Apples to Apples:
Standardizing cost per client calculations to measure and promote efficiency
in the expansion of savings-led microfinance

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February 2009

Fueled by early success and a growing body of experience in the promotion of community-managed savings groups, an increasing number of implementing organizations and donors are working together to dramatically expand the service, particularly among the extremely poor in Africa. Most implementing organizations (IOs)[1] are international non-profits drawn to promotion of savings groups[2] as an alternative to formal microfinance for very poor and remote communities. These organizations are excited by the opportunity to reach the poor at a low cost ($20-$50 in mature programs), smooth household consumption, increase asset purchase and retention, improve nutrition, and build community—particularly women's—empowerment. Savings groups are also sustainable, in the sense that groups persist and even expand long after the end of external support or subsidy. However, unlike MFIs, implementing organizations make no claim to recovering their costs. Realizing their vision for dramatic increases in scale—with growing but finite financial resources—will require greater efficiency in per member costs. Several IOs are experimenting with innovations in service delivery models and management processes to enhance efficiency without compromising quality, but the sector's ability to assess these innovations and reward progress is currently inhibited by information deficits, particularly the incomparability of cost per client calculations across organizations, countries, and programs.

STANDARDIZING COST PER CLIENT CALCULATIONS

Current Measurement

Through productive collaboration, practitioners in the sector have made huge advances towards professionalizing savings-led microfinance, jointly contributing to the development and refinement of a shared management information system (MIS) and drafting guidelines for performance ratio analysis. The Bill & Melinda Gates Foundation, which has made sizeable investment in savings group expansion, is planning to further advance the sector by establishing a database for the regular publication of performance data that will capture quality and efficiency of groups, advancing cross-learning.[3] Learning will best be advanced if all practitioners are reporting cost per client calculations in the same way, enabling "apples to apples" comparisons.

The SEEP Network Savings Led Financial Services Working Group has produced an excellent set of guidelines for the calculation of standard performance ratios, including cost per client.[4] But recent interviews with practitioners revealed that the matter is not yet fully settled. The table on the following page demonstrates some of the variations between and within[5] organizations.

SEEP guidelines define cost per client as:

Total program costs to date
No. of active members + No. of graduated members in independent savings groups

- Where ***total program costs*** are defined as, "all costs of implementing the program, including fixed assets, office operating costs, consultancies, workshops, and overhead. It may be hard to identify these costs in cases where [savings group] programs are implemented by multi-sectoral organizations. In this case, the analyst should include all direct costs that relate to savings group promotion activities (e.g., time spent by staff and supervisors on savings group promotion support), plus an agreed percentage of overhead, capital, and office support costs of the organization as a whole";
- ***Active members*** are defined as, "all members considered active in all savings groups being trained or supervised by field staff of the IO. This number is not limited only to members present at meetings (since they may be occasionally absent owing to sickness, business, or personal reasons)"; and
- ***Graduated members*** are defined as "all members of savings groups that are no longer being trained or supervised by IO field staff or M&E staff, but who were at one time trained and supervised by the program."[6]

The cost per client calculation proposed by the SEEP Network Working Group is essentially a **cumulative measure of costs and clients served over the course of an entire program**. This definition shows the efficiency an organization attains over some time period of concerted effort. These definitions are a welcome improvement to clarifying the ratio, but the failure of all implementing organizations to align with this "standard" definition is more than just a lag in operationalizing the new standards. Ambiguity within this definition, disagreement on how the ratio should be calculated, and cost estimation challenges remain.

Defining "program." The term "program" could mean different things at different reporting levels. It could include the entire savings group portfolio of an organization in a given country, region, or globally. It could also refer to "program" funded by a single donor or consortium of donors that may operate in a district, country, or even across organizations and/or borders. It follows that the timeframe of a program is non-specific, and would be aligned with the start of a grant, country, or organizational initiative. Clarifying the meaning of "program" is necessary to compare a program against industry norms which recognize that efficiency is partly a factor of how long one has worked in a particular geography with a particular set of partners. A new "program" could be launched with a new grant source that builds on work initiated under another source in the same geography with trained partners. It would likely appear to have strong cost efficiency even in early years.

Program costs. At what level should costs be attributed to the program? While some organizations include all possible attributable costs from the partner level through a share of the janitorial costs at IO headquarters in New York, others consider program costs to include only partner level expenses or only staff expenses paid from a specific grant budget. For many organizations that supplement project grants with internal unrestricted funds or other matching sources, these costs are not included in their estimation of "program costs." Thus some organizations exclude the rather high expenses incurred for the use of technical experts, national

and international leadership, and IO support costs at the country office, regional office, or headquarters level, making their programs look relatively efficient.

Current Cost per Client Calculations in Selected Implementing Organizations

Organization	Current Cost Calculation Method Reported	Consistency Throughout Organization?	Accuracy and Consistency Challenges	Organization's Current Efficiency Benchmarks
Catholic Relief Services (Africa only)	Actual annual country and partner fiscal year expenditures / number of members currently supported	In Africa, yes, but this is not consistent with CRS savings group programs in South Asia and Latin America.	All regional and HQ support costs are covered with core funding and are not included in cost per client calculations. Some local CRS staff salaries are not included in cost per client calculations. Data not 100% reliable as not all country programs track ratio inputs accurately. Members of "self-replicating" groups are not included.	*Program Membership* / *Cost per Member* 1000-2000 / $150 5000-10000 / $20-50 More than 10,000 / $20
Oxfam, US	Total cumulative program costs since onset (includes all countries together and excludes only non-essential research) / Cumulative number of all members reached directly and indirectly since program onset	Yes	Data collection on indirectly replicated groups over time is likely to become more challenging. Cost per client calculation is standardized within the organization, but other performance indicators from groups can be misleading due to variable savings patterns.	Aim for partner level costs of $15-20 per member served. Projected total cumulative per member cost as of 2008 is $29, which is projected to fall to $26 by 2011.
Plan International	Grant expenditures / current membership served	No; regular calculation of cost per client is just beginning. Contact could only speak for West Africa.	All regional and HQ support costs are covered with core funding and are not included in cost per client calculations, which currently only use grant projections or expenditures. Field agents inputting data into the MIS sometimes neglect to archive graduated VSLAs that are still being monitored, which can distort numbers for both current clients and savings levels/savings start dates.	*Not available*
CARE	Total grant value / direct and indirect members served over grant period	No	Some CARE program staff salaries are covered by grants or unrestricted funds outside the specific project grant, and those additional costs are not consistently added into total program costs. Because of these challenges some offices do not calculate the cost per client ratio. Tracking total viral/self-replicating groups not particularly easy and continues beyond timeframe of grant.	18 mo. / 36 mo. / 5 yrs. Cost per member: $100-125 / $40-60 / $15-40 Generally, say that initial $10,000 can reach 60 members over 18 mo., with minimal supervision thereafter.

Clients. IOs remain divided on whether or not it is "fair" to include members of groups that were indirectly formed, whether that be by volunteer replicators, fee for service agents, or spontaneous self-replication.

In addition to definitional challenges, measurement challenges also inhibit perfect comparisons. The task of ensuring that field agents inputting data into the MIS fully understand terminology has proven challenging, but is improving with time and training. It remains difficult for analysts to estimate program costs when funds are provided from multiple sources or when savings groups are supported in the context of a multi-sectoral program. When a country office has multiple donors or initiatives promoting savings groups it becomes difficult to distinguish which clients belong to which program; undercounting or double counting of clients is possible. Furthermore, if indirectly replicating groups are to be included in calculations of client numbers, there must be a way to count them and attribute them to the appropriate partner and program. While Oxfam is able to gather quarterly group performance data from its volunteer replicators, this may be difficult for other organizations that do not have an established monitoring system, particularly as fee for service agents independently pursue replication and new levels of scale are reached.

Measurement Considerations

Formulating standardized cost per client calculations requires attention to the level of aggregation of analysis, inclusion of client types, and specificity of eligible cost types. These choices are presented in more detail in the table below.

Level of aggregation considerations
Partner level
Country portfolio
Regional portfolio
Time bound initiative or project
Entire IO portfolio
Client considerations
Intervention scope. Direct members vs. members in indirectly replicating groups?
New or Cumulative. New members only, active members, graduated members, or cumulative membership since program/country onset?
Cost considerations
Analytical Levels:
Headquarters
Regional
Country
Partner
Project/Initiative
Service Types: Core vs. Auxiliary
Financial services (pure savings group facilitation with or without external linkage facilitation)

Non-financial services (malaria education, business development)
Cost Types:
Support Overheads (Organizational leadership, finance, human resources, fundraising, rent/occupancy for support functions, all costs normally seen as indirect project overheads usually calculated as percentage of grant or direct costs)
Direct Costs
• Salaries for Direct Staff (or estimated portion if time shared with other programs)
• Benefits (or estimated portion if time shared with other programs)
• Travel for all related program needs, including implementation, advocacy, coordination, training, etc.
• Operations including direct office rents, utilities, fuel, maintenance
• Equipment, including vehicles, IT equipment, furnishings
• Training and meetings
• Consultancies and share of costs when consultancy shared across program
• Program learning, regular evaluation, audits
• Subgrants to partners etc.--should include all costs incurred by partners
Non-Essential Research (External research of extraordinary cost and/or scope that seeks to attribute impact and draw lessons conclusions on the model rather than specific country program and that is not essential to program implementation as outlined in project proposal)
Shared Program Development (for example MIS improvements, VSL manuals, etc.)

In terms of aggregation, it is helpful to see cost per client at various levels, particularly partner-level, country level, and entire IO level. Project/initiative level efficiency can be useful when an initiative tests new modes of service delivery. However, it is not clear whether the term is or can be used in a standardized way across countries, and measurement at this level can be misleading due to large variation in the centralization of management, scope, and newness of work.

At the client level, indirectly replicating groups ought to be included in standard measures of active and graduated clients. This kind of replication is pursued intentionally by many IOs and, as long as the quality of these groups remains strong, this is an efficiency strength even when unintentional. Larger initial investment in first generation groups and replicating agents is justified by this lower cost expansion in later phases. Replicating groups are a key component of the scale strategy and ought to be included in reporting, despite the measurement challenges.

In terms of costs, the most meaningful levels of analysis are at the country and partner level, but the project/initiative level offers substantially more ease in estimation since the funding sources will be more limited.

Partner costs should include entire subgrant values, including partners' direct and indirect implementation costs. Costs for a country or project portfolio should be far more comprehensive, including all direct costs, partner costs, relevant portions of overhead costs at every organizational administrative layer, and a portion of all technical experts and other staff covered by core funding whose time contributes to the successful program administration. Program costs should include training for staff, partners, and clients, regular program evaluations and audits,

essentially all costs that would be required to implement the program had it been independent of the larger IO. The two cost areas that could be fairly excluded from these calculations would be non-essential impact research (as defined above) and shared contributions to standard industry tools, like the MIS (though if program-specific amendments are requested, these costs should be attributable to the relevant program). It is fair to exclude them because these expenses produce public goods for the community of practice. Later programs benefit equally from their availability but do not contribute to their production.

How should costs be handled when a program does not provide financial services exclusively? If the program is at its heart a financial service program with a supplementary service tacked on at little additional cost, these non-financial costs should be included in total program costs with notation of the additional service provided. However, when savings groups are promoted in the context of a larger multi-sectoral program, managers should attempt to estimate the isolated costs of the financial service portion of the program and provide notation explaining the estimation.[7]

Suggested Standardized Formula(s) Evaluation of Cost Efficiency

Rather than relying on one cost per client calculation the industry should consider reporting cost per client at multiple levels. Existing cost and client data would be evaluated in multiple ways to measure different dimensions of efficiency at various levels of aggregation. Practitioners should consider reporting on cumulative and annual values. While cumulative figures provide clarity on the costs for programs of various scales, annual figures can help approximate efficiency at different stages in a program's lifespan. In later stages the annual figure approximates the marginal cost of adding new clients after start up costs. At the country and partner levels, cost per client values should decline over time, until efficiency plateaus are reached or replication becomes wholly independent of subsidy.

The following calculations could be a simple, standard way to report efficiency performance (with all client numbers including both direct clients and those reached through indirect replication):

a. International NGO Annual and Cumulative Cost per Client;
b. National-Level Annual and Cumulative Cost per Client;
c. Partner-Level Annual and Cumulative Cost per Client; and
d. Initiative/Project-Level Cumulative Cost per Client.

Specific calculation definitions would be as follows:

Level of Aggregation	Annual Cost per Client*	Cumulative Cost per Client*
International NGO (IO)	Total actual expenditures on savings group promotion programming, including direct and indirect costs associated with all funding sources and spent at all administrative levels (from field partners to HQ) in the previous fiscal year ——— Average number of active clients over fiscal year[8]	Total cumulative actual expenditures on savings group promotion programming, including direct and indirect costs associated with all funding sources and spent at all administrative levels (from field partners to HQ) since the initiation of savings group promotion programming ——— (Total number of active clients + Cumulative total number of graduated clients)
Country Office of IO	Total actual expenditures on savings group promotion programming, including direct and indirect costs associated with all funding sources and spent within the program country in the previous fiscal year ——— Average number of active clients over fiscal year in the country	Total cumulative actual expenditures on savings group promotion programming, including direct and indirect costs associated with all funding sources and spent within the program country since the initiation of savings group promotion programming ——— (Total number of active clients + Cumulative total number of graduated clients in the country)
Field Partner	Total actual expenditures on savings group promotion programming, including direct and indirect costs incurred by this partner in the previous fiscal year ——— Average number of active clients over fiscal year through this partner	Total cumulative actual expenditures on savings group promotion programming, including direct and indirect costs incurred by this partner since the initiation of savings group promotion programming ——— (Total number of active clients + Cumulative total number of graduated clients through this partner)
Project/Initiative	Total actual expenditures on savings group promotion project/initiative, including direct and indirect costs associated with all funding sources and spent at all administrative levels (from field partners to HQ) in the previous fiscal year ——— Average number of active clients over fiscal year in this project/initiative	Total cumulative actual expenditures on savings group promotion project/initiative, including direct and indirect costs associated with all funding sources and spent at all administrative levels (from field partners to HQ) since the initiation of specific savings group promotion project/initiative ——— (Total number of active clients + Cumulative total number of graduated clients reached through project/initiative)

UTILIZING COST PER CLIENT RATIOS

Data collection is costly and time consuming, which makes it even more important that practitioners maximize the value of data collected. Standardization of performance ratios is only the first step. The publication of performance data in an accessible database format is another critical step that will advance transparency and learning while providing an incentive for improvements on a number of levels by recognizing high performing organizations. While most practitioners welcome these advances, they are also aware of the challenges ahead in building a reliable database, avoiding preoccupation with quantitative performance indicators, and utilizing the data to improve performance.

Interpreting ratios in context. Efficiency (along with other indicators of performance) is not achieved in isolation. It is affected not just by overheads and staff productivity but also by location, maturity, client accessibility (see Appendix A). It is important that efficiency ratios be interpreted with in this context, so that it is clear where a given agency stands in terms of industry benchmarks and norms under those working conditions. Current efficiency benchmarks in practitioners' minds and various publications vary, but cost per client figures are generally in the same ballpark. The table on page three presents benchmarks used by organizations interviewed for this paper. In a recent publication, NORAD concluded that average efficiency benchmarks were as follows:

Table 2: Efficiency benchmarks for Self Help Microfinance Group programmes[9] (including graduated and indirectly replicating groups)

Efficiency Measures	Benchmark 18-months	Benchmark 36-months
Members per field officer	250	350
Members graduated per year/field officer	270	550
Field staff/total staff	33%	66%
Length of supervision period	12 months	9-10 months
Cost per graduated member	US$100	US$60

These may need to be revised as practitioners adopt standardized calculations and pursue more aggressive expansion strategies.

No matter how standardized performance ratios become, a certain margin of error will remain. The nature of IOs and the program model make exact precision nearly impossible within reasonable levels of cost. Instead of drawing exact cost and budgetary conclusions from these ratios, data consumers need to accept the ratios as imperfect, and use them to estimate where a program fits in terms of an appropriate range of costs and as an indication of trends over time.

Rewarding effectiveness over efficiency. Efficiency is important for reaching scale, but it is also irrelevant if quality is poor. Efficiency must be considered not only in geographical and program maturity contexts, but also in light of indicators of program quality. There is some variation in how practitioners assess group quality, but most agree that it includes measures of

returns on savings, percentage of members accessing internal loans, percentage of group funds in circulation, portfolio at risk, and group longevity. Eventually, as this data is disseminated to a larger audience, designers of the database might consider adding some sort of "effectiveness index" score to the database. Such an index could apply weighted scores for cost per client and group quality measures and might serve as one criterion for regularly recognizing and rewarding outstanding performance, particularly among field partners.

Investing in data quality improvements. Increased investment by donors and IOs in improving data quality will be necessary as the sector expands. Two areas to target would be improving training for field staff using the MIS and addressing the potential for data manipulation. As the MIS has rolled out to the field, some practitioners have expressed concern about the quality of data fed into the system. While improving, it has taken a lot of time for field staff to achieve comfort with the tool and consistency in application of data definitions. Improvements in the training system could make this process more efficient for all agencies using the shared MIS developed by VSL Associates. Improved data entry and management training tools and processes will benefit existing programs and accelerate scale as new partners are recruited to reach growth targets. Another concern is that field agents and partners are expected to report accurately on their own performance. Once they become familiar with performance ratios, there is a risk that field agents might manipulate this self-reported data to exaggerate effectiveness. Incentives for data accuracy and MIS audits may be one way to increase the integrity of data.

Learning from efficiency in both model and management. Improvements to management processes should be just as much a part of the efficiency learning agenda as innovations to the expansion model. While motivation of partners, field staff, and volunteer replicators is very high in some areas, this is not universal. Many practitioners admit that structural incentives for field level implementers to exceed client targets are weak. Their duties and schedules tend to be prescriptive to the point where staff may not feel free to test and share new ways to improve programmatic efficiency outside the scope of expected practices. While prescriptive duties make monitoring easier, is there more managers could do to build staff confidence and offer incentives for staff effectiveness? Finding new ways to empower field staff and partners is particularly important for those agencies who specifically claim that the capacity building of local partners as a program output. In the expansion of savings group promotion, the management challenge is to push staff and partners to the point where they remained challenged within what can be achieved with high quality—rewarding both efficiency and efficacy.

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Notes and References

1. Throughout this paper, the abbreviation IO is used to refer to implementing organizations, a term which includes actors such as Catholic Relief Services, Pact, Plan, CARE, Oxfam, and many others, instead of the common usage of IO to abbreviate "International Organization."
2. In this paper, I am primarily referring to savings groups in which members' regular savings contributions accumulate to serve as a pool of capital in which groups make small loans to one another at an agreed interest rate on internally established repayment terms. At the end of a savings cycle, all accumulated savings and interest from repaid loans is shared out to the group, and remains within local communities. The training model employs a prescriptive way of teaching groups of 10-30 people to manage adapted versions of the scheme for themselves. In most cases, training and supervision is frequent and intensive for the first 8-9 months before a group "graduates" to independence.
3. Joyce Lehman, interview by author, email communication, 19 November 2008.
4. The SEEP Network Savings-Led Financial Services Working Group: Ratios Sub-Group. *Ratio Analysis of Community-Managed Microfinance Programs*. Washington, DC: The SEEP Network, 2008.
5. Organizational consistency is easier to achieve in programs like Oxfam's that are centrally managed.
6. SEEP Network Savings-Led Financial Services Working Group: Ratios Sub-Group.
7. Programs should also adhere to the accounting principle of consistency in calculation, such that estimates of program costs are calculated using the same method every period.
8. Calculating average active client numbers might be difficult for some organizations if there are few measurements over the course of the year. The practitioner community must reach a consensus on whether "average active clients over the fiscal year" or "total number of clients over the fiscal year" is a more appropriate measure of client numbers.
9. Roy Mersland and Øyvind Eggen. *'You Cannot Save Alone': Financial and Social Mobilization in Savings and Credit Groups*. Oslo: NORAD, 2007.