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Towards a general framework for client monitoring within microfinance organisations

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CONTENTS

Summary

Section 1 of this paper firstly sets the context for current discussion of client monitoring within microfinance organisations. Section 2 suggests a general framework for an integrated but flexible approach. This entails: (a) classification of client portfolios; and (b) more systematic profiling of each client category. A wide range of methodologies or tools of data collection and analysis are available through which to do this and these are not discussed. Nonetheless, the paper suggests that every microfinance organisation needs to review the mechanisms by which it monitors the status of different categories of clients, their perceptions of the services they receive and the impact these are having on their lives and livelihoods.

A Crisis in the Microfinance Industry

The context of the paper is the emerging view that many microfinance organisations (MFOs) established with public money during recent years and inspired by new lending technologies are facing a crisis. Growing client exit and arrears rates, coupled with a failure to achieve self-sustainability, indicate that past imperatives to replicate best practice, to scale-up, to control costs and to achieve financial self-sustainability are no longer adequate. The problems being experienced can partially be attributed to organisational weaknesses borne of subsidy dependence and lack of competition. However, they are also due to the dominance of a supply over a demand-led vision over strategic planning.

Table 1: Supply and demand-led perspectives on strategic planning contrasted.

Supply-led	**Demand-led**
Replication of successful models	Adaptive innovation based on client consultation
Emphasis on efficiency and scaling up	Emphasis on flexibility and resilience
Product centred	Client centred
Fewer but robust services	Product diversification

This distinction is important, but should not be overemphasised, for it is important to combine complementary aspects of both rather than choose between them. The best mix for any organisation depends on its goals, history, character and context. This balance is struck over time and by many separate decisions goals, product choice, market niche, growth targets, financing mix, investment priorities, human resource development and so on. Making the right decisions is possible only if those responsible have a good understanding of actual, potential and exiting clients.

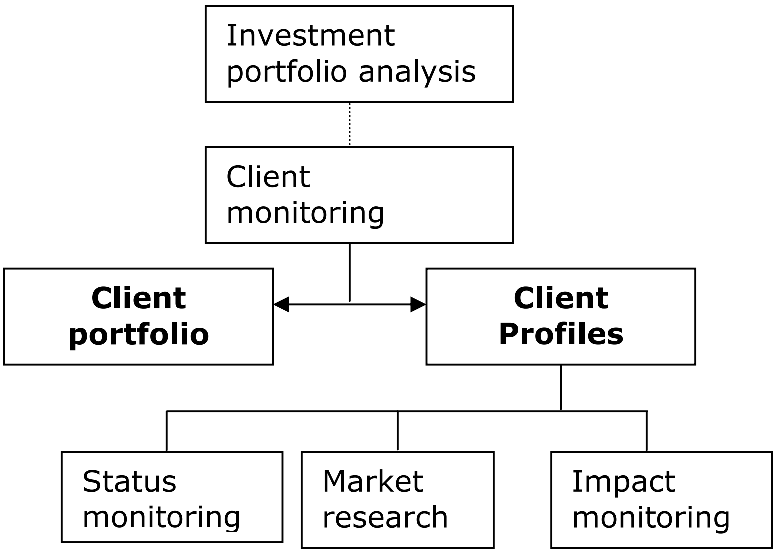
One starting point for discussing what kind of client monitoring can deliver such information is the criticism that donor-driven impact assessment studies are not adequate for meeting MFO and client needs. Table 2 elaborates by contrasting impact assessment with client monitoring. Good quality impact assessment or research is necessary to evaluate allocation of large sums public funds to provision of microfinance services rather than other activities. It may also help organisations to identify more specific issues and indicators that they should monitor more widely and routinely. However, the table suggests that microfinance organisations also need to be proactive in collecting their own data on clients.

Table 2: Impact assessment and client monitoring contrasted

	Impact assessment	**Client monitoring**
Who for?	Donors	Staff, board, donors, investors
Why?	Account for and guide the use of public funds	To inform strategic planning
When?	To fit funding cycles	Continuous
What?	Rigorous estimates of impact on “typical” clients	Profiles of diverse categories of clients and how services affect them
Who by?	Academic researchers	Staff and local consultants
How? Criteria	Cost-effectiveness less important than rigour	Reliability important, but cost-effectiveness is critical
Funding	Donors, separate contracts	Internal, integral to the organisation
Data	Sample surveys and detailed case studies	Routine forms, quota sample surveys, focus groups
Analysis	Statistical analysis or expert interpretation of qualitative data	Continuously confirm or question received wisdom of the organisation

2. Client monitoring

The diagram below provides an overview of possible components of a comprehensive client monitoring system. The first point it makes is that client monitoring can usefully be regarded as similar to and complementary with investment portfolio. It then highlights two components of the client monitoring system: defining the client portfolio, through a process of classifying clients, and then establishing and updating a profile of each category of client within that client portfolio.



2.1 The client portfolio

The key task is to categorise or classify clients in a way that reflects relevant diversity within the portfolio. This is not an exact science, and approaches and categories will vary considerably between organisations. One limitation is that the classification can also be made only on the basis of data available for all or a representative sample of clients. For it is useful to be able to quantify the importance of each category both in terms of their relative frequency and their relative financial importance. A further factor is that choice of classification should, where possible, facilitate forward projection of how the client portfolio of the organisation is changing.

Two examples of such classifications are provided below. The first (see Table 5) distinguishes between economically dependent, independent and developed clients. The second (Tables 6 and 7) distinguishes between pioneers, late joiners, stable and dynamic clients. Table 3 provides a more comprehensive list of possible criteria for client categorisation.[1]

[1] This discussion assumes portfolio monitoring is based on client profiles. Another approach for some organisations, worthy of further research, is to monitor the portfolio of groups of clients.

Table 3: Possible criteria for client categories

Loyalty	Active as a client for how long? Left after how long?
Age cohort	Joined in which year of operation? How soon after opening a branch in that locality? What sort of group do they belong to?
Revealed indicators of potential	*How much have they saved?* What is their revealed debt capacity? Records of arrears? Credit rating?
Individual client characteristics	*Age, gender, marital status, earner/dependency ratio* Education, training and business experience *Place of residence* Poverty status (requires some form of routine means testing)
Characteristics of clients main business	*Sector or sub-sector* Age of business Location of business

2.2 Building and updating client profiles

Having identified key categories of clients, the next step is to build up and sustain an accurate profile of these clients, the services they utilise, their opinion of those services and the impact of services on them. Much of this may be done informally, supplemented where possible with data generated routinely. However, it may often be necessary to supplement such information, through quota sample interviews and focus groups, for example. The aim should be to update information continuously, but selectively or only as necessary so as to avoid unnecessary cost. In the process of doing this it may also prove necessary to revise earlier client classifications.

Precisely how much information and what type is needed about each type of client will depend upon the MFO. Table 4 suggests that there are three distinct components of client profiling within an MFO: client status monitoring, market research and client impact monitoring. An additional column could perhaps be added for impact assessment, as in Table 2, but this has been left out on the grounds that such work is justified more by the requirements of external sponsors and regulators of MFOs than for the MFO itself. The table provides some pointers as to the role of different kinds of data collection and analysis tools or protocols. But it is beyond the scope of this paper to enter into discussion of which tools, or which combination of them, are likely to work best for different organisations.

Table 4: Client profiling components

	CLIENT MONITORING	MARKET RESEARCH	CLIENT IMPACT MONITORING
What for?	To inform decisions on new recruitment by revealing and predicting changes in use of services by different client categories	To inform product development and operational policies with a view to increasing financial returns	To inform product development and operational policies with a view to increasing social returns
What information?	Individual, business and household characteristics; services received	Client feedback on services received	Client feedback on changes at business, household and personal levels
Main data collection method	Routinely collected information for all clients	Focus group, rapid appraisal and structured interviews	Individual semi-structured interviews
Main method of analysis	Statistical analysis of links between client type and service use	Expert interpretation, statistical analysis	Expert and/or participatory interpretation
Who by?	Internal - MIS unit	Local consultants with market research staff	Local consultants, but scope for staff/client participation as a learning tool

2.3 Some examples

The following two examples illustrate the idea of client profiling. The first (Table 5) is from an MFO in Eastern Europe. The portfolio is divided into three categories according to size of clients' businesses. The table indicates roughly the relative importance of each, but does not provide any clues as to how this might be changing over time.

Table 5: Illustrative client portfolio (from Eastern Europe).

	Economically dependent	Independent	Developed
Own capital (US$)	80-400	400-2,000	2,000+
Loyalty	Low	Medium	High
Other sources of capital	Friends	Banks, moneylenders	Banks
Flexibility	Low	High	Low
Portfolio share	<25%	>50%	<25%
Capital needs	Working capital	Working and fixed capital	Working and fixed capital

The second example is from a relatively young and rapidly growing MFO in Sub-Saharan Africa. Table 6 not only reveals the quantitative significance of the four categories, but also provides information on categories are inter-related and are changing over time. Issues raised by the table include: how to stimulate reduce loan exits, how to recruit new joiners in established as well as new branches and how to retain the loyalty of older clients who are now able to graduate to larger loans like more dynamic clients.

Table 6: Illustrative client portfolio (from Sub-Saharan Africa).

	Pioneers	Late joiners	Stable	Dynamic	*Overall*
Years since joining	<1	<1	>1	>1	
Branch new this year?	Yes	No	No	No	
Active clients (June 2000)	3000	2000	2300	200	*7500*
Exited (2001/01)	-1500	-1000	-920	-20	*3440*
Graduated (2001/02)	-1500	-1000	-230	0	*0*
New recruits (2000/01)	5000	3000	2500	230	*8000*
Active clients (June 2001)	5000	3000	3650	410	*12060*
Share of clientele (%)	42	25	30	3	*100*
Average loan ($)	100	100	400	1000	
Share of loan portfolio (%)	19	11	55	15	*100*

Table 7 illustrates some of the statistics that might be collected through routine forms, quota or sample surveys in order to gain a better understanding of the difference between client categories. In this case, for example, it is particularly interesting to learn that the typical “dynamic” client is younger, more likely to be married, has a newer main business which is less likely to be market-place based, and comes from a smaller household with more diversified income. Of course it would also be useful to have more information on how perceptions of services differ between the groups, and of the impact on them of these services.

Table 7. Illustrative client status data by category

	Pioneers	Late joiners	Stable	Dynamic	Exits
Individual characteristics					
Average age	38.5	37.6	39.9	34.1	-
Women (%)	92	80	100	100	-
Married (%)	74	68	100	85	-
Business experience (%)	10.4	8.6	11.6	8.6	-
Business characteristics (when joined)					
Number of businesses	1.8	1.6	2	2.4	-
Trading sector (%)	76	73	86	71	85
Located in market (%)	64	56	71	29	59
Age of business (years)	6	6.6	10	3.6	
Household characteristics					
Size	6.6	6	7.1	5.9	-
Earners (%)	35	38	31	45	-
Income from client (%)	58	59	53	32	-
Net wealth (no. of assets)	2.6	2.2	4.4	3.9	-

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