Client Voices:

*Benin Qualitative Results*

Presented to:
1. Main findings
Main findings

Summary: Consumer protection issues and client harms in microfinance are serious in Benin. Collection practices, lack of transparency, and unfair pricing are particularly egregious.

The consumer protection problems uncovered by this research include:

- Problems that must be addressed through regulation
- Concerns with microfinance products
- Consumer protection problems MFIs can control
Main findings - product and structural problems

A. Many clients complain of a lack of flexibility in repayment. However, individual borrowers and long term clients report that they can negotiate.

B. “Tracasseries” or many annoying comings and goings, is a common complaint. The loan application process is slow and onerous, and some clients, especially men, report problems of corruption.

C. Although they may feel mistreated, clients report that they feel “obligated” to keep using MFIs, because their businesses rely on periodic injections of capital, and they are in need of money.
Main findings – regulatory issues

D. Some clients report **fake or fraudulent** microfinance institutions (MFIs) in their communities. In the absence of certification or a awareness of who to ask, they rely on word of mouth to assess whether an organization is legitimate.

E. **High fees and compulsory savings** that are not returned make the true cost of borrowing very expensive, while clients are quoted low interest rates.
Main findings - consumer protection issues

F. Clients complain about MFI staff corruption and incompetence.

G. Mistreatment of illiterate or unsophisticated borrowers is a cause for concern.

H. By using shame in collections, MFIs destroy problematic borrowers’ reputations and future credit options. Some clients report that public shaming applied just as harshly to the group members of delinquent borrowers as to the delinquent borrower themselves.

I. Clients feel they cannot complain to the MFI because doing so would jeopardize their future borrowing options, nor can they complain to the police who are always on the MFI’s side.

J. Despite these problems, some clients have positive experiences.
2. Objectives
Objectives: Core research questions

As presented in the inception report, the core research questions for the Client Voices project are:

- What do microfinance clients view as their most important worries and most negative experiences in dealing with providers?
- What attributes are most important to clients in determining a positive customer experience?
- And how do these priorities compare to assumptions the industry has made about what clients want?
BFA and the Smart Campaign agreed that the objective of the qualitative research was to take an **open-ended approach** to identifying what clients define as good and bad experiences and treatment. We agreed to include in the sample **current and former clients** who have saved or borrowed with microfinance institutions (MFIs).

In the inception report, BFA identified the following specific objectives of each research tool:

<table>
<thead>
<tr>
<th>Research tool</th>
<th>Objectives</th>
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<tbody>
<tr>
<td><strong>Focus group discussions</strong></td>
<td>To understand clients’ logic in what they view as good and bad treatment, and to rank this attributes using a variety of exercises.</td>
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<tr>
<td><strong>Individual in-depth interviews</strong></td>
<td>To gain a deep understanding of individual’s interactions with MFIs, and how that experience is informed by each individual’s circumstances. A secondary objective is to obtain details and financial information not appropriate for discussion in the group context, and to solicit the types of institutions clients interact with for the focus groups.</td>
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<tr>
<td><strong>Photography exercise</strong></td>
<td>To understand clients’ views of good and bad treatment through images and metaphors, contextualized with information from individual interviews.</td>
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3. Methodology
Open-ended methods allowed us to triangulate harms from several angles.

**FOCUS GROUP DISCUSSIONS:**
- **Institutional ranking** helped contextualize experiences within the broader institutional relationships in people’s lives. We identified attributes of good and bad experiences generally, which helped to discuss experiences with microfinance specifically.
- **Role playing** techniques allowed respondents to act out negative experiences while providing them the chance to provide a positive or ideal alternative.

**INDIVIDUAL INTERVIEWS:**
Individual interviews complemented focus group discussions by allowing for deeper discussions into respondents’ financial lives and economic situation.

**PHOTOGRAPHY:**
Individual interview respondents participated in a photography exercise through which they were encouraged to take photos which symbolized good or bad experienced with microfinance.
8 Focus Groups (of 9 - 10 individuals each) and 8 individual interviews were conducted in 4 locations: Cotonou (Littoral Department), Parakou (Borgou), Paouignan (Collines), and Togba (Atlantique).

Urban Cotonou and Parakou were chosen due to their high concentrations of borrowers (see map).

Togba and Paouignan were selected with input from ALAFIA to complement the findings in urban areas and to provide regional diversity.

<table>
<thead>
<tr>
<th>Department</th>
<th>City/village</th>
<th>Focus Groups</th>
<th>Individual Interviews</th>
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<tbody>
<tr>
<td>Littoral</td>
<td>Cotonou</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Atlantique</td>
<td>Togba</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Borgou</td>
<td>Parakou</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Collines</td>
<td>Paouignan</td>
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Methodology for analyzing qualitative results.

• All written transcripts were read by at least two BFA staff, including the moderator who participated in all FGD and individual interviews.

• Quotes were selected because they represent themes that were repeated in many interviews, or because the quote makes a powerful point.

• BFA studied all the lists of ranking, selecting what we deemed to be the most representative cases as examples.

• We recorded the number of groups mentioning specific good and bad treatments to gauge commonly held views of good and bad treatment.
4. Results from participatory ranking of institutions
Identifying & ranking institutions

- FGDs began with a conversation to identify influential institutions in respondents’ lives. Institutions that are likely visited most often by respondents, such as schools and shops, were usually mentioned earliest in the discussion.

- This was followed by a ranking of these institutions based on good or bad experience and treatment from best to worst.

- As respondents debated amongst themselves, we noted down attributes associated with good or bad experiences and their relative rankings.

The following institutions or groups emerged as most influential in respondents’ lives (in no particular order):
- Clinics & hospitals (public and private)
- Schools (public and private)
- Shops
- Tontines (Informal savings groups)
- Local government services
- National public services (e.g. water and electricity utilities)
- Telecoms providers
- MFIs
- Police
- Moneylenders
- CADER (agricultural center for rural development)
Good attributes that emerged from ranking*

Good Attributes

- Rapid, reliable service
- Good explanation of services
- A warm welcome
- The ability to negotiate
- Flexibility
- Quality products and services
- Sincerity, honesty
- Thoughtful presentation
- Being available to listen and rapid response to problems
- Trust in one’s clients

* These attributes were cited in reference to service quality from ALL institutions that respondents interact with on a regular basis.
Bad attributes that emerged from ranking.

Bad Attributes

- Violence or harassment
- Fraud
- False advertising
- Theft or bribery
- Lack of understanding, compassion
- Rude behavior
- High prices
- *Tracasserie*: delays or being asked to visit the office repeatedly (wasting time and money)
- Lack of patience
- Long lines
- Negligence
- Shaming, depleting social capital

*Example of bad attributes which surfaced in one FGD*
Clients rankings of MFIs were polarized, either very good or very bad.

Current male clients (Paouignan): all have established relationships with their MFIs and can negotiate regarding repayment schedules, loan sizes, and so on

Female former clients (Paouignan): stopped borrowing due to harassment and lack of flexibility
Because of bad experience, some groups ranked MFIs as the worst.

“The MFIs are the worst: all the problems are here.”
– Women, former borrowers (Paouignan)

Women in Togba ranked treatment of the cemetery higher than treatment of MFIs because cemetery staff are there for you in an emergency, and show sympathy for clients.
4. Findings
Main findings - product and structural problems

A. Many clients complain of a lack of flexibility in repayment. However, individual borrowers and long term clients report that they can negotiate.

B. “Tracasseries” or many annoying comings and goings, is a common complaint. The loan application process is slow and onerous, and some clients, especially men, report problems of corruption.

C. Although they may feel mistreated, some clients report that they feel “obligated” to keep using MFIs, because their businesses rely on periodic injections of capital, and they are in need of money.
A. Many clients complain of a lack of flexibility in repayment. However, individual borrowers and long term clients report that they can negotiate.
MFIs are seen to lack room to negotiate in extreme circumstances.

“This is a photo of tomb stones in a cemetery.”

“I took this to show that the MFIs are always inflexible. Here, let me say that we even have to pay dead people’s debts. If something is still owed to an MFI when the borrower dies, and you haven’t contacted them before the burial so that they can come and see [the body] for themselves, you’ll have to pay what that person owes.”

--Former female client (Paouignan)
Confidential v1

MFIs are viewed as overly harsh and inflexible.

M: Can you negotiate the repayment?

R: “If you’re late in repaying, they’ll catch you and not let you go. They’ll go to your house and take the equipment in your bedroom which is worth what you owe them. Even if you say you will repay, they won’t accept, it’s finished. It’s not a joke.”

- Women, Former clients (Paouignan)

“In a group, someone can fall sick and the only financial means they have is the money borrowed from the MFI...they spend the money in question on curing the illness. Consequently, they can’t make the repayment on the day. That’s what the MFI staff just don’t want to understand.”

– Woman, former borrower (Cotonou)

“When someone who is known for being good in making repayments has just got into such a situation, they (the MFIs) ought to understand and be a bit flexible, giving a moratorium (delay) so, that the person can straighten things out, but that’s not often the case.”

- Man, former borrower (Parakou)
There is no flexibility even when one has faced an emergency related to his/her enterprise.

“[This is] the shop of a woman who used to borrow money to buy clothes to resell. But because of road works, she had to close her shop as her customers couldn’t get there. This difficulty she has to go through is not her fault ...When I see that shop closed, I don’t feel at ease. how will she go about repaying?”

--Current female borrower (Togba)
“Some risks can be avoided, but not others.”

M: Why did you take this photo?
R: "Because the lady in the photo is an MFI client who took a loan for her activities. But she made her orders and the car had an accident in which she lost all her tomatoes, which were broken or crushed by other cars overturned on the road.... Some risks can be avoided but not others. Can one really avoid a road accident? Not necessarily. It is a risk which the MFIs should understand and be flexible with us by giving us a few days extra.”

- Woman, former borrower (Paouignan)
B. “Tracasseries”* or many annoying comings and goings, is a common complaint. The loan application process is slow and onerous, and some clients, especially men, report problems of corruption.

* Tracasseries *means annoying red tape, administrative hassle, or harassment in French.*
“Tracasseries” and delays in issuing loans were consistent concerns among all types of borrowers.

<table>
<thead>
<tr>
<th>Former female borrower (Paouignan)</th>
<th>“To get a loan, you have to go at least 5 times.... So with those calculations and all the to-ing and fro-ing [transport costs], one wonders how much the loan really was.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current female borrower (Cotonou)</td>
<td>“For some people, it takes 2 months, 4 months or even 6 months. We are told , ‘Madame, you will have the money next week, you will have the money soon,’ but....nothing. They say nice words but .... (laughter).”</td>
</tr>
<tr>
<td>Current female borrower (Parakou)</td>
<td>“Coming and going is so frequent that some people abandon the effort altogether as the expenses [become too much] for such little credit.”</td>
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</table>
For clients with seasonal income these delays can lead to harm.

Former male borrower from Togba:

“This photo illustrates the failure of a group of six people who [were promised] a loan after presenting a fish breeding project. After waiting for several months and much coming and going without a result...the group decided to abandon the project...in spite of the enormous expenditure and efforts made.”

“MFIs make promises to lend to people who then spend their own money to set up shop, and when the time comes to finance them, they are dropped or given the money when it’s not favorable for their project. This creates difficulties for them and leads to non-repayment.”
C. Although they may feel mistreated, some clients report that they feel “obligated” to keep using MFIs, because their businesses rely on periodic injections of capital, and they are in need of money.
Clients feel they have no choice but to use MFIs despite bad treatment.

“We are very bothered and not at ease each time we hear the names of debtors read on the radio. It’s a very bad thing, and each time the radio plays and we hear the names, [we] just pray to God to protect us and that one day, we will no longer be obliged to look for loans from an MFI.”

--Current female clients (Togba)

Q: “As soon as you’ve finished repaying your current loan, would you prefer to continue with the MFI or rely on your tontine?

A: “No, I won’t stop for whatever is said, they are useful and important for us. They are now like a baby’s milk bottle in our mouth that we wouldn’t want to let go or let someone take from us.”

--Current female borrower in Parakou who depends on MFIs for her business
Clients feel compelled to accept high interest rates and fees out of need.

“In micro-finance, even when the interest rate is high, you are obliged to pay. The MFI staff know that we have no choice, as we are in need. That’s why the persons responsible for the MFIs can make us do what they want.”

-- Former male clients (Cotonou)

Q: “What do you think about the interest rates charged by the MFIs?”

A: “We are faced with the fait accompli. They’ve already fixed their rates which we find too high...we just have to accept, especially as we are in need.”

--Current female borrower (Parakou)
Main findings – regulatory issues

D. Some clients report fake or fraudulent microfinance institutions (MFIs) in their communities. In the absence of certification or awareness of who to ask, they rely on word of mouth to assess whether an organization is legitimate.

E. High fees and compulsory savings that are not returned make the true cost of borrowing very expensive, while clients are quoted low interest rates.
D. Some clients report **fake or fraudulent** microfinance institutions (MFIs) in their communities. In the absence of certification or a awareness of who to ask, they rely on word of mouth to assess whether an organization is legitimate.
Clients speak about “disappearing” institutions; it is difficult to identify licensed MFIs.

“With the hope of being able to get a loan, several people saved their money [here] and then one day, we learned that it had just disappeared.

The risks are on our side as well as with the MFIs. We run the risk of seeing our money disappear, while the MFIs risk the non-payment of their loans. There are risks because most of us are illiterate and we don’t know who tells the truth.”

--Current female borrower (Parakou)

“They were correctly installed, being quite visible, having radio communiqués, well made publicity panels, etc. But in reality, not all that is approved, including the legal documents. So, after having taken the population’s money, they disappeared.”

--Former male borrower (Parakou)
False institutions are prevalent and difficult to distinguish from licensed MFIs.

“The MFIs play a fuzzy game. They bring us together supposedly to help us take some photos [get ID card] in order to help us get credit. But what is surprising is they collect our money for the (application fee) and then disappear... [only] sometimes one finds an MFI which does not run away as the others do.”

– Men, former borrowers (Togba)

Fake tontines are common as well:

“I was [in] a tontine for 300,000 FCFA ($620 USD). When it was my turn to get the kitty, the person in charge had run away. I was so angry I went into his house and threatened to take off the door and sell it to get my money back! ...Since that day, I’ve never seen him. “

Fraudsters exploit the fact that most MFIs use compulsory savings to collect deposits promising loans, only to vanish with clients’ money.
E. High fees and compulsory savings that are not returned make the true cost of borrowing very expensive, while clients are quoted low interest rates.
While interest rates may appear low, one-time fees can *each* comprise 20% (or more) of the loan principal.

*These added fees can effectively double or triple the interest rate:*

A: “I’m always wondering if [borrowers] can make that money bear fruit and pay back the loan as they are loans which kill.”

Q: “Do your loans kill you?”

A: “Yes, if I borrow 30,000 CFA ($62 USD) or 50,000 CFA ($103 USD) and have to pay a 5,000 CFA ($10.3 USD) fee for the application, I can see that it’s already too much. That’s how many microfinance structures make money on peoples’ backs.”

--Current male client, entrepreneur with a Master’s in Law (Cotonou)

“I borrowed 50,000 CFA ($103 USD) from [MFI]. The interest was a lot. When you add up all that the MFIs take for the formality, you can find you pay not far from 50,000 CFA ($103 USD)--that is 40,000 CFA ($83 USD) or 43,000 CFA ($89 USD)..... As an example, a woman paid last time 10,000 CFA ($21 USD) fees for an application although the loan was for 50,000 CFA ($103 USD).”

--Former male borrowers (Cotonou)
A detailed example high fees.

- “Marie” from slide 45 borrowed CFA 50,000 from a prominent MFI.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Additional Costs</th>
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<tbody>
<tr>
<td>CFA 50,000 value of loan</td>
<td>CFA 50,000</td>
<td>-3,000 savings fee</td>
</tr>
<tr>
<td>Compulsory savings of 15,000 required, of which she will get 12,000 back</td>
<td>CFA 47,000</td>
<td>-6,000 insurance</td>
</tr>
<tr>
<td>Compulsory insurance in case you die while borrowing (non-refundable)</td>
<td>CFA 41,000</td>
<td>-3,250 application fee</td>
</tr>
<tr>
<td>Application fee</td>
<td>CFA 37,750</td>
<td>-8,250 “deposit”</td>
</tr>
<tr>
<td>8250 “deposit” - she does not know what this is for</td>
<td>CFA 29,500</td>
<td>-5,000 bribe</td>
</tr>
<tr>
<td>Bribe to the officer who helped her get the loan</td>
<td>CFA 24,500</td>
<td>-3,500 interest</td>
</tr>
<tr>
<td>10 payments of $5,350 with interest</td>
<td>CFA 21,000</td>
<td>-7,250 transport costs</td>
</tr>
<tr>
<td>5 trips to MFI office required, CFA 1,450 round trip</td>
<td>CFA 13,750 (US$ 29)</td>
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</table>

Taking into account all these fees and expenses, Marie ends up with less than one third of the amount she expected to get for her business.
The true cost of lending APR for this $103 loan (excluding transport costs) is estimated at 767%*. 

Marie was told that the interest rate was 2%. This is the nominal interest rate per month, but this does not come close to reflecting the true cost... which is very complicated to understand!

*Using MF Transparency’s calculator, excluding transportation http://www.mftransparency.org/resources/calculating-transparent-pricing-tool/
Compulsory savings exasperate clients as their money is “locked” and inaccessible during the loan period, even during an emergency.

“Their interest rate isn’t high, but what made me give up was that they made you save and it’s not for an amount decided by the client. They fix the amount, and you are obliged to add it to the repayment at the end of every month, something which becomes difficult. It wasn’t easy putting the repayment together, and you also have to add on another 2,000 (US $4.14) to 2,500 CFA ($5.17) savings….It leaves us out of breath.”

--Female former borrower (Paouignan)

“What makes me feel sick is that even if you have millions on your account, and you [ask]them ‘while waiting for me to sort out the situation, take the money out of my account, and when I come to see you, I’ll put it back,’ the MFIs never accept. They’ll tell you that the account you’re talking about has been blocked since the loan was given to you. It’s when the repayment has been finished that movements can be made on that account.”

-- Current male clients (Paouignan)
Clients report problems of compulsory savings not being returned.

“It should be noted that when I paid money to [the MFI], part of it was for me...each time I made a repayment, [part] was supposed to be a guarantee for the loan coming afterwards or I could take it when I wanted. But I never went [back for] it...[If I had taken it back], I wouldn’t be a partner any more, I wouldn’t be able to borrow again.”

“If you’ve finished constituting the file...you’ll pay 12,000 CFA (US $25) and some other fees, called petty cash. That’s not included in the amount that you’ll repay. If you finish repayment and want to take back the petty cash because you don’t want to continue borrowing, [the MFI] will start to go round in circles. In the end, it will be impossible to get back those compulsory savings.”
Lack of transparency and communication of insurance charges causes clients to distrust the MFI.

“The insurance fees are paid for each loan. If for example, you borrow for 6 months...and have paid for insurance during that time, if you want another loan, you’re going to pay insurance fees again on the new loan. But as it’s the same organization, the insurance should always be valid....when there is neither death nor someone running away, the fees should come back to us, but that isn’t what happens.”

Former female borrowers, Paouignan

“...The problem with MFIs is the incidental charges called “insurance” which are added on. Finally, the amount to be borrowed becomes insignificant after these charges are taken off.”

Former female borrowers, Cotonou
Main findings - consumer protection issues

F. Clients complain about MFI staff corruption and incompetence.

G. Mistreatment of illiterate or unsophisticated borrowers is a cause for concern.

H. By using shame in collections, MFIs destroy problematic borrowers’ reputations and future credit options. Some clients report that public shaming applied just as harshly to the group members of delinquent borrowers as to the delinquent borrower themselves.

I. Clients feel they cannot complain to the MFI because doing so would jeopardize their future borrowing options, nor can the complain to the police who are always on the MFI’s side.

J. Despite these problems, some clients have positive experiences.
F. Clients complain about MFI staff corruption and incompetence.
Bribes are common across institutions.

**Police**

“Police are [ranked] the worst, because if you are poor and you are linked to a rich person in an affair, you’re done. You have to have money to be right with the gendarmerie.”

-- Current female clients (Cotonou)

**Clinics**

“When you take a sick person there, the agents don’t even listen to you at all, they ask for your money first before touching the patient.”

-- Former male clients (Parakou)

**Government**

“At the town hall...if you don’t know anyone there or if you don’t have money, you have all sorts of harassment before getting your [national ID] card.”

-- Current female client (Parakou)
And microfinance is no exception.

FGD, former male borrowers (Cotonou)

“The way that money is taken varies from one MFI to another on the one hand and on the good or bad faith of the person through whom you go to in order to borrow from that MFI.”

Female former borrower (Paouignan)

“We pay another 8,200 CFA ($17 USD) the day we get the money. What it’s for, we don’t know. In fact, all the MFIs ask for similar sums.”

FGD, former male borrowers (Parakou)

“When we went to take the loan money, the person at the cash desk, who was to give us the money, took 10% off.... As far as we’re concerned, it was for him. The agent softens us up, just so that we make a gesture.”
Simple solutions could go a long way. Respondents suggested that payments be disbursed using checks to reduce corruption.

“The money is given hand to hand but if were paid in a check, there wouldn’t be this person-to-person contact. Now, at the cash desk, the agent softens us up, just so that we make a gesture [in thanks for getting the loan]. In these conditions, we are obliged to give something so that he will continue to help us the next time.”
Incompetence can cause harm: the MFI lost “Robert’s” land title and cannot locate it.

“These MFIs are sometimes an abuse of confidence. I myself am a victim. I took a loan from [MFI NAME], leaving with them the contract of my land purchase (proving I am the owner) [as collateral]. In spite of the fact that I have finished repayment of the loan, I have not received back that document which allowed me to borrow the money initially.”

– Male, former borrower (Togba)
G. Mistreatment of illiterate or unsophisticated borrowers is a cause for concern.
Some clients described that MFIs take advantage of the illiterate.

M: “So did the MFI explain the interest rate to you when you had to borrow?”

R: “They explain, but when they see you are illiterate, they get you to sign papers which mean that you’ll repay more than you should.”
-- Male FGD, former borrowers (Parakou)

“What they explain is that you are going to borrow so much and that you will pay back so much....it’s a system set up so that the borrower doesn’t understand at all.”

-- Male FGD, former borrowers (Cotonou)
For many Beninoise clients, percentage interest rates don’t hold much meaning.

“We are farmers. What’s the best arrangement for us is to be told, in relation to the amount of the loan, how much we actually have to repay. The surplus on the amount would be spread out as follows and at the same time, be told what part of the surplus would be for us. I think that [this is] better than mixing us up with percentages.”

--FGD, Male current borrowers (Paouignan)

This appears to be true even with highly educated individuals:

“Quite honestly, I can’t tell you if [my loan] rate is 4% or 5%, honestly, I can’t tell you...I can calculate the difference to be able to say that if I borrowed 400,000 CFA (US$827), [I pay] 435,000 CFA ($899) or 425000 CFA ($878), but I don’t calculate the percentage. I have all the documents, which inform me about the interest rate.”

--Current male borrower in Cotonou with a Master’s in Law
Clients reported that compulsory savings are often not returned, especially to illiterate borrowers or those who do not speak French.

In our interviews, it was clear that many clients did not know how much of their initial savings “guarantee” they would get back after repaying their loan. Many thought that they would lose their savings if they ever chose not to keep renewing loans with the MFI.

“A small sum always comes back to the borrower at the end of the repayment period. But the illiteracy of many means that many of them don’t know they have a rebate to collect taken from what they repaid. So they don’t collect it.”

--Male FGD, current borrowers (Cotonou)

“With me for example, for the 200,000 CFA (US$413) of school credit that I contracted, I think they gave me 180,000 ($372) or 190,000 CFA ($393)... But those expenses are never repaid to us. My experience with the [bank] wasn’t the same. The month following my last repayment, I saw that they had something back to me as if I had been saving by paying back the loan. Whereas with the MFIs, it’s the contrary, and even if you ask them, you never have that [money back].”

– Man, former borrower (Parakou)
H. By using shame in collections, MFIs destroy problematic borrowers’ reputations and future credit options. Some clients report that public shaming applied just as harshly to the group members of delinquent borrowers as to the delinquent borrower themselves.
When repayment problems arise, shaming practices can be extreme.

- Being escorted around town in a wheelbarrow
- Photos displayed in MFI offices
- Names published in the newspaper or broadcast on the radio
- Closing borrower’s shops and confiscating stock
- Public harassment in front of one’s neighbors
- Sitting people at the MFIs as a bad example, or holding them hostage at the office
As a guarantor of a client who defaulted, “Colette” was shamed publicly, degrading her reputation.

“I took the photo because it’s like an incurable wound ...[from] my bad experience with [MFI]. I used the photo to be a guarantee for one of my friends who borrowed from the MFI. She finished repaying the loan and without telling me, took a second loan and then ceased repaying. One day, one of my clients came to tell me that my photo was pasted up on the CLCAM notice board in Menontin, on the side of the street and that many people were looking at it. They went on to say that they were certain that I had borrowed money and had not repaid.

This situation took place in 2003, but I’ve never forgotten it. Every time I look at the photo, it upsets me and I remember the degrading remarks that my clients made.” – Former borrower (Cotonou)
“It’s as if I’ve lost all I’m worth”: abusive collections cause much more damage than financial hardship.

Marie: Married, entrepreneur with 2 children and 8 grand-children

Education: Completed 5th year, speaks Mahi, Fon and some French

Business: Entrepreneur selling various goods, including food stocks when prices are favorable. She receives about 8,000 francs (US$16) a day in revenues. Husband is the district head, but he has two additional wives.

Microfinance experience: Borrowed from several licensed MFIs in the past but has stopped due to harassment by the police and recovery agents after one member was late in paying.

“If ever you don’t pay, you’ll suddenly see the gendarme’s vehicle in front of your house and you’ll see them get out « djah djah » [cart]. Together with the recovery agents, they ordered me... to get into their pick-up truck. Even if you are in rags, even if you are not fully dressed, you have to get in. They drove me around the city before going to Dassa. Up to today I’m ashamed and it’s as if I have lost all I’m worth. I’m pointed at as being an insolvent debtor with the MFIs.”
Clients view embarrassing scenes at borrowers homes as a violation of privacy.

“This is a living illustration of the shame one can suffer when borrowing money... the MFI agent had made a surprise visit to this group of women who had borrowed money and promised to pay back in 6 months. The group had repaid for 3 months and then stopped paying. One of these women (the one who’s shouting because she was surprised by this news) has always paid her share to the head of the group (the lady who is a bit behind the others and will not repay).” -- Former male borrower (Togba)
In a kind of extortion, some MFIs hold borrowers at their offices and do not let them go home until a family member pays.

Respondent: “I was in a group of three who borrowed money and one of the three ran off. After her flight, there were two of us. I myself was paying for her and myself, that is 2 X 9,000 ($US 18) Francs for 6 months. I had already paid 5 months and only a month was left. In the only remaining month, my second couldn’t find enough to pay. Myself; I could only find 14,000 (US$28) of the 18,000 francs ($37) that I [had to] pay. [The MFI] said: no pardon, they will necessarily get their money. That’s how we found ourselves in their Dassa head office. We stayed there all day with the mosquitoes until the evening. Luckily our parents came and paid and we were released... my parents rushed to come and pay quickly after going to “buy money” at the usurers [moneylender] to borrow what was needed...his interest rate is 100%.”

Moderator: “What did you feel when you were arrested and kept in the institution’s office?”

Respondent: “It made me feel very bad, and ashamed. It wasn’t that much money for them—you’re going to repay 9,000 Francs ($18) a month and they could have understood as the 3rd person had fled.” – Woman, former borrower (Paouignan)
Clients report that MFIs collaborate with the police.

“If we borrow money from an MFI and we have a problem (delay) in repaying, their staff are violent and put us on their motorbikes and take us to the police. At the police station, the policemen, keep us there saying they will hold us there us until we have paid what we owe. After all we are women and we deserve a better treatment. They treat us like savages.”

-- Former female borrower (Paouignan)

“It’s there (the gendarmerie) that the [MFI] staff take people who don’t repay on time or don’t repay at all. And it’s a house of shame…. What I find upsetting about borrowing is the shame heaped on those who can’t repay (dragging through town, taking them and making them sit in the MFI offices or worse, at the gendarmerie).”

-- Current male client (Paouignan)

These practices lead to significant stress:

“Others [feel like dying], because given their worries, they see no way out.”

-- FGD, former male borrowers (Togba)
“Claude” feels that recollection practices are unforgiving and inflexible.

Q: What’s happening in this photo?

A: You can see a fire in someone’s house. A friend whose motorbike was burned had borrowed money to buy it. He counted on this activity to repay his loan. So what’s going to happen to him now? It will be difficult for him and the MFIs don’t like to negotiate and pardon, for them, it’s their money and nothing else. Some clients run off because of such things, following their inability to repay on the agreed date.

* Name changed to protect anonymity.
Shame from group borrowing can discourage microcredit usage.

**Respondent:** “In our group of four who were borrowing money, one of the group members went to see her child in Côte-d’Ivoire and didn’t come back... What made me feel bad was that the [MFI] agents came to see me in my hairdressing saloon to compel to pay for the one who ran off.”

**Moderator:** Will you [ask for a loan] later on? Or is it that you don’t want to borrow again?

**Respondent:** “We do, but we are scared of staying in a group which is the reason why each of us is running around to find a guarantee so that we can take an individual loan.”

-- Former female borrower (Cotonou)

“And that’s the reason I don’t want to borrow any more, being afraid of becoming bankrupt one day.”

– Man, previous borrower (Togba)
Collections: Clients feel that payments begin too soon after a loan has been disbursed, leading to delinquencies.

Current male borrower (Cotonou)

“There isn’t a pause, a delay of grace, [instead] you are told you have two weeks to get settled before starting to repay. Automatically, after the loan starts, you have to start repayment. That’s what strangles people--it’s difficult to get a pause. That’s what’s killing.”

FGD, former male borrowers (Togba)

“You are given the money today and then in a week, you have to start repayment. It’s not very encouraging. The money you borrowed can’t make a profit in only a week. We need a bit of time to make the money we have been given to work for us.”

FGD, former male borrowers (Parakou)

“Even if you get your first loan and repay well, in order to obtain another loan, they can turn you round and round, telling you to wait and that when the time comes, they will call you.”
I. Clients feel they cannot complain to the MFI because they will jeopardize their future borrowing options, nor can the complain to the police who are always on the MFI’s side.
Clients either fear the repercussions of complaining or feel that no such outlet exists.

“If you go to complain to [the MFI] office, or elsewhere, you won’t get another loan. I went to a micro-finance NGO and borrowed 200,000 CFA (US $414). When I’d finished repaying, I told them I needed a lot of money ...I went to see their president, and she and the other agents told me to save on my account. I did that for 215,000 CFA ($445). That was the situation when the NGO accounts became poorly managed, and the people in charge ran off. From delay to delay, the matter is still waiting in court.”

– FGD, former male borrowers (Parakou)

M: “If you’re worried about something to do with your loan, do you have someone you can see?”

R: “Yes, we have the number of an agent who comes to make us aware of their products, and we can call him to get an explanation. Now as there isn’t a contract between you, he's courteous, available, listening to you. But as soon as you fall [take out the loan] he doesn’t know you any more.”

-- Female former client (Paouignan)
Clients cannot imagine that police would ever take their side in a dispute with an MFI.

M: “What happens in case of late repayment?”

R: “When repayment is late, the MFI agents come to your house to ask for their money. If you say you haven’t got it yet, they’ll take you to their office or to the police.”

--Former male borrowers (Parakou)

Clients experience similar treatment with tontines:

“We can complain to the police station or the gendarmerie. But what is bad is that as the tontine manager still has some money, he rapidly bribes the police…and we are never right.”

--Current male borrowers (Paouignan)
However, some clients seem to experience good treatments from MFIs.

J. Despite these problems, some clients have positive experiences:

• MFIs offer a much needed source of credit that allow clients to develop businesses and save;
• Individual borrowers and successful clients earn the possibility for flexibility; and
• Clients report that disclosure practices are comprehensive.
Claude is an entrepreneur in Paouignan with a growing tailoring business. He is on his 5th loan with his current MFI and is very satisfied with his relationship with the MFI:

“This is the institution which saves us, because if it wasn’t there, I wouldn’t have been able to buy my sewing machines. I’ve got 5 machines including a big one used for embroidery. If that structure hadn’t existed, I wouldn’t be where I am today.”
Good experiences: Clients appreciate the possibilities MFIs have given them.

“This is a photo of my office which has 5 computers, 5 printers and a photocopier. All the equipment in my office is the direct fruit of the various loans I have had with [MFI]. It’s thanks to this shop that I paid for a large part of my land which makes me so proud. All [this was only] possible through my collaboration with [MFI].”
-- Male client in Cotonou (individual borrower) who has had relationships with MFIs for the past 10 years

“This is a photo of a new, ash colored “Dream” motorbike… it’s thanks to the loans from [MFI] that I was able to [save] and buy it.”

Q: “Of all these [formal and informal financial institutions], which is the best among those that lend money?

A: “It’s [my MFI].”
--Current female borrower who has had 10 consecutive loans from her current MFI
Good experiences: Generally, clients appear happy with disclosure procedures.

“This photo shows a black board with two sentences written on it in Fon. I took it because it’s thanks to the [MFI] that I know how to write and speak in Fon...[this] enables us to do sums in Fon and manage the money we borrow.”

-- Current female borrower (Cotonou)

“On the first day you go to borrow money, you follow a training session on money management and on how to make the borrowed money bear fruit so that the repayment can be made. Also, you are informed of the rate of interest to be paid. After that, your file is drawn up, and if the interest rate is 1% or 2%, that is also written on a paper which is given to you.”

--Current female borrower (Togba)
Long-term clients can negotiate.

“Everyone can negotiate, you just have to be a client...[for example] The staff wanted me to repay each month. Because transport costs are so high, I therefore asked to pay every 2 months instead.”

--Current male borrower in his 5th credit cycle with his current MFI (Paouignan)

“If you go to [MFI], they will ask you how long you need to be able to pay back, and you yourself will say the amount.”

--Current female borrower on her 10th MFI loan (Togba)
5. Relating findings to CPPs
1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution
Most important principles from Beninois’ clients perspective (in green).

- Appropriate product design and delivery
- Prevention of over-indebtedness
- Transparency
- Responsible pricing
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanisms for complaint resolution
Sequencing may be needed between regulation and achieving the CPPs.

- When there are many serious violations of clients’ rights, regulation and supervision may need to come first.
- Differentiating between licensed and unlicensed MFIs, and getting this information to clients would be a helpful first step before pushing CPPs with all MFIs.
- When MFIs lack a strong social mission, incentives may not be aligned with the CPPs.
- Understanding loan officer incentives is necessary in order to fully understand this treatment.
Clients care about privacy in terms of *preserving their reputation* more than privacy of data

- Clients have not mentioned data privacy in either Pakistan or Benin, but in both countries, keeping problems with the MFI private is a central concern.
- Practices which violate privacy by shaming clients publically threaten to hurt the client’s business, further limiting their ability to repay.
- **For poor people, relationships, reputation, and social capital are profoundly valuable relative to the few material possessions they own.** Clients report that rebuilding a reputation after a public shaming can take many years, or the damage may be irreversible.
- But to a certain extent group lending relies on shame by design; how can microfinance transition to taking this more seriously?
The power imbalance and collaboration with police currently eliminate possibility for complaints for many clients in Benin.

- In Benin, MFI staff control clients’ fate and they feel are at staff’s mercy.
- Police side with (or are paid to help) MFIs, and only evoke fear and distrust for clients (why complain to the institution you ranked as treating you worse than the MFI?).
- A third party (not necessarily independent of the institution but removed from the client’s normal channels of interaction with the MFI) could be the solution.
- But with good profits and repayment rates, what would incentivize MFIs implement this?
Thank you.