Do the Micro-Finance Service Providers Cater to the Needs of Their Clients?

A Client Satisfaction Survey in Orissa, India

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Contents

Charts

Chapter 1: Background

1.1 Origin and Growth of Microfinance in Orissa

Roughly one-third of the world's population who lives on less than a dollar a day resides in India, breeding a vast demand for poverty alleviation programs.[1] Microfinance has advanced a meaningful scheme in which to help the poor. It has established itself as a significant contributor to the agenda of 'financial inclusion'. This financial inclusion has helped the left-out population seize opportunities, which in turn has allowed them to grow and achieve a better quality of life. The paramount belief of microfinance is that the poor are capable of helping themselves once they have been mobilized. Furthermore, they do not require subsidized loans, which can breed an unhealthy dependence on borrowing loans and does not address underlying causes of poverty in a way that provides a long-term and sustainable solution. Instead, by utilizing income generating activities and encouraging the poor to borrow just enough credit to maximize their returns from these activities, the belief is that microfinance can provide a meaningful solution to poverty.

Over the last few years in particular, the microfinance sector in India has witnessed an unprecedented growth, with clients totaling near 336 Lakh in 2007-2008 of which 141 Lakh were clients of microfinance institutions.[2] In Orissa alone, almost a half a million clients are now participating in microfinance activities.[3]

Starting with the Self Help Group (SHG) concept of NABARD in the early 1990s, the scope of microfinance has moved beyond savings and micro-lending to include a plethora of financial services such as insurance, remittance, micro-leasing, and pensions. Similarly, the dominant credit delivery model of SHGs has expanded to other models, such as Joint Liability Groups (JLG).

Still, the challenge of giving the disadvantaged access to financial services in a cost effective manner still plagues the industry. The challenge of minimizing the risk of the beneficiaries sliding back into poverty has yet to be resolved. While these challenges and more continue to preoccupy institutes they are also of competing with institution's concerns over self sustainability. Limited resources can often puts these concerns at odds with each other raising concerns over whether microfinance institutions are truly catering to the needs of the poorest clients, or whether goals of self sufficiency have preoccupied their mission.

The present study makes a modest attempt to assess the level of satisfaction of clients in the various services offered by the microfinance service providers. As such this survey looks at whether microfinance institutions (MFIs) are meeting the needs of their clients or are otherwise preoccupied with their own business development. The objectives of the survey are as follows:

- To identify different products/services offered by MFI to their clients.
- To access the level of client satisfaction

[1] Sa-Dhan (2009). The Bharat Microfinance Report: Responsive Growth. New Delhi: Sa-Dhan. 1.
[2] Sa-Dhan (2009). Enhancing Resource Flow to the Microfinance Sector. New Delhi: Sa-Dhan.1.
[3]Swayamshree Micro Credit Services (2009). Annual Report 2008-2009: Responsive Financial Services at the Doorstep of the Poor. Bhubaneswar: SMCS. 4.

- To identify the areas for improving client satisfaction

1.2 Study Design and Methodology

This study began with a review of literature that looked at the basic components of microfinance, previous microfinance client satisfaction surveys, as well as critical reviews of various aspects of microfinance. Based on the information gathered from the literature, a series of questions were developed for both surveys of individual members and for focus group discussions. The MFIs that participated in this survey are as follows: ADARSA, SKS, Ashmita, DAPTA, Mahashakti Foundation, DSS, Jaganath Financial Services Ltd, and Spandana. Various self help groups were then selected from these MFIs for participation in the study.

A total of seven focus group discussions were conducted in the various districts of Orissa. During the focus group discussions, clients were presented with open ended questions that addressed issues of empowerment, utilization of loans, concerns regarding the lending services and as well as general concerns. Additionally, questions were raised during the discussions that looked at influences for joining the group and the level of family and community support regarding their decision to join. Finally, questions were raised that addressed the direct use of the loans as well as the use of the profits generated from the loans.

The second set of data comes from a structured survey that was administered to 88 female clients that represented memberships from all SHGs that participated in the focus group discussions.

1.2.1 Limitations of the Study

The number of subjects interviewed for this client satisfaction survey only make up a very small portion of the total number of clients who participate in microfinance activities in Orissa. However a simple random survey would require the participation of several thousand clients throughout Orissa and such a survey far exceeded the time, capital and human resources available. To address these constraints a methodology of purposive sampling was adopted instead. Moreover, the MFIs selected for participation in this survey were, to an extent, selected as a result of their accessibility determined by their relationship with the Madhyam Foundation and willingness to participate in the survey. Such methods of data collection do place limitations on the ability to generalize the findings of the study. However, while the results of this survey may not be altogether accurate when amplified to a macro analysis- they remain consistent with most other client satisfaction surveys conducted at least in this part of the world.

Chapter 2: Findings

2.1 Focus Group Discussion Findings

These discussions provided a forum for the women to discuss any concerns or problems they have encountered with their participation in microfinance activities. It is important to note that while the women offered some constructive criticism, on a whole they conveyed a positive outlook on their experience. The following section highlights the major findings from these discussions.

2.1.1 Loan Uses

The women were asked to provide examples of how they were spending the loan money given to them. This information can act as a basic indicator of whether the loans are being used efficiently and in the way that they were intended. Generally speaking, most of the women expressed that the use of the loan was to expand or invest more in their businesses to yield greater profits. Some examples of how the loan money was used are; for grocery shop maintenance, to raise goats, buffalo and cattle, for rice paddy cultivation, to produce puffed rice, to sell chick peas, to produce sugar, for a brick making business, and to open a fancy dress shop. Many women professed that the loans allowed them to run their businesses more effectively, and in a way that they were unable to before because of fiscal constraints.

2.1.2 Use of New Revenue/ Improvements to Livelihood

Clients were asked to describe how the additional revenue generated by the loans was put to use. This question holds particular importance as it indicates whether the income generating activities supported by the MFI have been used in an efficient manner to alleviate the client's financial strains. Many women alleged that whenever it was possible, they put some of their profits into savings. The majority of the revenue generated was used for improving quality of life and expansion of their businesses for long term income maximization. Specific examples of the ways in which the clients have used the added income included to: save and spend money on a better education for their children; buy clothing; address medical needs and expenses; consume healthier food; fund a child's marriage; and purchase household appliances. One woman was even able to purchase a plot of land for her house.

Nearly all the clients claimed that joining the MFI was a positive change in their life. One of the principal improvements cited was the heightened level of financial security the clientele experienced. They explained that prior to joining the MFI, if they were in need of a loan the only viable option for them was to go to a moneylender, a process that required a lot of traveling which is both costly both in time and money. Furthermore, these money lenders are less regulated and have a tendency of charging exceptionally high interest rates among other things. The women also divulged problems they have had obtaining a loan from the bank; where there are few poor-friendly loan options and policies. For example, one group had taken a large loan from a bank for the harvesting season. When that year they suffered from a poor crop season, they were unable to repay the bank and as a result, accrued a large amount of debt. Since joining an MFI, they have slowly been able to start repaying this debt, but the situation had a detrimental impact on their quality of life by creating a financial burden that is of ongoing concern to the women of this group. A sizable number of the women also expressed their contentment with the simplistic nature of getting a loan from an MFI; where every seven days they meet and decide who will get a loan. In contrast, to take a loan from the bank, they have to endure a long application process which requires them to travel to the bank several times.

2.1.3 Influence on Decision to Join

Women described their choice to join the MFI as either self influenced or based on the encouragement of the microfinance institution itself or the leader of the self help group. None of the women attributed their husbands to their decision to join, however most did concede that their husbands were a part of the final decision to join. Although the women did require input from their husbands, the majority offered stories of encouragement to join from their spouses, and none claimed to join against the will of their husband. In some cases the whole village apparently took part in the decision.

2.1.4 Empowerment of Women

Several questions were directed toward the women to gauge how their input in household decisions, feelings of empowerment and self importance has changed since they joined the MFI. Generally, women were able to give examples of improvements in their self worth and treatment, although the level of these improvements were mixed and there were some cases of women who still felt some sense of neglect in these regards.

Many women expressed a greater feeling of self worth simply by having a mechanism in which to contribute to the financial needs of their families. In most cases the women divulged that prior to joining the SHG, their husband’s income alone was not adequate to sustain their standard of living. The loans from microfinance institutions have given women an opportunity to participate in income generating activities that have given them a feeling of self worth simply through their ability to contribute to the family. Additionally, the ease of economic burdens has lessoned much of the marital strain between husband and wife. Such an improvement indirectly enhanced women’s self esteem and well-being because of a more positive household environment. One group of women gave an example of how their group cohesiveness and newfound sense of confidence encouraged them to advocate for themselves. As a result, the women felt the strength to go to the country liquor store as a group in protest of the men in the community’s use of familial funds for alcohol and other non-essentials.

Alternatively, some women have attested to an opposite effect from the income generated from micro credit. A notable portion of women have expressed their experience with new familial problems that arose as a result of their income generation. The main problem recounted has been their husbands spending more money on alcohol and other non-essentials because of the perception that they have more expendable money. Moreover some women have conceded that while they play a greater role in household decisions, it is still the husbands that ultimately decide how the money they earn can be spent. General household decisions like their children’s education and purchasing decisions, and in some cases the way in which the actual loan can be used (which a few women admitted went to their husband's business), are still in the husband's control.

Many women believed the SHG meetings provided them with a sense of freedom they lacked before. Several told the same story of how they were unable to leave their house very often and when they did, it was with the permission of their husband or their in-laws. They attributed the creation of weekly SHG meetings, and a variety of other MFI meetings requiring their attendance to their ability to leave the house frequently and freely.

There were two particularly concerning things that came out of the focus group discussions regarding women's empowerment. In one discussion the women admitted that only some of the loans went to the women's own businesses, and that the majority of the loan money went to expanding their husband's businesses. Secondly, in a different group discussion, one of the women interviewed not only knew nothing about the number of loans, size of loans and the rate of interest of her loans, but also was unaware of why she had taken the loan out or become and member of the SHG.

2.1.5 Areas of Concern/ in Need of Improvement

In general, the clients had very positive things to say about the MFIs loaning to them. When asked if the MFI were to revise or expand their services the women were very consistent with their answers. The most common request was for loans of greater size or a greater frequency of loans. Most women conveyed their happiness with the loans they have received however they felt they still lacked adequate financial support in a way that would alleviate their poverty. Some of the women indicated that they would also be happy with more specialized loans. Several women from the first focus group discussion divulged that they had been receiving loans specifically for agriculture but loans specifically for cows would also be desirable.

A few women from a variety of focus groups suggested that loans based on harvest timings would make better use of the funds and would ease some of the challenges they face with repayment. Women have also expressed a desire for different loan repayment periods. They have advised that the weekly installments are too burdensome, and have put forth that a biweekly or monthly repayment schedule would be more amenable. When asked what happens when a loan repayment is late, in almost every instance the clients stated they don't pay their loans late because to do so would negatively affect the whole group. As a result, the members of the group feel a tremendous amount of pressure to repay the loans from their peers Most have a policy that if one member can't pay the whole group has to contribute to ensure that the loan is paid on time. However, during the discussions the most common scenario presented was that in a financial bind, before putting a burden on the rest of the group, they would sell their possessions to make payments. In one case a woman explained she even had to sell a plot of her land to make the loan.

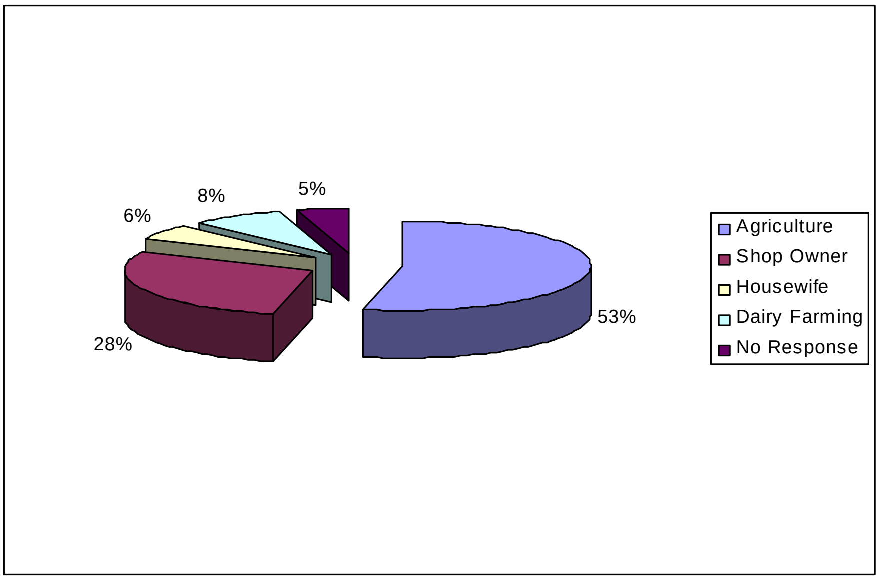
Most women also said that if it were possible, they would like to see the interest rate offered by the MFI lowered. Additionally, in cases where security deposits were required some of the women indicated that these deposits were a bit too costly for them and further contributed to their financial.

Women also expressed a need for more insurance options to protect them from unplanned adverse events that affect their ability to repay their loans. The women in focus group 5 specifically discussed the need for a premature death provision. Their concern was centered on the burden the group would have to take on of repaying a member's loan in the case of unexpected death.

2.2 Individual Survey Findings

The following section describes and analyzes the data from the individual formal surveys, collected from 88 participants from various microfinance organizations. The first section looks at the demographics of the women interviewed, and the remaining sections look at how satisfied the respondents were with various aspects of the microfinance institutions they loan from.

Chart 1: Client's Work Sector



The majority of the clients surveyed listed their occupation as agriculturally based (53%). Primarily, the women cited paddy cultivation, vegetable cultivation, and beetle farming as their agricultural business. Additionally, another 28% listed their major occupation as shop oriented. These professions ranged from tailoring, management of a beetle shops, running salons, management of grocery shops, and running sweats shops. A small percentage of women (8%) sited dairy farming as their primary source of income; however several women (another 7%) listed it as a secondary source of income along with owning a business or agricultural work A small portion of women (6%) also listed being a housewife as their primary occupation.

One concern with this data is whether women listed their primary occupation or the occupation of the head of the family. Regrettably, two separate questions inquiring about both the head of the household's occupation and the woman's occupation were not part of the survey. This becomes problematic when trying to decipher whether the loan money is actually going to income generating activities controlled by the women or whether funds are used to support the head of the household's business. While such use of the loan still allows for income growth for the family, it becomes trickier to determine whether the social objective of empowering women is being realized. Conceivably, if the money is going to the head of the household's business- the primary user of the loan is in fact the husband. If this is the case, it would suggest that the goal of women's empowerment is not being met.

Information regarding the primary industries micro-lending supports can help institutions develop loan products that are complimentary to the type of work they are financing.

Chart 2: Clients' Years of Membership

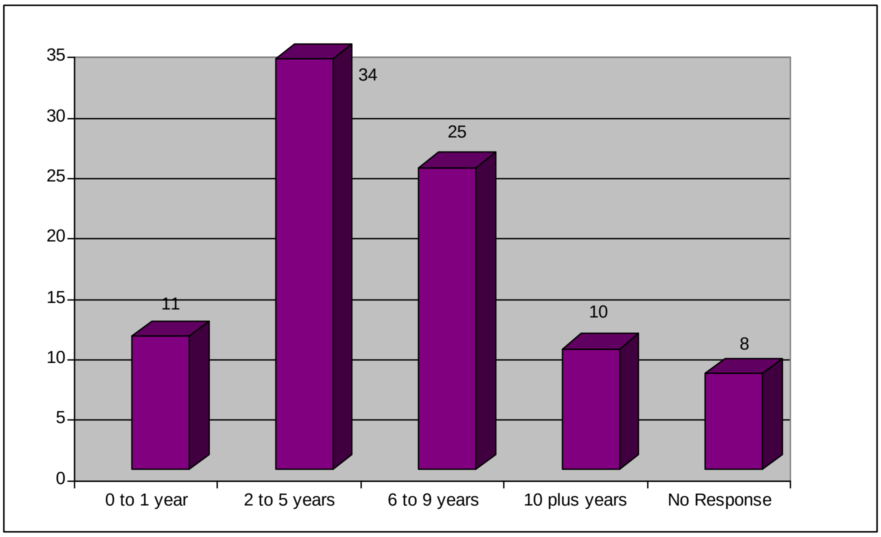
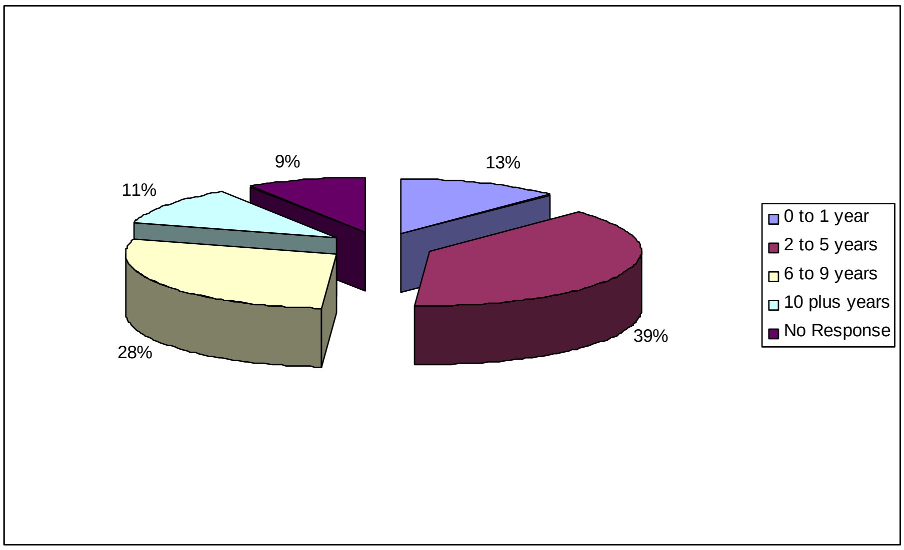


Chart 3: Clients' Years of Membership (Percentages)



Charts 2 and 3 look at the number of years the clients have been associated with their respective MFIs. The longer the women have been linked with an MFI may be indicative of a few things worth noting while analyzing the data. First, longer membership connotes a general level of contentment with the MFI; if there were major issues with the services offered, a client would likely withdraw her membership. Second, women with longer membership also likely had a greater number of interactions and financial transactions with the MFIs- these women therefore have a greater number of experiences to base their judgments off of. The fact that 39% of the women have been members of their MFI for over 5 years and only 13% have less than a year of experience with the MFI suggests that women have generally found the financial services to be adequate.

2.2.1 Satisfaction

The following section looks at the clients' level of overall satisfaction, as well as their satisfaction with their loan products and a variety of other services offered by the microfinance institutions.

2.2.1.1 Overall Satisfaction

Charts 4 and 5 look at the clients' overall levels of satisfaction with their affiliated MFIs; it gauges the interviewees gut reaction to their MFI. This gives a general indication of whether the institution is fundamentally working for their clients. A majority of women (62%) believed that the institution on a whole was doing a good job, while only a small portion (2%) indicated that they were not satisfied. Therefore the clients are at least minimally satisfied.

Chart 4: Clients' Overall Satisfaction

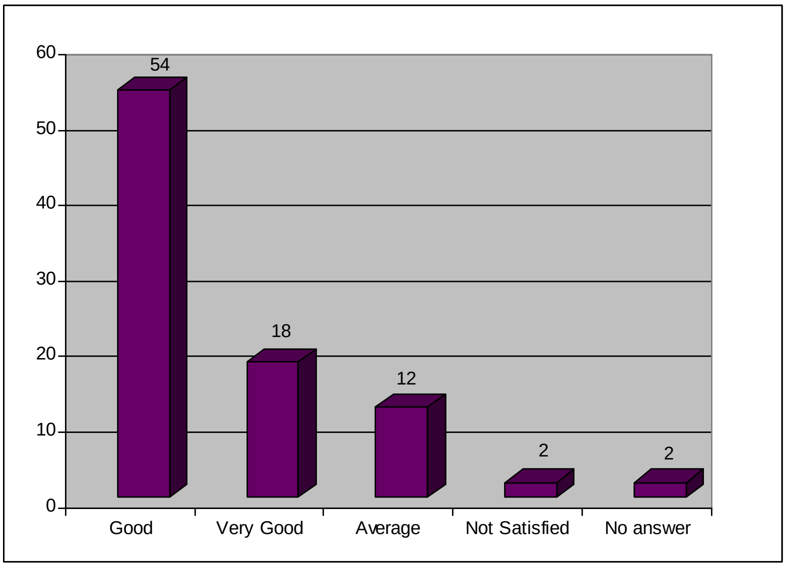
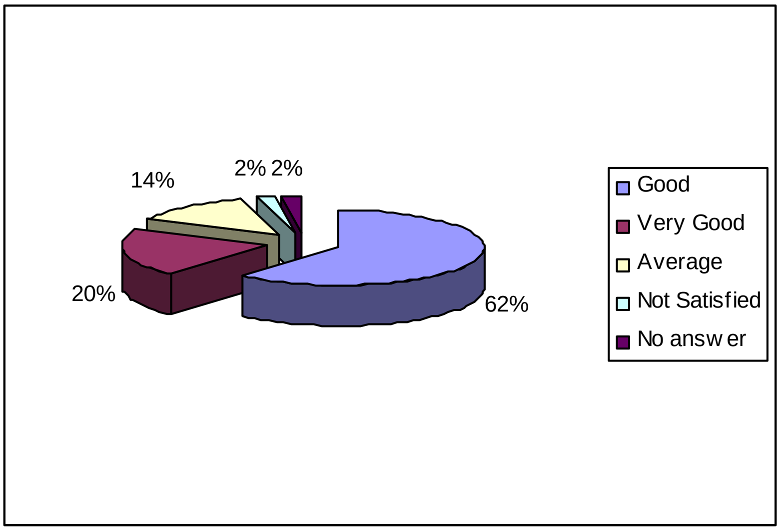


Chart 5: Clients' Overall Satisfaction (Percentage)



2.2.1.2 Satisfaction with a variety of components

This portion of the report looks at the clients' level of satisfaction based on specific services. While a client's first reaction to their satisfaction with an MFI is helpful, it is more informative to understand their happiness with the various services and components of the loans offered by the MFIs. Furthermore, questions of general satisfaction tend to oversimplify the clients' feelings about the institution. Therefore, while these questions were asked and are discussed below, other indicators were also used to supplement these results.

2.2.1.2.1 Interest Rate

Critics of microfinance institutions typically cite characteristically high interest rates as major point of concern with the industry. They argue that such high rates are a moral hazard, and force clients to take loans from multiple sources to cover the costs of the initial loan. These critics suggest that the cost of taking out the loan diminishes the positive effect of any income generation the loan is supposed provide and defeats the social agenda of poverty alleviation. However, in other studies, researchers have found that while interest rates tend to be high relative to interest rates charged by banks, they are still lower than interest rates associated with the types of loans women were receiving prior to their access to micro credit.[4] Since much of the rural poor does not have access or qualify for a bank loan, many have never had access to loans with interest rates as low as the banks have to offer.

Furthermore, the rate of interest charged by MFIs is generally necessary for them to attain their other goal of self-sustainability and to cover the costs associated with distributing small loans to remote areas.[5] Thus, the rate of interest remains not only a controversial issue but a complex one.

[4]Farhad Hossain, "Small Loans, Big Claims," *Foreign Policy* 132 (Sept-Oct 2002): 80
[5]Sana Khan, "Poverty Reduction Efforts: Does Microcredit Help?," *SAIS Review* 29, no. 2 (Summer-Fall 2009): 149.

Women were asked whether they believed the interest rates charged for their loans were appropriate in an effort to determine whether high interest rates have been burdensome or deterred them from taking out more loans.

Chart 6: Distribution of Clients' Loan Interest Rates

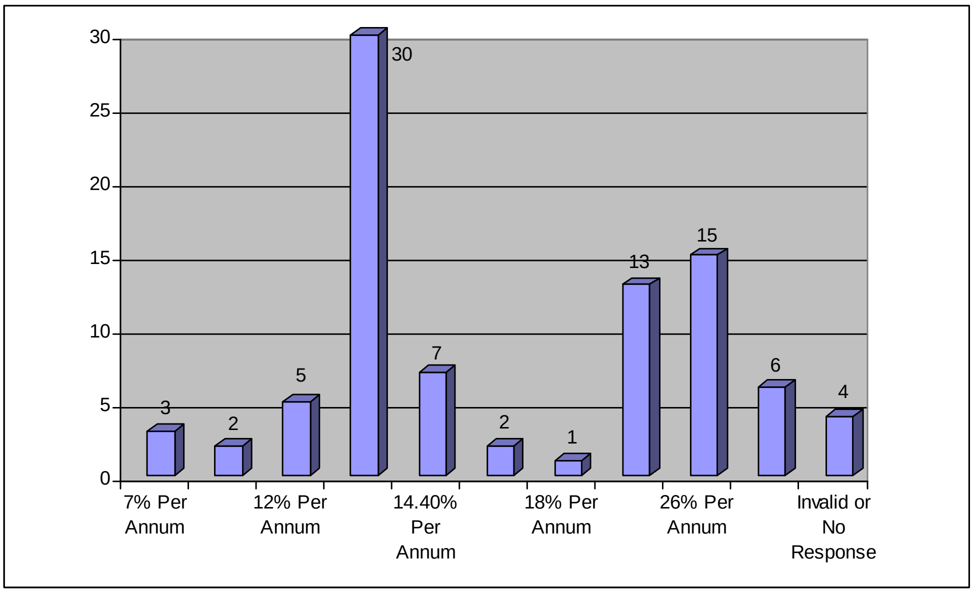
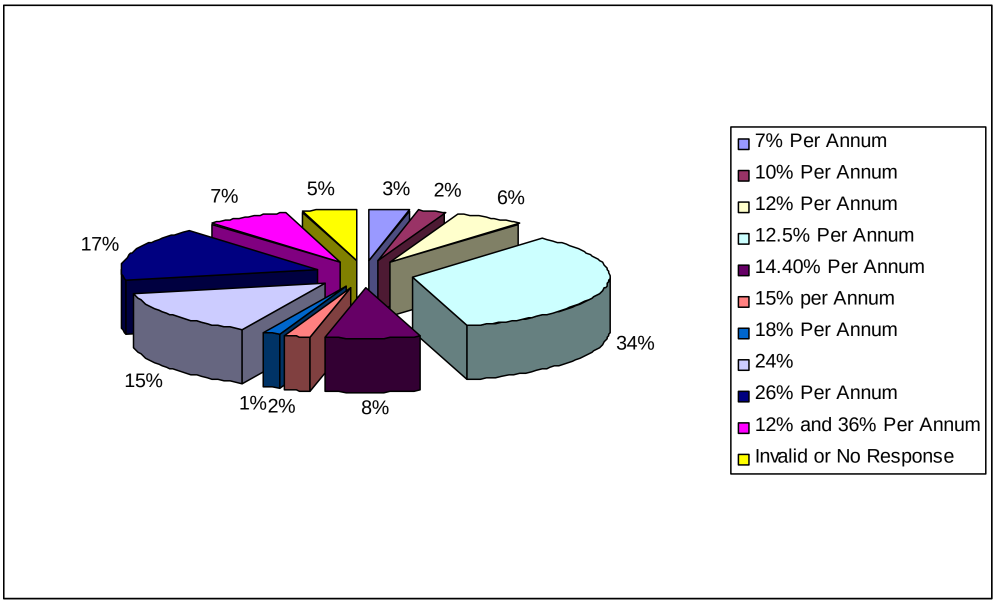


Chart 7: Distribution of Clients' Loan Interest Rates (Percentages)



Charts 6 and 7 look at the various interest rates clients have been charged. There is a great range in the rates they have reported, some as low as 7% and some as high as 36%. There are several explanations for this. Some women indicated that over time (longer membership) their interest rate fell to reward for them good business practices. In the case of the 7% and 10% interest rates the women explained that the NGO supporting them received funds to subsidize these loans. Generally speaking, the loan's interest rate is higher than those typically charged by the bank.

Chart 8: Clients' Satisfaction with Loan Interest Rate (Percentage)

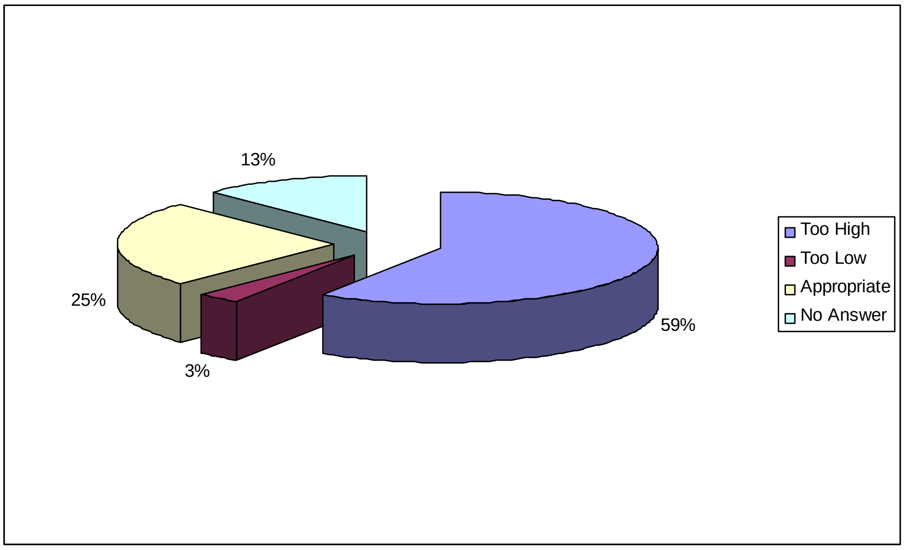


Chart 9: Clients' Satisfaction with Loan Interest Rate Simplified (Percentage)

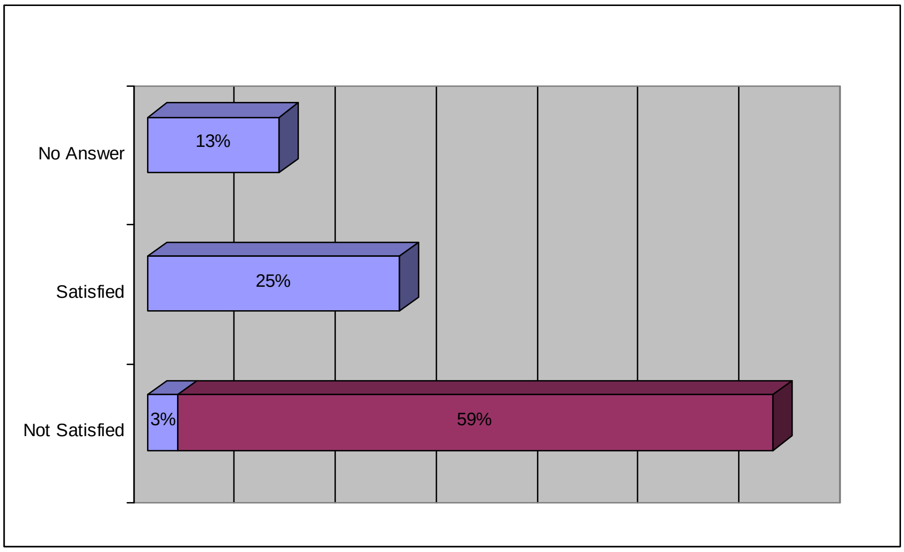
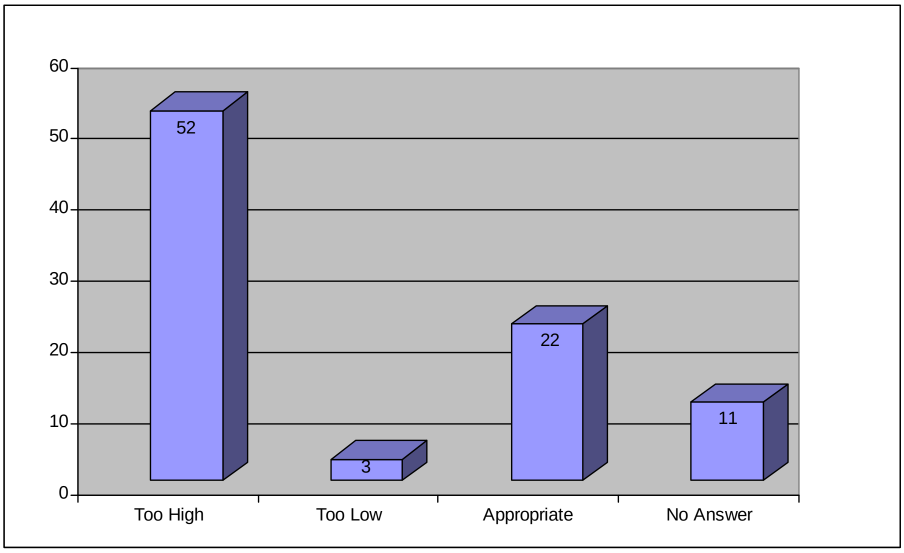


Chart 10: Clients' Satisfaction with Loan Interest Rate



Charts 8- 10 show clients' responses to the interest rates charged. The data indicates that the interest rate is a source of unhappiness among clients with a total of 62% of clients claiming they were unhappy with the rate charged. 3% of the clients said their unhappiness with the rate was as a result of it being too low- their reason for this is unclear and these answers could suggest an error in translation. While a majority of clients are unhappy with their interest rate, they alleged that the simplified process of obtaining a loan from the MFI make it an attractive option regardless of the rate.

2.2.1.2.2 Repayment period

The following section looks at the clients' satisfaction with their repayment period, which is understood as the period of time by which the total sum of the loan and interest must be paid back. This question was a point of confusion among many clients, who were unsure what their repayment period was and had to confer with other members. Additionally, many members discussed the frequency of payments instead of the period of time that the loan must be paid in full.

The data below presents the clients' full repayment periods and their satisfaction with them. However, it is worth noting that a number of women in these interviews offered their satisfaction with the repayment period but thought that the frequency of payments was excessive and started too soon after they initially took the loan.

Chart 11: Distribution of Clients' Repayment Periods (Percentage)

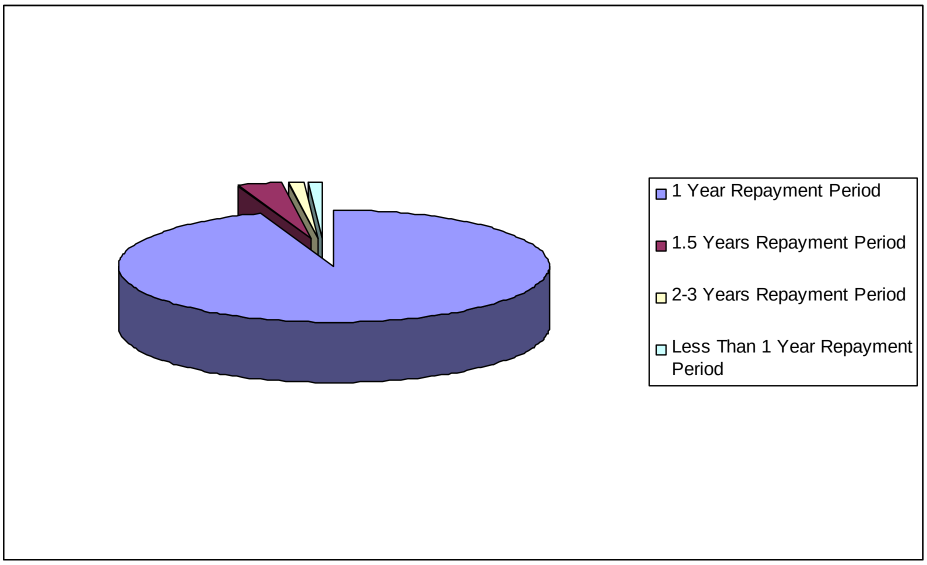


Chart 11 depicts the break down of the client's various repayment periods. The vast majority of women must repay their loan in 1 year, with very few women reporting a different time frame.

Chart 12: Client Satisfaction with Repayment Period (Percentage)

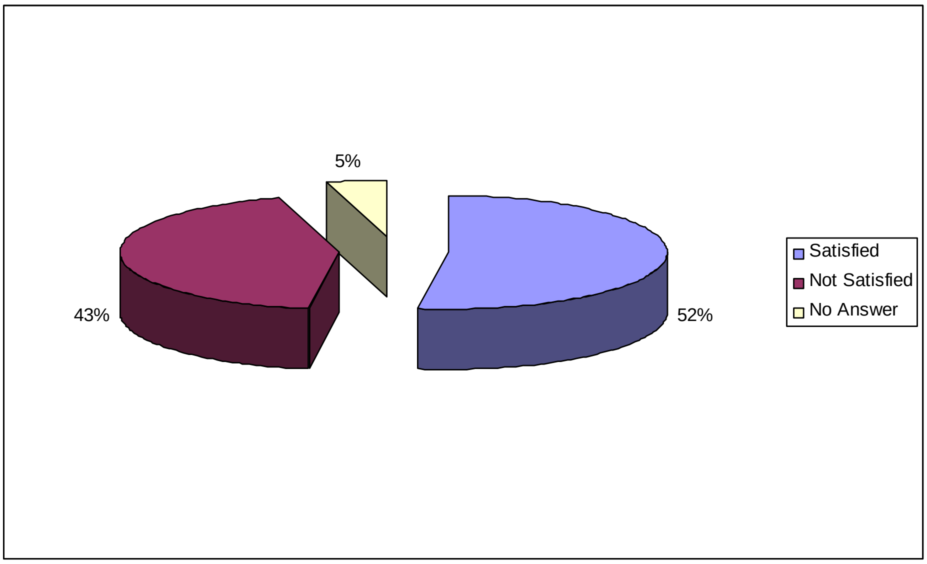


Chart 12 shows that a small majority of women find one year to be an adequate period of time to repay their loans. Charts 13 and 14 exhibit responses regarding ideal repayment periods. The vast majority reported an optimal repayment period of one year.

Chart 13: Client Repayment Period Preference (Percentage)

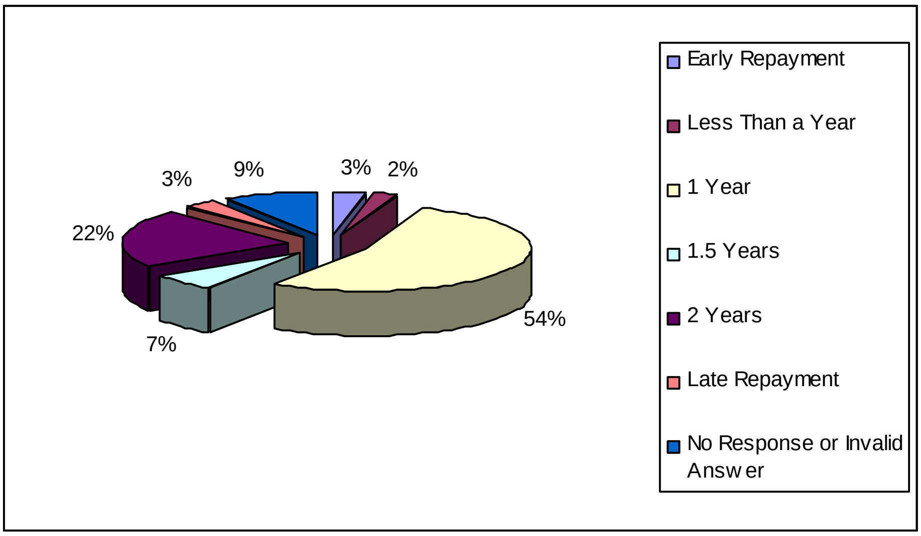
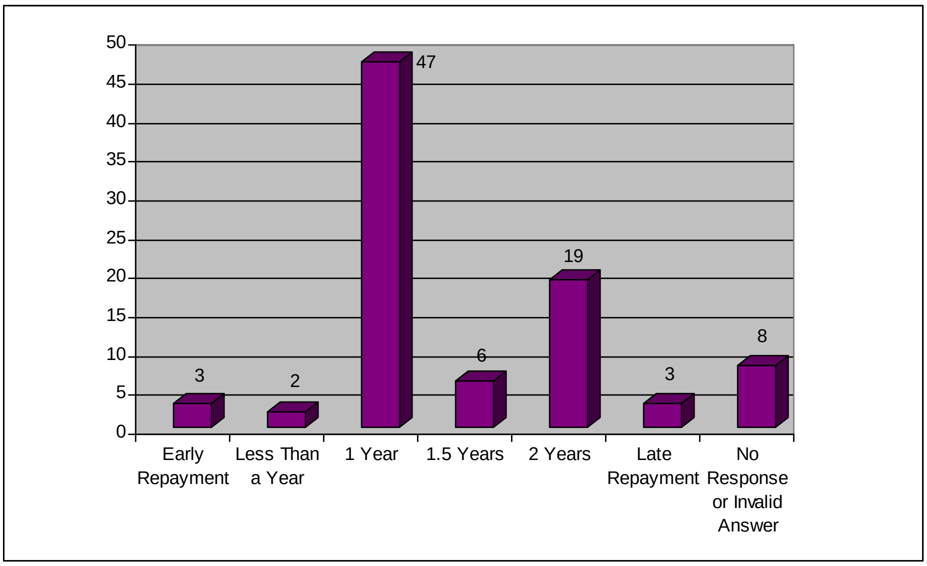


Chart 14: Client Repayment Period Preference



This data insinuates that while only a small majority of clients reported that they were satisfied with a repayment period of one year, there was no consensus on what a suitable alternative would be. Only 32% of the participants thought that a repayment period of over a year would be ideal and just 5% thought the repayment period should be earlier than one year. Therefore, with 52% of the women interviewed expressing contentment with a repayment period of one year, and 54% listing it as their ideal repayment period, the common practice of using this as the repayment period appears to be justified.

Unfortunately, no specific questions addressed the loan repayment frequency. Nonetheless, suggestions made by participants throughout both the individual interviews and the focus group discussions imply that there is a substantial amount of unease regarding frequency of payments. Like interest rate controversies, loan repayment frequency offers a complex debate. Literature that opposes weekly installments does so on the basis that it impedes upon the utilization of the loan for income generation and deters establishing a business from scratch.[6] From this perspective, weekly repayment schedules "…prevents risk adverse poor people from engaging in any business activity that takes longer than a week to generate returns, thereby limiting their potential to increase their incomes."[7] Moreover, repayment collection that commences immediately after a loan has been appropriated either excludes the poorest clients or forces them to seek alternative means (taking out an additional loan, selling possessions etc) to make these initial payments by virtue of their limited to nonexistent savings that would be necessary to cover their costs before their business begets substantial revenue.[8] Finally, "…insisting on weekly repayments means that the bank is effectively lending partly again the household's steady, diversified income stream, not just the risky project. This confers advantages for the bank and for diversified households, but it means that microfinance has yet to make real inroads in areas focused sharply on highly seasonal occupations like agricultural cultivation."[9] Given the large demographic of women who cited agriculture as their source of work, this is especially problematic.

Conversely, those who favor weekly repayments see them as a way in which the MFI can to get to know their clients and allow them to quickly identify warning signs of a member's inability to repay. Additionally, many clients struggle with concepts of long term saving and rationing portions of their income as it is earned to pay back large sums of money. These short repayment periods protect clients from going into more debt as a result of bad savings practices.[10]

2.2.1.2.3 Loan Size

The loans distributed by MFIs are typically small in size, due to the limited capacity of their clients to save. Large loans are a riskier venture for the clientele, however too small of a loan or infrequent loans are also largely ineffective. The following section looks at whether the participants feel they are receiving adequate sums of money to participate in meaningful income generating activities. No direct question was raised during the structured interviews about women's satisfaction with loan size, however based their response to several other questions regarding their use of the loan and other financial transactions, some conclusions on the adequacy of the loan size can be drawn.

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[6] Khan, 152.
[7] Khan, 152.
[8] Jonathan Morduch, "The Microfinance Promise," *Journal of Economic Literature* 37, no. 4 (Dec. 1999): 1585.
[9] Morduch, 1585.
[10] Tyson Rallens and SM Ghazanfar, "Microfinance: Recent Experience, Future Possibilities," *The Journal of Social, Political, and Economic Studies* 31, no. 2 (Summer 2006): 203.

Chart 15: Percentage of Women Taking Loans from Other Sources

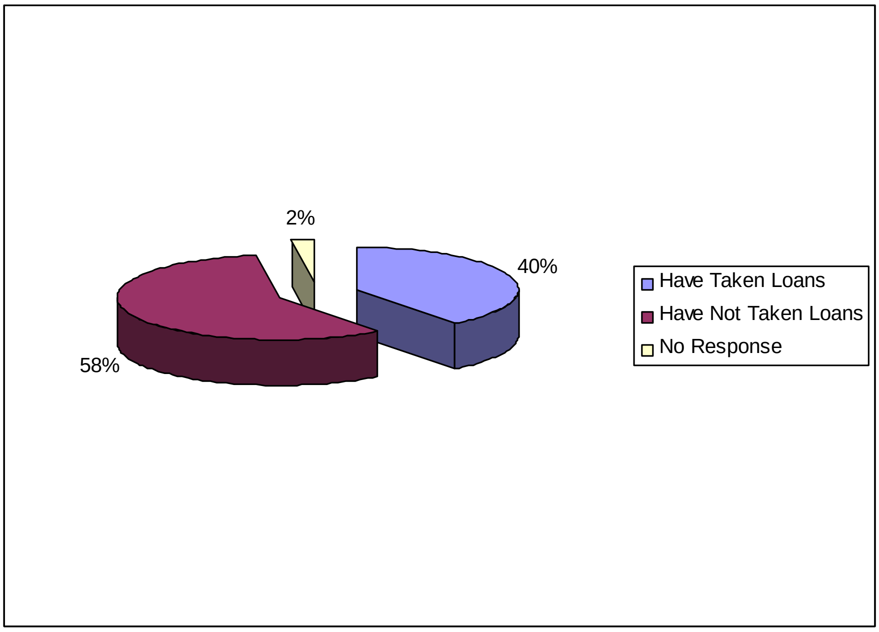


Chart 15 looks at the percentage of women who maintained they had simultaneously taken out loans from other sources while participating in financial activities with the participating MFIs. Such practices are an indicator of loans that are too small in size. 58% of the women claimed they have never taken concurrent loans. This insinuates that a majority of women have found the loan sizes supplied by the MFIs to be of sufficient for their needs.

However, in the suggestions section of the survey 49% of the respondents advised that they needed larger loan sizes or a greater frequency of loans. The mixed response from these questions could indicate that while the women believe greater loan sizes would yield more returns from their income generating activities, they also concede that the loans, as they are now, still support these initiatives.

It is worth noting that most MFIs have given new members smaller loans that incrementally grow with time as clients prove their reliability. While the years of membership represented in this survey are diverse, the disproportionate ratio of veteran members to newcomers may have yielded more positive results than if the survey had included more newcomers.

2.2.1.2.4 Insurance Products

A reason lending to the poor is unattractive to many traditional banking institutions is a result of these clients' inherent vulnerabilities to a variety of economic shocks, such as natural disaster, poor crop season, unexpected death etc. For that reason, certain safeguards have needed to exist to protect both the banking institution and the client. The group oriented nature of microfinance, which encourages peer support as a safety net has offered one solution, insurance offers another. However, micro insurance has historically received mixed reviews. Insurance packages are complex and if microfinance institutions lack insurance proficiency, they can go very wrong. Furthermore, it can be hard to explain the necessity of insurance to clients who have little money to allocate and only have basic financial literacy. For many the benefit of insurance is not realized until a crisis actually occurs. The following section looks at the number of clients who are currently receiving some form of insurance and whether they are happy with it.

Chart 16: Clients Currently Using Some Insurance Product (Percentage)

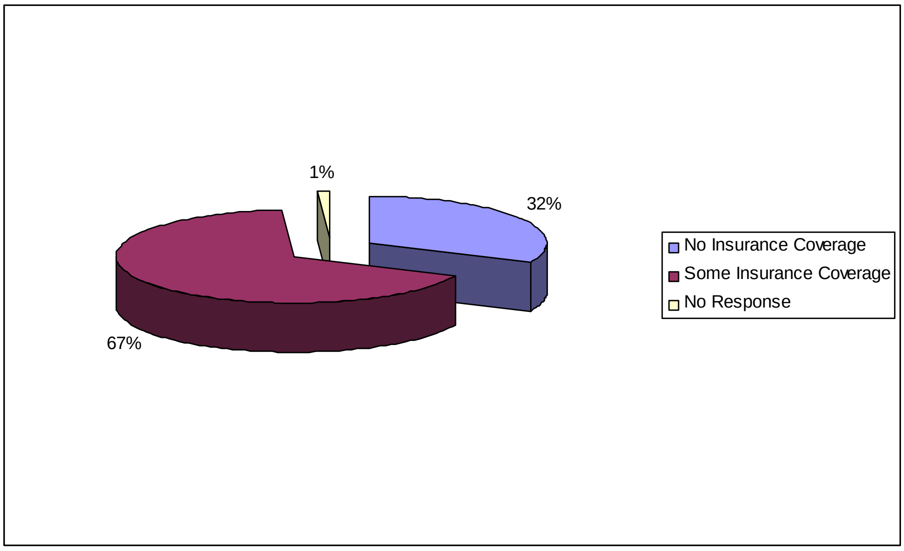


Chart 17: Clients that Would Renew their Current Insurance Product (Percentage)

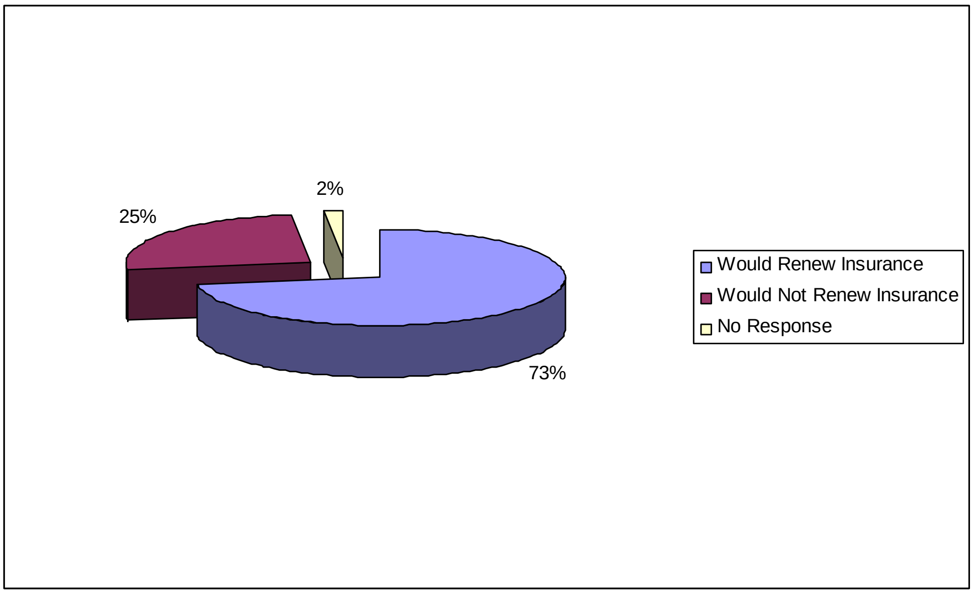


Chart 18: Combined Data Number of Current Insurance Users and Willingness to Renew

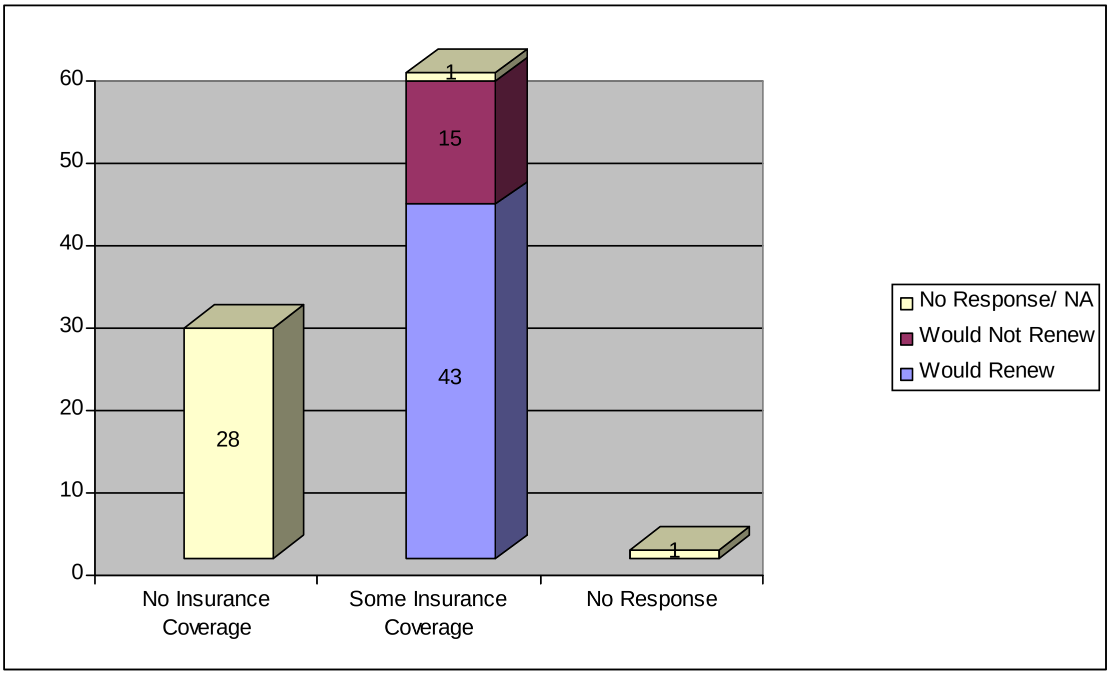


Chart 16 shows that the majority of clients interviewed are currently receiving at least some form of insurance, the type of insurance varied from client to client, however the most common type of insurance mentioned was life insurance. Charts 17 and 18 illustrate that of those receiving insurance, the majority would also be willing to renew this insurance. This implies that the protection offered by the microfinance institutions is at best viewed as adequate by the clients and at least deemed as necessary by them. These results may also speak to the microfinance institutions' successful promotion of financial literacy, in the sense that it shows the clients can comprehend the risks associated with taking out a loan as well as the potential shocks they are vulnerable to and therefore value the protection insurance offers them.

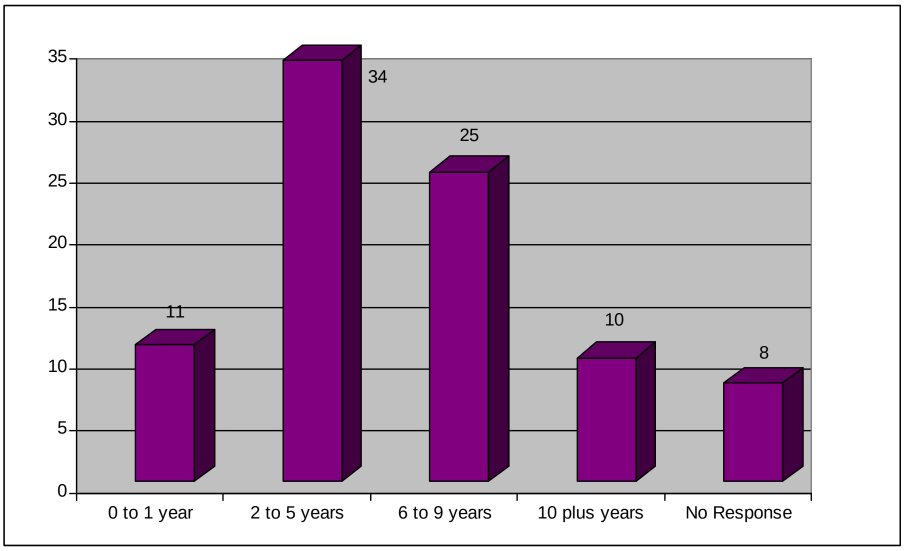
2.2.2 Loyalty

One criticism of client satisfaction surveys is that gauging a client's overall happiness does not necessarily denote the quality of service. Pawlak and Szubert describe in "Counting (On) Your Prospective Clients: Guiding Principles in Measuring Microfinance Client Satisfaction and Loyalty" this faulty generalization as the 'satisfaction' and offer that "…60 to 80 per cent of clients who switched their supplier would have declared they were very satisfied just before leaving (Reicheld 1996)."[11] They go on to explain that "[c]lient satisfaction is indicative of the degree to which services and products satisfy clients' preferences. However, satisfaction is not a static idea ad it changes as soon as a client finds a better deal and along over-time-raising client expectations."[12] Alternatively, loyalty which can be measured by a clients behavior and attitude,

[11] Katarzyna Pawlak and Dorota Szubert, "Counting (On) Your Prospective Clients: Guiding Principles in Measuring Microfinance Client Satisfaction and Loyalty", *The Microfinance Centre*, (Feb. 2004): 16, 1.
[12] IBID

measures the level of commitment a client has to their MFI.[13] "A committed client recommends the institutions to relatives or friends, decides to travel a bit further than necessary to use one service and not another or pays a higher interest rate. At the same time a loyal client will believe that their chosen MFI is the best from all the institutions on the market."[14]
Several questions were asked to gauge the clients' loyalty - these questions are intended to supplement satisfaction questions. Furthermore, while options for poor clients are limited in the formal sector, competition for micro-lending is growing, in particular the microfinance industry in India and in Orissa has expanded substantially. With this growth clients are beginning to have the luxury of choice, as such, their loyalty to a particular MFI should be of increasing importance to the MFI.

Chart 19: Clients' Years of Membership



Length of membership with an MFI measures the clients' incentive to stay with the particular institution. Therefore, the data in Chart 19 that shows a majority of interviewees have remained with their MFI for over 2 years, suggests that the participating MFIs services have been good enough to encourage a certain level of commitment from their client base. This justifies the satisfaction data collected whereby the women claimed to be generally happy with the MFIs.

[13] IBID
[14] IBID

Chart 20: Number of Loans Taken

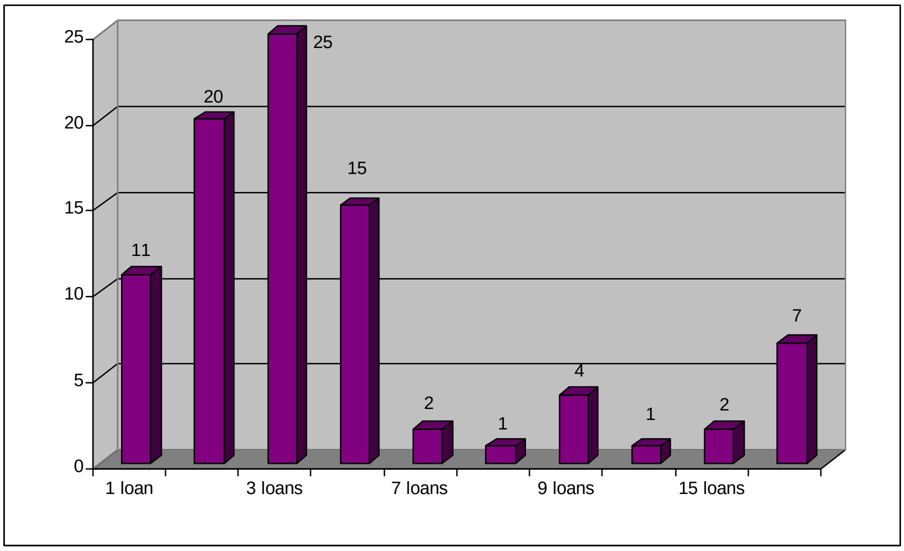
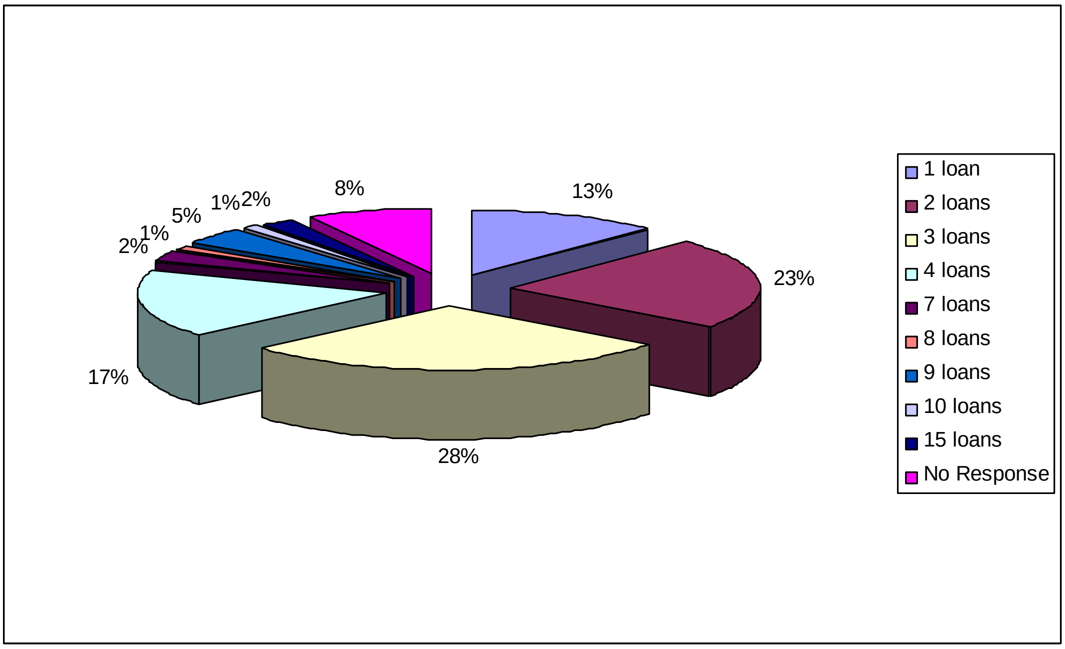
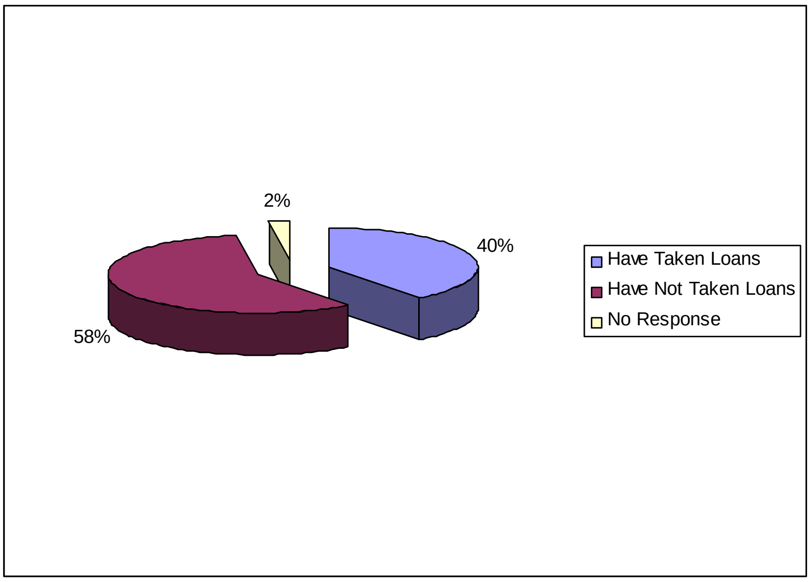


Chart 21: Number of Loans Taken (Percentage)



Length of membership can overlook the level of activity of a borrower. Thus, charts 20 and 21 depict the number of loans taken by the interviewees and therefore their level of activity within an MFI. Multiple transactions with an MFI indicate a certain level of loyalty- through the client's commitment to continuously come back to the same institution for their loans. Chart 20 shows that the majority of interviewees have taken out multiple loans with their MFIs. Therefore not only have the members chosen to stay with their MFI for a notable period of time they have also done so as active members. Again, this data serves as an affirmation of the generally positive experience women have described with their MFIs.

Chart 22: Percentage of Women Taking Loans from Other Sources

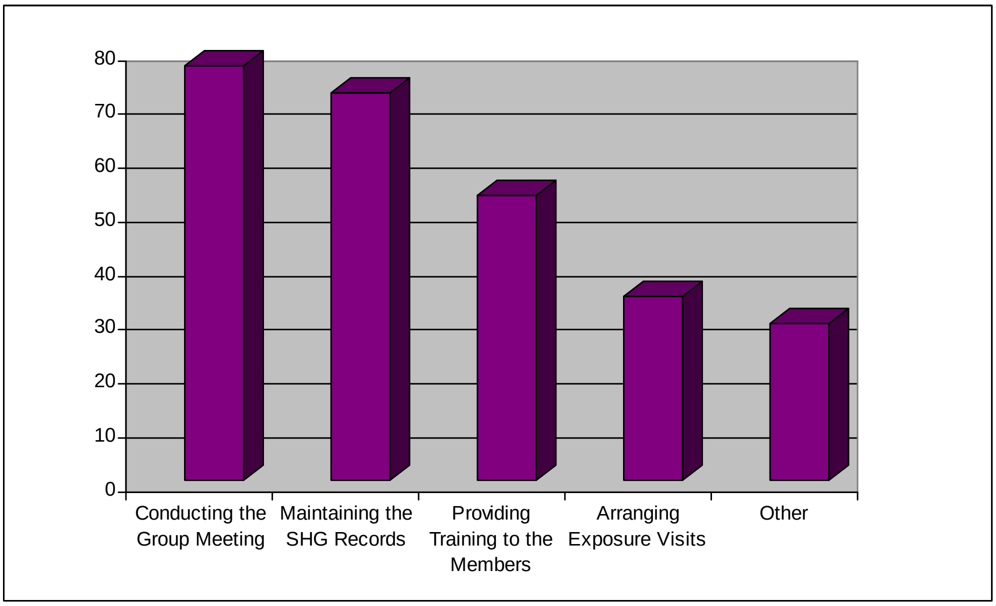


Revisiting Chart 22 raises some questions of loyalty. While still a majority of women indicated that they had not taken loans from other sources, a large minority of 40% did state that they had taken simultaneous loans from other sources. While, these members are still active members of the participating MFIs, this use of other institutions raises some concerns about loyalty and why they have felt the need to take loans from more than one institution.

2.2.3 Credit Plus Activities and Other Services

Many microfinance institutions in addition to their financial services, offer other social services to support their goals of poverty alleviation and empowerment. Some of these other services also act as an additional layer of financial security for the MFI in the sense that these activities promote fiscal responsibility as well as maximization of income generation. The following section looks at the number of women receiving credit plus services. Regrettably, their level of satisfaction with these services was not inquired upon, however based on their suggestions in the individual survey as well as their commentary in the focus group discussions, the services in need of improvement can be deduced.

Chart 23: Credit Plus Services Offered



A large number of women indicated that they received help conducting group meetings and maintaining their records. This is an important aid to make sure women are keeping accurate accounts of their expenses and what they owe and indirectly promotes fiscal responsibility as well as ensures timely repayments, which is beneficial to both the MFIs and the clients. A majority of women also indicated that they were receiving some form training from the MFIs; this training typically was focused on financial literacy as well as capacity building. While a majority of women acknowledged receiving this training, there is still a large minority who are not (more than 30%). Less than 40% of the clients had the opportunity to go on exposure visits. Women in the Focus Group Discussions described these visits very positively and found that they allowed them to leave the house and travel in a way that they were not permitted in the past, which left them with a sense of empowerment.

2.2.4 Fees and Expenses

This section looks at the fees and expenses associated with the financial exchanges. When conducting the individual interviews as well as the focus group discussions, several concerns were raised regarding these fees. Through these interactions it became clear that there was a substantial amount of confusion regarding the various costs associated with taking out a loan. Women from the same SHG typically had different answers for the type of fees they were paying based on different understandings of what each fee was for. Women confused loan processing fees with fees associated with their insurance products, their security deposits, as well as their SHG membership fees. Additionally many women mentioned that they would like some of the fees associated with taking out a loan reduced.

The data below is based on the clients' impressions of the fees they were paying- as such the numbers presented may be different from what they were actually paying. This aforementioned confusion presents one of the larger concerns that should be addressed by MFIs.

Chart 24: Number of Women Paying a Processing Fee (Percentage)

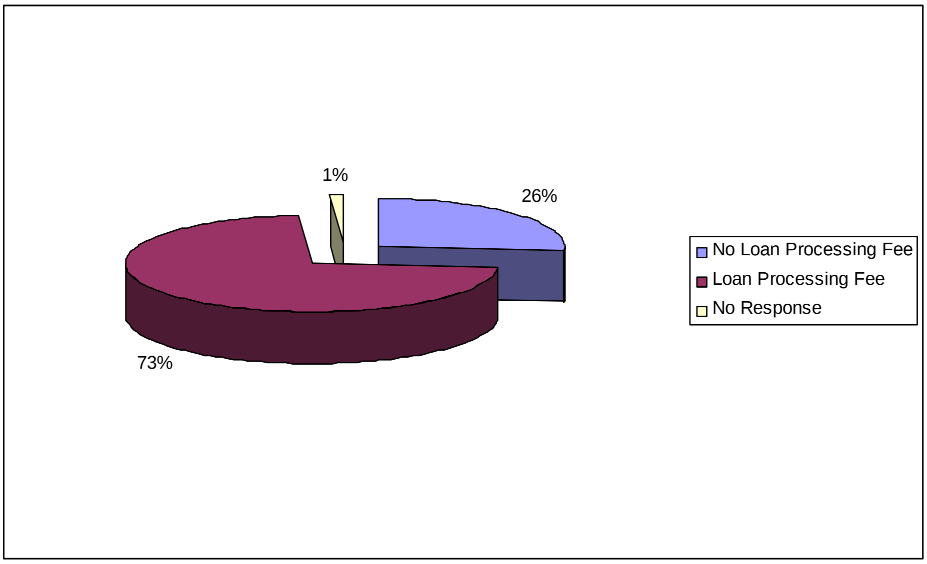
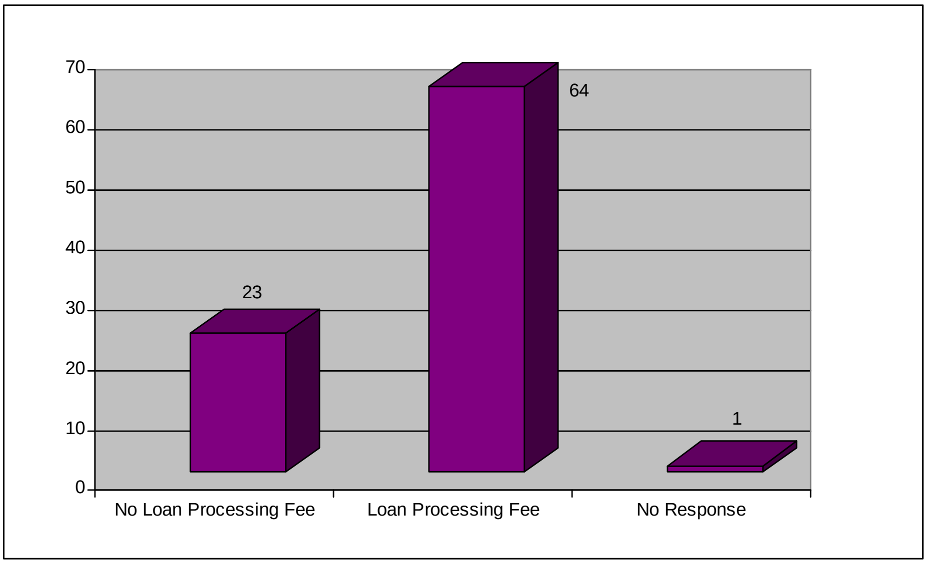


Chart 25: Number of Women Paying a Processing Fee



Charts 24 and 25 show that 73%, or a large majority, of the clients believe they are paying some kind of loan processing fee. The specific explanations of what this loan processing fee covers varied between women and between groups. Additionally, the frequency of paying such a fee varied between women. For some it was a fixed percentage, while for others it was a fixed amount based on the size of the loan, some only had to pay this fee for their first loan, and others described it as a due that they paid at a certain point over a given period of time. The varying rates of these loans are detailed below.

Chart 26: Size of Loan Processing Fee (Percentage)

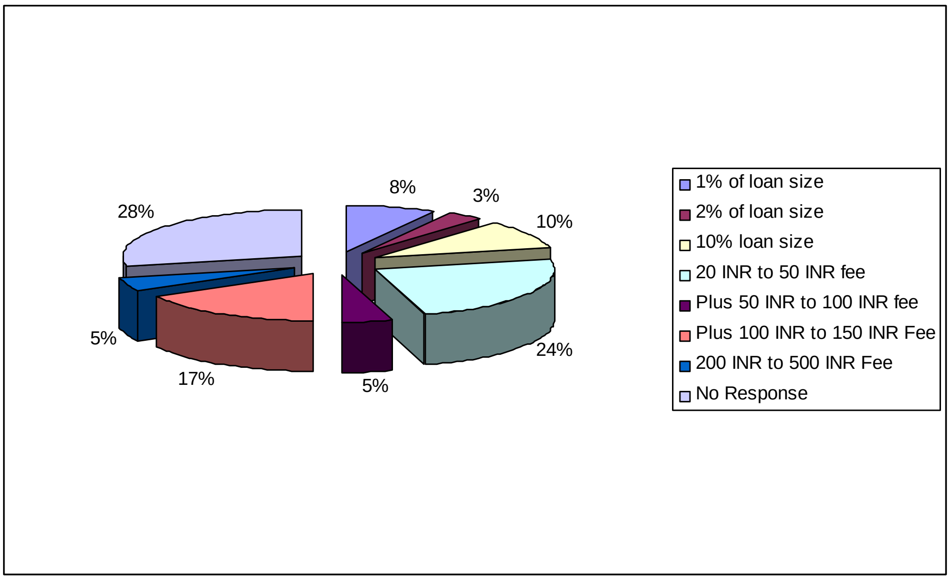
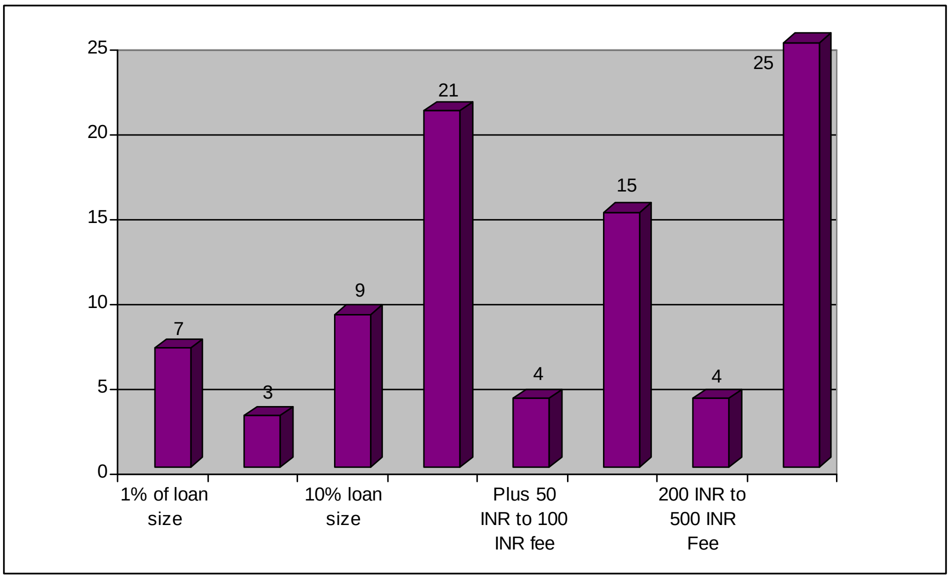


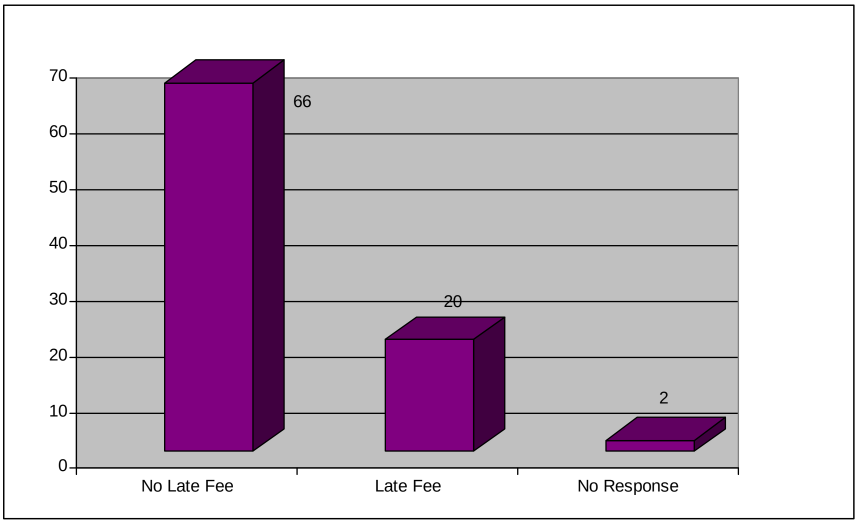
Chart 27: Size of Loan Processing Fee



Charts 26 and 27 break down the variety of rates and payment plans of the loan processing fees. The data collected shows that there was no one common rate for processing fees but instead several common fees. 28% of the women interviewed cited a processing fee of 1% of their loan size, making this the most common fee. Additionally another 24% percent of the women described a fixed fee of between 20 to 50 INR, making up the second most common fee. Finally, 17% of the women described a loan processing fee of between 100 INR to 150 INR. Typically the women who described 100 INR to 150 INR as their loan processing fee were able to break down some of this fee into smaller fees that made up their member dues etc.

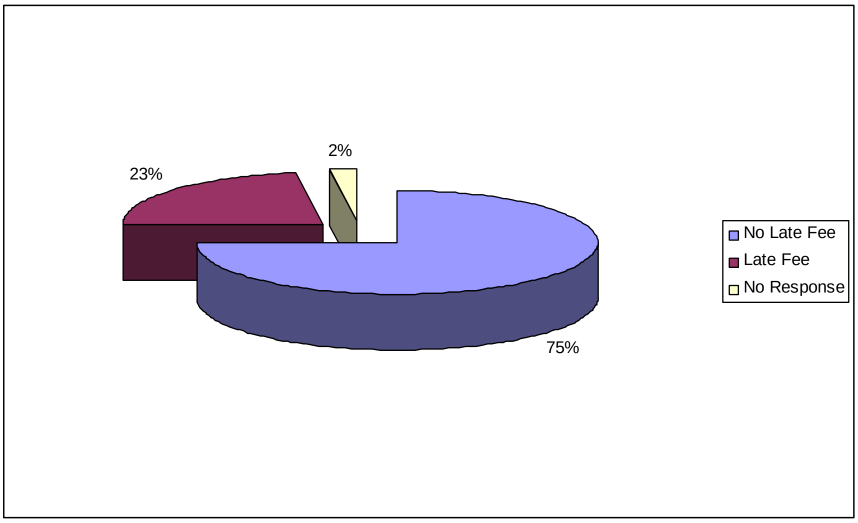
While some of these loan processing fees appear high in relation to the size of the actual loans, the expenses can be justified. Thus, like both interest rates and repayment rates, only so much can be done to appease the clients while at the same time protecting the business interests of the microfinance institutions. These fees are used to cover several costs incurred by the MFI and are therefore of some necessity. Some of the costs these fees cover are as follows; "…the cost of the money that it lends; the cost of prudent financial practices such as provisioning for loan defaults; and the cost of transaction, which includes the costs of identifying and screening the client, processing the loan application, completing the documentation, disbursing the loan, collecting repayments and following up on non payment."[15] Concerns over amount of fees still should be taken to heart; if the transaction fees are too large in relation to the small loan sizes, the inefficiency of taking out a loan will deter clients. However it seems that the biggest problem women have with their fees has to do with the lack of transparency and their lack of understanding regarding what these fees are used for.

Chart 28: Late Fees



[15] Savita Shankar, "Transaction Costs in group Microcredit in India" Management Decision," *Management Decision* 45, no. 8 (2007):1331.

Chart 29: Late Fees (Percentage)



Charts 28 and 29 show the portion of women who are required to pay a fee for delinquent loans. The vast majority of women (75%) do not have to pay a fee. This can be explained by the various other mechanisms the MFIs use to deter late payments. Women are unable to get new loans or loans of greater size from the MFI if they make their payments late. Their group is also penalized for late payments, as result these is a dynamic of peer pressure and group monitoring effectively prevents instances of late repayment.[16] If women are truly unable to pay and have exhausted all other means of obtaining the money for repayment, the women in the group will typically contribute some of their own money to the member risking delinquency. Therefore, the punishment of a fee is not typically a necessary tactic.

2.2.5 Voiced Concerns and Other Considerations

This final section looks at what women described as their suggestions. The three most common subjects of concern were; interest rate, repayment period and loan size.
In addition the clients voiced a few other noteworthy concerns. Several mentioned the need for specific kinds of loans, such as cow loans and 'business loans' for those who owned their own shops that they wanted to expand. Many also believed that it would be beneficial for them to have more access to training and income generating programs.

[16] Britta Augsburg and Cyril Fouillet, "Profit Empowerment: The microfinance Institution's Mission Drift," *Perspectices on Global Development and Technology* 9, no. 3-4 (2010): 337.

Chart 30: Major Client Concerns (Percentage)

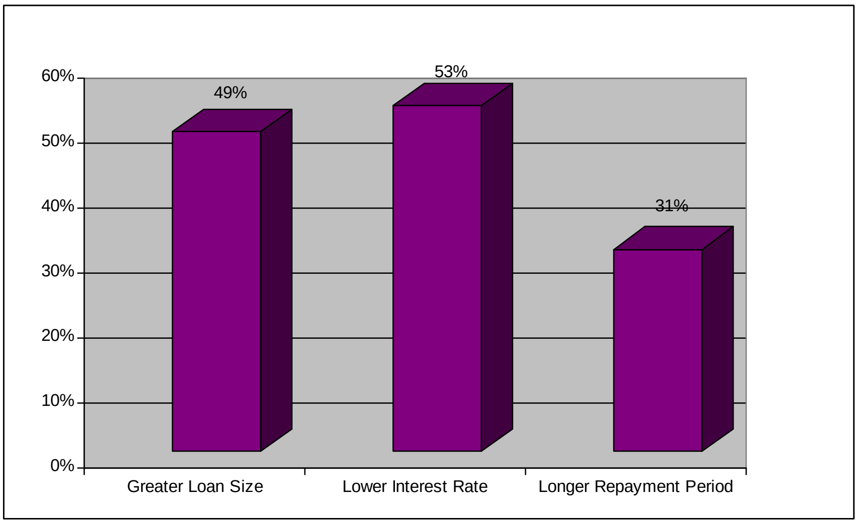


Chart 30 shows the three largest concerns of the women interviewed. All three issues yield a high percentage of women who mentioned these aspects of the loan product. The rest of this section will discuss the specific concerns regarding these three attributes.

<u>Lower interest rate-</u> 53% percent of the women suggested that a lower interest rate would be preferred. Of those that specified an interest rate that they felt was ideal, women typically requested a flat interest rate of 10%. Others just specified that they wanted a simple interest rate.

<u>Greater loan size-</u> 49% of the women interviewed believed it would be beneficial for the MFI to offer larger sized loans. Some specified that they would be equally happy if loans were available more frequently.

<u>Longer Repayment Period-</u> 31% of the women asserted a longer repayment period would be ideal. Some women indicated that they would prefer a repayment period of 2 years; however the vast majority of women were more concerned with the frequency of repayment. Most believed that if payments were collected monthly or quarterly, they would face less of a financial burden that they do with weekly collections.

Chapter 3: Recommendations

3.1 Women's Empowerment

- **Understand and address empowerment from outside of the lens of credit**

If microfinance goals extend beyond just economics to social goals such as the empowerment of women, then the means of meeting these goals must also extend beyond finance. Most studies have found that credit alone does not empower women and in some cases can reinforce existing social norms.[17] A stronger emphasis on trainings, exposure visits and other social programs that provide a forum for the MFI to address social norms, gender roles and issues of empowerment is needed. Additionally, the success of a microfinance institution's programs cannot only be measured using economic indicators, but also social ones that look at whether the MFI has reached their target group and provided them with enough social and economic capital in a way that fosters empowerment.

- **Address women's empowerment from the male perspective**

An unrelenting challenge that must be addressed when dealing with issues of women's empowerment is the social setting in which the women are constrained. No matter how much you give the women, they will still be constrained to operate within the social sphere set forth by their respective community's expectations.[18] Just as women require some social support in the form of exposure visits, peer support, and other initiatives- the men too cannot be expected to change their social practices and values without some support.

Additionally, several reports have found that a source of tension between men and women involved in microfinance has been the men's sense of neglect by the MFI. Many men have reported feeling as though all the new jobs, loans and development opportunities only focus on women.[19] The creation of social programs and trainings geared toward men, would aid the MFI in achieving its social goals while mitigating some household strain. These programs would operate separately from the MFI and could be funded by donor agencies. For both poverty alleviation and women's empowerment efforts to succeed men in the community need to be a part of the process "…not as loanees but as partners in the poverty alleviation effort."[20] Support can be offered in the form of mutually reinforcing home visits, workshops and town hall meetings, among other things.[21]

3.2 Financial Literacy and Other Credit Plus Programs

- **Create credit plus programs that aid women's empowerment**

[17] Marcell Corsi et al., "Women and Microfinance in Mediterranean Countries," *Development* 49, no. 2 (2006): 69.
[18] Fauzia Erfan Ahmed, "Microcredit, Men, and Masculinity," *Feminist Formations* 20, no. 2 (Summer 2008): 123.
[19] Ahmed, 150.
[20] Ahmed, 149.
[21] Ahmed, 149.

Credit plus programs have been referenced as a remedy for the aforementioned women's empowerment challenges. These donor driven trainings and workshops could be treated as separate from the microfinance initiatives and would aim at appeasing the institution's social agenda.[22]

- **Provide linkages with external markets to increase returns**

The clients of microfinance face an additional challenge of exporting their products as a consequence of their typically remote locations. Because these clients do not have access to markets where there is a greater demand for their products, they are not able to enjoy an optimal level of revenue.[23] Therefore, microfinance institutions should do more to link their clients to external markets, where there is more profit to be made.[24] The institution can also benefit by charging a small fee for this service. Furthermore, by helping clients achieve a greater level of financial security, they evolve into a less risky client for the microfinance institution to loan to.

- **Increase the number of financial literacy programs**

The amount of confusion witnessed during the client satisfaction surveys suggests that women would benefit from additional trainings that focus specifically on the micro credit services they are a part of, as well as general financial literacy. Such an initiative is not only beneficial to the women but it also benefits the microfinance institution as a result of better business practices by the women.[25]

3.3 Loan Size

- **Increase the variety of loan products that are complimentary to the industry they are supporting**

Loan sizes and the frequency in which loans are received cannot easily be changed. Clients will get larger loans as they become members for longer- a practice that should continue to be enforced. Giving women too large of a loan early on in their membership is risky for the MFI, who knows little about the woman's repayment habits. It is also risky for the women who could face oppressive repayments that they were unprepared to pay. As an alternative, MFIs should diversify their loan products.

Agricultural loans that are scheduled for distribution at the beginning of a harvest season ensure that the women are getting funding in time for their optimal use.[26] Other sources have suggested loaning resources instead of money. MFIs could support women by loaning seeds, fertilizer etc. These loans would have the bulk of their repayments occur once the crop has been harvested and the women have yielded the greatest returns to their capital.[27]

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[22] Khan, 153.
[23] Jyotirmayee Kar, "Improving Economic Position of Women through Microfinance: Case of a Backward Area, Mayurbhanj- Orissa, India," *Indus Journal of Management and Social Sciences* 2, no. 1 (Spring 2008): 24.
[24] Khan, 153.
[25] Mokbul Morshed Ahmad, "Distant Voices: the Views of the Field Workers of NGOs in Bangladesh on Microcredit," *The Geographical Journal* 169, no. 1(Mar 2003): 73.
[26] Linda Mayoux, "Reaching and Empowering Women: Towards a Gender Justice Protocol for a Diversified, Inclusive, and Sustainable Financial Sector," *Perspectives on Global Development and Technology* 9, no. 3-4 (2010): 585.
[27] Hossain, 34.

MFIs should consider offering consumption loans for loaners who have been members of the MFI for an extended period of time and have shown responsibility paying back their loans. Some of the women claimed they needed loans for food, emergency health care etc. Because MFIs do not typically offer this type of loan, the women are forced to turn back to moneylenders for them. Loans from money lenders, with their high interest rates, can be counterproductive to the income generating activities microfinance institutions support, and therefore it is in the interest of the MFI to offer consumption loans that reinforce goals of poverty alleviation instead of detracting from them.[28]

- **Reduce transaction costs**

An alternative solution to loan sizes that are seemingly too small is to reduce costs incurred by the women when they take out their loans. Reducing the costs associated with taking out a loan makes the size of the actual loan more valuable. Transaction costs can be reduced by collecting repayments biweekly or monthly. Alternatively, mandatory insurance and savings schemes could be eliminated as they can be very costly for clients and many times unrewarding. Unless their purpose is specifically geared toward protecting the client (and not as a form of collateral for the MFI) and only if these schemes are efficiently operated should they be mandatory for the clients.[29]

3.4 Interest Rate

- **Increase financial literacy programs and trainings to explain the costs of micro credit**

Most women indicated that they would be happier with a lower interest rate. While most women knew what their interest rate was, studies have suggested that many do not know how it is calculated and therefore do not know what a reasonable interest rate is.[30] Thus, training that explains interest rate and the costs that it covers may make women less inclined to cite interest rate as an aspect of service they would like changed.

3.5 Repayment Periods

- **Change repayments from weekly to biweekly or monthly**

Weekly repayment periods have proved to be burdensome on women, who in the absence of being able to make a weekly repayment may slip deeper into debt.[31] Understandably, repayments need to occur frequently, because they serve as a monitoring system and as a means for MFIs to get to know their clients better. However, this monitoring could still be effective if repayment periods were biweekly or even monthly. Furthermore, microfinance institutions could cut costs associated with collection by switching from weekly to biweekly repayments.[32]

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[28] Kar, 24.
[29] Mayoux, 585.
[30] Augsburg, 339
[31] Jason Cons and Kasia Paprocki. "Contested Credit Landscapes: Microcredit, Self Help and Self Determination in Rural Bangladesh," *Third World Quarterly* 31, no. 4 (June 2010): 645.
[32] Shankar, 1339.

- **Delay first payment.**

The expectation of clients to immediately begin repayments after a loan is taken forces them to find other sources to repay their loans and it hinders their optimization of income generating activities. By delaying the first repayment, some of the initial burden of paying back a loan would be eased.[33] Secondly, by instituting such a policy, the women would be better able to meaningfully invest their loan money and utilize it in a way that is more likely to maximize profits. Such a practice also deters women from taking loans from other sources to make repayments.

3.6 Insurance Programs

- **Support informal healthcare and insurance**

As an alternative to providing insurance, microfinance institutions could promote the use of an informal insurance system within the self help groups to be used for emergencies. By making it mandatory for women to contribute a certain amount of money into a group fund, they would be better able to protect their assets from unforeseeable events such as unexpected death, poor harvest season, or natural disaster.

- **Provide linkages to insurance institutions.**

Given the risks incurred by clients involved in micro credit, some form of insurance would be ideal to protect them from adversities. However, insurance can be expensive and risky for an inexperienced MFI. Insurance is a tricky business and it requires a huge capacity of resources and knowledge to offer an effective service that is beneficial to both the user and the provider. Therefore, MFIs should consider acting as a link between clients and insurance agencies instead of acting as the insurance provider.[34] This would allow for clients to have access to beneficial insurance products and would save the MFI costs. The MFI could charge a fee to the insurance agencies for acting as the link and thus such activities would serve as an additional source of revenue.

- **Provide linkages to insurance and other financial institutions for <u>non-members</u>**

The MFIs could link a variety of other financial services to the SHGs and to non-members in the surrounding community for a small fee. The accrued revenue from this service could be used toward funding additional social programs for the members, reducing fees associated with micro credit or advancing the institutions' self sustainability goals.

Several financial institutions would be interested in extending their services to rural areas that are currently out reach. MFIs, who already have a grasp on the communities they serve, could share their insight for a certain fee. In addition to insurance agencies, MFIs could link nonmembers in the community to credit card companies and mutual funds.[35] This service, would also serve as a source of capital for the MFIs.

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[33] Khan, 154.
[34] Warren Brown, Colleen Green, and Gordon Lindquist, "A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products," *Microenterprise Best Practices Report*, (Dec. 2000):1.
[35] Shankar, 1339.

These linkages also serve as a way for MFIs to reach out to other members of the community who may have felt left out of the development initiatives microfinance supports. Furthermore, linkages create new channels for nonmembers to seek out financial services in a community where these services are scarce and costly.

3.7 Savings

- **Encourage the practice of saving.**

Some of the risks associated with lending to the poor could be diminished over a period of time if microfinance institutions did more to incorporate savings practices into their programs. Encouraging the practice of saving would also ease the volatility of poor clients' available capitol needed for consumption. This would reduce the demand for consumption loans which are inherently more difficult to pay back, as they do not directly support the utilization of a client's productivity. Furthermore, encouraging savings would enable women to invest some of their own money into future business ventures, and over time reduce the number of loans they depend on for income generating activities. Hence savings coupled with microfinance would provide a more enduring remedy for poverty stricken households.[36]

- **Provide linkages to savings institutions**

Offering a savings program requires the microfinance institution to abide by an additional set of rules and regulations. Consequently incorporating a program of savings into the institution is a costly endeavor. Thus, a cheaper alternative for the MFI would be to link their clients to a savings institution.[37]

- **Create alternative payment options**

One way to cut transaction costs is to establish alternative mechanisms for the women to pay back loans in a way that does not require representatives to physically collect payments. A downside is that it eliminates personal interaction and could diminish group cohesiveness if they no longer need to meet regularly. Furthermore, the social pressure to make payments on time by making them in front of the other members would be eliminated.
However, this could be a positive service for women who have been members of the MFI for sometime and have already proved fiscal responsibility. The issuance of debit cards to members of the MFIs with savings accounts would give women the ability to easily withdraw and deposit sums of money from the bank. Simplifying the banking process could make savings more attractive to the women and would give them greater economic mobility.[38]

3.8 Over indebtedness

Several mechanisms have already been discussed in this section that would protect against over indebtedness. To review they are as follows:

- **Fund financial literacy programs that promote fiscal responsibility and good book keeping**

[36] Morduch, 1607.
[37] Morduch, 1608.
[38] Hossain, 34.

- **Continue to support the agents' weekly (or biweekly) interactions with SHGs during which, they can provide additional assistance with book keeping and monitor warning signs of default.**
- **Promote savings to reduce clients' dependence on loans and to serve as reserve money in the case of an emergency.**
- **Promote group savings and emergency funds in case one member defaults or faces a personal emergency**
- **Encourage some insurance schemes to protect against adversities**

In addition to these tactics, MFIs should be encouraged to maintain close records that document the number of loans and their amounts granted to each client. This detailed client information would ideally be shared in a database with all other microfinance institutions in the region. This would give MFIs a full picture of their clients' financial commitments. Doing so would minimize the number of defaults and would protect clients from falling into greater more debt.

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APPENDIX A: CLIENT SATISFACTION SURVEY

Name of NGO/MFI :
Date of Survey :
Survey Number :

1. **Personal Information:**
    1. Name:
    2. Village:
    3. Major Occupation of the Family:
    4. No. of years of association with the SHG/MFI:

2. **Credit**

    1. When did you receive loan for the first time?

        a. Within one month of becoming a member
        b. Within six months of becoming a member
        c. Within six months to 1 year of becoming a member
        d. More than 1 year of becoming a member

    2. How many loans have you taken so far?
    3. Do you pay any loan processing fee: Yes / No

    If yes, how much?

    4.How much interest you pay per annum? ________

    Is the rate of interest (a) higher (b) lower (c) appropriate?

    5 What is your loan repayment period?
    (a) 1 year (b) 1 .1/2 year (c) 2-3 years

    6 What should be the ideal repayment period:

    7 Do you pay penalty in case of delayed repayment: Yes /No

    8 Have you taken loan from any other sources? : Yes /No
    If yes, what is/are the source(s) ?

Why did you have to take such loan from others (Pl. specify)

9 Have you been covered under any insurance schemes by your NGO/MFI ? : Yes /No

10 Are you willing to renew your insurance schemes? : Yes /No

If no , specify the reasons:

3. **Other Support services:**

1. What are the support services provided by the NGO/MFI?

   a. Conducting the group meeting
   b. Maintaining the SHG records
   c. Providing training to the members
   d. Arranging exposure visits
   e. Helping in mobilising other Govt. schemes
   f. Others (Pl. specify)

4. **Suggestions**

1. Do you recommend any other loan product or change in the existing loan product (Amount, rate of interest, repayment period etc.) Pl. specify

2. How would you rate your overall satisfaction with the NGO/MFI ?
(a) Good (b) very good (c) average (d) not satisfied.