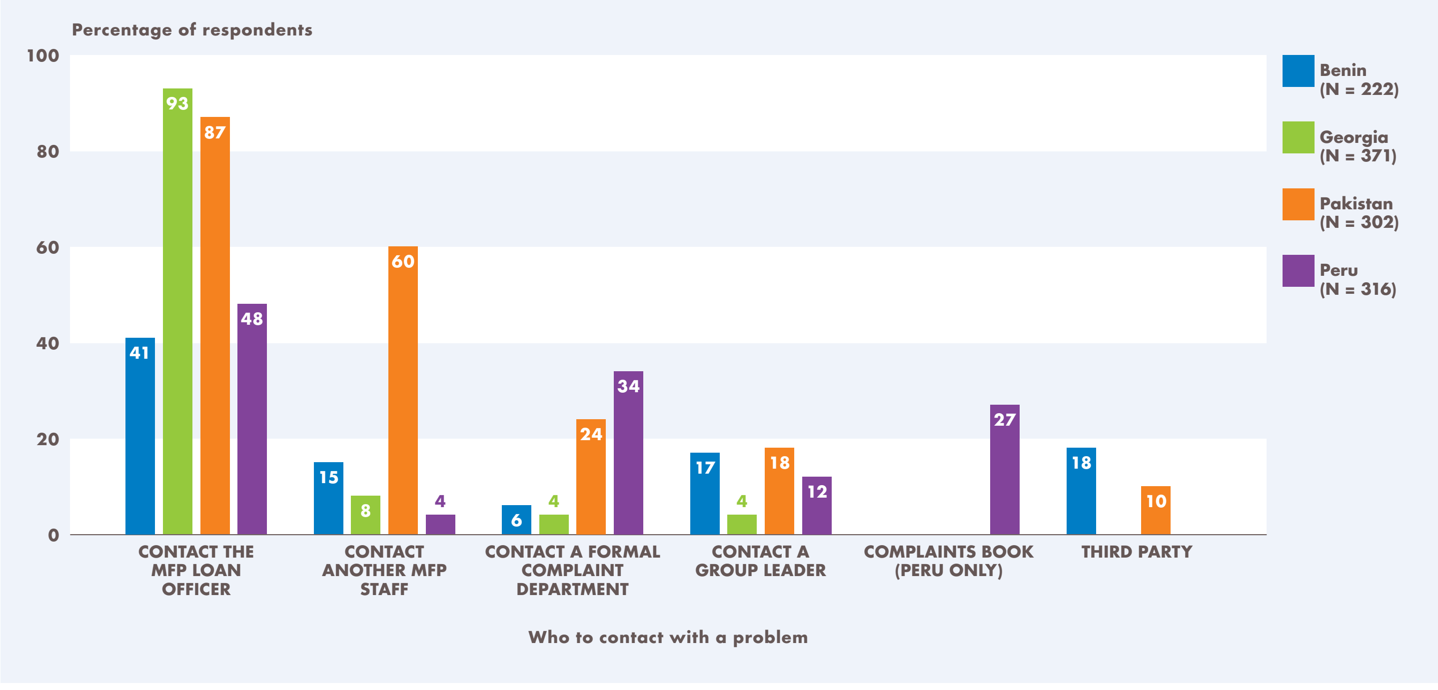


FIGURE 29

Respondent Reported Having Had Reason to Complain to an MFP

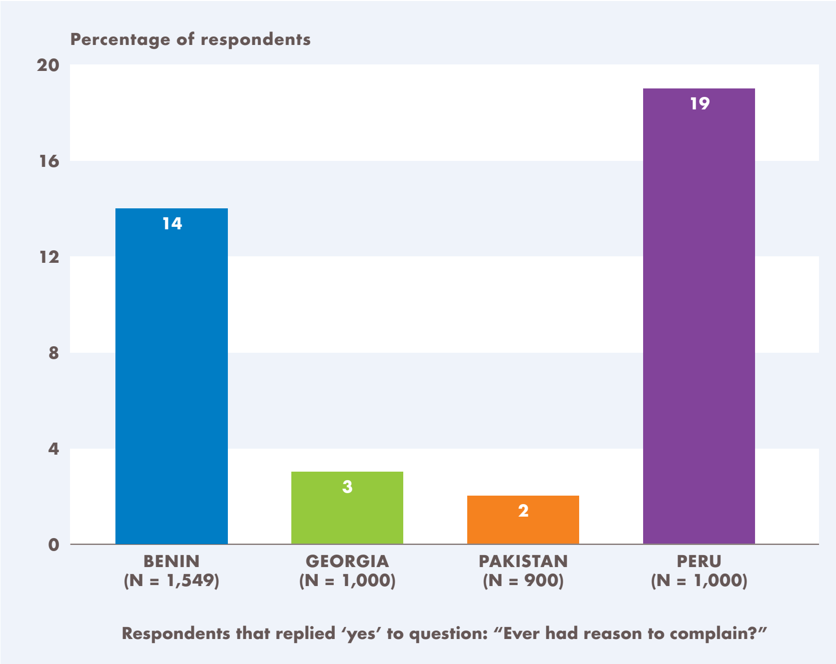
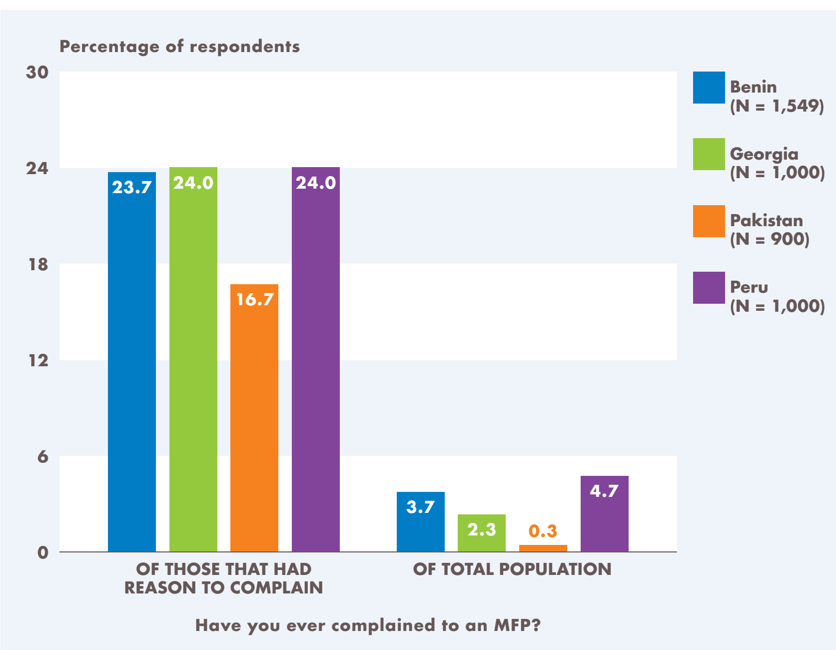


FIGURE 30

Of Those That Had a Reason to Complain, % of Respondents That Filed Complaint With an MFP



consumer grievances. Interestingly, more clients report having a reason to complain and filing a complaint in Peru where these channels seem to be working well, as we see in the next section.

Lack of clarity regarding complaints resolution channels may contribute to low levels of complaints

Respondents in Benin, Georgia,[33] and Pakistan appear less likely to complain, even if they had a reason to do so in the past (Figure 29). This may stem from the lack of clear grievance mechanisms. In Benin, for example, 61 percent of respondents that did not complain (despite having a reason to do so) reported that this was because they did not know where or how they could do so.

Low levels of complaints may be compounded by a belief that MFPs do not respond to client grievances (Figure 31), and may help to explain why so few respondents in Pakistan and Georgia reported that they have had reason to complain in the first place. In Benin, 27 percent of clients that did not complain did not think that the MFP would solve their problem if they did.

Some clients feel that complaining is not worth the effort, or worse, that complaining will lead to a termination of their relationship with the MFP (Box 6).

Peruvian respondents appear more comfortable with making complaints that they feel will really be heard:

M: "Do you think that you are capable of complaining if there's something that you don't like?"
R: "Yes, I complain a lot!"
M: "And do you see any results when you complain?"
R: "When a complaint is fair, I do think so. Sometimes it takes a while, but you always get an answer. In the case of [MFP name] for example, if the system failed and suddenly I had no money left, we could make a complaint and in 48 hours we could get our money back. So I always complain."
FEMALE, CAJAMARCA, PERU

BOX 6

Customer Comments on Complaints

"It is so expensive to complain, then sometimes it has no use."
FEMALE RESPONDENT, TELAVI, GEORGIA

"If you go to complain to [the MFP] office, or elsewhere, you won't get another loan."
MALE RESPONDENT, PARAKOU, BENIN

This confidence may be a result of Peru's strong protection environment with multiple channels for recourse. However, even in this environment, the Client Voices research finds that microfinance clients may not feel empowered to complain, partly as a result of a lack of agency with other institutions that these individuals deal with on a regular basis, such as government institutions, schools, clinics, and so on. BFA created a "client agency" index to determine whether Peruvian clients might feel more empowered. However, less than 50 percent of Peruvian respondents are empowered according to this index.[34] There was no evidence that women's and men's scores differed significantly.

While recourse mechanisms appear to be working in Peru, with room for improvement,[35] clients report that these mechanisms are largely absent in Benin, Georgia, and Pakistan. Regardless of whether clients face problems with MFP services, providing clients with customer service channels should be a service priority. And if clients do have problems or concerns, these channels are of greater import.

While contacting loan officers directly can provide clients with an important channel for addressing questions related to their loans, terms, and conditions, MFPs should also offer centralized recourse services, which allow clients to field concerns without compromising relations with their direct MFP contacts.

FIGURE 31

How Frequently Georgian Clients Think That MFPs Listen to Complaints in (Peru, N = 1,000)

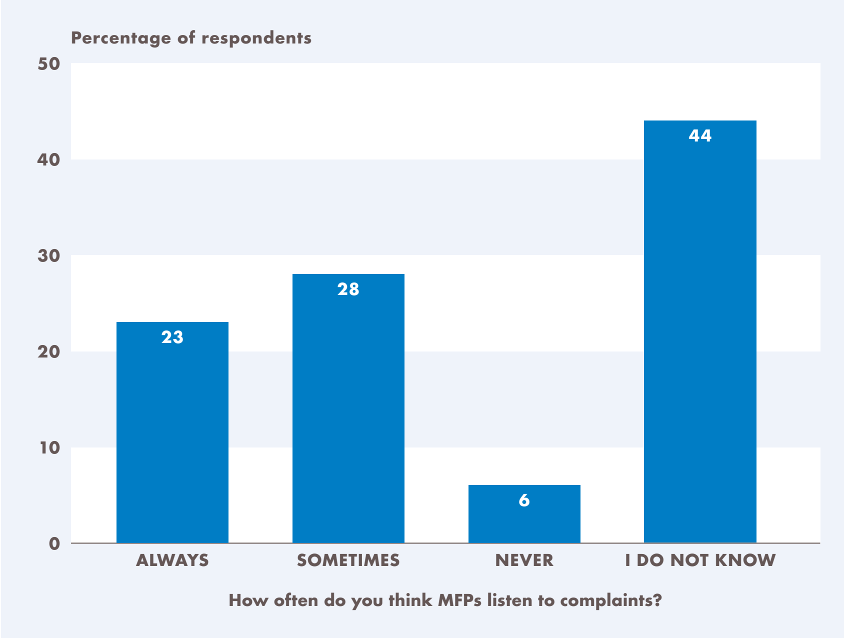
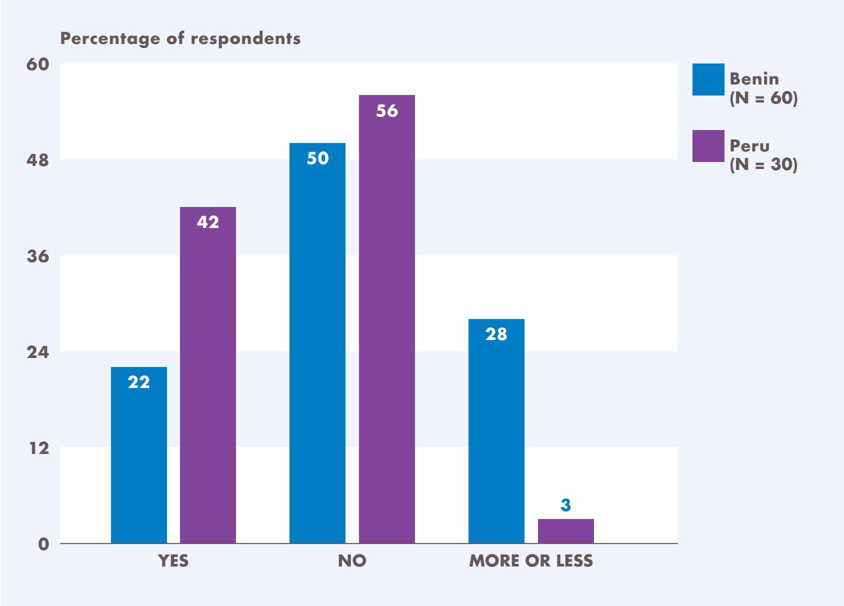


FIGURE 32

Was Your Complaint Resolved?



4

Fostering a More Protective Environment for Microfinance: Outstanding Questions for the Microfinance Industry

Having listened to clients about their concerns, concrete action is needed to rectify the consumer protection problems that clients view as most critical. Providers, regulators, consumer protection advocates, and even the clients themselves have a role to play in creating safe conditions under which both users and MFIs can prosper.

Transparency and Understanding

A radical rethinking of disclosure and transparency is needed.

The goal of transparency efforts should be to ensure clients understand financial products. Regulators, consumer protection advocates, and donors should shift the objective of transparency efforts from simply divulging information to promoting and verifying client understanding.

Regulations and enforcement should focus on understanding.

As part of this revised approach to disclosure, regulators need to hold institutions accountable to communicating information clearly and simply. Verification that clients have understood key terms and features should be built into regulations and enforcement around disclosure. One idea is to conduct supervision visits or interview clients to confirm that they understood important information, like the currency of the loan and whether or not clients have insurance. Regulators could consider fining institutions if a certain percentage of their clients do not know critical information.

Test and measure the effectiveness of innovative ways to share information, keep products simple.

MFPs should experiment with short and interactive ways to communicate key information about financial products, as Georgian MFPs have done in showing clients short movies. MFPs should develop monitoring and evaluation efforts to track what works to improve understanding. Behavioral economics research sheds light on the most effective ways to communicate complex financial information effectively, and can inform these efforts.[36] Presenting information in songs or audio files, calendars, or cleverly designed infographics might be effective in certain contexts. MFPs should experiment with these approaches, monitoring what is effective in boosting understanding.

Providers should verify that clients have understood key information about financial products. Ideas include having clients describe the product back to staff, or administering a short quiz to clients. Meaningful disclosure should also ensure that clients know where to find information about their products in case they forget or wish to review the terms and conditions later. A text message question and answer service provided by MFPs is a possible solution.

Another way to improve client understanding is to reduce the complexity of the product features that need to be communicated. Clients do not like surprises when it comes to financial services. They want to feel confident in their understanding of what is expected of them, what will happen if they do not meet these expectations, and to whom they can address questions and concerns. Simple, elegant products that can be described in one or two sentences may more effectively grasp client's attention.

A positive finding is that focusing on client understanding makes business sense. With the exception of Pakistan, we find a clear positive correlation between self-reported understanding and client satisfaction. Happy clients are more likely to convert to long-term clients, and

> **Clients will appreciate products that build in one or two grace periods that allow for late repayment in the case of an emergency. Initial research suggests that such policies reduce financial stress and do not significantly increase defaults.**

to take up more products, so investing in understanding has benefits for MFPs.

Certifications and endorsements aimed to convey institutional quality should be visible to clients.

Client protection advocates including the Smart Campaign have invested in certifying institutions with strong consumer protection records. In addition to certification being used to motivate good practices, clients should also benefit from information that identifies providers that care about their rights. Having an international seal or sticker that could signify which institutions have made efforts to protect their clients that the users could see would go a long way to ensure that standards and certifications keep clients first.

Another recommendation to share information about legitimate and quality institutions is for national microfinance networks to give village leaders and religious authorities a list of registered financial providers in the area to share with community members.

Respect, Humane Treatment, and Flexibility

Build flexibility in repayments into product design.

Providers should consider revamping their late payment policies to build in more flexibility. Clients will appreciate products that build in one or two grace periods that allow for late repayment in the case of an emergency. Initial research suggests that such policies reduce financial stress and do not significantly increase defaults.[37] Clients are demanding not only flexibility, but more empathy and kindness when they undergo hardship like illnesses and deaths in the family. This will come with staff training and changes to incentive structures.

Similarly, some MFP clients who have small businesses or receive irregular incomes report that paying every month is challenging. Products that allow clients to overpay in better months and pay less if their salary is late or their business has a problem could make microfinance more manageable for those with irregular incomes.

Abolish incentives that may encourage shaming clients.

Client protection starts with treating clients with dignity. MFPs should design compensation and incentives for loan officers to discourage public humiliation or other shameful treatment of clients. Pressure on collection officers to meet targets may contribute to these negative practices. Instead, MFPs should have clients review staff on customer service, and reward good performance in respectful treatment.

Investors could also apply pressure for loan officer compensation to be separated from repayment performance in countries where shaming is a concern. For example, MFPs could solicit reviews of loan officers on the basis of customer service, empowering them to express any dissatisfaction and rewarding staff who treat clients respectfully.

Complaints Processes

Focus on client satisfaction, not meeting minimum requirements for complaints processes.

MFPs in Pakistan and Benin, with support from regulators, investors, and donors, should institute more robust complaints resolution processes. Having the loan officer as the contact for all complaints is not effective as clients may run into problems with the loan officer as well. Technical assistance to MFPs that do not have internal complaints resolution processes can be helpful.

In Peru and Georgia, clients may not know where to complain. When complaints escalate, a third party arbiter gives clients a neutral option for raising a dispute. With INDECOPI, Peru has done well to give users a third party option for complaints resolution, for example. Other countries should develop similar ombudsman or dispute resolution bodies, allowing clients to consult third parties with grievances and potentially bolstering the supervision capacity of central banks through an additional measure of monitoring. Clients are skeptical of efforts to seek feedback that seems symbolic, such as comments boxes or complaints books that seem unread. If such mechanisms are not actually working to solicit and resolve complaints they should be eliminated, as clients do not take them seriously.

There is also room to improve clients' willingness and confidence to compare terms, to question, and to demand better service quality at their financial service providers. More research around how comparing products can benefit microfinance clients, and how they might be motivated to do so would be helpful.

Credit Bureaus

Promote credit bureaus for microfinance, keeping personal information private.

International organizations and donors should continue to support the development of credit bureaus that include financial products for low-income people in their reporting. However, credit bureaus should be designed to protect privacy of client contact information. Institutions should not have access to client phone numbers or personal information automatically from the credit registry without client consent, as this can encourage credit solicitations that are bothersome to some clients.

Clients need more information about credit bureaus. Being able to build a positive reputation over time is a priority for clients, so not knowing about positive credit history is a major missed opportunity.

Clients should have access to information about the consequences of a negative record with the credit bureau, and those with negative records should be able to access information about redeeming their borrowing status. The credit registries themselves or consumer protection agencies in the government should take on the challenge of educating clients about credit bureaus. In Pakistan and Georgia especially, clients valued the ability to develop a reputation over time. This feature of the credit bureau will be appreciated.

Aggressive Marketing and Sales

Regulators beware.

Client Voices research in Peru and Georgia uncovered questionable sales practices, such as offering new loans by a check that just needs to be cashed in Peru, or loan top-ups by pre-paid card in Georgia. If credit assessments are not updated, this practice poses risks to clients and institutions. Regulators should monitor these quick and easy products to make sure they are being issued responsibly. Laws that allow clients to remove their contact information from sales lists should be enacted.

Aggressive sales as an issue with new importance for consumer protection?

The Smart Campaign should consider a specific Client Protection Principle on aggressive selling techniques and automatic loan renewals. As innovative methods of credit scoring,

Certain types of insurance related to the loan may be necessary, but other products may take advantage of clients who do not know that they have insurance or how it works.

such as the M-Shwari model, psychometric assessments, use of social network data, and other approaches to conduct remote credit assessment, increase in popularity, there may be even more opportunities for selling credit products. Standard setting bodies and codes of conduct should incorporate provisions against aggressive credit sales into their doctrines.

Appropriate Products

Revisit whether MFPs should be allowed to pass all currency risk to clients.

U.S. Dollar loans in Georgia raise concerns about the appropriateness of products in the market. Regulators should evaluate whether passing all currency risk to clients should be allowed, and consider promoting risk sharing schemes in which the institution also shares currency risks with clients. Another option would be to have longer, more flexible terms for U.S. Dollar loans to grant clients some leeway in managing large swings in their repayment values. Since understanding exchange rate risks is complicated, measures to limit issuing these loans to more vulnerable clients should be put in place.

Is insurance being provided appropriately?

Regulators should reconsider rules on bundling insurance with credit. Certain types of insurance related to the loan may be necessary, but other products may take advantage of clients who do not know that they have insurance or how it works.

Embedding the Client Voice

Consumer protection efforts that do not include client perspectives risk losing relevance and being out of touch.

Providers tend to have good information about the reality of their clients, especially at the loan officer level. MFPs should leverage this knowledge and continue to update understanding of client worries and priorities. However, it is more difficult for regulators, donors, and consumer protection groups that do not speak to clients on a regular basis to keep up with the client views. This feedback loop is important when implementing rules and regulations. Regulators should consider incorporating light-touch surveys or qualitative research to ensure they are not making incorrect assumptions about consumer protection problems. Similarly, consumer protection advocacy groups should include periodic research with clients around campaigns or changes to priorities. Providers should also embed more customer feedback and reviews into operations in order to provide more opportunities for the client voice to be heard.

A way forward.

The Client Protection Principles largely cover the primary concerns of microfinance clients in the four Client Voices countries: fair and respectful treatment, transparency, prevention of over-indebtedness, and appropriate products. Although progress is being made, a reframing and a more consultative approach to consumer protection is required. The solutions to these problems are complex and require that providers, regulators, consumer groups, and clients make difficult changes to behavior. We look forward to a world where shaming clients is a distant memory, where loans are flexible and are not a source of stress during emergencies, where clients feel informed and empowered with respect to financial products, and where no one "borrows blind."

ANNEX

1

Global and National Advisors

Global Industry and Research Advisors

Rafe Mazer, CGAP

Kim Wilson,
Fletcher School at Tufts University

Monique Cohen,
Board of Microfinance Opportunities

Jhumka Gupta,
Yale University School of Public Health

Susan Johnson,
University of Bath

Xavi Gine,
World Bank

Jessica Schicks

Fernando Campero, IDB

Ann Miles,
MasterCard Foundation

Elisabeth Rhyne,
Center for Financial Inclusion at Accion

National Industry and Research Advisors

Benin

Ernest Gbaguidi,
President of Consumer Association

Thierry Ogougbe,
Banking Supervisor BCEAO Benin

Kora Tongou Monra,
Microfinance Consultant

Amoussou Gilles,
Chef d'agence FINADEV

Gilles da Costa, Alafia

Joliette Amegmigan, Alafia

Ignace Dovi, Alafia

Valere Houssou, Alide

National Industry and Research Advisors (continued)

Georgia

Archil Bakuradze, Crystal Georgia

Natia Chkonia, National Bank of Georgia

Alexander Gomiashvili, CreditInfo Georgia

Natasa Goronja, IFC

Irine Ioseliani, National Bank of Georgia

Luri Lebanidze, Georgian Microfinance Association

Tamar Lebanidze, Constanta Bank

Levan Lebanidze, Constanta Bank

David Onoproshvili, Parliament of Georgia

Dina Saleh, IFAD

Olga Tomilova, CGAP

Vusal Verdiyev, FINCA Bank Georgia

Pakistan

Zahra Khalid, Pakistan Microfinance Network

Aban Haq, Pakistan Microfinance Network

Sarwat Aftab, World Bank

Waqas Hasan, DFID

Gemma Stevenson, CERP

Roshaneh Zafar, Kashf Foundation

Ghalib Nishtar, Khushhalibank Limited

Yasir Ashfaq, Pakistan Poverty Alleviation Fund

Peru

Mariela Zaldivar, SBS

Fiorella Risso, SBS

Wendy Ledesma, SBS

Juan Carlos Chong, SBS

Humberto Romero, SBS

Daniel Bouroncle, SBS

Fernando Arrunategui, ASBANC

Janina León, Pontificia Universidad Católica del Perú-Departamento de Economía

Erickson Molina, INDECOPI

Gregorio Belaunde, Ministry of Economy

Jorge Arias, ASOMIF

Jack Burga, COPEME

Ever Eguzquiza, COPEME

Gloria Acosta, EDPYME Raíz

Viviana Salinas, FINCA Peru

Nino Mesarina, Accion

ANNEX

2

Research Methodology in Each Country

Research during the Client Voices project was conducted in two phases in each country. In the first phase, BFA employed several qualitative research methods (outlined below) to understand the issues and concerns of microfinance clients in each Client Voices country. Based on this research, bespoke quantitative surveys were designed to determine the prevalence of these concerns at the national level. BFA made efforts to cover key topics in all countries, but surveys were not uniform to incorporate the unique conditions of each market. Research methods were designed in collaboration with the Smart Campaign and with substantial valuable feedback from members of the IAC and NAC in each country.

Qualitative Research Methods

The main objectives of qualitative research were to hear from clients what they consider good and bad treatment, and to uncover microfinance consumer protection issues specific to each country. We relied on the research tools described in Table 2, although in Pakistan and Benin, focus group participants also participated in the role-play exercise

Research in each country was conducted in locations chosen to provide rich and diverse

TABLE 2

Research Tools in Qualitative Research

RESEARCH TOOLS	OBJECTIVES
Focus group discussions	To understand clients' perspectives and reasons about what they view as good or bad treatment, and to rank the attributes of such treatments and various institutions using a variety of exercises.
Individual in-depth interviews	To gain a deep understanding of individuals' interactions with MFPs, and how experiences are shaped by circumstances. A secondary objective was to obtain personal details and information about their financial situation not appropriate for discussion in a group context.
Photography exercise	To incite discussion and better understand clients' views of good and bad treatment, through images and metaphors, contextualized by information from interviews with the individuals.
Role-play exercise	To allow respondents to act out examples of good and bad treatment by MFPs, or allow them to demonstrate changes in treatment that they would like to see.

TABLE 3

Qualitative Sampling Methodology

	BENIN	GEORGIA	PAKISTAN	PERU
Locations	Cotonou Togba Parakou Paouignan	Tbilisi Telavi Gurjaani Kutaisi	Lahore, Punjab Sheikhupura, Punjab Karachi, Sindh	Lima Cajamarca Juliaca
Total focus groups and individual interviews	8 focus groups 8 individual interviews	10 focus groups 10 individual interviews	9 focus groups 10 individual interviews	9 focus groups 11 individual interviews

insights into the wider microfinance experience. Thus, locations were chosen for their relative concentration of microfinance clients or to provide diversity of experience (for example, we included rural and urban locations in each country). Given the in-depth nature of the qualitative research, these sites were limited to three to four locations per country, chosen with input from the NAC when possible. They were not meant to be representative. The locations for Client Voices research are listed in Table 3.

We are grateful to the research partners that worked with us in each country to implement this phase of research: CEDA in Benin, IPM Research in Georgia, TNS Aftab in Pakistan, and Datum International in Peru.

National Quantitative Surveys

The main objective of the quantitative surveys was to understand how common problems with MFPs identified during the qualitative research are at the national level.

Given the difficulty of obtaining national sample frames with information on microfinance borrowing, as well as security or cost concerns, it was not possible to conduct nationally representative surveys of microfinance borrowers in Benin and Pakistan. However, the Peru and Georgia surveys were nationally representative of adult microfinance borrowers in each country, with the Peru survey being representative of clients with loans less than 10,000 Peruvian Soles, or U.S. $3,060. The sampling methodology used in each country is described below.

Benin quantitative methodology

There is little information available about where microfinance clients are located in Benin. We obtained data from ALAFIA microfinance network members about the number of their clients in each province and arrondissement. However, we were unable to obtain this level of data from other MFPs. Furthermore, we did not want to involve MFPs intensely in selecting the locations for the survey to preserve objectivity in recruiting respondents. Since it was not possible to use client concentration and location data to construct the sampling plan, we used a large, randomly selected sample of 1,800 clients, from all 12 departments of Benin.[38] After data cleaning, the final sample was reduced to 1,733 individual interviews, as illustrated in Table 4.

In Benin, our aim was to consider the universe of current microfinance clients (70 percent of sample) and former clients (30 percent of sample): savers and borrowers, 18 years old and older, and those who have had engagement with MFPs ending less than seven years ago (for former clients).[39] These individuals were of interest because those who faced the most or the worst problems or poor treatment by MFPs would likely no longer be using the services. We also wanted to interview non-clients (10 percent of the sample) to assess the perception of MFPs by those who have not used their services.

In the first stage of the sample selection, we randomly selected *arrondissements* (the second-tier administrative unit in Benin), from each of the 12 departments of Benin. The number of *arrondissements* selected from each department

TABLE 4

Sample Distribution by Department

DEPARTMENT	NO. OF ARRONDISSEMENTS	DEPARTMENT	NO. OF ARRONDISSEMENTS
Alibori	8	Donga	5
Atacora	7	Littoral	6
Atlantique	13	Mono	4
Borgou	11	Ouémé	10
Collines	6	Plateau	5
Couffo	7	Zou	8
TOTAL DEPARTMENT	**12**	**TOTAL NO. OF ARRONDISSEMENTS**	**90**

TABLE 5

Respondent Quotas in the Quantitative Survey

RESPONDENT TYPE	INTERVIEWS PER ARRONDISSEMENT	INTERVIEWS PER CLUSTER (2 CLUSTERS ARRONDISSEMENT)	TOTAL DRAWN SAMPLE	TOTAL FINAL IN DATASET
Current MFP user	12	6	1,080	1,028
Former MFP user	6	3	540	526
MFP non-user	2	1	180	179
Total	**20**	**10**	**1,800**	**1,733**

was proportional to the population of the department, according to the 2013 National Census. The selected sample included 90 *arrondissements*. The sampling plan allocated 20 interviews per *arrondissement*, conducted in two different clusters within the *arrondissement* (10 per cluster). In the second stage, the researchers used the random walk methodology to select respondent households in the field. Researchers visited every fifth house and determined if there were any eligible adults 18 years old or older. In the event that one household contained more than one eligible member, researchers used a Kish grid to select randomly the respondent from among the eligible members. A Kish grid is a method of randomly selecting eligible household members to interview to ensure that a representative sample is achieved and to reduce the chance of selection bias.

Table 5 shows the application of these quotas in the sample.

Respondent type definitions

CURRENT MFP USER: Currently has or in the past six months had a loan or savings with an MFP.
FORMER MFP USER: Not a current user, but had savings or loans with an MFP, between six months and 7 years ago.
MFP NON-USER: Not a current or former user, but has heard of MFPs.

Georgia quantitative survey

In Georgia, we conducted a national survey with current and former microfinance clients. The goals of the survey were to estimate the incidence of client protection gaps in the relationship between microfinance organizations and users. The survey aimed to explore the universe of all current microfinance users as well as former clients who had a relationship with MFPs no longer than four years ago. Non-users were not targeted. In Georgia, the main service offered by MFPs is loans, which sometimes come with mandatory loan life insurance. Thus, the respondents are exclusively MFP borrowers.

Respondent type definitions:

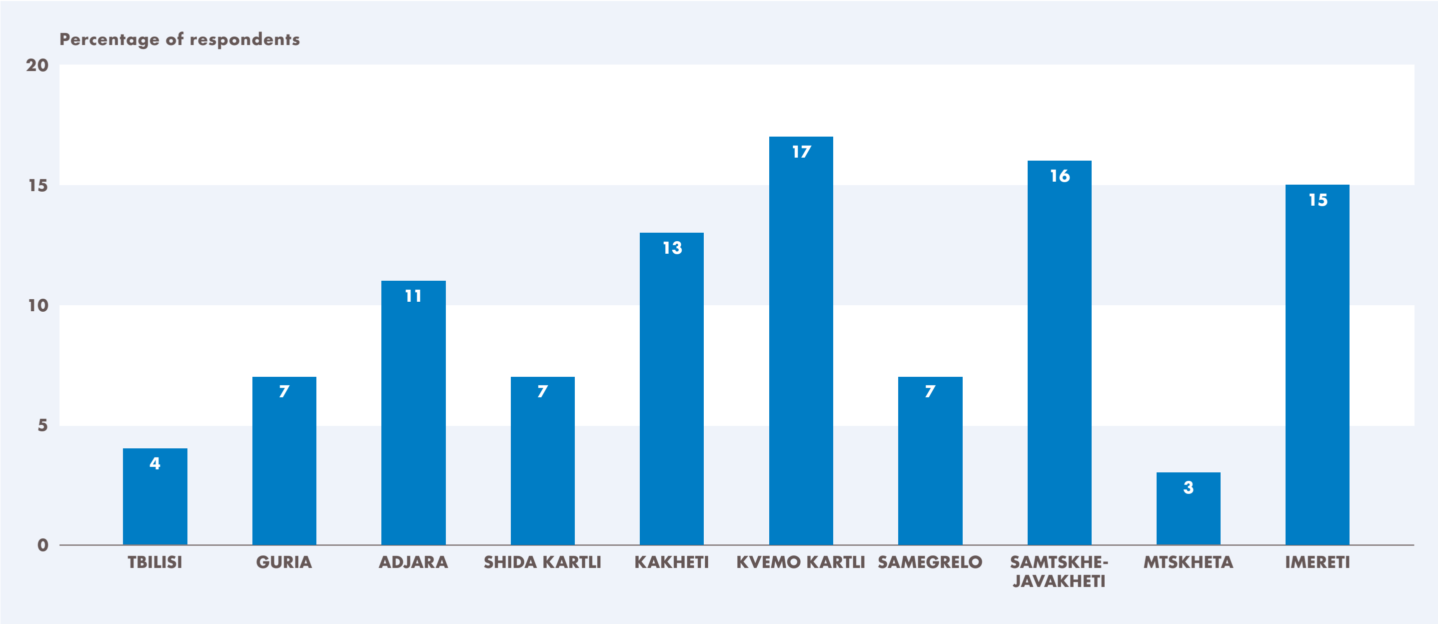
CURRENT USER: Currently has a loan and has been repaying for at least three months
FORMER USER: Does not currently have a loan but had an MFP loan less than six years ago
FORMER USER, WITH A CURRENT LOAN LESS THAN THREE MONTHS OLD: Currently has a loan that is less than three months old but had another MFP loan less than four years ago

The last category was introduced to account for respondents whose latest loan was too new for the purpose of our research, but who could discuss their previous experience as MFP borrowers. For the analysis, we treat these borrowers as former users since their responses concerned a past loan.

No current data on the number and distribution of microfinance clients exited in

FIGURE 33

Distribution of Face-to-Face Interviews in Georgia Research by Region (Georgia, N = 1,000)



Georgia at the time of the survey. In order to ensure that the results are representative of the experience of all MFP clients in Georgia, the research firm initially created a mini-census of the population. During this census, the research firm contacted 10,000 randomly selected households from all 10 regions of Georgia in person, including the capital city Tbilisi, stratified by settlement type (urban or rural).

The mini-census allowed us to understand the prevalence and distribution of microfinance usage at the regional and settlement level, and to distribute the Client Voices interviews accordingly. We found that the distribution of microfinance usage is much higher in rural areas (~ 25 percent of the households contacted had at least one MFP user) than in urban areas (~ 7.5 percent of the households contacted had at least one MFP user). In Tbilisi the proportion was much lower, at less than 2 percent. Based on these findings, 1,000 households were selected for the Client Voices research, distributed in proportion to the number of MFP users in each region according to the mini-census.

A quota for the number of former users was employed at the electoral unit level. No specific gender quotas were employed.

The contacts were made using a random walk, and when in a household more than one eligible person was found, the interview respondent was selected using a Kish grid. In this case, if more than one member of the household was an MFP current or former client, the Kish grid was used to randomly select one MFP client to interview.

A total of 1,000 face-to-face interviews were completed for the Client Voices research, distributed as follows:

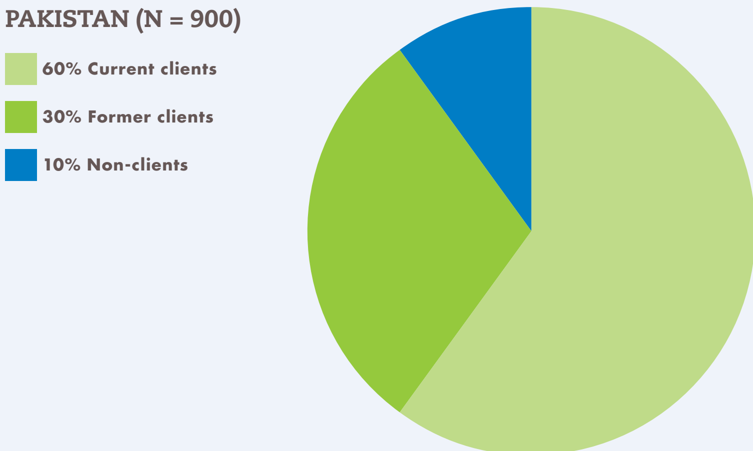
Pakistan quantitative survey

The aim of this study was to explore the universe of current and former MFP clients: savers and/or borrowers, 18 years and older, who currently have engagements with MFPs, or whose engagement with MFPs ended less than three years ago. We included former clients in the sample based on the hypothesis that some former clients may have faced problems or poor treatment during their tenure with MFPs, and then decided to stop borrowing or saving. Non-clients were included in the sample since we wanted to understand their perception of MFPs, and assess if rumors and concern about poor treatment could be a factor that prevents them from becoming clients. See Figure 34 for a breakdown of respondent types:

FIGURE 34

Respondent Types in Quantitative Survey

PAKISTAN (N = 900)



Respondent type definitions

CURRENT MFP USER: Currently has or in the past six months had a loan or savings with an MFP.

FORMER MFP USER: Not a current user, but had savings or loans with an MFP, between six months and 3 years ago.

MFP NON-USER: Not a current or former user, but has heard of MFPs

Due to political instability and a very low density of MFP borrowers in some areas of Pakistan, only two of the four provinces of Pakistan were covered by interviews. However, these two provinces—Sindh and Punjab—are the most populous of Pakistan, comprising 78 percent of the total population and 94 percent of active microfinance borrowers in the country.[40]

The concentration of microfinance clients in Pakistan is low (less than 3 percent of the population), and there is no centralized repository of exact addresses for clients. Obtaining detailed client information from all MFPs would have been difficult and very time consuming and could have compromised respondents' trust in the confidentiality of answers. Thus, we employed data provided by the Pakistan Microfinance Network (PMN) to determine the concentration of current microfinance clients at the *tehsil* level.[41] For each of the two provinces, we dropped out of consideration the 20 percent of *tehsils* with the lowest relative concentration of MFP clients. We recognize that this strategy may introduce a certain degree of bias, given that a lower concentration of borrowers could mean fewer MFPs and issues specific to low competition among providers. However, the alternative would not have been practical to implement.

In the first stage of sampling, a total of 100 tehsils were randomly selected from the remaining eligible ones, using the proportional to size sampling method. Punjab was allocated 71 *tehsils* to be interviewed, while Sindh was allocated 29 *tehsils*, based on the distribution of Pakistani current MFP borrowers. The urban-rural allocation of tehsils within each province was reflective of the actual administrative distribution. Overall, 58 *tehsils* classified as urban and 42 *tehsils* classified as rural.

In each *tehsil* 10 interviews were conducted for a total of 1,000 interviews. During the second stage of sampling, the interviewers used the random walk method to select households in the field. Using two starting points per *tehsil*, and a step of five, interviewers applied a screener to determine the eligibility of adults 18 years old or older. In the event that one household contained more than one eligible member, the respondent was selected using the Kish grid.

A quota for client type (current, former or non-client) was applied at the tehsil level. No gender quota was employed, however the resulting sample had a nearly exact 50 percent gender breakdown. In addition, in the resulting sample, 69 percent have had or had a group loan and 31 percent individual loans.

Peru quantitative survey

The main objective of the quantitative survey was to understand how common problems with MFPs are at the national level in Peru. There is no aggregate information or address listing for all microfinance borrowers as a group, and the research budget did not permit carrying out a census in enumeration areas in a national sample. Fortunately, we were able to leverage SBS data on the number of borrowers with loans under a certain value to gain information about where microfinance borrowers are likely to be located. Through discussions with the Smart Campaign, the SBS, and the National Advisory Council we decided to use the loan value cutoff of 10,000 Soles, (about U.S. $3,000) in sample selection. This was less than a definition of 20,000 Soles (U.S. $6,000) that SBS uses to distinguish small loans. We elected to use the 10,000 Soles limit to include more low-income people in the sample and to keep the sample more comparable with the types of respondents included in surveys in the other Client Voices countries.

We oversampled rural areas, aiming for 30 percent of enumeration areas being rural, as shows in Table 6. In practice, 24 percent of the unweighted sample was from rural enumeration areas.

The sample included 72 districts in eight provinces.[42] We oversampled rural areas, keeping 25 percent of the sample rural in each department. To select the sample, we ordered districts by the number of clients with loans under 10,000 Soles and did a random selection of the urban and rural districts with the most borrowers in each of the eight provinces. Although we wished to survey low-income microfinance clients, the selection criteria of loans below 10,000 Soles did not take into account which types of institutions loans were from, and the selection from Lima and Callao resulted in wealthy areas being selected into the sample, likely due to large numbers of credit cards and retail store loans. To correct for this, we limited the sample selection in Lima and Callao to neighborhoods classified by the government as socioeconomic classification C or D (on an A–E scale, with A being the wealthiest).[43] All analysis in this report uses sample weights created by Datum International based on SBS data on the number of MFP clients with loans under 10,000 Soles.

In the second stage of the sampling approach, households were selected using a random walk approach as we did not have an address listing. If there was more than one eligible household member, we selected randomly between them using a Kish grid. All analysis in this report uses sample weights created by Datum International based on SBS data on the number of MFP clients with loans under 10,000 Soles.

BFA participated in piloting the questionnaire and enumerator training with Datum International. Piloting and training took place in late May, and the survey was applied in the field in June and July 2015.

TABLE 6

Peru Quantitative Survey

REGION AND CITY	TOTAL NUMBER OF BORROWERS WITH DEBT LESS THAN S/. 10000	URBAN POP.	RURAL POP.	PERCENT OF SAMPLE URBAN	RURAL OVERSAMPLE	TOTAL SAMPLE	URBAN SAMPLE	RURAL SAMPLE
Region: Lima/City: Lima	3,630,924	1,818,895	3,136	100%	0%	200	200	0
Region: Arequipa/City: Arequipa	308,202	196,520	4,457	70%	30%	200	140	60
Region: La Libertad/City: Trujillo	221,657	171,819	3,111	70%	30%	150	105	45
Region: Lambayeque/City: Chiclayo	173,551	158,983	12,658	70%	30%	100	70	30
Region: Piura/City: Piura	172,675	121,815	20,809	70%	30%	100	70	30
Region: Junin/City: Huancayo	122,428	78,854	4,276	70%	30%	100	70	30
Region: Cusco/City: Cusco	96,794	88,962	2,910	70%	30%	75	53	22
Region: Loreto/City: Maynas	60,817	77,826	9,887	70%	30%	75	53	22
TOTAL						**1,000**	**761**	**239**

Endnotes

1 This report includes only demand-side or user perspectives. We did not survey MFPs or regulators in this study.

2 The full list of industry leaders and researchers is located in Annex 1.

3 In addition to the ranking exercise and focus group discussions, we conducted individual interviews with respondents to probe further into financial details that would not be appropriate to discuss in a group setting. These respondents also participated in a photography exercise to illustrate their negative and positive associations with microfinance. Finally, focus group participants in Pakistan and Benin participated in role playing exercises to act out good and bad experiences with microfinance providers.

4 The quantitative surveys were not meant to be uniform in each country; rather, they were designed to reflect those harms and concerns which were raised by respondents in the first phase of qualitative research. Additionally, as a result of the phased nature of the project, the team was able to improve the surveys for Georgia and Peru, including additional questions related to microfinance stress, which were not present in the Benin and Pakistan surveys.

5 These represent positive attributes of customer service unique to each market across all institutions and are the result of the qualitative ranking technique employed during focus group discussions.

6 Detailed findings are available in the country-specific reports available on the Smart Campaign website.

7 We use the Global Financial Inclusion Index indicator for % of adults with a bank account.

8 World Bank, "Global Financial Inclusion Index: 2014"

9 MIX Microfinance. "Cross Market Analysis Reports: Benin, Pakistan, Peru, Georgia," accessed September 2015 at www.mixmarket.org/profiles-reports/crossmarket-analysis-report.

10 Market share refers to percentage of loans outstanding among MFPs. We include all forms of MFPs, while excluding commercial banks for this analysis. Only institutions that had reported data to MIX Microfinance since 2010 or later were included, with the exception of Benin. Two well-known MFPs in Benin last reported data in 2008 but were included here given their size.

11 EIU (Economist Intelligence Unit)., *Global Microscope 2014: The Enabling Environment for Financial Inclusion* (New York: EIU, 2014). Sponsored by MIF/IDB, CAF, ACCION and Citi.

12 The EIU's *Global Microscope* rankings evaluate the regulatory landscape for financial inclusion across 12 indicators, adjusted for political stability and financial shocks. Benin was not included in the 2014 rankings.

13 Institutions like cooperatives and non-profit MFPs are not supervised by the Central Bank of Peru (SBS) and voluntarily report to COPEME, a self-regulatory body of institutions, including approximately 40 NGOs providing credit services throughout Peru.

14 Merene Botsio,"Credit Reporting for Microfinance? It Can Be Done. Just Ask Pakistan." Center for Financial Inclusion Blog, 2013.

15 Triple Jump, "Constanta Georgia," accessed September 2015 at www.triplejump.eu/company/constanta-georgia-2.

16 Respondents had completed an average of 2.6 years of schooling in Pakistan, 6 years in Benin, and 12.6 years in Georgia. In Peru, we did not ask for the number of completed years of education but rather for the highest level of completed education: 41% of Peruvians in our sample had completed high school, and another 23.7% had received some college or university education.

17 In Pakistan, 41% of respondents could not read in Urdu at all and 23% of respondents could read with some difficulty. In Benin, 68% of respondents could not read in French and 15% can read only with difficulty.

18 UNESCO estimates that 100% of Georgian adults (age 15 and above) are literate and 94% of Peruvian adults. See: World Bank, "World Development Indicators: Literacy rate, adult total," accessed September 2015 at http://data.worldbank.org/indicator/SE.ADT.LITR.ZS.

19 This question confirms whether or not clients claim to know their interest rate or not. We could not verify whether respondents knew their interest rate accurately as this would have required information directly from loan contracts or from MFPs. Still, the high percentage of clients not knowing their interest rates in all Client Voices countries warrants concern.

20 In addition to providing clients with summary term sheets, one Georgian MFP shows clients an animated video explaining the terms and conditions associated with loans. Some respondents mentioned this video during qualitative discussions as one reason that they felt that their understanding of loan terms was good.

21 This result for Georgia is driven by surprises around exchange rate fluctuations, as discussed in section 7.

22 Median USD loan sizes in our sample were nearly double the size of loans issued in Georgian Lari (USD $227 for loans issued in Lari compared with a median USD $440 for loans issued in USD).

23 We heard similar stories of public shaming in Peru, including groups of people visiting houses to threaten borrowers or people's houses being painted. Although some respondents in rural Peru mentioned having suffered such collection practices in recent years, the quantitative survey finds that these practices are no longer common at the national level. It is worth mentioning that 5% of respondents still fear that such actions might occur if they are to fall into arrears.

24 While CreditInfo Georgia does not have a blacklist and collects both positive and negative credit information, loan officers refer to a "blacklist" to encourage clients to repay.

25 IFC Advisory Services, *Credit Reporting Knowledge Guide*, (2011).

26 We include all forms of debt, both formal and informal, in debt calculations.

27 70% of respondents that had borrowed for someone else or taken a loan in another person's name in Peru, and all but 1% of respondents that borrowed using another's name in Georgia borrowed using a household member's name or another family member that does not live in the household.

28 Only includes observations with debt-to-income ratios greater than zero with all outliers removed.

29 Available in annex.

30 T-test results for equality of means, having been denied a loan by whether individual borrowed in own or another's name: $p = 0.1463$, $t = -1.4537$.

31 In addition to formal dispute resolution centers at MFPs, well-developed public institutions for dispute resolution exist, including the *Instituto Nacional de Defensa de la Competencia y de la Protección de Propiedad Intelectual* (INDECOPI), which resolves disputes between consumers and private companies in all sectors including financial services, and the *Defensoria del Pueblo* (www.defensoria.gob.pe/). Further, the *Superintencia de Bancos, Seguros y AFP* (SBS), Peru's Central Bank, established a Client Service Platform which works with INDECOPI's Consumer Support System (SAC), to process and resolve consumer grievances.

32 *Plataforma de atención al usuario* (PAU)

33 Over the course of conducting focus group discussions in Georgia, BFA found that the word "complain" has negative connotations in Georgian (at least in Kutaisi where the team probed this topic). For the quantitative survey, this wording was reframed to avoid asking about "complaints" directly. Instead, the questionnaire asked about "suggestions" for improvement and recourse.

34 This index included 10 indicators to predict a client's likelihood of complaining, including whether: 1) the MFP told respondent where to complain, 2) the MFP explained additional charges related to their loan, 3) respondents felt that their complaints were listened to, 4) respondent compared their terms with other loans, 5) respondent understand how insurance works, 6) respondent understands terms of loan, 7) respondent understands written/verbal language of contract, 8) respondent believes MFPs treat everyone equally, and 9) respondent believes MFPs treat people with respect, are honest, and keep client information safe.

35 While clients are generally satisfied with recourse channels in Peru, clients expressed concerns that government recourse mechanisms are slow and may not result in resolution of the complaint. More detail is available in the Peru Client Voices report.

36 See for example: Bertrand, Marianne and Adair Morse,. "Information Disclosure, Cognitive Biases, and Payday Borrowing,." *The Journal of Finance* 66 (2011): 1865–1893.

37 Pande, Rohini, Erica Field, John Papp, and Jeanette Park, "Repayment Flexibility Can Reduce Financial Stress: A Randomized Control Trial with Microfinance clients in India." *PLoS One* 7 (9) (2012): 1–7.

38 The department is the first-tier administrative unit In Benin, similar to a state or province. Departments are in turn divided into arrondissements, which contain the enumeration areas (EAs) used in research.

39 We selected seven years ago to balance wanting to capture problems occurring in the past with wanting to minimize recall problems.

40 Pakistan Microfinance Network, "MicroWATCH: A Quarterly Update on Microfinance Outreach in Pakistan," Issue 35: Quarter 1, Jan–Mar 2015.

41 PMN had partial data, regarding only registered MFPs.

42 The eight provinces are Arequipa, Cusco, Junin, La Libertad, Lambayeque, Loreto, Piura, and Lima/Callao.

43 See for example APEIM,. "Niveles Socioeconomicos 2014," available at www.apeim.com.pe/wp-content/themes/apeim/docs/nse/APEIM-NSE-2014.pdf.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients' lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion. Learn more at **www.smartcampaign.org**.

@SmartCampaign_ **Smart Campaign**

CENTER *for* FINANCIAL INCLUSION | ACCION

the smart campaign | Keeping clients first in microfinance