

Muktinath Bikas Bank group training manual: *Supporting informed client decisions*¹



BACKGROUND

Muktinath Bikas Bank Limited is a Development Bank financial institution licensed by the Nepal Rastra Bank (Central Bank) and established in January 2007 to provide general banking services throughout Nepal. Today, it provides microfinance services mainly to women in ten districts, namely Syangja, Kaski, Tanahun, Chitwan, Nawalparasi, Baglung, Rupandehi, Palpa, Gulmi and Parbat. It is a bank providing microfinance, rural banking and modern banking services.

Muktinath's mission is to become a leading sustainable organization to provide various financial services to the needy targeted people for positive changes in their living. It provides easy and need-based banking services to poor rural and urban women who are unable to operate their business due to lack of capital. Muktinath conducts Participatory Rural Appraisal (PRA) and Participatory Wealth Ranking (PWR)² to identify target clients based on land-holding and income levels.

Muktinath tracks client data by sex, geographic area, loan uses by sector and income level, and consolidates data at branch level using computerized software. It serves a total of 163 Village Development Committees and 9 Municipalities in 2,812 centers, 10,385 groups and 47,812 members through 25 desk/unit and sub-branch offices (as of Mid-July 2013). See **Table 1** for details.

Currently, Muktinath provides eight savings products, eight loan products, transfer services and credit security service. (see **Box 2** overleaf). Each product has a specific target group, purpose, price, ceiling, and terms and

conditions. Muktinath believes in providing doorstep services, and seeks live up to its slogan "Let's expand from village to village to reduce poverty and backwardness". Muktinath uses group lending that provides client-friendly and swift service. In terms of integrating SPM, it has reviewed its policies and manuals from a social performance perspective. It has conducted Client Protection Assessment, trained staff on SPM and regularly reports on its social and financial performance to the MIX. The Chief Executive Officer addresses the importance of responsible transparent lending in each performance report.

This case study has been written with a specific audience in mind: microfinance providers who seek to improve

Table 1: Key performance indicators

| Area/year | 2010 | 2011 | 2012 | 2013 |
|-------------------------|--------|--------|--------|--------|
| Loan clients (K) | 16,978 | 26,046 | 25,742 | 32,073 |
| Loan portfolio (\$K) | 3,714 | 7,232 | 6,221 | 7,266 |
| Savings clients | 27,707 | 40,576 | 43,452 | 47,812 |
| Savings portfolio (\$K) | 874 | 2,902 | 4,160 | 5,752 |
| PAR (<30 days) | 0% | 0% | 0.09% | 0.57% |
| Client exit | 3% | 4% | 10% | 16% |
| Women clients | 100% | 100% | 99.8% | 99.4% |
| Rural clients | 71% | 75% | 77% | 80% |
| Staff (total) | 85 | 120 | 138 | 152 |
| Staff turnover | 7% | 18% | 11% | 13% |

Box 1: The Social Performance Fund³

The Social Performance (SP) Fund for Networks is designed to mainstream the new Universal Standards for Social Performance Management. The SP Fund works with 10 networks that run 18-month projects to document learning and experience around innovative solutions to implementing the essential practices of the Universal Standards. They also support their members to reach full or partial compliance with one or more dimensions of the Universal Standards. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

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² PRA and PWR are methods for communities to identify comparative household wealth status. MFIs can use the information collected on households, including wealth status, for client targeting.

³ For more information visit www.mfc.org.pl/en/content/social-performance-fund

their practice in relation to specific standards of the SPTF Universal Standards for Social Performance Management (“the Universal Standards”).⁴ This case study provides a practical overview of the process of developing and implementing Muktinath Bikas Bank’s Pre-Group Training Manual. The case also provides recommendations on improving the effectiveness of the Pre-Group Training Manual, and some general lessons for practitioners.

Box 2: Muktinath's products and services

| | |
|--|--|
| Savings Products Group Personal Pension Center Fund Upakar (Welfare) Festival Fixed Deposit Daily Recurring | Loan Products General/ Business Group Goodwill Member Microenterprise Dairy Product Energy Emergency Homestead Foreign Employment |
| Money Transfer Domestic transfer Loan repayment | Insurance Credit Livestock Deposit |
| Social Security Program Maternity expense Calamity expense Funeral assistance Outstanding loan and Interest waiver | |

OVERVIEW

Muktinath’s Pre-Group Training (PGT) Manual was written in 2009 and revised in 2012, guide the training provided to potential clients to introduce them to the institution, its work, products and services, rules, the importance of credit discipline and the benefits of the group mechanism. The PGT Manual also helps loan officers facilitate the training in a way which is both motivational and appropriate to potential clients’ capacity.

The Manual covers many practices under dimensions one (Define and Monitor Social Goals), two (Ensure Board, Management and Employee Commitment to Social Goals), three (Design Products, Services, Delivery Models and Channels that meet Clients’ Needs and Preferences) and four (Treat Clients Responsibly). (See **Annex 1** for more detail).

As Muktinath was originally a development bank that added a microfinance component at a later date, this manual was prepared based on the Microfinance Program Operation Guideline to ensure 100% loan recovery through equipping clients to make good use of their loans and make timely repayments, as well as to inform them of their rights. Prior to this, information on the bank’s products and services, the importance of literacy, the benefits of group, credit discipline, etc. was verbally communicated to clients by staff, but in a way which lacked consistency in the absence of clear guidelines. The PGT manual was developed to guide loan officers in providing complete information to potential clients at the pre-group training stage.

SOLUTION DETAILS

Developing the Pre-Group Training Manual

In the context of Muktinath’s microfinance client expansion plan, consistency and quality in training potential clients was seen as key. This manual was developed through collaboration between the microfinance department of the bank and different levels of the organization.

The department started by adapting similar documents from peer institutions and using online resources (such as CGAP publications). Branch managers and loan officers offered input on the draft manual, which was then piloted in the field. (See **Table 2**, overleaf).

The existing internal policies (HR policy, internal audit and program monitoring guidelines, savings and credit guidelines etc.) including microfinance operational guidelines were used to draft the manual.

“The benefits of the PGT manual far outweigh the cost of developing it, which was negligible. Because the manual is also a self-study guide, our new staff training costs are much lower now.”

***– Govinda Bahadur Raut,
Microfinance Department Head***

Table 2: Level of effort required to develop the PGT Manual

| Position | Role in brief | Time (days) |
|---|---|-------------|
| Microfinance Department Head and Operations Chief | Review of reference documents, collection of relevant information, drafting the manual, discuss at different levels, test at branch | 12 |
| Branch Manager and field staff | Test PGT manual in one branch, providing feedback | 15 |
| Microfinance Department Head and Operation Chief | Refining the draft manual incorporating feedbacks | 3 |
| Board Members | Reviewing and approving the manual | 2 |
| Operations Unit | Producing the printed manual and dispatch to branch offices | 2 |
| Total | | 34 |

Implementing the PGT Manual

The starting point for serving new communities is when the microfinance loan officer collects primary and secondary data to identify areas without access to microfinance services. Muktinath then organizes public-awareness programs with posters to introduce its work, using active clients from surrounding areas as advocates. Sometimes too households from new areas learn about the bank and invite Muktinath to hold a PGT. The PGT Manual guides staff to conduct PRA/PWR, or use other relevant social tools to identify target households within new communities. The branch manager organizes a pre-group training based on this assessment, when the results demonstrate the possibility of forming at least one group.

The training lasts seven days, and is facilitated mainly by the loan officer with support from the branch manager and account officer when needed. (See Annex 2: Contents of PGT Manual) The training is facilitated in the local language and takes around two hours each day. Loan officers start the program with their oath containing commitment and honesty to serve the poor. Participants take an oath to demonstrate their commitment for discipline, entrepreneurship, cooperation, cutting extravagance, saving, quitting bad habits, improving society and generating income. These oaths are repeated by both the staffs and participants each day of the training.

The agenda on the first day covers the aims of the training, introduced by the branch manager and loan officer. It also covers poverty (and its causes) using pictorial representations and brainstorming discussions. Potential clients also learn about the bank, its values, norms and the microfinance program.

The second day covers the importance and process of group and center formation, its operation and

Illustration 1: Pre-group training in action



management. Potential clients discuss how to select and dismiss representatives, roles and responsibilities of group/center executives, and the importance of working together as group.

On the third day, potential clients discuss the principles of microfinance, the characteristics of a good center, center monitoring, rights and responsibilities of member/leaders — using practical tools such as audio-visuals, observation, discussion, and brainstorming.

The fourth day covers the products and services, their objectives, price, terms, and conditions. These are compared with the non-formal financial sources and financial institutions, to make participants aware of the need for formal sources.

Day five covers topics around loan security, money transfer, door-to-door awareness raising program (using client advocates), interest calculation, the value of access to finance compared to its price, group guarantee, and the loan utilization check.

On the sixth day, potential clients learn about the importance of having a full center, a consistent meeting

place (usually a house), a group uniform, group song, staff oath and center evaluation. After the accountant and loan officer conduct verbal tests with participants to gauge their learning during the training, participants' guardians (elders from their households) are invited to ask questions about the program. These are answered by the trainees to demonstrate their understanding, and clarified by the facilitators where needed. This interaction is also used to affirm the guardians' consent to allow their family members to join the group.

On the last day, the branch manager and loan officer trains participants on social responsibilities, asks them to take a verbal Group Recognition Test (or "GRT", which is the final test of knowledge for the group), recaps key messages of microfinance, and decides whether extra training is needed. (See Annex 3: Daily Activities in PGT)

Not only is the training an opportunity for new clients to understand the work of the bank, but it is also an opportunity for a new staff, who are trained to use the PGT on the job through observation and observed facilitation (with feedback from their superiors). If a pre-group training is held during an audit period, the monitoring team from the head office also observes the session/s delivered by new loan officers and evaluates the quality of the training.

BENEFITS

The PGT Manual is useful for the institution, staff and clients alike.

Benefits to the institution: As new loan officers are get hands-on training during pre-group trainings, the organization builds both staff and client capacity at once. It is also opportunity to communicate the importance of financial literacy and create awareness among participants so they will choose the right financial service provider and make good decisions

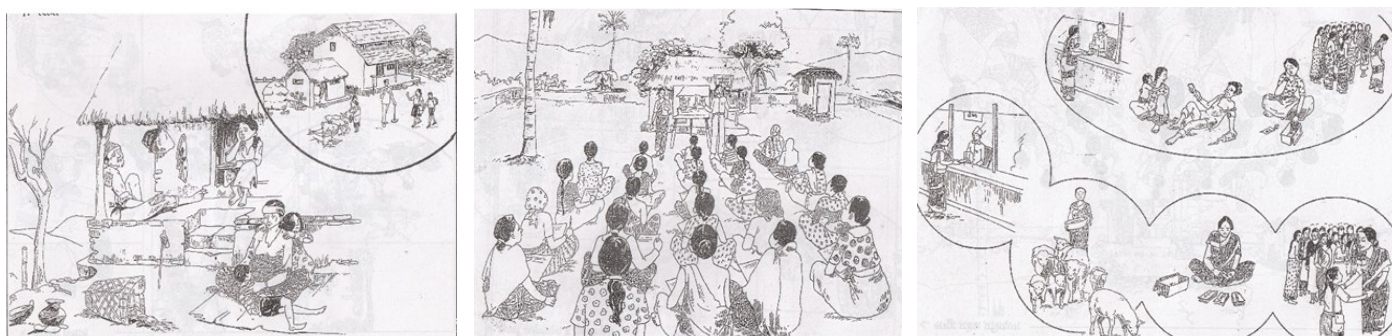
about their financial lives, which reduces the bank's own risk. The training also helps the institution to increase its outreach and effectiveness, as clients know basic information about the institution, its products and services. The bank has earned good will and publicity as a development bank serving microfinance clients.

Benefits to staff: The manual helps staff to communicate key messages systematically and uniformly to participants. New staffs also use the manual to understand institutional policies and processes, and to train clients accordingly.

Benefits to clients: The major benefits of this manual to the client are an increased awareness of their situation, and a new confidence and hope to improve it. Participants learn how to write their own name and express their commitment to educate their children. Similarly, the participants understand importance of working together, adhering to group rules and maintaining social harmony. They are able to prioritize their resources and use them in a productive way. Receiving information on products, services, methods, price, terms and conditions — as well as their duties and responsibilities, helps them decide whether or not to join the program. Finally, by the end of the training, completely illiterate women are supported to sign their name, which allows them to take part in the group, access loans, and ultimately improve their socio-economic situation.

The benefit of the PGT manual exceeds its development cost, which was both one-off and negligible over the long-term. The manual also reduces new staff training costs, as they use it as a self-study guide. The most important benefit of this manual is ensuring that the right clients join the program, that they are fully-informed of their rights and responsibilities. This has supported good client retention, as well as increasing portfolio quality.

Illustration 2: Using cartoons to communicate key ideas to illiterate clients



CHALLENGES AND SOLUTIONS

Challenge: Convincing people to participate: As microfinance clients come from poor and remote areas, it is often difficult for them to get to the training. The most economically marginal groups also often hesitate to forego a week of wage labouring to participate.

Solution: Loan officers have to visit each potential household, become familiar with their situation, and explain the benefits of the training to convince them to participate.

Challenge: Client illiteracy: Delivering key messages to participants is a challenge in the context of literacy limitations.

Solution: Loan officers are trained to on the key messages in a variety of ways, according to the audience, including using pictures, audio and other visuals. Similarly, case examples can be tailored to match the audience. As the manual is further developed, it can be made more effective by inserting relevant pictures, audio-visuals such as client voices on their success stories etc. to address the capacity of illiterate participants.

Challenge: Discrimination among clients: Potential training participants can be excluded when clients discriminate among themselves based on cast, religion, social status, personal conflicts, etc.

Solution: Staff use pictures and examples of unity and stories highlighting the danger of discrimination and social conflict. Often times, staff find that going through the training is enough to help participants resolve long-standing conflicts.

Challenge: Lack of trust in the institution: Low levels of trust in financial institution stems from popular stories around institutional frauds, or staff that collect group money and disappear. Other times participants may not believe they can save given their low income levels, or feel that MFIs charge overly-high interest rates.

Solution: Participants learn the rules and method of the program, with “client advocates” from nearby areas. They learn that the high interest rate is due to the high operational cost in doorstep services. They also learn to compare the prices and requirements of microfinance service with other financial service providers (moneylenders, commercial banks), and discuss the difference between the cost and the value of access to

financial services. Clients also learn how to increase their savings by cutting down on unnecessary spending.

Challenge: Client unwillingness to accept individual responsibilities within the group: Participants may not be interested to accept responsibility for different leadership positions, but express their general commitment to work together without any position.

Solution: Education on different roles and responsibilities is important, and all participants should be encouraged to ask questions and take responsibility within the group.

IMPROVING THE SYSTEM

There are a number of ways to improve this important tool to bring it more in line with the Universal Standards. These are:

Apply the Progress out of Poverty Index (PPI): Muktinath targets potential areas using PWR and PRA tools, and central bank guidelines for target client/area selection before the PGT. The PPI can be used to measure the poverty status of participants at the PGT to create a baseline for future monitoring. Ongoing monitoring can also help the institution take informed decisions based on real data.

Understand client needs: Muktinath conducts a poverty assessment of potential clients before PGT. Surveying their needs for financial services can help in shaping the agenda of the PGT. Client needs for product and services can also be collected during PGT. This information should be analyzed and used to improve the PGT as well as the institution’s products.

Collect participant satisfaction/feedback on the PGT: Muktinath assesses participants’ level of knowledge gained in training through a pre-test and the GRT. At the same time, a client satisfaction survey on the PGT could be conducted, to gain feedback on contents, methodology, and facilitation, which topics were most useful, and what other tools clients might like. This feedback can be analyzed and used by the training department manual revision and loan officer training. Anonymous feedback could be facilitated by allowing clients to voice their opinions (for example, by placing pebbles on a visual “satisfaction chart”) while staff go elsewhere.

Don’t prioritize 100% loan recovery: The PGT manual was designed to ensure 100% loan repayment, which is

why it focuses on creating good centers and explains joint liability. Ensuring loan recovery is important, but a 100% recovery policy may lead to staff to pressure the center and borrowers for full repayment, rather than addressing the reason they are struggling. Center members may also each other in the same way. Where center members need to cover each other's loans, group cohesion can break down, defaulters can be forced out, the center can become averse to accepting poorer people into the group. In this way, it's important to distinguish between clients who can't pay, and who won't pay. Rather than 100% recovery policy, good loan appraisal up front is helpful, as is regular and close monitoring from the center/staff, careful analysis of default cases, and policies to discourage willful defaults and provide options to support for recovery for clients who want to repay, but can't.

Train participants (clients) on data confidentiality issues: PGT participants may be interested to share personal information during the training, but may be reluctant to do so. Facilitators should inform them on their right to data privacy, and describe what information is shared with other local MFIs in line with legal requirements.

Train clients on their right to complain: Muktinath collects client complaints in meetings and through dedicated staff using a telephone hotline. Clients should learn about their right to complain, and how to do it, as part of the PGT. This should include assurances about the confidentiality of their complaints, and the organization's commitment to respond to all complaints appropriately.

Monitor the quality of PGT delivery: The PGT is delivered by loan officers with occasional support from branch managers and account officers support, and some more senior staff officials may visit on the last day of training. Ensuring and improving the quality of PGT delivery can be achieved by involving spot-checks by monitoring staff or internal auditors to identify strengths and gaps in the content, targeting and facilitation. These visits should be reported, recorded, analyzed and used to improve the both PGT content and delivery.

Joint facilitation: Giving loan officers sole responsibility for delivering a seven-day training can over-burden them, due to time pressure, which can in turn limit the effectiveness of the training. Using two facilitators each will reduce this burden and strengthen delivery quality.

Review literacy requirements: Though Muktinath trains participants to sign their name and continues training if

they are unable to do so in the GRT, this may not be easy for the rural women, who have never even held a pen, let alone written their names. Muktinath should continue its 'signing' campaign with continued programs supporting their basic literacy including financial literacy.

Using active members: The PGT manual explains how to use active clients as "advocates" to explain PGT and group formation. Though this may support group formation, there may be risk of increased number of groups and a lower-quality PGT facilitation where these client-advocates are not given the support they need to speak on behalf of the organization. Although each participant does needs to pass the GRT to demonstrate their knowledge, the financial bonus given to client advocates for each new client that signs up carries the risk that they will motivate non-target clients to join (who would be more able to pass the test). It is recommended to monitor these issues by the internal audit and monitoring departments.

Client capacity assessment: The manual mentions that assessment on clients' loan utilization and repayment capacity should be done, but does not describe how (i.e. that it should include an analysis of financial resource management and projected business cash flow) The definition and process of loan utilization capacity should be clearly communicated to potential clients during the PGT.

For more information:

Find more information about developing your own Pre-group Training Manual, as well as the work of Muktinath Bikas Bank Ltd. and its supporters by following the links below:

Download the PGT Manual: https://dl.dropboxusercontent.com/u/85004503/Muktinath_Pre_Group_Training_Manual.pdf
Download Annex 2 and 3: <http://bit.ly/muktinath>

Muktinath Bank: www.muktinathbank.com.np
Muktinath on the MIX Market: www.mixmarket.org/mfi/mbbi

The Microfinance Centre: www.mfc.org.pl
Social Performance Task Force: www.sptf.info

ANNEX 1: COMPARING MUKTINATH'S PGT MANUAL TO THE UNIVERSAL STANDARDS

| Essential Practice | | Notes on Muktinath's PGT Manual |
|--------------------|--|---|
| 1a.2 | Target clients: the specific characteristics of its target clients and how serving these client groups support the social mission. | + Describes target clients based on Central Bank guidelines in terms of poverty line, land holding, food security, and employment status (e.g.: farmer, unemployed). |
| 2c.2. | The institutional culture raises awareness and concern about fair and responsible treatment of clients. | + Explains qualities of a good trainer. This includes delivering training in local language, patience, tolerance, respect for others' idea, clear communication, encouraging participants to discuss issues, etc. + Guides trainers on fair and respectful treatment of clients such as: respecting participants' values, feelings and identity; following the organization's rules, creating a learning environment appropriate for all learners, avoiding discrimination among participants, being polite, disciplined and positive, and using diverse tools to educate different types of participants. |
| 2d.1 | Employee job candidates are screened and hired for their commitment to the institution's social goals, and ability to carry out SP-related responsibilities. | + Staff oath at the start of PGT contains commitment to serve the poorest people without discrimination. |
| 3b.4 | The institution does not use aggressive sales techniques. | - Manual explains how to involve active client advocates in raising awareness of potential new members and providing incentives for forming and training to new groups. However, there is no clear explanation on measures to check entry of non-target group/ members as a result of incentives to the facilitator. |
| 4a.1 | The institution conducts appropriate client capacity analysis before disbursing a loan. | + Manual explains check loan utilization capacity of potential clients. + Manual explains solidarity payment, and that members need to support other group members to repay their loan or mandatory savings if she is in difficulty. + Manual explains group solidarity payment in loan approval process that each loan document should be signed by the group chairperson, center chief and deputy chief or the secretary and members in case of the chairperson. + The group members are informed that they have to be directly involved in loan utilization monitoring. |
| 4a.2 | The institution uses credit bureau and competitor data, as feasible in local context. | + Manual explains the basic criteria for a business group loan, that a member requesting this loan should have good financial discipline and record any financial relationship with another MFI - The Manual don't clarify the process to verify this transaction |
| 4a.5 | The institution avoids dangerous commercial practices. | + Manual explains that the goodwill member loan and micro-enterprise loan can be taken again in case of early repayment - Manual is not clear on the ceiling of loan following early repayment |
| 4b.1 | The institution fully discloses cost and non-cost information | + The manual clearly explains the interest rate, interest method, service charges, minimum balance, ceiling, withdrawal condition, installments, premium etc. on the savings/loan/ insurance products. |
| 4b.2 | The institution communicates proactively with clients in a way that clients can easily understand. | + The terms and conditions for each loan are explained in the PGT. + The manual lists required qualities of trainers including client communication skills – use audio-video; experimental observation techniques; use local language; be simple and outspoken. |
| 4c.1 | The institution has defined in specific detail what it considers to be appropriate debt collection practices. | - Background information explains this manual was developed to support 100% recovery of loan provided to the deprived sector. - The manual uses 100% recovery as indicator of good center and attraction of Grameen model. It also explains that the default loan should be covered by other members of the group meaning zero tolerance of PAR. |
| 4c.5 | The institution informs clients of their rights. | - Manual explains client duties and responsibilities regarding leadership, supportive and decisive roles mainly in meetings loan transaction. - Manual doesn't clearly explain client rights (e.g. to complain). |
| 4d.2 | The institution informs clients about when and how data is shared and gets their consent. | - Though the institution trains staff on client data confidentiality, the manual doesn't communicate this to clients. |
| 4e.1 | The institution's clients are aware of how to submit Complaints. | - Though the institution collects client complaints in meetings and by phone, and informs clients about these mechanisms through pamphlets, this manual doesn't communicate this to trainees. |