MFC Spotlight Note 16

Microfinance for Protecting the Vulnerable in Rural Uzbekistan

Market Research Insights for Practitioners Based on a Case Study by MFP Barakot

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December 2005

1. Introduction

For development purposes one needs to approach poverty from a dynamic perspective - vulnerability to poverty. Vulnerability to poverty reflects people's risk of exposure to downward pressures and shocks and their ability to cope with the consequences of these risks (Sebstad and Cohen 2001). Understanding vulnerability is crucial for the development of microfinancial services that respond more fully to the complex livelihoods of poor households (Rutherford 1999, Wright 2000, Sebstad and Cohen 2001). DFID (2004) further argues that "*value of financial services in helping the poorest to cope with risks can be as or more important than the expected return; for the poor there might be more emphasis on reducing vulnerability and risk*". Moreover, financial services that help the poor manage risk provide an opportunity to further deepen the outreach of microfinance interventions to those clients for whom microenterprise credit is an unreasonable risk.

The potential of microfinance is not fully realized in Eastern Europe and Central Asia as the bulk of microfinance activities still focuses mostly on micro-enterprise lending to near-poor or non-poor individuals (Pytkowska 2004). In introducing risk-management financial services to deepen outreach regional MFIs face two main challenges: lack of understanding of the lowest-income market segment and lack of practical examples of how to put the market intelligence into a product development process.

This note provides microfinance practitioners with a market research framework to develop risk-management financial services for vulnerable populations. The technical content is illustrated by a case study by MFP Barakot which gives a general picture of vulnerability to poverty and the financial needs of vulnerable populations in rural Uzbekistan.[2]

2. Framework for developing risk-management financial services

Products are successful in a market only if those offering the product address three critical questions:

- *Which groups to serve?* – This involves selecting a homogenous target group in terms of their needs and expectations for financial services from the entire market as it is impossible to develop a product that is attractive for everyone. Dividing the market into homogenous groups is a common business practice, which reduces costs and increases customer satisfaction.
- *Which needs should be satisfied?* – This requires understanding the priority needs of the target group and defining the 'core product'.[3]
- *How to pack the product?* – This involves focusing on attributes that are valued by consumers combined with information on current usage and attitudes towards specific products. With this information it is possible to define a value proposition, which is a key factor in attracting and retaining clients.[4]

Research

Figure 1: Market research framework to develop risk-management financial services.

Vulnerability analysis *Which groups to serve?*
Financial needs analysis *Which needs shoulds be satisfied?*
Customer value proposition analysis *How to pack the product?*

This simple market research framework works well for developing risk-management financial services. Three levels of analysis (Figure 1) were useful in development of product concepts that are responsive to risk-management needs of vulnerable, low-income households in Uzbekistan:

- *Vulnerability analysis* to segment a market into homogenous groups by their vulnerability to poverty *(see section 3)*.
- *Financial needs analysis* in specific market segments from the perspective of the most important risks faced and current ways to cope with them *(see section 4)*.
- *Customer value proposition analysis* focusing on clients' expectations towards the product as well as their financial literacy, current behaviours and attitudes *(see section 5)*.

Both qualitative and quantitative data is used to conduct the analysis. While the former gives in-depth understanding, the latter allows representative calculations for market segmentation and financial projections. Data can be obtained either by drawing on secondary sources of information (e.g. MIS, research reports, statistical office data) or by conducting primary research using qualitative (in-depth interviews or focus groups) or quantitative (household survey) tools.[5]

3. Vulnerability analysis

Vulnerability analysis helps to identify which market segments are the most vulnerable and need additional risk-management tools. A description of the framework for analysis is followed by a practical illustration from MFP Barakot.

3.1. Framework

People face many shocks and stresses that require a lump sum of money. These risks may relate to structural conditions (i.e. unemployment), crises (i.e. illness, earthquake), or life-cycle events (i.e. paying for children education). The more vulnerable the household the less able it is to cope with these risks; therefore, most risks have a high impact on very vulnerable households. Risks have an especially significant impact if household exposure to them is high and/or they require expenditure of a large amount of money, and/or if several high-stress coping mechanisms are needed to generate the lump sum of money.[6]

An analysis of household assets is useful in describing household vulnerability because assets determine access to effective risk management strategies.[7] Households that have a relevant mixture and high level of assets are able to draw on them in response to stresses or shocks. They also have a cushion to rebuild their asset base. The most vulnerable households usually have a low asset base and therefore lack access to good risk management strategies. Additionally, a continuous series of risks can deplete the assets to the extent that it is hard for households to regain their previous economic threshold. Moreover, the more vulnerable the household, the more risk-averse its behaviour, which further traps vulnerable households in low-return, survival activities.

A first step in analyzing the market for risk-management financial services is to understand vulnerability in order to segment the market by homogenous groups that are in most need for risk-management services. The following questions guide the vulnerability analysis:

1. *Why and how are households vulnerable?*
   a. Which context and household characteristics make people more exposed to risks?
   b. Which household assets are most important in reducing vulnerability in a given context?
2. *Who is vulnerable?*
   a. What indicators best describe household vulnerability?

Research

3.2. The case of MFP Barakot

Why some households are vulnerable?

MFP Barakot operates in the vulnerable context of Uzbekistan, which is one of the poorest countries in Eastern Europe and Central Asia region.[8] Qualitative research results revealed that the following assets are key in reducing household vulnerability:

- *Physical assets* – livestock and land. Livestock is a key coping mechanism as it plays an important role as a saving mechanism for life cycle events and emergencies. Land is crucial for food security and gives an opportunity to engage in food barter exchange in case of difficulties.
- *Financial assets* – a stable source of income, in contrast to irregular income flow, is important because it motivates people to save and accumulate assets, rather than spend everything on current consumption.
- *Social assets* – many relatives and strong non-family social ties are important. To some extent, support from relatives and friends can help households avoid selling assets, thus smoothing consumption more effectively in case of crisis.
- *Human assets* – being able to work is very important. Disabled and 'labour short' single female headed households are among the most vulnerable (as government remittances are not very effective). On the other hand, particular human skills do not really ensure greater financial security. Almost everybody can easily learn traditional rural work skills to survive and in rural areas, formal education does not appear to make a difference.

Analysis of the relationship between the most powerful vulnerability indicators[9] and asset indexes (Figure 2) confirmed a strong correlation between assets and vulnerability. No specific type of assets played a particular role in reducing vulnerability. Most of the households had a similar mixture of assets and only the level of assets determined household vulnerability.

Figure 2: Examples of powerful vulnerability indicators for rural Uzbekistan.

Physical assets: car owned, possibility to use *kolkhoz* (former state farm) machinery, land owned and leased, livestock owned, house ownership, materials of house walls, material of house roof, number of rooms.

Financial assets: cash savings, income flows from January to April (low season for agriculture), number of income sources per adult in the household, percentage of stable income sources.

Social assets: number of people from whom it is possible to borrow lump sums of money, a family member working in a community office, membership in networks of neighbours and friends, participation in voluntary collective work, a family member working in a state-owned farm/company, subjective evaluation of relationship with the community committee.

Human assets: gender of household head, disabled members, education level of household head, level of stress of coping mechanisms used, number of "hungry" days in low seasons for agriculture, frequency of going to the nearest town.

Who is vulnerable?

Quantitative research identified three groups of households by vulnerability level, that is, their ability to cope with risks (least, average and most vulnerable). This helped to exclude those who are less vulnerable from the target group. It appeared that the group of vulnerable households (both highest and average vulnerability) is quite homogenous in terms of the mixture of assets, thus it was not possible to distinguish sub-segments. It is probably due to the fact that in rural areas inequalities are usually lower than in urban areas and most of the households possess similar assets.

Thirty five-50% of households have been classified as vulnerable in the studied villages. The following groups were overrepresented among vulnerable households: female heads, those with disabled members, those with irregular income sources, those with low education, those with poor housing, those with less livestock and those lower livestock breeding skills.

4. Financial needs analysis

Once the target group is clearly defined the next step is to explore their priority needs for risk-management financial services.

4.1. Framework

Risks result in financial pressure. Thus, in broad terms, the most important risks households face constitute core financial needs. Considering both development and business imperatives, it makes sense to develop risk-management products for the most important risks faced by the poor. Moreover, it is important that new risk-management products are more effective than existing formal and informal mechanisms used by the target group. Only if new products fill the gaps in risk-management will they be responsive and profitable.

Following Dunford (2002) it is useful to distinguish consumer needs and wants. The approach presented in this paper focuses on needs, while commercial market research practices (often applied to microfinance) respond rather to consumer 'wants'. 'Wants' for financial services are a function of current financial behaviours and attitudes (i.e. I do not like to save, but I would love to take a short-term credit to pay for my children's education). Satisfying wants rarely leads to positive long-term effects for clients and for MFIs. On the contrary, responding to needs is a way to provide clients with optimal tools, which is also a good way to build lasting relationships with clients; thus, opening new prospects for MFIs.

It is difficult to research needs as, very often, financial service needs in low-income households are latent, meaning that people cannot articulate them easily. Understanding the context and the risk chain helps identify all financial needs and link them to specific products. One can imagine a product like life insurance, which responds to a specific set of risks, related to the death of household members. But, there are also products that respond to multiple risks. Examples include emergency credit to smooth the consequences of small stresses or investment plans to build assets that can be liquidated in times of need. Linkages between financial needs and financial services for low-income households should be treated as a continuum and opportunity for innovation.

Key questions to answer in financial needs analysis are:

1. What are the most important risks people face?
2. How do they cope with them currently?
    a. What are examples of effective coping mechanisms used (especially informal ones)?
    b. What are the most common gaps in risk-management for the majority of the target group?
3. Which financial services can help people better manage risks?

4.2. The case of MFP Barakot

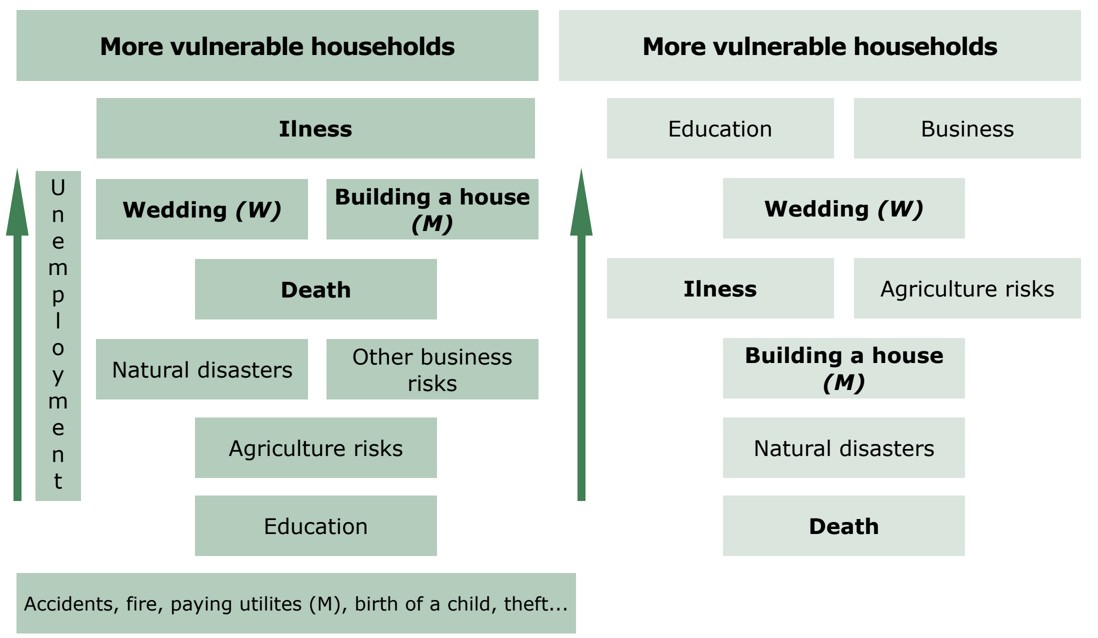
What are the most important risks people face?

Qualitative research provides a picture of key risks for the rural poor in Uzbekistan. This picture challenges the common view that the most threatening risk in rural areas is bad weather. Actually, more threatening perils for vulnerable populations in rural Uzbekistan included illness, organizing a wedding, building a house, death of a young person, divorce, and the structural risks related to unemployment and delayed salary payments.[10] Figure 3 (see on the next page) provides evidence that the needs of the new target group – more vulnerable households – differ significantly from the needs of those who have been most attracted to MFP Barakot products to date – less vulnerable households.

How do they cope with them currently?

Saving in-kind by buying and selling livestock (sheep or cows) is perceived as the most effective way to cope with risk in rural Uzbekistan. It not only generates income (dairy products, selling livestock) but also provides an important planning and risk management tool. In the absence of formal saving services, people save in-kind for their most important life cycle events and for emergencies. According to the rural population it is effective because it is liquid and the risks associated with animal diseases are negligible.

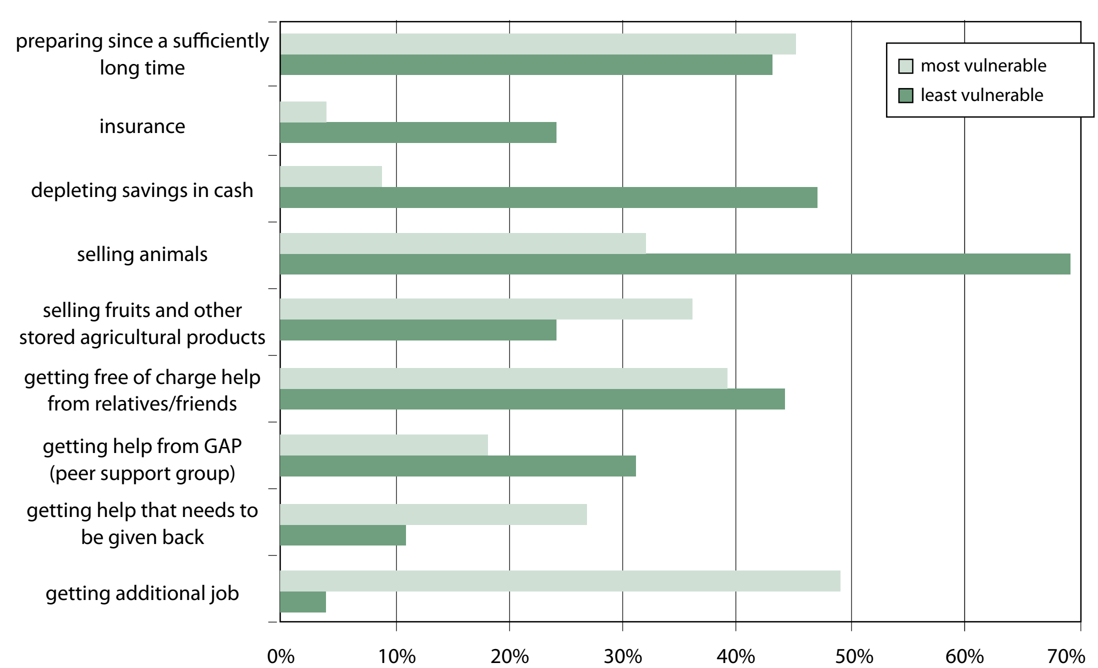
Figure 3: Importance of risks in rural areas of Ferghana valley, Uzbekistan.



Source: qualitative research.

Figure 4 emphasizes differences in usage of risk-management strategies between those more or less vulnerable. Generally speaking, the most vulnerable do not have access to effective coping mechanisms, like selling livestock, depleting cash savings or insurance. On the other hand, they do not use extensively high-stress coping mechanisms, like borrowing at a high interest rate or selling assets. It is probably due to the nature of rural areas where food security is not a big issue, social ties are still important, and there are 'natural' coping mechanisms as selling wood or fruits.

Figure 4: Differences in risk-management strategies used between most vulnerable and least-vulnerable households in rural areas of Ferghana valley, Uzbekistan.

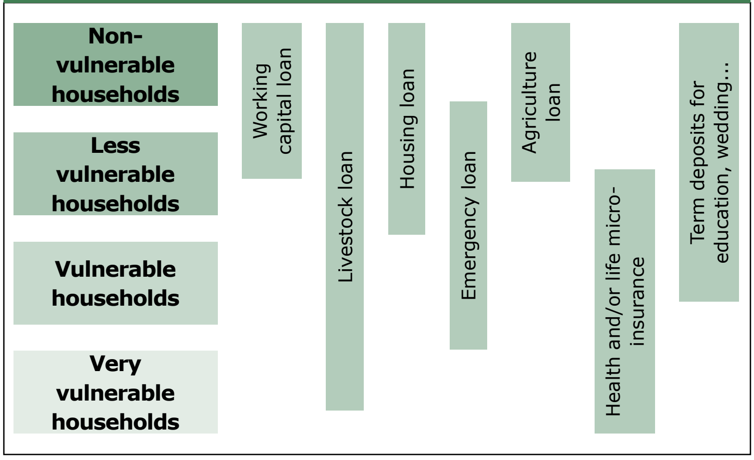


Source: quantitative research.

Which financial services can help people manage risks?

These results allowed Barakot to link needs to financial products. Assuming that financial services can play an important role in protecting people from risks by building necessary household assets and replacing high-stress coping mechanisms, a preliminary list of financial services was identified (Figure 5). From this list, some products were deemed not feasible due to regulatory issues (savings) and/or lack of adequate financial institutions to partner with (insurance). Provision of credit services was perceived as the only option. At first sight, a livestock loan seemed to marry both the development and business objectives of MFP Barakot because it had the biggest potential for deepening outreach. Rural populations perceive livestock as one of the most powerful coping mechanisms. However, it is not accessible to the most vulnerable target group. From an institutional point of view, the operational risks were similar to the current micro-enterprise product, the delivery model was already in place, and the potential demand was high, However, a detailed concept test and business viability analysis were needed to adapt the livestock loan to market expectations and the institutional structure.

Figure 5: Risk-management potential of various financial services for groups by their vulnerability level.



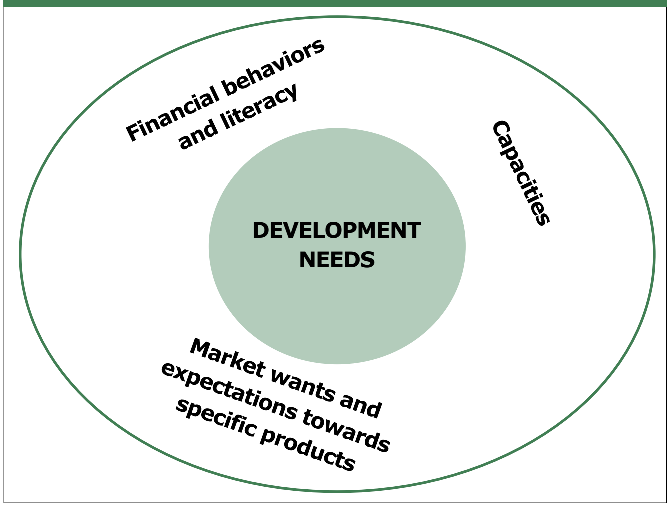
5. Customer value proposition analysis

Upon completion of the previous two stages one has a general idea of a financial product that responds to the development needs of the target group. This is necessary but not sufficient to market the product. To attract consumers, an MFI needs to know what value they expect and contrast it with what value an institution can afford to provide. In other words, an MFI needs to carefully pack the product to make it more attractive than the products it is competing with (formal and informal). The consumer value analysis not only helps to increase demand for the new product but also informs the provider about different operational risks and suggests ways to mitigate them.[11]

5.1. Framework

Figure 6 shows three perspectives that are important to develop customer value proposition: 1) current financial behaviours and financial literacy, 2) capacities, and 3) market wants and expectations towards specific products.

Figure 6: Perspectives of customer value proposition analysis



Packing the product to make it attractive for customers should be based on a thorough understanding of **current financial behaviours and financial literacy** of the target group. As argued by Rutherford (1999) low-income individuals acquire lump sums through basic personal financial intermediation, which includes a wide range of strategies from saving up to protect future income (saving current income when it comes in or cutting expenses to increase consumption later in life) to saving down (borrowing from future income to increase consumption now). Thus, studying financial behaviours and literacy involves understanding financial strategies (saving, borrowing, insuring) and use of formal and informal financial services). This way, one can learn about clients' knowledge, skills and attitudes towards money management. This ensures that the final product package would reflect consumer language, emphasize issues that consumers like and educate about benefits consumers are unaware of.

In designing appropriate product attributes it also is important to consider the **capacities** of the target group to use the product effectively and benefit from it. This goes beyond an analysis of savings or debt capacity to an analysis of impact pathways (value added chain) that trace expected outcomes for a particular target group.

In addition, it is important to understand the **market wants and expectations towards specific products** of the target group. How do potential consumers perceive their needs? For example, the best vehicle to smooth children's education expenses may be a flexible savings service but potential consumers may have a strong preference for a consumer credit for the same purpose. Which attributes of the new product are the most important for people? For example, do they prefer a fast service, expect individual counselling, are price sensitive, etc.

The following questions need to be answered in customer value proposition analysis:

1. What are the current financial behaviours and financial literacy of the target group?
   a. What is current state of money management, attitude toward saving, borrowing, insuring as well as knowledge and skills to use effectively financial services?
   b. What financial services (formal and informal) are used currently? If not use, why people do not use them?
2. What is the capacity of people in the target group to use risk-management financial services?
   a. Are current capacities sufficient to use the product for consumer's own good?
3. What are their market wants and expectations towards specific products?
   a. What financial service do people want to satisfy a specific need?
   b. What attributes of the new product are the most important for people? What kind of service do they expect?

5.2. The case of MFP Barakot

The following key learning points of the qualitative and quantitative research were useful for MFP Barakot to identify the right value proposition for consumers of the livestock loan product:

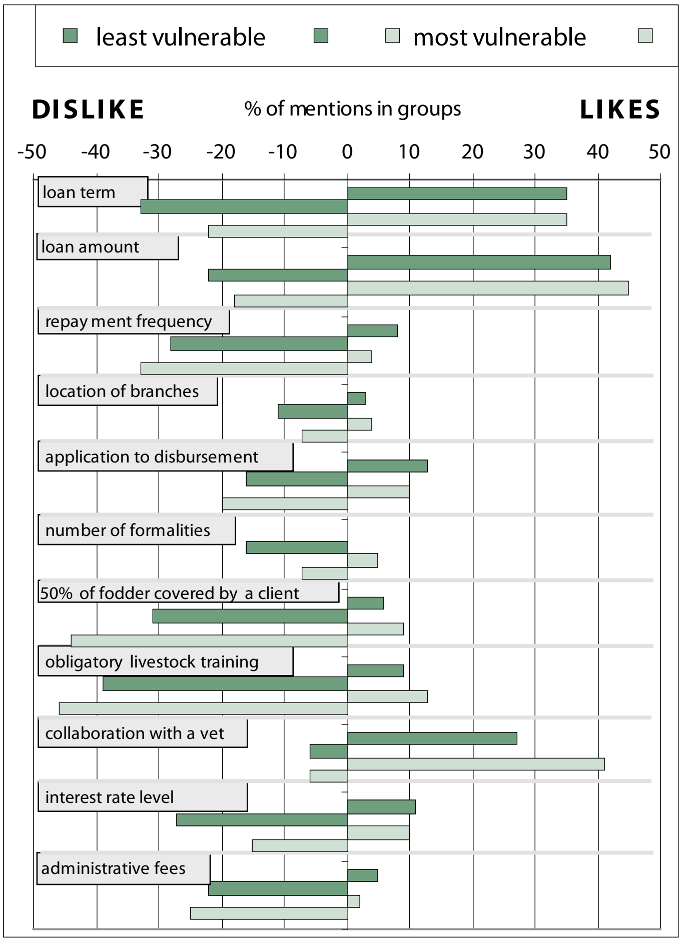
What are current financial behaviours and literacy of the target group?

- *No culture of saving in cash but very positive saving behavior*– All savings is done in-kind. People rarely keep small emergency funds in cash at home. Despite no cash savings there is a very strong culture of savings and planning for the future events. It constitutes a firm base for asset building financial services.
- *Poor experience with formal credit services* –Only 7% of the rural population studied had taken credit in the last 15 years (and a majority of these had borrowed from family and friends). This suggests a very limited knowledge of credit. Product marketing should be strengthened by education in credit services.
- *Cautious attitude to credit, especially among poorer people* – This attitude is mostly driven by a high price one needs to pay for informal credit services. MFP Barakot should be transparent about the price and present relatively low price as one of the key benefits.
- *Strict repayment rules and positive repayment behaviour* – There is no culture of grant money. Everything one borrows is in cash, in kind or in the form of somebody's work one will have to repay, even to closest relatives. The strong culture of repayment in rural Uzbekistan promises to keep the cost of delinquency management low and give people more flexible services.

What are capacities to use risk-management financial services?

- *More has to be learned about capacities to manage debt among poorer families* – A general feeling is that the poor have skills to manage money and plan for the future. However, the survival lifestyle in recent years could have undermined these strong cultural features. It is important to further investigate whether the rural poor can service relatively inflexible formal credit obligations.
- *Poor knowledge on how to breed cattle* – less then 20% of villagers ranked their breeding skills as 'well' or 'very well'. Thus, a livestock loan should be linked to advisory services.

Figure 7: Expectations towards selected attributes of livestock loan product.



What are their market wants and expectations towards specific products?

- *There is a very high interest in the livestock loan* (in response to a generic concept presented by MFP Barakot) whether or not somebody is vulnerable. Fifty six percent of households expressed a willingness to buy the product. The needs for a livestock loan are manifested and educating people about the core benefits of the product is not necessary.
- *Interest rate is the most important aspect for vulnerable individuals.* It is a consequence of low financial education but also lack of confidence about their ability to repay.
- *There are significant differences in expectations about livestock loan product attributes between vulnerable and non-vulnerable households* (Figure 7). Adapting the generic livestock loan product to the most vulnerable should take several factors into account: they would like to repay less frequently; they are concerned with timeliness of the loan; they are not very happy with livestock training but are strongly in favour of integrated veterinarian support; In terms of costs, vulnerable households are less concerned with the interest rate than the upfront fees (cost sharing in fodder, administrative fee). This makes sense given the low level of financial resources. On the other hand, MFP Barakot can be more relaxed (adapt to institutional structure) on issues like location of branches, and the number of formalities. Last but not least, preferences regarding the loan term and loan amount are not homogenous (many people like it and many people dislike it). This suggests distinct segments in the target population and more analysis is needed to profile them to streamline marketing of the product.

6. Final product concept

The analyses presented in three previous chapters resulted in a product concept that has been designed by MFP Barakot's product development team (Figure 8 on the next page). The vulnerability and financial analysis led to the identification of target segments. It also led to the selection of a livestock loan from a wide menu of financial services as the product that best serves vulnerable households and is institutionally viable. The consumer value proposition analysis allowed MFP Barakot to package a livestock loan accordingly to consumer behaviours, literacy, capacities and expectations.[12]

Research

Figure 8: MFP Barakot livestock loan product concept matrix.

Product areas	*Key terms and conditions*	*Rationale (key research findings)*
Core product		
Core needs to be satisfied	Livestock loan giving access for the target group to risk-management mechanism. • respond to emergencies (mostly illness), • build assets through saving in-kind (life cycle), • smooth consumption (dairy products income).	Emergency and life-cycle risks – key vulnerability drivers. Livestock - most effective coping mechanism (in-kind saving). Need to stabilize income sources.
Target group	More vulnerable rural households of following characteristics: female headed, with disabled members, with unstable income sources, low education, poor housing, low livestock possession. Approximately 35-50% of the total rural population in Ferghana valley.	Client: The most vulnerable have limited access to livestock breeding. Institution: Operational risks similar to current products; delivery model the same; there is potential for a high demand.
Actual product		
Term	6 months up to 18 months	Wide range of options because target group do not have homogenous expectations. Based on purchasing and breeding livestock cost and time calculations.
Size	From $700 to $ 1400	
Collateral	No collateral, based on group guarantee. Groups of 5 clients.	Client: off-family social ties are important and target group does not have any collateral to pledge. Institution: use of existing delivery model.
Application to disbursement time	Within 28 days.	Client: Vulnerable household need a timely service. Institution: Need to do careful on site analysis and conduct the training.
BDS component	Obligatory training on how to breed cattle and veterinarian visits to control breeding process.	Client: Poor knowledge on how to breed cattle. Institution: Limiting risks of delinquency due to breeding failures.
Repayment frequency and procedures	Starting disbursements in late spring to ease first instalments payments. Principal and interest rate are repaid monthly. Option to have 1 month repayment holiday twice during the repayment.	Client: February to April is the most difficult period. No other stable income sources that might result in some delinquency. Lack of skills to service relatively inflexible formal credit obligations. Institution: Strict repayment rules and positive repayment behaviour as well as very positive saving behaviour and willingness to plan for future guarantee success of repayment holiday options.
Interest rate	3,6%-3,4% monthly; declining basis (lower than for existing mainstream product).	Client: price sensitive, lack of self-confidence in repayment skills.
Fees	5% upfront fee (deducted in first instalment).	Client: Low financial resources to cover additional credit costs. Institution: need to have fee-based revenue source to cover costs of BDS component.
Augmented product		
Place	MFP Barakot branches in rural areas only.	Institution: allocating limited financial resources to target group participants in rural areas only.
Positioning	Corporate image of professional business partner (not charity) that gives access to markets for all the villagers. Product image emphasizing: options for saving in-kind, lower interest rate than informal sources, flexible repayment schedule, necessary support to breed cattle, friendly staff to help in formalities.	Client: Needs for livestock loan are manifested and there is no need to educate people about core benefits of the product. Strong culture of saving in-kind. Poor experience with formal financial services, low financial education and careful attitude to credit. Interest rate is the most important aspect for vulnerable individuals. Institution: business partner image to limit delinquent behaviours.
Promotion	Direct marketing through local authorities and through village meetings (education component included).	Client: Low financial education.
People	Knowing local context very well, poverty sensitive, some basic background in livestock breeding. Extensive training needed.	Client: Low financial education and low self-confidence.
Process	Detailed two field visits and training by livestock specialists.	Client: Low experience with formal credit and limited livestock breeding skills.

7. Conclusions

Risk-management financial services provide an opportunity to further deepen outreach in rural areas by reducing the vulnerability of low-income households. Research in rural Uzbekistan and in many other contexts confirms that vulnerable households need new risk-management tools. Carefully designed micro-savings, micro-insurance or emergency micro-credit services have a strong potential to meet these needs. This pushes significantly the microfinance frontier as reduced vulnerability puts individuals and households in a better position to take advantage of promotional financial services, like micro-enterprise credit.

Deeper outreach will meet development goals and MFI financial viability only if microfinance practitioners take a more holistic approach in studying local markets. This involves:

- segmenting the market to identify the vulnerable groups;
- analyzing the needs of these groups to identify the most important risks they face and coping mechanisms they currently use. This reveals a variety of potential product innovations to meet the most important needs of vulnerable segments.
- incorporating consumer financial behaviours, literacy, capacities and expectations in the value proposition for clients. This ensures reaching scale in a sustainable manner.

These three interlinked elements form a simple-to-apply market research framework which was positively evaluated during the test with MFP Barakot.

Last but not least, **developing risk-management financial services does not necessarily mean overcoming regulatory hurdles or the need for big investments in new delivery channels.** The risk-management financial services form a wide menu of options and different types of services will be more adequate for different contexts. The case of MFP Barakot proves that a livestock loan is a good solution for the MFI and for its clients. It uses an existing delivery channel with low-investment add-ins and fits very well socio-cultural context of rural Uzbekistan.

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Research

Annex – research methodology applied by MFC and MFP Barakot

Qualitative research

Research issue: Identifying target groups among the poor and vulnerable families in rural areas; and researching their needs for financial services in order to develop accordingly new products to serve them in a sustainable manner.

Methodology: Given the exploratory nature, focus group technique was selected as the most appropriate. 16 focus group discussions were run mostly with participants from households vulnerable to poverty. Participatory rapid appraisal tools were adapted from *MicroSave* toolkit and included: 1) Simple wealth ranking with vulnerability discussion and asset identification, 2) Asset matrix by groups, 3) Life cycle analysis, 4) Risk and coping mechanisms analysis – discussion guide with simple ranking, 5) Risk matrix by groups, 6) Coping mechanisms matrix by groups, 7) Seasonality + cash-flow and money management discussion guide, 8) Product attribute ranking and pair wise ranking.

detailed objectives	*tools*
1. Define rural households' vulnerability to poverty	
a) Why and who is vulnerable (poor)?	1, 2
b) What is composition of household assets (financial, physical, human, social) among different vulnerable groups?	1, 2
c) What describes best household vulnerability (which indicators)?	1, 2
2. Identify and understand priority needs to reduce vulnerability of specific groups in rural areas	
a) Importance of life cycle and emergency risks	3 to 5
b) Coping mechanisms in use	6&345
c) Understanding household (in)ability to reduce vulnerability	1 to 7
3. Potential role of financial services to satisfy these needs in a sustainable manner	
a) Potential for financial services to replace high-stress coping mechanisms for the most important risks	3 to 6
b) Potential for financial services to build the necessary household assets	2 to 6
c) Current use of financial services (formal & informal; credit, savings & insurance)	6
d) Attitude towards various types of financial services;	6
e) Financial literacy	6 to 8
f) Importance of product attributes (for selected products); and target group preferences	8
g) Understand what vulnerable families "want" in the area of financial services.	6 to 8

Sampling: Selected 4 villages in 2 rural areas representative for Namangan district (Ulchi and Kasansai regions).[13] Two villages served by MFP Barakot and two villages not served. Vulnerability pre-screening using the criteria developed based on secondary sources: 1) unemployed (no permanent job or no income generating activity), landless, no cattle to generate income, involved in agriculture; 2) single female headed households (divorced, widowed, husband in Russia) with 2+ children (under 18 years old); 3) families having 2 and more children aged 18-25 not married; 4) taking the smallest loan size (up to 100 USD) for 3-4 cycles.

Quantitative research

Research issue: Segment the market for livestock loan and estimate current market demand among the vulnerable populations in rural areas.

Methodology: Face to face interview using a 16-page questionnaire covering: livestock loan concept test, household characteristics, household asset possession (human, social, physical, financial), livestock possession, practices and skills, income sources and economic activities, financial behaviours and use of financial services.

Sampling plan: In 4 villages selected as representative for Ferghana valley (same as in qualitative). Sample size was 500 household heads. Sampling method used was random-walk (every fifth house, mahallas as starting points).

Research

Endnotes

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[2] This note is based on a project undertaken jointly by Microfinance Centre (MFC) for Central and Eastern Europe and the New Independent States and a Mercy Corp's microfinance program (MFP) Barakot in Uzbekistan. The project has been conducted thanks to an award from CGAP-IFAD Pro-Poor Innovation Challenge. MFP Barakot operates in Ferghana Valley, the most fertile region of Uzbekistan, since August 2001. MFP Barakot is financially sustainable and provides microenterprise loans to more than 10,000 active clients in semi-urban and rural areas. It uses a solidarity group methodology. Average size of the first loan is close to 100 USD. MFP Barakot has realized that its products used by urban poor attract better off people from surrounding rural areas. Social need to provide access to quality financial services to poorer villagers has triggered MFP Barakot to partner with MFC in the goal to explore opportunities to deepen its outreach in rural areas.

[3] In this note we will use the following definitions of core, actual and augmented product:
Core product: answers the question *why* we are interested in serving specific market segment– what are the needs and how we want to meet the needs;
Actual product: the specific features that characterize *what* the customer is buying —including how it is designed (terms, interest rates, eligibility requirements) and packaged (length and clarity of the application, color of the passbook);
Augmented product: *how* the customer receives the product — the way in which it is delivered and serviced (application turnaround time, hours of operation, waiting room facilities, and customer service — in terms of friendliness, accessibility before and after the loan is closed; product knowledge of loan officers, product positioning).

[4] Drawing from www.wikipedia.org, "in marketing, the *value* of a product is the consumer's expectations of product quality in relation to the actual amount paid for it. It is often expressed as the equation: Value = Benefits / Price or alternatively: Value = Quality received / Expectations. The value in the marketplace varies from place to place as well as from market to market. In marketing, a *value proposition* is a statement summarizing the core strategy for how one intends to differentiate one's product from the offerings of competitors. The *value proposition* should answer the question: "Why would I buy this product at all" for the consumer. It is a clear and specific statement about the tangible benefits a consumer receives by using a product or service."

[5] More discussion on qualitative and quantitative tools goes beyond the scope of this note. Annex provides some details on the research approach used at MFP Barakot. For more on qualitative research see Pawlak and Matul (2003) at www.mfc.org.pl as well as MicroSave's "Market Research for Microfinance" toolkit for more on focus groups, www.microsave.org, more on participatory techniques and individual interviews at www.imp-act.org, more on individual interviews in AIMS publications available through www.microlinks.org. For more information on quantitative techniques see "Quantitative Market Research Toolkit" prepared by MFC and MicroSave.

[6] High-stress coping mechanisms are those associated with big changes in current life-style and significantly reduce well-being in the long-run (like selling a house).

[7] Assets are defined as the stock of wealth in the household used to generate well-being (Sebstad and Cohen 2001, Scones 1998, Moser 1998). This definition includes intangibles as household relations, social entitlements and human capital.
- *Financial assets* – all types of monetary resources, cash, savings, loans and gifts, regular remittances or pensions, and other financial instruments;
- *Physical assets* - (natural and manufactured in-kind resources) land, animals, stored food, housing, buildings and improvements to these, jewellery, consumer durables such as household appliances, shoes, clothing, and vehicles, and productive assets, including fixed-enterprise assets;
- *Human assets* – skills and knowledge, ability to labour, good health, self-esteem, bargaining power, autonomy, and control over decisions; and
- *Social assets* – networks, group memberships, relationships of trust, access to wider institutions of society, and freedom from violence.

[8] According to Milanovic (1998) poverty headcount increased in Uzbekistan from 27% in 1987-88 to 63% in 1993-95. In 1995 around 13,3 million people lived below the poverty line. More on the Uzbek context can be found in the following sources Nishino Y. (2002), United Nations (2003), World Bank (2003), EXPERT (1999).

[9] Vulnerability indicator used was a share of risks that were difficult to cope in total number of risks (all types of risks) that affected the households in the last 3 years. The long list of risks and 3-year period taken should limit the number of households who were vulnerable but were lucky enough not to experience any serious risk during the studied period.

[10] Illness is particularly burdensome problem due to the low quality food, long working hours, high prices of medicines and limited access to quality medical care. This is the only risk for which people have to use the most stressful coping mechanisms, including selling assets and borrowing from moneylenders. Weddings and building a house follows health problems in terms of importance. Both events are so important culturally that they are adjusted always slightly above a family's capacities. The issue is particularly difficult for the poor who cannot go lower than 1 million sums (1 USD = 1150 sums) for a wedding and impoverish themselves significantly to face the event. Both events are linked to children's marriage. Men are more concerned with building a house in order to separate the sons' families and the women prepare a dowry for their daughters.

[11] In this note we will focus only on a customer perspective. Usually, a competitive advantage analysis needs to be done simultaneously in order to position the product on a market.

[12] The product is now being tested in selected branches to further fine tune it to clients needs and institutional structure.

[13] Main criteria to select representative villages: level of economic activity (in all sectors), access to basic services and amenities, presence of close down factories and *kolkhoz,* water availability.