



Outcomes Working Group
Brief on Session 15: Indicators of Financial Stress, Including Over-indebtedness
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Pilot test of outcomes indicators: SPTF is working with various partners around the globe, with varying levels of engagement, to pilot test data collection and analysis of outcome indicators. The most structured pilot testing is happening with three institutions in Peru. SPTF has already released a list of recommended indicators in four outcome areas: a) business and entrepreneurship; b) poverty, assets, and housing; c) resilience and vulnerability; d) health. Via the pilot testing, SPTF is beginning to collect indicators to test and review in other outcomes areas as well: financial stress/health, women’s empowerment, agriculture, education, and social capital.

Conceptual framework: financial health and stress: As debt increases in the household, the household’s ability to cope with shock declines. As the number of indebted clients increases, the risk to the financial services sector increases. “Financial stress” refers not only to the feeling of stress, but also to the coping mechanisms that people use to address over-indebtedness. A question is, “Can we develop an early warning system to identify clients that are at risk of becoming over-indebted?”

An aggregation of indicators that some studies have used to assess client financial stress or health:

- Self-perceived financial stress (NB: one study used the first four of the indicators below to create an index score for financial stress):
 - confidence in ability to repay loan,
 - anxiety about loan repayment,
 - argument with spouse about finances,
 - time spent thinking about repayment in last day,
 - [various questions related to general stress level as it relates to personal finances]
- Satisfaction with life as a whole:
 - general satisfaction with life
 - satisfaction with the financial situation of household
- Consequences of or experiences from financial stress (relates to coping mechanisms):
 - Food security status/change in household diet
 - Reduced Coping Strategies Index (rCSI) – this is similar to a food security index
 - Household (in)ability to pay for key basic household expenditures (e.g., forgoing medical visits, pulling children from school, not paying for electricity or clothing)
- Financial service provider records (these are data that FSPs typically are already collecting, but not necessarily considering in the context of assessing client financial stress):
 - Change in attendance of group meetings
 - Change in savings and/or repayment rate
 - Over-indebtedness measures (Borrowers’ existing fixed and regular debt obligations + Additional debt obligations from the new loan) < (Average monthly income – Minimum living expenses for family)
 - NB: just relying on repayment records is insufficient to assess financial stress given the negative coping mechanisms that clients use to repay loans
- Financial Well-Being Scale:
 - A variety of questions. Examples: “Because of my money situation, I feel like I will never have the things I want in life” and “I am concerned that the money I have or will save won’t last.”

Grameen Foundation Resilience Framework: Grameen Foundation has been adapting a resilience framework to the sector in which it works. The diagram begins with shocks and stresses, and then considers how much exposure the client has to them, and then what coping mechanisms the client could use (NB: these can be grouped into four categories (sustainable livelihood, asset building, access to financial services, and social service networks). Depending on how much exposure the client has to the shock and how strong her coping mechanisms are, she either lands on a pathway of either resilience or vulnerability. One could apply a gender lens to this diagram. Adapting the framework to financial stress specifically, another element to consider is the client's financial literacy, as this affects her ability to cope with shocks.

Financial stress or health: One idea would be to suggest that each FSP track at least one indicator of financial stress. It could integrate into its theory of change the concept of what it does not want to see, as well as what types of outcomes it wishes to effect. But so far in pilot testing, FSPs have not been enthusiastic about tracking indicators of negative outcomes. Maybe it would be more palatable to track financial health.

Friendship Bridge overview: A non-profit microfinance institution in Guatemala with a strong social mission Founded in 1998, it serves only women, and 86% of new clients likely live between US\$ 1 and 4.50 per day. In 2016, it served about 20,000 clients. Among the trainings that Friendship Bridge offers to clients is an annual training on prevention of over-indebtedness. In recent years, the market in Guatemala has become saturated. Banks, payday lenders, cartels, MFIs, and informal sources of financial services are all active. The Guatemalan market is largely unregulated, though there is a regulatory law that applies to deposit-taking institutions only.

Friendship Bridge uses the Schicks definition of over-indebtedness: Clients are over-indebted when they experience difficulties meeting all of their financial obligations, including loan repayments, and make continuous sacrifices in order not to default.

Friendship Bridge over-indebtedness game: Friendship Bridge wanted to understand why clients were over-indebted but knew the information was too sensitive to explore via surveys, especially given that levels of debt and how a client manages debt are central to her relationship with the FSP. So, Friendship Bridge invented a game that a group of clients would play as a family. Since the group was making decisions about its finances in a fictional situation and bearing the consequences collectively, clients were open about what decisions they made and for what reasons. The game is based on several different board games but most closely resembles Pay Day. Step one asks the clients what they would do financially at six different financial levels, from money is not a concern down to severe financial distress. In working on this part of the game, clients provide insights into what they value most and what they forego first when money becomes scarce. The game relies on dice, visual slides, and cards, to be appropriate in a client group with high levels of illiteracy. There are 30 turns in the game, such as an option to buy preventative health care, an option to invest in a business by taking out a loan, a chance of getting into an automobile accident, and the need to contribute toward a sister's wedding. At the end of the game, clients would end up somewhere along the six-level financial scale they defined at the beginning. In discussions after the game, groups reviewed their decisions and experiences and reflected on what they would do differently next time. People were generally invested in the game and shared their thoughts openly.

Conclusions from the game: Clients did demonstrate a certain level of financial literacy, meaning they understood the terms of loans, but they did not always apply these skills fully. Clients typically were using credit as insurance or to react to an emergency rather than to invest in a business. Clients also may borrow to smooth income since their sources of income generate revenue sporadically. Clients seemed to prefer informal savings mechanisms, often even when they had access to formal savings mechanisms. Clients mentioned that drawing on social capital too much to help cope with shocks had been causing strains to relationships, including within the borrowing groups to which Friendship Bridge lends. Additionally, several participants mentioned the easy availability of loans from many sources in Guatemala, and how this affects them negatively even when they are not taking the extra loans themselves, because their group members are.

Observable signs that a client is in financial distress, learned by Friendship Bridge:

- Do not attend meetings
- Do not go to family functions
- Hide when she is sought
- Lie. Ask others, including their children, to lie for them when others are looking for them.
- Children drop out of school
- Frequently sick
- Drastic change in morale to repay: "Go ahead. Send me to jail. I'm not going to pay."

Actions that Friendship Bridge is considering as a result of what it has learned: Friendship Bridge will continue to use the game and will increase its financial and business skills training of clients. The findings reinforced the importance of the FSP's procedures to verify business activities. Friendship Bridge may consider removing social capital requirements for the longer-standing loans groups. It will try to shorten the time between loan approval and disbursement, to reduce the risk of clients borrowing elsewhere while waiting for disbursement. The external factors, especially lack of regulation, are contributing to over-indebtedness in Guatemala, and Friendship Bridge will consider how to mitigate the effects of those factors.

Other actions for the FSP to consider when it sees signs of client financial stress: 1) offer education to clients related to the specific factor(s) causing their over-indebtedness without mentioning directly that the FSP recognizes they are in financial distress; 2) have direct conversations with clients about their financial distress; 3) have policies in place (e.g., rescheduling, offering an emergency loan) to assist clients in distress. A major challenge is providing loan officers with enough training so they can recognize signs and act on them.

Question and Answer:

- Q: Do you believe that MFIs increase over-indebtedness risk if they offer products that are inappropriate to the borrower's situation? A: Yes. For example, Friendship Bridge was not meeting the needs of clients when it was not disbursing loans quickly enough, and it is now adjusting that.
- Q: Would Friendship Bridge share the game? Does it exist in English? A: Yes on sharing, but the game exists only in Spanish. Friendship Bridge is working to make the game adaptable to different contexts.
- Q: Would you please mention questions that could measure financial well-being on a scale? A: There are a series of statements and the client has to consider and assess, does this really explain my situation, somewhat, or not at all? For example, the client would score herself on how much this statement applies to her: "Because of my money situation, I feel like I will never have the things I want in life." See <http://cfsinnovation.org/research/global-financial-health-framework/>.

*The working group is open to all stakeholders:
practitioners, networks, TA providers, funders, researchers, support organizations, and others
Contact us to share your experience and views: info@sptf.info*