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NEW THINKING AND NEW FORMS OF MICROFINANCIAL SERVICE PROVISION IN BANGLADESH: A COMPARATIVE STUDY OF ASA, SAFESAVE AND GONO BIMA

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New Thinking and New Forms of Microfinancial Service Provision in Bangladesh: A Comparative Study of ASA, SafeSave and Gono Bima[1]

Imran Matin

Abstract

It has been argued that the contemporary microfinance industry is complacent about its products and mostly relies on copying and replicating the dominant models. While this is largely true, there is also growing evidence of innovation in product design and organizational arrangements. Not much is known about these initiatives, especially the pro cesses and challenges faced. This paper examines these issues through case studies of three microfinance providers in Bangladesh all of which experimented with different types of microfinance products. We argue that the process of innovation is far more complex than the tool-centric approach suggested in recent market research in microfinance literature. This is especially true when innovations imply significant departures from dominant organizational culture. We argue that viewing the organization as a contested space of dominant values and culture can yield useful insights into the innovation

I. Introduction: 'Innovations of Hope' in Microfinance

Because most microfinance programmes have little direct competition, they must challenge themselves to control costs, provide efficient service and become self-sufficient
(Stearns, 1991)

Until the late 1990s, most microfinance institutions (MFIs) did not have to worry about competition. This period of low competition allowed microfinance institutions the freedom to focus single-mindedly on making the breakthroughs in methodology and management necessary to reach scale and sustainability. These breakthroughs have now brought microfinance to the threshold of competition. Competition is having a profound effect on microfinance, seen most readily in the flowering of interest in market research and new product development.
(Rhyne, 2001)

'Innovation' is a topical term in microfinance today. This is driven by both frustration and hope. The frustration stems from the difficulties faced by simplistic replication of dominant models that fall between the two stools of poverty outreach and sustainability. In such cases 'innovation' is mostly about doing the groundwork of pro-poor financial institution building—understanding the fundamental characteristics of the context, the livelihood of target clients and their financial

[1] My thanks to the staff and clients of ASA, SafeSave and Gono Bima for giving me their time and answering my questions. Thanks to Stuart Rutherford and David Hulme for helping design the study and for comments on earlier drafts. This paper is an output of the "Finance for the Poor and Poorest" research project, a component of the Finance and Development research programme funded by DFID and directed by the Institute for Development Policy and Management (IDPM), University of Manchester. Further details about the programme and the approach used for this component are available from IDPM's website at www.man.ac.uk/idpm or www.devinit.org/findev.

service preferences. The hope factors driving the call for microfinance innovation on the other hand, are related more to microfinance's success and market maturity. Innovation in this context is about more nuanced understanding of the environment, livelihoods and financial service preferences. It also involves forward looking survival strategies in a competitive market and challenging itself for a deepening of poverty outreach and developing more meaningful financial products for the poor. This paper is about innovations in microfinance more in the context of 'hope'.

Though the provision of credit to the poor used methodologies that *were* radical, subsequent innovations, especially in terms of broadening the range of financial service for the poor and designing more suitable financial products with a better fit with the livelihood opportunities and constraints of the poor, remained largely stunted, leading many to describe the industry as a case of 'monopoly with monoproducts' (Hulme and Mosley, 1996; Hulme, 2000). The focus was on the development of highly standardised products that are simple to administer, massify and in which fraud is easy to control[2]. While these objectives are of great importance in designing any microfinance programme, careful experimentation with new innovative approaches to provide more client responsive financial services can strike a better balance between client preferences and institutional imperatives. This is the challenge of microfinance as it enters the millennium.

The challenge is beginning to be addressed. While 'copying' and/or 'replication' remains the main process through which microfinance is being extended to the poor, there is growing evidence of innovations in product design and organisational arrangements. Sinha (2000) has documented initiatives in India to move beyond self-help groups (SHGs) and Grameen Bank replicas. In Africa, Microsave Africa (www.microsave-africa.com) is working closely with providers and promoting new product development, while globally CGAP (www.cgap.org) is providing small grants for poverty-focussed innovations in microfinance.

This paper is about microfinance innovations and the challenges in realizing them. This is done based on comparative case studies of three microfinancial providers in Bangladesh—a country where the microfinance industry is massive in its scale serving over 12 million (CDF 2000) poor women using largely the Grameen model or variations of it. Despite the dominance of the Grameen model, in recent years, driven by both a more competitive market and a desire to provide more meaningful financial products for the poor, several providers have been innovating. In this paper, both the innovative products and the process of innovation are examined and are related to information on the results achieved.

The three innovations we compare are very different--- experimentations to provide voluntary savings products (ASA), a micro life insurance product (Delta Life) and flexible savings and borrowing products (SafeSave). The three institutions are also different--- ASA is one of the top-four microcredit institutions in Bangladesh and is a NGO turned microcredit provider par excellence with a core focus on standardization, predictability and cost-effectiveness, while SafeSave is a small financial service cooperative which started as an experimental action research project with a focus on providing cost-effective and reliable flexible opportunities to the poor to save and borrow. Delta Life on the other hand is owned by a commercial life insurance company, but is driven mostly by social imperatives to provide appropriate life insurance policies to low-income people. In terms of target client eligibility, the providers studied differ. ASA, like most Grameen inspired poverty focussed microcredit providers in Bangladesh, has official eligibility/target indicators based on sex (women), age (18-50 years), income (less than Tk. 1500 per month) and land ownership (less than .5 acre). SafeSave on the other hand has open

[2] Such standardisation has been argued to be at the heart of the ASA self-reliant model (Jain, 1998).

membership (including children who cannot borrow but can save) in areas where it works which are urban slums. Delta Life Insurance defines its target group broadly as those who have ‘low-income’.

The study was conducted at three levels for each of the three MFIs studied--- (a) the Head Office for the official policy and thinking behind the new financial products; (b) the practice at the branch and field level and finally, (c) clients' views on the new products. For the latter two, a branch of ASA and Gono Bima in Madhupur (a thana in Tangail) and a branch of SafeSave in Beri Badh (a quasi-permanent slum area of Dhaka city) were selected.

In-depth interviews about various aspects of the new financial products (such as methodology, contractual terms, operations etc.) with the branch level staff of the MFIs in question was used to develop a list of questions/themes for discussion with the clients. Individual interviews/case studies and focus group discussion were used for this purpose. Discussions with Head-Office staff of the MFIs were centred on questions of triggers behind product innovation and overall experience with the changes. The fieldwork part of the study was quite short—about a month (July-August 1999).

Let us first contextualise the case studies of microfinance innovations by a brief overview of the changing microfinancial landscape of Bangladesh.

II. Contextualising Innovations: The Changing Microfinancial Landscape in Bangladesh

The microfinance landscape in Bangladesh is undergoing some important transformations underpinned by the rapid growth of the sector, especially during the 1990s, leading to an increasingly crowded market. According to a recent Bangladesh Institute of Development Studies (BIDS) study, the microfinance institutions (MFIs) in Bangladesh registered unprecedented growth during the period of 1991-97. Indeed, the situation has changed to such an extent that, far from limited geographical coverage, the same study reported on the difficulty of finding ‘control’ villages without any MFI presence--in 95% of the 80 study villages, more than one MFI were found to operate (Zohir, 2001). This was not the case even a few years ago when the concern for inadequate outreach was seen as important and lead to the creation of wholesale lender such as the Palli Karma Sahayak Foundation (PKSF) in 1990[3].

Along with rapid increase in outreach driven both by new expansion by old providers and entry of new players, the participation dynamics of the clients have become much more complex. It is now for instance not possible to categorize households as ‘BRAC’, or ‘Grameen’ etc. households (as done in Khandker, 1999, for instance) as multiple participation is becoming increasingly common. Switching from one MFI to another is also on the rise (Zohir, 2001). All these patterns and trends suggest an increasingly competitive microfinance landscape in Bangladesh that is ripe for ‘innovations of hope’ (Chaudhury and Matin, 2001).

And this is indeed happening. Competitive pressures and increasing maturity of the industry and clients is making many players reconsider existing products and mechanisms. The market is also witnessing entry of new players---- private sector financial institutions, traditionally averse towards serving low-income clients, are now showing interest in the microfinance market, especially in the underserved segments of the market, like insurance provision. In sum, the

[3] The debate over microfinance outreach in Bangladesh now has now moved to inadequate outreach to the poorest and the missing middle (Hashemi, 1996a; Hashemi, ,2001).

changing microfinance landscape of Bangladesh is marked by increasing outreach, market crowding and challenges of innovating---- a challenge of moving from doing more of the same to doing it better and doing new.

III. The Three Innovations

III.1 The New Product Line of ASA: From Over Enthusiasm to Caution

ASA is a relatively recent and dramatic entrant into microfinance in 1992. In 1995, when Stuart Rutherford wrote the first comprehensive biography of ASA, (Rutherford, 1995), despite its great success in achieving aggressive scale in an extremely cost-efficient manner, it seemed to be fossilised in the standard microcredit product, par excellence. However, the mechanisms used by ASA were simpler, more cost-effective version of the dominant Grameen model[4]. There was more or less one type of loan and no savings services other than the mandatory Tk. 10 per week per borrower. These savings remained inaccessible to the clients until s/he left the programme. In this section, we sketch the story of ASA's experience of trying to provide a range of more voluntary savings products and the challenges it faced.

While reliable opportunities to save have long been argued to be an important financial service needs of the poor, it has been in general underprovided prompting Vogel (1984) to term savings as the forgotten half of rural finance. Compulsory savings has been at the heart of the dominant microcredit lending models but its principal rationale is institutional --- a relatively reliable capital source and a risk management tool for the MFIs. The contribution of such compulsory, locked-in savings in the overall loan portfolio of Bangladeshi MFIs has been growing over the years reflecting its importance as a source of capital for the MFIs. Though the importance of such savings as a delinquency management tool[5] has not been formally quantified, anecdotal evidence (Matin, 1998; Ito, 1998; Wright, 2000) suggests that compulsory savings, especially when pooled at the level of the group has indeed been an important delinquency management tool for the MFIs.

Due to increased competition, however, the traditional mechanism of locking in savings and controlling access is increasingly under pressure leading many MFIs to lose some of their best, long-term clients. This is forcing many MFIs to change the ways paying in and paying out from such savings accounts is managed in order to strike a better balance between the needs of the clients and the institution. However, given the importance of such savings as a source of capital for the MFIs growing loan portfolio, managing the changes towards a more open access, voluntary savings product is challenging. These challenges are clear in the ASA story. We divide the story in two parts.

III.1.1 ASA, the enthusiast

We only do microfinance. We cannot compete based on other service provision. Competing just on the basis of increasing loan size and credit line has also proved to be dangerous. We had to innovate and bring about changes with a client focus.
(Interview with Md. Shafiqual Haque Chowdhury, Managing Director, ASA. August 17, 1999)

[4] For an examination of this see Jain (1998). The simplification was in terms of organisational hierarchy, record keeping, group formation, loan size, to name a few.
[5] This can work directly, by using such savings from the individual to cover certain types of non-recoverable default, and indirectly, by using the threat of using such savings pooled at the group level to cover non-recoverable default and thereby triggering peer pressure.

Why was ASA interested in introducing voluntary savings products? There are two reasons --- the first was ASA's expectation that providing more open access savings products would not only increase client satisfaction, reduce costly dropouts and default, but also increase the volume of savings mobilized. All this was expected to improve the financial profitability bottom line. As Sushil Kumar Roy, one of the General Managers of ASA elaborates,

> Our dropout rate is no higher than other MFIs--- but that is not the point. From ASA's point of view, dropout says a lot about the limitations of our ways of doing business. We took this very seriously and examined the reasons. We found out members were dropping out because they needed quick cash but we were restricting access to their savings. Subsequently they defaulted. We were also losing clients due to competition from other MFIs, who were offering larger and multiple loans. In our experience, this is not a good option for the clients or us—we had to compete in some other ways.

The lure of savings products as one clever way to 'kill several birds with one stone' is evident in a number of official ASA publications. In the words of Healey (1999), "Providing high quality savings services was seen as providing an excellent way to access relatively cheap capital, increase outreach, increase lending, maintain portfolio quality, increase productivity, and reduce poverty and vulnerability …"

There was another driving force---- international image. Within Bangladesh, ASA is seen as a fantastic microcredit provider. However, the Bangladeshi microcredit discourse is much more encompassing than just provision of credit to the poor, not least because the other three dominant providers, i.e. Grameen, BRAC and Proshika do much more than just microfinance. ASA with its core focus on financial sustainability and cost-effectiveness as a microfinance provider had an uncomfortable position within this much wider microcredit discourse in Bangladesh. However, ASA was increasingly getting the international limelight during this period as a cost leader and a 'systems-innovator' of the Grameen model with its promise of faster financial sustainability[6].

It was also during this same period that the international microfinance attention turned to the need for more flexibility in financial products and diversifying the range of products on offer with particular focus on voluntary savings products. It was during this time that one of the background papers for the World Development Report 2000 on Poverty focussed on the issue of vulnerability in the lives of the poor and the role of microfinance, especially savings (Cohen, et al, 2000).

ASA was in an uncomfortable position--- on the one hand, it was being hailed as an international leader in showing to the world how a core focus on cost and simple systems can achieve the twin objective of poverty outreach and financial sustainability and on the other hand, it was 'feeling left out' of the 'innovative product' limelight. If anything, even compared to other microfinance providers in Bangladesh, ASA's financial product range was extremely limited and it had a very restrictive savings product. It is in this global microfinance knowledge production and reproduction context that ASA's innovation 'spark' for experimenting with savings products needs to be understood.

In late 1996, ASA staff collected data and talked to members (particularly in/around Dhaka) on the ability of members to save, noting that this ability seemed quite high. It was also clear that

[6] Interestingly the recent Wall Street Journal piece on the difficulties faced by the Grameen Bank uses ASA as a show case counter example (Pearl and Phillips, 2001).

monitoring and control would be a problem and that introducing savings would necessitate ASA strengthening its monitoring/internal audit systems

At the beginning of 1997, a report was submitted to the Managing Director, recommending that ASA introduce savings services. This was taken up at the February 1997 Half-Yearly Co-ordination Meeting between District Managers, Regional Managers and Head Office-based Managers. The meeting discussed the possibility of mobilising savings and the idea of "associate members"[7] and endorsed a pilot-test of the idea in 13/14 selected Units (branches). These Units started to offer open-access voluntary savings (subject to a minimum of 10% of the outstanding loan principle) and completely open voluntary savings for associate (non-borrowing) members on a pilot basis.

By July 1997, ASA had designed the passbook/register/monitoring systems (including checklists for staff charged with monitoring/auditing the new products), added fourteen extra internal auditors[8] and introduced the general members' and associate members' savings accounts throughout the country in all ASA branches. In March 1998, ASA added a contractual savings scheme product and six months later, a fixed deposit product. These changes are summarized below:

Table 1: ASA's Savings Products Over Time

Savings Products	Before…	After….
General members' savings/Compulsory Weekly Savings (CWS)	Compulsory. Tk. 10[9] per member every week. Withdrawal allowed only when a member left ASA.	Compulsory. Minimum Tk. 10 per member per week. Higher amounts 'encouraged'. Withdrawal of amount above 10% of the outstanding loan principle allowed. Changes to 15% recently.
Associate members' savings	Introduced in August 1997	For associate members. Essentially a current account savings product. Associate members are paid 7% on their savings account. Recently discontinued.
Contractual Savings Product	Introduced in March 1998	Both members and associate members allowed—but focus officially on associate members. Monthly pay-ins in denominations of Tk.100 for five years. After five years, the clients receive their savings with 9% annually compounded interest. Recently discontinued.
Fixed Deposit Product	Introduced in October 1998	ASA also offered a fixed deposit facility for amounts of more than Tk.1,000 (in Tk.1,000 denominations). This facility offers a return of 9% compounded annually. For members and associate members--- but official focus on associates. Recently discontinued.

The change to the existing compulsory weekly savings (CWS) product was made on the withdrawal side—the deposit side of the account was left unchanged—it was still governed by compulsory rules. The resulting product was a hybrid of compulsory and voluntary motives. To promote more savings from clients, the staff were to encouraged to discuss with clients and

[7] These are members who could open up the various savings accounts, but not credit.
[8] Prior to July 1997 there were five internal auditors based in the Head Office, from July 1997 one internal auditor was posted in each of the District Offices and three remained in Head Office.
[9] 1 US$=57 BD taka (http://www.xe.com/ucc/convert.cgi)

wherever feasible increase the minimum savings beyond taka 10 per week. Such 'encouragement', as discussed in the next section, ended up into a uniform increase from taka 10 to taka 20 in the weekly savings from members.

As if to balance the increased pressure on the 'compulsory' element of the savings product, the voluntary aspect of the product, i.e. withdrawal was made exceptionally convenient for the client, at least as far as Bangladeshi MFIs are concerned. In order to make it easy to access their compulsory weekly savings, clients were allowed to withdraw up to taka 500 on spot at the centre meeting. Though members were free to withdraw for whatever need, to avoid the possibility of field workers using member savings to meet repayment irregularities, especially without the knowledge of the members[10], as a practical step, withdrawal to meet repayment irregularity was discouraged.

Box 1: Hasan Ali, the Beggar and His ASA Current Account

Md. Hasan Ali is a village beggar. He does not trust his wife with his money. This is his second wife and Hasan Ali has a daughter from his first marriage. He is worried about her marriage. He is also worried about his funeral expenses.

Hasan Ali used to save money with his neighbour-- an ASA member herself. He trusted her and she was very fond of Hasan Ali. Most importantly, he could trust her to keep his savings a secret. Hasan Ali came to meet the ASA collector who was responsible for the centre of which his money-guard was a client. The collector was from his home village in Gabtali. She told him about the associated membership scheme and CSA facilities with ASA. He was interested and opened an account. This was convenient for him as he could deposit after the day on his way home. His money-guard would also be in the good books of the collector for getting a client.

What attracted Hasan Ali to the CSA is the flexibility of deposit and withdrawal-- there is no way he could commit to fixed and/or regular amount. He also needs to have the option of withdrawing as and when he needs with ease and speed. There is no pattern in Hasan Ali's deposits-- sometimes a few times a week-- sometimes once a month. Whenever he deposits, Hasan Ali asks about his balance--- he keeps his account book at the branch, in the fear that his wife would see it.

Hasan Ali has withdrawn his savings three times. One of Hasan Ali's daughters is married--- he once withdrew taka 200 from his CSA for his grandchild's marriage. He also withdrew taka 200 for his daughter's school dress. The third time, he used Tk. 180 for his eye treatment.

The idea behind these changes was that they would eventually increase overall savings balance. The logic was simple--- the ease of withdrawal will allow clients to see the advantages of savings in good times to deal with bad times and encourage them to save more. This cycle of logic, ASA thought, could be further strengthened by 'encouraging' clients to save more. This strategy for reasons discussed below did not materialize and ASA returned within a few months to the original version of its CWS product.

ASA also introduced a current account savings product. Though the official target group was meant to be associate members, only some non-credit clients opened up these accounts (see box 1) --- most of these accounts were taken up by clients to save for their children. For most women, saving up by keeping back small amounts from regular income and expenditure for children's education, marriage etc. is very popular and socially valued as an act of women's 'virtue'--- the

[10] This had been a problem with the Grameen type of group fund. See Matin (1998).

same savings when motivated by reasons of personal use, is more difficult to justify socially[11]. By the beginning of 1999, over half a million of these accounts were opened.

The long term saving products were also introduced with the hope of mobilizing significant amount of savings for ASA to gain access to a relatively predictable source of capital. There was a lot of enthusiasm about the long-term savings products. These products were meant to be voluntary and open to non-credit clients, the associate members.

III.1.2 ASA, the pragmatic

Our core business is providing credit--- our staffs understand how to give and get money back from the poor. We were very excited about savings mobilization by changing our savings products and adding new ones. Soon we realized that this was not working --- it was adversely affecting our core business. We are sticking with what we do and know best--- for the time being.
(Interview with Md. Shafiqual Haque Chowdhury, Managing Director, ASA. September 6, 2000)

The changes to the rules of the CWS product did not generate greater savings balances as expected, although they did substantially increase the volume and number of transactions. On average, ASA members were depositing the same amount in their CWS accounts two years after all the changes of July 1997. There was however a significant growth in the monthly net balance but this was solely driven by the growth in the total number of clients--- the average balance per member did not grow.

ASA made several changes to its CWS product in order to increase average per member savings balance. The two-year results of the initial changes showed no discernible increase in the average per member savings balance and the number of transactions had increased many folds leading to a lot of pressure on the field staff. In January 2000, ASA changed the rules governing deposit and withdrawal of the CWS--- the new rule locked in 10% of the principle of the outstanding loans as of November 1999 plus a compulsory Tk. 10 per week. Any amount in excess of this floor could be withdrawn. This effectively increased the locked-in portion of the CWS account. Within a few months it became clear however that given the exiting pass book design and centre account sheets, the new rules were cumbersome to implement. Moreover, it actually increased the workload on field staff and was confusing to the clients. By August 2000 ASA once again changed the rules and locked in 15% of the principle of the outstanding loan.

Despite official policy of allowing the clients to 'choose' whether they individually wanted to increase their weekly compulsory savings amount, in reality, the decision was taken at the level of the branch which field workers were then 'encouraged' to implement. This resulted in making the 'compulsory' pressure on the product very strong. If official policy[12] was adhered to, one would expect that this would result, if not within centre but at least across centre variation in the compulsory savings amount. However, no centre of the branch I was visiting was depositing the previous Tk. 10 minimum weekly savings per member—the amount was now uniformly taka 20.

[11] Hashemi, S and S. Schuler (1996b) based on ethnographic research, uses the reasons and uses of savings as an indicator of women's empowerment.
[12] The official rationale behind the increase was not explicit or coherent. Some of those mentioned include, offsetting expected withdrawal pressure, the focus on the ability of the poor to save, the poor need pressure and compulsion to save etc. The third point was raised in my talks with the field staff. An interesting reason was mentioned by some clients --- the increase in the minimum savings amount, they opined, is the cost they had to pay for the greater access.

The long term savings took off rapidly after its introduction in the second quarter of 1998—but this was a false start and by the second quarter of 1999, the enthusiasm with which this savings product were introduced was being directed at closing them down. The number of long term savings accounts reached its high of over 400,000 in less than a year since it was introduced. By the end of 1999, this number stood at about 90,000.

At the field level, the initial enthusiasm from the Head Office regarding the contractual savings products, when converted into unit level targets (200 accounts per unit per year), created a lot of staff pressure leading them to force clients to take them up. As ASA field staff were under tremendous pressure with existing workload, the new target for selling the long term savings products were fulfilled by forced selling to their existing clients--- a very low proportion of the long term savings products were taken up by associate members. It was much easier for the field staffs to force sell the product to their credit clients by tying the product to loans rather than try to sell to associate members upon whom ASA had no power to exert. Given the nature of these products, especially the contractual savings, requiring regular monthly contribution of at least Tk. 50[13], the affect of forcing on clients was quite costly. For most part, this amount was deducted from the loan upon disbursement and members had no other option but to comply as such deduction was tied up with loan approval.

All members we spoke to thought that this was a very under-handed strategy of hidden charges. In subsequent months, such force-driven strategy created further tension as clients refused to make their follow-up monthly deposits into the account. Such dissatisfaction started adversely affecting normal loan instalment repayment and field staff had considerable difficulties in maintaining repayment order. Most long-term savings accounts of members were irregular and this soon attracted the attention of senior management[14].

Though members were dissatisfied with the initial pressure behind long-term savings account, they were completely satisfied with the speed and clarity with which the refunding was done. Most members however felt that ASA should encourage voluntary opening of the long-term savings account among members and explain the rules and benefits clearly, rather than withdraw the product totally from them. The problem according to them was not in the product, but the way it was introduced. Some clients felt that they are now being forced in the opposite direction—to cancel the account. Maintaining only the regular accounts increased the average per member balance from about $8 in the first quarter of 1999 to about $25 by the last quarter of 1999.

The current accounts, though very popular among clients, who are all women, as a reliable way for them to save up and protect their 'hidden' savings, was expensive for ASA. As expected, these accounts had variable flows and the average balance was quite low. The number of such accounts reached its peak of over 560,000 in the first quarter of 1999—by the last quarter of 1999, the number of such accounts fell to little over 194,000. ASA chose to close down a large number of low balance and relatively inactive accounts raising the average per member balance from about $3 in the first quarter of 1999 to $7 by the last quarter of 1999.

By the end of 1998 ASA had attracted about $22 million in savings against the $19 million that would have been expected under the existing CWS product. However, the $22 million was spread across many accounts resulting in an average balance per account of $12 as opposed to the

[13] This was initially to be Tk 100 minimum, but later reduced.
[14] The case was first brought into attention by a team of evaluators from the Philippines. This raises the question as to why internal MIS was not able to detect and focus on this problem before.

average account balance of $20 that would have been expected under the old CWS product. Given this bottom line result and increasing workload on staff at times adversely affecting loan collection efforts, ASA clearly took the right steps: ensuring a growing and predictable savings balance in the CWS, its core savings product and closing down other inactive savings accounts. But the core question is why did things not work out as ASA had expected? What went wrong?

III.I.3 The Challenges of Transformation--- Management Challenges

The proposal to introduce voluntary savings products required a fundamental departure for ASA—both in its systems and values. Rutherford (1995) rightly observed the challenge and the underlying dilemma, "ASA can go forward only if it goes back on an essential element of its success—the rigidity of its services". Yet, the history of ASA suggests strongly that radical change of institutional culture is by no means new to ASA. Indeed, the introduction of voluntary, demand driven savings products could be seen as the beginning of its fourth phase: the first ASA (1978-85) was a radical organisation seeking to empower the poor through social mobilization and conscientisation; the second ASA (1985-1990) was a service provider offering health and education; the third ASA (1991-1997) was a highly cost effective and reliable provider of a mono-product. The fourth ASA is a microfinance institution seeking to break away from a mono product provider of financial services. All four phases required momentous transformations—however, the last phase of ASA happened when it had over half a million clients, 200 staff and a superbly honed system for disbursing and collecting its core product. This was a challenge of transformation of a large magnitude that ASA underestimated.

At the same time as this rapid introduction of a range of savings products, ASA was expanding its microcredit clientele. This meant that on the one hand, ASA had to deal with the unpredictability of flows arising out of changing its core CWS product and introducing new savings products and on the other hand, it needed substantial capital to service its credit commitments, not only to repeat clients but a growing pool of new ones. The 119,115 new clients who joined in the last quarter of 1997 were due for their first loan in the first quarter of 1998—this resulted in an additional demand for capital to the tune of $11.6 million. Furthermore, given the pace of ASA's progressive lending, it needed about $3 million to service its repeat credit commitment in the first quarter of 1998, making the total commitment generated by loan in the first quarter of 1998 to $15 million. ASA was suddenly faced with a liquidity crisis in the first quarter of 1998 and was threatened by its ability to meet commitments for loans and demands for savings withdrawal. The cornerstone of ASA's strength as a provider who keeps its commitment was under threat. ASA did manage to ride through the crisis, but the vulnerability of its system to unpredictability was clear.

III.1.4 The Challenges of Transformation--- Field Level Challenges

How were these frequently changing decisions carried out in the field? How did it affect clients?

The small blackboard displayed in each of ASA's branch office reflects the importance of certainty and clear predictability in its workings and values. The board shows a matrix with the name of each field staff and a few columns with perfectly predictable set of figures of 'collectables'---- instalments of loans and compulsory savings. Making changes to the CWS that made the flows relatively unpredictable and introducing other totally voluntary saving products did not fit in well with the ways of working and the resultant mindset reflected by the blackboard matrix.

When the decision to open up access to the CWS was announced, ASA field staff communicated this policy change to the clients with varying degrees of clarity. The official policy of letting the clients choose how much they wanted to save in the CWS in excess of the taka 10 per week floor was an uncomfortable concept for the field staff to implement. This is reflected in the way the savings in the new CWS ended up being uniformly taka 20 making the amount clients put into the CWS being seen as being governed by institution defined norms (*nioms*) rather than as voluntary. This clearly confused the clients and adversely affected their decision to save voluntarily.

Box 2: The problem with combining compulsory and voluntary motives

"Why will I save more in an account that does not allow me to save less when I'm in trouble?"

"It's mostly Tk.20 - the kormi (Credit Officer) does not usually want to take less than that."

"A complete instalment (kisti) is the full loan instalment and the full savings instalment of Tk.20".

"Yes, of course there are times when I can save more (than Tk.20) - but I'll always save Tk.20 - it was Tk.10 before and now it's Tk.20 - it's simple and easy to remember - that's that."

There was also considerable confusion about the target market for the various savings products—both among the staff and the clients. Initially the decision was to sell the current account and long term saving products to non-credit clients, the 'associate members', with the new CWS for the credit clients. Given the setting up of targets for each field staff and the difficulty of marketing saving products to non-credit clients, the field staff sold the associate member saving products to other members of their credit clients' households. As discussed in the preceding section, such marketing was often accompanied by 'force' and linking it up with credit.

III.1.5 Lessons

The demand for savings is very different from demand for micro loans. This distinction is often challenging to grasp for MFIs that have grown up totally dedicated to understanding a specific and a narrowly defined borrower group and understanding them essentially as borrowers. The range of clients who would utilize a well-designed deposit service is far broader than the target group for micro-loans. In fact, an MFI is not going to generate much in the way of increased deposit volume if it doesn't project its service to a much broader market than its credit clients. This however poses significant challenges both in terms of regulatory structures (most unregulated, for very good reasons, MFIs are not allowed to mobilize savings from non-credit clients) and product development.

Marguerite Robinson describes this challenge with respect to BRI's experience (Robinson, 2001). Its savings products proved to be quite successful in relation to initial expectations in the period from 1984 through 1987, but BRI unit desa staff failed to see the real potential savings that could have been mobilized. Deposit balances did not fully fund the loan portfolio. It took another two years of study, field testing and marketing to develop a strategy to get much deeper into rural communities and mobilize the more difficult to get deposits. Subsequent to 1989, BRI 'unit desa' has become the net provider of funds to BRI, even through a period of exponential growth in its loan portfolio. Ultimately, it has generated 10 savers for each borrower. In a very real sense, the work at the unit level was completely 'made over', from process, to marketing, to the incentive systems facing staff. But mostly, the important task was to get the staff to understand both the potential of savings and how it required a different approach to that which they were used to applying to micro borrowers.

Typically, most microcredit staff feel that their client group can't save very much and certainly wouldn't save very much unless compelled to do so by compulsory mechanisms. These factors all combine to cause MFI staff to fear the transition from compulsory to voluntary savings products. Their dilemma boils down to uncertainty about which of two scenarios will be the more likely:

> That overall deposit balances will rise as fewer clients drop out of the programme altogether to gain access to their locked in savings (even accounting for the fact many clients will withdraw some part of the balances once given the freedom), or,
>
> That overall deposit balances will fall as most clients would really prefer not to save as much as they have been forced to under compulsory and tied mechanisms.

At the heart of this dilemma is the way poor people's savings is viewed--- as primarily a net accumulation of reserves, or, as transaction balances that even out the natural ebbs and flows of day to day liquidity management. If the understanding is the latter, i.e. poor people's savings as a liquidity management tool, then there is virtually no one too poor to save. Even if the objective is to give the poor an opportunity to build savings, this is best achieved by offering clear, untied contractual saving products with the right pricing structure rather than restricting deposit and withdrawal. The fundamental challenge for MFIs is to develop systems that can on the one hand deal with tiny transactions in a cost effective manner and on the other hand, do so in the most flexible way because of the irregularity and unpredictability of poor people's cash flow.

III.2 Gono Bima Life Insurance: New Kid on the Block

Let us begin by outlining the case for intervention in the insurance market. The ability to smoothen income fluctuations to gain a stable consumption pattern is an extremely desirable poverty policy outcome. This basic idea has been used to shed important insights into the existence and working of many informal arrangements, especially in agrarian societies where agricultural output is subject to considerable risk.

While researchers have catalogued many risk-pooling informal mechanisms, the optimism has now been tempered. In the past ten years, research, much of it in the South Asian context, has shown that informal mechanisms tend to be fragile and most unreliable in protecting the poorest households. Morduch (1997) points out several of such limitations of the informal insurance mechanisms:

First, while in many areas informal insurance is frequently employed, its effectiveness is often limited. Morduch (1991) find that that the poor have only limited insurance, even against idiosyncratic risks. In a recent paper examining informal insurance effectiveness by wealth groups in China, Jalan and Ravallion (1998) find that for the poorest wealth decile, 40% of an income shock is passed onto decline in current consumption. By contrast, consumption of the richest third of households is protected from almost 90% of an income shock.

Second, many mechanisms are costly. In risk prone areas of India, households may sacrifice as much as 25% of average income to reduce exposure to shocks (Walker and Ryan, 1990). Selfprotective behaviour limits experimentation and innovation, creating longer-term dynamic losses[15].

Third, informal mechanisms appear to be particularly fragile when needed most—during widespread droughts, floods etc. (Coate and Ravallion, 1993). Buying and selling of assets can in principle provide a good hedge against idiosyncratic risk—but even this can be problematic when risks covary. Covariant risk can result in wide fluctuations in asset price as households want to but and dump goods at the same time.

Fourth, informal mechanisms are weak against repeated shocks. When bad conditions are likely to persist for several years in a row, households need to keep very large stores of assets in order to achieve adequate protection.

Fifth, informal insurance tends to work least well for the poorest groups. Informal arrangements are self-enforcing. This means that the benefit of reneging today must always be lower than the benefit of sticking together. In times of severity, the poorest are most unlikely to be in a position to satisfy this condition of self-enforcement.

Sixth, informal mechanisms can solidify economic and social barriers along ethnic, gender, generational and class lines (La Ferrara, 1997; Fafchamps, 1992) and these can contribute to 'poverty traps' (Platteau, 1996; Hoff, 1997).

Yet, due to problems of formal institutions in assessing risk and controlling moral hazard, especially with regard to the activities of the mini economy within which the poor operate, formal insurance products for the poor have been largely absent.

III.2.1 History and The Product

Delta Life Insurance Company was founded in 1987 as a subsidiary of Green Delta Insurance Company, a general insurance concern providing fire, marine and motor sector insurance. Delta Life Insurance provides life insurance to the wealthier sections of the society among whom it has about 150,000 policyholders. This life insurance dominates the business of the group of companies and is profitable. Also in 1987, Safat Ahmed Chaudhuri, the founder of Green Delta and the only Bangladeshi with an internationally recognised qualification as an actuary, set up Grameen Bima, with an aim to offer life insurance cover to poorer people in both urban and rural areas. In 1992, Chaudhuri established Gono Bima, along similar lines to Grameen Bima but with some differences in the products. Gono Bima was at first a project but became a fully operational subsidiary in 1994. The group of companies may be the third largest insurance company in Bangladesh, after Jibon Bima Corporation (the Government owned institution), and the American Life Insurance Company.

The Delta group of companies' Annual Report for 1998 includes Grameen and Gono Bima in the figures. For the year 1998, the share of premium income produced by Gono and Grameen Bima

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[15] Morduch (1995) distinguishes between income and consumption smoothing. The former are actions an agent takes before the occurrence of risk event (such as occupational, crop choice, land fragmentation, energy conservation etc.) while the latter are actions taken after the event (such as migration, cutting down consumption, selling assets, borrowing etc.). Long term dynamic losses can arise both from income smoothing strategies (such as choosing less yielding but also less risky activities) and consumption smoothing (such as withdrawing children from school). Such losses can lead to positive feed backs and poverty traps having intergenerational consequences (Dasgupta, 1993).

together was more than one third of the total--- however, the accompanying audit has a qualification stating that, "in view of inadequate internal control it has not been possible to verify fully the premium income for the year ended 31st December, 1998". In July 1997 there were severe internal problems in the group of companies, which led to the retirement of Chaudhuri, though he still holds a Board position and has a part time job as an advisory actuary.

The aim of starting Gono Bima was to bring insurance cover to the poor of Bangladesh, and to provide loans for self- employment. It also had the objective of providing employment for half a million workers in the company. Its growth was extremely rapid--- by 1995, only three years since the pilot project; it already had 1,100 branches in towns and villages across all districts of Bangladesh. According to a study on micro-insurance provision for low-income people in Bangladesh, between 1994 -1999, Gono Bima sold 714,397 policies of varied premium and maturity and generated premiums worth around US$13.57 million. It has also disbursed US$22, 10, 755 in about 32,034 loans up to 1999. On-time recovery rate was however pretty low—65.8% (Hasan, 2000).

The basic product offered by Gono Bima is essentially a contractual saving product with an in-built life insurance feature. If the insured person is alive till the maturity of the policy, then s/he gets back the total principle plus a bonus. However, if the insured person dies during the insurance period, s/he will receive the insured amount plus the earning bonus for the insured period covered. The bonus payable is not set a priori and depends on the returns to the other activities of Delta Life[16].

The credit component was introduced as an inter-linked product--- to be eligible for credit the client has to purchase Gono Bima life insurance policy. This was motivated by a desire of Gono Bima to provide an additional service to their policyholders, according to Mr. Mahbubur Rob Sadi, Head of the Grameen and Gono Bima division of Delta:

> …It was also felt that the premium which was coming from the really, really hard earned money of the target group may be invested in income generating small projects for their self employment instead of keeping almost idle in bank deposits.

The following are the terms and conditions under which a policyholder can take a loan (translated from bangla by author):

- Loans are extended through the nine-member customer committee. Three clients from a committee will first get their loans. A committee member can get loan only after a year's regular premium payment. The policies of all members of the committee need to be regular.

- Other members of the committee can get their loans in batches of three only if the first three-committee members taking loan repays their loan instalment and premium regularly for at least 3 months. All committee members are jointly liable for any loans made to any committee member.

- All loans are to be repaid in twelve equal fixed monthly instalments at 20% per year interest.

[16] This creates some marketing problem, as most clients want to know exactly how much they would receive upon policy maturity or death. Policyholders are told that they would receive approximately a payout of twice their total pay-ins, upon policy maturity.

- Any one member will get a maximum of Tk. 5,000 loan. 100% of all premium earned by a committee can be disbursed as loans to the committee members. However, no individual member will get more than one-third of total premium earnings of the committee.

III.2.3 Implementing the Concept

Gono Bima faces a number of important difficulties in operationalising the savings-insurance-credit interlinked product. These are elaborated below:

?? **Designing Balance in Incentives**

Designing chain of command and decision-making that maximizes the speed with which decisions affecting the clients can be taken without sacrificing adequate internal control has been a crucial focus in microfinance in Bangladesh and is argued to be an important ingredient to its success. This is a vital area in which Gono Bima shows weaknesses.

The Gono Bima chain of command and decision is at once too hierarchical and too open-ended lacking good internal control at the field level. It is too hierarchical in that all information is made to flow to the Head Office causing long delays and corruption in the information flow. The case studies of insurance claim in box 3 highlight the adverse effects of such centralisation of decisions on clients, both current and prospective. The paper work and time required for processing a Gono Bima insurance claim was also pointed out both by collectors and clients as an important drawback.

On the other hand, the effective supervision and internal control at the branch level is very weak. Branches of Gono Bima are also very remote organisationally from the Head Office. As a result, recruitment of junior officers and supervision of their fieldwork is poorly scrutinised. Staffs with powers of appointment freely provide jobs to their relatives at the branch level. In these circumstances it is not surprising that agents who are supposed to report daily to managers commonly keep collected cash to themselves for a month or more. Similarly, many managers who are supposed to deposit premiums and repayments collected daily in fact do so much less frequently. According to a senior executive working exclusively on Gono Bima, inconsistencies, delays, misuse and sometimes even outright theft of company money is rife within the organisation.

?? **Linking without Thinking**

As can be seen from the design and mechanism of Gono Bima's loan product that, it is essentially a replication of the Grameen credit model with features such as group based collective responsibility, repayment by regular, fixed instalments, fixed maturity and staggered disbursement schedule. The differences are in terms of the group size—the typical Grameen groups consist of 5-members and the source of the seed capital for the revolving loan fund. Gono Bima products can thus also be seen as a conventional microcredit programme with compulsory savings. The difference is that the compulsory savings element is designed as contractual savings cum life insurance product.

The claim of Harun-ur-Rashid (box 3) reveals that five official documents were needed: (1) chairman's (elected local representative) certificate, (2) school certificate as a proof of age, (3) police certificate, (4) post-mortem certificate and (5) medical certificate, for a Tk. 12,000 insurance claim. Needless to say, it is very costly and difficult for most in rural Bangladesh, especially the poor, to be able to get such official documents.

Box 3: Case Studies of Insurance Claims

Case Study 1

Harun-ur-Rashid was a first year B.Com. student at Madhupur college. One of his cousins works in Malaysia and was returning home. Harun hired a microbus from Madhpur to receive his cousin in Dhaka. On the way, the microbus fell into an accident and Harun died.

Harun had a life insurance policy with Gono Bima. He had opened a 100 taka policy and had paid 11 premiums regularly. It was mostly at the insistence of a women collector from his village, whom he wanted to help--- the collector's remuneration is dependent on the amount of premiums s/he can collect. After Harun's death, the collector advised his father to get the papers ready for the claim-- his father was not interested. Later, the collector herself arranged all the papers, such as, chairman's certificate, school certificate, post-mortem report etc. and sent them to the Head Office. Even after 6 month's there was no response from the Head Office. Then, the manager went to Head Office himself. In the meantime, one women from the village known to Harun's father, who was married to someone working in Dhaka asked him father regarding the insurance claim and reassured him that she would take up the issue with someone she knew at the Gono Bima Head Office.

After another month, one day the Gono Bima manager asked Harun's father to come to the branch office to meet some officials from Dhaka regarding the insurance claim. There he met the regional officer who was not very supportive-- he said, 'It's already more than six months--let's see what happens'. After a few days, however, the manager informed him that the claim has been processed and the money had arrived. He advised him to open an account in the name of the nominee-- Harun's mother in Krishi Bank. After a few weeks, the claim money was handed over in a well-publicised ceremony. The ceremony was not held in Harun's village-- it was held in the Gono Bima branch manager's home village– a few kilometres away. The whole thing took about a year.

Case Study 2

Another person from Harun's village had a Gono Bima life insurance policy. He died when his father beat him with a stick on the head---they were quarrelling over some family matters. The nominee of the policy- holder was his mother. After his death, the other brother of the deceased policyholder registered a court case against the father and mother. The claim has not yet been settled due to collector's inaction and because the nominee has a court case against her.

The overall performance of Gono Bima's credit component has been unsatisfactory and has adversely affected its insurance cum contractual savings product. There are several reasons for this:

- **Nested Collective Responsibility:** Though the official conditions above state that the collective responsibility for repayment would be the committee, in practice, this extended beyond the committee to include all committees under a block. So, if a client from say committee 'Y' defaulted, then, this would affect future loan access for a client in committee, 'X', irrespective of its repayment performance. Such nested collective responsibility mechanism created incentives for strategic defaults and frustration among clients as the case study in box 4 highlights[17].

[17] *Sandars* are a close-knit community of vendors. They usually vend women's items such as bangles, sari etc. Sandars tend to live within a cluster and are perceived by other villagers as being of 'doubtful

?? **Weak Group Formation**: Collectors who used the promise of credit as a marketing strategy to increase the uptake of policies, upon which their salary depended, formed credit committees haphazardly. Combined with a bad management information system and weak internal control, this lead to frequent break of promise for loans, resulting in a lot of client dissatisfaction and default.

?? **Low Staff-Client Interaction**: Monthly instalments and poorly co-ordinated/enforced checks and balances, meant that default problems were not rapidly followed-up. The lag between collecting repayment/premium and actual depositing also gave rise to corruption opportunities.

Gono Bima's failure in running a good credit programme[18] made clients, even those who had not taken/wanted to take credit, doubtful about its permanence and seriousness—they lost interest and many stopped paying in their insurance policy premiums.

Box 4: A Gono Bima Collector's Memorable Incident

A few months back one of my colleagues went to Sandar para to collect premiums and loan instalments. There the sandars confiscated his bicycle and locked him in a room. They were angry because some of them had applied for loans 8/9 months back. As some members from this and other committees had defaulted on loans, we stopped new loan disbursement to create pressure. Later, when we started disbursing again, the collector had allegedly allocated the loan to some other area after taking bribe.

When I came to know of the sandars' attack on my colleague, I went to the manager's house to inform him. The manager immediately went to Sandar para and they also confiscated his motor bike. The policyholders demanded to have their premiums/savings returned or credit sanctioned. The manager had to get police help and request intervention from local elites before we could escape. Later the collector in question was fired.

III.2.4 Lessons

The story of Gono Bima holds a number of important lessons:

?? There is a clear demand for formal insurance products among the low income in Bangladesh. This is demonstrated by the fact that despite poor implementation, Gono Bima did manage to achieve good outreach.

?? Weak management systems and lack of attention to delivery details was the most important constraint. There was no pilot testing of the product and linking with microcredit was ill conceived.

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character'. They are generally excluded from institutions, such as shalish (informal village court). Marriage into a shandar community is also not seen as respectable. In terms of religious rituals, shandars tend to follow a more liberal, sufi tradition of Islam.

[18] For clients, this means being able to keep its promises of repeat loans in amounts, ways and speed comparable to other providers. For the institution, this would require a solid, enforced mechanism and sound management information system, which Gono Bima wholly lacked.

?? Attention needs to be paid to various elements of financial product, its design and mechanism, and the ways in which it compares to substitutes available in the market. This was clearly not done in the case of Gono Bima's microcredit component.

?? Reducing clients' transaction cost is very important. For the poor, this arises from a variety of sources, including their lack of access to official institutions. Contract design needs to take this into account.

?? While much can be learned from the experiences of established providers in pricing and designing insurance products, significant market research and product design innovations are required to overcome the challenges of serving the insurance needs of the poor.

?? The idea of insurance--- of paying in with some with pay out and some without is in general an abstract notion to those operating in the micro-economy (Platteau, 1998). Context-sensitive marketing of the product using easy-to-understand and clear 'labelling' distinguishing it from savings is thus very important.

III.3 SafeSave Innovations: Towards Risk Responsive Financial Services

I was conceptually stuck for sometime--- I could see how the regular fixed instalment regime of the existing models was a major constraint, especially for poorer clients facing extremely fluctuating income. The managing of this regime was at times very costly for them. Yet, I could also see how it was so very important for managing default and maintaining good repayment. I approached the problem by replacing discipline and compulsion with frequency, convenience and opportunity—it was a major breakthrough!
(Interview with Stuart Rutherford, Chairman, SafeSave Co-operative)

The innovation of a mechanism that allowed borrowers to pay off a lumpsum advance (a microcredit) in regular, small, instalments was pivotal in the usefulness that the model had for a vast number of the poor[19]. For the first time, an intermediation mechanism was institutionalised[20] that allowed poor households to make use of their small savings from their normal income and expenditure flow that predominantly made up the instalments. The mechanism was formalised further through a collectively responsible group structure and promise of continuous access to larger amounts of lumpsum advance. Though having access to a lumpsum in this particular way was of important benefits to the poor, they hardly had choice and/or control over the timing and mechanisms of the intermediation. Consequently, despite wide levels of outreach, certain categories of the poor were either excluded (Ito, 1998; Zaman, 1998; Hashemi, 1996a) or found the product cumbersome--- especially in terms of managing regular, fixed repayment instalments of a loan treadmill, in which, many felt trapped (Rahman, 1999; Matin and Sinha, 1998).

The problems with this financial intermediation, especially, the exclusion or failing to reach the poorer households did draw (and continues to draw) considerable attention. The dominant response to this, however, did not approach the problem in relation to the product and mechanism

[19] For an elaboration of this way of conceptualising microcredit, see Rutherford, 1999; Matin et al., 1999.
[20] Informal loan contracts in South Asia do not often provide this opportunity of repayment by instalments, especially in rural areas. Evidence of such loan contracts are documented in Sarap (1991), known as 'lalbangla loans', historically extended by kabuliwallahs, and for the urban context in Rutherford and Arora (1997) and IDPM (Ruthven et al, 2001). The closet relative of such contracts is probably the widespread RoSCA arrangement in which participants drawing early get an effective interest free credit which they pay back through the regular contributions made to the common fund.

on offer and thereby failed to challenge providers to find innovative ways of improving it. It is to this task that SafeSave addressed itself.

III.3.1 History, the Products and Basic Principles

SafeSave describes itself as a 'financial service provider'. It began work in August 1996 in two slums in Dhaka in order to test the following hypotheses (www.safesave.org):

- That poor slum dwellers have a strong desire and capacity to save, especially if they can turn those savings into usefully large sums in flexible and convenient ways (through withdrawal or by borrowing)
- That savers need a discipline to help them save, and that a frequent opportunity to make small savings out of day-to-day cash resources provide that discipline
- That this discipline of frequent opportunity to save or repay is as powerful as the discipline of obligation to repay
- That this service can be offered successfully to men, women and children
- That this service can be offered to individual households without group formation
- That this service can cover its cost even at a modest scale of execution.

SafeSave began as a private experiment of the two founders—Stuart Rutherford, a writer and practitioner of microfinance and Rabeya Islam, a housewife and experienced manager of traditional RoSCAs and other savings clubs. The diverse range of mechanisms available in the informal financial environs, which allows intermediation of small amounts of savings into lumpsums, was a source of major inspiration and learning for its founders:

[We] agreed to set up SafeSave as an attempt to use the learning gained from studying and practising informal finance to create a formal institution that would provide high-quality financial services to the poor and very poor. (ibid:3)

Though the SafeSave products and mechanisms have undergone important changes, the concept of daily collection remains central. This principle of frequency of opportunity to save and/or repay, lies at the heart of the SafeSave methodology, which has been designed to provide the 'discipline' without the obligation and compulsion that goes with the established fixed instalment model. Moreover, the daily doorstep financial transaction opportunity, combined with the freedom from group based rituals and pressures, makes the service accessible and convenient for its users.

At the time of this study, SafeSave had three products. The learning and lessons derived from each of its products with respect to financial service preferences of its clients lie at the heart of subsequent product innovations of SafeSave. Such evolution in thinking is balanced with a thorough examination of operational details of delivery and consequences to institutional bottom line of sustainability to arrive at final product design. The dominant SafeSave product is its product II and for the purpose of this paper, we focus on that.

III.3.2 Product II and Clients Use of It

This section[21] looks briefly at some preliminary data of financial transaction pattern of a few SafeSave clients. The idea is to examine the SafeSave proposition that the financial service

[21] This section draws heavily from Matin, I. et.al., 2000.

preferences of poor clients are varied and the conventional product offered by most MFIs in Bangladesh (and worldwide), at least from the perspective of clients', need some fundamental rethinking.

At each daily visit, SafeSave clients may save as much as they like (including nothing) or withdraw as much as they like (up to the limit of their savings balance). Balances which build up over the long term are rewarded with interest at 10% a year, payable after five years. Clients may also take a loan and use it for whatever purpose they choose. The maximum permitted value of the loan is determined by their savings balance and their previous history with *Safe*Save, in that clients may borrow an amount equal to their current savings balance plus a further amount that grows with each loan. Loans do not have to be repaid according to a fixed schedule and there is no fixed maturity term. If they wish, clients may repay any amount during the daily visits, or choose to repay in a lump sum. If they choose to repay in a lump sum they may, if they wish, do so by deducting the sum from their savings balance, provided they repay the loan in full. The only 'compulsory' requirement is that monthly interest charges on loans (at 3% per month calculated on the declining month-end balance) must be paid monthly[22].

Such flexibility admits the possibility that different clients will choose saving, withdrawing, borrowing and repaying patterns that vary widely. One way of summarising the set of 'behaviours' that are theoretically possible with *Safe*Save's 'product II' is shown in table 2. The column on the right of the diagram describes the behaviour that clients of the dominant product type in Bangladesh (the Grameen general loan) are expected to adopt. They are expected to borrow constantly, in sums larger than they save[23], and then repay in fixed equal regular weekly instalments while making small compulsory savings deposits at the same time. The diagram shows that this behaviour is only one of much possible behaviour open to *Safe*Save clients[24].

*Safe*Save keeps detailed computerised records of all transactions of each client, so we were able to look in detail at the actual behaviours of a large sample of *Safe*Save clients. The data consisted of financial records (from the first transaction until February 2000) of 2,836 clients all of whom have been clients of *Safe*Save for at least two months and are thus eligible to use the full range of *Safe*Save services[25]. In this section, we highlight some of the issues that emerge from the study by discussing some exemplary cases.

Our first observation is that, unlike the clients of the dominant product type in Bangladesh, *Safe*Save's clients do not follow just one behaviour. On the contrary, the full set of possible behaviours illustrated in table 4 can be found among the sample of clients. Such diversity is observed not only *across* clients but also for any *given* client over time. Although many clients display consistent behavioural patterns, others may switch, suddenly or over time, from one strategy to another. For example, a client with a two- year history of saving and withdrawing may

[22] *Safe*Save is currently experimenting with three different versions of this basic scheme. In two versions, savings cannot be withdrawn while a loan is outstanding, whereas in the third version savings can be withdrawn at any time, providing further flexibility. The data used in this paper comes from *Safe*Save's 'product II', a version in which savings may not be withdrawn while a loan is current.

[23] Except when they have been in the scheme for many years and have accumulated large compulsory savings balances.

[24] There are two restrictions on complete voluntary behaviour, as far as *Safe*Save's product II is concerned. First, maximum permitted loan sizes, related to savings balances and borrowing history, restricts clients' access to the loan size they might prefer at any one time. Second, savings cannot be withdrawn while a client has a loan outstanding unless the withdrawal is made to repay the loan in full.

[25] *Safe*Save observes clients for two months to ensure that they are permanent slum residents before lending to them.

suddenly take a loan, or a client who has been borrowing repeatedly may slowly stop borrowing and start to build up his or her savings. Let us explore a few case studies, which highlight the diversity in the ways in which SafeSave clients use its products.

Table 2: Behaviour Possibilities with *Safe*Save and with a Standard Microcredit Product

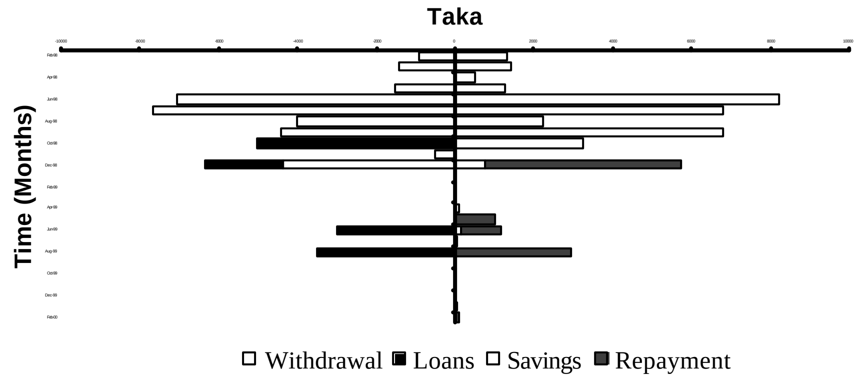
Behaviour Domain	Possibilities with *Safe*Save	Standard MC Product
Saving Behaviour	- Save frequently or occasionally - Save sums of a similar or differing value at regular or irregular intervals - Save without borrowing	- Compulsory saving in regular equal amounts
Withdrawal Behaviour	- Withdraw frequently or rarely, or store for the very long term	- Withdrawal restrictions
Borrowing Behaviour	- Choose not to borrow - Borrow regularly or irregularly at any interval	- Borrow continuously at regular intervals
Repayment Behaviour	- Quickly or slowly, with no fixed term - In instalments or in lump sums - At regular or at irregular intervals	- Repay in regular equal instalments amortising loan within a fixed time period
Effect of Borrowing on Savings Behaviour	- Discontinue saving while holding a loan, *or* - Save at the same or at an increased pace	- No effect

?? **Switching Strategies:**

Jahanara, is a case of a client who changed her product use strategy. She spent her first eight months using *Safe*Save as a current account, both saving and withdrawing large sums. Then abruptly she started taking loans, after which she almost stopped saving, and she repays her loans in large lump sums rather than on a day-to-day basis.

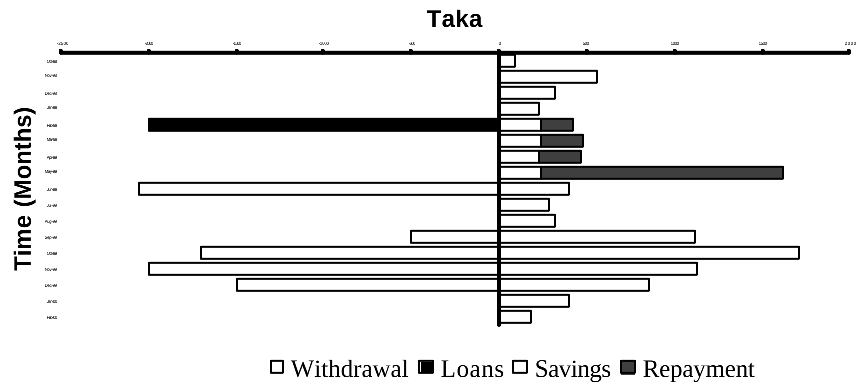
Jahanara is not among the poorest of *Safe*Save clients, but her life is not easy. She is the second wife of a man who has married four times, and she suffers physical abuse at his hands. He runs a reasonably successful tea stall, and Jahanara, who has just one child, a daughter, has a survival strategy that depends partly on investing in the tea-stall and partly on lending out cash to neighbours. She shifted savings from a conventional NGO into *Safe*Save and for the first eight months used *Safe*Save partly to store her savings between lending it out, partly to buy stock for the tea stall, and partly to buy consumption goods when her husband failed to provide for her. When she started to borrow, it was again for a mix of reasons. The first and biggest loan ($100) was taken for on-lending, and the smallest loan ($40) went into the tea stall. The other two loans were used to register and then to celebrate her daughter's wedding.

Fig 1: Monthly Ins and Outs of Jahanara's Account



It is not uncommon for clients to change strategies in this way. Yasmin, from Kalyanpur, a big and stable slum, switched strategies in a pattern that contrasts sharply with Jahanara. As her diagram shows (figure 2), she took a loan within a month or two of being eligible to do so, paid it back in four months, and then switched to using her account as a current account, saving and withdrawing large sums in recent months.

Fig 2: Monthly Ins and Outs of Yasmin's Account

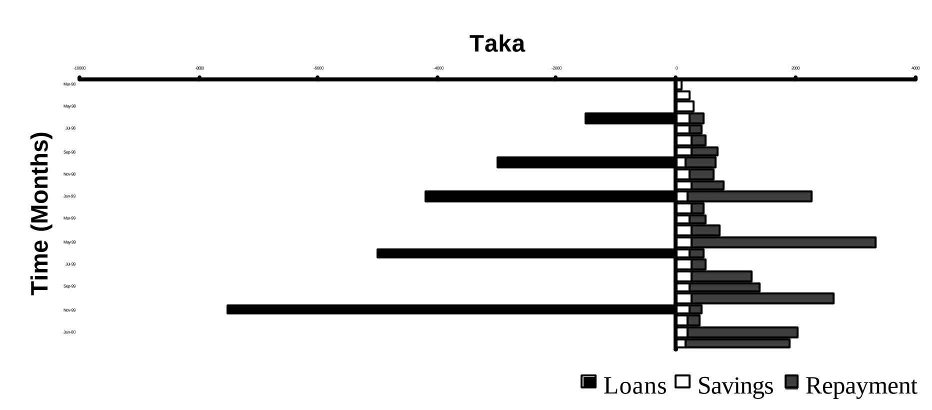


Yasmin is a fifteen year old schoolgirl from a big family which struggles to survive on the earnings of her father, a rickshaw driver. She learned about *Safe*Save from neighbours, and got her mother's permission to open an account. At the time, the mother was a member of two large well-known MFIs, and saw the *Safe*Save account as no more than a convenient way of saving up for Yasmin's marriage costs. But they took a *Safe*Save loan of $40 to buy a second-hand rickshaw, and found that repaying it was much easier than in the MFIs, which demanded fixed equal weekly repayments and attendance at meetings. As soon as the loan was repaid, they tested *Safe*Save by seeing whether they could really withdraw all their savings, and when they found they could, the mother cancelled her membership at the two MFIs and the household went over to a strategy of saving and not borrowing. They now withdraw savings for uses that they would previously have borrowed for.

?? **'Conventional' Strategy by Choice**

There are *Safe*Save clients whose patterns of saving and borrowing resemble those required by the dominant Grameen-style service. One such case is Moly Akhter, one of the earliest clients to open an account in Kalyanpur slum, whose record is shown in figure 3.

Fig 3: Monthly Ins and Outs of Moly's Account



Moly took a loan as soon as she was allowed to (in the third month after joining) of 1,450 taka ($29). Since then she has taken four more loans, steadily increasing the loan value so that the fourth loan was worth 6,500 taka ($130). Like a good Grameen client, she has repaid in regular more or less equal amounts, while also making much smaller savings deposits. What makes her behaviour different from the Grameen norm is that she has repaid each of her loans in six months or less, rather than twelve.

Moly, who like Yasmin is still a schoolgirl, comes from a slum family with three income earners – her two parents and a brother. By slum standards they are middle-income. Moly's is one of three account held by the household[26], and all three are used similarly, primarily to shift the household income composition from labouring into self-employment and renting-out assets. Thus, the first two loans taken in Moly's name allowed her mother to buy in a stock of saris, which she trades around the slum. The third loan went for a second hand rickshaw, which they rent out daily. Moly's fourth and fifth loans allowed her father to set up a new grocery shop in the slum. Loans from the other two accounts have been used in a similar way.

II.3.3 Discussion

What are we to make of these case studies? They illustrate the wide range of needs and opportunities for which poor slum dwellers use financial services. They demonstrate that, given access to flexible services, they will use them in diverse ways, just like the less poor. Both of these observations support a growing consensus in microfinance circles that products and delivery systems need to be made more responsive to demand.

[26] *Safe*Save allows multiple accounts from the same household or individuals. However, such multiple accounts are allowed for savings and not for borrowing.

That financial services need to be flexible and tailored more closely to the preferences of the clients is quite obvious. Yet, operationalizing this thinking is pretty challenging. Safesave maintains an up-to-date computerized Management and Financial Information System (MFIS) on each client's daily transactions. There is one individual at every branch who is in charge of data processing. The need for such detailed and up-to-date computerized client level data can not be overemphasised for managing a flexible system. This is also a strong monitoring tool--- clients who fall behind with their monthly interest charges can be promptly followed and clients who have not been paying-in principal and/or savings for a length of time can also be detected. Sudden changes in pattern can also be cross-checked. In addition, such a MFIS can be an important information base to for further market research and better understanding financial service needs of the clients.

Safe Save has one mature branch that is making regular monthly surpluses. It has achieved this partly by absorbing lessons already available from mainstream microfinance. A total commitment to cost effectiveness is one such lesson that *Safe* Save learnt from ASA in Bangladesh. A second is the principle of combining maximum delegation with maximum standardisation. Delegation means that all the main activities of microfinance – collecting and withdrawing savings, issuing and collecting loans – can be done in the field by junior staff, and standardisation means that those junior staff are given no discretionary powers that may tempt them into rent-seeking behaviour. Note that standardisation is not a natural enemy of flexibility – an automatic cash machine runs on an absolutely standard set of clearly written rules and cannot be bribed, but it allows customers to deposit and withdraw at will. It is for reasons like these that *Safe*Save will over the next year be experimenting with greater use of electronic technology, in the field as well as in the branch office.

While *Safe*Save's experience suggests that its brand of highly flexible services can be delivered sustainably in densely populated urban areas, this says nothing about whether this can be done on a very large scale, or whether it can be done successfully in rural or less dense urban areas. *Safe* Save is still very small, with fewer than 5,000 clients (in June 2000), and still less than four years old. The CEO knows all the field staff personally and sees them regularly. The Chairman reviews the performance of each branch each month. Small changes in the figures, which may signal problems, can be spotted and followed up quickly. The extent to which these features are essential to *Safe*Save's success extent can only be known as *Safe*Save scales up and branches into new environments, as it hopes to do in the coming years.

IV. Comparing the Three Innovations

The three 'innovative' products discussed here are different, but share one core feature--- they are all geared towards providing the clients a wider range of financial intermediation options. A wider choice of savings products serving both the liquidity and illiquidity preferences of clients, life insurance cum contractual savings products and flexible opportunity to save and borrow, are all valuable microfinance product innovations. We use the table below for the discussion on comparing the three innovation processes studied in this paper:

All the three innovation processes had a core individual with power behind them (Table 3). This is not an insignificant observation as it suggests that innovation processes happen within organizations and are not merely about having the market research and analysis tools, which show how great the innovative idea really is. The reason why ASA, for instance got interested in introducing voluntary savings products has more to do with its Managing Director being convinced that the move is worth taking and the process through which this happened is not necessarily facts and figures, but a complex interplay of informal observations, international discourse swings and internal discussions. This is also the case for Delta Insurance getting interested in life insurance for the low-income or the creation of *Safe*Save. The current 'tool centric' focus on management training to do market research and better listening to clients are important to get the process of innovation going with more chances of success, but these issues emerge at a much later stage. In any case, lack of innovation or failed innovation may not be due to lack of market research tools or understanding. The danger of the current tendency to view innovation as a predictable engineered process is that at best it could be ineffective and at worst, it could become yet another disciplining yardstick to assess the 'proper innovativeness index' of a microfinance provider and drawing inappropriate lessons[27].

Table 3: Unpacking the Various Dimensions of the Innovation Process

Innovation Dimension	ASA	Delta	SafeSave
Sources of 'Idea'	Moved by the MD International discourse Financial bottom-line Internal evidence	Moved by Safat Chowdhury Large unserved market Death of earner costly	Moved by Stuart Rutherford Financial landscape of the poor Frustration with conventional products
Piloting Process	Rapid piloting	No Pilot	Very careful piloting
Modification Process	Rapid modification	Lack of information to modify	Variants of the core idea One product per area Pricing structure modified
Organizational culture	Large organisation with field staff used to a disciplined approach and compulsory savings	Decentralised branch structure that gave local managers great discretion on staff recruitment. This led to complex incentives at the local level - organisational, personal and patronage	Small, experimental organisation with committed staff. A 'family' culture.
Final status	Largely rejected	Collapsing due to poor design	Continuing—in demand but small outreach and urban.

V. Conclusion

Drawing conclusion from a small number of very different innovations in three different organizations clearly needs to be approached with some caution. However, a number of general points can be drawn from these comparative experiences.

The most obvious is that, in Bangladesh at least, significant experiments are occurring and that many of these experiments are internally driven. The challenge that emerges from the case studies is not so much on the demand side as it is on the supply side. All the three providers faced and continue to face supply side challenges---- ASA in underestimating the implications of introducing a range of voluntary savings products on its existing systems and organizational culture, Delta in not adequately appreciating the importance of field level delivery systems and incentives and *Safe*Save in uncertainty about reaching scale and operating in other environments.

[27] Microsave Africa, the organization which has been working on the theme of market research for microfinance has recently developed a new tool titled, 'Institutional Cultural Change Training Manual' (http://www.microsave-africa.com/relateddownloads.asp?cat_id=22&title=Institutional+Change)

The process surrounding the 'creative spark' and experimentation are particularly interesting. In all the three cases the 'spark' came from individuals, but there similarities disappear. *Safe*Save chooses a clearly well structured, cautious piloting approach in which the 'innovator' directly monitored the new product, established a detailed system for monitoring the achievements and imagines new ones. ASA went for an in-between position---it did a little piloting but even before the results and lessons of the pilot could be absorbed, went into rapid massification. At the opposite end of the spectrum of *Safe*Save comes Delta Life Insurance. Their microinsurance product went from design to full-blown scale up.

The ASA and Delta experiences also point to another important lesson. This is that those involved in new product development must closely link their efforts to issues of organizational change in a broad sense. To be successful new products do not merely require product design, organizational system design and perhaps some organizational restructuring—commonly, it will also require changes in organizational culture. The ASA case study demonstrates this quite clearly.

The choices and decisions made by organizations cannot be understood by a simple 'missing the right steps' perspective. An understanding of the inner workings of the organizational imperatives and its interplay with internal and external pressure and knowledge can yield much more useful insights about why certain innovations succeed and others do not. More research using organizational behaviour and learning frameworks is needed to shed light on the innovation problematique of microfinance institutions.

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