Musoni is a microfinance institution using mobile technology to deliver convenient, flexible, and reliable loans to low-income people in Kenya (and other East African countries in the future). Musoni’s products are designed based on the needs and preferences of their clients. The Smart Campaign’s Client Protection Principle **Appropriate Product Design and Delivery**, states that institutions should design products and delivery channels:

- in such a way that they do not cause clients harm; and
- with client characteristics taken into account.

Musoni’s approach to product design can serve as an “excellent practice” example to other institutions. Musoni staff discussed the institution’s product design and delivery with the Smart Campaign, revealing five primary lessons from the field.

1. Musoni’s back office services are centralized in the Netherlands.

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**Appropriate Product Design and Delivery at Musoni**

**LESSON #1: START BY LISTENING TO CLIENTS**

Smart Campaign (SC): Musoni uses mobile payments to collect loan repayments. How did you come up with your product features and delivery channel?

Musoni (M): Many MFIs start by designing a product based on what they think clients want, or based on what their competitors offer. Our philosophy is different. Before we designed any products, we talked to potential clients about what they want and need from a financial institution, so that we could design something we knew would work for them.

Before we did the market research, we already had our mobile money product in mind. But what we wanted from conversations with clients was to know if it was the right product, and how, specifically we should design the product terms and delivery.

SC: How do you conduct market research?

Musoni: The ideas for our product design, our service, and branch locations came from in-depth, participatory research with people in our target demographic—urban and semi-urban microentrepreneurs. We use both quantitative techniques and focus group discussions to gather information about client preferences. One technique we like is called “choice modeling.” We ask clients or potential clients to compare several different product ideas. We list the different attributes of the product—for example, a quick and simple loan application process, pre-loan training, a low interest rate, a grace period, etc. Then, we ask clients to rank the attributes according to their preferences. These rankings give us insight into which product attributes best suit client needs.

All of the information we gather goes to the Musoni Product Committee, which is composed of the Head of Product Design, the CEO, the COO, and two Branch-Managers. We are also considering expanding the group...
to include Wealth Creation Officers (WCO’s), Musoni’s version of loan officers. We think it’s very important that this group represent all aspects of our business so that product design is a priority for all departments.

**SC: What did the clients tell you?**

**Musoni:** We’ve based our product design on a few recurring needs that we heard. Clients tell us they want a fair price, but even more than that, they value a product that they can access easily given their work schedule and their location, and a product that is flexible enough to fit their cash flows. They also value transparency about the price—they made that very clear. They also want financial education so they don’t remain in a never-ending cycle of debt. In other words, they want to know how to make the most of the loan so that eventually they don’t have to borrow.

**LESSON #2: OFFER CONVENIENCE & RELIABILITY**

**SC:** How has Musoni responded to the needs expressed by clients?

**Musoni:** First, and foremost, we have designed our products so that they are convenient. Clients can access our services easily and without bearing a high personal cost. All loan repayment is done through mobile money, so clients don’t have to travel to meetings with a pocketful of cash. This reduces personal risk for the client. It also means that payments can be made when and where the client chooses, within a seven-day period.

Secondly, we deliver our loans at the time promised to clients—our delivery is reliable. Clients told us that they don’t like how long it takes some MFIs to disburse approved loans. Musoni guarantees that clients will receive their loan within 72 hours of application, as long as the application is approved. In reality, we usually disburse within 24 hours. Reliability means that clients can count on the money when they need it and that we keep our promise of quick disbursement.

Finally, in the coming months, we hope to become virtually paperless. We want to use mobile phone applications rather than paper forms during loan application, appraisal, and approval so that we only
process information once, rather than transferring it from paper to electronic files. Paperless interactions with clients will allow us to serve our clients even faster.

**LESSON #3: OFFER FLEXIBILITY & TRANSPARENCY**

**SC:** Clients also asked for flexibility—how have you responded? And does group lending mean that your products are less flexible?

**Musoni:** We offer two different loan products and we offer several different loan terms and repayment schedules based on a client’s ability to pay and history of repayment with Musoni. We offer better and more flexible terms for clients with good repayment records. We also offer a grace period between loan disbursement and the time of the first repayment for all clients. In our market research, clients told us they really valued this flexibility, so that is an essential feature of our loan products.

To your second question, our group lending methodology does not hinder flexibility because we make the loans on an individual basis. Members can have different loan amounts, taken at different times, with different repayment schedules. Groups exist to guarantee and support one another.

**SC:** Mobile payments are more convenient to the client—do they also increase flexibility?

**Musoni:** Yes. As previously mentioned, we give clients a week during which they can repay their loans at any time. In fact, the majority of installments are paid after working hours, which is a benefit that few MFIs offer. Also, we don’t charge fees for early repayment. These features mean that clients can better match their repayments to their cash flows.

In the future, we want to use our flexible services to provide access to clients in underserved rural areas. Rural clients need greater flexibility so they do not have to travel long distances to make transactions. We think our mobile technology will allow us to offer them this flexibility.

**SC:** What about transparency? How do you help clients understand their loans?

**Musoni:** Our interest rates are clearly displayed on our marketing materials. We don’t try to conceal them. Admittedly, we quote flat interest rates rather than a declining balance. This was because after collecting client preferences, clients expressed a strong preference for flat interest rates. However, we are having an important internal discussion about how to change this without appearing uncompetitive with all the other local MFIs that quote a flat rate. If we do move to quoting interest rates on a declining balance, we will first need to understand how to best communicate this with clients so that the products continue to be well-understood.

However, we do ensure that the rate includes all fees so there are no hidden charges to the client. It is actually common practice in Kenya to charge hidden fees. We explain to clients the total cost of their loans in local currency, their loan schedules, and how we calculate loan size. In this way, clients know what they are committing to.

**LESSON #4: TRAIN CLIENTS**

**SC:** Beyond working with clients to understand the prices and terms of their loans, how else do you ensure transparency?
Musoni: Another aspect of transparency is good training. This is something that clients requested and we know they really value. Each new group of client gets between four and six weeks of pre-loan training. This is a very important time for clients to learn financial management skills and how to maintain group cohesion. All clients go through a formal curriculum, and we allow our WCOs to decide how quickly the group should move through the training, and when additional training is needed.

Toward the end of the pre-loan training, we ask each group to draft a group constitution. This document lays out the rules for group conduct and the group leadership structure. Each group designs its own constitution. If that exercise goes well, the WCO knows that the training has been effective and the group is ready for the loan. But if the group has trouble doing it, or their constitution is weak, the WCO knows he has to keep working with that group until members have the appropriate skills.

LESSON #5: IT’S GOOD BUSINESS

SC: From Musoni’s perspective, is there a business case for designing appropriate products and delivery channels?

Musoni: Certainly. We always have to keep our financial performance in mind. But we see real compatibility between serving the clients well and being sustainable.

For example, we recently discovered that clients like receiving text message reminders when their loan repayment is due. They actually thank us for helping them to avoid delinquency with these reminders. At the same time, we estimate that this simple measure has helped reduce delinquency by 10 percent. That’s good for everyone.

Another financial benefit of our mobile money methodology is that WCOs don’t handle cash during the client meetings. This reduces the risk of fraud and theft, which reduces our costs. Simultaneously, it improves the relationship between the WCO and the client. Imagine a group meeting where a loan officer is not putting out his hand asking for cash, rather is saying “let’s talk about your businesses.” It’s a really positive dynamic.

SC: What is next for Musoni?

Musoni: Clients tell us that they want to be able to save with us. Many clients tell us this is even more important than credit. Legally, we are not allowed to accept deposits, but we are beginning the process of applying for this license because it’s a service that our clients demand. Clients are also asking for school fee loans and agriculture loans. Based on ongoing market research, we are examining how and where we can provide these additional products.

In addition, we are developing a formal credit scoring tool, which will be particularly important as we expand into new markets in Uganda and other East African countries. WCOs will use the tool to assess client capacity for debt, ensuring that we do not in debt clients who cannot service a loan. The tool designers will use data that reveal the characteristics of well- and poorly-performing clients, so that the tool can accurately predict client capacity. We expect client groups to welcome the new methodology as it will aid in the selection of good group members who are more likely to repay their loans.

Finally, we are developing a formal social performance management system to standardize how client data are collected, analyzed, and reported within the institution. With this system, we should be able to better analyze clients’ experiences with our products so that we can continue to respond to their needs.

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Leah Wardle and Eva Teekens were responsible for preparing this note.