Aga Khan Agency for Microfinance

Using Qualitative Research to Assess Loan Impact: Lessons from the Aga Khan Agency for Microfinance (AKAM)

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An Agency of the Aga Khan Development Network

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Abstract

Microfinance institutions (MFI) continue to look for reliable, relevant and practical ways to assess impact, in part because of increased pressure to show results and the need to be more responsive to clients. The Aga Khan Agency for Microfinance (AKAM) has built a monitoring, evaluation and learning framework to better understand and serve their clients. A core part of this framework is a mixed-methods approach to assessing impact, one which combines the regular and periodic collection of client-level data. AKAM learned that combining different sources of information leads to more robust organisational learning and the ability to understand better the impact of its products on clients' quality of life. This experience can illustrate to other MFIs the value of looking beyond purely quantitative measures in order to assess impact and improve practice. This paper presents the results of the qualitative research component of this framework that AKAM piloted in four countries.

Introduction

Microfinance institutions (MFIs) with a double-bottom line (i.e. those that have both financial and social objectives) need to remain accountable to their stakeholders and show the results of their interventions, but they need to do so in ways that result in organisational learning and improvements in the service they provide. For microfinance practitioners, the key to achieving this is to evaluate their programmes in ways that allow them, on the one hand, to assess their impact and whether that is in line with their social goals and, on the other, to discern how they can improve their products and the way they are delivered (Hulme, 2000; Simanowitz, 2001; Whisson, 2016; Odell, 2015).

To achieve this, MFIs need to find practical and reliable ways to understand the contribution of their financial products and services to improvements in clients' lives (Sinha, 2015; Copestake et al., 2005). In terms of organisational learning, this would allow financial service providers to know what is working (or not), for whom, why and what management decisions may be taken to improve the products and services they provide (Simanowitz, 2001; Copestake et al., 2005).

While the "prove" versus "improve" dichotomy (Hulme 2000) is a useful starting point in thinking about an MFI's objective for assessing impact, in practice, it is important to recognise that a range of options exist along the spectrum between the two in terms of objectives and methods. The oversimplification of that dichotomy may lead some MFIs to believe that they need to focus on either proving or improving, and in doing so, they also fail to see the usefulness of different objectives and methods in favour of the widespread perception that methods such as randomised control trials (RCTs) are the only rigorous methods that can prove impact (Simanowitz, 2001; Copestake et al., 2005; Sherbut and Kanji, 2013).

AKAM, an agency of the Aga Khan Development Network (AKDN), is a network of regulated MFIs and banks (i.e. "entities") across 10 countries, and its mission is to effect demonstrable, measurable and lasting improvement in the quality of life (QoL) of its clients by delivering appropriate financial services that help diminish the vulnerability of the disadvantaged and enable economic and social inclusion. To achieve this, AKAM entities provide a wide range of financial products and services to meet clients' multiple needs, such as loans for enterprise and non-enterprise uses (e.g. housing, health, education), saving and insurance products and money transfers. AKAM has embedded strong social performance management (SPM) practices into its research and product development (RPD) activities, thereby making the collection of client data and market insights a key driver of product development. As part of this effort, in 2012, the Aga Khan Agency for Microfinance (AKAM) developed a monitoring, evaluation and learning (MEL) framework for the purposes of institutional learning. Once it is fully institutionalised, the MEL framework will allow AKAM to understand better their clients' profiles and needs, the suitability of AKAM's microfinance products and to reliably assess the effect of these products on its clients' lives.

AKAM's MEL framework uses a set of core indicators to link product performance, client profile data, client experience and aspects of a client's life that access to finance may be argued to influence. The framework has both quantitative and qualitative components as part of the regular and periodic collection of client data, including: the Progress out of Poverty Index® (PPI®), which is captured on all borrowers in every loan cycle and on a sample of deposit clients, customer satisfaction and exit surveys taken from a random sample of clients using the same financial product, other socio-economic client and product performance data captured regularly from all clients and qualitative interviews that are periodically conducted on a random sample of clients of the same product.

This paper presents the experience of AKAM in piloting the qualitative research component of the MEL framework. The remainder of this paper is structured as follows: section two presents the major industry trends that are shaping the direction of outcome measurement and impact assessment in microfinance and which have informed AKAM's MEL framework. Section three provides an overview of AKAM's approach to impact assessment, followed by a discussion of AKAM's experience in piloting qualitative interviews (section four). Section five triangulates the findings from the qualitative interviews with other components of the MEL framework. Section six concludes with an overview of what AKAM learned from this pilot for product development and provides some insights for future research.

Building reliable, relevant and practical ways to assess impact: lessons from the industry

Three major trends have shaped the direction of outcome measurement and impact assessment by MFIs as well as influenced AKAM's approach to impact assessment: an increased imperative to show results, improved knowledge about clients' financial management strategies and the need to build internal processes to support microfinance's social objectives. Each of these is discussed briefly below.

Increased imperative to show results

For many years, MFIs focused on building sound financial practices that would set them on the path of scale and financial sustainability (Johnson, 2009). It was simply assumed that the social objectives (i.e. the other side of the double bottom line) would naturally be achieved by virtue of microfinance practice. MFIs also found assessing impact to be difficult. As a result, up until the mid-2000s, MFIs generally relied on financial performance indicators to assess MFIs (Social Performance Task Force, 2016a).

However, with time, MFIs came to understand that the extent to which their programmes achieved their social goals could only be known through the systematic assessment of their outcomes against their objectives. Several events during the mid-to-late 2000s put the microfinance industry under increasing scrutiny and urged practitioners to demonstrate their impact. In general, there was an increased need for MFIs and development institutions to show "value for money" and for practitioners to get better at measuring results (United Kingdom Department for International Development, 2011; Odell, 2015). In practice, this has meant often that donors have placed a strong emphasis on trying to attribute outcomes to the work of their specific programmes.

As a result, the use of RCTs has become a popular tool for evaluating development interventions (Bartlett, 2014; Copestake, 2011), as it is argued that they are the "gold standard" in establishing attribution (Leeuw and Vaessen, 2009). Indeed, RCTs address many of the challenges of measuring impact, including selection and omitted variable biases and reverse causality (Leeuw and Vaessen, 2009; Roodman, 2012). However, RCTs are not exempt from methodological challenges that threaten both their internal and external validity, such as spill-over and spill-ins effects between treatment and control groups, the way subjects are randomised, issues of attrition and their generalizability to other settings or contexts (Leeuw and Vaessen, 2009; Barahona, 2010; Duvendack et al., 2011).

For practitioners, RCTs are often impractical for other reasons, including the high cost of their implementation, the need for highly-skilled researchers, the time required to complete an RCT (about 21 months on average, Banerjee et al., 2015), as well as the ethical considerations in withholding services from target populations in the control group for a long period of time. Assessment periods are also relatively short, which is problematic as certain changes in clients' lives can only be seen after a number of years.
While RCTs can be very useful for practitioners to compare the effects of different product features (see, for example, Field et al., 2012; Banerjee et al., 2014), when they are used for impact assessment, their focus on proving causality does not necessarily enable MFIs to provide insights into how they can improve their current products and services and be more responsive to clients. As a result, RCTs for impact assessment cater more to the interests of academic researchers, donors and policy-makers, rather than microfinance practitioners.

Improved knowledge about clients' financial management strategies

Research over the past decade has shown that poor people access financial services to smooth income, manage risk, and build large sums for life-cycle needs, assets, and businesses (Collins et al., 2016; Roodman, 2012), and recent impact assessments seem to provide evidence that access to finance increases resilience and reduces the vulnerability of poor people, even if it does not seem to contribute to sustained and significant improvements in income and consumption, at least for the average microfinance client. This supports the view of microfinance as a tool for poverty alleviation rather than poverty reduction (Odell, 2015).

However, the microfinance industry generally continues to base its impact assessments on using the simple theory of change that underpinned the first microcredit movement discussed above (Copestake et al., 2005; Counts, 2015; Odell, 2015). By contrast, impact assessment approaches need to acknowledge the complexities that are being measured, while being clear on what needs to be measured and how (Gray, 2015). They should also recognise the heterogeneity of MFIs, the contexts in which they work and the objectives they seek to achieve. The questions that impact assessments seek to answer and the tools that are chosen to address them should build from this understanding. No single tool is appropriate for every impact question, and research questions should drive the selection of methodology (Sherbut and Kanji, 2013).

The case for building internal processes that support social objectives

In 2005, the Social Performance Task Force (SPTF) was created as an industry response to the recognised need to show results and to ensure MFIs work to meet the needs of their clients. The SPTF championed the development of the Universal Standards for Social Performance Management (hereafter, "the Standards") in 2012 and which were updated in the summer of 2016. These outline the systems and practices that MFIs should adopt as part of their day-to-day operations to work towards achieving their social goals. Amongst other things, the Standards require having a system within the MFI for gathering information from clients related to the institution's social goals. This information should be used to understand clients better and to improve the appropriateness and effectiveness of financial services in line with the institution's objectives (Ledgerwood et al., 2013; Social Performance Task Force, 2016b). While more evidence is needed, it is argued that institutionalising outcome measurement and coupling it with other SPM practices and effective feedback loops enables MFIs to contribute better to positive client outcomes, among other things (Copestake, 2011; Odell, 2015).

The Approach to Impact Assessment at AKAM

AKAM's approach to impact assessment builds on the AKDN's approach to understanding changes in the overall QoL of AKDN's beneficiaries. This approach takes a holistic view of QoL in that it goes beyond material well-being to encompass a more rounded view of human experience and aspirations (Aga Khan Development Network, 2013). Within the MEL framework, AKAM's approach to assessing changes in clients' QoL involves a mix of different tools that allow AKAM entities to understand what changes have taken place, for whom and under what circumstances. The use of these multiple tools and the triangulation of information enables AKAM to get a well-rounded picture of how its products and services affect clients' QoL.

The first of these components is called "Client Experience Plus", which is a series of periodic client satisfaction and exit surveys that include questions related to the perceived changes in clients' QoL (both positive and negative) that they feel have taken place as a result of using AKAM's products and services. These assessments are carried out on a random sample of clients of one specific product (e.g. enterprise loan), the rationale for which is that doing so allows AKAM entities to distinguish the QoL changes that may be linked to specific products (or intervention). This also makes clients' feedback more actionable, as their opinions apply to the features and procedures that are specific to one type of product.

The second component is QoL indicators that are captured in the MEL database (MELD). AKAM entities modified their client forms to capture data that would enable them to better measure outreach and QoL, including the Progress out of Poverty Index® (PPI®), employment, income sources and educational enrolment. Tracking these indicators allows AKAM entities to monitor changes in key QoL indicators over time. Pairing this information with other data stored in MELD (e.g. uptake, demographic information) helps AKAM entities to understand further the differences in QoL changes by product type, gender, age group, etc.

- The third component involves conducting in-depth interviews with a small number of randomly-selected clients in order to gain a deeper understanding of changes that have taken place in clients' QoL as well as understand how AKAM entities' products and services contributed to these changes. More specifically, these in-depth interviews allow AKAM and its entities to achieve the following objectives:
- Understand not only what changes are taking place, but also the processes leading to these changes and whether any changes plausibly can be attributed to AKAM entities' products and services;
- Reveal how products, and the delivery of those, can enhance positive QoL changes and minimise or eliminate any negative changes. In other words, these interviews try to capture the relationship that may exist between client's satisfaction with AKAM products and services and the changes in a client's life that these are supporting (e.g. customers can be satisfied with products, but the products can have a negative impact on their life, for example, through over-indebtedness).

These in-depth interviews are an important component of the AKAM MEL framework in four important ways. First, they provide an additional way of assessing performance with respect to the institution's double-bottom line, in a way in which clients' views are brought into the centre of the assessment. Second, they render the AKAM entity accountable to stakeholders (i.e. the Executive Board for the local AKAM entity, AKAM's Executive Board, donors, investors, etc.). Third, they provide AKAM with the opportunity to tap into another source of information on clients to inform products and operations. Fourth, AKAM entities can build from and triangulate the results obtained through the client satisfaction and exit surveys. In this way, these QoL interviews are a way for AKAM to assess impact, which we define as "the systematic analysis of significant and/or lasting change – positive, negative, intended, unintended – in the lives of target groups, brought about or influenced by a given action or a series of actions" (O'Flynn, 2010: 2). The following section presents AKAM's experience piloting this tool in four of its entities.

Assessing changes in clients' quality of life through in-depth interviews at AKAM

This section will discuss the methods and findings from the third component of AKAM's approach to impact assessment, which involved piloting in-depth interviews with a small number of randomly-selected clients in order to gain a deeper understanding of the changes that have taken place in clients' QoL, as well as understanding how AKAM entities' products and services contributed to these changes.

Methods

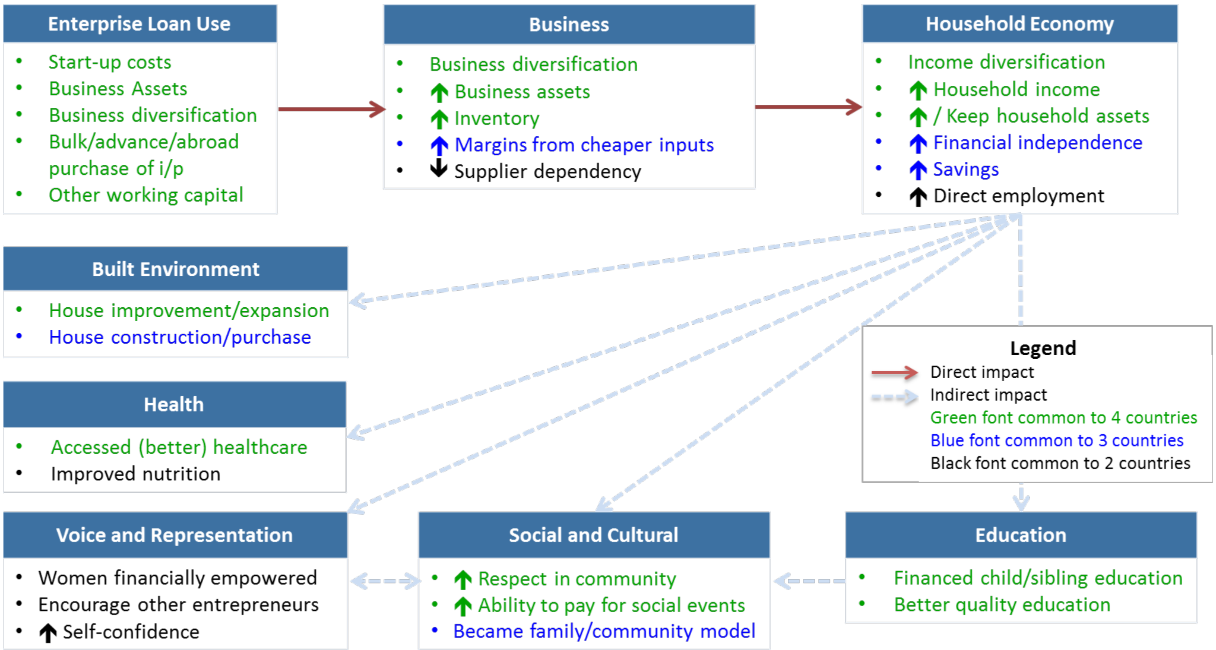
In 2014, AKAM, in coordination with AKDN's Quality of Life Monitoring, Evaluation and Research Support Unit, developed a qualitative QoL toolkit that guided the pilot interviews that were conducted in the Kyrgyz Republic, Madagascar, Pakistan and Tajikistan (**Table 1**). AKAM RPD staff at each entity were trained on how to conduct these interviews and analyse the findings, and AKAM headquarters staff provided technical feedback on the analysis. Across the four countries, these staff conducted a total of 132 in-depth interviews with repeat clients who had borrowed enterprise loans.

An enterprise loan is one that is used to develop a new or existing income-generating activity. In most cases, these loans provide working capital, but in some cases, they are used to purchase fixed assets. Interviews were conducted with existing clients who were at least on their third loan cycle and had been AKAM entity clients for at least three years. These criteria were established on the assumption that some changes in QoL were more likely to be observed only after a considerable period of time. However, this also introduced a positive selection bias as clients who had prior repayment difficulties were unlikely to get further loans from AKAM entities (and thus not be eligible to be interviewed).
In order to mitigate against the bias involved with AKAM entities' staff selecting clients to be interviewed, efforts were made to randomise the selection of clients to be interviewed. To capture a diverse range of experiences, clients were randomly selected from various sub-groups of the population of clients, such as on the basis of

Table 1: AKAM Products Assessed (by country)

Country	Pakistan	Kyrgyz Republic	Tajikistan	Madagascar
AKAM institution (entity)	First Microfinance Bank	First Microcredit Company	First Microfinance Bank	Première Agence de Microfinance
Loan product	Enterprise finance	Animal husbandry loan	Small and medium enterprise loan	Individual loan product
Purpose	working capital, fixed assets	working capital, fixed assets	working capital/fixed assets of an existing business	working capital/fixed assets of an existing business
Loan tenor (months)	12-36	6-18	1-24 (working capital) 1-48 (fixed assets)	3-12
Loan amount (Int'l. $, 2011 PPP)	1,776 - 5,327	9,758	24,473 - 489,463	1,326 - 9,284

Figure 1: Consolidated Impact Pathway of AKAM Loans Across Four Countries



gender, geographic location (i.e. rural/urban) and income level (i.e. poorer/less poor). AKAM chose to conduct the qualitative interviews using its entities' staff as opposed to hiring external evaluators because the primary objective was for organisational learning and for AKAM entities to improve the kinds of products and services they provide.

Findings across various QoL domains

Qualitative data from interviews were used to develop impact pathways of the effects of loans for various client segments based on what most clients reported during the interviews. Impact pathways distinguish between direct effects (i.e. those that are a direct result of the loan) and indirect effects (i.e. those that operate through another effect).

A consolidated impact pathway of AKAM loans across all four countries is presented in **Figure 1.**

The differences in the impact pathways across countries indicate the importance of context in influencing the outcomes of microfinance. It is important to note that, while factors external to AKAM's intervention may well have had an effect on the results presented here, these were not explored during the interviews. Interviewers also had difficulties encouraging clients to report any negative effect of the loan, and thus, only a few clients reported them.

Using the internal logic and consistency in clients' narratives was key to understanding loan impacts and support for the findings. The informality and location of the interviews – most often at the client's household or business – put clients at ease and elicited more and richer information about the effects of the loan during the interviews. In general, interviews from across all four countries found that access to income generation loans helped clients buy inputs at lower prices, increase their business inventory, purchase business assets and diversify their income sources. These outcomes hold with expectations, as these are the stated purposes of AKAM loan products.

Across the four countries, the most immediate effects found were an increase in income, assets, and employment within the clients' households. As clients continued to support their businesses through subsequent loans, they were also able to improve their lives in other ways. Increased income allowed them to afford better schooling and healthcare services and undertake housing improvements. Clients also felt more respected within their community and that they were able to improve their ability to meet their needs. Findings from the in-depth interviews are presented below in more detail across the following six domains: client businesses, household economy and livelihoods, education, health and healthcare, social and cultural life and built environment. In some cases, findings, findings from particular countries are presented in the relevant domains.

Client businesses. This research found that there were three main ways in which clients' businesses were supported through the use of the enterprise loan: increasing inventory, diversifying income sources and increasing business assets. This research also found that enterprise loans were generally used as working capital for clients to increase their inventory, which allowed clients to increase and broaden the goods and services they offer in the market and thus increase their competitiveness and sales. In other cases, working capital enabled clients to purchase raw materials in larger quantities, thereby lowering their production costs and increasing their profit margins. Enterprise loans used for working capital also allowed clients to be less dependent on their suppliers, as they no longer had to purchase inputs on credit.

A common practice found among clients was for them to use part of their loan to invest either in a new income-generating activity or in a different existing business. By investing in other activities, clients were able to diversify their income sources to reduce risk. Thus, clients were able to offset activity-specific income volatility and achieve a more stable income flow.

Expanding the asset base of their businesses allowed clients to increase their production capacity and sales. Business assets normally refer to small pieces of equipment (e.g. sewing machines, heaters, water systems); in some cases, this also includes vehicles or the expansion, renovation, or purchase of business premises. In some cases, they were used to create an additional source of income (e.g. rental income for a newly built room in the house). Business asset purchase was found to be present in all four countries. It was very common in Tajikistan and Pakistan but less so in Kyrgyz Republic and Madagascar.

Household economy and livelihoods. Building on the findings related to the effect of loans on clients' businesses, the research found that AKAM loans had a positive effect on clients' household income and savings by way of an increase in sales, competitiveness and a reduction in cost (i.e. buying in bulk from suppliers). Income diversification led to greater income stability and higher overall household income. More business assets led to increased production capacity, which allowed clients to increase sales. We found that as more income became available, households prioritised asset purchases. Most clients reported using the profit generated from their business to buy household items such as refrigerators, televisions and modes of transportation (i.e. bicycles, motorcycles and cars). In some cases, like in the Kyrgyz Republic, the increase in the purchase of livestock was linked to improved nutrition.

Education. Findings suggest that, as a result of the effect on clients' business and the overall household economy, clients had an increased ability to pay for education and that children's education was one of their first priorities. Most clients highlighted the importance of being able to secure payment for their children's schooling and, in some cases, to afford better schooling (i.e. private schooling) because of the higher profit from their business. However, in some cases clients also reported using part of the loan to cover such expenses. It is also interesting to note that sometimes, clients' educational support goes beyond their own children to include extended family members. In the context of supporting children's education, an interesting and rather unexpected finding in Pakistan was that the loan indirectly allowed clients to be more involved in their children's education. For some clients, investments made possible by the loan saved them time, which they could then use to help their children with their homework.

Health and healthcare. As with education, clients reported having an increased ability to pay for

Table 2: Findings from the Client Satisfaction Surveys conducted in the four countries

Country	Sample size	% clients that felt the loan helped	Top 3 ways in which the loan helped (% of clients reporting the loan helped in the stated manner)		
			First	Second	Third
Pakistan[*]	780	98%	Δ in income (85%)	Support business (22%)	Support education (13%)
Kyrgyz Republic [#] [⋔]	584	98%	Δ in income (63%)	Maintain savings (11%)	Improve house (10%)
Madagascar [#]	361	91%	Δ in income (43%)	Δ household assets (20%)	Improve house (8%)
Tajikistan [#]	1,265	89%	Δ in income (49%)	Improve house (29%)	Support business (18%)

* Individual and group-based business loans
\# All loan products were assessed, but this mostly consisted of business loans, as they represent a larger share of the entity's portfolio
⋔ Results from the 2012 CSS were very similar: 99% of clients felt their loan helped, including in the following ways: a change in livestock (24% of respondents), a change in income (18% of respondents) and those building a house (15% of respondents)

both expected and unexpected healthcare needs for themselves, their household members and, in some cases, the extended family. In most cases this was a result of increased income or savings that resulted from the improvements in business performance. Clients reported being able to afford better quality health services (Pakistan, Madagascar and Tajikistan) or that part of their loan was used to cover healthcare expenses (Tajikistan, Pakistan and the Kyrgyz Republic). While many clients did not talk about any negative effect of the loan, the interviews did reveal that shocks or an emergency (e.g. ill health, medical emergencies or a relative's death) can have negative effects on clients' ability to make a living and repay their loan.

Social and cultural life. Clients highlighted that they were better able to meet some of their needs and, partly because of that, they felt they were more respected in their communities. Most clients also reported an increased ability to pay for and attend important celebrations (e.g. a relative's wedding). In many instances, this was achieved through using a portion of the loan to fund the event directly, but in most cases, clients financed the celebration with their increased income. As paying for weddings and other social events is of great importance in these four countries, clients reported feeling a great sense of self-accomplishment and an increased respect or recognition in the community as a result of funding or taking part in these social events. Clients also reported feeling they were treated as role models in their communities because of their improved financial situation and their personal achievements.

Built environment. Increased household income as a result of the loan was found to have supported clients' investment in housing improvements (particularly in the Kyrgyz Republic, Tajikistan and Madagascar). The research found that once clients reached a certain level of stability – which was generally during the second or subsequent loan cycles – they prioritised investments in land and housing (i.e. the purchase of a new house or land or home improvement). Home improvements were found to be more prevalent than home purchase or construction. This could be explained partly by the fact that many clients run home-based businesses. In these cases, clients reported that such investments also contributed to their household economy by supporting their existing business or by adding another source of income.

Triangulating MEL Framework Components: Comparing results of the QoL interviews with Client Satisfaction Surveys

As it has been described above, as part of the MEL framework activities, AKAM entities periodically conduct client satisfaction surveys

(CSS). CSS are used to assess clients' overall experience with the products and the way they are delivered. They also allow AKAM entities to capture clients' perceptions on how using AKAM products affects their quality of life. In order to achieve this, these surveys include a few simple questions that ask clients how they felt the loans have affected them and in what ways.

When it is fully institutionalised, one of the benefits of the MEL framework is that it will allow AKAM entities to triangulate data from the various tools and components and for the same clients. Despite this, it is currently possible to compare findings from the qualitative QoL interviews with data from the CSS. Table 2 provides a summary of the results from CSS conducted in 2012 (Pakistan) and 2014 (Kyrgyz Republic, Madagascar and Tajikistan). Findings from the CSS reinforce findings from the QoL interviews, namely, that access to AKAM entities' loan products helped clients increase their income, support their business and build assets, including household assets, housing and education.

In conducting both the CSS and the in-depth qualitative interviews, AKAM has already learned that they are both necessary and complementary pieces of the MEL framework that help it to assess the impact of its products on the lives of their clients. On the one side, CSS are helpful in identifying whether the effect of AKAM products is positive and in what areas of their lives clients see these products as having the greatest effect. In this way, the CSS is a powerful tool to ensure social performance is on track.

On the other side, the qualitative interviews go one step farther and allow AKAM entities to understand in detail how these changes have come about in clients' lives and for which segments of the client base. This type of information is useful not only for understanding impact pathways, but also in order to find out more about barriers to financial access, pain points for clients and clients' wider financial needs. Having this broad and deep information about their repeat clients puts AKAM entities in a better position to develop suitable products that are of value to their clients.

Organisational learning from piloting qualitative interviews

AKAM's primary objective in piloting these qualitative interviews was organisational learning and for AKAM entities to improve the kinds of products and services they provide. In turn, this would lead to further improvements in clients' QoL and inform future research. The lessons learned by AKAM nevertheless can contribute to learning and improving practices across the microfinance industry. The insights revealed by the qualitative interviews are discussed in the remainder of this section.

Building client insights to improve practice

Indirect or multiplier effects take time. These interviews validated our assumption that there are immediate effects (e.g. income diversification and increased margins) for the client after a loan is taken; however, many indirect effects only emerge after a longer period of time and after clients have taken multiple loans (e.g. increase in household assets). MFIs should have a clear focus on client retention, which also serves the financial bottom line of the institution, as serving repeat clients is less costly than acquiring new ones. AKAM entities have begun to address retention in a number of ways, for example, by instituting loyalty programmes or offering repeat clients preferential interest rates. AKAM's entity in the Kyrgyz Republic first considered the introduction of a loyalty programme based on the findings of a client satisfaction survey, and this has been validated through findings from these interviews.

Offer flexible loan products. This research underscored the point that money is fungible and that clients face competing financial demands in their lives. As a result, clients use product loans for different purposes and tend to invest in different income-generating activities rather than using their loans solely for their stated purposes.

As such, MFIs need to offer more flexible products, both in terms of loan purposes but also with respect to repayment structures. This would facilitate the development of a more transparent

relationship between the client and the MFI during the loan application process as well as decrease the likelihood of clients going to competitor institutions to meet their overall loan needs. Examples of such products might be a health insurance scheme (with options for meeting client and family needs), housing financing to meet both structural and non-structural housing needs, education financing, group loans, branchless banking, or overdraft loan plans. Building from the findings of the QoL interviews, AKAM's entity in the Kyrgyz Republic introduced the "Quality of Life Improvement" loan product, which can be used for different purposes based on clients' individual needs.
Be responsive to clients' vulnerabilities. While it was difficult to identify negative effects of the loan, the interviews revealed that during the term of the loan, clients may face difficulties related to external factors (usually health-related) or to aspects of the loan.

For example, the depreciation of the Tajik somoni made United States dollar (USD) denominated loans more expensive. This can have negative effects on clients' ability to make a living as well as repay their loan. In turn, this could have multiplier effects on clients' QoL, not to mention that it could limit their ability to access future loans.

Another concern that came up in multiple countries was that loan-taking was stressful or caused concern for some borrowers. For example, some borrowers reported that there were times when they felt it was difficult for them to pay off loans. In the case of group-loan-takers, borrowers felt that it was difficult to coordinate group loan members or to have to cover loan payments in instances where some group loan members could not pay their share of the loan payment. All of this points to the fact that MFIs should do more to understand the causes of clients' economic vulnerabilities and have systems in place to continuously learn about clients' experiences with the loan and to support clients in difficult times. This might include the ability to restructure outstanding loan amounts in cases of repayment difficulties, offering emergency bridge loans, or reassessing the way in which loan clients' capacity for repayment is assessed (e.g. incorporating both historical and projected cash flows). As a result of findings from this and other research, AKAM's entity in Tajikistan modified the conditions of their loans and started allowing its small and medium-sized enterprise clients to restructure their USD loans or convert them into local currency.

Offer segment-specific products. This research also helped its entities understand better how demand for their loan products varies among groups of their clients (e.g. poorer versus less-poor borrowers or group- versus individual-loan takers). This has highlighted the need for MFIs to consider client segmentation. For example, AKAM's entity in Pakistan began to develop specialised products and services for female home-based workers based on an analysis of the effects of the loans on women.

Promote financial literacy. MFIs should invest in clients' financial education in order to promote formal savings and trust in formal banking and microfinance institutions. For example, in many of the countries where AKAM works, clients save, but they tend to do so through informal means because of a lack of trust in financial institutions. Promoting financial literacy, together with developing flexible financial products, is one way MFIs can encourage savings.

Lessons for future research

AKAM's qualitative interviews also underscored points to be considered when undertaking future research, which are also relevant for other MFIs. First, the piloted qualitative research found that it was important to emphasise that the research teams were part of AKAM's RPD department and not part of the operations department. In other words, the research was conducted independently of clients' loan processes, and this put clients more at ease. Thus, clients opened up and gave recommendations on improving loan products as well as explained why loan products were not used for their stated purposes.

Second, using programme staff trained to conduct qualitative research was found to be suf-

ficient in most cases, as the main objective of this research was for internal learning. However, many donors would require trained external researchers to carry out this work, partly to lend legitimacy to the findings.
Third, MFIs could use this kind of empirical work to generate theories of change for particular microfinance products in specific contexts. To support this, future research should seek to understand better any other alternative explanations and factors that can affect changes in clients' QoL (in the spirit of the process tracing methodology; see Oxfam, 2012). However, much of the validity of AKAM's findings came from the strength and logic of the clients' narratives about how changes had occurred and the extent to which the loans had contributed to the changes.

Finally, this research was conducted quickly enough (i.e. 2-3 months in most cases) to ensure organisational responsiveness to clients' feedback and circumstances. Such studies are best done when tailored to specific contexts and market segments. In the future, AKAM plans to integrate the use of MEL monitoring data and tools with qualitative interviews in order to better understand and provide timely responses to particular market segments.

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About the Aga Khan Agency for Microfinance

For more than 60 years, various agencies of the Aga Khan Development Network (AKDN) have offered microfinance services through integrated development programmes and self-standing microfinance institutions. These programmes, as well as others, helped start businesses, create jobs, build homes and finance house improvements, purchase seed and livestock, smooth over the impact of unforeseen health costs and make higher education possible. Today, these programmes have been brought together under the Aga Khan Agency for Microfinance (AKAM).

AKAM works closely with the other AKDN agencies as part of a coordinated approach that brings together many inputs and disciplines. AKAM works with the Aga Khan Foundation (AKF) in AKDN programmes for rice farmers in Madagascar. AKAM also provides microfinance services to employees and contractors of the Aga Khan Fund for Economic Development's (AKFED) projects, as well as other residents in neighbouring areas. A significant part of AKAM's lending activities are directed to social sectors, including housing, education and health. These loans have a direct impact on the clients as they meet their day-to-day needs, and allow AKAM to have a big impact on the quality of life of the poor. In addition to its main microfinance activities, AKAM supports small and medium enterprises (SME) to create jobs or stimulate increased economic activity. Loans for income-generating activities continue to represent the largest proportion of loans provided by AKAM entities. These loans cover a large spectrum of sectors and industries, ranging from livestock, planting, trading or production. Loan terms and conditions are designed to reflect the various cash-flows from those sectors, and to fit clients' needs as closely as possible.

AKAM's approach focuses on poverty alleviation through innovative product design based on clearly understood needs of the target clients, effective management and the introduction of new initiatives to enhance access to financial services for poor and low-income households.

AKAM is part of the AKDN, a group of development agencies with mandates that include the environment, health, education, architecture, culture, microfinance, rural development, disaster reduction, the promotion of private-sector enterprise and the revitalisation of historic cities. AKDN agencies conduct their programmes without regard to faith, origin or gender and have decades of experience in integrating economic, social and cultural development.

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