



Women's World Banking

Product Diversification in Microfinance: Introducing Individual Lending



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INTRODUCTION

A. WHY GROUP LENDERS INTRODUCE INDIVIDUAL LENDING

In the early stages of microlending, microfinance institutions (MFIs) developed group-based lending methodologies that lent very small amounts of money (less than US\$100) to large numbers of poor clients. These lending technologies included solidarity group lending, especially popular in Latin America, and village banking approaches that were particularly prevalent in Asia and Africa (including Grameen replicas). Successful MFIs were able to grow rapidly due to a highly standardized and simple methodology that could deliver small loans to large numbers of poor clients.

Over the last 20 years, microfinance has evolved dramatically in all parts of the world. New players including non-governmental organizations (NGOs) and banks have entered the field, offering a range of financial services for low-income client markets. Competition has increased dramatically in most countries and provided a positive impetus for MFIs to ensure that they deliver not only high quality services, but also provide a diversified selection of financial products. Many MFIs in all regions have begun to expand their available credit products to include individual loans for specific portions of their clientele. New individual loan products have been at the centre of product diversification, providing customized credit to meet the specific individual clients' profiles and financial needs. The objective of many MFIs in introducing individual lending has been to reduce the migration of valued clients to the competition, and to enhance their ability to attract potential new clients.

In many cases, this diversification has resulted in improved quality and price in the financial services offered, as well as increasing innovation and efficiency within the organizations as a whole. Organizations need to strengthen their internal capabilities and leadership to be able to survive in more dynamic and sophisticated markets.

Group and individual loan methodologies represent dramatically different approaches to microlending. MFIs planning to offer both group loan and individual loans products need to be aware of these differences at each of the product, process, and organizational levels, and to comprehend implications of moving from a single to a multi-product institution.

From 2001 to 2005, WWB assisted its network members in eight countries to build the institutional capacity required for effective product diversification based on careful market analysis. Over the last five years, it has worked closely with several of its network members to help these institutions introduce, plan and implement new individual loan products. In the process, WWB has also developed a number of specific tools that are designed to support MFIs through this change process.

The goal of this document is to share WWB's approach to integrating individual loan products into group lending institutions, describing the processes and tools WWB developed while it provided assistance to its network members around the world. The document aims to provide

practical assistance to the increasing number of group microlenders globally that are embarking on individual lending by providing an overview of issues involved.

Recognizing that each MFI needs to develop its own approach based on its specific institutional experience, culture, business model and operating environment, WWB has established a framework designed not as a blueprint, but as a series of guiding questions that anticipate the decisions and challenges encountered by all institutions in introducing individual lending. The document uses the experience of a diverse set of five WWB network members that have introduced (or are in the process of) individual lending to illustrate how different MFIs manage these specific challenges.

First, it is important to have an overview of the main differences between group and individual lending methodologies that underpin the changes to be introduced across the organization when integrating individual lending.

B. KEY DIFFERENCES BETWEEN INDIVIDUAL AND GROUP LENDING

A key challenge faced by group lending institutions when adding new individual loans products is how to adapt their existing loan processes.

Group lenders rely on highly standardized loan products and processes that require limited loan assessment and management on the part of the institution. Loan screening, monitoring and enforcement issues are managed in large part by group members themselves driven by peer pressure mechanisms.

Individual lending, on the other hand, relies on detailed assessment of clients’ financial and economic information gathered and analyzed by the loan officer. Loan decisions are individually tailored based on the specific needs of each applicant, and responsibility for the screening, monitoring and enforcement of loans rests in the hands of loan staff and their managers.

Table 1 illustrates how each methodology prescribes the collection of information about a potential client’s character and asset level repayment capacity as well as the types of collateral required.

Table 1: Lending Process

Individual Lending		Group Lending
	Screening	
<ul style="list-style-type: none"> • Reputation, character reference, credit history • Credit scoring 	Character Check	<ul style="list-style-type: none"> • Self-selection of group members (inside information) • Group formation process
<ul style="list-style-type: none"> • Evaluation of assets • History of business • Financial statements • Business planning 	Capital Assessment	<ul style="list-style-type: none"> • Emphasis on human capital • Examination of experience and skill
<ul style="list-style-type: none"> • Rigorous financial analysis • Cash flow of business (+ household) 	Repayment Capacity	<ul style="list-style-type: none"> • Joint analysis • Rough estimate of cash flow

• Loan amount determined individually		• Standardized loan amounts set per cycle
Monitoring		
• Loan officer responsible • Close daily tracking of portfolio basis	Loan Follow-up/ Arrears Monitoring	• Group members have first responsibility • Loan officer oversees portfolio
Enforcement		
• Pledge of assets/collateral • Guarantor/co-signers	Collateral and Incentives	• Group guarantee • Compulsory savings

1. Screening

- Character Check, Capital Assessment and Repayment Capacity

In group lending, time and effort is invested in building social networks that enable groups to select members who are creditworthy. Members of the same community generally have good knowledge about the potential credit risks of their peers.

Group lenders rely on rigid processes to ensure discipline and consistency among the groups. This begins with screening guidelines to ensure that groups assess their fellow group members' ability and likelihood to repay their loans. Using this approach, group lenders outsource the screening process and costs to the group members. Loan officers' role in this process is to provide structure, training on loan processes and administrative support.

For individual lending, loan officers bear principle responsibility for loan decisions, as well as all screening, monitoring and repayment enforcement of their clients. Their functions require that they have financial background, specialized training and support from managers in their institution.

Pre-screening of individual loan clients begins with the verification and cross checking of client references by loan officers (repayment history for previous loans, commercial references, reputation in the community). Individual applicants are then required to undergo a very detailed assessment of their financial and economic information – both for their business and their household. This information is assessed and corroborated for consistency. All credit decisions are made based on the financial analysis, repayment capacity and level of the client's personal and business risks.

In individual lending, data accuracy is highly essential. Individual lending organizations invest significant time and energy understanding their clients' characteristics and risks and use that information to design loans that are sensitive to the cash flows of the "household - business" unit.

2. Monitoring

- Loan Follow-up/Arrears Monitoring

Group lending methodologies emphasize discipline, transparency and mutual accountability among group members. As co-guarantors, group members are constantly reminded of their roles and responsibilities to ensure full and timely repayment of loans by each member and tracking the mandatory savings. Only when groups fail to meet this obligation do loan officers intervene.

In individual lending, loan officers are responsible for tracking each loan through daily performance reports. Loans officers develop their own mechanisms for ensuring strong repayment performance by keeping informed about each client and anticipating potential problems. They need to have an understanding of different business activities and to track market developments that might affect repayment behavior. After understanding the nature of each delinquent payment, loan officers and their managers need to ensure that a speedy and effective follow-up strategy for each case is in place.

3. Enforcement

- Collateral and Incentives

The principle incentive for repayment of group loans is joint liability. The reputation, credit rating and future access to credit for each member is directly contingent on each member upholding her obligations. The strength of the group is therefore a key element in ensuring that members support each other. Mandatory savings are used in some institutions to cover missed payments or offset delinquent clients.

Individual lending uses a variety of incentives to promote repayment and reduce delinquency. Collateral requirements, co-signers and guarantees are used in different proportions depending on the institution and the loan size. These may include pledges of a client's business or household assets.

In individual lending, the discipline is created by strict enforcement of contracts, including legal methods. Positive incentives for on-time repayment such as guaranteed access to larger loans with better terms, conditions and requirements are also effective means to ensure good repayment behavior.

These fundamental differences between the two loan products and their delivery methodologies have implications across the institution. This document provides a framework for understanding these implications at each level of the organization as developed by WWB. An overview of the specific steps proposed by WWB in preparing for individual lending follows.

C. STRUCTURE AND WWB’S APPROACH: INDIVIDUAL LENDING AS A TRANSFORMATIONAL PRODUCT

The process of introducing new products to MFIs requires a gradual approach with careful planning not only for new product development, but for necessary adjustments anticipated throughout the organization. Some products have a greater impact on organizations than others because they require a new business approach. WWB considers these products as transformational products because they imply fundamental changes to the nature and activities of an MFI. The introduction of individual lending to group lending MFIs is an example of a transformational change for an institution.

For WWB, the introduction of new products can be divided into three general phases. These are:

- 1–Developing Strategic Vision and Leadership (Planning Stage)
- 2–Creating Institutional Capacity (Design and Implementation Phase)
- 3–Achieving Sustained Success (Testing, Evaluation and Integration Phase)

In the case of introducing individual lending, WWB has developed systematic analytical methods for each phase, including a variety of practical tools and staff workshops. These are used as part of a long term technical assistance program during which WWB works intensively with organizations for an average period of two to three years. Key elements of this approach are summarized in Table 2 below.

Table 2: An Overview of WWB’s Methodology for Introducing Individual Lending

1 – Developing Strategic Vision and Leadership (Planning Phase) Estimated duration – 6 to 8 months	
Objectives	Activities/Tools
<ul style="list-style-type: none"> • Set vision • Develop leadership plan • Prepare strategic goals • Assess market and competitors • Diagnose internal capabilities • Identify areas of change • Determine communications strategy 	<ol style="list-style-type: none"> 1. Organizational systems 2. Industry analysis 3. Market research 4. Institutional stocktaking 5. Strategic planning 6. Management change tools 7. Communications tools
2 – Creating Institutional Capacity (Design and Implementation Phase) Estimated duration – 6 to 12 months	
Objectives	Activities/Tools
<ul style="list-style-type: none"> • Adjust human resources structure/capacity • Adjust organizational structure, systems, processes • Adjust business model/corporate culture • Design product, procedures, materials • Establish training plan/materials • Set pilot plan and evaluation criteria • Establish rollout process 	<ol style="list-style-type: none"> 1. Training materials 2. Client segmentation 3. Market research on potential new clients 4. Individual lending operational manuals/forms 5. Process mapping
3 – Follow-Up for Sustained Success (Evaluation and Integration Phase) Estimated duration – Approx. 12 months	
Objectives	Activities/Tools
<ul style="list-style-type: none"> • Pilot evaluation • Verify rollout implementation • Monitor and revise • Identify key success factors: lessons learned 	<ol style="list-style-type: none"> 1. Pilot checklist 2. Evaluation tools 3. Benchmarks and ratio analysis 4. Business plan

1. Structure

The document is divided into three sections corresponding to the WWB processes of planning, implementing and integrating of individual lending.

Section 1: Developing Strategic Vision and Leadership (Planning Stage) is focused on defining the institution's specific goals and objectives for introducing individual lending and formulating a realistic and achievable strategy for achieving them. It is divided into four parts:

- A. Preparatory Research: Market Analysis and Institutional Capacity Assessment
- B. Vision, Leadership and Strategy
- C. Change Management
- D. Communications Strategy

Section 2: Creating Institutional Capacity (Design and Implementation Phase) addresses the nuts and bolts of identifying and planning adjustments required at all levels of the organization. This includes the design of a new individual loan product and all corresponding delivery processes and materials, as well as core institutional issues such as changes to the institutional structure, delivery processes, working culture and building necessary competencies. It is divided into four parts:

- A. Individual Loan Product Development: Design and Delivery Processes
- B. Implications of Introducing Individual Lending for Operations: Key Challenges Encountered
- C. Institutional Transformation Requirements: Adjustments across the Organization
- D. The People Factor: Human Resources at the Heart of Change

Section 3: Achieving Sustained Success (Testing, Evaluation and Integration Phase) addresses preparation for effective rollout of a new individual loan product and key elements which can support its successful long term integration into an institution. This section includes evaluation criteria and performance benchmarks, as well as identification of less measurable yet key ingredients that affect performance. It is divided into four parts:

- A. Piloting and Rollout: Evaluation and Preparedness
- B. The Launch: Monitoring Progress and Constant Refinement
- C. Growth and Performance: Setting Realistic Goals
- D. Conclusions: Secrets of Success

Guiding Questions

Recognizing that what might work for one organization may be inappropriate for another, the document proposes a series of questions which should be considered for each of these topics. The aim is to highlight and emphasize some of the core elements of the new product and lending technology which should be kept in mind when designing and implementing the new product. The document asks a set of guiding questions to which each MFI should develop its own specific solutions based on its particular operating environment, mission and business culture.

Each section and sub-section begins with a list of key questions to be addressed. These are proposed as discussion points for an organization, and also provide structure for each section.

Soft Issues

Introducing new transformational products such as individual lending depends not only on the tangible factors such as quality of planning and the level of structural and technical preparedness; it also is determined by a number of less concrete factors but equally important issues, especially at the human level. These issues include work approach, commitment and enthusiasm, all of which have an impact at the heart of the institution. They comprise factors such as: the approach of leadership to managing change; dealing with staff uncertainties, concerns and expectations during the transition period; and achieving collective ownership and buy-in to the change process.

Identified as soft issues, these have an important impact on the functionality of organizations, particularly in periods of transformation. While soft issues may often be overlooked or underestimated by MFIs focused on the more tangible aspects of developing new products, managing these issues with foresight and preparation can have an important effect on the success and ease of the changes to come.

For this reason, soft issues are identified whenever possible throughout the document with the objective of highlighting qualitative aspects that distinguish approach and performance between MFIs.

2. Case Study Institutions

References to four WWB network members that are currently integrating individual lending or that have completed the process are made throughout the document. These institutions are MI-BOSPO (Bosnia), Kenya Women's Finance Trust (KWFT) (Kenya), SHARE (India) and Association Al Amana (Morocco). MI-BOSPO and KWFT have completed the introduction of individual lending, while SHARE and Al Amana are currently in the rollout process. They represent a variety of sizes, structures, business cultures and group lending methodologies, and illustrate a variety of approaches and experiences. Their experiences in introducing individual lending are diverse but many of the challenges and obstacles highlighted are typical of the barriers that many MFIs encounter in the process. References to their experiences also enrich the document with insightful comments (especially regarding soft issues), and bring a pragmatic perspective to the challenges of introducing transformational change.

Table 3: Comparative Table of the Case Institutions

	Al Amana/ Morocco	SHARE/ India	KWFT/ Kenya	MI-BOSPO/ Bosnia
Portfolio size in US\$	28,134,198	14,196,572	12,939,667	7,116,059
Number of clients	101,610	278,895	55,962	7,162
Average loan size outstanding loans in US\$	276	51	231	994
Number of branches	95	220	21	6
Number of loan officers	265	599	121	22
Number of staff	421	1004	271	39
Lending technology used	Grameen	Grameen	Grameen Adjusted	Solidarity
Administrative costs / Avg. portfolio	21%	22%	26%	17%
Loan officers caseload	339	372	340	22
PAR > 30 days	0.1%	0%	3%	0.21%

Figures as of December 2003

As can be observed in Table 3 the type and size of institutions varies, from large institutions like SHARE and Al Amana, with more than 100,000 clients and large branch networks (over 200 branches in the case of SHARE), to medium size organizations like Kenya Women's Finance Trust (KWFT) with around 50,000 clients and 20 branches, to small organizations like MI-BOSPO with less than 10,000 clients.

In contrast with the other profiled MFIs, MI-BOSPO uses a solidarity lending model based on smaller groups of three to six members. KWFT, SHARE and Al Amana have all adapted Grameen models to deliver their group loan products to low income women. SHARE and Al Amana use a delivery model based on the organization of centers, which have 25 to 40 members arranged in five to eight groups of five members each. KWFT, on the other hand, has a slightly different approach. Its centers have large groups of up to 40 members as well as smaller groups of up to six members who can access larger loans. In addition to the two group sizes, KWFT has created a Small Group Loan product that provides access through groups (up to US\$1,000) for which it requires guarantors and collateral in addition to the solidarity guarantees (see Section 2, Box 7 for more on KWFT's Small Group Loans). All three of these institutions have highly standardized processes and a modular structure, which allows them to reach large numbers of clients with simple processes.

In the group loan processes used by all four institutions prior to the introduction of individual lending, analysis of members businesses and their repayment capacity was limited. Business size and the monthly gross income were roughly estimated, and repayment capacity calculated and approved by the loan officers. However these estimations were subjective and were not backed by any cash flow assessment. The primary factor of the loan decision was based on each applicant's knowledge of his or her fellow group members.

Research visits were conducted to MI-BOSPO and KWFT, with reliance on data supplied by WWB for the other two institutions.

SECTION ONE: DEVELOPING STRATEGIC VISION AND LEADERSHIP (PLANNING STAGE)

The introduction of individual lending is an important strategic decision for group lending MFIs. It is a long term and complex process which involves transformation across the organization. The more thorough the preliminary planning and preparation, the better the chances for success and the smoother the transition period is likely to be.

The first step in the planning process is particularly important. It is at this stage that organizations will need to define their vision, future strategy and leadership structure for the new individual loan product. This phase considers the broad strategic issues and choices: it defines the desired destination, the roadmap for getting there, and identifies the individuals who will lead the way. MFIs are distinct and dynamic entities, each with their own personalities and approach. These are reflected in the vision, strategy and leadership style of the institution. Likewise, each MFI has its own structure, processes, competencies and culture that determine how it delivers its products to its clientele. Each institution needs to determine the strategy that is most appropriate for the MFI based on the specific market context and the existing capacities and working culture of the organization.

This section provides MFIs with a framework for addressing the essential questions that will shape their vision and strategy. It begins with an overview of essential information required by MFIs to ensure that planning of their vision and strategy is grounded in market realities and on their existing institutional capacities.

A. PREPARATORY RESEARCH

Detailed preparatory research and analysis is essential for MFIs to make informed strategic choices. WWB strongly encourages its affiliates to undertake two levels of research before launching new products: **Market Research** and **Institutional Stocktaking**.

Market Research aims at understanding market opportunities for the new product. It is divided into two categories:

- a. Industry Analysis
 - Identification of existing competition in the market: organizations offering similar services, the terms and conditions of products currently available, locations of operation, client profiles served, etc.
- b. Customer Analysis
 - Estimated effective demand for new product by current clients, and potential new clients from new market segments.

By systematically gathering information about the market context, competitors and their products, and the characteristics of the client segments they intend to serve, MFIs will make informed decisions about defining the vision and setting the strategy for product diversification.¹

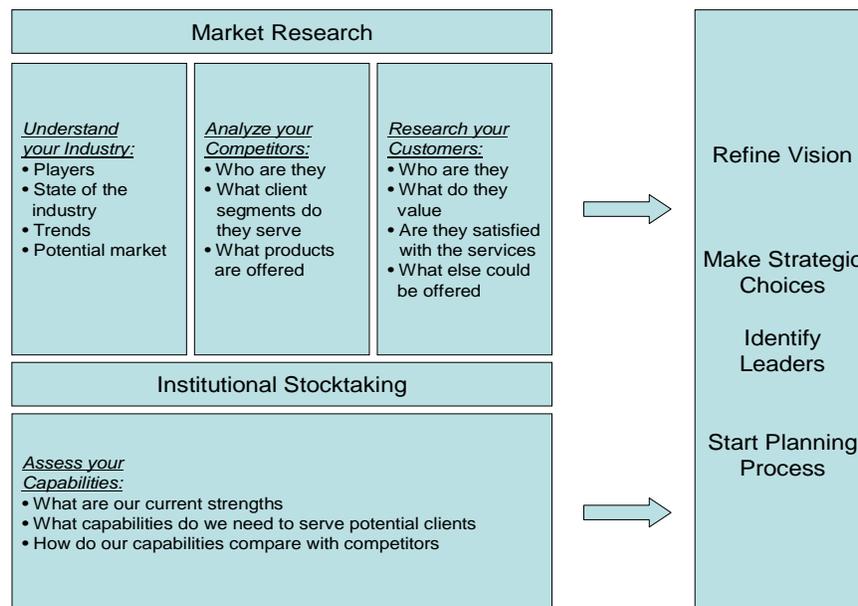
Institutional Stocktaking aims at providing each MFI with realistic information about its current internal capabilities and available resources, and is critical to assessing the institution’s readiness and capacity to introduce substantive changes. It not only identifies organizational strengths and weaknesses, but also maps out how existing resources can best be adapted to meet the specific competencies required for the implementation of a new individual loan product.

Like market research, this institutional analysis directly informs strategic choices. It poses questions such as:

- What are the capabilities required to reach and serve potential clients?
- What additional skills do our staff require to manage and deliver the new products?
- Is our current organizational structure capable of managing multiple products?
- How will responsibilities be divided?
- What technical expertise is required?
- What will be the timing and sequencing of changes required?
- How will the introduction of individual lending affect other aspects of the organization and current activities?

Tools developed by WWB for this research include: Industry Review Tool, Client Segmentation, and Institutional Stocktaking Exercise.

**Figure 1: Preparatory Research:
Analyzing Market Conditions, Prospective Customers and Internal Capabilities**



¹ Competitive Strategy: Techniques for Analyzing Industries and Competitors, Michael E. Porter, Free Press, 1998.

1. Market Research

Industry Analysis

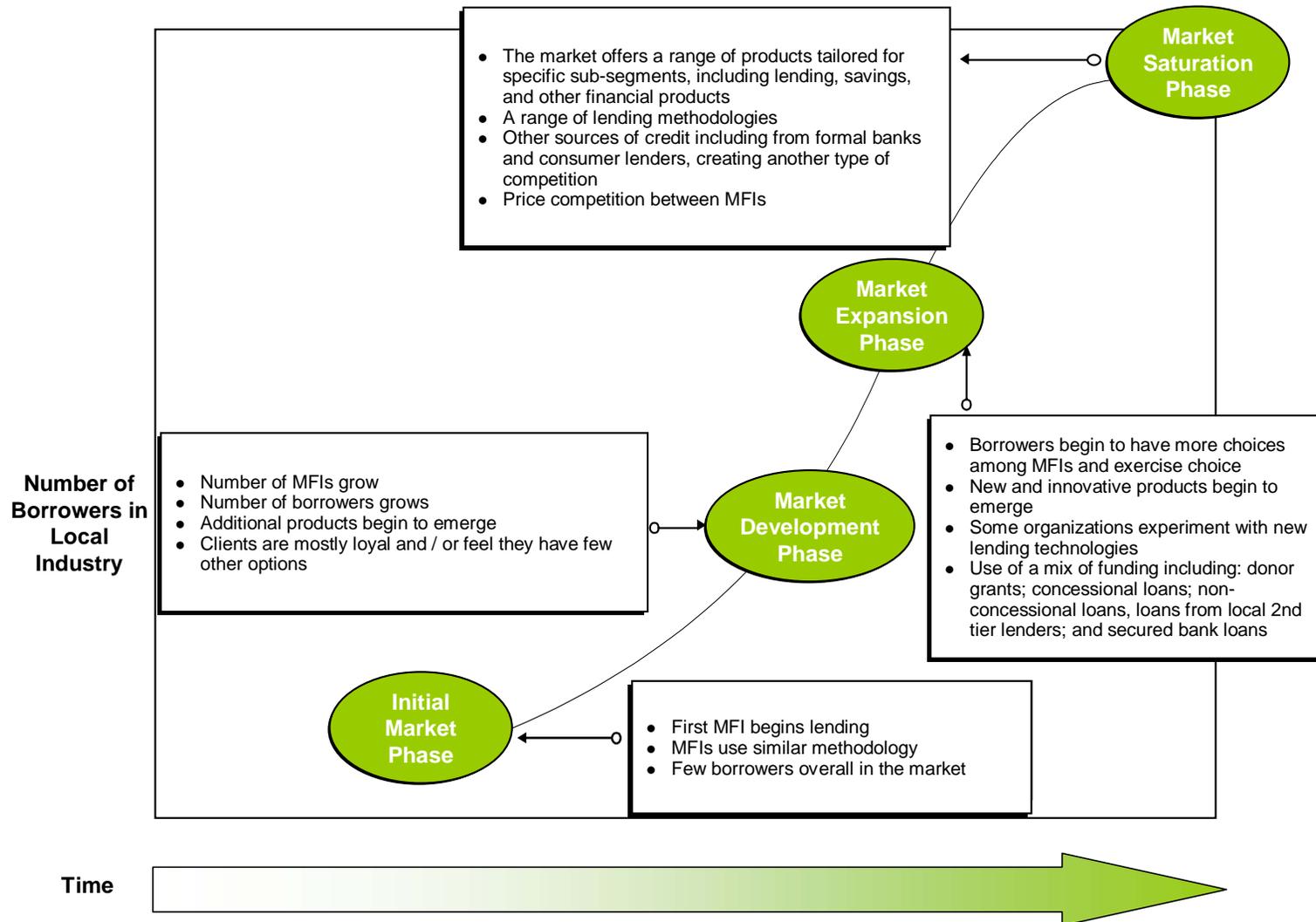
Guiding Questions

- What does the industry look like now?
- How attractive is it to new entrants?
- How big is our potential market, and how saturated is it?
- Who participates in our industry?
- How is the industry changing?

These questions will help the institution gather data that will be applied in the subsequent analysis of whether the institution is well-placed to introduce individual lending.

An analysis of the industry should provide information about the institution's stage of development and its potential for growth. The key elements to consider are outlined in the graph below.

Figure 2: Typical Phases in the Growth of a Microfinance Market



A study of the industry assesses factors external to an organization that have an influence on the institution's present and future success. Industry analysis also includes an assessment of changes in the industry, such as how changes to government regulations might affect the future of microcredit or how the banking industry will be affected by an opening of the financial sector to foreign banks. The introduction of a new product suggests that the institution will face new competition and expand to different sectors of the microfinance industry.

Customer Analysis

Guiding Questions

- What will be the profile of our target clients for individual loans?
- What exactly are they looking for in an individual loan product?
- Is the current staff comfortable with new clients and the new type of relationship required with individual loan clients (more in-depth analysis of their businesses)?
- How do existing clients respond to the new product?

Institutions need to have strong data on projected demand for the new product to help inform product design. These questions also illustrate the importance of managing the client relationship—with both existing and new clients—as the institution introduces the new product.

An analysis of the industry and competitors provides only half of the story of the market in which an institution operates. WWB proposes two research tools to help MFIs deepen their understanding of client markets:

1. Client segmentation—classify the type of clients the institution currently serves in order to understand which percentage of the current clientele could afford to take on larger loans and would be eligible for individual loans; and
2. Assessment of market potential—identify new individual loan clients and understand the loan product attributes that better serve the financial needs of their different types of businesses (trade, manufacturing, service and agriculture).

Customer analysis can be a useful way to orient an institution toward client data collection. Because in-depth analysis of clients' businesses is not a part of most group lending methodology, systematic collection of data on clients may not be a strength of a group lending institution. Client segmentation and market research exercises undertaken when the new product is introduced can help build in-house skills and tools that will be valuable in the future.

Client Segmentation

Guiding Questions

- What is the profile of the target client market for individual loans?
- What percentage of existing group loan clients will be eligible for the individual loan product?

These questions will help the institution address how the profile of the new target client market may or may not differ from its existing client base. Shifts in average client profile may have a significant impact on the institution's mission. As will be seen in the example of Al Amana (Box 1 below), client segmentation for some institutions reveals a gender imbalance in the new target market for individual lending, given the predominance of men in profit-generating microenterprises in some markets. Management will need to analyze the results of the client segmentation work in order to make critical decisions early in the process.

Most group lenders introducing an individual loan product assume that a substantial portion of clients will come from the group loan portfolio. Their assessment of demand is based largely on client feedback and increased loan sizes requested by clients. However, because group lenders do not conduct in-depth cash flow assessments of their clients, this is an assumption that does not necessarily reflect existing clients' repayment capacity or financial requirements.

Based on WWB experience, on average between 10% and 30% of an institution's current portfolio is composed of existing clients that could afford to pay larger loan amounts, and would be suitable to receive an individual loan. The rest of the demand would come from new clients with larger repayment capacity that currently are not clients of the institution. Segmentation of existing customers is a particularly important exercise for a group lender considering the introduction of individual lending as it can help estimate the percentage of group loan clients that are eligible to graduate to individual loans.

Client segmentation is an exercise that segments current clients into groups according to criteria such as business size and performance and growth prospects. The institution collects socio economic data of the business and family income and expenditures from sample groups of clients, from which conclusions can be drawn about the total client base. Segmentation allows MFIs to estimate the proportion of existing clients who have an effective demand for individual lending, or whose repayment capacity and business growth trends indicate that they would be likely candidates for individual loans.

An equally important outcome of a segmentation analysis is the reinforcement of the fact that different products suit different segments. In most cases, the majority of a group lending institution's clients will not be eligible for graduation to individual loans. Group lending meets the needs of these segments and can be an efficient methodology for institutions that wish to serve them.

A client segmentation exercise conducted by Al Amana indicated that 29% of current Al Amana group loan clients would be eligible for individual loans, based on the classification of businesses according to net profit and growth potential (see Box 1).

Box 1: Al-Amana: Results of Client Segmentation

Group 1: Businesses in decline—for this first group, the enterprise is not the prime source of income.

Group 2: Secondary activities—this group includes diverse business activities, mostly home-based that represent a supplementary income for the household. This group needed a second income to repay loans.

Group 3: Businesses in expansion—only 45% of these businesses operated from home and included a more diverse range of activities. This group appear better suited to the group loan profile rather than a target segment for individual loans.

Group 4: Income-generating businesses—the majority of businesses are registered, have tangible assets and constant capital inflows and outflows (indicating stability) and thus have a capacity to assume debt. This is a target group for individual loans.

Group 5: Established microenterprises—this group includes registered, well-established businesses operated out of a permanent business premises. Capital inflows and outflows are permanent. Solid revenues are prime source of household income. Also a target group for individual loans.

The gender balance of these groups shifts radically from group 1 to group 5, with the businesses in decline (group 1) being predominantly female (70%) and the established microenterprises (group 5) being predominantly male (84%). This client segmentation work implies possible changes in the gender profile of Al Amana’s clientele with the introduction of individual lending. Al Amana will need to examine how to balance the growth of their individual loan product with their commitment to serving both low income women and men.

For institutions whose mission it is to serve primarily low income women, client segmentation work may reveal that modifications need to be made to the individual loan product to better suit the needs of that target market.

Al Amana’s grouping of clients into five categories also identified useful characteristics for defining group and individual lending target client profiles. The first three groups define clients who are suited for group loans, while the last two have good prospects as individual loan clients.

Market Potential for New Individual Loan Clients

Guiding Questions

- What is the market scope for an individual loan product?
- What are the financial needs of the future clients?
- What types of product are more suitable for them?
- Who are our primary competitors?
- Which customers do they serve?
- What products and services do they offer?
- What are their competitive advantages?

The data gathering stages described in Section One are fundamental elements of the planning process. It is important to note that some institutions may, after having gathered the industry and new client data, determine that it is not well-placed to introduce the new product. If the answers to many of the guiding questions reveal a tight market with stiff competition and little room for new entrants, group lenders may decide to distinguish themselves by continuing to serve their target market with greater efficiency and service rather than by diversifying their products. Management must analyze the results of the market research with rigor and determine the best road forward.

Identifying the competition, both current and potential, is a crucial diagnostic step. How the institution will differentiate itself is a key question that will come out of this analysis.

As discussed earlier, most group lenders will need to turn to new client segments for the majority of their individual loan clients. During the pilot phase, some MFIs may prefer to pilot the

individual loan products exclusively with existing group loan clients whereas others may prefer not to disrupt current operations and pilot exclusively with new clients. Whatever the pilot phase approach, eventually the individual loan product will need to be promoted alongside group loans to new client markets. MFIs need to have clear understanding of market conditions and opportunities to guide their product development and marketing strategy. There are three levels of market research:

1. Assess the scope for potential new clients, estimate effective financial demand for individual loans (what do people need and what can they afford?).
2. Analyze the competition (what credit products are currently available and under what terms?).
3. Assess the operating environment in current and potential regions (what are economic conditions and trends affecting clients' businesses?).

All three aspects are essential and interconnected. Assessment of the competition and operating environment are readily available and should be monitored on an on-going basis by members of the operations teams—both at head office and field levels.

Analysis of new client prospects, on the other hand, involves surveying large numbers of businesses over wide geographic areas. It is a more demanding and time-consuming task that requires a specially trained team of researchers to ensure accurate information. While research can be conducted in house, providing credit staff with a highly valuable opportunity to gain intimate familiarity with markets; it also diverts them from their work and impacts on productivity. As a result, MFIs frequently retain outside consultants and market research companies for this level of research.

Prior to launching market research, it is important to have a clear idea of the businesses to be sampled in the study. Building on the business scale and financial criteria used for the segmentation exercise, additional specifications should be set. These will also form the basis of product eligibility criteria:

- Minimum time in business.
- Minimum/maximum age.
- Men/women.
- Identified business sectors eligible.
- Types of loans required (i.e., working capital or fixed assets).
- Registered and unregistered businesses.
- Level of financial and business recordkeeping.

Box 2: KWFT: Current and Potential Clients' Demand for Product Features

In 2002, WWB conducted market research with KWFT to understand the financial demands of current and potential customers. Qualitative research was undertaken using a combination of participatory rural appraisal tools (PRA) and focus groups guides. This client research was used to design the product attributes for the individual loan product. A summary of key findings follows:

- Product with lower interest rates, as well as rates on a declining base.
- Reduction in compulsory savings.
- Larger loan amounts.
- Flexible payment schedules.
- Fast turnover.

- Simple procedures and few requisites.
- Transparency.
- Simple guarantees—with guarantees ranked in order of preference: household assets, spouse, compulsory savings, fellow business person, salaried employee, share certificates, and title deeds.

The results of the market research helped inform not only the design of the new individual loan product but also modifications to the existing group loan product (see Section Two for more on group loan product modifications).

2. Institutional Stocktaking

Guiding Questions

- Are we institutionally prepared?
- Is the timing right for introducing widespread changes implied by individual lending?
- Should MFIs meet basic performance benchmarks before launching individual lending?
- What are institutional capacities: strengths and weaknesses?

These are key questions, whose answers also represent enormous implications for the institution's next steps. Introducing a new product such as individual lending in group lenders is a transformational step for the institution and should only be taken when management determines that the institution is prepared to forge ahead. There may be external and internal pressures to introduce the new product, but the institution's future sustainability relies on management's ability to assess the appropriate timing of the transformation.

The second area of preparatory research is an assessment of the MFI's institutional preparedness. This includes a thorough stocktaking of current institutional capacity, identifying areas where the organization is most effective and functional, as well as areas where challenges exist. Stocktaking is also an opportunity to review the current work approach and time use of staff, especially those who will be most directly involved in development and implementation of the new individual loan product.

Issues considered in an institutional review should include:

- On-going projects—who is involved, what stage these are at.
- Pockets of strength—leaders who could contribute to the development and implementation of the new product.
- Any major challenges need to be addressed before launching a new product—strengthening of a department or team.
- What areas of the organization can absorb more work—in terms of time available and in terms of technical capacity.

The goal of the stocktaking exercise is to provide an analysis of the organization's available resources and competencies in launching plans for an individual loan product. It is important that information provided be realistic and up to date so that the institution has a clear understanding of changes required before individual lending can be introduced (see Box 3 for an example of the results of an institutional diagnostic).

Key questions which an organization will need to consider are:

- Is the institution's group lending technology and performance strong? An institution's group loan product should be sound before the process of introducing a new product begins.
- Is there strong internal capacity in the finance, MIS and credit/operations departments, capable of monitoring and enforcing standardization of the new product? These departments face the largest number of operational changes in the process of introducing the new product. They also play critical roles in the implementation and monitoring of the product.
- Is there openness to making the necessary reforms to human resources (i.e., retraining, hiring of new staff, changing salary structures, implementing a performance-based incentive system)? The changes at the institutional level represent significant changes to human resources. An institution must have a clear vision for how to communicate these changes to current staff, and how to manage the need for new skills and systems.

Box 3: SHARE: Institutional Diagnostic

In a workshop conducted by WWB with SHARE to assess its preparedness as an institution for introducing an individual loan product, the following issues were identified:

- Skills required by staff to manage the new product
 - Loan officer profile requires economic or finance background.
 - Branch managers need to be able to understand financial analysis to approve loan applications.
- Organizational structure
 - Need to adjust roles and responsibilities of branch and area managers to be able to monitor both products.
 - Need to adjust scope and activities of internal audit to monitor the new product.
- MIS
 - Need to add monthly installments and variable loan size and loan term.
 - Need to develop arrears report to monitor individually delinquent clients on a daily base.
 - Need to develop cashier and liquidity management applications to handle cash at the branches.
- Human resources
 - Introduce career path and salary scale for individual lending.
 - Develop internal capabilities to train loan officers for individual lending.
 - Develop incentive systems for individual lending and group lending.
 - Train branch managers and supervisors in individual lending.
- Branch infrastructure
 - Adjustment of current branch layout and equipment to accommodate individual loan officers.
 - Add cashiers with secured and isolated space.

SHARE's early assessment of the wide scope of required institutional changes helped it draft a comprehensive strategic plan for introducing the new product.

As can be seen from the SHARE example, the implications of introducing for individual lending stretch to all corners of the institution and imply significant changes and intensive work for each division of the MFI. However, apart from the structural changes identified, a much more challenging question was also raised during the stocktaking exercise. This concerned the fundamental differences in work approach implied by an individual loan product due to the flexibility inherent in its loan design and delivery. The decentralization of loan analysis and decisions typically used in individual lending contrasted sharply to the highly standardized and centralized processes currently used to deliver group lending at SHARE.

B. VISION, LEADERSHIP AND STRATEGY

Once the diagnosis of external and internal factors has been completed, the planning phase can begin. WWB has devised a stepped framework that accomplishes this.

The first step in this process for the MFI is defining a **vision** for both the new product specifically and for the institution. Once the vision has been established, key strategic decisions must be made about how to achieve this (**strategy**) and who will drive the process (**leadership**). These three factors will provide the cornerstones for transformation toward integration of an individual loan product.

Once established, these will guide the second step in planning which focuses on changes required throughout the organization. This includes adjustments required at the structural and procedural levels, and the human resources levels: building necessary competencies, and managing impact on institutional culture.²

WWB has devised Change Management tools to guide MFIs through this process. These tools address not only concrete planning, but also provide a framework for identifying and managing soft issues which affect implementation. Finally, the importance of communications throughout the process of integrating individual lending is considered, both within the organization and through marketing messages to the public.

1. Vision

Guiding Questions

- How will the institution look once the integration of individual lending has been completed?
- What comparative advantages will the introduction of individual lending bring to the institution?
- How will individual lending strengthen its position with regard to competing institutions?

These questions are important tools for consensus building, as key players in the institution must be in agreement about the goal of the institution. It is also important for staff to engage in the exercise of imagining how the institution will be different with the introduction of the new product.

The vision is the definition of goals and ideals for the new product and the organization post-introduction of the new product. Defining a vision is essential to establish a common understanding of goals.

The vision is a constant reference point for strategic decisions along the way. It also reinforces why changes are important for the institution, both internal changes envisioned for the institution as well as changes to the institution's public image and position in the local competitive market.

² Alliance Atlantis Consulting Group as adapted from Malcolm Baldrige framework.

Developing a Vision

Formulating a clear vision for both the individual loan product and for the institution as an individual lender:

- Allows for a shared mindset among staff and board members and helps communicate the need for change to others.
- Clarifies the difference between where the institution is now and where the institution wants to be.
- Helps to maintain the focus (especially in difficult times), and provides a measure for progress in meeting anticipated changes.
- Helps identify who will need to be involved to move the institution to where it wants to be.

Issues to be defined by an institution's vision:

- Description of services offered, approach to business and the organizational structure.
- How it will affect each person's work and career possibilities in future.
- How it will affect clients: public perception.
- What will be the comparative advantage of this vision.

Box 4: KWFT: Evolution in Institutional Vision

Starting vision:

- Helping to empower very low income women through access to credit to build their livelihoods.

Current vision:

- To build a competitive, financially stable institution that provides women, especially poorer women, with access to a range of credit products. (Plans to include savings products once the new Microfinance Bill is passed.)
- Provide women with the know-how to manage credit and savings through training and support in the group meetings.
- Build local capacity: training and support to staff.

Impact of Developing and Integrating an Institutional Vision

A new vision not only delineates an idea of how things will be done in the future, but also indicates an end to the way things have been done in the past. The implications of a new vision take time to comprehend and synthesize. It is contingent not only on leadership skills, but also on the way that vision is presented and communicated.

2. Leadership

Guiding Questions:

- Who will lead the process at the different levels of the organization?
- Is there necessary support and ownership for these changes from top management (and board)?
- Are leaders willing and able to allocate the appropriate amount of time for the change effort on a continual basis?

Leadership during change is as much about motivating and inspiring as it is about making strategic decisions. Getting board members' buy-in early in the planning process will increase the likelihood of their support of the final product.

Core Leadership Team and Project Manager

It is important to identify key staff members who will play leading roles in the change process. Their commitment is particularly valuable as they will be champions throughout the process.

Appointing a team of core leaders to guide the design, development and implementation of individual lending can contribute greatly to its success. It is critical that this team brings the necessary skills, capacity and commitment, and that it represents the interests of staff directly affected by changes to ensure that their interests are taken into consideration. For example, at SHARE the core team members responsible for planning and piloting individual lending included: the CEO, individual lending manager, audit manager, savings manager, field operations manager, planning manager, training manager and the legal department.

WWB recommends that a project/product manager be appointed who has direct access to senior management and who will coordinate, monitor and report on all aspects of the implementation process.

Leadership is always crucial, but especially so at times of change. Energetic leadership that is highly focused and resourceful, yet open to questioning will enhance the response to new ideas. A well thought-out approach to communications will increase the acceptance of changes by those affected. By recognizing that changes can be threatening and de-stabilizing, leaders who are able to present a vision in a way that is compelling and inclusive will build the consensus and buy in of staff, board members and others required to ensure the successful transition to individual lending.

3. Strategy and Strategic Planning

Guiding Questions

- How does the new product fit into the overall institutional strategy?
- How will it compete with other similar products on the market?
- What weight will be given to the new product in the product portfolio?

The first task of an identified leadership team or product coordinator will be the creation of a strategic plan. This is a comprehensive document that will continuously guide the institution through the transformation period in turning its vision into reality.

A strategic plan includes the broad goals set by management, and change targets for each area of the institution. It is driven by analysis of the market research and institutional review.

A strategic plan should outline the following detailed information:

- Institutional goals for the individual loan product.

- Adjustments and upgrades at each level of the organization required to reach the targets.
- Anticipated changes to other products and services.
- Proposed stages and timeline for new product implementation.
- A development plan and preliminary projections.

C. CHANGE MANAGEMENT

1. Change Management Process: Building Consensus, Preparing for Change

WWB uses a comprehensive change management framework to help MFIs anticipate and prepare for changes. This framework is useful not only for planning structural changes, but also for identifying soft issues such as staff preparedness and attitudes toward change that underpin successful transition within the organization. The framework is especially helpful in the introduction of individual lending since it identifies the necessary shift in work approaches and organizational culture.

The goal of change management is to create awareness in senior management and staff to areas of change brought by new individual lending processes and the new skills or competencies required. It also aims to highlight the various challenges posed by these changes, providing foresight to the planning process.

Institutions can conduct thorough diagnoses of the external environment and internal capabilities and define in clear terms the vision for the institution going forward, but these alone do not ensure smooth implementation. For an institution to implement the new vision effectively the change process needs to be well-orchestrated. Integral to that process is building consensus at all levels of the institution. Where consensus is not possible, leadership must be able to manage dissent constructively.

WWB has developed a variety of change management tools which form part of its technical assistance in introducing individual lending. These address changes at three levels: **Structure, Competencies and Culture**. Key considerations in each of these areas are outlined below.

Structural Changes

Guiding Questions

- Can the individual loan product be delivered effectively through the existing credit delivery structure?
- What changes need to be made in the current delivery process, infrastructure, systems and internal controls?
- Which changes can be made gradually? Which ones require immediate attention?

The sequencing of structural changes is important. Management must understand the scope of the structural changes required and have a clear plan for implementing those changes. (See Section Two for a complete discussion of different credit delivery structures and the full scope of change implications for departments across the organization.)

Competencies

Guiding Questions

- What technical and organizational competencies are required at the level of loan officers and supervisors responsible for delivering the new products?
- What is the best way to develop the team?
- What additional competencies must be built for the staff to effectively support the new product launch and expansion?

Management must closely examine whether the institution has the competencies in-house to effectively manage the implementation and delivery of the new product. The answers to these questions will determine how much the institution can promote and train from within and how many new staff members will need to be hired with new skill sets.

Culture

Guiding Questions

- How is the introduction of a new product going to affect existing behavior at the branch level? At the head office level?
- How will the institution address resistance / fear of change?
- How will the institution manage different product cultures simultaneously?

These are the soft issues, the non-structural issues that must be managed with care. These questions need to be asked at the outset of the process because management must have a plan for how to manage cultural changes from the beginning. They are perhaps the most difficult to address because culture is intangible, but the stronger the leadership's vision is for the new product the more aligned the process will be with the existing culture.

A useful change management tool that helps the organization to pinpoint change management issues is the change overview tool below. This framework is helpful in giving structure to plans, and for communicating a new vision. It can also be adapted for analysis of changes anticipated by department and activity, and can provide the basis for detailed action plans for each area of the institution.³

Table 1: Change Overview

Dimension	What Remains the Same	What Will Change	Potential Issues
Target Market			
Competitors			
Products			

³ Leading Change, John P. Kotter, Harvard Business School Press, 1996.

Dimension (cont.)	What Remains the Same (cont.)	What Will Change (cont.)	Potential Issues (cont.)
Credit Assessment, Admin, Monitoring and Enforcement			
Credit Delivery			
Credit Management Issues			
Human Resource Issues			
MIS			
Organizational Structure			

Consensus Building and Commitment

<p>Guiding Questions</p> <ul style="list-style-type: none"> • Is there consensus among senior management, staff and board about introducing this new product and committing the necessary human and financial resources? • Is there commitment from key staff members to embark on this change process?
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Everyone in the institution will be either directly or indirectly affected by the introduction of individual lending. Its success will depend on not only the full involvement of the staff but their commitment and enthusiasm. As with any major change process, there needs to be commitment at all levels of the institution. Building a strong consensus early in the process can have a large impact on the success of the product’s rollout.

All staff must understand the importance of individual lending to the mission and future of the institution. This requires that everyone in the institution be aware of the product and the advantages it will bring to the organization. The more staff members comprehend their vested interest in the successful assimilation of individual lending, the more likely they will be able to actively support the change process.

While there is unlikely to be a uniform consensus across the institution, gathering the reactions of all involved is valuable not only for the insights they provide, but also for promoting a sense of shared ownership. The more input people have in defining the changes that will affect their work, the more they will have ownership for the results. Involvement early in the process increases the potential for support and sense of ownership of the process among staff.

<p>Box 5: KWFT: Consensus Building</p> <p>In the case of KWFT, the idea for an individual loan product was brought forward in loan officers’ organizational meetings. It was a bottom-up process that “took much convincing of managers and head office staff.” There was still a need for management to build consensus among the loan officers, not around the product itself but in the strategic plan designed to rollout the product. The implementation of individual lending has not been as fast as many credit staff members would have liked, but management has harnessed their commitment to the product in order to gain support for the implementation timeline.</p>

Board Consultation

Boards of directors for many MFIs have a limited level of involvement. However, even the most hands-off board should be made aware of the implications of introducing individual lending.

Questions for board consideration include:

- Potential for mission drift: moving away from the prime target market (low income women) to service clients with higher income and larger more established businesses (often men), and the decision to allocate loan portfolio based on loan product or loan sizes (i.e., in the case of KWFT, individual loans cannot exceed 10% of the loan portfolio, given that these loans target wealthier clients).
- Implications for financing needs: projections on the loan portfolio development, profit generation and fundraising requirements.
- Significant human resources decisions: revising management structure, potential for introducing a different profile of loan staff and for salary system reform.
- Changes to the public image of the institution.

Apart from board responsibilities in these areas, members may bring essential support as the institution develops new requirements. Moreover, as with staff, building in board consent and participation along the way can avoid misunderstandings at a later stage which can undermine and even disrupt the change process.

D. COMMUNICATIONS STRATEGY

1. Internal Communications

Changes provide challenges but also opportunities. The way that ideas and plans are communicated can change perceptions and reactions. Organizations communicate differently according to their institutional culture and management style, but regardless of idiosyncrasies **strong communications should in all cases address the same issues.**⁴

Transparent and consistent communications can:

- Facilitate strong leadership and vision.
- Promote directed information flows (limiting speculation and containing gossip).
- Anticipate questions and uncertainties of staff and clients that come with changes.
- Help build consensus around goals.

Organizational concerns—communications issues relevant to substantive changes planned with the introduction of individual lending include:

- Why is the introduction of individual lending necessary?
- How will it help the organization to be more competitive?

⁴ Managing Transitions, Making the Most of Change, William Bridger, Addison-Wesley Publishing Company, 1991.

- What is the future of current operations (group lending) after the change?
- What changes are going to happen in operations?
- What changes are going to happen in the organization?
- What is needed from members of the organization for the introduction of individual lending to be successful?

Individual concerns—communications issues pertaining to the concerns of individuals to be directly affected by individual lending include:

- How will their role/function be affected: new responsibilities and expectations from managers?
- Will the working culture of the institution change?
- How does their job fit into the new vision of the institution?
- Will their career prospects be affected?
- Will their compensation package be affected?
- How will they benefit from the change?
- Who stands to benefit? And who stands to lose?
- What is needed from me for the change to happen?

The more employees know about the change and the required behaviors, the more they can align themselves with the values and culture.

2. External Communications: Marketing Opportunities

The addition of individual lending can provide an important marketing opportunity for MFIs. Launching of the new individual lending product will be a chance for MFIs to reach out to new clients with a new image. It is also an occasion for them to re-package and re-position themselves among the competition.

It is a chance not to be missed or undermined; it is a time to re-think marketing materials. External marketing strategies are part of the implementation strategy. However, thinking about these questions can help MFIs sharpen their vision of what the institution will look like in the future, and can feed internal understanding of the new vision.

Based on WWB experience, the preparation process before the implementation of individual lending is key and needs to be strengthened. It is very important to conduct the analysis of the portfolio segmentation, which helps the senior and middle managers to visualize key differences among their clients. Also the market analysis contributes to a better understanding of the potential clients and their needs that will be valuable inputs for the design of the product features, eligibility criteria and graduation strategies.

SECTION TWO: CREATING INSTITUTIONAL CAPACITY (DESIGN AND IMPLEMENTATION PHASE)

Once key strategic decisions are in place, the second phase of product design and implementation processes can be initiated. This includes not only defining the terms, conditions and delivery procedures for the new individual loan product, but also identifying necessary changes to the institutional structure, delivery and administrative processes, working culture and approach, as well as the core issue of building new institutional capabilities and competencies.

During the design and implementation phase, it is important that MFIs are adequately equipped with technical expertise. This is usually achieved by strengthening the competencies of a core team of staff who will be responsible for the development and testing of the product, often with input from external advisors. Substantial time and effort needs to be invested in the selection and training of a core team that will be responsible for delivering the product during the pilot phase.

The importance of developing a strong level of in-house capacity cannot be overly stressed. This is essential not only to ensure well-designed loan products and policies, but also to ensure that the core team will be capable of training other staff as the new product is rolled out. Because these individuals will also be responsible for guiding changes across the institution required for delivery of both products, they will need to be strategically selected and supported by managers.

Finally, while the introduction of individual lending implies significant changes for a group lending MFI, perhaps the greatest challenges concern changes to the organization's human resources. Integrating the required adjustments regarding the work and time use of operations staff—up-grading skills and recruiting new loan staff and managers; implementing changes to career paths and incentive systems; establishing effective and comprehensive training programs; and managing the sensitivities of staff throughout the transformation process—is demanding and sometimes delicate. This section concludes with an entire sub-section that addresses these challenges.

A. INDIVIDUAL LOAN PRODUCT DEVELOPMENT: DESIGN AND DELIVERY PROCESSES

Guiding Questions

- What are key differences in individual and group loan product design?
- What are the specific features of individual lending credit technology that differentiate it from group lending?
- What are the key differences in individual and group loan assessment and approval procedures?
- What are the key differences in group and individual loan officer responsibilities and time use?

It is in understanding the distinctions between the existing and new loan products that the institution understands the far reaching impact that the new product's introduction will have on the organization.

1. Individual Loan Product Design and Features: Terms, Conditions, Approval Process

Individualized Loan Terms

Individual lending is based on assessing risk through credit analysis. Each loan is structured according to the analysis of the cash flows of the applicant's business and household. Loan amounts and terms are set based on an assessment of the applicant's financial needs and repayment capacity, as well as analysis of other risk factors such as their investment plan and character assessment.

The thorough credit analysis undertaken prior to each loan means that, in principle at least, risks to the lender are better identified than with group lending since more detailed and accurate information about the financial and business situation of the client is known. This, however, is contingent on the training and effectiveness of the staff and procedures used.

As clients become better known to the MFI and develop a repayment track record, they become a better credit risk to the institution. These clients often require continuously larger loans and become lucrative clients for the institution. As such, they are also sought after by other competing microlenders. MFIs have an interest in retaining these clients and therefore must meet their evolving credit needs with individualized service.

Soft Issues

Group lenders rely heavily on standardized approaches where all clients are processed through a rigid system of stepped loans. Individual lending requires a new, more flexible mind set. Emphasis shifts from ensuring that clients conform to the rules of the institution to finding specific credit solutions to each individual's need. This is a more client-oriented approach that has implications for the working culture of the institution.

Flexible Loan Structuring

An important difference of individual lending over group lending is the flexibility it offers to clients. Unlike the highly systemized nature of many group lenders where loan terms and growth in size is pre-determined according to specified loan cycles, the loan amounts, installment size and payment frequency for individual loans should ideally be determined according to the needs and capacities of each individual loan applicant.

Integration of individual lending therefore requires not only significant adjustments to the competencies of the loan staff and managers, but also to the supporting administrative systems. The design of the MIS in particular must be adjusted to accommodate the flexibility of individualized lending. Such institutional constraints (especially in the MIS) have led some WWB network members to integrate the flexibility of their individual loan products slowly, as in the case of SHARE (see Box 1 below).

Box 1: SHARE: Product Design

Moving from a highly systemized group loan product where loan cycles are highly regulated to a flexible individual loan product designed to respond to each client's needs and capacity is challenging. SHARE's experience is like that of many MFIs. When it first designed the terms of individual loan product, it retained some of the rigidity typical of a group lending methodology:

- Available loan sizes were for set amounts (Rs15,000; Rs25,000 or Rs50,000).
- Loans were limited to three periods (15, 25 or 50 weeks).
- Loan payments were due weekly.

The rigidity of SHARE's systems impeded the implementation of the new product, and constrained the institution from offering a more attractive product to clients. The value of the individual loan product—its flexibility and individualized terms—is compromised when this happens. SHARE is working on the adjustments to the MIS to create a more flexible product in the near future. Depending on the institution, the speed with which flexibility can be introduced into the loan delivery system may be gradual.

Credit Analysis of Each Loan Application

The objective of individual loan credit analysis is to assess the applicant's ability and intent to repay a loan, and to ensure that the loan is appropriately structured (size, term) to understand and measure the client's ability to repay. Core elements of credit analysis include assessment of:

1. The business to be financed (preparation of financial statements, inventory of assets and business profitability).
2. Cash flow of the business and the household (one of the key features of this approach is an integrated analysis of the unit as a whole; the integrated analysis enables the organization to have a more detailed understanding of the household revenues and expenses strategies).
3. The market context and viability of the business plan.
4. Character and credit worthiness: payment history and reputation.

These factors combine to tell a story, however the accuracy of the story is determined not only by the ability of the credit staff to collect and verify information, but also by their ability to analyze the elements of the application and weigh the overall viability of the loan project. **Loan staff and their managers must use this information in a balanced fashion in order to ensure that appropriate loan decisions are made.**

Use of Loan Collateral and Guarantee Mechanisms

In contrast to conventional bank lending where borrowers typically are required to pledge security covering 100% to 200% of the value of the loan, individual microlenders rely on collateral and guarantee mechanisms more for their psychological effect, encouraging repayment in cases where clients may require some form of pressure or threat.

Borrowers of individual loans may not be able to provide adequate collateral value to cover the amount of the loan requested. However, even symbolic pledges are nonetheless an effective tool in individual lending due to the following:

- The actual value for clients may be higher than the market value since they may not be able to replace the goods pledged.
- Collateral pledged may affect the entire household (where TVs and other appliances are pledged), providing an additional level of pressure on clients to repay.
- Reputation and pride may be affected by having objects possessed.

Willingness of the client to pledge collateral is also an indication of the seriousness of the client to repay, and a comfort factor for lenders who are provided with an extra level of leverage if necessary.

Guarantors may be used alongside or in place of collateral pledges. These individuals should be able to provide the security that applicants are unable to provide themselves.

It is important to underline that in designing the terms and conditions of an individual loan product, collateral and guarantees should be regarded as complementary but not key variables in loan assessment. These are included as an additional support to the client's overall application and need to be considered with flexibility. In other words, applicants with otherwise excellent credit assessment should not be denied access to loans due to their inability to provide adequate collateral. The use of a guarantor may replace the need for any collateral pledges in some cases. The guarantees and/or collateral provided will vary with each application, and minimum requirements should be determined based on an overall assessment of the core factors of cash flow and the repayment capacity.

Soft Issues: Shifting Importance of Guarantees

The shift away from reliance on guarantees (solidarity group) and toward credit analysis to manage risk marks a significant transition for group lenders. Many MFIs have been hesitant to lighten the guarantee requirements even with the introduction of thorough credit assessments. With experience, however, as the quality of the credit analysis is strengthened and portfolio quality is demonstrated, these MFIs have become more comfortable reducing guarantee requirements. They have begun to understand that these excessive guarantee requirements are unnecessary, and that they have restricted the eligibility of otherwise creditworthy (and desirable) individual lending clients.

Character Assessment

Whereas in group lending character assessment is largely outsourced to the group, individual loan officers must conduct a character assessment of each loan applicant themselves. The assessment of an applicant's character is particularly important, especially for new clients who have no previous repayment record with the MFI. It is also a factor that is more difficult to measure, and must be observed firsthand and recorded during the business and household visit. Table 1 provides an example of a rating tool that can assist individual loan officers to quantify the applicant's character assessment. If tracked from one application to the next, this tool can provide a useful overview of the client's track record, ultimately reducing the time required during assessment of repeat loans.

Table 1: Rating Tool for Client Character Assessment				
	Excellent 4	Good 3	Average 2	Poor 1
Cooperation				
Accuracy and Honesty				
Management Skills				
Business or Household Appearance				
Savings Capacity				
Previous Repayment Record				
Reputation (with neighbors, clients, suppliers)				
TOTAL				

Note: To approve an application the client must receive at least a 70% rating.

Loan Approval

Loan applications are prepared and assessed by loan officers and their managers. Once completed, the applications are passed to a credit committee where final loan decisions are taken. During the credit committee meeting loan officers present their loan assessment and recommendation. The credit committee verifies that the information is complete and may pose specific questions to the loan officer. Experienced credit committees should spend no more than five minutes on each application except in irregular or controversial cases requiring further discussion.

As the heart of risk management for individual lending, credit committees are extremely important. High level managers frequently participate in credit committees during the start up and rollout period, initially for training purposes but also as an opportunity to gain familiarity with the client base and observe the effectiveness of implementation.

Many MFIs begin individual lending with one centralized committee through which all loans are processed. However, with experience and increased client volume, separate credit committees are usually established at the regional or branch level, with only very large or exceptional loans handled by a central (senior) credit committee (see Box 2 below).

Box 2: MI-BOSPO: Decentralization of Credit Approval

At the beginning of the implementation phase, all members of the MI-BOSPO's leadership team participated in the weekly credit committee. Once individual lending was fully operational and staff was more experienced with the credit technology, MI-BOSPO implemented a three-tiered credit decision procedure. This decentralization of decision-making allowed for faster loan disbursements, while also controlling risk exposure.

Loan approval by loan size:

< 3,000KM Regional manager and loan officer
3,000 – 5,000 KM Regional manager, credit manager and loan officer
5,000 – 10,000 KM Regional manager, credit manager, director and loan officer

Loan approval for individual lending contrasts fundamentally with group lending which is virtually automatic once a check-list of criteria has been fulfilled. There is superficial or limited analysis required during the group loan approval process which is handled on a centralized basis.

2. Implications for Individual Loan Delivery: New Analytical Lending Processes

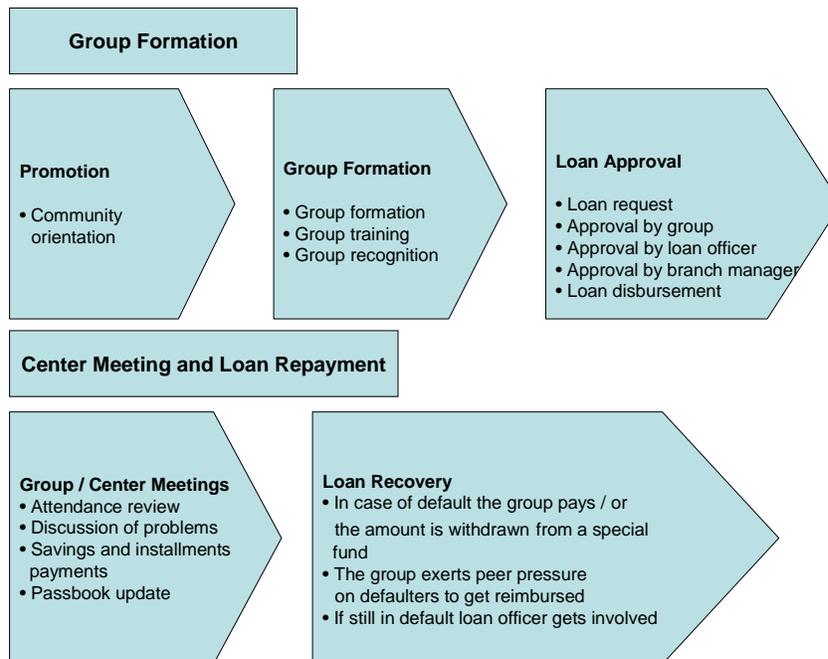
Principle Differences between Individual and Group Loan Delivery

When introducing a new product it is important to assess if the current staff has the skills and the time to manage both products. A good starting point is to map out the lending processes and identify the responsibilities of loan officers for each product. This provides a visual representation of how loan officers structure their time and the differences in their responsibilities. An example of this exercise is provided below.

Group Lending

The most common form of group lending organizes clients in centers for repayment and savings purposes. Each center has 25 to 40 members who are organized into smaller groups of five members each. Each center usually has five to eight groups. Loan officers can manage three centers per day. The centers meet on a weekly basis enabling loan officers to manage up to 12 centers per week or between 300 to 480 clients. Loan officers' activities are very structured, with tight schedules. During the morning loan officers visit on average two to three centers to receive the weekly payments and savings. Before noon they return to the branch to record and consolidate the payments. In the afternoon, after consolidating the payments and submitting the cash to the cashier, loan officers visit groups in formation or support some center leaders in monitoring clients in arrears.

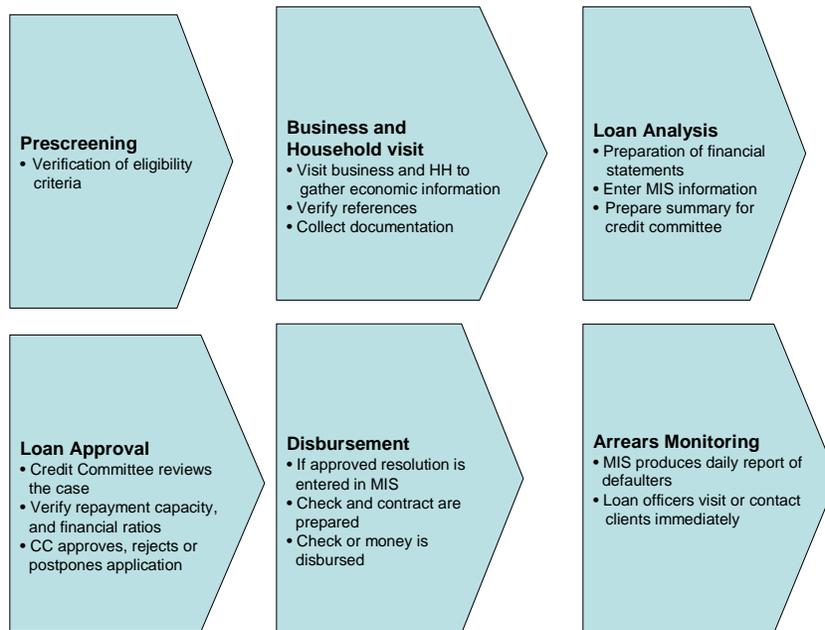
Figure 1: Group Lending Process



Individual Lending

Typically in individual lending, loan officers start their day with a review of MIS arrears reports to identify clients in default, and then they present their proposed schedule to visit these clients to the branch manager for approval. They spend the next hour presenting new loan applications to the credit committee, after which they go to the field to fill new loan applications and visit clients in default. To prepare the loan application, loan officers need to visit the businesses and houses of the clients. In the afternoon they return to the office to analyze their cases and prepare the files for the credit committees. Loan officers on average manage 300 to 600 clients.

Figure 2: Individual Lending Process



Loan Officer Activities: Can Staff Manage Both Products?

Unfortunately there is no single answer to this question. The decision to train group lending staff or recruit from outside the institution for new individual loan officers depends on the educational and professional background of the group lending staff and their capacity to develop new skills with training.

Moreover, for both group and individual methodologies, loan officers' time use is highly structured and systemized. This, compounded by the difference in skills required for managing each of the products, often means that it is complicated for the same staff to handle both products. See Table 2 below for a comparison between the typical daily activities of group and individual loan officers.

Table 2: Typical Daily Schedule for Group and Individual Loan Officers		
Daily Activities	Group Loan Officers	Individual Loan Officers
8.00 to 9.00	Center 1 meeting	Arrears committee
9.00 to 10.00	Center 2 meeting	Credit committee
10.00 to 11.00	Center 3 meeting	Clients enquiries / arrears phone calls
11.00 to 12.00	Payment consolidation and recording at the branch	Field work Business and household visits Reference verification
12.00 to 2.00	Lunch	Lunch
2.00 to 4.00	Group formation and clients verification visits	Field work Business and household visits Reference verification
4.00 to 5.00	Arrears monitoring	Arrears monitoring in the field
5.00 to 6.00	Documentation and filing	Loan analysis and credit committee preparation

While group loan officers require skills in training, motivation, organizing and coaching, individual loan officers need strong grounding in business, finance and accounting, as well as analytical and observation skills in order to accurately assess individual applicants.

The decision of whether to use group lending staff for individual loan delivery depends on both the internal capacity and external market situation of each MFI. In most cases, WWB affiliates have opted to maintain group lending and individual lending through separate loan staff. Factors which can influence this choice include:

- The education and background of group lending staff and capacity to take on the analytical functions of individual lending through training.
Some MFIs gradually transition selected group lending staff into individual lending positions. In these cases, loan officers gradually divest their group loan portfolio to other agents while building up their individual loan portfolio. This enables the institution to maintain productivity levels and minimize start-up costs of low case loads for new individual loan officers. However, only a limited portion of group lending staff may be willing or able to transfer to individual loan positions.
- The population density of markets.
Low population density of some rural areas may require loan officers to manage both products rather than having the institution staff rural branches with specialized loan officers for a relatively small community, whereas in dense urban areas the products are usually delivered by a separate staff.
- Grameen replicators vs. solidarity group lenders.
Institutions that are Grameen replicators have very structured processes that make it more difficult for loan officers to manage both products. In contrast solidarity group lenders have more flexible processes that allow loan officers to manage both group and individual loans; there is still a strong need, however, for staff members to be well trained and have the adequate skills.

Box 3: MI-BOSPO, KWFT and SHARE: Promotion or Recruitment?

MI-BOSPO first recruited new staff for individual lending, but subsequently opened applications to group lending staff as well. While loan officers are currently specialized in providing either group or individual loans, the organization is considering having some loan officers offer both products. Many group loan officers have been identified as capable of managing the individual loan product.

KWFT initially recruited new individual lending staff for implementation of the pilot project, but later decided to train all staff in the individual lending credit assessment technology because of its use in both the individual loan product as well as the larger group loans. KWFT is currently considering having select group loan officers deliver individual loan products because of their experience in applying individual lending technology for large group loans.

SHARE's experience is more complex. It began by having loan officers deliver the two products, and later revised this decision to create specialized individual loan officers who were recruited both from within the staff and from outside. In urban areas, group and individual lending staff work out of separate branches and are specialized by product. In the rural areas, staff members are trained in both methodologies and provide both group and individual loan products until they reach 100 active clients in individual lending. Once this target is reached, they become specialized individual loan officers. This temporary multi-product approach has been introduced to improve cost efficiency in rural areas, due to the smaller number of clients eligible for individual loans in those areas.

B. IMPLICATIONS OF INTRODUCING INDIVIDUAL LENDING FOR OPERATIONS: KEY CHALLENGES ENCOUNTERED

Some of the key challenges encountered at the product level by MFIs during the start-up of the individual loan product focus on transitional issues of integration.

Guiding Questions

- Will group lending be affected by the introduction of individual lending?
- How to align two products: are they complementary?
- What is the policy for graduation of group loan clients to individual loans?
- What are implications of decentralizing loan decisions to the regions and branches?
- Marketing: why is cross-selling of products important?

Management cannot consider the introduction of a new product in isolation from its existing products. The institution will need to adjust the design and delivery of both the existing and new products to maximize their complementarities.

1. Changes to the Group Lending Product

Once a new transformational product is introduced, most institutions discover that adjustments need to be made to existing products to ensure alignment. This is not surprising since the motivation to introduce individual lending is often a result of pressure from existing group loan borrowers. Their reasons for demanding an individual loan product often contains valuable client feedback on the group loan product itself: for example, group sizes are too large; loan sizes are too large to co-guarantee; meetings are too frequent or take too much time; and clients don't know enough about each others' businesses.

Refinements that are typically made to the group loan product with the introduction of individual lending include:

- Adjustment of minimum and maximum loan size.
- Refinement of eligibility requirements.
- Introduction of differentiated levels of credit assessment based on loan size (simplified version of credit analysis for group loans over a specified amount).

Changes in the institution resulting from the introduction of individual lending create an opportunity to re-package existing services. Adjustments to group lending should be developed in conjunction with the design of the individual loan product to ensure consistent and coherent product offerings.

Box 4: MI-BOSPO: Changes to Group Loan Product with Introduction of Individual Lending

Shortly after the introduction of the individual loan product, MI-BOSPO made the following modifications to its group lending product:

- Added risk assessment by introducing cash flow and balance sheet analysis of each group member's business.
- Reduced the maximum loan amount for group members from 5,000 to 3,000 KM.
- Streamlined lending procedures to ensure faster loan processing time.

With these changes, MI-BOSPO aimed to reduce the risks and improve customer service in its group loan portfolio and to clarify the different eligibility criteria (and target market) for the two products.

This strategy of developing well-defined products which are clearly differentiated from each other was useful not only for clients in understanding their product options, but also helped the credit staff in channeling clients between the two products. It also helped in the marketing of MI-BOSPO's products to specific client markets.

Box 5: KWFT: Introducing Credit Assessment for Larger Group Loans

When KWFT introduced individual lending, it had many group loan clients with large loans. It recognized the important value of credit analysis as a risk management tool and decided to train all group lending as well as individual lending staff in credit assessment. KWFT then introduced differentiated credit analysis based on loan size for both group and individual loans.

- Simplified risk and cash flow assessment introduced in all products for loans over KSH 50,000 (US\$625).
- Maximum loan size for group loans increased up to 200,000 KSH (US\$2,500).
- Full credit assessment was introduced in all products for loans over 100,000 KSH (US\$1,250).

See Box 7 below for more on the KWFT's decisions to apply credit assessment to both individual and larger group loans.

2. Product Alignment

In the cases of SHARE, KWFT and other WWB affiliates, there was strong apprehension among management that their group loan client base would shift en masse to the individual loan product, and thus destabilize the institution's core business of group lending, and even lead to the collapse of the group loan product. Each institution developed its own policies to prevent this outcome.

Box 6: SHARE: Product Alignment

SHARE's approach to product alignment was the following:

- First, products were aligned according to minimum and maximum loan size so that there was no overlap in products. SHARE determined three types of products that distinguished loan size by methodology:
 - 1: Up to Rs10,000 = Group loan
 - 2: Rs10,000 to Rs20,000 = Individual loan with simplified cash flow appraisal
 - 3: Above Rs20,000 = Individual loan with complete appraisal process
- Second, SHARE segregated individual lending from group lending by creating specialized urban branches exclusively focused on delivering individual lending. In so doing, SHARE created a clear institutional distinction between its existing group lending operations and new individual lending services. This eliminated many organizational challenges of integrating individual lending (see section C below on organizational adjustments) and provided a clear distinction for both staff and clients between the two services. In rural areas where this was not feasible due to lower population density, a modified (more restrictive) individual loan product was introduced into existing SHARE branches alongside the existing group loan product.

Box 7: KWFT: Effect of Individual Lending on Group Lending Demand

KWFT managed product alignment in a different way. Just prior to developing its individual loan product, reacting to the demand for larger loans, KWFT added a second group loan product called small group loans (SGL). This product was designed as a solidarity group model (groups of five to six members) in contrast with its existing group loan which was based on a Grameen model (groups of twenty to thirty members). Eligibility criteria for the different products were not clearly defined although SGL were initially designed for "graduated" group loan members who wanted access to larger loan amounts through smaller groups.

Individual borrowers of both group loans and SGL had access to large loan amounts (up to US\$5,000). Beyond the existing group guarantee, these loans also required additional guarantors or chattel mortgages as risk management measures.

In planning their individual lending product, KWFT management was concerned that a loan product offering similar amounts but without the requirements of the group products would create a stampede and provoke the collapse of several groups. In response, many restrictive elements were introduced to the individual loan design. Minimum loan size for individual loan clients was set at US\$1,250, and compulsory savings and chattel mortgage prerequisites were added. In so doing, borrowers in groups had access to the same loan amounts (or larger) than individual loan clients, and with easier eligibility requirements.

The benefits of this approach for KWFT were:

- It achieved their objective of preventing the feared stampede and collapse of the groups.
- It ensured that the institution experienced minimal impact on its operations while testing the individual loan product and preparing itself for eventual rollout of individual lending on a region per region basis.
- It provided the institution with an opportunity to consolidate the implementation of credit analysis in the group loan and SGL products.

However, the decision to pilot the individual loan with excessively restrictive pre-requisites meant that demand for the new product was exceptionally low. The slow growth rate both frustrated the staff involved and limited the potential effectiveness for learning of the pilot period (see Box 3, Section 3 for more on growth rates for the individual loan product).

KWFT has since streamlined individual loan requirements and added flexibility to the product, gradually shifting some group members with large loans to the individual loan product.

Product Design

Drawing on analysis of the market research and segmentation exercises, product design should reflect the specific needs of identified target client groups.

Products offered within an institution should be designed as complementary, providing a continuum of services for the designated market sectors. This is achieved by ensuring well-defined eligibility requirements, loan terms and conditions that specifically target different segments of the clientele. During the transitional period, lending policies for each product (including changes to the group product) should be clearly defined and communicated early in the process to clients.

Examples of product alignment from different MFIs are presented below.

Table 4: KWFT Product Characteristics

Characteristics	Large Groups (average 30 members)	Small Groups (3+ members)	Individual Lending
Eligibility criteria for existing clients		Two group loans with no repayment problems, loan request > KSH 70,000 (US\$875)	Existing clients: two group loans with no repayment problems, loan request > KSH 150,000 (US\$1,875)
Eligibility criteria for new clients	Loan request < KSH 50,000 (US\$625) or no permanent premises	Loan request KSH 50,000 – 150,000 (US\$625 – \$1,875)	Loan request KSH 100,000 or more (US\$1,875)
Loan term	4 to 12 month	4 to 24 months	6 to 36 months
Savings required (% of loan disbursed)	20%	10%	5%
Guarantees	Solidarity guarantee	Solidarity guarantee Over KSH 70,000 +: guarantor Over KSH 100,00 +: chattel mortgage	Deed (either from client or guarantor) Husband + guarantor Chattel mortgage
Interest rates	18% flat	18% flat	18% flat
Loan assessment	<KSH 50,000: no assessment KSH 50,000 – 100,000: simplified credit assessment KSH 100,000 +: full credit assessment	KSH 50,000 – 100,000: simplified credit assessment ⁵ KSH 100,000 +: full credit assessment	Full credit assessment

⁵ A simplified credit assessment analyzes the monthly sales and purchase of the business and the family cash flow, whereas the full credit assessment also includes the balance sheet of the business and financial ratios.

Table 5: MI-BOSPO Product Characteristics

Characteristics	Group Loans: 4-6 women	Individual Loans
Eligibility criteria	Members know each other Between 18 – 55 years old Live in same municipality One family member per group Must be client’s own business Joint investments in one business are unacceptable *Group leader collects and deposits installments at the bank on due date	Registered and unregistered microenterprises
Loan amounts	1st cycle <1,500 KM 2nd cycle < 2,000 KM 3rd + cycles < 3,000 KM	3,000 KM -10,000 KM <3,000 KM unregistered business <5,000 KM business in process of registration <10,000 KM registered business
Repayment period	1st and 2nd cycles <10 months 3rd+ cycles <12 months	<12 months
Interest rate/fees	36%	36%
Penalties	0.5% balance outstanding per day late	0.5% balance outstanding per day late
Loan purpose	Unlimited	Fixed asset or working capital
Collateral	Co-guarantee of group members	Guarantors, bill of exchange, personal and business fixed assets

As Tables 4 and 5 illustrate, the product differentiation is clear in MI-BOSPO while in KWFT the characteristics of lending products overlap. This could generate competition among lending products. Ideally an MFI should define specific characteristics for each lending product which reflect the needs and particular profile of the target clientele. The objective of introducing multiple products is to customize those products to better serve the different client segments. The risks of product cannibalization are significantly reduced by clearly defining the client segments and product characteristics.

3. Graduation Strategy for Group Loan Clients

Differentiation of product terms and eligibility requirements provides a framework for screening clients between products. However, the reality is less clean cut. Accepting or declining existing group loan borrowers is often sensitive. Some clients are determined to stay in groups but want larger loans, while others do not need high loan amounts but are not interested in staying in a group.

The assessment-based approach of the individual lending methodology marks a shift for clients: an individual loan is not simply the next automatic step in their loan cycle. Graduating the best clients is a matter of repayment capacity, regardless of their history with the institution. Denying access to individual loans for established group loan clients who are unable to demonstrate repayment capacity can be awkward.

It is essential that MFIs anticipate the potential issues that could arise for existing group loan clients through preparation of a graduation strategy. A graduation strategy should include issues such as:

- Eligibility criteria for graduation.
- Weighting factor for credit history/track record of existing clients.
- The consolidation of new groups as some members move to individual loans.

Box 8: SHARE: Prerequisites for Graduating Existing Group Loan Clients to Individual Loans

SHARE has set the following prerequisites to manage graduation from group to individual loans:

- Client must be in the second cycle or higher.
- Client must be able to pay off current loan with no problems.
- Client must provide replacement for the group.
- Loan officer must perform and present cash flow assessment to credit committee for approval.

Past knowledge of the client and her credit history is a vital input into an assessment of her character and creditworthiness. In situations where existing clients requesting individual loans are questionable, some MFIs give existing clients the benefit of the doubt, offering initial access to individual loans through small loans for short periods that are renewed based on repayment performance. This approach is often very effective and has many advantages:

- It allows the borrower to slowly become familiar with the rules of the financial institution before graduating to the individual loan product.
- It is financially prudent for the institution, reducing credit risk while increasing turnover of its loan portfolio.
- The rapid turnover of capital provides an important learning opportunity for loan officers.

Client assessment by loan officers can be particularly important in the graduation process, underscoring yet again the need for substantial training, management and support for loan officers during the implementation of the individual loan product.

Finally, as with all types of change, there will be resistance to the introduction of new policies. MFIs need to estimate the percentage of clients who will be dissatisfied with the guidelines for the group and individual loan products. If there is significant client opposition to policies, adjustments may be necessary. However, negative client reactions may be a result of poorly communicated or incomplete information. MFIs need to provide staff with clear guidelines on product policies, and support them with a communications strategy for how to explain company policies and decisions. This is particularly important for loan officers who are on the front line of customer relations and need to convey simple, consistent messages to clients.

4. Decentralization of Loan Decisions

The decentralization of loan decisions through individual lending credit committees marks a definitive shift in the decision-making power in the organization. This poses significant challenges during the initial phases of individual lending implementation.

The ability of loan staff and especially branch managers, who often head credit committees, to undertake sound loan assessments is pivotal to the success of individual lending. However, since many group lending institutions have branch managers who have been promoted from senior

loan officers, many of these individuals lack the profile and skills required for these responsibilities. While a percentage of these individuals may have the capacity to upgrade their skills through training, it is likely that at least some of the existing managers will not be appropriate and may need to be replaced.

Under these circumstances, MFIs have two options: either implement difficult changes at the human resources level, re-staffing positions as required; or create separate specialized branches or offices exclusively for the delivery of the individual loan product. This latter option has been implemented by SHARE and is described below in the section on organizational structure. KWFT's experience on this issue over an 18 month period is described below.

Box 9: KWFT: Integration of Individual Lending into the Branches

KWFT decided against integrating individual loan officers into the existing branch structure because branch managers in the pilot areas either did not have the time or the financial background to oversee individual lending or chair the credit committee. During the pilot phase, a regional manager acting as product coordinator oversaw individual loan officers.

Under this arrangement, branch managers were excluded from the individual lending approval process and the individual loan officers failed to integrate with the rest of the branch staff. The result of this approach was a lack of team work between individual and group loan officers, and division between staff. Once branch managers had the necessary training, KWFT managers ultimately moved monitoring responsibilities of individual lending into the branches, which had a marked positive impact on the productivity levels of loan officers and helped integrate the product more thoroughly into the branch activities. This has also increased cooperation among loan officers, discouraging group loan officers from resisting the loss of their large loan clients to individual loans.

5. Marketing a Basket of Products

Part of the goal of marketing is managing expectations of existing clients and introducing the institution to potential new clients who may have a very different profile/range of interests than the existing clientele.

Both individual lending and group lending staff need to know both products thoroughly, and should be capable of representing not just one loan product but all the services offered by the institution. Beyond simply cross-selling available products, loan staff should be able to advise clients on their potential to grow with the institution through the range of products offered, and the opportunities for long term credit access as their businesses evolve.

Loan staff in the field require specific training on marketing and promotion techniques. An effective marketing strategy includes specific messages for existing clients and prospective borrowers. The availability of a marketing guide for staff and promotion materials for clients will help ensure that marketing is effective, consistent and has a positive impact on clients.

C. INSTITUTIONAL TRANSFORMATION REQUIREMENTS: ADJUSTMENTS ACROSS THE ORGANIZATION

Guiding Questions

- What will the changes mean for the institutional mission, work approach and ethic?
- Will the existing organization change?
- Is the existing delivery infrastructure adequate?
- How will the management structure be impacted?
- What are the implications for systems, procedures, forms and reporting?
- What are the implications for different departments?

This section of the paper highlights the differences in work approach entailed by individual lending and identifies the key areas where adjustments of existing organizational structures and systems (that were designed exclusively for the delivery of group lending) may be required.

It is important to emphasize that the introduction of individual lending is a gradual process that is shaped by the specific needs and experiences of each institution. Changes resulting from individual lending need to be paced accordingly to minimize disruption to existing operations and to allow staff a chance to absorb and adapt to the implications of these transformations.

1. Impact on Mission and Culture

The introduction of individual lending means integrating a new profile of clientele from a higher socio-economic standing than group loan clients, and with larger, more complex businesses. Their financial needs are diverse and the amounts they require are higher. This raises practical questions regarding current institutional capacity, and opens questions about shifts to the original institutional mission.

Box 10: MI-BOSPO: Evolution of the Mission

“The introduction of individual lending for us was a market-driven choice. We knew we had to do something because group loan amounts were too high and our clients were asking for an individual product so they could leave the groups. But we did not want to change the whole institution, to lose the heart of the organization.

At first we didn’t think that our mission would change. We approached it as another product. We did not want to give up on the group loan product because there was still a demand from our smaller existing clients.

There were ultimately changes to the mission. Lower income women still need access to solidarity group loans, and we want to be there for them. But we also want to help poor women entrepreneurs who are successful in growing their businesses. With individual loans available for them, they will be better served. The new emphasis of our mission was on helping women entrepreneurs to develop their businesses.”

The revisiting of organizational mission that comes with the addition of individual lending does not necessarily mean a shift in the original goals of the institution. Indeed, as in the case of KWFT, the introduction of the new product allowed the institution to restate its commitment to its primary target.

Box 11: KWFT: Guarding the Core of the Mission

As a long established NGO in Kenya dedicated to helping very poor women, KWFT was firm in its intention not to allow its mission to drift as a result of the introduction of individual lending. While the decision to introduce individual lending implied a willingness to expand its market outreach to include higher income clients, KWFT re-stated its primary commitment and focus on women with incomes below GDP. To ensure that this focus is maintained, KWFT revised its mission statement to incorporate a provision that 75% of the portfolio value is allocated to clients whose income is below GDP. Individual lending is viewed as a product to provide continuing service to its growing clients, but also as a generator of internal funds for re-investment in the lower income target market.

The extent to which individual lending brings a new work approach depends on the original culture and work ethic of the organization. NGOs that were founded with a specific focus on serving very poor clients will need to adjust their processes and introduce a stronger business approach to serve their new potential clients. Staff will either need to evolve into new roles or be complemented (or in some cases replaced) by more qualified loan officers who have more advanced business and financial skills. It is extremely important to remember that just as current staff will need to learn new skills, new loan officers will need to be educated about the mission and its centrality to the institution's activities.

Competition driving the introduction of individual lending may also mean that MFIs need to adjust their work approach to become more market-oriented, strategic, and analytical.

2. Impact on Organizational Structures

New Responsibilities for Managers

The introduction of individual lending significantly impacts the operational structure and functioning of the institution. The branch and area managers represent the key management positions that have significant impact on the success of the introduction, monitoring and continued strong performance of the new product.

If individual lending is to be implemented through the existing delivery structures, adjustments will need to be made to meet the time and skill demands of individual lending. Branch and area (or regional) managers will typically manage both the group loan and individual products.

Two major challenges facing MFIs in terms of the daily management of this new product are:

- To integrate these new activities into the manager's agenda.
- To ensure that managers at all levels have both the necessary knowledge of finance and analytical skills to effectively implement and monitor the individual loan product.

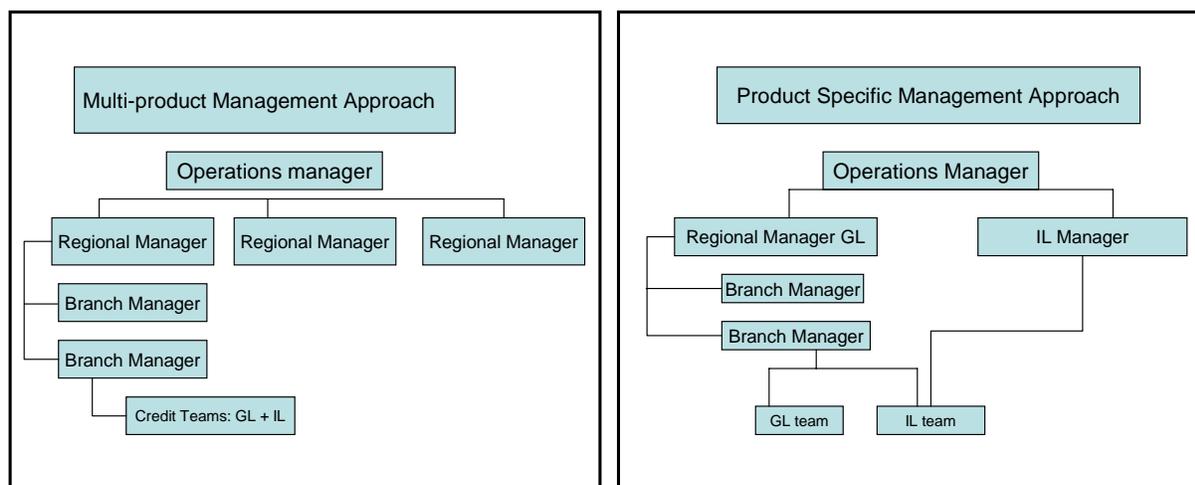
Larger loan sizes and potentially greater risk exposure means managers will have greater responsibilities regarding quality control. As mentioned earlier, the individual loan credit committee approval process creates greater decentralization and therefore entails significantly more monitoring responsibilities by branch and area managers. Areas of new responsibilities and functions for managers include:

- Monitoring of more complex and sophisticated products.
- Implementing new reporting requirements: cross-checking and analysis to ensure accurate data collection.
- Ensuring staff have appropriate capacity and tools.
- Maintaining an understanding of local markets and strategic planning for growth and expansion per product.
- Promoting communication and information flows, both externally (marketing) and internally.

Two Options for Management Structures

There are two primary management approaches to managing group and individual loan products: regional or functional divisions (Figure 3). Integrating individual lending into existing operations structures (regional) is optimal since there is clear line management. However, factors on the ground may mean that this is not feasible. Lack of appropriate skills and staff capacity is an inhibiting factor. MFIs might also be wary of disrupting delivery of group lending through a branch system that has good future growth prospects and is functioning well. In this case, a functional management structure relying on a centralized individual loan product manager and team may be a preferable approach.

Figure 3: Regional and Functional Management Structures



Whichever approach is selected, managers require extensive training and field exposure to individual lending to be able to manage it effectively. Specific aspects of individual lending credit monitoring include ensuring:

- Data quality and accuracy.
- Loan officer efficiency in completing and processing loan applications.
- Thorough loan analysis at credit committee meetings.
- Customer service.

Maintaining quality control is especially challenging during the start-up phase when managers are also integrating their new schedules and time allocation between the individual loan and

group loan products, in the case of regional structures. Introduction of the individual loan product also brings additional responsibilities in understanding and monitoring another layer of competitor products, as well as conducting public relations and promotion around individual lending in the communities the institution serves.

Some MFIs have created positions of **assistant branch manager** to relieve branch managers of part of the administrative responsibilities. Alternatively, in some institutions **senior loan officers** can act as assistant branch managers. Support from the head office through training, well-designed forms and materials, MIS, administrative systems, and marketing support also facilitate the integration and management of this new product.

Box 12: MI-BOSPO: Individual Lending Delivery Structure

“During the pilot phase, the individual lending manager supervised all individual loan officers. After completion of the pilot phase we integrated individual lending into the regional offices. This was much healthier since it promoted cooperation among loan officers. However, it also entailed that regional managers be fully up to speed on individual lending. They needed to undergo comprehensive training before assuming their new roles.”

Again, an institution’s choice between regional and functional management structures is highly influenced by the skill level of the available workforce. MI-BOSPO branch managers had the capacity to assume management of both products with training, facilitating the integration of the two products.

Box 13: SHARE: A New Specialized Delivery Structure for Individual Lending

SHARE initially launched individual lending by making only minor adjustments to its existing group loan delivery processes. It assumed that the same staff would be able to handle both products and that branch and area managers would be able to monitor both products with little extra effort. Six months after the introduction, management realized that loan officers and branch managers were not able to handle both products, and that the staff profiles for the two products should be differentiated to better respond to the new requirements of the product.

SHARE has an army of well trained group lending staff that is very effective in following guidelines and procedures; however, they faced specific challenges in integrating individual lending because of its more complex lending processes. While the strong culture of following clear and simple guidelines with light analytical decision-making required by loan officer provided good results for the group loan product, it is not a working culture that is conducive for implementing individual lending. Individual lending requires an objective analysis of the client’s risks and repayment capacity, and promotes and encourages a critical attitude of staff. Although group lending staff might be able to develop the skills required for individual lending, SHARE branch managers identified that the current culture and work approach that is used to deliver group loans is incompatible with delivering individual loans with the same loan officer.

SHARE’s director opted for an entirely new network of branches in urban areas to be exclusively dedicated to individual lending. This approach eliminated a variety of integration issues and provided a tidy solution for avoiding organizational challenges of transforming an institution of 2,000 employees and 200 offices. New staff and managers were recruited with a special individual lending manager at the head office managing operations in the units. Given the large-scale scope of operations and anticipated demand for individual lending in urban centers, this is a feasible option from a cost-effectiveness perspective.

However, SHARE is grappling with the integration of individual lending services into its rural offices where, due to lower densities and credit demand patterns, the decision has been made to offer individual loans alongside group loans. This approach is still being piloted. However, SHARE’s alternative approach illustrates how implementing individual lending is a process shaped by the specific market environment and institutional circumstances of each MFI.

A New Individual Lending Coordinator or Individual Loan Product Unit

Since the introduction of a transformational product such as individual lending implies changes in all areas of the institution, it is important that an individual loan coordinator be appointed to centralize the planning and rollout phases of the process.

This person will ideally be knowledgeable about MF and have strong analytical, planning and communication skills. Selecting this person from among existing staff is beneficial since the person will have knowledge of the institution, culture, clients etc. However, of primary importance is that the person has the professional profile and skills. The principle responsibilities of the individual lending coordinator are:

1. To drive the development of all aspects of the individual loan product, policies and procedures, systems and quality control; and
2. To support operations staff with backstopping and guidance during implementation (esp. during the pilot phase).

Depending on the management structure, this person may also manage individual lending staff.

A typical job description for an individual lending coordinator during planning and implementation of individual lending is below:

- Design selection criteria for credit staff and support recruitment.
- Prepare training program for loan officers and all staff and deliver components.
- Define and continually refine individual loan product terms, policies and procedures and delivery.
- Develop business assessment tools and market information to support loan officers.
- Prepare operations manual, forms and reports.
- Participate in and support credit committee meetings.
- Define individual loan monitoring procedures.
- Design strategies to determine risk level for individual lending.
- Define MIS requirements for individual lending.
- Identify legal issues regarding contracts and enforcement.
- Assist in creation and management of a bonus system.
- Determine growth/expansion strategies (adapting individual lending per region as required).

In the case of larger institutions, it may be appropriate to create an individual loan product unit in which the individual lending coordinator is supported by a small team.

Leadership Team for Planning and Rollout

Equally important for the successful introduction of individual lending is the creation of a core managerial or leadership team. This is to promote close collaboration across the institution.

A leadership team should be cross-functional, typically including the heads (or representatives) from each of the following departments:

- Operations
- Finance
- Administration

- Selected senior branch managers
- Human resources manager
- MIS manager
- Internal audit manager

Figure 4: The Role of the Individual Lending Coordinator



During the implementation phase, the individual lending coordinator will play an important function in driving the process and coordinating with the leadership team to oversee adjustments required in the different departments across the organization. Since each of these departments will need to revise their systems and activities with the introduction of individual lending, their support and active involvement in the decision-making process in the early stages is crucial.

Box 14: Al Amana: Organizational Changes in Preparation for the Launch of the Individual Lending Project

- Appoint a full-time individual lending project manager reporting to the executive director.
- Allocate 100% of the time of the participating loan officers to the individual lending program.
- Allocate 100% of the time of the staff person from the research department to the individual lending program.
- Form a cross-functional team from all departments to determine how the individual loan program would impact the processes and policies in respective areas and develop solutions accordingly.

3. Implications for Departments across the Organization

The implementation of individual lending poses numerous challenges to departments across the organization. Because of their importance, a separate chapter is devoted to implications for human resources (see the following section on human resources).

Adjusting the MIS

Adapting the MIS to accommodate the needs of individual lending is one of the most important and demanding changes to the institution. The heavy reliance of the individual lending credit technology on information management means that integrating accurate client data is especially essential, not only for quality credit decisions, but also for loan monitoring and portfolio management.

In contrast to the MIS typically used for group lending, individual lending requires the inclusion of comprehensive data about clients and their businesses. Maximum systemization of data in individual lending can help track the evolution of client businesses and provide substantial time-saving for loan staff. As such, the quality of MIS and data management tools can sharply affect the productivity and profitability of individual lending.

Data inputting is required throughout the life of each loan including:

- Loan application data.
- Client data (both personal and business).
- Data on collateral pledged, documentation provided and value.
- Guarantor's information.
- Proposed business plan (loan use).
- Credit committee's decision.
- Disbursement.
- Tracking of loan repayments.

Building records for each client provides a history that strengthens the ability to assess subsequent loan applications and accelerates the renewal process. The upfront time required for building individual files is extensive but is a valuable investment when building the foundations for a long term client relationship.

MIS Staffing

Given the heavier demands of individual lending on the MIS, almost all group lending MFIs need to increase the staff of their MIS departments. Immediate requirements of designing, programming, as well as the long term needs of maintaining a revised system require a redefinition of MIS departments. Recruitment of data in-putters can off-set the administrative time requirements for loan staff and provide a cost-effective way of improving productivity.

Loan Monitoring and Performance Reports

As for all lending, access to accurate and timely monitoring/verification reports is the starting point for ensuring loan portfolio quality. Maintaining reliable portfolio information is also the basis for calculating incentive bonus systems for credit staff and managers.

Key reports required from the MIS to track lending operations and performance include:

- Disbursement and portfolio trends.
- Disbursement and portfolio trends at region and branch level.
- Trends in the portfolio in arrears.
- Tracking of portfolio targets.
- Past due in rescheduled portfolio.
- Composition and recovery of rescheduled portfolio.
- Follow up of portfolio in arrears per loan officer.
- New loans and renewals.

To support a strategic analysis of the portfolio, reports should also be produced based on the following classifications:

- Loan product.
- Economic sector.
- Type of guarantee.
- Loan use.
- Loan term.
- Frequency of payment.
- Loan amount.
- Urban/rural.
- Geographic region.

These reports provide the basis for analyzing the performance and costs associated with both products, as well as institutional performance.

Purchase or Program MIS Internally?

The critical decision of whether to adapt the existing MIS for individual lending requirements or to purchase a system already on the market and customize it to the needs of the institution will depend on the availability of internal expertise, expected time delay, urgency and budget. A potential drawback of purchasing a system is the possible reliance on an external source for modifications and upgrading. This is particularly cumbersome when purchasing from a foreign company without permanent local agents. However, the investment required for adapting existing MIS should not be underestimated.

Box 15: SHARE: Challenges to Modifying the MIS

In the case of SHARE it has been difficult to incorporate more flexible terms and conditions for individual loans, mainly due to the design of the MIS, which is based on group lending's weekly payment structure. Currently the MIS only accepts weekly payments and few loan size options. The calculation of interest and arrears monitoring is based on a weekly structure.

To introduce a flexible individual loan product, the MIS would need to accept bi-monthly and monthly payments, as well as a wider range of loan sizes. These changes have implications on the interest rates and arrears calculations. The modifications pose significant challenges which will require changes to the MIS structure and logic. Beside this major task, there is also the need to develop a module to store clients' economic data and specific reports to monitor delinquency.

The IT team in SHARE has assigned two staff full time to work on the adjustments of the MIS structure; the work may take several months and trials before it goes to production phase.

Finance Department

The finance department has an important function as financial manager, as well as the contribution of financial expertise to the operations department. The finance team can support training of staff in financial analysis skills required for the individual loan product. They can also contribute to aspects of individual loan product design, credit committee and reporting required for performance analysis.

Funding Requirements for the Increased Loan Portfolio Projected with Individual Lending

MFIs need to access new funding sources or divert funds currently used in the group loan portfolio. This is a strategic decision for each institution and the finance department must be able to provide data in order for management to make important strategic decisions. The finance director will also have a key role in identifying prospective investors, lenders or donors, and in assessing and negotiating the terms of these funds based on needs of the individual lending product.

The tendency of many MFIs is to divert funds from group lending because individual lending is a more lucrative product. The board should address this based on the mission of the institution.

The Impact of More Flexible Loan Terms of Individual Lending on Financial Management

Managing financial flows for individual lending is more complex than for group lending since the loan structure is determined on an individual basis and set according to customer need.

The volume of transactions is significantly increased since disbursements and payments for individual loans are made on an individual basis (instead of in batches as for group loans). Moreover, transactions are made on a continuous basis rather than systematic disbursement/due dates as set by the loan cycles. With the higher number of transactions, liquidity management is more complicated to control. MIS is essential to monitor cash inflows and outflows, especially in order to report daily portfolio and liquidity positions.

Some institutions send all branch transactions only on a weekly basis to the finance and accounting department. Ideally to minimize fraud risks all branches should report on a daily basis all cash transactions to the finance department. Daily reports also enable better liquidity management in the organization ensuring that cash is utilized most effectively. Without the support of a systemized MIS, financial management can become formidable with the introduction of individual lending.

Individual Lending and the Internal Audit

To conduct audits of individual lending, the audit team will require detailed training on individual lending principles and credit technology. This includes comprehensive knowledge of loan policies and procedures, as well as a broad exposure to delivery activities in the field.

A specific audit procedure for individual lending would include a performance review of the individual loan officer's capacity based on the following:

- Portfolio due diligence.
- Client verification visits.
- Quality and consistency of economic data gathered.
- Field assessment.
- Loan application analysis.
- Credit committee evaluation.
- Portfolio at risk and arrear monitoring activities.

The time use and responsibilities of the audit teams will also require restructuring to ensure they are able to manage all products adequately.

Box 16: SHARE: Internal Audit Department

The internal audit department includes an internal audit manager (who reports directly to the executive director) and ten teams of two people. Staff of the internal audit department are selected from senior group loan officers or assistant branch managers. Each team is responsible for assessing ten to twelve branches per year. This involves six visits to each branch (three complete audits and three follow up visits, including unscheduled "surprise" visits).

A complete audit includes the following activities:

1. Field audit
 - Assessment of staff skills and discipline.
 - Verification of projects with head of unit.
 - Reconciliations of all passbooks with collection register.
 - Identification of fraud, fictitious loans, etc.
2. Audit of financial transactions
 - Review all transaction records since last audit.
3. Audit of non financial transactions
 - Analysis of staff behavior, physical appearance and customer relations.

A written report with findings is submitted to the branch and area managers before leaving the branch. Follow up plans are agreed on collectively and verified in the subsequent visit.

D. THE PEOPLE FACTOR: HUMAN RESOURCES AT THE HEART OF CHANGE

Guiding Questions

- What differences will there be in group and individual lending staff profiles and responsibilities?
- What will be the implications for managers?
- How can an institution get staff commitment to the changes?
- What training will be required and who should be trained?

The introduction of individual lending involves many critical changes for staff of the operations department, the largest department in most MFIs. The human resources department has a key

role in supporting these changes. On one level, it is responsible for providing concrete assistance including drafting new job descriptions, creating processes for recruitment, facilitating staff mobility within the institution, and coordinating training needs. It also provides important support to the operations department in the sensitive but key areas of staff compensation, appraisals, and career development. However, possibly the most demanding challenges for the human resources department throughout the transition period will be dealing with soft issues of staff concerns and reactions to change.

Many staff within the organization will be impacted to some degree by the introduction of individual lending. This may be through changes in their work responsibilities or their salary packages. Their career path may be affected, as well as their status within the organization as new more qualified staff members are recruited. Not surprisingly, although these changes may also provide new opportunities, the transition to include individual lending can be unsettling and leave some employees feeling threatened and dislocated. The human resources department has a pivotal role in mitigating the potential anxiety felt by current staff.

Three key issues for human resources are addressed in this section:

- **Staffing:** What will individual loan officer qualifications be and what will the profile look like?
- **Training:** How will the training program be designed and who will be trained?
- **Incentives:** How will the staff incentive system be designed?

1. Individual Lending Credit Staffing Needs

The staffing issue is one of the most difficult challenges faced by MFIs integrating individual lending. This is amplified for larger institutions with larger numbers of staff.

Individual Lending Loan Officer Profile and Recruitment

Although the profile of individual loan officers is determined to some extent by the local educational structure and the available labor market, a typical profile of these types of loan officers is:

- Between the ages of 25 and 35.
- Financial, economic or accounting background.
- Willing to work in the field.
- Good communication skills.
- Able to work against targets and under pressure.
- Capable of working in teams.
- Identifies with the target clientele.

Recruiting within the Organization

Some existing group loan officers in the organization may already have this profile. Others may have demonstrated a capacity for personal development and could be readily trained. Existing

staff in group lending (or other parts of the organization) should be given the opportunity to apply for individual lending staff positions. However, they must be able to effectively compete with outside candidates. Although the mobility of staff within an organization can be a sensitive issue and needs to be soundly managed, the caliber and capacity of the individual lending credit team should not be compromised.

Soft Issues: Points for Consideration on Internal Recruitment and Individual Lending Staff Integration

Existing staff have the advantage of knowing the business and institution. Their addition to the individual lending credit team may form a valuable bridge between newly recruited loan officers and existing staff. However, will they be able to adapt to new ways of doing things? If the MFI is trying to forge a new organizational work culture through the individual loan product, will the inclusion of group lending officers slow or inhibit this transition?

Another delicate issue is the integration of newly recruited individual lending staff into the organization. For many MFIs, this can be a particularly challenging experience. The addition of a group of new personnel is always met with apprehension. This is especially the case for individual lending since the role of this new group is to implement an important new product which will impact on the future of the institution. Other credit staff may feel they have become second class citizens, or that their work has become less important. There is a potential for a “we/they” division in the organization, and an apprehension among group loan officers that the individual lending employees will disrupt the harmony and esprit-de-corps among staff.

Human Resources will need to anticipate these questions and may refer to change management tools to assist the operations department through this integration process. Another important element will be ensuring the harmonization of job profiles, incentives and remuneration for all staff, as discussed below.

Box 17: KWFT and MI-BOSPO: Harmonizing Group and Individual Lending Credit Staff Qualifications and Profile

In KWFT and MI-BOSPO, effort was made to minimize differences between the loan officer profiles for the group and individual loan products. The experience of each institution was very different, contingent not only on the institutional situation but also the cultural and political environment.

For MI-BOSPO, this was a challenging but manageable task. This was not only because of the young age, relatively small size and high degree of centralization of the organization it was also a reflection of the combined high education levels and high unemployment rates in post-war Bosnia. As a result, many of MI-BOSPO staff are highly qualified professionals who have the skills and aptitude for delivering either product. The approach of MI-BOSPO has been to ensure that the individual and group loan officers have the same status, pay and job mobility. Team-building between individual and group lending staff has also been re-enforced by revising the incentive scheme to reward staff based on branch and not individual performance. The parity between MI-BOSPO's individual and group loan positions may pose challenges in the future as the value of the individual loan portfolio evolves and individual loan officers manage increasingly large loan portfolios (with corresponding increases to their responsibilities). However, it has proved an effective approach during the transitional period.

With 300 employees spread over most parts of Kenya, the experience of KWFT on this issue has been more complex. KWFT's loan officers have a wide range of backgrounds and experience making harmonization of skill levels more difficult. Moreover, with some senior group lending staff already providing very large loans to clients, the distinction between the profiles of group and individual loan officers are unclear. An important step toward harmonizing staff skills has been achieved through the training of all staff on the cash-flow assessment technology. These training sessions revealed the different aptitude levels of loan officers and highlighted possibilities for some current group loan officers to become individual loan officers, or to incorporate individual loans into their portfolio.

2. Training: Building Institutional Capacity

In some MFIs, the position of training manager is located in the operations department, working in conjunction with human resources. While human resources remains responsible for all “non-technical” aspects of training, the training manager is responsible for designing the training program content and developing all necessary materials.

Individual Lending Technical Training Program and Certification

The importance of comprehensive training required for loan officers and all operations staff involved in the delivery and management of individual lending cannot be overstressed. WWB recommends its affiliates use a structured individual lending training program that includes a certification process. The training program for individual loan officers includes:

- Approximately one to two weeks of classroom theoretical training.
- Approximately six weeks of training in the field with managers and experienced loan officers.

Theoretical training covers subjects including: business analysis, financial analysis, accounting principles, credit assessment, understanding different business sectors, the financial structure of clients' households and aspects of customer service. Analytical tools and approaches used by the institution are explained and tested, and preparation for field training is done through role playing and processing of mock client applications.

By the end of the theoretical training, trainees should be comfortable with calculating repayment capacity and the financial ratios used for loan decisions. A test is conducted to measure the trainees' comprehension of topics treated, and to screen out unsuitable individuals before they move to the field. Screening prospective staff at this stage is important since it avoids their potentially problematic contact with clients, and also limits costly time investment involved in the field training.

Field training involves coaching new loan officers in conducting client interviews; observing indicators about the household or business which might influence their loan assessment; and capturing key socio-economic information for the financial analysis. It also involves illustrating ways to insure cross-checking and verifying accuracy of information.

During field training, trainees are often mentored by an experienced loan officer in conjunction with the branch manager. It is an essential component of the training, and therefore important that the operations and human resources teams plan adequate time and staffing for coaching of trainees.

The suggested total training period is up to two months, although loan officers may begin to assess their own clients after six weeks under supervision depending on their individual capacities.

Box 18: Al Amana: Training Plan

Once the core management team completed training, a three stage training plan for credit staff was designed:

1- **Classroom training:** This phase includes a two week course on the concepts and principles of individual lending credit technology using lectures, written exercises with case studies and a graded written examination. One of the objectives for this phase is to screen trainees before they have contact with clients in the field.

2- **Field training:** A core group of senior loan officers coaches the trainees through ten client assessments in the field. Successful trainees then conduct "unsupervised" individual client assessment. Approval of trainees' loans through the credit committee is centralized to the core group members (trainers) who ensure quality of work throughout the pilot period.

3- **Transfer to the branch:** After each trainee has successfully completed 15 individual client assessments, the trainees have acquired the minimum skills and tools to handle applications under close supervision. Trainees are transferred to the area or branch, upon formal recommendation by the training manager and concurrence by the trainers. Once in the branch, the trainee can start disbursing his or her own loans under close supervision of the branch manager. Only after two months of close monitoring the branch manager can certify and confirm that loan officers have the adequate skills and knowledge to build their own portfolios.

Training through Credit Committees

As part of its training program, MI-BOSPO established training credit committees through which applications were discussed before passing to the formal credit committee for final loan decisions. The training credit committee provided a sort of laboratory of learning for both loan officers together and managers (especially in the early stages of start-up). They enabled detailed discussions on a range of issues and dilemmas presented by different types of applications and avoided turning formal credit committees into training sessions.

Who Should Be Trained for Individual Lending?

MFI's approach the question of which staff should receive what training differently. Differentiated training programs on individual lending should be developed for staff in different areas of the institution.

Loan officers for both group and individual lending need to have an understanding of each of the products offered by the institution. A key component of client service is the clarity and ease with which staff are able to explain products and services offered to their customers. Group and individual loan officers should be able to substitute for one another, at least in the initial information meeting with clients. They should likewise be able to advise customers on which product is best suited to their needs and assist them through the basic application process (although not necessarily through the loan processing analysis).

Some MFIs train their group loan and individual loan officers through a single training program. There are pros and cons to this approach:

Pros:

- Provides equal mobility for loan officers to move within the organization.
- Ensures that everyone has the same information.
- Potential to strengthen service delivery for all products.
- Good human resource strategy for integrating the two groups of staff members.

Cons:

- Can be time-consuming; takes group loan officers away from their productive activities.
- Is providing all staff with the same information a good investment of time and resources?
- Not all group loan officers have the educational background or capacity to learn the new material.

Training of credit managers is equally important as they will both drive the implementation and development process, as well oversee day-to-day performance of loan officers. In addition to training in individual lending credit technology, they also require training in specific management procedures and issues for individual lending, strategic portfolio analysis and guidance on credit committee functions. It is important that training for managers does not greatly disrupt their on-going responsibilities to oversee existing operations.

The audit team requires both theoretical training on individual lending technical and procedural issues as well as exposure in the field.

Human resources and MIS teams will need to understand specific aspects to incorporate individual lending. Training for human resources is essential as a basis for job descriptions, recruitment, defining complementary training needs, and preparation of appraisals. Training for MIS is needed to guide data management, credit assessment criteria, calculations in credit analysis, designing reports for portfolio management and monitoring.

Training of the Credit Committee

Credit committees are pivotal to the successful implementation of individual lending. They need to be adequately prepared and managed to ensure that good quality loan decisions are made on a consistent basis. Effective credit committees serve as a barometer of the effectiveness of the loan assessment procedures and the quality of loan officers' adherence to loan policies in preparing cases for approval. Moreover, organizations with strong committees are able to decentralize decision making without affecting portfolio quality.

Credit committees without adequate preparation or structure on the other hand are unable to identify weak loan assessments or identify risky cases. Decentralization of loan approval with ill-prepared credit committees is a sure recipe for disaster.

Training for credit committees is therefore a high priority. Trainers should work closely with the operations department to provide the analytical framework for committees, including specific guidelines for evaluating loan officer presentations and relevant questions to verify the accuracy and consistency of loan information. Based on WWB experience, training for credit committees can take up to three months of on-the-job coaching.

Box 19: SHARE: Modifications to the Credit Committee

A review of SHARE's credit committee format produced the following recommendations:

- Structure—the committee must be structured to allow for smooth and fluent communication between members, allowing them to reach concrete, definitive solutions. A leader should be appointed to head the committee and to moderate discussion.
- Efficiency—no more than 20 minutes should be spent on each case; this amount should be significantly reduced with time and experience.
- Responsibility—all members of the committee need to assume responsibility and participate actively in credit decisions.
- Procedures—credit committee members need procedures to assist in decision making, training of new individual loan officers presenting new applications and in maintaining a broad perspective of the institutional goals of the new product.

The Training Team

Training responsibilities will ultimately reside in the training and operations departments (on the job training provided by branch managers and mentoring by senior loan officers). Before this is possible, it is first necessary to build in-house expertise which can then be internally disseminated. To achieve this, many MFIs conduct intensive training for a core team responsible for implementation of individual lending during the start-up phase. The training manager is central to this team since she or he will ultimately provide coordination for individual lending training needs across the institution as the product is rolled out.

Beyond building technical capacity, individuals delivering the training program also require counseling on training techniques. This includes those delivering classroom segments, as well as managers and senior loan officers who will be responsible for training and mentoring in the field.

Selecting Trainers

A critical step in preparing implementation of an individual loan product is the selection and training of trainers. This can be challenging in an organization with no prior expertise handling the new product. Often experience gained through the pilot phase can help identify staff with good training potential.

Criteria for selecting trainers include:

- A deep understanding of the organization and all the products offered.
- Credibility inside the organization, ability to command respect from all levels of staff.
- Past experience as senior loan officers, branch managers or area managers.
- Ability to transfer knowledge; strong interpersonal and communications skills.

Planning of training in large organizations such as SHARE, Al Amana and KWFT where there are hundreds of employees is a major undertaking. But even in smaller MFIs, building the capacity of the internal training team is challenging since it inevitably requires diverting managers and staff from their day-to-day work.

Box 20: SHARE: Planning for Individual Lending Training

Important considerations for SHARE regarding individual lending training:

- Invest adequate time in training the trainers to ensure that they are capable of conducting credit committee meetings on their own.
- Each trainer must devote five months of his time to train the 20 branches in his region. Ten additional trainers who will monitor quality at the branch level need to be selected and prepared.
- Consider whether trainers (former branch managers and senior loan officers) should be in the training department or field operations department.
- Management will need to fill the vacant positions left by the newly appointed trainers.
- Plan strategy regarding the future roles and responsibilities of trainers after the intensive training period is over. Some may be retained in the training department, some transferred to the audit department.
- Trainers need to be able to have the respect of branch and area managers that will be trained. Some of the trainers should be senior staff themselves.
- If managers are used as trainers, they will need to be trained first and then replaced. This could create tensions between the field operations manager and the individual lending manager.

Most of these considerations can be applied to any institution. Issues such as how to systematically integrate training into the organization and how to ensure quality training at all levels are universal to all new individual lenders.

On-Going Training

Training staff for the implementation of a new product does not end once the product has been introduced. Staff training needs are on-going and need to be monitored by managers. Typical topics for on-going training as defined by the field officers include:

- Strengthening customer service.
- Interviewing skills.
- Communications skills.
- Promotional technique.

MFIs should provide venues for credit staff to provide feedback on areas where they feel they need further training.

3. Staff Incentives

Salary and Bonus Incentive Systems

The incorporation of incentive or bonus schemes into MFIs is fundamental for meeting portfolio performance goals, not only for individual lending, but for all microlending products.

Incentive systems provide rewards to individual staff members based on the performance indicators of their personal portfolio. They are efficient management tools since they promote productivity and portfolio quality while transferring responsibility for time and activity management back to the employees. By providing payment bonuses to staff based on defined targets and objectives, bonus systems are effective tools for motivating loan staff performance based on a range of criteria from productivity and portfolio quality, to customer service and marketing efforts. Managed over time, bonus systems can be used to drive the strategic objectives of an institution.

They may also be useful for building teamwork, rewarding branches, products teams, and entire institutions for their collective performance (most often supplementary to individual bonus schemes).

“If you incorporate the strategies of the organization into the bonus system you will see greater alignment with the institution’s mission.”
 General Manager, WWB Colombia

Incentive Systems Principles and Design

Incentive bonus systems provide a transparent system for monitoring and rewarding staff performance based on a set of clear and standardized rules. They should be constructed around quantifiable, measurable variables that are readily tracked by the institution, and should measure staff effectiveness in meeting goals set by the management. The principles and design must be clearly communicated to the staff so that the institution’s criteria are well understood by all staff members. Performance variables normally used in incentive systems include:

Table 6: Performance Variables

Portfolio Size	Portfolio Quality	Portfolio Flow (Disbursements)
Portfolio volume / value	PAR 1 to 30 days	New loans disbursed
Outstanding loans	PAR > 30 days	Renewals

The weighting of each variable can be adjusted over time, according to the specific goals of the institution.

Designing appropriate incentive systems typically requires tracking past (actual) performance and balancing this with best practice targets (optimal scenario). It is frequent that MFIs undergo a period of adjustment before reaching an effective formula for their particular situation.

A Simple Incentive Model

Maximum incentive = $1/3 * (AD/OD) + 2/3 * (1 - (CAL-OA)/OA)$

Where:

AD = Actual disbursement on a monthly base

OD = Optimal monthly disbursements

CAL = Current arrears level

OA = Optimal arrears

While most incentive systems are based on similar criteria, the formulae used by each MFI are highly individualized. The specific criteria and especially the targets set must be developed according to the structure and performance of each institution.

Important Considerations for Incentive System Design

- Incentive systems should not be implemented until the pilot phase is completed, and only after individual lending is fully operational. This is to ensure that the organization has baseline data to set realistic performance targets.
- Reference to the standards of best practice institutions is helpful for long-term vision but usually not immediately applicable for MFIs introducing individual lending.
- Data used for the incentive system must be reliable, accurate and timely. An adequate MIS should be functioning before implementing an incentive system.
- The ratio of salary to bonus should be balanced. It is not an effective motivator when 50% or more of the "actual" salary comes from bonuses.
- Income taxes and other deductions that will affect final salary should also be taken into account.
- Anticipate the real effect on each loan officer's salary based on the actual situation and review impact. It might be better to stage targets based on growth and performance objectives (i.e. adjust targets after a set period).
- It is necessary to incorporate the value of portfolio at risk for each agent, and not only arrears since overdue payments raise the risk of non-repayment of the remaining balance of outstanding loans.
- Adjustments are also required for different staff members working in different environments where optimal performance targets may vary (such as differences between products, types of branches, rural or urban markets, and staff experience/seniority).
- If an organization introduces incentive systems for individual lending, it also needs to design similar incentives for group lending staff.

Ensure staff buy-in—a well developed incentive system can provide a powerful motivation to staff if the bonus variables are well understood and appreciated. However, the opposite can be true if the system is poorly communicated or if its structure is resisted by staff.

Soft Issues

Incentive systems touch on sensitive points: salary and work productivity. They also affect the working dynamics and culture of an institution. Introducing incentive-based pay systems is a big step, especially in group lending MFIs that do not already have incentive systems in place.

Each MFI needs to determine both how a bonus system should be customized to its existing institutional culture and when it should be introduced. Involvement of staff representatives in setting the criteria and targets is a constructive approach that helps to ensure staff consent and buy in.

Box 21: MI-BOSPO: Credit Director on the Incentive System

“In MI-BOSPO, salaries and incentives are discussed and proposed by a participatory cross-functional team that makes recommendations to the director and the board. We introduced an incentive system based on branch performance that promotes team work. For example, in one branch there are three staff members. Their goal for one month is to disburse 100 loans per month—80 group loans and 20 individual loans. They are working together to get there. Loan officers in the field always promote both methodologies. They work together to deal with delinquencies. I think clients are also more satisfied with this system because loan officers encourage graduation to individual lending where appropriate without fear of losing good clients.”

MI-BOSPO has made explicit the link between the incentive system and promoting cooperation between the loan officers of the two products.

Other Incentives: Staff Motivation through Career Planning

At KWFT where there is no salary incentive structure in place; the two leading factors in staff motivation are sense of ownership or identification with the institution, and the potential to advance through the organization’s hierarchical career structure. SHARE also provides career planning to ensure that staff have a continuous feeling of growth. With the introduction of individual lending, care was taken to integrate career paths for group loan and individual loan officers.

Table 7: SHARE: Career Path for Credit Staff

Level	New Group Loan Officer	New Individual Loan Officer
1	Group Loan Trainee	Individual Loan Trainee
2	Group Loan Cashier	Individual Loan Officer
3	Senior Group Loan Officer	Senior Individual Loan Officer
4	Assistant Branch Manager	Master Individual Loan Officer
5	Individual Loan Officer	Branch Manager
6	Branch Manager in Charge	
7	Branch Manager	
8	Senior Branch Manager	
9	Area Manager in Charge	
10	Area Manager	
11	Division Manager	

In SHARE, staff advance based on their accumulated experience in the institution and on the quality of the work performed. Because the rules for promotion are clear and transparent, this model provides employees with attainable incentives to achieve good performance objectives.

In some MFIs, promotion is virtually automatic based on achievement of targets and portfolio performance levels. Others take a more subjective approach, relying more on performance assessment through staff appraisals implemented with their managers.

Ideally, staff should have the opportunity to define their personal desired career path with their managers and discuss how their growth within the organization can be achieved. This highly participatory approach allows staff to work to set targets along side their managers.

Team Building: Managing the Division between Group Lending and Individual Lending Staff

Guiding Questions

- What will changes mean for existing group loan officers?
- What uncertainties do group loan officers fear about job security and job restructuring?

These questions are important to ask because they force management to understand the group loan officers' perspective on the seismic changes taking place in the organization. Management must understand their concerns in order to be able to address them effectively.

When introducing a transformational product such as individual loans, it is important to emphasize the concept of team work early in the process. Staff and loan officers in particular may feel vulnerable as a result of the changes introduced and particularly the integration of new individual loan officers. It is important that these changes are presented as an opportunity for the organization. New staff and products are being introduced to fortify the institution as a whole, improving the services offered to clients and strengthening its future competitiveness.

Team building can help staff overcome potential concerns such as product competition and divisions between loan officers. Tools for re-enforcing team effort include setting branch targets and making the branch team responsible for achieving the goals. Another is to ensure cross-training of loan officers on the different products so that staff can support each other in branches as necessary. Bonuses or prizes may also be allocated for branches or regions which have the best performance, not only in portfolio volume and quality, but in customer service and branch teamwork.

MI-BOSPO faced challenges in this area typical of many MFIs. Its success in overcoming these through a variety of measures is instructional.

Box 22: MI-BOSPO: Area Manager on the Difference in Status of Individual and Group Loan Officers

“Initially there was resistance to individual and group loan officers working together, particularly because of the issue of group loan clients being transferred to individual loan officers. A “we” and “they” divide occurred between group loan staff and the newly recruited individual lending staff. Not all group loan officers had university degrees. Individual loan officers, on the other hand, were required to have university degrees and some experience in financial analysis or business.

We wanted to ensure that all staff had the same status so the following changes were made:

- Standard requirements—all newly recruited staff have the same background. We now hire economics graduates for solidarity group as well as individual loan staff.
- Transparency—we worked a lot with solidarity group loan officers to help them not feel threatened, and we operated in a very transparent way that was re-assuring to everyone. We were open about the changes in the institution and how each group of loan officers has a role within that institution. Honesty helps us manage the difficult periods. It is important to listen to staff concerns.
- Deliver both products—we think it is possible to have some loan officers deliver both products. Individual and group loan officers typically have been managing the same value loan portfolio. We believe that with additional training all of our staff could handle individual lending. This is still being considered.
- Communication—meeting together as an institution has helped. It is important to keep lines of communication open to all, especially those in the field who are more isolated from the happenings at head office. We have quarterly meetings with the entire staff, as well as annual staff retreats with some workshops.
- Training to achieve buy-in—we also trained our managers on how to build staff commitment.
- Investing in staff—we also invest in our staff; helping them with education and language training, as well as specific skills they need for their job. These are personal gestures that really make a difference and help staff feel less threatened by change.”

SECTION THREE – ACHIEVING SUSTAINED SUCCESS (TESTING, EVALUATION AND INTEGRATION PHASE)

Once the long list of implementation, planning and preparation activities have been completed, the exciting period of product testing can begin with the launch of the pilot period.

Piloting is essential. Learning from the pilot phase helps to set the stage for the eventual launch and rollout of the individual loan product. It also helps to determine what should be the speed and staging of the rollout based on product readiness and institutional preparedness.

This third section presents various elements of the pilot stage, and discusses lessons learned from the piloting experience of the four case institutions. This is followed by a review of issues related to the launch, monitoring and growth strategies required for long term integration of individual lending.

A. PILOTING AND ROLLOUT: EVALUATION AND PREPAREDNESS

Guiding Questions

- What is the institution setting out to achieve with the pilot?
- What are expected challenges and lessons that will be encountered during the pilot?

Management should maintain a clear focus on the goals of the pilot throughout the entire process, which will help keep the perspective at the institutional rather than process level. Many of the areas of expected challenges and constraints will have been identified during the planning and assessment process. Bearing in mind these potential challenges and constraints will help the institution react to them when they arise.

1. The Importance of Piloting before Launching the New Individual Lending Product

The pilot should build a “prototype” that can serve as a basis for the future rollout model. Prior to starting the pilot, management needs to identify appropriate locations and branches for testing the product. Areas or branches selected to participate should be representative of the institution as a whole, although an institution may chose separate pilots for urban and rural areas.

Selected areas or branches for piloting individual lending should normally include stable, relatively mature branches in locations where market research has indicated a demand for individual loans. Strategic decisions also play a role in selecting branches. For example, testing may be preferable in areas where existing competition is minimal. This provides MFIs with a relatively neutral testing ground and an opportunity to refine and strengthen the product (and support systems) before launching in areas where competition is stiffest. Internal factors such as staff capacity or client pressure may also impact on this decision.

WWB uses the following stepped plan in supporting its affiliates through the pilot phase:

1. Determine goals for pilot branch and performance targets by loan officer.
2. Ensure core team has adequate training in the different aspects of the lending technology.
3. Implement and adjust lending policies if necessary.
4. Develop and adjust operational manual for individual lending.
5. Support pilot group in disbursement of first loans and all aspects of the lending process.
6. Monitor lending process quality.
7. Analyze product acceptance by clientele.
8. Monitor and support the implementation of necessary adjustments to the different functional areas.

Piloting provides an opportunity for MFIs to test the newly designed product and procedures, and to test staff capacity for delivery and other supporting systems. Piloting enables organizations to determine whether adjustments to the organizational structure, functional areas and MIS have been appropriate, and to highlight areas that require strengthening or refinement.

The following objectives and benchmarks are typically set by MFIs in the pilot testing period:

- Build capacity in individual lending especially for the analysis and evaluation of loan applications at three levels of the institution: loan officers, project management (product manager), and credit committee level (branch manager).
- Test demand for the new product in the selected areas, with a particular emphasis on potential new clients.
- Build capacity of participating staff to effectively offer both products with a focus on loan officers' ability to cross-sell group and individual loans.
- Develop clear graduation policies for current clients.
- Finalize all the forms (application, business and household analysis, credit committee forms), contractual documentation, and loan officer's operational manual.
- Define and make final adjustments to the different functional areas of the organization with special emphasis on operations, human resources, internal audit, and finance departments.
- Complete the adaptation of the MIS to the needs of individual lending.
- Define the best strategies and marketing materials to market new product in potential areas.
- Determine portfolio share by type of product and set target of loans and portfolio amount.

The pilot phase is a period for institutional transformation and consolidation, not for growth and expansion. Growth targets set for the pilot stage should be moderate and realistic. This said, it is nonetheless essential that MFIs process a minimum number of applications for the pilot to have it serve as an effective test period, not only in assessing product features and delivery systems, but also for client demand and public response. A basic level of outreach is also required for staff to gain experience. Moreover, the pilot should be large enough to have a meaningful demonstration effect for the clients and other staff in the institution.

Box 1: Al Amana: Portfolio Development during Pilot Stage

Eight months after Al Amana launched its individual lending pilot, a review was made of the pilot, revealing the following:

- Marketing efforts completed to date had apparently limited success: 39 of 47 loans disbursed to current clients.
- Demand patterns: those taking loans for less than 500 Dinar preferred to avoid guarantee requirements.
- Some group loan officers discouraged their members from switching to individual loans to prevent the break up of their groups.

These findings resulted in the following conclusions about promotion and delivery modifications:

- Need to develop marketing materials to increase the variety of approaches to stimulate demand for individual loans among current clients.
- Need to educate group lending staff members so that they can describe and promote the individual loan product to reinforce the marketing strategy of the new product.
- Need to address the incentives question to encourage group loan officers to allow eligible group loan clients to graduate to individual loans.

2. Institutional Accounts: Issues and Challenges Encountered during the Pilot Stage

The planning, implementation and integration of new products in an MFI is a long process and requires sustained vision and perseverance. The accounts of the four case institutions provide valuable insight into the different approaches to piloting an individual loan product. Their experiences also underline the similarities in the challenges they faced and lessons learned along the way.

Box 2: MI-BOSPO: Challenges Encountered during Pilot Phase

MI-BOSPO chose to restrict the piloting of the individual loan product to existing group loan clients; new clients were accepted only after the completion of the pilot. This approach posed the following challenges:

Challenge: Over-estimation of MI-BOSPO's capabilities at the start of the pilot phase

Management felt pressure to start the pilot phase. The first individual loans were disbursed just one week following a short training period of two weeks. The risk of "bad loans" was high, and new loan officers were not fully trained and were unfamiliar with the local market. Lack of training meant that almost all ex-solidarity clients immediately got the maximum individual loan amount of 10,000 KM.

Lesson: Management must give time for rigorous and extensive training before disbursements can begin. Close monitoring of disbursements is key to quickly addressing the risk of "bad loans", should they occur.

Challenge: Inadequate target group identification

At the beginning of the pilot, MI-BOSPO did not have specific eligibility criteria for new clients, and had no clear strategy for explaining the pre-conditions and target market for the new product. Under group lending, criteria were broad (unregistered and registered women entrepreneurs) with groups self-selecting their members.

Lesson: The preparatory research conducted during the first phase of introducing individual lending should help the institution gather clear profile information on their current group clients, their new target market for individual loans, and what characteristics these two groups share and how they differ.

Challenge: Communication of new product eligibility requirements

The lack of information about eligibility for individual loans resulted in some existing clients feeling confused and dissatisfied, who despite their good repayment history were unable to satisfy the individual lending credit assessment procedures (either because they did not have the repayment capacity or because they were unable to provide the necessary financial information). Potential conflict situations with solidarity customers disappointed by new loan conditions put additional pressure on the new loan officers.

Lesson: Definition of clear eligibility criteria, informed by the preparatory research, will help reduce the confusion and conflict that may arise for group loan clients who are interested but not eligible to graduate to individual loans. If the information is clear from the outset of the pilot, then there is less risk of client dissatisfaction.

Box 3: KWFT: Slower Than Expected “Graduation” Rate from Group to Individual Loans

After one year of piloting individual lending, only 6% of group borrowers had graduated to individual loans. Of this small group, only 43% of the new individual loan clients increased their loan amounts; the rest maintained the same loan amount or actually reduced their loan size. This suggests that the motivating factor for many group loan and SGL clients to change products was to eliminate the other requirements of group loans and not to access larger loan amounts.

The low level of demand can be explained in part by KWFT’s effort to avoid a stampede from group to individual lending (see Section 2, Box 7). The following characteristics defined the individual loan product:

- Overlap of product features—clients were able to access similar loan amounts with far easier collateral and guarantee requirements through the group loan and SGL products.
- Group loan officers were not sufficiently knowledgeable or motivated to transfer their best clients to the individual loan program. They did not work closely with individual loan officers in the beginning of the pilot (see Section 2, Box 9) resulting in a lack of teamwork and cooperation.

KWFT addressed these problems as it began to rollout its individual loan product by creating greater distinction between the two products. The introduction of an incentive scheme may further enhance cross-selling of products by loan staff (particularly the promotion of individual lending by group loan officers to their clients). Competitive individual loan products from other lenders are also encouraging KWFT to further streamline current requirements for individual loans.

As seen in the examples above, the pilot phase is crucial for allowing organizations to adjust the products and lending policies with minor impact on the overall performance. Each organization has particular characteristics and challenges that will shape the pilot stage. This learning period helps managers and staff to internalize and navigate the impact of the introduction of the new product.

Box 4: SHARE: Challenges Identified by Staff during the Pilot Phase

During the pilot phase, concerns and challenges were gathered from staff as part of the assessment of the pilot’s success.

Individual loan officers:

- Clients—concern over how clients would react to new, additional requisites and how the change of personnel would affect the client’s relationship with the institution.
- Information accuracy—concern that they would be unable to verify information provided by clients.
- Management and other staff—experienced lack of support from other branch staff and unable to get clearer information on branch and area managers’ overrides of loan officer credit recommendations.
- Portfolio management—experienced problems handling both individual and group loan products (responsible for both until specified portfolio size).

Branch and area managers:

- Loan officer performance—concern about inadequate loan officer performance due to insufficient training and experience.
- Portfolio management—as with loan officers, branch and area managers experienced the management of both products to be overwhelming.
- Credit approval process—concern that the credit committees were inefficient.

Regional training manager:

- Training and promotion—concern that the unclear selection criteria and process for loan officers resulted in inadequate screening and monitoring of clients.
- Loan requirements—concern that the peer pressure of the group was the key to repayment. At the same time, concern that the documents required as guarantees were too strict and were discouraging loan approvals.

The concerns identified by staff at different levels reveal repeated issues: difficulty of managing both products, need for strong and continued training, and need for better communication among different levels of the institution. The exercise of gathering staff concerns during the pilot phase is crucial in order to get a full panorama of the pilot's progress.

Box 5: Al Amana: Challenges Expressed by Staff during the Individual Lending Pilot Phase

Al Amana's loan officers were also asked to voice their concerns and identify challenges experienced during the pilot.

- Training is essential—loan officers identified the need for further training in credit analysis, cross-checking of data, presentation of cases to the credit committee, and “in the field” coaching to supplement theoretical teachings. There was the impression among some loan officers that the level of technical skills varied significantly.
- Need to adapt incentives system—there were no clear incentives to disburse individual loans as compensation was based on the performance of the solidarity group portfolio. Individual lending was seen as an exciting opportunity to learn something new but also as an extra job.
- Need for policies and guidance—loan officers felt constrained by the lack of clear guidelines regarding policies and processes for individual lending. There was also a sense that no one person was responsible or accountable for the process.

The concerns of Al Amana's loan officers represent an overwhelming call for greater institutional support, through training, clear incentives, policies and guidance. Loan officers are the frontline of any new product delivery and need to feel they have the explicit support by management to build the portfolio of this new product.

Regular meetings with staff and managers are crucial to identify the areas of tension. Sharing problems among different functional areas allows management to have an integral view of the process. Also process review sessions allows staff to jointly seek solutions. It is important to be aware that the learning process is gradual and staff needs time to internalize and adjust to the changes.

The issues encountered by all four MFIs are typical and to be expected during start-up of individual lending operations. The pilot phase should be viewed as a chance to identify and resolve such challenges as they arise so that the institution is experienced and strengthened by the time the product is eventually rolled out.

3. Key Processes that Need to be Clearly Defined during the Pilot Phase

Communications

The pilot phase provides an excellent opportunity to align human resources and systems gradually towards a multi-product organization. Clear communication with the staff and clients will help reduce uncertainties and potential tension among staff and clients. The following actions will help ensure clear communication:

- Clear understanding of the composition of the different client segments inside the portfolio.
- Clear characterization of the client profile for individual loans.
- Well-differentiated products for individual and group lending, product features and eligibility criteria.

- Adjustments to branch manager job description according to the model chosen (integrated or specialized).
- Clear definition of reporting and monitoring flows.
- Clear marketing strategies and graduation criteria.
- MIS adjustments to monitor individual lending operations.

Once the first shocks of introducing a new product have been absorbed by staff and clients, management needs to make decisions that will create the right conditions to offer specialized products to the different client segments. The longer it takes to define the market segments and products, the longer the transition period will last.

Preparing for Launch

During the pilot period, preparations for eventual roll-out should be underway. Not least, continuous training is required to prepare the loan staff and managers involved in the launch of the product. **The pilot stage also provides an opportunity to identify individuals who might be good trainers for the future product roll-out. Planning of their time and participation should also be taken into consideration at this stage.**

Preparations should begin at the branches where the product will next be introduced, including changes to the physical space, administrative systems and staff time use. It is also during the piloting stage that marketing and promotion strategies should be defined in preparation for the formal launch of the new product.

B. The Launch: Monitoring Progress and Constant Refinement

Guiding Questions

- What are the pre-conditions for rollout?
- What are performance indicators / ratios of best practice institutions?

Plans for the full rollout of the new product will have been made at the outset of the pilot phase; however the pilot may not have achieved its goals by the originally scheduled deadline. Management must reevaluate whether the institution is prepared for a full rollout at the end of the pilot and make adjustments to the rollout schedule if necessary.

1. Preparing for Rollout: Preconditions

The following check list used by WWB provides an overview of activities that should be in place prior to rolling out the new individual loan product.

WWB Check List for Individual Lending Rollout

- Strengthening training centers.
 - Develop and document guidelines for trainers.
 - Document training methodology; prepared materials.
 - Document training of core team of trainers.

- Branch rollout.
 - Develop and document guidelines for opening a branch for individual lending.
 - Document action plan to rollout the process.
 - Document plan for follow-up activities at the branch level.

- Document projections for the new branches for the first year of operations, based on the following indicators:
 - Number of loan officers trained.
 - Number of branches where individual lending will be introduced.
 - Number of loans disbursed by branch/region.
 - Amount disbursed per loan officer, branch.
 - Arrears per loan officer/branch.

- Documented agreement on monitoring reports and follow-up process.

Launching the Individual Loan Product

Once the goals of the implementation period have been achieved it is important to define targets for the rollout of the product. This includes specific performance objectives as well as institutional development goals.

Performance objectives cover issues such as:

- Ideal number of new loans/month per individual loan officer expected during start-up (first six months).
- Ideal number of new loans/month per experienced individual loan officer (+6 months).
- Projected average loan sizes during start-up period and afterwards.
- Number of individual lending staff per branch/area.
- Number of new branches/areas to launch individual lending and projected staging/location of expansion.

These figures are based on the pilot experience and may need to be revised once experience is gained in the period of full implementation. Goals should be as realistic as possible: ambitious, but set according to the MFIs specific context, competencies and needs. While reference to the

targets of best practice MFIs in these areas is important, pressure for achieving these ideal performance levels should not be at the cost of quality. Timing and staging of implementation is contingent on each institution.

Marketing and Promotion

The launch of a new product such as individual loans is one of the biggest marketing opportunities possible for an MFI. Particular attention should be given to branding of the new individual loan product—what characteristics of the individual loan product differentiate it from other similar products offered by the competition?

As part of this strategy, senior management should also consider how the launch campaign can be used as an opportunity to re-position or re-new the MFI in the face of its institutional competitors. What are the advantages of the services offered by the MFI?

Promotional materials and campaigns should be carefully prepared and designed to ensure they provide concise information in a clear and attractive way. These are some hints regarding promotional materials:

- Include pertinent details, but do not overburden materials with too much information.
- Find out how your clients get their information, and what sources they find most reliable or compelling: posters, hand-outs, radio, TV, street campaigns, etc.
- Plan how the product will be launched to existing clients.

MFIs will also need to consider who in the organization will be involved in the launch campaign. Including group loan officers, branch administrators and others in the organization as well as individual lending staff can promote team building and buy-in to the new product, especially at a time when staff apprehensions and divisions might be an issue.

2. On-Going Monitoring and Evaluation

Monitoring

Learning does not stop at the end of the pilot phase. MFIs need to continuously monitor and refine individual loan products, policies and procedures long after start-up. Organizations should develop monitoring mechanisms and tools to ensure on-going analysis. This involves regular reports which provide qualitative as well as quantitative feedback.

Information flow is essential to this process. Feedback from the field is core to understanding customer satisfaction and can help MFIs maintain their competitive edge. Establishing channels for information flow in the organization, such as client surveys, staff reports, regular branch or regional meetings and staff or client suggestion boxes are all ways of promoting the flow of information.

Box 6: KWFT: Client Feedback and Satisfaction Surveys for Continuously Competitive Products

The overlap of products and strict requirements for individual lending during the first phase of the implementation enabled KWFT to successfully mitigate the group collapse. The consequence of the products' design, however, was to hamper the growth of the individual loan product. After two years KWFT started to improve individual lending conditions and is graduating more clients to individual lending. During this second phase KWFT felt more confident about increasing the flexibility of the conditions on individual loans and about differentiating more clearly between the two products.

KWFT requested that WWB conduct a survey of individuals approached by KWFT staff who did not take a loan. The aim was to understand the perceptions of KWFT's individual loan product by its target market and potential impact on the growth and development of the new product. The results indicated that 100% of the clients surveyed were satisfied with the staff approach and were interested in an individual loan. However, aspects of the product design dissuaded them from applying for a loan.

Changes made by KWFT following this research included:

- Expanded eligibility criteria.
- Reduced interest rates.
- Reduced collateral and guarantor requirements.
- Reduced number of years of business experience required from three to two years.
- Expanded set of documents that can serve as required ID.

The readjustment of some of the product features reveals KWFT's agility to respond to the findings of the pilot phase. An institution must be ready to reevaluate even the most fundamental characteristics of the new product (if adjustments make sense) in order to respond to constraints and challenges identified during the pilot.

Intensive Supervision of Loan Officers

Loan officers are ambassadors of the institution. It is indispensable that all loan staff are closely supported and monitored not only during the pilot and rollout phases, but also over the long term. For individual loan officers, this includes monitoring of both their technical skills in accurately and consistently implementing credit analysis and procedures, and their qualitative (soft) skills in writing up thorough and accurate reports, and for interviewing, personal presentation, communication, and observation. **Paying attention to these qualitative aspects can make the difference between a good and a great credit team.**

Monitoring Training Quality

Follow-up and monitoring of training is particularly important when introducing a transformational product such as individual loans. After the initial training is completed, visits to branches should be scheduled by the training department to verify the quality of the lending process. It is important to conduct this quality control after a specified period of time and to let the trainees know that they will be evaluated at the pre-determined time. This will ensure that they keep close adherence to the analytical standards. WWB advises that this evaluation be held after a three month period, as this marks a crucial point in the learning phase.

After the quality control is performed, it is important that the training department continuously monitor the quality of the lending process. This can be through reports from the branch or area

managers, or from the internal audit department that may identify specific issues which require additional training.

Again, the **importance of providing high caliber training cannot be overly emphasized**. The success of individual lending lies in the quality of the staff and the training that supports them.

Evaluation for Successful Integration of Individual Lending

Once the individual loan product has been launched and the MFI begins to accumulate a meaningful body of experience, the MFI should consider a comprehensive evaluation at the product and organizational levels. This is usually undertaken one to two years after rollout, depending on the progress of each individual MFI. An outside consultant able to provide objective insights normally undertakes the evaluation, This exercise is also useful for the MFI to regain a global perspective after an intensive period of internal change and transformation.

Common Mistakes

Some common pitfalls in the rollout of individual lending include:

- MIS is integrated into the delivery process too late.
- Change is not rigorously enforced but is made an option.
- Focus is placed exclusively on the process.
- Focus is placed exclusively on results.
- Those expected to implement the change are not involved in the process.
- There is too much dependency on outsiders.
- No changes are made to the reward system.

These are some of the stumbling blocks that can slow the take-off or even undermine the sustainability of the change process. What is important is that the organization is open to identifying challenges, and has the persistence to resolve them even when this means fundamental changes to the work approach or culture of an institution.

C. GROWTH AND PERFORMANCE: SETTING REALISTIC GOALS

Guiding Questions

- What are challenging but attainable growth goals for portfolio performance?
- What are tools to support growth with quality?

Management should use goal setting as a chance to align the institution around the new product and to reinforce the institution's priorities. The enunciation of goals should be the culmination of management's work to integrate the new product fully into the institution's mission, vision, operations, and human resources.

1. Principles to Plan for Product Growth

When planning for growth it is important to maintain focus on the quality of the lending process. Quality should never be sacrificed for growth. There are plenty of examples where rapid expansion strategies have produced results in the short-term but have proven disastrous in the mid-term. Before launching individual lending in new branches or opening entirely new branches, clear guidelines are needed for both functional and physical requirements, and for budgetary implications.

Management needs to set clear targets for each product, which may vary according to the region or neighborhood. The clear identification of the location of the different client segments is important to establish portfolio targets by loan product and by branch. Branch managers and their staff should formulate goals for their branch, and once approved by head office, should work to develop strategies for meeting them. Establishing branches as cost centers can be an effective tool for planning and monitoring growth.

Growing Individual Lending: Setting Realistic Goals

The following are tips for setting realistic goals for growth:

- Plan for staged growth based on historic performance and portfolio quality.
- Identify next branches to implement individual lending.
- Sequence the rollout (establish a timeframe to introduce individual lending in different regions).
- Ensure that proper documentation and systems are in place and continuously updated.
- Establish processes for continuous training and mentoring to ensure quality control.
- Establish clear marketing strategies and cross-marketing strategies to ensure that both products are offered effectively across branches.
- Establish adequate physical infrastructure to facilitate provision of both products.
- Determine portfolio share of each product (%).
- Determine necessary external support/advice.

Below are examples of different approaches taken by management in the case study institutions.

Box 7: Al Amana: Planning for Rollout

The following key questions were posed by management as they accessed the results of the pilot and began planning for the rollout:

- Which region do we expand into next?
- What are the criteria for making this selection (level of demand? loan officer capacity?)
- What structure do we want to institute (“regional centre” vs. “one loan officer per each antenna”)? Which is more cost-effective? Which one is more prudent?
- Does Al Amana have the human resource capacity at the field and head office levels to introduce individual lending in one additional region? Two? Three?
- Do we have funds to introduce individual lending in one region? Two? Three? More?

Box 8: KWFT: Growth through Individual Lending Credit Technology, though not Necessarily through Individual Loans

A total of 2,098 loans of amounts greater than KSH 100,000 have been disbursed to clients through different products for a total of approximately KSH 3m. All of these loans have been assessed using individual lending credit assessment, though not necessarily through the individual loan product. A breakdown of loans of over KSH 100,000 per product:

- A total of 122 loans were made through the individual loan product.
- A total of 1,216 loans were made through the Small Group Loan product.
- A total of 760 loans were made through the group loan product.

KWFT has chosen to allow clients to increase their loan sizes within the groups, while adding differentiated levels of credit assessment for loans of increasingly large sizes. This approach has been effective and has protected against the breakdown of the group lending products KWFT had initially feared.

This example demonstrates the feasibility of a creative, modified group product that both satisfies the demand of clients for larger loan sizes within a group structure and mitigates through a more detailed loan assessment the increased risks of higher credit amounts. In so doing, KWFT has effectively introduced a range of products that are specifically adapted to the local market.

In KWFT's words: "Group lending is not purely a financial affair: the groups are social institutions." Evidence from their experience indicates that in cultures where groups are recognized and valued, they should be used to advantage. While demand for individual loan products clearly exists, there may be more scope for alternative group loan products in this environment.

2. Tools to Support Growth with Quality

WWB uses tools and ratio analysis for measuring performance and strategic planning targets. The ratios focus on productivity levels, cost-effectiveness and portfolio quality. It benchmarks organizational performance against best practice in different regions. The ratios used are shown in the next table.

Table 1: WWB Performance Measurements

Ratio	Institution A	Best Practice 1	Best Practice 2
Portfolio outstanding			
Total number of loans outstanding			
Average loan size			
Loan officers case load			
PAR > 1 day			
PAR > 30 days			
Administrative costs / average portfolio size			
Provisions / average portfolio size			
Amount provision / PAR > 30 days			
Return on equity			

Loan Officer Productivity

It is important to have benchmarks to compare performance against best practice; usually a loan officer's caseload is the one indicator that is most important to measure. It is important to be aware that good standards of productivity are between 350 and 400 outstanding clients per loan officer. To achieve those levels each loan officer should be able to disburse three to four loans per day. Incentive systems are a key component of productivity levels, and should be introduced once the pilot phase is over.

SECTION FOUR – CONCLUSION: SECRETS OF SUCCESS

This Women's World Banking monograph has outlined the WWB framework and approach for introducing individual lending in a group lending institution. The document's three sections mirror the three phases of WWB's framework—planning; design and implementation; and testing, evaluation and integration. Each of these phases poses significant challenges and opportunities for an institution and many questions need to be addressed at each stage of the process. We hope that institutions consulting this document can use its contents to help them anticipate challenges, minimize constraints and expand opportunities.

This last section of the document summarizes the key factors identified through Women's World Banking's experience that have underpinned the success of its affiliates in introducing individual lending.

Thorough Planning

The introduction of a new product should be the result of a systematic process by which the organization gathers relevant information on the market, competitors, clients and its internal capabilities--data that will inform and guide the strategic choices management will make. Clear understanding of the institutional gaps before implementing the new product will help management plan and make gradual adjustments at the operational level and in the support systems, human resources and organizational structure . Factors to keep in mind are:

- Ensure that staff members receive adequate and sufficient training prior to and during the pilot phase. It is important not to underestimate the training and coaching process to loan officers and branch managers; it is the best investment during the pilot phase.
- Ensure that an adequate number of programmers are in place to implement necessary adjustments to the MIS. The pilot phase should only start once these adjustments have been implemented.
- Never rush the process, give enough time for staff to absorb and master the new technology.
- Ensure all adjustments are implemented to integrate the new product into the different functional areas.
- Prepare all documentation required for the rollout of the product.

Understand Your Clients

Understanding your clients' profiles and portfolio composition is key to designing better products and determining your growth strategy. A clear understanding of clients' needs will help management design attractive products tailored to different client segments.

- Use market research and client segmentation analysis to help inform the process.
- Use data and constant communication to align staff around the necessary changes.
- Avoid product overlap that can lead to product competition.
- Clearly differentiate your loan products, create a transparent process to graduate your clients and keep everyone informed.

Ensure the Quality of the Lending Process

Individual lending is a product that requires a good understanding of business cycles and risks as well as detailed character assessment. Tools and processes have been developed to ensure standardized risk assessment and cost-effective delivery systems. Comprehensive training of loan officers and in particular branch managers will ensure a high quality process.

- Design a comprehensive training process with strong support and coaching at the field level to ensure the quality of the lending process.
- Do not underestimate the training requirements and the time required to absorb and master the new technology.

Managing Change Processes

At key turning points for an institution, the CEO and senior management need to be very involved in the process and should integrate all relevant staff. The early establishment of an interdisciplinary support team to implement the adjustments at the different organizational levels is of paramount importance. This support team should be led by a product manager or leader, who will coordinate the different activities and will keep track of the timely delivery of the action plans. The support team should be formed by senior managers from the different functional areas of the organization.

Change processes need to be managed carefully; therefore it is important to integrate group loan officers and group managers into the discussions of the impact of the new product on their daily work and revisit these issues as adjustments are made. Forming small working groups to analyze and discuss the operational changes will help include the staff perspective and get their feedback to develop better processes, products and build ownership. Transformational changes are complex processes that need to be monitored on a continual basis; frequent meetings and horizontal communications will keep management and staff informed of the necessary adjustments and potential side effects.

- Establish a support team early in the process to coordinate rollout.
- Integrate individual and group loan officers to enhance team work and understanding of the different products.
- Maintain clear and open communication throughout the entire staff.
- Keep clients informed about changes, new eligibility criteria, and new product features.
- Design clear and simple rules to manage transitions and client's graduation.
- Don't try to please every one; design your policies according to what is most valuable for the majority of your clients.

Follow Through

Planning, implementing and integrating the new product requires constant reviews and monitoring of the action plans and targets. Working with multidisciplinary teams adds complexity to the process. Therefore it is important to assign a product or project manager who will coordinate the activities of all functional teams and will follow up on the adjustment and completion of the action plans of the respective teams. Product managers need to coordinate and integrate the action plans for MIS, finance, human resources, and internal audit departments. Therefore it is important to request action plans with clear due dates and responsible persons identified for all functional areas.

- Coordinate activities of all functional teams through the product manager.
- Require action plans from all departments involved in the individual lending process.
- Establish regular monitoring of the lending process quality by the product manager.

Women's World Banking is a network comprised of a diverse set of institutions, varying in many features, including size, region, methodology, and legal structure. The framework it devised for introducing individual lending into a group lending institution was grounded in this diversity. Because no two microfinance institutions are alike, no universal prescription can apply. But as the document's case studies have illustrated, many of the challenges and obstacles experienced are typical for any institution introducing a transformational product. The framework discussed provides general principles to facilitate the process of introduction of individual lending and highlights key principles and features of the new products that need to be considered while introducing it. The secrets of success outlined in this final section are universal to any institution undergoing change.

