

INNOVATIVE FLEXIBLE PRODUCTS IN MICROFINANCE

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Abstract

The paper describes innovative microfinance products that combine flexibility features with financial discipline. Those are microsavings, microcredit and microinsurance products and they come from microfinance institutions worldwide. This review shows that service providers are introducing various types of flexibility into financial contracts and that flexibility can be combined with a variety of disciplining mechanisms, such as direct screening and monitoring of clients, financial collateral, reputational incentives, and also psychological pressure. We notice, however, that product flexibility may raise the operational costs for the institutions and have a limited outreach.

Keywords: *product flexibility, discipline, commitments, and microfinance.*

JEL Classification: *D03, D82, G21, 012.*

1. INTRODUCTION

The poor need flexible products that allow transactions adapted to their cash-flow. Such products help the poor to smooth consumption, when income is irregular and unpredictable, to cope with emergencies and cover unexpected expenses. Financial products designed for poor clients should also include some sort of disciplining mechanisms. Disciplining mechanisms encourage clients to make payments duly on time, i.e., savings deposits, loan

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repayments and insurance premium payments. Disciplining mechanisms serve to mitigate asymmetric information problems, for example moral hazard, and to alleviate clients' behavioural inconsistencies, such as lack of self-control, intra-household disagreement, and inattention (Laureti, 2012). Products mixing flexible features with disciplining mechanisms could, indeed, be of great support for poor people, easing money management and improving their welfare (Collins *et al.*, 2009). This paper focuses on innovative market-oriented products that combine these two important features: flexibility and discipline.

In theory, flexibility and discipline cannot coexist in single products. Indeed, flexibility – for example, in the form of grace period in loan repayment or *ex post* contract renegotiation – increases the client's temptation to renege on his or her commitment, discouraging financial discipline (Laureti, 2012). This paper aims at understating how to manage the trade-off between product flexibility and discipline in microfinance. We ask which disciplining devices may be associated with flexible microfinance contracts, in ways that permit the adaptation of transactions to clients' cash needs while at the same time enhancing the clients' financial discipline.

Previous research has studied why rigid microcredit contracts are effective in enhancing discipline.¹ One of the most discussed mechanisms is the weekly repayment schedule with repayments starting right after the loan is disbursed. It enhances discipline for two main reasons. Firstly, it screens households with multiple sources of income, which are considered less risky (Jain and Mansuri, 2003). Secondly, small payments are easier to manage for poor people (Fisher and Ghatak, 2010). On that regard, studies on impact give contrasting results. Field and Pande (2008) do not find any significant impact on default with weekly vs. monthly repayment schedule; Field *et al.* (2011) find that grace period increase default; and McIntosh (2008) finds an improvement in repayment switching from a weekly to a by-monthly repayment schedule. Indeed, flexibility can lower (unintentional) default because it makes money management easier for the poor.

On the savings side, Ashraf *et al.* (2003) describe different disciplining mechanisms set in commitment savings contracts in developing countries. Following Ashraf *et al.* (2003), other authors – e.g., Ashraf *et al.* (2005; 2006) and Karlan *et al.* (2010) – study the impact of some of those mechanisms: posing restrictions on withdrawals, labelling accounts, using deposits collectors, and sending short message service (SMS) reminders to clients. They all

¹ See Armendariz and Morduch (2010) for an overview on disciplining mechanisms in loan contracts, used by microfinance institutions in developing countries.

find a positive effect on clients' savings behaviour. The theory explains that those mechanisms correct some client's behavioural inconsistencies: labelling accounts makes the future more salient (Ashraf *et al.*, 2006); deposit collectors act as a moral imperative for clients to save (Ashraf *et al.*, 2005); and SMS reminders mitigate inattention problems (Karlan *et al.*, 2010). Moreover, SMS reminders can also enhance loan repayment through better financial management (Cadena and Schoar, 2011).

To our knowledge, there is little evidence from the literature investigating ways to make microfinance contracts more flexible. Some contributions come from theoretical models. For example, Tedeschi (2006) proposes to make the dynamic incentive mechanisms more flexible by adapting the punishment phase to the clients' type. Sadoulet (2002) shows that reputational mechanisms should guide institutions that provide repayment insurance to borrowers. However, empirically we do not know if those mechanisms are truly effective.

There exists also a literature describing successful flexible contracts in microfinance, with the most notable example being SafeSave (CGAP, 2000; Rutherford, 2011). Most of that literature, however, focuses on single case studies, with a few exceptions, such as CGAP/IFAD (2006b) and Ashraf *et al.* (2003). Our paper is mostly related to Ashraf *et al.* (2003) as they describe a list of microfinance products worldwide. However, they are focused on savings and are only interested in disciplining mechanisms. Differently, our paper analyses both discipline and flexible features of a wide variety of financial products addressed to the poor in developing contexts.

Searching on the internet extensively – for donors' studies, practitioners' reports and microfinance institutions and networks' websites – we identified nine innovative practices covering credit, savings, and insurance services. Those innovative practices have one common aspect: they mix flexible features and disciplining devices. The paper highlights and compares the flexible features and the discipline mechanisms for each of the nine products. We individuate different types of flexible contract features, in line with Laureti (2012). Moreover, we identify some disciplining mechanisms that could be associated with flexible products.

The rest of the paper is structured as follows. Section 2 discusses the trade-off between flexibility and financial discipline; it is conceptual and provides a framework for the discussion. Section 3 describes nine innovative products, focusing on the flexibility features and the disciplining mechanisms. Section 4 draws lessons from these analyses and presents best practices for developing pro-poor microfinance products. Section 5 sums up the findings and presents our conclusions.

2. THEORETICAL INSIGHTS FROM THE LITERATURE

Financial discipline is a desirable behaviour of clients, characterized by their obedience to financial commitments, which is encouraged thanks to some disciplining mechanisms. In the literature, commitments are arrangements that channel the client's decisions by making certain choices more costly, sometimes even infinitely expensive, and by providing incentives that promote certain choices (Amador *et al.*, 2006; Bryan *et al.*, 2010). For the sake of clarity, in this discussion we call disciplining mechanisms those devices associated with commitment products, which encourage clients to fulfil their obligations. In the same sense, commitments are credible when the disciplining mechanisms associated with them are strong enough to push clients to make the necessary effort to fulfil their obligations.

Credit, savings, or insurance contracts are different types of financial commitments, which could be associated to a range of disciplining mechanisms, of various strength. For example, microcredit contracts are commonly considered credible commitments, driven by various disciplining mechanisms, e.g., social pressure, holding of financial collateral as security for loans, and dynamic incentives. Also the weekly instalment schedule ubiquitous in microcredit contracts is considered an effective disciplining device, imposing discipline through the regularity and frequency of payments and meetings (Armendariz and Morduch, 2010). Commitment savings plans may fix times and amounts for deposits and/or impose restrictions on withdrawals (Ashraf *et al.*, 2003). Disciplining mechanisms associated with commitment savings should encourage clients to make deposits duly on time, for example, by sending staff to the clients' home or workplace for collection of deposits; disciplining mechanisms could also impose fees for early withdrawal of funds prior to a fixed target date.

Credible commitments are important for poor households who have difficulty in saving.² Such difficulty can be due to lack of self-control, inattention to planning, or family members asking for money insistently. The proliferation of informal financial systems, such as rotating savings and credit associations (ROSCAs) and deposit collectors, shows that poor people value commitments (Rutherford, 2000; Johnson, 2004; Guerin, 2011). Also rigid microcredit contracts with a weekly repayment schedule are popular among

² "Difficulty in saving" is conceptually different from unwillingness to save or inability to save. The poor want to save and do actually save. The difficulty they have in saving is due to temptation or attention problems or social pressure. Having the poor engage in credible commitments may attenuate those problems. Seminal papers on this topic include Strotz (1955), Thaler (1985) and Laibson (1997). Bryan *et al.* (2010) provide a literature review on commitments.

people with self-control problems (Bauer *et al.*, 2012). There is evidence showing that commitment savings products incorporating appropriate disciplining mechanisms effectively help the poor to reach their savings targets (Ashraf *et al.*, 2005, 2006; Karlan *et al.*, 2010).

Given that the poor have the capacity and the willingness to save, credible commitments would help them to build up large lump sums (Rutherford, 2000; Adams, 2009), for covering lumpy expected expenditure, such as the payment of school fees or for life-cycle events like marriages or funerals (Collins *et al.*, 2009). Stored funds could also help the poor to cope with risk. In this case, commitment products should include some flexibility features.

Product flexibility refers to the ease with which financial transactions are adapted to clients' cash flow (Collins *et al.*, 2009). Contrary to the typical disciplining mechanisms used in microcredit products, flexible products allow for grace periods in loan repayment, provide for adaptable instalment schedules to avoid burdening clients with high repayments in difficult times, and allow for loan prepayment, loan renegotiation in the case of an income shock, and loan refreshing at some point during the loan cycle (Collins *et al.*, 2009). In the case of savings services, flexibility corresponds to the absence of a minimum balance requirement, the voluntary nature of savings and, generally, to the possibility of making deposits and withdrawals of variable amounts conveniently and at no costs.

Flexibility is important for the poor because it helps them to manage money, e.g. smoothing consumption, coping with risks, and taking advantage of unexpected investment opportunities. For example, *ad hoc* payment schedules permit households to save³ cash as soon as it is available, avoiding the temptation to spend it on miscellaneous expenses (Ravi, 2006). Allowing for a grace period in loan repayment would expand the range of investment opportunities, including projects that require a lengthy gestation period before realizing consistent profits (Field *et al.*, 2011). Allowing *expost* contract renegotiation, earlier withdrawals in a fixed savings plan, or providing for emergency loans would help poor clients to deal with income shocks and unexpected expenditure needs (Meyer, 2002; Karlan and Mullainathan, 2006; Collins *et al.*, 2009; Shoji, 2010). Permitting prepayment of loans or offering passbook savings accounts with no restriction on deposits would give the poor a means of investing unexpected small financial surpluses.

For microfinance institutions (MFIs), clients' discipline serves to ensure that lenders are more aware of borrowers' financial situations, reducing the

³ Whether saving up (setting money aside until it grows into a useful large sum) or saving down (setting money aside to repay a loan) (Rutherford, 2000).

likelihood of clients' delinquency and default. For this purpose, institutions use a variety of mechanisms to screen, monitor and provide incentives to borrowers. For example, joint liability, frequent and regular repayment schedule of loans, and compulsory savings serve at this purpose (Armendariz and Morduch, 2010). Also the use of clients' credit history by loan officers is a subjective and implicit credit scoring mechanisms for evaluating credit risk (Scheiner, 2004). Flexibility is good because it increases clients' satisfaction, reduces client dropout, and encourages new clients to take up the products. Moreover, helping the poor to manage their money should reduce unintentional defaults and over-indebtedness (Chaudhury and Matin, 2002; Schicks, 2010).

Generally, a more market-oriented approach would help the industry both to increase its social impact and to improve long-term institutional sustainability. Indeed, product design can serve as a powerful targeting mechanism, because it determines the type of clients attracted and the extent of the benefits clients receive from financial services (Woller, 2002; Johnson, 2005; Copestake, 2007). Developing client-led financial products might help MFIs to attain their social mission – for example, avoiding the perverse phenomenon known as mission drift (Armendariz and Szafarz, 2010). It guarantees that a larger portion of productivity surpluses is attributed to poor clients (Labie, 2009; Hudon and Perilleux, 2010).

Product flexibility and clients' discipline are both important in microfinance. However, it seems they are hardly reconciled in single financial products. There are two major constraints. Firstly, in theory product flexibility should raise the clients' temptation to renege their commitment (Laureti, 2012). Consequently, in order to be incentive-compatible, the terms of the contracts – such as the maturity, the amount, the payments schedule, the interest rates, etc. – as well as the disciplining mechanisms should be adjusted to take into account the increased temptation. For example, Fisher and Ghatak's (2010) model shows that low frequency repayment schedule decreases the incentive-compatible loan size for a given set of disciplining mechanisms. Sadoulet (2002) shows that repayment insurance should be provided only after the first loan cycle, and only to those clients who achieve a good reputation for loan repayment. Tedeschi's (2006) model proves that the punishment phase should be adapted to the client type. *Ceteris paribus*, it should be higher for those clients who value the lending relationship little.

Secondly, product standardization simplifies operations, limits the risk of staff fraud, and facilitates liquidity management (Sadoulet, 2002; Karlan and Mullainathan, 2006; Jeon and Menicucci, 2011). In contrast, flexibility makes microfinance operations more complex. For example, higher on-demand assets and liabilities increase the institutions' exposure to interest rate risk. Al-

so liquidity risk would increase. Standard disciplining mechanisms – e.g., joint liability, weekly payment schedule, compulsory savings, dynamic incentives, etc. – help influencing clients to act more cost-effective. They motivate clients to make payments on time, without the MFIs incurring in excessively high operational costs. However, those mechanisms do not permit the adaptation of financial transactions to the clients' cash needs.

This paper aims at individuating alternative ways to encourage clients' discipline. Most importantly, disciplining mechanisms should be compatible with some flexibility product features. The approach we take is practical and constructive: by looking at existing innovative products that combine flexibility features with disciplining mechanisms, we should get some new ideas on how it is possible, in practice, to combine product flexibility with clients' discipline. The main contribution of this paper is, indeed, to assemble a set of examples of flexible financial products offered by microfinance institutions worldwide, including savings, credit, and insurance products.

3. PRODUCTS BALANCING FLEXIBILITY AND DISCIPLINE

This section lists nine innovative products/practices of microfinance institutions (MFIs) worldwide, covering microcredit, microsavings, and microinsurance services. These products are innovative primarily because they combine flexibility features with mechanisms to ensure clients' discipline. Factors such as technology used and originality of products' features played a role in the selection process, but to a lesser extent.

Key information is provided on each product: name/type of product; short description; relevance for the poor, which we call motivation; flexibility features; and disciplining mechanisms (i.e., financial discipline features). Flexibility and discipline features are discussed in detail and information about the provider is given, including its location, background, outreach, etc. In the appendix, we provide some tables synthesizing the main products' features.

3.1 SafeSave and ShohozShonchoy's savings and loan accounts (Bangladesh)

SafeSave⁴ was founded by Stuart Rutherford in Dhaka, Bangladesh in 1996, offering one basic product: a passbook savings account, which allows maximum flexibility on deposits and withdrawals (any amount at any time).

⁴ www.safesave.org.

If clients wish, they may take out a loan, the amount of which is linked to the client's savings balance and increases with good repayment history. Loans are repaid flexibly with no fixed duration (the minimum monthly payment is the interest).

Loan repayment and savings deposits are enforced through three main mechanisms. Firstly, client must provide financial collateral (savings balance should be at least one third of loan outstanding). Secondly, the loan ceiling increases with good credit history, which is progressive lending. Thirdly, the MFI's staff visits clients once or twice a day at their home or workplace for collecting savings deposits and loan repayment.

As of January 2011, SafeSave payment collectors are 66, all of them women hired from low-income neighbourhoods. SafeSave had 9 branches serving 15 750 clients living in the slums of Dhaka. Clients held USD 709 000 in their savings accounts, with an average savings balance per client of USD 45. More than half of SafeSave clients (8 600) hold loans, worth a total of USD 614 000, with an average outstanding balance of USD 71 per borrower.⁵

Following SafeSave's experience, in 2002 a rural version called ShohozShonchoy⁶ was founded in the village of Hrishipara in central Bangladesh. Whereas SafeSave aims to grow, the Hrishipara experiment is kept deliberately small, so as to test a number of different products. Today it has around 1 300 clients and 9 collectors.

Its most popular product is called P9. P9 is designed to help clients build up savings while providing liquidity through loans. As for SafeSave, loans do not have any fixed repayment schedule or maturity. However, P9 has another interesting flexible feature: clients may also top-up their loans, i.e., they may borrow as much as they have repaid. For disciplining clients, also P9 adopts financial collateral, progressive lending, and payment collectors. The peculiarity is that one third of any fresh loan and loan top-up is deposited in a long-term savings account, where withdrawals are restricted until savings balance reaches a fixed target amount.⁷

As of May 2011, 724 active clients have P9 accounts in Hrishipara holding 3.18 million taka in loans (4 393 taka per client, equivalent to roughly USD 63) and 4.24 million taka in savings (5 863 taka per client, equivalent to roughly USD 84).

⁵ www.safesave.org, accessed 20 June 2011. Exchange rate USD 1 = 70 Taka.

⁶ www.thepoorandtheirmoney.com.

⁷ Since early 2010, a version of P9 called Easysave has been piloted in Kenya, running on the M-Pesa mobile money platform. In October 2010 a third version of P9 was introduced in Kalyanpur slum of Dhaka (<http://sites.google.com/site/trackingp9/>, accessed 20 June 2011).

Table 1 and 2 in the appendix provides a synthesis of the main products' features and a detailed comparison of SafeSave and ShohozShonchoy P9 products.

3.2 Bank Rakyat Indonesia's lottery-linked savings account (Indonesia)

PT. Bank Rakyat Indonesia (Persero) (BRI) is a state-owned commercial bank⁸ and one of the most successful examples of microsavings mobilization in developing countries (Seibel *et al.*, 2010). BRI's most popular savings account is called Simpedes in rural areas and Simaskot in urban areas.

Its flexibility features are highly attractive to the poor: no fee to open the account, no minimum balance, no compulsory deposits or withdrawal restrictions and interest paid monthly on all but the smallest balances (less than USD 10). The most innovative feature of Simpedes accounts is its linkage to a lottery. Twice a year BRI issues free lottery tickets to Simpedes account holders, the number depending on the holder's minimum monthly account balance. As the lotteries are held in the branches, winners are located within a small area and most local people have either won a prize or know someone who has, which makes the lotteries very popular. The lottery is a disciplining mechanism. Indeed, it motivates clients to make savings deposits, as larger are savings balance higher is the probability to win the lottery (see table 3 in the appendix for a description of BRI products' main features).

As of the end of March 2011, BRI had 28.85 million savers, more than 20 million of them holding Simpedes accounts (Oleh Donald Banjarnahor, 2011).

3.3 Fixed savings plans by Vivekananda Sevakendra Sishu Uddyon (India)

Ashraf *et al.* (2003) mention various financial institutions around the world that offer fixed savings vehicles, including Vivekananda Sevakendra Sishu Uddyon (VSSU) in India. We selected VSSU for the variety of fixed savings plans it offers – daily, weekly, monthly and term deposits – and for their contractual terms and conditions, which together appear to offer a good balance between discipline and flexibility.⁹

VSSU savings plans are medium- to long-term and require a minimum deposit of USD 0.2 to USD 1 per period. In addition to enforcement features

⁸ www.bri.co.id. BRI became publicly listed on November 2003. By the end of 2009, the Indonesian Government owned 56.77% of its shares, with the remaining shares held by public investors (BRI, 2010: p. 3).

⁹ www.vssu.in and VSSU (2009).

typical of such products, such as pre-planning of a regular deposits schedule, VSSU visits clients at their doorstep to collect deposits, so to encourage savers' financial discipline.

Account holders are permitted to close their accounts or to withdraw some money prematurely with respect to the predetermined savings target. This provides the degree of flexibility needed to make the savings plans attractive to the poor clients, being a safety net for urgent unexpected expenses. The temptation for clients to renege on their commitment is balanced by financial sanctions for premature withdrawal or account closure. Charges are imposed only if such failings occur within the first 12 months of contracts. It permits to mitigate the temptation to pull out of the commitment, which is highest in the first period of the contract.

VSSU reaches 380 villages in West Bengal. It has 15 branches and has 56 staff members. In fiscal year 2008/09 it had 17 051 active depositors and a cumulative total of 77 737 depositors (VSSU, 2009).

Tables 4, 5, and 6 in the appendix provide a synthesis of VSSU products' features.

3.4 Susu collectors and Barclays Bank in Ghana

Informal financial devices can offer flexibility and convenience to local communities. However they are mostly unreliable and perform poorly, offering a limited variety of financial services and little in the way of funds. Linking formal and informal financial providers could improve the service by combining the strengths of the two types of institution (Pagura and Kirsten, 2006). This is the rationale behind the linkage between susu collectors and Barclays Bank in Ghana.

Susu collectors are a traditional form of finance practiced in western Africa for over three centuries. It is particularly diffused in Ghana, where there are more than 4 000 susu collectors, each of whom have between 400 and 2 000 clients.¹⁰ Susu collectors act as mobile mini-bankers, collecting a predetermined amount of money from each client on a daily or weekly basis over an agreed period, typically one month. At the end of this period, the accumulated savings are returned to the depositor, less a small commission for services (usually equivalent to one day's deposit). Some susu collectors combine deposit-taking with provision of small loans to their clients.¹¹

¹⁰ In 2008 the susu industry was valued at approximately GBP 75 million (USD 160 million) (Barclays Bank, n.d.a).

¹¹ See Aryeetey and Steel (1995) on collectors in Ghana.

The loan and savings services offered by susu collectors to local communities in Ghana are convenient and flexible in that they lack bureaucracy and paper work, provide a door-step service, and allow changes in their informal contract terms to meet clients circumstances. They promote financial discipline through the daily visit of collectors to the clients' homes. Close clients monitoring is possible thanks to the physical and cultural proximity of susu collectors to the local economy and their clientele; it discourages clients from shirking strategically on their commitments, enhancing financial discipline (see table 7 in the appendix for a synthetic description of products' salient features).

Since November 2005 Barclays Bank¹² in Ghana has been providing savings services and investment capital to susu collectors to facilitate their financial intermediation activity with the rural communities. The number of collectors participating in the Barclays initiative increased from 100 in two regions in the first year to more than 500 across the country by 2007. Considering that susu collectors usually have between 400 and 2 000 clients, the programme has reached an estimated 200 000 to 1 000 000 clients of susu collectors in 2007 (Osei, 2007).

3.5 Innovative m-banking products linked to M-Pesa wallet (Kenya)

Branchless banking through mobile phones (m-banking) is probably the most promising innovation in rural finance in the last few years. Using a network of retail agents and the existing mobile phone infrastructure, potentially even distant and sparsely populated areas can be reached with reliable banking services. The first wave of branchless banking efforts focused on providing payment and money-transfer services. The next challenge is to link mobile money with a full range of banking services (CGAP, 2010; Pickens, 2010).

Safaricom,¹³ the mobile network operator behind M-Pesa in Kenya, allows its 13 million customers to transfer money via their mobile phones and through the countrywide network of more than 23 000 agents (Safaricom, 2010). Today, Safaricom, in partnership with a variety of operators (e.g., banks, non-profit organizations, insurance companies, health-service providers, etc.), is piloting innovative m-banking products. Among those, we selected two innovative services for their relevance to the focus of this paper: M-Kesho, a savings account provided by Equity Bank that also gives flexible access to loan and insurance facilities (Equity Bank, 2011); and Mamakiba, a savings

¹² Barclays Bank is a multinational bank group with headquarters in London, UK, and operations in more than 50 countries (<http://group.barclays.com/Home>).

¹³ <http://www.safaricom.co.ke/>.

plan for pregnant women provided by Jacaranda Heath Clinic and Multiple Choices Labs (Gmimano, 2010).

M-Kesho is a bank account linked to a client's M-Pesa account. This permits holders to store money and also to tap into loan and insurance facilities. There are no fee for opening an account, no minimum balance, no monthly fee, and fees for withdrawals but not for deposits. All the transactions occur electronically, through M-Pesa wallet. Clients can also request small emergency loans through the mobile phone. To evaluate a client's creditworthiness, Equity Bank uses a credit scoring system based on the balance and transactional history of the customer. M-Kesho was launched in May 2010 and after only 3 months 455 000 people had opened accounts, though activity on these accounts remains low (Radcliffe, 2010).

Mamakiba is a flexible savings plan designed to help pregnant women to pay for their maternal health needs. Flexible features include: the possibility to decide the amount and periodicity of payments and the savings target; it permits to take into account the woman's cash availability and health needs; moreover, payments are actually not compulsory, since they can be skipped without any penalty. Thus, what distinguishes Mamakiba from a usual flexible savings account? Three disciplining mechanisms encourage savings. Firstly, women receive support in planning their financial resources. Secondly, small message service (SMS) reminds women to save, confirms deposits, and provides updates of total savings. Thirdly, savings are blocked for a specific use, which should be a further encouragement for savings. The programme was launched in 2008 and is still in its pilot stage. It targets approximately 25-50 women per month, from low to low-medium income levels (Center for Health Market Innovation, 2011).

Table 8 in the appendix compares M-Kesho and Mamakiba's main features.

3.6 Seasonal loans by Confianza (Peru) and Banco Los Andes ProCredit (Bolivia)

Expenses for agricultural activities and income from them are typically seasonal and depend on crop and livestock cycles. As a result, the rigid disbursement and repayment schedules of standard microcredit contracts are not well suited to financing agriculture. A study by CGAP/IFAD (2006a, 2006b) assessed nearly 80 rural finance institutions worldwide to identify successful, sustainable agricultural microfinance products. Confianza¹⁴ in

¹⁴ www.financieraconfianza.pe.

Peru and Banco Los Andes ProCredit¹⁵ in Bolivia are among those identified as delivering such products in Latin America.

Both institutions offer short-term loans customized to clients' circumstances, with disbursements and repayments tailored to the income and expenditure cycles of agricultural production. Confianza offers emergency lines of credit to clients with good repayment histories, whereas Banco Los Andes emphasizes its rapid allocation and disbursement process.

Both institutions adopt a strategy of strict credit discipline. Confianza poses strict lending requirements, serving only households with a diversified income stream, and monitors loans closely through a network of loan officers in the field. Banco Los Andes has established a strong reputation for not tolerating delinquency; loan officers visit clients immediately after the first missed payment. It charges high interest rates to clients who have defaulted on payments and lower interest rates to clients in good standing. It has also adopted a broad approach to collateral, focusing on the value of pledged assets to the borrower rather than the recovery value for the lender.

As of the end of December 2010, Confianza had 10 250 rural clients, equivalent to 13 percent of its total active clients (75 813). Rural clients had loans totalling USD 25 million, almost 19 percent of the institution's total gross loan portfolio; average loan per rural borrower was USD 2 455, higher than the institution's average loan. Banco Los Andes ProCredit reported that its agricultural credit portfolio amounted to USD 5 834 000 at end December 2010, equal to only 1.5 percent of its total gross loan portfolio.¹⁶

Tables 9 and 10 in the appendix provide the products' main features and data on outreach.

3.7 Rural credit from Bank for Agriculture and Agricultural Cooperatives (Thailand)

In addition to predictable seasonality of income and expenditure, agriculture is subject to high systemic risk, which is usually co-variant, e.g., natural disasters such as flood and drought, leading to market price volatility. These risks lead to a high degree of uncertainty in smallholder farmers' income, which is usually coupled with a lack of appropriate financial strategies for consumption smoothing. Moreover, raising agricultural productivity requires long-term investments. According to a FAO study (FAO, 2003), state development banks and member-owned institutions, such as Thailand's

¹⁵ www.losandesprocredit.com.bo.

¹⁶ <http://www.losandesprocredit.com.bo/resultadocifras.aspx>, accessed 3 August 2011.

Bank for Agriculture and Agricultural Cooperatives (BAAC),¹⁷ are the most successful in providing such long-term financing for agriculture.

BAAC provides smallholder farmers with short-term loans (6–18 months) for seasonal needs and medium- and long-term loans for financing investment (up to 20 years in the case of purchase of land and machinery) (Saila, 2010). BAAC allows clients to reschedule their loans if they face major repayment difficulties due to flood, drought, etc. (Townsend and Yaron, 2002). To limit moral hazard, credit officers in the field monitor clients' circumstances and punitive interest rates are applied to cheaters.

BAAC protects farmers' income against price volatility through farm income guarantee schemes covering the three main cash crops – rice, cassava and maize.¹⁸ Under the schemes farmers are compensated for the differences between the reference crop prices and guaranteed prices set by the government. To limit fraud, inspection committees hold meetings at the village or community level to publicly verify and confirm the farmers' farm size and crop production volume (see table 11 in the appendix for a synthesis of BAAC products' salient features).

As of March 2010, a total of 6.10 million farm households had access to BAAC's credit services. The gross loan portfolio to farm households was 475.4 billion baht (approximately USD 16 billion at July 2011 exchange rate), of which 95 per cent (precisely 449.7 billion baht) was loaned to individual farmers (BAAC, 2010). A total of 3.8 million farmers were entitled to receive compensation through the income guarantee scheme, worth 35.4 billion baht (BAAC, 2010: p. 165).

3.8 Housing microfinance and other long term loans by the Indian Association of Savings and Credit (India)

Created in 1998, the Indian Association of Savings and Credit (IASC)¹⁹ offers long-term credit to cover big-ticket expenses for various purposes – business, housing, education, etc. – to poor clients.

Loans for economic activity are differentiated between farm and non-farm businesses and are issued for 3 years. Housing loans are available both for repair and maintenance and for the construction of a new house, with the maturity varying between 2 and 15 years. Loans are also available for educa-

¹⁷ www.baac.or.th.

¹⁸ This scheme was introduced in 2009 to replace the crop pledging scheme the bank operated previously.

¹⁹ www.iasc.in.

tion expenses, to cover medical emergencies, for marriage expenses, for disaster mitigation, for redemption, etc..

For encouraging financial discipline, clients are organized in self-help groups. The groups must show a good credit record, regular meeting participation and internal management capacity for at least one year before becoming eligible for loans. The groups must also have a minimum amount of savings balance before they can link with IASC. Other features include: regular monthly instalments; a security deposit of 5 percent; possibility to pay off the loan early, but the institution charges a fee for it.

By March 2010, IASC had 24 branches covering 875 villages. IASC website reports over 34 000 active borrowers in 6 513 groups (see table 14 in the appendix). IASC issued 30 000 loans in 2009-10 with a total value of 307.9 million rupees (USD 7 million) and an average loan size of 10 264 rupees (USD 230). Approximately 90 percent of members of self-help groups have an average individual income between 1 000 and 3 000 rupees per month (USD 22–67) (Centre for Micro Finance, n.d.).

Tables 12, 13, and 14 describe the products' main features and provide data on outreach.

3.9 VimoSEWA's gender-sensitive composite microinsurance product (India)

The poor are vulnerable to numerous risks and often do not make a distinction between coverage for their person or their income-generating activities (Churchill, 2011). Therefore, SEWA (Self-Employed Women's Association)²⁰ in India developed an integrated insurance programme, called Vimo SEWA. Vimo SEWA is specially designed to cover those risks affecting women. It is voluntary for SEWA members and their families: it provides life insurance, hospitalization, accident and asset insurance.

The SEWA composite insurance product has a number of innovative flexibility features. Clients can choose between various insurance schemes that differ in the amount of the annual premium and benefits. SEWA gives clients the possibility to pay their premium in cash or from the interest on fixed deposits. Payments can be annual, quarterly or monthly. SEWA, along with Life Insurance Corporation (LIC) of India, has also introduced a special plan, "JeevanMadhur", which is a simple savings-linked life insurance plan where the individual member pays premiums annually. Recently, SEWA has started to send members SMSs to remind them when it is time to pay their premiums and to give members no-claims discounts (see table 15 in the appendix).

²⁰ www.sewainsurance.org.

VimoSEWA began with 7 000 members in 1992, and currently has 120 000 members, a small number of clients considering the Indian context. Until recently, half of the members dropped out each year. The renewal rate has now increased to 60 percent, and SEWA is aiming to bring it to 80 percent.

4. LESSON LEARNED

The practices we have reviewed show that flexibility – adaptability of transactions to clients’ cash flow – can have various forms. Loans of Confianza and Banco Los Andes Procredit allow financial transactions to be tailored to clients’ seasonal cash needs. Disbursement and repayment, however, are predetermined; clients commit to those and are not allowed to alter those commitments. In contrast, BAAC offers the possibility to adjusting the loan payment schedule in the event of emergencies and negative shocks; VSSU allows early withdrawals or premature account closure on its fixed savings plans at the costs of some fees; and IASC allows clients to pay off loans early, but charges a fee. Safesave in Bangladesh offers a different type of flexibility. SafeSave’s loans do not set any repayment schedule and do not have any maturity. There is no commitment to a given plan, instead clients are given ample discretion.

These different types of flexibility have implications for the credibility and effectiveness of the commitments. Seasonal loans are a pure commitment and should encourage discipline and lessen concerns of weakness in management information, fraud by staff, and liquidity management. However, they may be less effective than standardized rules that impose frequency and regularity of transactions and meetings. *Ex post* contract renegotiation weakens the credibility of commitments and aggravates temptation issues. Finally, purely flexible savings accounts do not impose any commitment.

In all the types of flexibility – i.e. seasonal loans, *ex-post* contract renegotiation, and loans-and-savings flexible accounts – screening, monitoring, and/or incentive mechanisms adopted by the MFIs are quite stringent, which should assure financial discipline. Confianza and Banco Los Andes Procredit lend only to households with diversified income sources, monitor client accounts rigorously, and have a rigid policy toward default. BAAC has adopted a different approach, requiring physical or social collateral from borrowers as a covenant, and uses its staff in the field to verify clients’ circumstances in case of request to reschedule a loan; cheaters are faced with punitive interest rates. SafeSave uses financial collateral, clients’ credit histories as well as frequent and regular clients’ visits.

We individuate three main ways to combine flexibility and discipline. Firstly, MFIs adopt intensive information lending technologies. For instance, Confianza and Banco Los Andes Procredit should know each customer characteristics, in order to screen those with diversified income sources. Similarly, BAAC's should monitor clients directly, for assessing when default is justified. It is also emblematic that three out of the nine products/practices described in this paper employ deposit collectors to enforce payments, either for loan repayment or savings deposits (i.e. SafeSave, Barclays Bank, and VS-SU). Although collectors provide a highly convenient service for clients, they are a cost to the MFI, requiring a large number of staff covering considerable distances in order to reach each client daily. To reduce the cost, both SafeSave and Barclays Bank employ (low-paid) local people, through whom they gain access to locally embedded relations and valuable information. SafeSave hires staff from the same slums where clients live; and Barclays Bank hires (i.e. links to) existing susu collectors. Generally, direct screening and monitoring should be challenging in developing contexts (Viganò, 1993) and bring relevant operational costs for the MFIs.

Secondly, institutions play on setting various economic sanctions as an incentive to motivate clients' discipline. The sanctions are negative or positive. A few MFIs apply penalizing interest rate to bad borrowers (BAAC, Confianza); IASC impose a fee for early loan repayment; VSSU ask a fee for early withdrawal; and SafeSave threatens clients to seize their savings.²¹ Finally, BRI rewards clients with high savings balances, through a lottery.

Thirdly, adopting soft commitment²² is another way to combine discipline with flexible financial products. The most notable example is the m-banking savings plan for pregnant women, Mamakiba. It is not a compulsory savings plan, offering the same degree of flexibility as passbook savings accounts (such as those offered by SafeSave). However, it employs a variety of soft commitment devices to encourage financial discipline. First, the savings calculator helps clients to plan deposits. Second, SMSs sent through mobile phones remind people to pay, provide updates on savings balances, and

²¹ Collins *et al.* (2009: p. 182) explain the value of financial collateral, i.e. linking (voluntary) savings to loans: "Although uncollateralized lending has been one of the proudest boasts of the microfinance movement, the judicious use of financial collateral can make loans more usable for the poor: the diaries show that many poor people do not object to 'borrowing back their own savings' partly because they value the savings so highly that they would rather borrow against them than draw them down, and partly because having the savings reassures them that should difficulties arise they can set their loan off against their savings".

²² Bryan *et al.* (2010) distinguish between "soft" and "hard" commitments: soft commitments impose a psychological cost, whereas hard commitments impose an economic cost.

overcome inattention problems, for example when clients forget when payments are due; they also increase salience of future expenditure needs (Karlan *et al.*, 2010; Cadena and Schoar, 2011). Third, tying savings to a specific use may encourage deposits. Indeed, specially labelled accounts encourage saving because of mental accounting effects (Thaler, 1985).

5. CONCLUDING REMARKS

Flexibility serves to facilitate consumption smoothing and coping with risk. Commitments accompanied with appropriate disciplining mechanisms serve to encourage that clients make payments – savings deposits, loan repayments and insurance premium payments – duly on time. This review shows that there are ways the microfinance industry can offer flexible financial products that also encourage clients' discipline.

Generally, the introduction of flexibility requires MFIs to adopt appropriate disciplining mechanisms for encouraging clients' to save (up and down). Regarding loan contracts, introducing flexibility requires MFIs to adopt rigorous lending policies. It should balance the increased temptation to default. For example, MFIs should concede flexible repayment schedule only to the best clients; ask for more collateral; deploy more staff in the field to monitor clients rigorously; and generally raise the sanctions for default.

Regarding savings, our review points to the important role of soft commitments in enhancing discipline, i.e., commitments associated with disciplining mechanisms inflicting psychological sanctions to the individual. Such soft disciplining mechanisms include tools to help clients to plan their savings, visits from deposit collectors or SMSs to remind clients to make deposits and loan repayments, and application of mental accounting principles through specially labelled accounts, for example. These mechanisms should encourage clients to save and, at the same time, leave them some flexibility to facilitate their money management. Indeed, we see soft commitments as one of the most promising ways the microfinance industry could mix flexibility and enforcement in microsavings products.

This review suggests two potential trade-offs when balancing flexibility and discipline, mainly for the credit market. First, flexibility may result in higher costs for enforcing loan contracts, especially for acquiring information on clients to evaluate their preferences, repayment capacity, etc. Considering that, in developing country contexts, the unit of analysis is commonly the entire household, rather than an individual, gathering such information may be a major problem for MFIs. Second, MFIs tend to offer flexibility to

privileged clients, e.g. households with diversified cash flow (Confianza and Banco Los Andes), households with large savings and good credit history (SafeSave and IASC), household with collateral (BAAC) and households that already have access to informal finance channels (Barclays Bank). This will tend to exclude poorer, more vulnerable households, which could have benefited the most from access to credit.

The microfinance literature indicates that market-oriented approaches offer important gains in both long-term institutional sustainability and social impact. This review shows that flexibility increases MFIs' costs but does not seem to bring with it a broadening of their client base. Research is needed to verify these perceptions, perhaps through collection of rigorous empirical evidence. In-depth case-studies of one or more of the institutions covered by this review could help understand the costs of flexibility for the MFIs, whether these costs are passed on to the clients through, for example, higher interest rates on loans, and the typology of clientele to which flexibility is addressed. Randomized field experiments would be the best methodology to evaluate the impact of product flexibility on variables such as clients' default and satisfaction rates.

The microfinance practices we have reviewed combine flexibility and discipline within one product. Alternatively, flexibility and discipline could be offered in separate products accessible simultaneously to clients. For example, MFIs could offer emergency loans to good clients; such loans could be disbursed rapidly and for a short term (e.g., 1 or 2 months) and be designed especially to deal with the effects of an income shock or an unexpected expenditure need (for example, FAI *et al.*, 2011). Flexibility and discipline could be offered simultaneously through two distinct savings products, such as a flexible passbook savings account and a disciplined commitment savings account. The Grameen Bank II System is a good example of this approach.²³ Clients would use a passbook savings account for day-to-day money management to deposit daily small surpluses and to have fast liquidity access when needed, while the commitment savings account would provide the structure necessary to accumulate a large lumpsum for some future planned expenditure. Cross-selling various financial products would strengthen the relationships between the MFIs and the clientele, bringing comparative advantage to the service providers.

²³ Dowla and Barua (2006).

APPENDIX

List of Tables

Table 1: Description of SafeSave and ShohozShonchoy's products

Product name/type	Savings and loan accounts
Description	Passbook savings and loans typically linked to savings balances
Motivation	Help households in their daily cash management and support them in forming larger lump sums through both savings and loans
Flexibility features	<ul style="list-style-type: none"> • Passbook savings with no or few limitations on withdrawals and deposits • Flexible loan duration (e.g. either not predetermined or fixed by the clients themselves) • No predetermined repayment schedule for loan products
Financial discipline features	<ul style="list-style-type: none"> • Borrowers must provide financial collateral • Progressive lending • Daily visit of staff to clients' home or workplace • Staff hired in the slums where the clients live • A few restrictions on withdrawals for clients with loan outstanding • In some cases, compulsory deposits linked to loan disbursement • In some cases, higher interest rate for higher savings balance

Source: Rutherford (2011); www.safesave.org and www.thepoorandtheirmoney.com (accessed 20 June 2011).

Table 2: Comparison of SafeSave basic loan-and-saving accounts, P9-Hrishipara and P9-Kalyanpur

Terms and conditions	SafeSave	P9-Hrishipara	P9-Kalyanpur
Savings Interest rate (+)	6% per year, for balances above 1000 taka	No interest on savings	No interest on savings
Obligatory deposits	None	1/3 fresh loan and top-up	1/2 fresh loan; 1/10 loan top-up
Restrictions on withdrawals	Some restrictions to maintain partial savings collateral when loans are present	Fee for early withdrawals (savings balance less than 20 000 taka)	Loan ceiling reduced for early withdrawals (before completion of loan repayment)

Loan interest rate (-) and other fees	3% of the month-end, declining balance. Fees: 20 taka for account opening; 5 taka per month for daily visit service; 50 taka loan processing fee for each loan taken	Interest-free loan. Fees: 100 taka for account opening; 1% of borrowed value for loan disbursement and top-up; 5% of savings value for early withdrawal	Interest-free loan. Fees: 200 taka for account opening; 3% for loan disbursement
Loan duration	No fixed duration	No fixed duration	No fixed duration
Loan payments	Repayment of loan principle is up to the client; compulsory repayment of monthly interest	No fixed schedule	No fixed schedule
Loan disbursement	The client's credit limit rises with each loan, provided all interest has been paid on time, with the biggest increases going to clients who demonstrate an ability to make regular loan repayments each month	Initial loan amount 2 000 taka; standardized increase when loan is fully repaid; possibility to top-up the loan before completion of repayment	Initial loan amount 5 000 taka; standardized increase when loan is fully repaid; possibility to top-up the loan before completion of repayment

Source: www.safesave.org and www.thepoorandtheirmoney.com (accessed 20 June 2011).

Table 3: Description of BRI's products

Product name/type	Simpedes and Simaskot
Description	Savings accounts for low-income urban and rural savers
Motivation	Provide to low-income people a highly liquid savings account
Flexibility features	<ul style="list-style-type: none"> • Unlimited withdrawal instantly • No compulsory deposits • No minimum balance • No fee for account opening
Financial discipline features	<ul style="list-style-type: none"> • Bi-annual lottery

Source: Ashraf *et al.* (2003).

Table 4: Description of VSSU's products

Product name/type	Fixed savings plans
Description	Daily, weekly and monthly programmed deposit plan (recurrent deposit) and a one-time saving scheme (term deposit)
Motivation	Respond to clients' need for planning and long-term savings
Flexibility features	<ul style="list-style-type: none"> • Various instalment frequencies • Allows clients to renege on their commitment, e.g. permits premature closure of savings account or early withdrawal of funds
Financial discipline features	<ul style="list-style-type: none"> • Regular deposits • Deposit collector at the client's doorstep • Fee for early withdrawal or early closure of the account

Source: www.vssu.in (accessed May 2011).

Table 5: Terms and conditions on VSSU savings plans

Product type	Term	Minimum deposit (rupees)	Rate of interest (annual, %)
Daily scheme	12–18 months	10 per day	3–4
Weekly scheme	100 weeks (24 months)	10 per week	6
Monthly scheme	12–60 months	50 per month	11–12
One-time scheme	12–72 months	1 000	11–12

Source: www.vssu.in (accessed May 2011). Exchange rate USD 1 = 45 rupees.

Table 6: Flexibility features of VSSU savings plans

Product type	Premature closure	Premature withdraw
Daily scheme	In case of premature closure, 2% of interest or a fee of 60 rupees is deducted from the deposit amount as penalty	If a withdrawal is made before a given period (usually 50 weeks or 12 months), no interest is paid on the amount deposited plus a collection fee of 60 rupees or 4% of the amount withdrawn (whichever is greater) is charged
Weekly scheme		
Monthly scheme		
One-time scheme	N.d.	

Source: www.vssu.in (accessed May 2011).

Table 7: Description of Barclays Bank's products

Product name/type	Susu collectors + Dwediri accounts
Description	The bank offers susu collectors both savings accounts and investment capital for on-lending
Motivation	Facilitate susu collectors' financial intermediation activity (savings and loans) with the local communities
Flexibility features	<ul style="list-style-type: none"> • Permits adjustment of conditions to changed circumstances, as in emergencies • Low transaction costs for clients • Very little or no bureaucracy and paperwork • Quick turn-around time
Financial discipline features	<ul style="list-style-type: none"> • Information-intensive mechanism for enforcing payments, i.e., good knowledge of the local economy and proximity with the clientele and their businesses • Doorstep service

Source: Osei (2007); Microfinance Gateway (2010); Barclays Bank (n.d.a, n.d.b); IFAD (n.d.).

Table 8: Description of M-Kesho and Mamakiba

Product name/type	M-Kesho	Mamakiba
Description	Savings accounts, linked to credit and insurance facilities	Savings plans for pregnant women
Motivation	Provide convenient and reliable multipurpose bank accounts to low-income customers	Help low-income women to save and prepay for their maternal health needs
Flexibility features	<ul style="list-style-type: none"> • Transactions through mobile phone • No account opening fee, no minimum balance and no monthly charges • No limits on maximum savings balance • Access to "emergency" credit on demand • Access to personal accident insurance 	<ul style="list-style-type: none"> • Transaction through mobile phone • No compulsory savings plan and target • Flexible use of surplus funds
Financial discipline features	<ul style="list-style-type: none"> • System of credit scoring for access to loan • Fee for withdrawals and no fee for deposits • Positive interest rate on savings (0.5-3% depending on balance) 	<ul style="list-style-type: none"> • Calculation of savings plan • SMS savings reminders and deposit alerts • Savings locked in for a specific use

Sources: Equity Bank <http://www.equitybank.co.ke/products.php?subcat=128> (accessed 3 August 2011); Mas (2010); Gmimano (2010).

Table 9: Description of Confianza and Banco Los Andes' products

Product name/type	Agricultural loans (short term)
Description	Microcredit for financing rural households and their agricultural activities
Motivation	Provide sustainable access to credit in rural areas
Flexibility features	<ul style="list-style-type: none"> • Individual lending • Loan disbursements made in instalments corresponding with the crop cycle • Loan repayments are set according to revenue flow • Loan term is adapted to the crop cycle
Financial discipline features	<ul style="list-style-type: none"> • Borrowers must provide some collateral • Penalty interest rate • Rigorous loan monitoring • No tolerance toward default • Selection of household with diversified income sources

Source: CGAP/IFAD (2006a, 2006b).

Table 10: Characteristics of loan portfolios of Confianza (Peru) and Banco Los Andes (Bolivia), end of December 2010

		Confianza	Banco Los Andes
Total active borrowers	no.	75 813	67 203
Rural borrowers	no.	10 250	n.d.
Percentage rural	%	13.52	n.d.
Gross loans portfolio	USD	134 397 509	391 153 418
Rural loans portfolio	USD	25 159 786	5 834 000 [†]
Percentage rural	%	18.72	n.d.
<i>Average loan</i>	USD	1 773 [#]	5 837 [*]
<i>Rural average loan</i>	USD	2 455 [#]	n.d.

Source: www.mixmarket.org, except for [†]www.losandesprocredit.com.bo/resultadocifras.aspx (accessed 3 August 2011).

* Authors' rough calculation, as the ratio between the value of the loan portfolio and the number of active borrowers.

Table 11: Description of BAAC's products

Product name/type	Rural credit
Description	Short-, medium- and long-term financing for rural households
Motivation	Provide demand-based financing and risk-coping devices for rural households
Flexibility features	<ul style="list-style-type: none"> • Short-, medium- and long-term financing • <i>Ex post</i> loan renegotiation • Income pledge for farmers
Financial discipline features	<ul style="list-style-type: none"> • Monitoring • Joint liability • Standard collateral • Credit history

Source: Townsend and Yaron (2002); FAO (2003); CGAP/IFAD (2006a); Wajananawat (2010).

Table 12: Description of IASC's products

Product name/type	Economic loans, housing loan, other loans
Description	Long-term loans to cover big-ticket expenses
Motivation	For various purposes: economic activity, housing and other (education, medical emergencies, debt redemption, revolving fund, disaster mitigation, etc.)
Flexibility features	<ul style="list-style-type: none"> • Long-term loan (12–180 months) • Loans can be paid off early, albeit at a price
Financial discipline features	<ul style="list-style-type: none"> • Self-help group–IASC linkage • Regular monthly instalment • Security deposit: 5% of the loan amount • Prepayment charges: 0.25%

Source: CRISIL (2008) and www.iasc.in (accessed 1 May 2011).

Table 13: Terms and conditions of some IASC loans

Product type	Loan amount (rupees)	Loan term (years)	Interest rate (%)	Approx monthly instalment (rupees)*	Approx monthly instalment (USD)*
Housing loan					
New construction	75 000	10	18	1 351	30.38
Extension	45 000	5	17	1 118	25.14
Repairs	30 000	3	18	1 085	24.38
Plot purchase	30 000	3	18	1 085	24.38
Economic loan					
Farm	15 000	3	18	542	12.19
Non-farm	25 000	3	19	916	20.60
Other loans					
Education	25 000	4	15	696	15.64
Wedding	25 000	3	20	929	20.89
Medical emergency	10 000	3	15	347	7.79

Source: www.iasc.in (accessed 1 May 2011). Exchange rate USD 1 USD = 44.48 rupees.

* Authors' calculation. Monthly payments based on the loan amount, loan term and compounded interest rate. It should give an idea of the income level of the target clientele.

Table 14: Numbers of borrowers and groups obtaining loans from IASC, and value of loans, March 2008 to March 2010

	31 March 2008	31 March 2009	31 March 2010
No. of active borrowers	17 070	19 603	34 321
No. of groups	4 038	4 841	6 513
No. of loans issued	13 300	20 135	30 000
Value of loan disbursed ('000 rupees)	112 200	146 200	307 900
<i>Average value of loan disbursed (rupees)</i>	8 436*	7 260*	10 264*

Source: http://www.iasc.in/products_services.html (accessed 1 May 2011).

* Authors' calculation.

Table 15: Vimo SEWA's product main features

Product name/type	Insurance (life, health, property, accidental)
Description	Integrated insurance that covers death, illness, accidental injuries and property loss
Motivation	Cover a range of risks affecting women
Flexibility features	<ul style="list-style-type: none"> • Voluntary membership • Need-based, affordable product • Integrated insurance scheme for the family • Cashless system for illness coverage (through tie-ups with hospitals) • Innovative premium payment plans such as fixed deposits and monthly instalments • Insurance linked to savings plan and loans
Financial discipline features	<ul style="list-style-type: none"> • For SEWA members and their families • Limit on the type of risk insured, amount insured, etc. • Co-payments of claim • Premiums collected door-to-door or through self-help groups

Source: <http://www.sewainsurance.org> (accessed May 2011); Churchill (2011).

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- Bank Rakyat Indonesia (BRI) www.bri.co.id
- Barclays Bank <http://group.barclays.com/Home>
- Banco Los Andes Pro Credit www.losandesprocredit.com.bo
- Confianza www.financieraconfianza.pe
- Equity Bank <http://www.equitybank.co.ke/products.php?subcat=128>
- Financial Access Initiative <http://financialaccess.org/node/2968>
- Financial Technology Africa www.financialtechnologyafrica.com
- Kilimo Salama <http://kilimosalama.wordpress.com/about/>
- Indian Association for Savings and Credit www.iasc.in
- International Law Organization (ILO) Microinsurance Facility www.ilo.org/microinsurance
- Islamic Finance Asia www.islamicfinanceasia.com
- Mamakiba <https://bitbucket.org/gmimano/mamakiba/wiki/Home>
- PT Bank Syariah BRI www.brisyariah.co.id
- Safaricom www.safaricom.co.ke
- SafeSave www.safesave.org; www.thepoorandtheirmoney.com
- VimoSEWA www.sewainsurance.org
- ShohozShonchoy www.thepoorandtheirmoney.com
- Vivekananda Sevakendra Sishu Uddyon (VSSU) www.vssu.in
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Résumé

Cet article décrit une série de produits de microfinance innovants qui combinent deux caractéristiques importantes pour les clients pauvres : la flexibilité et la rigueur financière. Il s'agit de produits de micro-épargne, de microcrédit et de micro-assurance proposés par des institutions de microfinance dans le monde entier. Cette analyse montre que les fournisseurs de services offrent différents types de flexibilité dans les contrats financiers et que la flexibilité peut être combinée à une variété de mécanismes encourageant la discipline, tels que le dépistage et la surveillance directe des clients, la garantie financière, les incitants relatifs à la réputation, et aussi la pression psychologique. Nous remarquons cependant que la flexibilité peut impliquer une augmentation des coûts opérationnels des institutions et n'a toutefois qu'une portée limitée.

