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DEUTSCHEN BISCHOFSKONFERENZ

FINANCIAL SYSTEMS DEVELOPMENT – SAVINGS AND CREDIT INSTITUTIONS FOR THE POOR:

A METHOD FOR PARTICIPATORY DEMAND ASSESSMENT

AND

RESULTS OF ITS DEVELOPMENT AND IMPLEMENTATION WITH SEWA BANK

Action research program: Phase II

MAY 2004

Co-organized by: FIDES (Finances pour le Développement économique et social), EDP eV. (Exposure and Dialog Program e.V. – reg. Association), Institute of Rural Development (University of Goettingen), SEWA Sahakari Bank Ltd.

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Introduction

This report presents the methods and the results of the research program "Finance System Development – Finance Institutions for the Poor – Phase II", initiated and co-organized by the Association for the Promotion of North-South Dialog (now: "Exposure and Dialog Programs e.V.", Germany) in close cooperation with FIDES (Finances pour le Développement Economique et Social, France), SEWA (Self-Employed Women's Association, India) and the Institute of Rural Development (University of Goettingen), and financed by the German Bishops' Conference Research Group on the Universal Tasks of the Church. The program's aim is *"**evaluating research methodologies with regard to their translation into common practice, taking a particularly qualified and motivated finance institution, i.e. SEWA Bank, as a model, and testing their implementation**"*.[1]

Today, giving the majority of the population, including poor people, access to financial services is regarded as a tool for economic development and poverty alleviation. In the early 80's a range of experiments proved that innovations in financial products and their delivery mechanisms enabled poor people and, more generally, people excluded from the commercial banking sector to use credit efficiently, to repay their debts and also to save. Then, finance system development became a core matter of economic and social development. However, today this sector faces new challenges: successful institutions built during the last twenty years have reached large sizes, they face growing competition, they also face a crisis which is linked to the changing external environment. To achieve sustainability, development and a deepening of their outreach they must be constantly refining their services, delivery mechanisms and institutional settings. In this context they are expressing a need to have a better understanding of the needs of their clientele and to analyze their "market" and their environment.

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[1] Project proposal of the Research Group on the Universal Tasks of the Church "Finance System Development – Finance Institutions for the Poor, Phase II" WA 76/02 – A-III/3/3-2, p. 8.

This observation was a clear result of a first research program[2] which pointed out that microfinance institutions (MFIs) need to build up their own analyzing and development capacities[3]: "*MFIs need research and development capacity in order to adjust their operations and services continuously to the needs of their clients and to a constantly dynamic environment"* (Krauss, A. et al., 2001, p. ix).

So far, research is rarely implemented by MFIs and their staff. Most often, research – even on topics such as searching for new products and business models – is undertaken by external experts and researchers, and mainly consists of studies financed by donors that do not necessarily lead to operational actions but may serve external, donor-driven purposes such as evaluation or impact assessment.

However, the challenges faced by MFIs require innovations to be produced in products, institutional settings, client outreach and so on. Gathering problem-relevant information is the basis for innovation. The problem is that – on the one hand – classical scientific methods are perceived to be or are in fact too cumbersome, costly and complex for MFIs to use directly; on the other hand, external researchers have little or only costly access to information and knowledge held by the MFIs, their staff and ultimately their clients. Hence there is the need to develop science-based methods that are rigorous but also simple enough so that MFIs and their staff and clients can use them effectively for the analysis and

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[2] In 1998, the Association for the Promotion of North South Dialog (NSD) started and co-ordinated the first phase of the research project "Finance System Development – Savings and Credit Institutions for the Poor", which was funded by the German Bishops' Conference's Research Group on the Universal Tasks of the Church. The co-founders of the project, Misereor, were about to redesign their own development policies with regard to microfinance systems and were therefore interested in knowing whether developing sustainable finance systems and supporting the poor are compatible objectives. The objective of this first phase was to systematically refine the microfinance systems of both Church agencies and governmental development cooperation and to focus them on widespread promotion of poor households.

[3] Results of the program are available in German and English:

Krauss, A. et al., "Finanzsystementwicklung – Spar und Finanzinstitutionen für die Armen", published by the German Bishops' Conference Research Group on the Universal Tasks of the Church, Bonn 2001.

Krauss, A. et al., "Executive Summary: Financial Systems Development – Savings and Credit, German Bishops' Conference Research Group on the Universal Tasks of the Church, Bonn 2001 (unpublished script).

related improvement of the activities of the MFIs. **Therefore, the objective of this research program is to develop research capacities inside MFIs using research methods and tools adjusted to MFIs' needs and constraints.**

The principle of the program is to work jointly with a well-chosen microfinance institution – i.e. SEWA Bank – and to disseminate the findings to a broader range of MFIs after this "pilot" phase. The action research program has achieved three major outputs:

- Joint development with MFI staff of research methods tailored to the needs and capacities of MFIs;
- Strengthening the capacity of SEWA Bank by creating a permanent in-house research function that can serve as an example for other MFIs;
- Generation of knowledge about the demand for financial services expressed by MFIs' clients as a direct product of the action research and capacity-building program.

The program addressed in this report is still going on. The report focuses mainly on the first two outputs. It is structured as follows: in the first part, the background and objectives of the program are presented, the second part describes the state of the art, the third part presents the methods and tools developed by the research program, the fourth part describes SEWA Bank's experience, the fifth part presents the available results concerning client demand and product development, and the last part is dedicated to lessons learned and the next steps of the program.

1 Background and objectives of the program

1.1 Importance of developing the research capacities of microfinance institutions

The development of financial systems requires further innovations. Institutions specialized in providing financial services for people excluded from formal financial systems have to produce innovation in order to face the latest "challenges" such as achieving financial sustainability, managing growth, adapting to changing environments, rapid reaction capacity and crisis management, good leadership and governance, and demand-driven product development (FIDES, 2000). A common element in these different challenges is to produce relevant information that allows a better understanding of the clientele or, taking a more commercial perspective, "the market segment" of the microfinance institutions.

- <u>Financial sustainability and competitiveness: innovations in reducing transaction costs</u>

Even if donor support is available in an initial phase, cost coverage needs to be achieved rapidly. This is a particular challenge when targeting the poorest part of the population because it requires a large number of very small deposit and credit transactions and identifying suitable collateral substitutes (Rhyne, 1998). On the one hand savings mobilization is relatively costly; on the other hand reduced individual loan amounts allow only limited interest earnings per credit. This creates very high transaction costs if suitable lending and saving "technologies" are not used (Christen, 1998). Additionally, many of the MFIs now face growing competition from other institutions in their environment. The search for cost reduction has thus become a permanent issue (Meehan, Gibbons, 1999):

- Reduction of operational costs through organizational improvements and productivity gains;
- Reduction of risk costs through better social organization of the system, improved involvement of groups and members in the decision-making process;
- Better evaluation of risks taken with the different products and client segments based on internal evaluation tools;

- Reduction of resource costs through savings mobilization and other low-cost resources;
- Growing income through better pricing based on evaluation of real costs and client margins.

- Strong growth

Successful microfinance movements show rapid growth since their offer of services corresponds to an important market. Management of growth requires (CGAP, 1997; Churchill, 1997):

- Reliable information on impact and permanent anticipation of potential risks;
- Integration of new market segments with different demand and a different risk structure;
- Frequent institutional reorganization in order to maintain strong and sound management: successive transformation from an initial start-up initiative to a major institution or network in a few years is a risky business and one of the main reasons why MFIs fail. Often reorganization is also required in order to comply with legal and regulatory frameworks.

- Changing environment

Many developing countries are facing rapid changes in their macro-economic environment. This is particularly true in the post-communist transition economies, where monetary stability, low inflation and legal frameworks for a market economy are not yet established and where the whole economy is going through a deep crisis (OECD, 1997; Nagarajan, Meyer, 2004). Similar difficulties are appearing in Asian and African contexts under strong macro-economic depression. In these environments even more than elsewhere precise understanding of the evolution of the clients' situation is crucial for good management and often for the survival of the institution.

- <u>Rapid reaction capacity, crisis management</u>

Failures, repayment problems, staff errors and client dropout occur in all major microfinance movements. The main challenge in these cases is to have the capacity for prompt reaction based on rapid appraisal of the situation. This allows the negative impact and financial losses to be limited. Rapid appraisal capacity as a staff qualification is thus crucial for MFIs (Nagarajan, 1998; Nagarajan, 2000).

- <u>Leadership and governance</u>

Flat hierarchies and simple decision-making processes are possible in the start-up phase of an MFI. The small numbers of people involved allow informal transparency and quick adjustments. Subsequent up-scaling needs more precise organization of leadership so as to ensure (Otero, 1998):

- More complex decision-making procedures involving staff and elected bodies;
- Compliance with legal requirements;
- Strong ownership of the institutions, often by local communities;
- Strong participatory control: growing numbers of members and amounts handled; also mean a growing concentration of power in the hands of a few people.

This has to be legitimated by appropriate delegation and control procedures.

Underestimated governance issues are often severe handicaps for growth and development (Chaves, 1994). Member-based organizations are particularly sensitive to these questions. Training strategies for members have to accompany growth.

- <u>Demand-driven product development and experimentation</u>

One of the main goals of microfinance institutions is to serve poor people excluded from commercial banks. The first experiences were made with standardized and simple financial services and products. Today, there is a growing understanding that poor people are a very heterogeneous group and their needs are diverse: to strengthen their livelihood and limit their vulnerability, they demand as many services as richer client segments. Meeting this heterogeneous demand requires innovations, and a good understanding of clients' needs and demand (Graham, 2000; Yunus, 2002).

Moreover, product innovation requires an experimental approach in order to limit risks. Based on a limited number of clients, new services can be tested and evaluated. Accompanying measures like information and staff training can be reviewed. At present, a major field of experimentation in many MFIs is the introduction of innovative insurance services and of new savings products (GTZ, 1998; Rutherford, 1999; CGAP, 2003).

Innovation in the financial services offered is crucial for the microfinance movement:

- It enables the penetration of new segments of clients;
- It allows existing clients who upgrade their businesses and who need other services to be retained.

1.2 Objectives of the research program: creating and testing research methods and tools adjusted to the needs and constraints of client-oriented financial institutions

MFIs need research methods leading to innovations; however they have limited capacities (in terms of finance, time, human resources) and thus face a range of constraints. Therefore the research methods they need have to be not too costly and must respect the institution's overall policy of reducing costs. They have to provide results in a relatively short time so that their outputs can be taken into account in the institution's decision-making process. The methods must not require long and complex training and they should provide relevant results and lead to operational actions. Because of all these requirements, classical research methods are often not tailored to the needs of microfinance institutions.

Therefore, the first objective of this research program is to develop research methods that respond to MFIs' constraints. One issue is common to the various challenges faced by the MFIs: a **better understanding of clients, especially their situation, their demand profile and their satisfaction level. The program is seeking to produce a tool kit offering relevant information on this topic and a good trade-off between cost, simplicity and quality of results.** In order to reach this first objective, the program is based on close collaboration between researchers, one MFI, namely SEWA Bank, and its clients and members.

The second objective of the program is to develop concrete research capacities in MFIs. The challenge is to set up a permanent research function inside MFIs allowing bottom-up communication between clients and MFIs' leaders, which will in turn allow pragmatic decision-making and strategy building. This objective includes two components: a training component aimed at building the capacity of MFIs' staff in terms of the above-mentioned methods and tools; and an organizational component aimed at setting up the proper organization of the research function inside MFIs so as to enable the above-mentioned permanent dialog between clients and decision-makers to be established.

The third objective is to test the methods and tool kit, i.e. to implement them with one MFI, SEWA Bank, to reach operational results and to evaluate the quality of the method and tools.

Client-oriented financial institutions are the program's main target. This includes cooperatives, financial associations and also community-based banks, in a nutshell demand-driven institutions which give a place in their decision-making bodies to their clients. The second program objective is especially important for them because one of the main challenges of self-help organizations is to circulate flows of information between employees and members, thereby allowing efficient decision-making and strategy building. Therefore, the methods developed by the program are based on **the strong involvement of the clients and members in the research process.**

1.3 An innovative research program: participatory research

In order to highlight the innovation of the program, two levels of comparison are necessary: first a comparison with classical research programs and secondly a comparison with a "market research" approach tailored to the needs of MFIs.

Compared with classical research programs, the present program includes three main innovations, **its orientation towards operational actions, its participatory approach and its orientation towards capacity building.**

The methods are designed to be communication tools between the managers of financial institutions and their clients/members. The communication tools are efficient only if they lead to operational actions, for example – within the framework of this program – to adjustments in the products, services and their delivery mechanisms. The objective of the program is not only to produce additional knowledge about MFIs' clients and their demand profile, but also to improve the operations of MFIs.

Moreover, the principle of the method is not to "extract" information from clients and to draw conclusions based on it, but rather it is to involve the clients in the research process. Involving the clients means that they are actors of the research process: the developed methodology aims to help MFIs' staff guide their clients in analyzing their own demand and satisfaction themselves. Based on this participatory demand assessment, the clients and the staff combine their knowledge and competencies in order to identify and develop the refinements required or the new services and products required to better meet the demand.

Today a few programs (Aims, MBP, Microsave etc.) are also producing research methods for microfinance institutions in order to enable them to learn from their clients. Different tools have already been set up and tested (Wright, 1999; Lee, 2000; Brand, 2001; SEEP, 2001; Henry et al. 2003): poverty assessment tool, impact assessment tool, client satisfaction study, dropout study, loan use strategy over time, clients' empowerment, product development etc. They aim to respect the requirements of microfinance institutions and they represent the first efforts to "capitalize" knowledge and experience with regard to this topic.

The present program is contributing to this effort. The program builds on existing research methodologies and provides new and complementary methods and tools. Its specific characteristics are: its focus on client-oriented institutions and participatory research; and its focus on the creation of a permanent research function with capacity building inside microfinance institutions. Most of the programs provide tool kits but they do not address the issue of institutionalization of the research function inside microfinance institutions. Therefore they are also weak in addressing the issue of training the staff of microfinance institutions.

1.4 Objectives of the implementation of the research program with SEWA Bank

1.4.1 SEWA Bank: selecting the right partner for program implementation

Program implementation started with one microfinance institution, SEWA Bank. This experience with a first MFI is considered as the model experience within the program framework: in a next phase a small group of institutions from three different continents (Asia, Europe and Africa) will implement the methods and tools developed with SEWA Bank in order to adjust and test them in other contexts. The results will also be disseminated to a larger group of institutions through reports and a conference[4].

For various reasons SEWA Bank is an excellent partner for the "pilot" phase of the program. Shri Mahila Sewa Sahakari Bank Ltd. (named SEWA Bank in this report) is part of the Self-Employed Women's Association movement, SEWA, created in 1972 in Ahmedabad (Gujarat state, India). SEWA is a union and has around 700 000 members. Its aim is empowering poor self-employed women, improving their income, their employment and their access to social security through different institutions, including trade unions, an academy, an insurance company, a health program and SEWA Bank (Vyas, 2002; SEWA Bank, 2001). SEWA Bank can be regarded as the financial tool of the SEWA movement.

This financial cooperative came into being in 1974 and was established at the initiative of 4000 self-employed women workers - each of whom deposited ten Rupees as her share in the new venture. **Using SEWA Bank's own words, "*it aims to make the poor and self-employed women economically self-reliant ready to face any circumstances - foreseen as also unforeseen*", to reverse the process of de-capitalization at the micro-level and enter into a viable capitalization process** (SEWA Bank, 2001, p. 3).

SEWA Bank has an integrated approach: they consider that, if poor people welcome credit, they also need other types of financial and non-financial services, taking into account the

[4] This enlargement of the program is being financed by Swiss Development Cooperation.

evolution of their needs during the women's lifetimes. SEWA Bank thus offers a wide range of financial services (savings, credit, insurance through a specific company), they also provide financial counseling and, if necessary, connect the women to other service providers, bearing in mind that access to financial services is only one part of self-employed women's difficulties.

Through financial products, its concrete goals are to help the women: "*to escape the clutches of the moneylenders; to rescue their mortgaged/pledged assets such as land, ornaments and cattle; to create their own assets, such as house, savings and equipment; to cope with losses due to sickness, accidents, death, floods and riots; to increase their bargaining power; to improve their living conditions; and ultimately to empower them*" (Vyas, 2002, p. 146). Today, SEWA Bank serves around 50 000 micro-loan clients and 170 000 micro-savings clients in both urban and rural areas (SEWA Bank, 2001).

SEWA Bank took part in the first research program mentioned in the introduction of this report and expressed a strong interest in participating in the second phase of the project. Starting the program with SEWA Bank has proved to be an experience which can be seen as a model for several reasons.

- **SEWA Bank is a mature institution**: with 30 years of activity it is one of the oldest microfinance institutions in this sector. Thanks to its long history, SEWA Bank has proved itself able to overcome all the challenges of young microfinance institutions (defining its mission, reaching financial and social sustainability, managing its growth) and is already a model and a reference in this sector.

- **SEWA Bank is a large institution**. The steady growth of financial institutions creates a distance between the institution's decision-makers and the final clients: in small institutions managers are in easy contact with their clients and they receive much informal feedback from clients that they use to elaborate their institutional strategy. The more the institution grows the less efficient this method becomes, whilst the necessity to establish a more systematic way to obtain feedback from clients becomes a real issue.

- **SEWA Bank is a demand-driven institution**: SEWA Bank is a community-based, self-help institution. Because of its statutes, its history and its philosophy, it always highlights the importance of listening to and learning from its members in order to define its strategy and activities. In the initial program phase, it was very important to begin with an institution willing to evolve in order to better meet its clients' needs.

- **SEWA Bank has a strong commitment to developing its research capacities**. SEWA Bank has already hosted numbers of researchers and has been involved in various research programs. Moreover, during the first phase, it was the most active institution in underlining the importance of building in-house research capacity. This commitment is important because involvement in the research program requires significant efforts on the part of the MFIs: they have to change the way their staff are organized; they have to dedicate time, money and human resources to this program. The microfinance institution receives no financing from the project to implement the research program, they benefit from technical assistance but they have to implement the program at their own expense. This condition is also a first guarantee that the function is viable and maintained in the future. The success of the program depends highly on the willingness of SEWA Bank to undertake these efforts.

- **SEWA and in particular SEWA Bank are innovative institutions**. SEWA has already developed a complex set of products as a pioneer in a number of sectors (see Annex 2): for example, recently they have created a strong insurance institution. The introduction of innovations is already part of their usual way of functioning.

- SEWA Bank raised the idea that the "exposure method" (see part 3.3) could be relevant for building the capacity of its technical staff in term of better understanding who their clients are.

In a nutshell, SEWA Bank was, simultaneously, an institution with numerous assets which assured the success of the program, and an institution for which implementation of this research program was meeting a real need.

1.4.2 <u>The needs of SEWA Bank and the objectives of the "lifecycle research program": participatory demand assessment, product development and capacity building of staff</u>

Through the creation of a research capacity, SEWA Bank is seeking to enhance its staff members' understanding of their clients and the development of demand-driven financial products.

SEWA Bank already has a quantitative database covering its members: it records the information provided by members when they join (age, activities, family composition etc.) and afterwards financial information especially credit and savings history. This quantitative database provides an overview of the composition of SEWA's clientele; any difficulties in selling a product; it reveals gaps between services provided and client demand; for example, frequent repayment difficulties in relation to a particular credit product may also reveal failings in product design. However, inasmuch as the quantitative database provides indicators about SEWA Bank's results in terms of outreach and product and service performance, it is describing performance. In order to understand its results, SEWA Bank uses other means such as feedback from field staff members who are in permanent contact with clients (the *hand holders* and the *bank saathis*); open discussions with board members, with clients coming to the Bank, and with focus groups. Using this combination of quantitative data and "voices" of the members, SEWA Bank has succeeded in developing an impressive set of products and services (see Annex 1).

However, **SEWA Bank felt that they needed a more systematic way of learning from their members, of understanding their situations, demand for services, constraints and satisfaction**. This issue has become crucial as staff recruitment has evolved. Originally, as a grass root institution, SEWA Bank used to involve members in its management; for example, the first level field staff, called the "*bank saathis*", are not employees of the Bank, they are

members and they receive payments based on their results. With the growth of the membership the technical staff increased, SEWA Bank had to recruit young managers with university degrees, who were members of other social groups.
Today, SEWA Bank wants this new type of staff to get an in-depth understanding of its members in order to improve the quality of the relationship between the staff members and the clients, but also to improve the assessment of client demand and to improve its financial products.

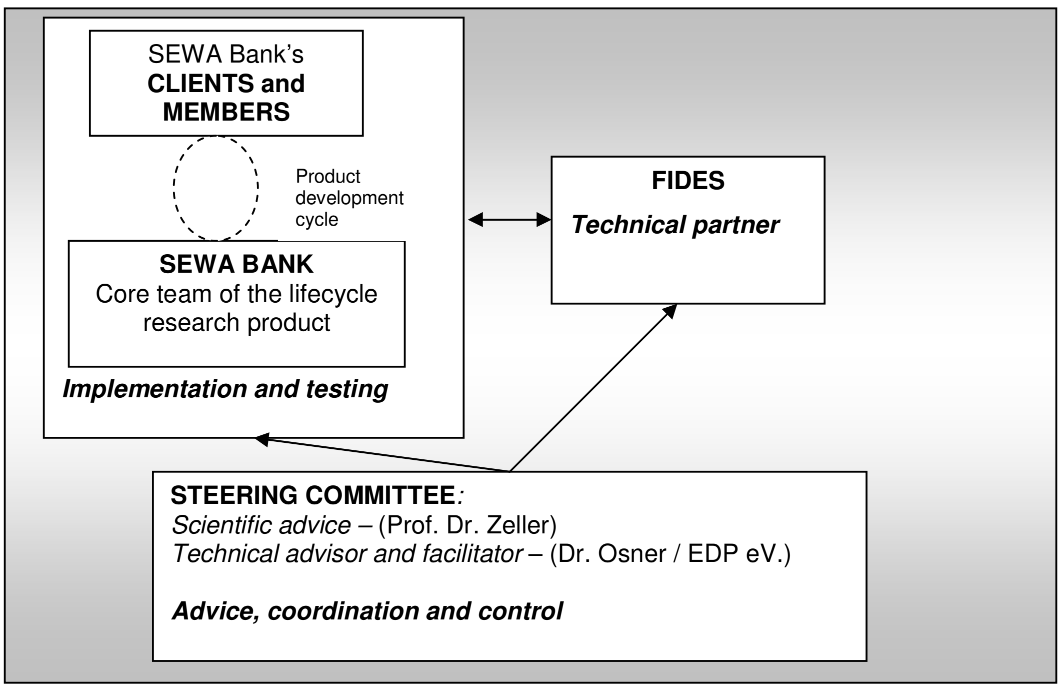
Against this background, the program set the following concrete objectives for its implementation with SEWA Bank (Kirchhoff; 2002):

1. **In-depth understanding of client demand**
2. **Capacity to design and to test products**
3. **Creation and testing of a set of operational tools for participatory demand assessment and product development based on a qualitative approach**
4. **Development and training of a "research team"**
5. **Methodological guidelines and training materials**
6. **Design of innovative financial products which meet the needs of the members**
7. **Evaluation of the tools for product design**

1.5 Stakeholders and organization of the research program

The implementing agency of the research program is SEWA Bank, and it is responsible for building up its research capacity. For this purpose SEWA Bank is receiving technical assistance from FIDES[5].

A steering committee coordinates the whole process and provides advice. This committee is composed of SEWA Bank and FIDES, with Prof. Dr. Manfred Zeller as a scientific advisor appointed by the Research Group on the Universal Tasks of the Church, Dr. Karl Osner as an advisor and EDP e.V.[6] (for more details see the next figure and Annex 2).



5 FIDES (Finances for Economic and Social Development) is a microfinance support organization based in France. It has initiated successful microfinance institutions in more than ten countries and provides support for a large number of MFIs. FIDES is conducting ongoing research programs on impact evaluation and on demand for financial services by vulnerable population groups. Within the framework of this activity FIDES is cooperating with several research institutions. FIDES also offers microfinance training programs and provides major donor organisations such as the World Bank, IFAD, bilateral co-operation organisations and development foundations with expertise.

6 EDP eV. is a German non-profit organisation, its main goal is to help eliminate poverty in the countries of the South and to combat marginalization in the North as well as to help to sustainably secure the vital resources needed for development. EDP eV. offers Exposure and Dialog Programmes (EDPs), dialog workshops and consulting services for projects in the field of development policy whose aim is self-help oriented poverty alleviation. The special feature of this range of services is the exposure and dialog method developed by EDP eV. The focus of Exposure and Dialog Programmes (EDPs) is the direct meeting with poor and socially marginalized people who are actively endeavouring to improve their living conditions.

Figure 1 : Organization of the action research program

2 The state of the art and concepts used in the research program

With the development of the microfinance sector, researchers have paid growing attention to the demand for financial services expressed by poor people. Different methods have been tested on this issue and empirical knowledge on this question is already available and reaching a consensus. The present program is based on this knowledge.

2.1 A conceptual framework to assess the demand for financial services expressed by MFIs' clients

Analyzing the needs of MFIs' clients and their demand for financial services is a difficult exercise. MFIs target a wide diversity of clients according to their philosophy, goals and constraints. However, in the wide range of households that do not have access to the formal banking sector and are targeted by the microfinance sector, some major common features exist: they have income-generating activities on a small scale; these activities may be the main source of household income or a secondary source for households with one or a few members who are employees or laborers; the household activities (consumption, production, investment) are interrelated and overlapping (Ledgerwood, 1999).
Within this wide range of micro-enterprises the following distinctions can be made: small entrepreneurs (majority of the family income is provided by the enterprise but the management and assets of the enterprise are more or less separate from the family activities), self-employed poor people (the majority of the household income is generated by small-scale and often diversified activities), poor laborers, very vulnerable poor (unsecured activities, unsecured working place, living on donations), (Sacay, Randhawa, 1995; Mahajan, 2002).

There are two aspects that make it difficult to analyze these clients' demand. Firstly, the client is both an individual and a household; secondly this household has income-generating activities, the household and the enterprise being interrelated. **In our approach the unit studied is the household**. A conceptual framework is necessary in order to analyze this complex unit. To facilitate the analysis of these three embedded units, we used **the framework of the "household portfolio of activities"** developed by AIMS (Chenn, Dunn, 1996; Inserra, 1996) combined with **the livelihood conceptual framework** (Scoones, 1998; Zeller et al., 1997). The conceptual framework used to analyze the household is illustrated in Figure 2 and described as follows:

Households are far from being a consensual unit: the household is composed of individuals who not only cooperate but who also bargain and sometimes have conflicts (Chenn, Dunn, 1996). Inside the household, individuals have their own capital and their own activities. Incomes generated by these individual activities are used to cover individual and common household needs. An individual's personal demand for financial services may differ from that of his household.

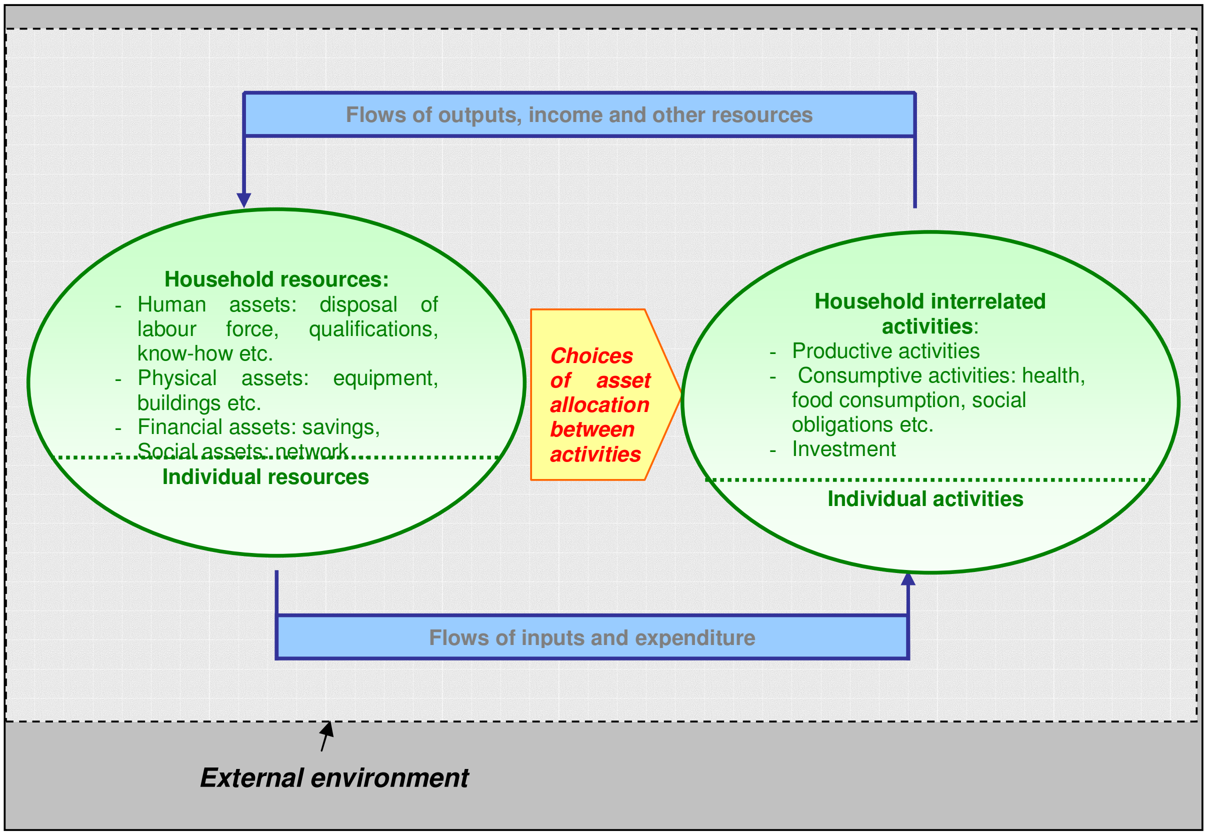
The enterprise is more or less embedded in the household. Most of MFIs' clients pursue income-generating activities that can be regarded as entrepreneurial activities. This kind of enterprise is more or less linked with the household: the enterprise mainly employs household members, the income of the enterprise covers the family's consumption needs (foreseen or unforeseen), the family's and the enterprise's assets are often merged; the cash flow of the household and of the enterprise are also merged. The decision-making inside this enterprise takes into account the family needs – sometimes in the first place.

The difficulties in trying to assess demand in such cases arise because these households express the needs of the following **three overlapping units: they express need as individuals** (for example a woman may want to save in order to assure her security if her husband divorces her or dies), **as households** (for example to finance the children's education, house building) **and as entrepreneurs** (for example they need to increase their working capital). Moreover, it is not feasible to distinguish clearly between these different types of needs: the house is a good example here, it being the place where the family lives but also the main working place for the enterprise activities. Investing in a house is thus meeting a consumption need for the household and a productive investment for the enterprise at one and the same time.

Therefore, focusing only on one unit (the household, the individual, or the enterprise) is not sufficient if we want to understand the real demand:

- Even if MFIs are serving individuals, behind these individuals there is always a household and often an enterprise. The individual expresses a need not only for himself but also for the other two units.
- Even if MFIs, especially when they disburse loans, are focusing on income-generating activities, the financial services distributed to this "entrepreneur household" should not be considered as inputs for the enterprise. Because of their fungibility, financial services become part of the global household cash flow and meet different types of needs: consumption needs, productive needs, insurance needs, all at the same time (Hulme,1997).
- Often, one financial product may meet several household needs at the same time: part of a loan may cover urgent consumption needs, with part being invested in productive activities (Benoit Cattin, 1998).

Figure 2 : Livelihood approach to the household economy



Each household has different resources that they built up in the past or inherited or received as a gift (etc.). We call these resources the household assets and make a distinction between: human, physical, financial and social assets. The way households allocate their assets depends on the external environment (level of price, markets, security etc.), their own objectives, their asset endowments and their constraints (social obligations for example). The result is a set of activities: productive, consumption and investment activities (Scoones, 1998). As previously mentioned, these activities overlap, for example, food consumption is at the same time both a consumptive activity and a 'productive' means with which to maintain the family labor force (Zeller et al., 1997).

In the graph, we take into consideration the fact that the assets are not all the household's property: some are individual property and the decision-maker for this asset is the individual. The same goes for the activities, part of the activities are individual activities and decisions about the use of their gross product are made by the individual.

In this approach we are studying the household trough the eye of the MFI's client: he is the only person we meet, but we do not focus only on his/her individual needs; we also take into consideration his/her perception of the other household members' needs and of the enterprise's needs. Therefore in the following the term "household" stands for three interrelated units (individuals, the group of individuals, the enterprise).

2.2 The lifecycle approach to demand assessment

The first analysis of MFI clients described in the previous paragraph is static; it does not take into account the evolution of the needs over time. However, households express needs linked with short-term, medium-term and long-term objectives (Zeller et al., 1997): they are not only thinking of their present needs, they are also preparing for the next day's needs.
Households' needs evolve over time depending on different factors: the size and composition of the household (which defines consumption needs as well as the available labor force), its capital accumulation, income, social obligations etc. Even if each household has its own objectives and its own path to follow, **trends in the evolution of these needs can be predicted**: different economic models have been developed and tested in order to schematize and predict this evolution focusing on savings and indebtedness capacity and behavior (Drèze et Modigliani ,1972; Bhalla, 1980; Deaton, 1991; Dury, 1997).

This approach is very close to SEWA Bank's paradigm: "*Savings is the first step to break out of the vicious circle of poverty enabling women to better manage their money and start investing in assets. Once poor women are able to accumulate savings they get used to financial assets and larger sums of money, but starting with their own money, they learn to use it responsibly. Savings can therefore be regarded as building assets and preparing the clients to take on loans as well. So as a strategy, savings can be seen as a first step in preparing poor women in greater credit absorption, which they can deploy in activities that enhance their future assets and incomes. Insurance, as well as emergency loans, on the other hand, covers women against loss of assets and hence income, enabling them to go upward*" (Bhatt, 2002, p. 63). SEWA Bank aims to cover all the needs that a woman faces during her lifetime: for example, they offer savings products to prepare the marriage of the young girls; they recently started offering a pension scheme (see Annex 1). SEWA Bank illustrates this diversity of needs with the diagram below.

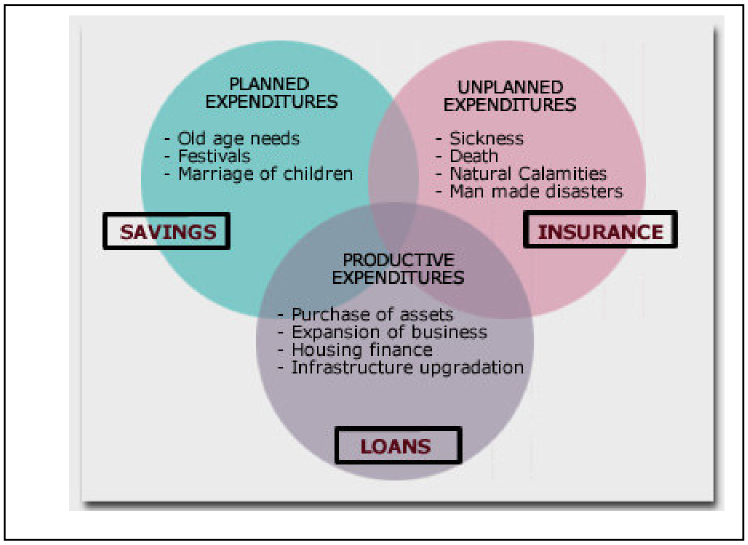


Figure 3 : Different needs of poor self-employed women (SEWA, 2002)

Figure 3 points out that the objective is to cover each type of expenditure (unplanned, planned and productive expenditure) with the related services (insurance, savings, loans). However, as illustrated in the figure, the three different types of expenditure overlap. Therefore unplanned expenditure may also be met with a loan or with savings for example.

In this research program, the objective is not to develop a complete economic model. We use **the hypothesis that it is feasible to identify different categories of clients who face more or less the same events creating needs for financial products at different stages of development of their household. In the research program, we also term this approach the lifecycle approach.** The next figure illustrates it.

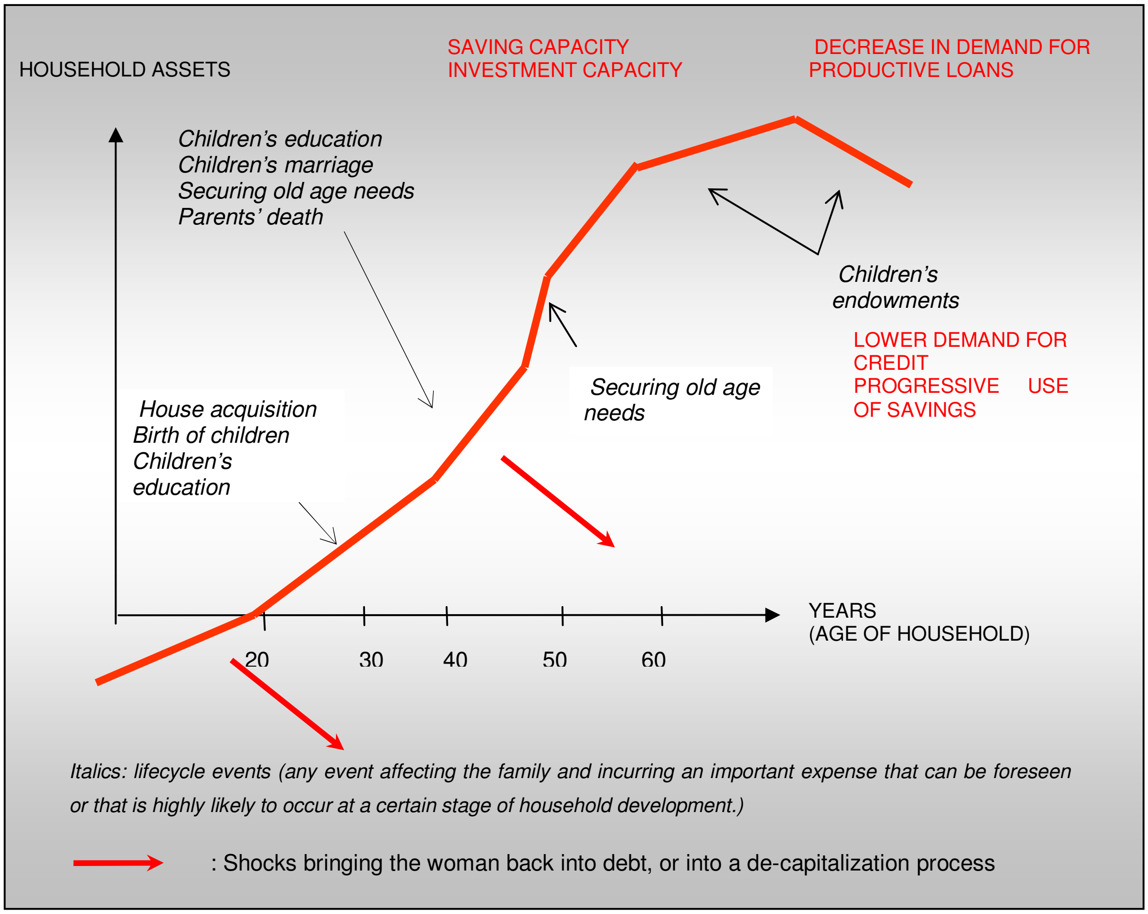


Figure 4 : Lifecycle approach

As illustrated in Figure 4, the capital accumulation process of a household and the different needs experienced at different stages in its evolution can be represented in graph form. Young households often start off with negative financial and physical assets, they are indebted. Progressively they build up their capital by developing income-generating activities: their main needs involve financial services for the development of business activities, but also for house acquisition and the management of expenses linked to the birth of children. During the next phases they will prepare for their children's education and eventually their children's weddings, their own old age needs and health expenses. During this period their business activities are well developed, provided there have been no accidents; they have savings capacity and are looking for investment opportunities. Later on their work capacity is reduced and they will demobilize their capital in order to cover their living expenses and transfer endowment to their children. The curve of Figure 4 has been smoothed out: the real curve goes up and down each time households have to disinvest their assets when they face shocks/accidents.

2.3 Empirical knowledge about the demand for financial services from MFIs' clients

A number of empirical studies in different contexts have sought to describe and analyze how MFIs' clients make use of financial services and the needs they express (Warren F. Lee, 1986; Bousso et al., 1997; Zeller and Sharma, 1998; Benoit Cattin et al., 1998; Rutherford, 1999; Zeller and Sharma, 2000; Duval, 2002).

These field studies allow for a distinction to be made between different types of needs that can be met by financial services:

- **Consumption needs at critical periods**: during their lifetime households face expenses that may exceed their current financial capacities, a typical example is the expenditure on children's weddings. This expenditure corresponds to what we previously defined as "lifecycle needs". Financial services covering these needs limit household de-capitalization or debt at very high interest rates.

- **Cash flow needs**: microentrepreneurs often pursue seasonal activities, especially rural microentrepreneurs undertaking agricultural activities. Cash flow management is a real issue for them: at certain times of the year they are net savers and at other times net borrowers. Financial services for smoothing the cash flow are one of their main needs.

- **Needs for working capital**: start-up funds or increased working capital are one of the main constraints on the development of microentrepreneurs' activities. Considering that the income-generating activities of households provide an essential part of their income, developing or creating more productive activities is thus very important for them in order to increase their income.

- **Needs for long or medium-term investment**: households have cash flows but those flows are composed of frequent, small amounts of cash. Their difficulty is to find **a way of accumulating these small amounts in order to have investment capacity**. Investment is a compulsory factor if the household's / enterprise's human and physical capital are to be increased. It has an impact on the productivity of the enterprise and labor force, but it also has an impact on the household's capacity to bear risks and face crises.

- **Needs for insurance services for all unforeseen expenditures**: MFIs' clients are, like every other individual, faced with risks. One may even consider that they face higher risks because they live in a highly uncertain environment and they do not benefit from formal safety nets. They thus face high unforeseen expenditures periodically that are linked with health, accidents, natural calamities, economic crises etc. MFIs' clients have developed informal means to cover these expenditures: they may get into debt with moneylenders, they may disinvest their capital and they may use their social networks. However, these events are the most frequent reasons for the so-called vicious circle of poverty, which is made up of low income, low assets and debt. Having access to financial services (not necessarily insurance services, but also emergency loans, savings against risks etc.) means that the risk bearing capacity of the clientele is improved.

It is necessary to make it clear what is understood by the terms needs and demand. In this program demand corresponds to the need for financial services for which the members are prepared to pay. In the case of all the above-mentioned needs, only part is made up of demand that microfinance institutions can meet. Hence, in the following, whenever we use the term need, demand as willingness to pay is meant.

These concepts based on the scientific knowledge and the inductive knowledge of SEWA Bank are the main concepts applied in the research program, especially in the analytical tools developed to help understand the household demand for financial services described in the next part.

3 Methods and tools developed within the framework of the research program

This part presents the methods and tools developed by the program and applied by MFI staff in order to analyze client demand for financial services and propose refined or new financial products to their institution.

A pedagogical guide for implementing the method and tools has been elaborated by the project (FIDES and SEWA Bank, 2004). In the present document only the main principles are explained.

The method developed is particularly exhaustive and uses a holistic approach to the clients' situation. This was a choice justified by the program goals, which include improving technical staff's understanding of clients' situations, although approaches with a narrower focus on product development could have been developed.

3.1 The product development cycle: a systematized process of product development

Steadily refining products, introducing new ones in order to meet demand and to fit in with the evolution of clients is crucial for microfinance institutions. For MFIs, it is a matter of fulfilling their mission but also being sustainable (decrease in repayment default, being competitive in the face of a growing range of suppliers). However, developing the wrong products or refinements is very costly because the product development process requires time, money, institutional adjustments and energy. MFIs have a lot of possibilities to collect information from their clients through informal discussions with clients, feedback from field staff, feedback from counseling sessions and daily technical problems which reveal any inadequacy in the products and services. This information is extremely important and must be valorized; however, it is also necessary for MFIs to develop a systematized product development process. Different processes have already been tested (Grant, 1999; Brand, 2001; Microsave Africa, 2002). The program's approach, illustrated in Figure 5 respects their main principles: the process of product development is a cycle that follows six steps.

Differences are to be found not in the steps but mainly in the tools / methods used to implement each step.

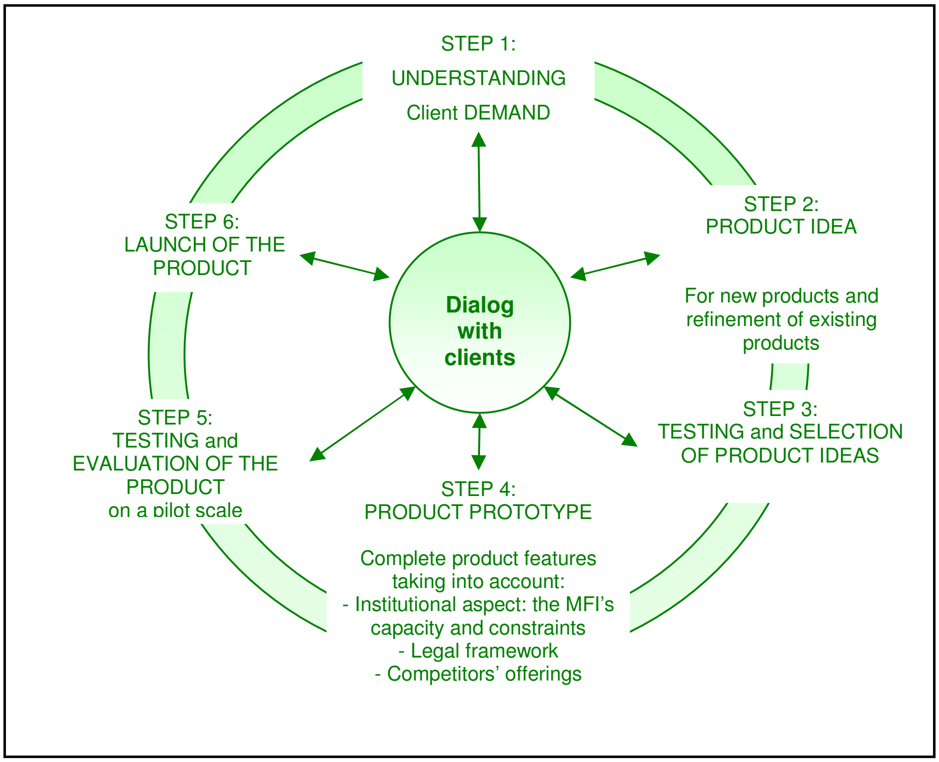


Figure 5: Product development cycle

The main objectives and methods applied for each step are the following:

1. **The first step and the central one is to understand clients'/members' demand profile.** Product innovation must be demand-oriented: it is feasible to offer the right product that clients are ready to pay for, only if the clientele's preferences are well understood. To complete this first step the program uses **the "exposure method" combined with three sets of analytical tools** that are described in part 3.2. The principle of the approach is that MFI employees meet one member in his surroundings, and share a few days with him. During this intensive meeting the employees' (called the participants in the report) objectives are to learn about the life story of their clients making use of guidelines, to discover all about the daily life of their members and their environment. This method is an extremely efficient way to break down the prejudices of the employees and is essential for building a trust-

based relationship. Based on this quality relationship between participants and clients, the set tools are applied to deepen with the clients their analysis of their own demand. This approach provides an in-depth understanding of the clients' situation and demand, however it is time-consuming for both the employees and the members. Therefore, in the first step only a few clients / members can be involved. The success of the first step is thus highly dependent on the selection of clients, i.e. the sample selection, (see paragraph 3.4) and the enlargement of the results (step 3).

2. **The second step is to propose product ideas which meet the demand that has been identified.** For example, as mentioned previously, clients need products which will increase their investment capacities, but different products can be used to meet such needs: a savings product or a loan product. During this step, the first ideas explored are concerned with making adjustments to existing products in order to meet the demand identified during step 1, in the knowledge that refining existing products is less expensive than developing new ones[7] (Brand, 2001). Going from the step "understanding client demand" to the step "proposing product ideas" requires that not only the demand side be taken into account but also:
    - The second actor involved in the financial transaction: the MFI. It also has constraints and capacities: it must be financially sustainable and earn a profit; it has a limited capacity to mobilize savings in a safe way and transform them into loans, it has limited human resources etc.
    - The offerings of potential competitors (both the formal and the informal sector): the new or refined product should be competitive.
    - The external environment, especially the legal framework and the economic environment.

[7] It is especially important in the case of SEWA Bank because, as previously mentioned, the Bank already has a large range of products. The operational issue of the program is more to simplify and rationalize the products offered than to create additional products. A complex set of products can be a source of bad performance because clients have difficulties in understanding what the MFI has to offer and products are competing with one another.

The point of this step is to take into account all four factors and find the best trade-off between clients' needs and the three other factors. **This trade-off is attained by structured discussions between members and technical analyses by the bank management.**

3. **The third step** compensates for the limits of the qualitative approach: even if the sample is well-chosen, it is always necessary to **check the findings of the first two steps with a larger group of clients**. Two methods are applied: **focus group discussions and mini-questionnaires**. The point is to select clients who might be interested in the envisaged financial product and to check whether they like the product and its features and whether they will be prepared to pay for it. This dialog also allows for the definition of the product features to be deepened.

4. **The fourth step consists of completely designing a product prototype, i.e. designing the features of the product on the basis of the findings of the three previous steps**. This means defining:
    - The cost of the product (interest rate, fees etc.);
    - The access conditions of the product (for example: product accessible only for savers after a certain savings period);
    - The guarantee scheme: MFI clients rarely have collateral; for loan products it is necessary to find a way to guarantee the transaction. Different guarantees are used in the microfinance sector: group guarantee or other cross-guarantee systems, repayment history, savings security, traditional collateral like gold (Krahnen, Schmidt, 1994) etc.
    - The calendar (reimbursement calendar or deposit calendar for example): this aspect is crucial and should fit in with the clients' cash flow, the more flexible it is the better it is for the clients (Rutherford,1999), but at the same time it has to fit in with the institution's capacities;
    - The delivery mechanism: on the door step, at the bank, at the village level etc.

This **list should be completed** for each product **and should be unambiguously clear** (Rutherford, 1999): the success of the new product also depends on the ability of staff members and clients to understand the way it functions.

Definition of features demands that the results of the first step (capacities of the members) be considered once again, along with the institutional and external constraints.

This step again requires the technical capacities of the MFI staff members and a dialog with clients through focus groups or mini-questionnaires.

5. **The fifth step is to test the prototype with a small number of clients**. This step should not be underestimated because it is only when the product is delivered that its quality and deficits manifest themselves: what the clients and even the technical staff responsible for delivering the product were expected to do may not happen.

6. **The last step is the refinement of the new product**. This stage starts with an evaluation of product quality and client satisfaction. The first insights into quality are provided by the daily technical difficulties encountered by clients and staff with the product. Moreover, the **"exposure method" is used once again in order to hold a dialog with the clients.** However, other methods can be useful, like very simple satisfaction questionnaires. The evaluation of the results leads to a hypothesis regarding additional product refinement, i.e. step 1.

The entire process is thus based on a structured dialog between MFI technical staff and clients.

3.2 Three analytical tools to assess with clients their demand for financial services and refine MFIs' products

Asking direct questions about what kind of products clients need very rarely provides results, indeed it is extremely difficult for clients to imagine what kind of services an MFI could provide. It is also difficult for clients to assess their demand because, with the wide range of their daily difficulties, they do not know what the MFI could solve with its products. Therefore assessing the demand for financial services, identifying solvable unmet needs and formulating product ideas should be done in close collaboration between clients – who can provide information about their situation, their satisfaction with existing services and their plans – and "finance technicians", the MFI employees, who are able to assess the MFI's capacities and deploy the tools needed to address clients' difficulties and expectations with financial services.

However, it is not an easy exercise: for this purpose, the research program has developed a set of tools based on a conceptual framework presented in part 2.

Three sets of tools have been created: the lifecycle tool that looks at the clients' past, the livelihood tool that looks at the clients' present situation and the opportunity and vulnerability tool that looks at the clients' future. The tools offer guidance on:

- asking the right questions so as to get essential elements for the demand assessment
- analyzing and processing the information and
- presenting it in a structured way
- reflecting with the client/member on his/her demand profile.

The ultimate objectives of the tools are not to produce graphs and tables. They are concerned with highlighting key elements that will help the clients to analyze with the participants their demand for financial services. From that point of view, presentations of the results of the tools are essential because these results should be easily understood by the clients, who might be illiterate people. Therefore the main results are presented using simple graphs and tables. The resulting presentation is then the basis for getting feedback from the clients and for guiding their assessment of their own demand.

The principles of the tools are presented in the following, in part 4.1 an example of the results of using the tools is presented.

3.2.1 Lifecycle tool

The lifecycle tool summarizes the women's economic life stories. It aims to show long-term trends in the household capital accumulation process; the way and reasons why a household uses financial services (both credit and savings, taking into account the various providers of the financial services) in order to build up its capital (rise in capital) and to manage crises (falls in capital); and the way the client evaluates her self-worth.

The starting point of the analysis is the period when women start to be responsible for a budget: an individual budget and eventually (part of) a household budget. For women in the Gujarat State this period usually corresponds to life after marriage.

The results of this tool are illustrated by one graph and tables.

1 - The graph (see *Figure 8*) presents four curves on one graph: the first curve records the evolution of the household's net financial and physical assets, the second curve records the evolution of the household's debts, the third curve records the evolution of household savings and the fourth curve records the evolution of the client's self-esteem.

This graph is the basis for reflection about:

- **Household financial behavior:** the first tool reflects household behavior in terms of savings accumulation, in terms of borrowing and in terms of the allocation of assets among different investment opportunities (through financial and physical asset composition). The tool shows:
    - How, in the long run, the household manages extra-money (savings accumulation, or physical asset investment)

- How, in the long run, the household manages a shortfall in money (physical asset depletion, savings mobilization, or debt)
- What savings accumulation path is followed in the lifetime of the household
- What debt accumulation path is followed
- The risk taken by the households in terms of debt, based on a comparison of the net assets and the debt curves

- **Lifecycle events affecting (generating increases or decreases) the household's financial and physical asset accumulation and the vulnerability of the household**. The results highlight purposes for which households use financial services during their lifetime in view of the events they experience: the first graph underlines how households mobilize financial services to get through the "crises" (events generating a decrease in household assets) or increase their capital. **It shows part of the vulnerability that still exists:** shocks affecting the capital accumulation process are events with consequences that the households have difficulties managing. This may lead to a reflection on financial products that could help the households manage their assets better.

2 – Two tables summarize the credit and savings history, the main features of the products used (source, interest rates, collateral provided, repayment calendar), and the reasons why the household chose this product in terms of the features most appreciated.
These tables are the basis for reflection about:

- **Comparisons between competitors' and SEWA Bank's offerings:** these tables highlight which part within the range of financial services used by the client is provided by the MFI and which part is provided by competitors (from the formal and informal sector); the major reasons why the competitors are more convenient than the MFI.
  They show when and why MFI clients went to competitors, a reflection inside the institution may thus be conducted on the question: "Are we able to provide this service with better conditions for our clients?"

For example, different life stories underline that SEWA members were still going to moneylenders for urgent needs or for long-term investment needs, with SEWA Bank covering only part of these needs.

- **The aggregation of the results concerning all clients involved in the research program helps with characterizing different types of SEWA clients and their preferences in terms of products.** For example, the 20 cases analyzed show that the poorest group of clients prefers to save first step by step. They look for a savings product in the form of a long-term savings scheme with withdrawal possibilities in case of accident and with very regular (daily) possibilities for making a deposit. They take loans when an accident affects their family. They are usually laborers. Only after having reached a certain level of security through savings are they ready for a first productive loan to help them set up their own small business.

3.2.2 Livelihood tool

The analysis of the woman's past, provided by the first tool, focuses on asset accumulation. However, it does not provide information on: household cash flow or on activities that have allowed a surplus to be created and capital to be accumulated. Thus the first tool does not provide information about what is needed to smooth the cash flow, or for productive investment or to increase working capital, or to cover the main household expenses. In order to deepen the understanding of the present household situation a second tool is necessary. The second tool comprises (see Figure 12, Figure 13, Figure 14):

- **An analysis of the budget** of the household presented in the form of a table and two "pie charts" to record the sources of monetary inflows from the gross products of various activities and other resources (like gifts, loans etc.), and the allocation of monetary outflows between different types of expenditure and other costs.

  The budget analysis indicates what the objectives of households are: the way households allocate their monetary inflows indirectly mirrors their priorities and opens up the possibility of holding a dialog on financial services to help them cover these priorities (for example: high expenditure on education reveals the importance of children's education and opens up possibilities of discussing with the clients how they are currently managing this high expense and if they could manage it better with a financial product).

The analysis of the budget also shows the diversification of the sources of income, reflecting the strategies employed to manage the risk of income fluctuation.

- **An analysis of the calendar of activities and cash flow fluctuation over a year**: the budget analysis does not provide information about fluctuations in the budget during the course of a year; it represents an average monthly situation. However, a household may not have regular inflows or outflows, this is particularly true for rural households engaged in seasonal agricultural activities. The third graph presents a classical cash flow analysis revealing the seasonality of monetary inflows and outflows linked with a calendar of income-generating activities.

  It reveals the need for financial services in order to smooth the cash flow: the cash flow analysis may reveal periods of tension characterized by higher monetary outflows than inflows. Consequently, households may lose certain opportunities, for example if they lack monetary outflows at harvest time then they are not able to buy cereals in bulk when the prices are lowest. Cash flow analysis may also reveal periods of short-term savings capacity. This allows for a reflection to be held on short term products that could help households manage their cash flow better.

- **An analysis of the various income-generating activities.** This analysis, done with the member, is summarized in a table that records the main characteristics of the household activities: the types, their exigencies in terms of minimal capital investment, their working capital requirements, their profitability (financial and social), their risks, and the main constraints on extending the activity.

  This analysis is the basis from which to reflect about the need for productive investments and working capital requirements: the study of each activity reveals the development constraints on this activity and allows conclusions to be drawn regarding the need for financial products which will enhance the expansion of existing activities through increased working capital or investment.

Part of the livelihood analysis allows for reflection on the features of financial products, it gives:

- information such as cash flow turnover in order to determine calendars for collecting deposits or credit repayments, insurance premium payments;
- information about the risks of the households' income-generating strategy as revealed by the composition of inflows (especially by the diversification of the income sources) and an analysis of the risks of productive activities;
- information about current debt level and current savings potential.

3.2.3 <u>Opportunity and vulnerability tool</u>

The past and present allow us to evaluate a client's situation, but the MFI will cover their future needs. Thus the last tool focuses on the future of the household, taking two aspects into consideration: first, their future plans, the way they want to implement them and the financial requirements and aspirations linked with their projects. Secondly, it focuses on their vulnerability: even if the household has accumulated capital and set up activities it may still be subjected to risks that it is not able to cope with: then they may lose their capital and fall back into a situation of poverty once again. The objectives are to identify these types of risks with the members and reflect on the possibilities for limiting their consequences.

The third tool is mainly a guide to holding a dialog with the clients and results are reported in a table and a list of points.

It helps in understanding the objectives of households and it reveals:

- Their requirements, plans and aspirations for the future;
- Whether the households feel that their future is secure or insecure: the past (especially the critical periods that the household has passed through), the present situation and the clients' vision of their future, allowing conclusions

to be made as to the degree of vulnerability of the household and its risk management potential. This helps us to elaborate further financial products in order to limit this vulnerability;

- The adequacy between existing services and future needs of clients: clients evolve and the MFI should adapt its services to their evolution.

3.2.4 Conclusions and next steps

The objective of the research program is to provide a set of tools which would be relevant in different contexts. However, depending on the concrete case, each tool is more or less efficient. For example, cash flow is not always precisely studied if households have regular inflows and outflows as is the case for urban households. With SEWA Bank a cash flow analysis was systematically conducted but in a simplified way because fluctuations were limited. If the research program is extended to the rural component of SEWA Bank then this tool may be more important.

After this participatory work with a well-chosen sample of clients, the participants provided a short report summarizing the results of the analysis. They used a fixed format to present their results. In addition to this report they wrote the life story of the clients (see “exposure method”). Having all the reports structured in the same way facilitates comparison and the aggregation of the analyses. The results are presented during the phase of “institutional dialog” (see 3.3.) within the institution and discussed with the core team responsible for the program and the Bank management.

3.3 The exposure method as a tool to establish a structured dialog between MFIs' staff and their clients

To achieve the previous qualitative assessment of financial needs over a lifetime, it is necessary to hold a dialog with clients and build a trust-based relationship with them so that they share their personal views. For that purpose the program uses the "Exposure, Reflection and Dialog methodology" (called in this report "exposure method") (Osner, 2000; Osner, 2002).

The exposure method offers a tool with which to learn from the members of self-help organizations and hold a structured dialog with them. From that point of view, the exposure method has the same objectives as participative rapid appraisal (PRA) or focus group methods, in the sense that it is a method with which to hold a dialog with clients leading to the formulation of technical responses to a particular topic within a short time. One of the main particularities of the exposure method is that it goes beyond questioning and dialog: it makes use of experiential learning.

Initially, the method was elaborated to expose decision- and policymakers to and enable them to learn about poor people and understand how poor people struggle to get out of poverty and increase their risk management potential so as to achieve a securer life, the objective being to enable exposure participants to shape pro-poor policies. SEWA Bank participated in several exposure programs and raised the idea that this method could be relevant for exposing its technical staff to the reality of its members' lives.

The method has been adapted for the purpose of the program (see the next figure). It combines three phases:

(1) The **exposure**: this is the direct exposure of MFI staff members to the reality of their clients' lives and of the clients to the "reality" of the Bank. The participants, in small groups of two people, are hosted by a client and his family and share their daily life, observing and taking part in the activities of the household, sharing dialog with the members. In these

different ways they learn about the life of one client and about how the MFI is perceived through the eyes of one client.

(2) The **reflection** on demand assessment based on the results of the exposure: the objective of the reflection is to use the first understanding resulting from the exposure and deepen it towards demand assessment. The participants, assisted by a specialized research team, make use of three sets of analytical tools (described in part 3.2) for guiding the client in the analysis of his/her demand for financial services.

(3) The **dialog within the institution**: the main results of the first two phases for the entire sample are compared, aggregated and discussed. During this last phase, the participants share their results with the Bank management and SEWA Bank research team, and together they identify and select the most interesting and feasible product ideas.

Understanding the demand for financial services takes time, in consequence there is a process of to-ing and fro-ing between phases 1 and 2: the participants need to meet the member several times, using the exposure tool and the analytical tools, before they are able to assess her demand.

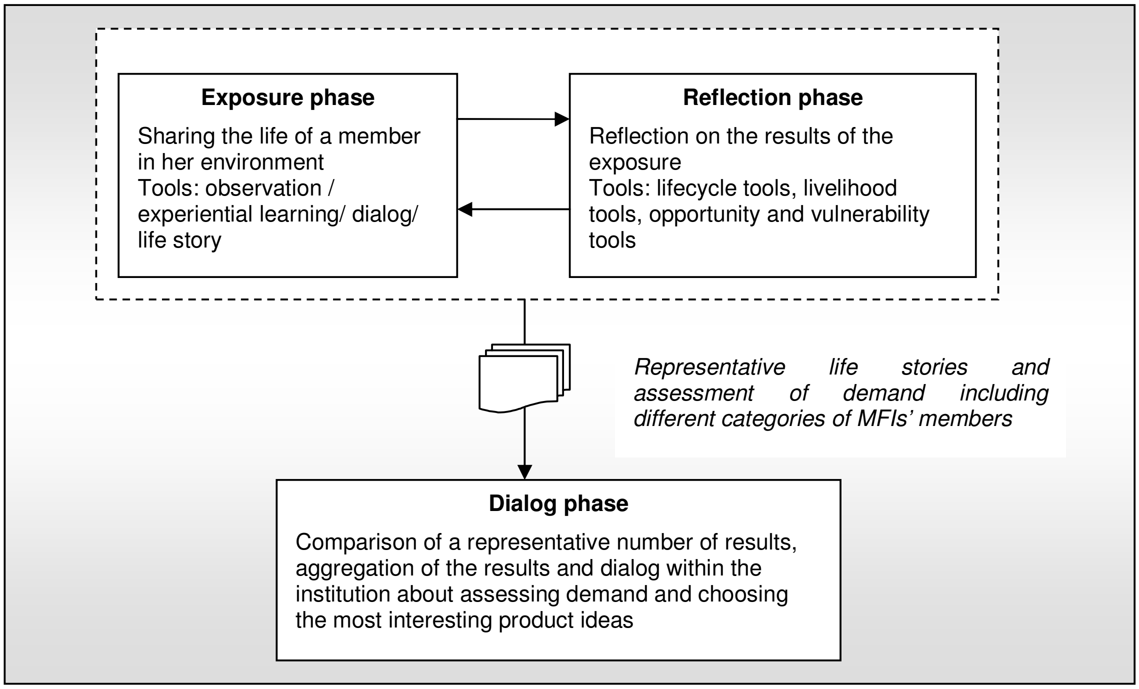


Figure 6 : Implementation of the exposure method for participatory demand assessment by MFIs

3.3.1 The exposure tools

The principle of the exposure method is to give the participants a wider view of the household situation: to help them in understanding the living conditions, history, present situation, activities and difficulties of the household.

Therefore they do not start by working with the aforementioned three sets of tools, instead they begin by using the exposure phase tools. To have a wider understanding of the clients' situations, the method is to use different tools: observation, participation in daily life and dialog.

Even though the participants do not use questionnaires, the process is well-structured. The participants attend a short training session and receive written tips before the exposure, in order that they will know how to behave during the stay with the clients.

During the training session they also discuss guidelines defining the main fields of learning, in order to help them steer the dialog with the member.

The entry point of the dialog is the life story of the clients. Since the life story will be the basis of the demand assessment which is done later, it is oriented towards analyzing the lives of the members in terms of phases and identifying the main turning points in their lives which were caused by external crises (like accidents, earthquakes, death etc.) or by family events which brought an improvement in the household situation.

After the exposure phase, the participants "capitalize" their experience by writing down the life story of the member.

During the reflection, they meet the member again and, on the basis of their first understanding, start with the reflection on demand assessment, making use of three analytical tools. The next meetings are organized in various places: in the Bank if the member needs to discuss her personal information without having other family members around or in her home if it is more convenient. Defining where and when to meet the member is extremely important.

3.3.2 Relevancy of the exposure method

The application of the exposure method in a research program is new. However, this method is particularly interesting for this purpose for various reasons:

- Classical research methods are limited to **clarifying the complexity of the household economy**, as described in the second part of this report, mainly because the most common method applied is to question clients. Questioning has its limits: the first one being that part of the reality is hidden. If the working hypotheses are wrong, then an interviewer asks the wrong questions and does not offer the opportunity to the client to express his true demand. Experiencing the life of a member, learning about his past, comparing the results of each case with others helps the exposure participant/staff member to grasp the complexity of the household economic situation and to produce a comprehensive analysis of client demand.

- Staying in clients' houses, sometimes sharing their daily life and work and learning about the client's life story are also ways of helping clients to **remember salient details step by step and to identify the important periods in their lives** – the good as well as the bad ones. From this point of view, using the exposure method helps to consolidate the analysis in quantitative as well as qualitative terms.

- Moreover, staff members have **to discard certain prejudices** about their clients: observing and particularly experiencing are very efficient ways of understanding the constraints weighing people down and why clients sometimes behave in unexpected ways. Staff members are often in the position of counseling clients. They are often in positions where they must judge the customers' financial habits and advise them: they keep on explaining that women should not go to moneylenders, not waste money on expenditures perceived as unprofitable (for example costly wedding ceremonies). Their difficulty is to abandon this behavior and to adopt the position of someone who wants to understand why the customers behave the way they do: for example, why they are still going to moneylenders when they have access to SEWA Bank services. The immersion of the exposure is absolutely necessary to help staff members change their points of view.

- The exposure method is very efficient **for building a trusting relationship between the client and the staff member** through dialog-oriented exchanges, sharing daily life, repeated visits. Building this relationship is regarded as a desired result of the program and is a necessary starting point in order to have open discussions on products. Indeed, one has to keep in mind that staff members are representatives of an institution which clients usually want to have a good opinion of them. If a trusting relationship is not built at the beginning of the research process, then clients may provide false information, for example they may conceal the real way they are currently using SEWA Bank services, they may not reveal that they have accumulated debts from various other formal or informal providers, they may hide their real income situation because, for example, they fear that they may not get access to loans in the future.

More generally, understanding client demand requires very confidential information that clients do not provide unless they trust their interlocutors and are sure that this information will not be used against their own interests.

- Finally, coming to the house of a member, sharing daily life and dialoguing is also **a strong message for the clients, demonstrating that the MFI pays attention and attaches importance to them.**

3.4 Selection of the clients involved in the research program and representativeness of the results

The strength of the approach is to provide a very in-depth understanding of client demand. However, it is neither necessary nor feasible in terms of cost to undertake this type of meticulous analysis with a large number of clients. A small sample may be sufficient if it is well-chosen. Well-chosen means that the sample should represent the diversity of the MFI's clientele and the clients should understand the program and express a willingness to participate.

A sample of 30 clients representing different categories of SEWA Bank's clients has been established using the two following criteria: types of activities (with three types: home-based workers, street vendors and domestic workers), and length of membership (with two types: more or less than 5 years of membership). Taking livelihood and lifecycle concepts and SEWA Bank's own evaluation as a basis, these criteria should serve to divide clients into different categories with different demand for financial services. These criteria give us six categories of members. Several clients were randomly selected in each category. Account was taken of the proportion of members in the category and its diversity in order to define the number of clients selected per category. SEWA Bank research team then selected people willing to participate after explaining the objective of the program.

It should be mentioned that, for the first year of the program, only urban clients were involved in the research program. They are the "traditional" clients of SEWA Bank, and therefore SEWA Bank wanted to start the program with them.

4 Institutional settings of the SEWA Bank research function

The main output of this action research program can be regarded as creating a communication system between clients and staff that leads to innovation. Traditional research often fails to lead to operational action because it is often not implemented by the microfinance institution's staff and is thus disconnected from the staff in charge of daily operations. Therefore, information provided by classical research is poorly utilized, when it is utilized the staff are not always motivated to integrate these new results into their daily routine. The results of launching a new product depend on the quality of the product and especially its capacity to meet the demand of members, but these results also depend on the willingness of field staff to market it and to manage it. The launch of a new product requires energy from all the staff members of a microfinance institution from the manager to the field staff. They are ready to make this effort if they have an incentive (Brand, 2001).

The strength of this program is to involve the technical staff in action research: if it is generating innovation then they are easily convinced of the need to implement it.

4.1 Involvement of the Bank's staff in building SEWA Bank's research function

There are three kinds of involvement in the action research program.

- **The first is the core team** : SEWA Bank set up a core team composed of eight middle managers from different departments in the Bank: the Savings, Credit, Pension Schemes, Recovery, Hand-holders (field staff), Financial Counseling, Accounting and Communications departments. The core team steers the process of product development: from understanding demand all the way up to launching a new product. They have the job of training and guiding the other staff members involved in the process, and they are in charge of developing the products with the Bank management.
- **The second is the technical staff members** (participants), they are involved in the program, especially in the first two steps. They are trained and guided by the core team members in implementing these steps. The objective of SEWA Bank is that all staff members regularly participate in EDPs in order to offer them the possibility of regular dialog with their clients.

- **The third is the Bank management**; they also participate in EDPs as do all the technical staff. They also participate and have a leading role in the session of dialog within the institution, during which all cases are aggregated and decisions are taken regarding the selection of product ideas that should be further developed.

The specific feature of the **"lifecycle research" program as applied in SEWA Bank is that it involves the entire technical staff and not only a specialized team.** On the one hand the process is slower because each staff member has to be trained in the basic analysis of demand, on the other hand it allows two program goals to be achieved: improving staff members' understanding of their clients, and improving the relationship between the staff and the members.

The results of the program very much depend on the core team. Its composition must be well thought out. In SEWA Bank, the core team members belong to different bank departments. SEWA Bank's decision to take members from every department was a good idea because each core team member can provide particular technical expertise when it comes to product design. They can underline the constraints of their own department and see whether or not the product ideas fit with these constraints.

4.2 Organization of SEWA Bank's research capacities

The core team members and the participants carry out the research action program in addition to their other responsibilities.

Every two weeks, two groups of participants take part in the program. During the first day they are prepared by a core team member. The next two days are dedicated to the first exposure. The fourth day sees the start of the process of reflection and dialog with the member, which ends with the life story and the demand analysis, the latter being written in accordance with a structured format. Every participant is involved in the program for 2 weeks but not on a full-time basis. During the two weeks, participants also spend part of the time doing their daily work.

At the end of each month, all the groups involved in the project present their results and hold a reflection inside the institution. All the core team members, Bank management and participants are involved in the session, during which findings are discussed and summarized. In terms of training participants, this session allows them to enlarge their views by listening to other cases.

In the first year, 30 EDPs should be undertaken in around 7 months. So far, 25 EDPs have been carried out and 40 staff members from SEWA Bank have been trained in the exposure method. The core team, taking the work of the participants as a basis, has produced a first analysis of client demand (the results are presented in part 5.2). A session has been organized between the core team and the Bank management to aggregate all the cases and identify product ideas. Steps 1 and 2 have been completed. The objective of the program is to obtain prototypes for demand-driven products after one year.

Figure 7 : Implementation of steps 1 and 2 of the product development cycle

Time*	Topic	Responsible
Day 1	Pre-briefing session	2 groups of 2 staff members and one core team member
Day 2 One day and a night	Exposure at the host lady's house	1 group of 2 staff members + a core team member
Day 3	Exposure, invitation to the host lady to come to SEWA Bank	2 staff members + a core team member
Day 4 and Day 5	Reflection and analysis of the life story with the tools First in small groups and then between the two groups	2 staff members + a core team member
Day 6	Invitation to the host lady to come to the Bank: Sharing of the first results and additional questions	2 staff members + a core team member
Day 7	Final analysis in accordance with the reporting format	2 staff members + a core team member
Day 8	Post-briefing: sharing of the results with the core team and reflection	All the core team + all the staff members involved in the process
At the end of each month	Dialog within the institution	Core team members + Bank management + staff members involved in the project
At the end of 7 months	Aggregation of 30 case studies and selection of the most interesting product ideas	Core team and Bank management

*It must be underlined that this table represents an overall framework, in reality the process may be shorter or longer depending on the availability of the staff involved in the project.

4.3 Dissemination of the results of the research program

The lifecycle approach to market research for MFIs is now part of the curriculum of the Indian Microfinance School for Women[8]. This School is a new institution, created in 2003 and promoted by SEWA Bank, Friends of Women's World Banking and Coady International Institute. The School caters for the capacity building needs of the microfinance sector. It targets staff and leaders of microfinance institutions, especially community-based institutions, staff from the financial formal sector and policymakers. The School's first course was a 6-day training course on the "lifecycle approach to market research: a tool for in-depth analysis of the needs of microfinance clients". The school welcomed 21 participants from the following microfinance institutions: SEEDS (Sri Lanka), Government of Mauritius / IFAD project, ASA (India), Grameen Koota (India), Sheperd (India), Share (India), Cashe (India), SEWA Bharat and SEWA Bank.

5 Results of the research program

This part presents the first outputs of the "lifecycle research program" in terms of: type of information about the clients (see part 5.1 which presents the resulting participatory work between SEWA Bank employees and one member); knowledge about SEWA Bank clients' demand for financial services and the first ideas for new or refined products; the evaluation of the program by the SEWA Bank research team and the other staff members involved in the research process; finally we synthesized these first experiences into main lessons learned, highlighting the strengths and weakness of this approach. It is important to underline that the program is still going on, the results presented are only the first output. A systematic analysis of the results of the EDP will lead to additional and more advanced results regarding the assessment of SEWA Bank clients' demand for financial services.

[8] The Indian Microfinance School for Women (Ahmedabad, Gujarat State, India) is promoted by SEWA Bank, Friends of Women's World Banking and Coady International Institute.

5.1 The results in terms of demand assessment: Example of an exposure for demand assessment with one client

Life story

<u>Her life before her marriage</u>

Rupalben was born in Ahmedabad. Her parents were poor, she has two brothers and one sister. She is the youngest child in the family. Although her father was a state worker, his income was low and not sufficient for the family. He started a small furniture business. Rupalben helped him by preparing and selling the furniture when he was working elsewhere. With her father, she learned how to run a small business.

<u>The marriage</u>

In 1997, Rupalben got married, she was 21 years old. She moved to her in-laws' family house. Rupalben's husband was working for a private pharmacy company. His income was regular and secure but not sufficient for the family. He decided to start a second activity. He borrowed a large sum from a private company and bought an auto-rickshaw. He had to pay 500 rupees per month. He continued working in the pharmacy and let the rickshaw during the day. At night he drove the rickshaw himself. He earned 50 rps rent per day and 50 rps per night.

One year later, Rupalben gave birth to her first son.

<u>The difficult start of the business</u>

Despite their hard work, the salary of the husband and the income from the rickshaw were not sufficient to cover the family expenses and the loan repayment. In 1998, Rupalben's husband quit his job and started working full time with the rickshaw thinking he could earn more this way. Rupalben also started her own business: She had no capital to start with and she leased furniture on credit from her father. She paid him back after the first sales and generated her first working capital. She was selling iron stands for vessels, chairs, staircases, beds, tables etc. Unfortunately, the major part of her customers bought things on credit, and she never recovered her money: she faced losses in her business. While she was running this business, Rupalben came to know about SEWA from her relatives. From this first activity and her husband's income she managed to save on a monthly basis, building up a small amount of capital.

<u>Developing the productive activities</u>

Rupalben decided to start a new activity. She had no working capital left from her first activity. In 1999, she withdrew all her savings, an amount of around 700 rps. With this amount she bought a hand pull cart and products to sell outside a school: snacks, sweets etc. At that time she was earning 35 to 40 rps per day. Step by step she increased this activity. On a good day she could earn 100 to 200 rps. From her daily income Rupalben started to save again on her SEWA account, in order to have access to a loan.

Her husband also increased his income: he started working as a school vardhi (he drives children to school) and received a regular monthly income. He also works during the day and at night, earning a daily income. His net income is around 100 to 150 rps per day.

Repaying the rickshaw loan

In October 1999, she received her first loan from SEWA of 7 000 rps. The loan was used to repay the first rickshaw loan: SEWA loans are less expensive, so they prefer to borrow from SEWA and to repay the private company as soon as possible.

They pay SEWA on a monthly basis from the husband's income as a vardhi driver.

Rupalben has received two other loans from SEWA.

In 2001, all the family invested in the house to build a second floor. For this they borrowed money from their relatives. They quickly repaid this loan with part of a SEWA loan for 10 000 rps. The other part of the loan was used to repay the rickshaw loan.

In 2003, they received their third loan of 25 000 rps. This loan was also used to repay the rickshaw. Now their debt with the private company is completely repaid. And the only institution they have to repay is SEWA Bank.

Saving money on daily expenses

Before becoming member of SEWA, Rupalben was covering all the food expenses on a daily basis. In the morning she used to give money to her children and each of them bought snacks for breakfast. She only cooked in the evening and bought cereals on a daily basis.

After attending SEWA financial counseling she changed her way of managing her food budget. She started cooking in the morning to save money and began to buy cereals in bulk with part of the credit from SEWA Bank.

Rupalben's future plans

Rupalben's future plans are to build her own house. She is not sure that she will stay in her in-laws' family house. When her brother-in-law gets married she may have to leave the house. She may need a loan to build a new house, because she will not be able to save the necessary amount.

Her second priority is the education of her children; she would like her children to complete long studies.

Activity: stationery trade	***N°:***
SEWA member since: 1997	
Birth year: 1976	

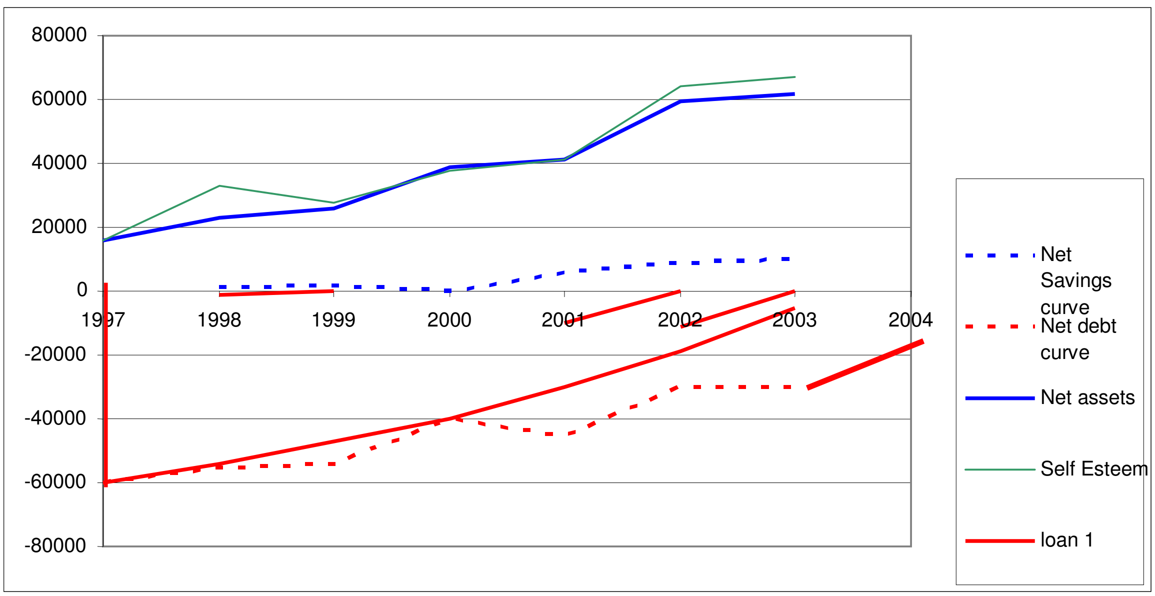
Date of the EDP: 6/6/03
Core team members: Kiran, Kashyapi, Vibahben
Staff members: Rannaben, Pareshaben

HOUSEHOLD: Consumption unit: 4 (2.7) Working person: 2

Household members	*Birth year*	*Occupation*
Rupalben	*1976*	*Stationery shop*
Husband		*Rickshaw driver*
Son	*1998*	*School*
Daughter	*1999*	*School*

- ***Lifecycle tool results***

Figure 8 : Rupalben's lifecycle graph



***Main events of Rupalben's life story**:*

1997: Marriage of Rupalben. She was not working, her husband was employed in a pharmacy. They bought a rickshaw on credit to increase the household income.
1998: Birth of the first child. Rupalben started saving regularly in a SEWA Bank account. The household faced difficulty in repaying the rickshaw loan and covering their increasing expenses.

1999: Birth of the second child. In order to increase their income, the husband quit his job and started working on the rickshaw himself on a full-time basis. Rupalben also started a furniture business with no success: to start this business she borrowed furniture from her father, she repaid him but had losses in her activities. However, she was able to save and, thanks to Rupalben's savings, she received a loan that was used to repay the rickshaw loan.
2000: Rupalben started a new business: the stationery business. She had no working capital left from the furniture business. She had to withdraw all her savings (700 rps) to buy a pull cart and start making sweets and snacks and selling educational stationery.
2001-2003: Step by step, Rupalben and her husband developed their activities. The husband now has a regular clientele and he is working as a vardhi driver. Rupalben is finding different trading places and increasing her sales. Every two years they took a loan, mainly to repay the first rickshaw loan and to buy cereals in bulk with the remaining amount.

Figure 9 : Assets composition in 2003

	House	Jewelry	Furniture	Business equipment	Savings
Composition	47%	10%	15%	25%	25%
Profit	++	+	-	+++	+
Risk	+	-	+	-	++
Capital requirement	+++	+	+	++	-
Liquidity	-	+++	+	-	++
Social status	+++	++	+	++	+

Figure 10 : Loan analysis

Date	Amount	Purpose	Source	Interest rate	Repayment	Date of repayment
1998	50000	Rickshaw acquisition	Private company		500 / month	Not repaid
1999	1000	Working capital for the first business	Rupalben's father	0	After the sale of the furniture	1999
12/10/99	7000	Payment of the rickshaw debt	SEWA Bank	18 %	Monthly	6/10/00
2001	5000	Building a part of the second floor of the house	Relatives	0	Repayment after several months	2001
21/09/01	10000	Repayment of the loan from relatives, and repayment of a part of the rickshaw debt	SEWA Bank	18 %	Monthly	30/05/03
00/00/02	11000	Payment of the rickshaw debt	Informal association			Continuing
05/06/03	25000	Payment of the rickshaw debt	SEWA Bank			Continuing

Figure 11 : Savings analysis

Year	Savings account	Mangal prasang	Husband's savings	Total
1998	1000	00	NI *	1000
1999	961	800	NI	1761
2000	2003	2200	NI	5003
2001	732	2400	NI	6132
2002	765	2400	NI	8565
2003	200	2200	NI	10200

** Rupalben has mentioned that her husband saved a part of his income but she doesn't know the amount and the institution.*

Analysis of the lifecycle tool results

Like many young households, Rupalben and her family had a very low starting capital basis: gold and silver ornaments and furniture received during their wedding ceremony. They have a place to live but it is not secure since they may have to move, even though they have invested in building up the second floor of the house.
However, their capital accumulation process is rapid thanks to loans invested in order to develop productive activities and the process is regular given that the family has never been faced with major accidents or difficulties.

In terms of borrower behavior, the family takes loans in order to: invest in productive assets, invest in working capital and improve their housing conditions.
They borrow very large amounts in order to develop their productive assets. Accessing loans was the only solution to start an income-generating business, given that this family had very limited assets. However, compared to their total physical and financial assets and their income, the loan amount was large, which reveals a very high risk bearing capacity. So far, five years after borrowing, only 3/4 of the debt has been recovered. If the household had faced any kind of accident, they could have been caught in a vicious circle of debts: with less income than expenses and increasing debts.
This type of behavior is not common if compared with the other life stories of the research program: SEWA Bank's clients often start with a long period of savings before being ready to cope with the risk of debts for productive activities and they first develop activities that do not require major capital investment.
In the present case, this behavior can be explained by the fact that the husband has a regular salary and their large family has a secure standard of living and is able to help them.

The household has different types of access to loans through: a private company, their family, informal associations of friends and neighbors and SEWA Bank.

SEWA Bank is one of the cheapest institutions for this household. In consequence, the first SEWA Bank's loans have been used to repay previous costly debts. Finally, one can say that SEWA is "buying back" this household's old debts step by step.
However, compared to the amount they originally borrowed, SEWA Bank has a very cautious credit policy and offers limited loan amounts. The process is long.

In terms of the savings behavior and asset composition: even though they have a high debt to repay the household is saving. They save for various purposes:

- *having access to loans from SEWA Bank;*
- *planning for their future needs, especially unforeseen risks and building their own house.*

However, savings represent a very small part of their assets. As a young household their objective is to invest in productive assets (the main part of their assets) in order to increase their income. Constituting savings is very important for this household because the main part of their assets is not liquid. If a major accident happens, they have very limited options for dealing with it: mortgaging their gold or selling their productive assets would mean losing a major part of their income. From this point of view, this household has very limited protection against risk and SEWA Bank has a positive impact on their security: with loans they pay for an insurance service that may partially cover unplanned needs.

Present situation: Rupalben's livelihood

Figure 12 : Composition of monetary inflows

Household members	*Activity*	*Average monthly inflows*
Rupalben	*Stationery*	*1700*
Harishbhai	*Rickshaw*	*3700*
Total		*5400*

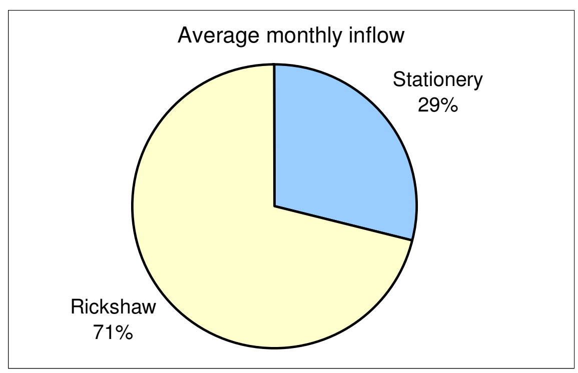
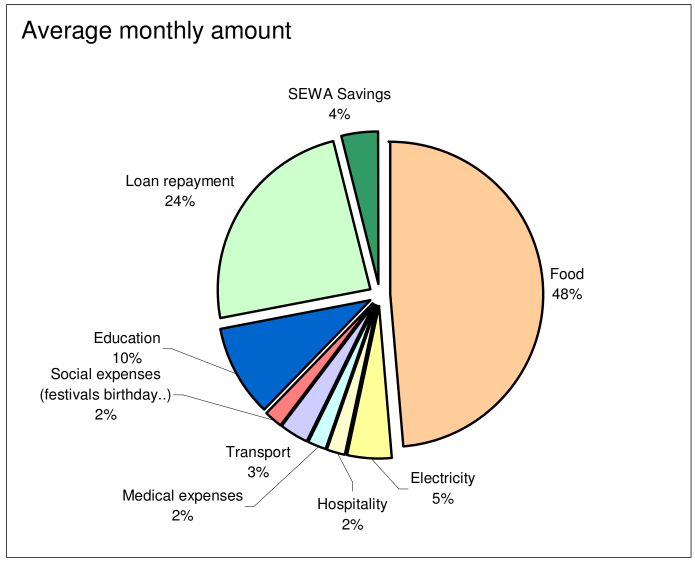


Figure 13: Composition of monetary outflows

Expenses	*Average monthly amount*
Food	*2500*
Electricity	*250*
Hospitality	*100*
Medical expenses	*100*
Transport	*150*
Social expenses (festivals, birthdays)	*100*
Education	*500*
Loan repayment	*1250*
SEWA savings	*200*
Production costs	*200*
Total	*5350*



Loan repayment is a very important part of the budget. It represents more than 24 %. By comparison, savings accumulation is very low. This confirms the results of the first tool and underlines the high amount of debt compared to the household capacities and emphasizes the objective of the household, which is to first develop their productive activities.
The education expenses are very important considering that the two children are less than 3 years old: children's education seems to be a priority of the family.
In terms of budget management, Rupalben decreased her food expenses by buying rice and wheat in bulk. However, she needs to have enough money to do this and she is not able to finance such an operation every year.
The rickshaw driver activity is the main source of the household's income, at the same time this activity is risky for various reasons, the main one being traffic accidents.
The diversification of the sources of monetary inflow is low. This represents a risk for the family, if an accident happens to the rickshaw (their main asset) or to the husband (the main income earning person in the family) this household will face a very difficult situation with limited possibility to manage it.

Cash flow analysis

No detailed figures are available, but the main trends are the following. From January to February and from September to December the household income is stable.
Monetary inflows increase from March to August:

- *For the rickshaw activity: gross product increases during festival time and holidays (during holidays the husband is paid by parents even though he is not driving children to school so he can work for himself and earn a higher income).*
- *For the stationery activity: gross product increases in March (examination period), decreases from mid-April to mid-June (holidays), and increases again from mid-June to August and in November (festival).*

Overall, the increase in income corresponds to an increase in expenses.

Fluctuation of cash flow does not create budget management tensions for this household. Urban clients often have fewer difficulties with cash flow management than rural clients, because their activities are less subject to seasonality and they have numbers of activity opportunities, during a year they may thus switch from one activity to another in order to smooth their cash flow.

In terms of saving or repayment calendar: Rupalben has a daily income but it is very varied; however, in one week she usually gets a more or less regular income with the above-mentioned yearly fluctuations. She expresses the need to repay or save on a weekly basis. Her husband also has a daily income but it is very varied; however, at the end of each month he gets a regular income. He would like a monthly repayment or a deposit calendar.

Figure 14 : Analysis of the productive activities

	Rickshaw activity	*Stationery trade*
Description	*Owner and driver of rickshaw, drives children to school*	*Production and sale of sweets / snacks in front of school*
Basic investment	*The rickshaw: 50 000 rps*	*Pull cart: 500 rps*
Working capital	*100 rps/day for gas*	*200 rps/week*
Frequency of income generation	*Daily plus a regular monthly salary for his vardhi work*	*Daily*
Seasonality	*All year* *Increase during festivals and holidays*	*All year* *Increase during festivals and examination time*
Time	*13 hours per day*	*7 hours per day*
Profit	*Net profit: 800 rps/week* *Profit (net return/invested capital): 100%*	*Net profit: 240 rps/week* *Profit: 115%*
Risk	*High: accidents*	*Low*

So far, activity development has been constrained by the working capacities of the husband and wife (see next section) and their capital. However, with regard to the last factor, they may have difficulties in managing a higher level of debt.

Opportunities and vulnerability of the household

Household's future plans are:

- *To increase their income by developing their activities: Rupalben would like to have her own shop in the future. For the moment the main constraint to developing her business is time: Rupalben may increase her working capital and her sales, but she is limited by the capacity of the pull cart. She would need someone to work with her if she works with two pull carts; that will be possible when her children are older. In the short term, her plans are to progressively increase her business by investing part of her profits and she does not plan for the moment to take out an additional loan to develop this activity.*

For the rickshaw activity, the main objective is to repay the first investment. Rupalben and her husband estimate that they need 2 to 4 years more if they do not have any accidents. As long as the rickshaw is not repaid, they will not change their way of managing this business: the husband will work on the rickshaw in order to secure the repayment. After it is repaid they plan to rent it out, the husband will then be free to operate a new activity but most probably he will join Rupalben in the small shop project.

- *To build their own house, because they are not sure that they can stay in the in-laws' house in the near future. They do not think they will have sufficient investment capacity. They are saving now in order to have access to a housing loan.*
- *To educate their children: investing in children's education is one of their main objectives, they would like their children to complete long studies in order to give them access to employment in the formal sector. Their children are young and they are not yet planning this future expenditure.*

Vulnerability

In terms of vulnerability, even though the household has accumulated capital and savings they are still not secure. If they face any major difficulties, they may have to sell their productive assets and they would lose their major source of income. This family is bearing high risk to increase their income: they invest almost all their resources in their activities.

From that point of view, SEWA has a positive impact because SEWA helps them to prepare for their future by saving a small part of their income. Moreover, with the loan the woman is insured by SEWA.

- ***Main needs of the household and new services***

- *productive investment loan/leasing contract*

As a young family the priority of Rupalben's household is to increase its income because: as the family grows the consumption expenses grow too, they have to build a house and they want to give a good education to their children etc. Their reaction is to develop their own business with credits for productive investment and working capital.

They need productive short-term loans in order to constitute working capital. They have access to these types of loans with family loans, informal associations' loans, and SEWA Bank.

However they also need medium or long-term investment loans. Long-term loans are very important for this young household in order to build up their productive assets and have a place to live. At the same time, they cannot provide collateral and their income is not secured: disbursing a medium/long-term loan to this household is risky for any financial institution but also for their family. The access to long/medium-term loans is thus much more limited: some private companies sell means of transport and other equipment on a leasing basis. It was not possible to have precise information about the interest rates charged, but they are much higher than the interest rates of SEWA Bank.

Even though SEWA Bank does not finance rickshaw acquisition because of the risk of this activity, SEWA Bank is in fact financing this investment: the family is paying back the private company step by step with SEWA Bank loans, in order to pay less interest. However, if an accident happens, they will first repay the company (because of their high interest rate) and

SEWA Bank only in the second place. Moreover, this young household is already planning major expenses for house building and children's education. For the moment they are not able to save a major part of their income because they are still repaying the loan for the rickshaw. However, they may need to leave their present house soon: if this situation happens they will take a loan from SEWA but most probably from a moneylender because their possibility to borrow from SEWA is limited at the moment. Cumulating loans from SEWA Bank and a debt from moneylenders is a risk for SEWA (for the same reasons as mentioned above). A reflection could be started inside SEWA Bank about loans for investment, especially with a leasing contract.

- *Grocery loans/grocery savings*

In order to better manage their budget, Rupalben is asking for grocery loans or saving services in order to buy cereals in bulk (rice, wheat, maize) at harvest time that she would repay from the income of her activities on a weekly basis. Short-term grocery loans/grocery savings is the second product idea that should be explored. The product should focus especially on the right time of the year when prices are at their lowest when the loans should be disbursed or the savings withdrawn.

5.2 Operational results for SEWA Bank: first propositions for financial products and services

The next box presents the first propositions for financial products and services that SEWA Bank has formulated based on 20 EDPs with 20 members involving the core team members and 40 technical staff members. This work is still going on: this is the first list of results from the core team.

SEWA Bank core team completed the analysis of 20 life stories and the main results obtained are the following:

1. Demand for products to address unforeseen lifecycle expenses

Members need some products to help them avoid slipping into debt with moneylenders when something important happens that needs money and which was not foreseen (it might be a death or an illness etc.). Even if SEWA has created an insurance company, the compensation payments are not always sufficient to cover the unforeseen expenses. Different products could meet this demand:

- *A money reserve that you know you can bank on but cannot access unless there is a need for it even if you are tempted to.*
- *A product for the acquisition of gold jewelry: women invest or aspire to invest in gold, which gives them prestige, liquidity and security at the same time. When women face unforeseen expenses they can take it to SEWA Bank and receive a secured loan. A gold product could be developed: results of focus group discussions present divergent opinions, with some women wanting a savings product where they could put some money aside every month so that after some time they would have a lump-sum to buy a gold product. There were others who felt a loan product would force them to save and would also help them buy gold for their daughters at the time of their marriage without looking to the jeweler for a loan.*

2. Demand for very short-term financial products allowing the cash flow to be smoothed

Women with erratic cash flows often face the problem that, even if they have more income than expenses in the entire year, they end up borrowing and so losing money in the process as interest payments. Therefore, they require a product that helps them smooth their cash flow with savings accumulated, this product would be a combination of both savings and loan products. Several product ideas have been proposed to respond to this demand:

- *Short-term working capital loans: Even if women never heard about the concept of working capital, they know that they need money to buy raw materials at precise periods. They sometimes find it difficult to have money at the right time. They need to receive a loan for a short-term period or to have a savings account that fits the cash flow requirements of their productive activity. For example, a member who makes idols needs the money for raw materials a month before Diwali, but she may have another loan running just then. This type of product will also help increase her working capital; and thus it will help increase income.*

- *Continuous credit – many women require a daily loan so as to conduct a business (working capital for buying vegetables in the case of vegetable vendors and the like) for this they require a daily loan, but this should be available at a convenient point from their workplace or home so that they do not lose valuable time trying to access the credit.*

- *Credit lines – any time money: here the women felt that, if they had a continuous credit line up to a certain limit, somewhat like a bank overdraft, it would help them a great deal, it would serve a dual purpose, namely it would save them from the problem of going to a moneylender when one loan is going on and they need another loan urgently. A lot of women feel that going to the Bank to withdraw savings is very time consuming and they often have to forgo a day's work to withdraw money. The women would like access to money at all times but the transaction amount should be small lest they get tempted to withdraw a lot of money, they want to guard against this temptation.*

- *Short-term products for specific consumption expenses timed with specific needs. For example: festivals savings products – a very short-term product that helps them save for a festival and the Bank also helps them to get lower prices for various products as the Bank is big and well-known. Food, grain and grocery loans, as the women feel that the line of credit from the 'Khaatu' is expensive and they might be cheating them sometimes. To avoid this many buy things on a day-to-day basis.*

3. Demand for investment loans – both medium and long-term

To develop their activities women need to invest in infrastructure or equipment. They need loans with smaller installments but a longer time of repayment. But with this they want the flexibility of taking the short-term loans as well, since that will help them finance their more frequent needs like increasing working capital.

4. Improvements to existing financial products

- *A single passbook, it is cumbersome to keep track of all the passbooks. There is also a fear of losing one of them.*

- *Pensions need to be made more attractive, lucrative to women. They should also have flexibility of payments according to what they want and not what they get.*
- *Effective marketing of the products is needed as many women do not know that there are many products available from the Bank itself.*

- *There should be some family product incentives, such as if there are four women of the same family saving together, they should get some benefit, a sort of savings group.*

- *They felt that they should be allowed to borrow a higher amount relative to their savings as they mostly want money for 'genuine' reasons. Some people have difficulty in getting a guarantor who works as a civil servant.*

- *There were many households where the finances were tightly stretched: they had taken heavy loans that they had the capacity to repay but would not be able to repay if something bad happened to the family, because the safety margin is not there. If the husband falls ill for 5 days, the loan repayment will be delayed.*

- *Loans taken for education are often difficult to pay in households with 'stretched finances' as they only yield after a long time, therefore, either it should be a savings product or there should be a provision for paying off the loan when the person in question starts earning*

5. Demand for other non-financial services

- *Need to learn financial management also came out strongly, there is a big market for financial literacy.*

- *Need for courses on business upgrading, which help them understand the basic pitfalls of business, some ways to save labor and the basic concepts like working capital.*

- *Some women felt that trade groups of similar trades would help them get better prices and the Bank might be interested in giving them some training or helping them sell their product at better prices too.*

(Adapted from SEWA Bank, 2004)

5.3 Evaluation of the research program

5.3.1 SEWA Bank's evaluation of the action research program

SEWA Bank has itself conducted an evaluation of the research program through interviews with the core team members in charge of implementing the research project and the technical staff members who participated in the program.

In the next boxes the results of the evaluation by the core team and by the technical staff involved in the project are reported.

Evaluation of the research program by the core team

A personal interview was conducted with all the core team members to find out their views on various aspects of the approach, the difficulties that they face, the changes that they suggest and finally the lessons that they have learned. The various points of view are recorded under two headings.

The approach

The core team's attitude towards the approach was highly enthusiastic. They felt that the approach helped them view their clients from a different perspective, swapping the 'controller / evaluator' hat for that of a 'friend' who just wanted to understand their situation and the resulting behavior. The approach helped them to get a closer look at the various "why's" that they were previously not able to ask properly or answer. Some also felt that, with the approach, they got a better understanding of the needs of the women because for the first time they 'felt' them instead of hearing them from others. Many were motivated to work harder as they felt this experience gave a reason to their work, more so than before. They were touched by the warmth and hospitality shown to them by the women and felt like part of the extended family.

The analysis of various stories encouraged mixed responses from the team, a few felt that it took considerable energy and made the entire exercise too cut and dried, whereas most others felt that the plotting of curves and the analysis was the part where they were forced to think and ask the 'why' questions till all their queries were answered. They felt that this gave rise to a to-ing and fro-ing process which brought them closer to their clients. A few suggested that they should have regular follow-up visits even after the analysis to monitor the changes in the women's lives and also to make the 'members' feel that this interaction is bearing fruit for them.

The difficulties faced

The core team described feeling a little lost at the beginning of the project, but with the training courses they have started feeling more confident about it. They also feel that they can not only handle the analysis part but can also train the other staff members in it. The "self-esteem curve" also poses a different set of problems and so does accounting for inflation over a period of time. Getting the women to remember their asset base at different periods in their lives usually leaves many gaps. Finally, in a few cases the story gets a little technical and loses its initial flavor; therefore, a balance needs to be struck between the story and the analysis part.

The 'added value'

The core team members feel that the project has benefited them in two spheres; in their work and as individuals. They feel that the approach helps them build a rapport with their clients, helps them gain an understanding of them, their needs, their behavior and their satisfaction level. In their individual lives, they feel that they have learned from these women to stand firm in the face of adversity and also that it is not very difficult to live without the amenities that we feel are 'essential'.

(SEWA Bank, 2004)

Evaluation by the technical staff of SEWA Bank involved in the project

The Bank held a half-day workshop with its staff members to discuss the experience of being a part of the lifecycle market research team. The following are a few representative responses.

- *The women inspired them as they saw them face adversities and still hold their ground. They said that the women's struggle evoked the will to do more for them and hence the staff feels more motivated to work. One staff member even said that, "I have always been enthusiastic in my work but the visit made me see the real 'reason' behind what I do. When I interact with women in the Bank they seem cheerful and happy, only seeing them in their own settings and hearing them recount their experience can make you appreciate not only the smile but also the effort that she makes to keep it there in spite of what happens around her".*

- *One staff member said that after the visit she could draw strength from her host and her confidence.*

- *The staff members were touched by the warm hospitality shown to them by their hosts, they felt that often these women had so little yet so much to share*

- *They said that they found that the women were often a storehouse of worldly knowledge, their skill sharpened by time.*

- *The staff members felt very proud to see the effect that their product had in fulfilling the existing financial needs.*

- *One staff member remarked that they have often gone to the houses of these women to recover loans, but that visit and this visit were different. With this visit, the women opened up and the staff member could look beyond the fact that she had defaulted on a payment and saw why she couldn't repay on time.*

- *Another staff member said that she felt motivated when she saw the results of where she had made a difference and so wanted to do more of that. Many staff members agree wholeheartedly with that.*

- *One staff member said that she had always wondered how these women live; she said that she had gone to find some answers but came back with even more questions. Questions about what difference we can make in their lives, not only at a financial level but through social interventions. It gave her a holistic view of the women, their lives and their needs.*

- *Some suggested that, instead of going to the women's homes for two days, we might invite them to our houses for one day and return the hospitality. This point was debated a lot and people had conflicting views on it.*

- *Some stressed the follow-up aspect of EDP as, now that they had formed a relationship of a different kind with these women, they should make sure that there is a positive difference in these women's lives.*

In all, the workshop centered more on what they liked in the experience of being part of the EDP process and to sum it up all agreed that this was an 'experience', which was one of the firsts for them but something they would like to get involved in on a continued basis.

(SEWA Bank, 2004)

5.3.2 Lessons learned: strengths and weaknesses of the method for participatory demand assessment

The objective of the program was three-fold: first, to set up a method and tools that would respect the requirements of MFIs, allow them to assess client demand and refine or create new financial products; secondly, to train the staff in this approach and build their capacity in these fields; thirdly, to produce operational results.

Concerning the first aspect, a method and tools have been developed using research approaches, empirical knowledge and SEWA Bank's knowledge. The results are a general method for participatory demand assessment using a set of tools that should be regarded as a tool box: tools have been developed in order to be useful in various contexts, especially in rural / urban contexts. Using this tool box in a specific context implies testing the tools, combining the most meaningful ones and possibly adjusting them.

Concerning the second objective, the principle of the program was to focus on building up the capacity of the core team, which is itself responsible for training other staff members. The program has organized three successive training sessions for the core team using the "learning by doing" method with technical assistance and practical lectures. In a first stage, the core team itself completed the three first steps of the program with external assistance.
In a second stage, they trained 40 staff members in the method and tools of the first step of the program, and they implemented the second step themselves.

Today, a training manual and a future session are planned in order to prepare them to be the future trainers.

In terms of operational results, the program is still ongoing within SEWA Bank. Several product ideas have emerged as presented in the previous part, and focus groups and questionnaires have been organized on one of them: the gold product, for which the main features of the prototype have been designed. Now, a more operational phase is due to start, which should lead to the launch and testing of the prototype.

Given that this program with SEWA Bank serves as a model for the involvement of further MFIs, it is important to evaluate the lessons learned from this first experiment.

The “participatory demand assessment” approach developed with SEWA Bank has strong points:

- It is **low-cost**: the main costs are the cost of initial training for part of the MFI’s staff, the costs linked with the part-time involvement of the MFI’s staff and the costs linked with organizing mini-questionnaires and focus groups. It does not require major investments in external expertise, the principle is to use the MFI’s own capacity; it does not require particular software to process the data.

- It provides **results in a relatively short time**: the MFI can decide upon the speed of the process, which depends mainly on the human resources involved. Taking its capacity into consideration, SEWA Bank has set up a speed which allows it to produce results on client demand in one year and to define one product prototype. The process is relatively slow, but SEWA Bank has chosen to have its staff members do this work in addition to their regular responsibilities, this has a strong impact on the capacity building of the entire staff of SEWA Bank, but it slows down the process.

- **The method and tools are structured so that they can be used by non-researchers.** Any staff member of the Bank should be able to use them with the help of a "senior" (the core team members).

In terms of outputs the experience of SEWA Bank shows that the approach is efficient for:

- **Improving the relationship between the staff members involved in the project and the clients**. In a large institution like SEWA Bank, the method and especially the exposure approach have proved to have a strong impact on staff, especially on their motivation, their understanding about who their clients are, what their difficulties are, and their relationship with clients.

  The fact that the participants (staff members) meet only one client can be seen as a limit since there is a risk of them getting a biased image of their membership base because of this single experience. In this context the role of the SEWA Bank research team is crucial: as "facilitators" they should enable the other participants to situate their individual experiences within a range of other experiences. Moreover, during the final dialog sessions, all cases are presented and discussed, helping the participants to widen their viewpoint.

- **Empowerment of the clients**: the approach is also a way for the MFI to give a more important role to clients/members: they are directly integrated into the strategy of product development within the institution. The exposure approach and, more generally, the participatory approach sends a strong message to them that they have a role to play in the MFI and that the MFI is ready to listen to them and seek to meet their needs. It is thus a way for the institution to make the clients participate in its decision-making process, and it is also a way to empower the clients.

- **Demand assessment and product development:** The method provides an in-depth understanding of a limited number of cases. The cases are analyzed with a holistic approach and this allows the MFI to understand the determinants of demand and client satisfaction. However, the quality of this information depends on:

- **The quality of the training:** since the approach is participatory, it does not rely on a real measure of household economic data, but on the clients' own assessment instead. However, the participants guide the clients in making their assessments and they are not neutral, they can strongly influence answers because of the way they ask the questions, and also by their behavior or their role in the Bank (the clients may want to be in good standing with the Bank and thus may not reveal their real situation). From that point of view, the data could be seen as subjective, however the effort put into building a trust-based relationship and the holistic approach limits the risk of bias in the data. The training and preparation of the staff members before the exposure phase is therefore a crucial issue. It is oriented towards preparing the staff members to listen with a neutral attitude. It requires real preparation, since usually the staff members control/train/inform the members. In the lifecycle program the situation is the other way round.
- **Triangulation of the information**: the holistic approach is also a way to triangulate the information and check during the whole process if the information provided by the member is coherent.
- **Quality of the sample selection**: the selection of the sample is a crucial point of the method. It can be properly done if the microfinance institution already has basic information about its clientele, allowing it to build a first hypothesis about the different types of clients. The small size of the sample may be seen as a limit in the approach, but at the same time it allows an in-depth analysis. Errors with regard to sample constitution are corrected during the testing of the conclusions drawn from the small sample on larger ones (with focus group discussions or mini-questionnaires).
- **Quality of the analysis**: the quality of the demand assessment does not only depend on the quality of the household information, but also on the quality of the analysis of this information. The three analytical tools have been designed

for this purpose: to help non-researchers analyze household information step by step. The strength of the approach is that it involves the member in the interpretation phase. SEWA Bank's experience shows that the tools are providing the information required by the MFI to adapt its product.

The method is efficient if certain conditions are respected:

- **Time must be dedicated to the program**: part of the staff should take responsibility for the program in addition to their daily routine. In order to obtain results within a reasonable time frame, a leader of the core team should be identified and at least partly relieved from her or his daily tasks. Market research is a real issue for MFIs, but at the same time, compared to the daily problems of an MFI, it often seems secondary. Market research concerns the medium and long-term development of the institution; it is easily delayed in the face of the short-term development issues. Therefore, the clear involvement of at least one person who will lead the "participatory demand assessment" is a condition of success for the program.

- **The management of the Bank must be involved in the program**: the success of the program also depends on the involvement of the management. The program requires a certain investment by the MFI: employees' time, but also a willingness to innovate, to make changes in their institution. Participation by the management is thus necessary for the innovation process but also to give incentives to their staff to participate in the program.

- **The core research team is the mainstay of the program**: its constitution, its training, its concrete availability are crucial points of this methodology. However, the choice made by SEWA Bank, to involve its entire staff in certain steps of the program, is not compulsory. In a very large institution it may be impossible.

- Even if tools are simplified, the method requires a certain amount of **training**: training must not be underestimated. SEWA Bank's experience has shown that the most difficult part for the staff is to ask the right "why questions"; these are necessary for the interpretation of results and in order to adopt a critical position towards their institution. In the case of SEWA Bank, three training sessions of one week each have been organized. Since the approach was experimental the training session can be shortened with a new institution.

The step from demand assessment to product development is another difficulty of the approach. Experience indicates that the involvement of the Bank management in this step is crucial.

6 Conclusions and next steps

This report presents the results of the research program "Finance System Development – Finance Institutions for the Poor – Phase II", financed by the German Bishops' Conference Research Group on the Universal Tasks of the Church.

This program aims to evaluate research methodologies with regard to their translation into common practice and to test their implementation taking a particularly qualified and motivated finance institution, i.e. SEWA Bank, as a model. The background of this program is the observation that MFIs need to build up their own research capacities in order to meet several challenges requiring them to produce knowledge and innovation, like: managing growth, reaching financial sustainability, or developing demand-driven products.

The program focuses on a common issue of these different challenges: assessment of the demand expressed by MFIs' target groups. This research topic is especially relevant in the current situation of the microfinance sector, in which one of the main goals of microfinance institutions is to serve poor people excluded from commercial banks. First microfinance experiences were with standardized and simple financial services and products. However, there is a growing understanding that poor people are a very heterogeneous group and their demands are diverse: to strengthen their livelihoods and limit their vulnerability they need as many services as richer client segments. Meeting this heterogeneous demand requires innovations, based on a good understanding of clients' needs and demand. Developing new products or refining existing products is crucial for MFIs in order for them to reach their goals but also in order for them to be sustainable in the face of growing competition and a permanently evolving environment.

The program is built on cooperation between researchers, MFI technical managers, and MFI clients and its goal is to develop a participatory approach based on the latest research knowledge in order to enable MFI staff to analyze client demand and develop or refine demand-driven financial products. Participatory means that clients are actors in the approach: the principle of the approach is to guide them in their own analysis of their demand, and to involve them in the selection and definition of the MFI's products.

The approach developed by the program is based on a systematized process of product development. The assessment of client demand is the first step; it uses two main conceptual frameworks: the livelihood approach, taking into account that behind each client there is a complex unit, a household, in which individuals, family and enterprises overlap; the second framework is the lifecycle approach, which looks at household needs over time.

The core method of the approach in order to establish a dialog between technical staff and members is "the Exposure, Dialogue and Reflection method". It is a method of experiential learning and a structured dialog with members of self-help organizations. The use of the method is justified by its efficiency: its strength is to go beyond questioning and dialoguing and to use experiential learning, which helps in establishing a good relationship between staff and members and understanding the complexity of the household's demand for financial services. Moreover, this method which is based on understanding women's life stories facilitates the understanding of households' lifecycle needs.

In addition to the exposure method, three economic analytical tools have been set up in order to reflect with the members about their needs for financial products. The overall approach provides an in-depth qualitative understanding of the clients' economic situation and their demand for financial services.

The implementation of the method with SEWA Bank shows that this approach provides relevant results for MFIs and can be handled by MFI staff. It allows a permanent capacity to be built up within the MFI to refine products and develop new ones. The approach has also proved to be efficient in building the capacity of the MFI's staff and reducing the distance between staff and clients, an important issue for large MFIs.

Even if the method is relatively low-cost, it requires investment in time and training. The tools are relatively simple and easy for non-researchers to use, the difficulty is essentially for the staff to hold on to a critical analysis of their institution.

After one year of activity within SEWA Bank, the research program has led to concrete results: a market research team has been set up and trained, they undertook an analysis of the demand of 25 carefully chosen members, and they have trained 40 staff members in part of the method. This research leads to the identification of new needs. Now, the next step is to start the operational phase: the concrete development and testing of product prototypes.

The set of tools and methods developed in close collaboration with SEWA Bank has provoked widespread interest from the other MFIs. Thanks to support from Swiss Development Cooperation, the research program will now expand to include microfinance institutions in Asia, Eastern Europe and Africa. The inclusion of MFIs working in very different environments will allow further development and refinement of the tool boxes and fruitful exchanges between research teams.

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ANNEX 1: FINANCIAL PRODUCTS OF SEWA BANK

1. Savings

Name of the scheme	Deposit calendar	Minimum maximum	Withdrawal	Interest rate	Characteristics of the product
Jivan Asha (Hope for life) Daily Savings Scheme	Daily deposit collected at the doorstep by Bank saathis	5 rps per day minimum	After one year	4%	
Bhavie Suraksha Yojana (Secured Future Scheme)	Monthly deposit of a fixed amount Deposit at the doorstep Withdrawal at the Bank	50 rps monthly minimum and multiple of this sum	Long-term savings for 10, 15, 20 years	10.5%	The women get a lump sum of cash back at the end of the savings term or they may receive the interest as a monthly income and save the amount remaining with the Bank as a fixed deposit in the name of the woman
Chinta Nivaran Yojana (Worry Riddance Scheme)	Deposit of 40 rps monthly	40 rps / month minimum and multiple of this sum	After 5 years	10.5% (4% if withdrawal before maturity date)	In case of an emergency and after one year of joining the scheme the member can get a loan of up to 5000 rps in lieu of the savings kept with the Bank
Mangal Prasang Yojana (Special Occasion Scheme)	Monthly deposit at the doorstep	200 rps monthly minimum and multiple of this sum	After 5 years	10.5%	There is a draw every year, and the prize winner receives a gift item which can be used for marriage or transformed into a fixed deposit for the equivalent amount.
Ridhhi-Siddhi Medium Term Recurring Scheme	Monthly deposit of sum multiple of 50 rps	50 rps	After 5 years	10.5%	
Ghar Fund yojana (House Fund Scheme)	Monthly deposit	250 rps, 500 rps or 750 rps	5 years or more	10.5%	Women can get the same amount in a loan under the Bank's terms and conditions by paying regular installments for 5 years. Women can participate in a lucky draw.
Swapna Siddhi (Dream Fulfillment Scheme) Medium and long-term deposit scheme used for planning events	Monthly deposit	500 rps minimum, and multiple of 500 rps	Period of 3, 5, 7, 10 years	10.5%	

2. Pension schemes

The earliest starting age is 18 years and the maturity age is 60 years.

Three types of schemes are proposed but the main features are similar.

Name of the Scheme	Deposit calendar	Minimum maximum deposit amount	Withdrawal	Interest rate	Characteristics of the product
Scheme 1	Monthly	30 Rps 50 100 150 250 300 500	Deposit for a minimum of 10 years	Stated by RBI rules	Get a lump sum amount at the maturity date
Scheme 2	Idem	Idem	Idem	Idem	Get a pension for life After death the nominated person will get the total savings amount
Scheme 3 (a)	Idem	Idem	Idem	Idem	Get a pension for next 5 years
Scheme 3 (b)	Idem	Idem	Idem	Idem	Get a pension for next 10 years
Scheme 3 (c)	Idem	Idem	Idem	Idem	Get a pension for next 15 years
Scheme 3 (d)	Idem	Idem	Idem	Idem	Get a pension for next 20 years

3. **Loans**

- Collateral: In the absence of traditional collateral the Bank requires a regular savings record for one year before offering access to credit. Each loan is sanctioned by a pre-loan check at the woman's home performed by SEWA Bank field staff.
- Loan ceiling: the maximum loan amount is 5000 rps for the first year and 10000 rps the second year. The maximum loan amount is 25000 rps. Higher amounts are disbursed if the woman can secure her loan with her fixed deposit savings or traditional collateral like gold.
- Evaluation of loan amount: the amount sanctioned depends mainly on the field worker's recommendation, as she is deemed to know the client the best. A customized client credit risk rating instrument is then completed to help determine the amount of the loan that should be granted to the member.
- Loan term: 3 - 5 years
- Interest rate: 14.5% to 17%
- Interest method: declining balance
- Repayment: Monthly. Possibility to repay daily or weekly

The different schemes:

- Sanjivani loans / "rebirth loans" designed for wives of mill workers: Sanjiveni loans are coupled with business counseling from SEWA Bank and SEWA marketing services;
- Housing loans
- Infrastructure loan
- Secured loan: This loan product is secured by gold or silver jewelry as collateral; up to 80% of the value of the jewelry is retained with SEWA Bank until the loan is fully paid.

4. Insurance products

Risk covered	Scheme 1	Scheme 2	Scheme 3
Member's insurance	**Annual premium: 75** **Fixed deposit*: 700**	**Annual premium: 180** **Fixed deposit*: 1800**	**Annual premium: 330** **Fixed deposit*: 3300**
Natural death	Rps 3,000	Rps 5,000	Rps 10,000
Accidental death	Rps 40,000	Rps 40,000	Rps 40,000
Acc. death of husband	Rps 15,000	Rps 15,000	Rps 15,000
Hospitalization	Up to rps 1,300	Up to rps 4,500	Up to rps 9,000
House and asset insurance against fire, flood and natural calamities	Up to rps 5,000	Up to rps 10,000	Up to rps 20,000
Husband's insurance	**Annual premium: 45** **Fixed deposit*: 450**	**Annual premium: 135** **Fixed deposit*: 1350**	**Annual premium: 300** **Fixed deposit*: 3000**
Natural death	Rps 3,000	Rps 5,000	Rps 10,000
Accidental Death	Rps 25,000	Rps 25,000	Rps 25,000
Hospitalization	Up to rps 1,300	Up to rps 4,500	Up to rps 9,000
Total	**Annual premium: 120** **Fixed deposit*: 1150**	**Annual premium: 315** **Fixed deposit*: 3150**	**Annual premium: 660** **Fixed deposit*: 6600**

*: in a fixed deposit-linked insurance, women put a one-time deposit into SEWA Bank. The annual interest from this fixed deposit is directly used to pay the annual insurance premium.

(in: Shri Mahila Sahakari Bank Ltd, 2002, p. 16)

ANNEX 2 : PROGRAM STAKEHOLDERS AND ORGANIZATION

SEWA Bank: Implementing agency

(co-ordination, analysis, communication; implementation of the EDPs; building up research capacities)

Kashyapee: co-ordination and analysis

Jayshree Vyas: SEWA internal advisor

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FIDES: technical partner (Development of financial products)

Dr. Konrad Ellsässer, Dr. Lise Duval

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Research Group on the Universal Tasks of the Church

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Counseling and process control: Facilitation, counseling

Dr. h. c. Karl Osner

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Steering Committee

SEWA (Ms. Vyas), FIDES (Dr. Ellsässer), EDP e.V. (Dr. Loebel, Dr. Casel)

Advisory members: Prof. Zeller, Dr. Osner

ANNEX 3 : PRESENTATION OF THE EVALUATION OF THE ACTION RESEARCH PROGRAM BY SEWA BANK (Third Steering Committee)

SEWA Bank

III Steering Committee Meeting

Lifecycle Research in SEWA Bank

- ✓ Why we started
- ✓ How we do it

Process

- ✓ Step 1: Pilot EDP
- ✓ Step 2: Training of core team and staff members
- ✓ Step 3: Exposure with 25 clients
- ✓ Step 4: Analysis of life stories
- ✓ Step 5: Product Proposition
- ✓ Step 6: Testing of Proposition
- ✓ Step 7: Product Design and Service Improvement

Understanding demand

- ✓ Lifecycle credit line
- ✓ Demand for 'forced' discipline products
- ✓ Gold product
- ✓ By-products
- ✓ Trained staff
- ✓ Built relationships
- ✓ Deepened understanding of clients
- ✓ Appreciating limitations of financial services

Lifecycle Research – the '+'s and '–'s

Positives

- ✓ In-depth understanding
- ✓ Building org's capacity
- ✓ Less expensive
- ✓ Helps in building good relationships
- ✓ 'Owning' of process
- ✓ Firsthand feedback

Negatives

- ✓ Time-consuming
- ✓ Direct function of quality of staff
- ✓ High level of capacity building required

Lessons learnt

- ✓ Instrumental in in-depth understanding
- ✓ Helpful in designing relevant/suitable products and services
- ✓ Can deepen relationships with clients
- ✓ High level of training inputs required
- ✓ Can be useful in many other projects