

**Beyond Basic Credit and Savings:
Developing New Financial Service Products
for the Poor**

Graham A. N. Wright

September 1997

Beyond Basic Credit and Savings: Developing New Financial Service Products for the Poor

Graham .N. Wright

Abstract

Increasing numbers of MicroFinance Institutions (MFIs) are seeking to diversify the financial services they offer to their clients. There is a growing understanding and acceptance of the diverse nature of the credit needs of the poor, and an awareness that not all of these are addressed by pushing “productive loans”. Thus there is a pressing need to examine the best ways of designing and introducing new financial service products into MFIs.

BURO, Tangail is committed to providing flexible and responsive financial services to its clients and operating in what is perhaps the most competitive market in the world of MicroFinance - in a District where almost all the major (and nearly a hundred minor) Bangladeshi MFIs are operating. Having long been a market leader in open access, voluntary savings accounts, BURO, Tangail is currently testing a wide variety of savings and loan products. The methods used to develop these new products broadly followed four key phases of financial service product development:

1. Research to identify needs and opportunities

This includes a review of the competition and products offered by both the formal and informal sectors, conducting market research as an integral and on-going part of staff’s interactions with the clients, and through contacting other market leaders in the MicroFinance industry.

2. Design and pilot testing

This includes the detailed design, costing and pricing of new products, prior to their initial implementation on a pilot-test basis.

3. Monitoring and evaluation of the pilot test

This includes monitoring the financial and organisational consequences of the new product and conducting market research among the clients to review how the product was perceived and used.

4. Revision and scaled-up implementation

Once these analyses have been completed, the MFI can make the necessary amendments to the product, its pricing, delivery, marketing etc. before going for scaled-up implementation.

These apparently straight forward steps are, in fact, relatively complicated to implement. The BURO, Tangail methodology is examined with additional material and insights from a recent series of studies of successful innovative and poor-responsive banks financed by GTZ as part of the work of the CGAP’s “Financial Instruments (Savings Mobilization) Working Group”, and Marguerite Robinson’s work on Bank Rakyat Indonesia.

The paper offers a generalised methodology for those committed to going beyond basic credit and savings and developing new financial service products for their clients.

Beyond Basic Credit and Savings: Developing New Financial Service Products for the Poor

"A sustainable program is far from static. Keeping up with client needs is a constant challenge"
(Edgcomb and Crawley, 1994)

Introduction

As the MicroFinance revolution continues, increasing numbers of MicroFinance Institutions (MFIs) are seeking to diversify the financial services they offer to their clients. In particular, there is a growing awareness that improved client-friendly savings facilities can provide not only an important financial service to the poor but also that such facilities will actually provide more capital funds for the MFI than the compulsory savings systems that have been so prevalent (Robinson, 1995 and Wright et al., 1997). Indeed there is a wide-spread belief that voluntary and accessible savings facilities may result in the inclusion of the poorest 10-15% of the population, who are averse to risk (and thus to taking credit), and are therefore not being served by most MFIs. Furthermore, there is a growing understanding and acceptance of the diverse nature of the credit needs of the poor, and an awareness that not all of these are addressed by pushing "productive loans".

In the words of Hulme and Mosley (1997), "Our main finding is the need for the designers of financial services for poor people to recognise that "the poor" are not a homogeneous group with broadly similar needs. ... Recognising the heterogeneity of the poor clearly complicates matters for scheme designers ..." But it is clearly extremely important. Thus there is a pressing need to examine the best ways of designing and introducing new financial service products into MFIs.

This paper is written on the basis of the experience of BURO, Tangail a Bangladeshi MFI committed to providing flexible and responsive financial services to its clients and operating in what is perhaps the most competitive market in the world of MicroFinance. Tangail District is located two hours drive north of Dhaka, and offers a pleasant day trip from the capital for busy donor representatives and visiting consultants. Almost all the major indigenous Bangladeshi MFIs have branches in Tangail: Grameen Bank, ASA, BRAC and Proshika are all well represented, as are perhaps as many as a hundred smaller (often single village based) MFIs. The competition between MFIs is therefore growing, and in some villages intense, and clients have opportunities to "shop around" for their financial services. As a result, there is widespread, multiple membership of MFIs (some "guest mates" suggest that as many as 40% of clients have two or more accounts). Tangail is therefore the perfect proving ground for new and improved financial services: indeed the clientele demands it (Abdullah et al., 1995).

Having long been a market leader in open access, voluntary savings accounts, BURO, Tangail is currently testing a wide variety of savings and loan products (for details see the Section entitled: Operations Research Programme at the end of this paper). The methods used to develop these broadly followed four key phases of financial service product development:

1. Research to identify needs and opportunities,
2. Design and pilot testing,
3. Monitoring and evaluation of the pilot test, and finally
4. Revision and scaled-up implementation.

These are examined (necessarily in a somewhat general manner) below. Additional material has been taken from a recent series of studies of successful innovative and poor-responsive banks financed by GTZ as part of the work of the CGAP's "Financial Instruments (Savings Mobilization) Working Group", and Marguerite Robinson's work on Bank Raykat Indonesia (BRI).

1. Identification Of Needs And Opportunities:

A. Review Existing Systems.

The MFI should review and catalogue what financial services are being offered by both the informal and formal sectors in and around the geographical area where it works. This review should, of course, include a review of the MFI's own financial services, and its clients' responses to them. It should ask: why have these services grown up or been developed? how well are the services meeting the needs of the poor? is the pricing of the financial services reasonable?

Under the discussion of "lessons learned in the design and handling of demand-oriented savings products and technologies", top of the list of success factors for the Rural Bank of Panabo was "*Adaptation of "classical" savings products to the needs of small depositors.*" In addition, the paper notes "*Replication of other success factors in a competitive environment.* A financial institution that is competing with other banks for customers' deposits can replicate promotional measures such as the execution of raffle contests or the payment of a higher savings interest rate" (GTZ, 1997a)

The informal sector in particular will often provide important indicators of the types of financial services and products that the poor need, as well as some options for providing these: after all the informal sector is there because there is a market for it. For a fascinating description of 58 varieties of financial service systems for the poor see Rutherford's "A Critical Typology of Financial Services for the Poor" (1996). Both the informal and formal sectors will be the competition when the MFI introduces the new financial service products, so it is important to pay careful attention to their pricing, delivery and marketing strategies.

B. Conduct Market Research.

Market research should be conducted informally on an on-going basis through poor-friendly sensitive staff paying careful attention to issues facing the poor - both clients and non-clients - and listening to them articulating their needs.

The field-research conducted as part of the preparation for Rural Finance component of the EU-funded Central Cordillera Agriculture Programme, revealed that the most important financial services-related issue facing the poor in the Cordillera was how to manage school expenses. As a result of a remarkable commitment to educating their children, every year, in June, households all over the Cordillera had to find substantial sums of money to meet the costs of buying uniforms, books etc. In the absence of savings facilities, households were taking loans (at 10% interest per month) from moneylenders in order to finance these school expenses. There was a clear need and demand for secure savings products to help meet education costs without going into debt.

Encouraging field-based staff in particular to be aware of the organisation's interest in developing financial service products to help the poor more effectively manage their household economies may in itself lead to the description and reporting of needs and possibly ideas to meet them. This process can be facilitated and improved through a series of workshops with staff focusing on the needs of the clients in the areas in which they work.

"BRI found that the key of market research was to learn from clients what they wanted and then incorporate this information in both the product and its advertising. Studies on savings motives and preferences of rural people throughout Indonesia identified four major characteristics a savings facility must combine:

- Safety/security
- Liquidity
- Convenience
- Positive return"(GTZ, 1997 b).

Another way of obtaining insights is for the MFI to ensure that the search for needs and opportunities is built into the terms of reference of visiting evaluation teams - particularly if they are going to be using qualitative and case-study oriented techniques. All donor agencies should be interested in improved product development, not least of all since it will lead to better, more appropriate and user-friendly services being provided to the poor and possibly even allow inclusion of the poorest.

Market research can also be conducted in a more formal manner through needs surveys, which are often difficult to do effectively. Surveys imply quantitative driven instruments, which limit the opportunity/motivation for follow-up and probing, discovering what is really important - particularly for poorer households. At best needs surveys will usually rely on the further development of issues and ideas by the review of indigenous informal systems and/or the informal market research mechanisms outlined above through focus group discussions or similar techniques.

“BCS [Banco Caja Social] relies on market studies before introducing new savings products to the wider public. In general, desk-work market studies are combined with empirical tests with a limited random sample. In addition BCS closely watches market research carried out by competing financial institutions” (GTZ, 1997c).

C. Review the Literature and Contact Market Leaders.

There is an increasing amount of experience with a diversified series of financial service products for the poor, and with it an increasing body of literature documenting and discussing that experience. Any organisation preparing to design a new product should examine any relevant literature that it can find and try to contact those with experience in implementing such products ... there are likely to be important lessons which need not be learnt the hard way ! As the MicroFinance networking and e-mail and Internet services grow, this experience exchange will become more easy.

2. Design and Pilot Testing:

A. Design, Cost-Out and Price New Products.

On the basis of the results of identification of needs and opportunities activities outlined above, the organisation should be in a position to design new products. The key is to introduce new products on an incremental basis - one, or a very few, at a time - so that the organisation's staff and clients can manage, monitor and understand them properly. Careful attention must be given to the interactions between different financial service products being offered by the MFI - from both organisational and financial perspectives.

“The common denominator underlying savings programs of Bank Dagang Bali, BRI's local banking system, and BancoSol is that the programs were designed specifically to meet local demand for security, convenience of location, and a choice of savings instruments offering different mixes of liquidity and returns. These programs were all designed with extensive knowledge of local markets; moreover BRI learned from BDB, while BancoSol learned from both. Financial institutions from developing countries all over the world are now learning from all three” (Robinson, 1995).

A Small Selection of International Net-working Addresses (there are many more)

ACCION International, 120 Beracon Street, Sommerville, MA 02143, USA or 733 15th Street NW, Suite 700, Washington DC 20005, USA.

Tel. 1 617 492 4930 or 1 202 393 5113 Fax. 1 202 393 5115 or 1 617 876 9509 Email. mbrand@hers.com

ACDI/VOCA, 50 F Street, NW, Suite 900, Washington DC 20001, USA. Tel. 1 202 879 0224 Fax. 1 202 626 8726 Email gcarter@acdivoca.org

Association pour leDroit a l'Initiative Economique (AIDE), 111 Rue Saint Maur, 75011 Paris, France.

Tel. 33 1 4355 9894 Fax. 33 1 4355 9883

Centre International de Developpement et de Recherche (CIDR), B.P. 1, 60350 Autrechtes, France.

Tel. 33 44 42 1106/1112 Fax. 33 44 42 9452 Email. cidr@compuserve.com

Calmeadow, 120 Dunvegan Road, Toronto, ON M4V 2R3, Canada.

Tel. 1 416 467 1097 Fax. 1 416 467 4690 Email. international@calmeadow.com

CASHPOR, 4/1 Jalan Permata 4, Taman Permata, 70200 Seremban, Negeri Sembilan, Malaysia.

Tel. 606 764 5116 Fax. 606 764 2307 Email. gibbons@pc.jaring.my

Consultative Group to Assist the Poorest 1818 H Street, NW, Room G4-115, Washington DC 20043, USA.

Tel. 1 202 473 9594 Fax. 1 202 522 3744 Email cproject@worldbank.org

Development Finance Network, The Ohio State University, Dept. of Agricultural Economics, 2120 Fyffe

Road, Columbus OH 43210 1099, USA. Fax. 1 614 292 7362 Email. listserv@lists.acs.ohio-state.edu

Foundation for International Community Assistance (FINCA), 1101 14th Street NW, 11th Floor,

Washington DC 20005, USA. Tel. 1 202 682 1510 Fax. 1 202 682 1535 Email.

finca@villagebanking.org

Foundation for Development Cooperation, PO Box 10445, 232 Adelaide Street, Brisbane, Queensland

4000, Australia. Tel. 61 7 3236 4633 Fax. 61 7 236 4696 Email. fdc@ozemail.com.au

Freedom From Hunger, 1644 Da Vinci Ct., Davis, California 95617, USA.

Tel. 1 916 758 6200 Fax. 1 916 758 6241 Email: dthys@freefromhunger.org;

Grameen Trust, Grameen Bank Bhaban, Mirpur 2, Dhaka 1216, Bangladesh

Tel. 880 2 9005348 Fax. 880-2-806319 Email. g_trust@citechco.net

MicroFinance Network 733 15th Street NW, Suite 700, Washington DC 20005, USA.

Tel. 1 202 347 2953 Fax. 1 202 347 2959/393 5115 Email. mfn@sysnet.net

Opportunity International, 1111 North 19th Street, Suite 501, Arlington, VA, USA.

Tel. 1 703 522 8155 Fax. 1 703 522 8049

SEEP Network c/o PACT, 777 United Nations Plaza, New York, NY 10017, USA.

Tel. 1 212 808 0084 Fax 1 212 682 2949 or 1 212 692 9748 Email. seepny@undp.org

World Women's Banking/International Coalition of Women and Credit, 8 West 40th Street, 10th Floor,

New York, New York, NY 10018, USA. Tel. 1 212 768 8513 Fax. 1 212 768 8519 Email.

wwb@igc.apc

World Council of Credit Unions (WOCCU), 5710 Mineral Point Road, Madison, Wisconsin 53705, USA

or 805 15th Street, NW, Suite 900, Washington DC 20001, USA.

Tel. 1 608 231 7130 or 1 202 879 0224 Fax. 1 608 238 8020 or 1 202 626 8726 Email.

bbranch@woccu.org

The **design** of the new products should reflect as closely as is feasible the needs expressed by the clients and the opportunities offered by the market while still ensuring that they also meet the MFI's organisational and financial requirements. Thus, for example, if there is a demand for contractual savings agreement (CSA) facilities¹, the periods on offer (both for regularity of savings deposits and the time period of the CSA) should be driven by a combination of:

1. **the clients' needs:** what are the most convenient regular deposit periods (weekly, bi-weekly or monthly) ? what are the typical uses for the facility (education, marriage ceremonies etc.) ?;
2. **the MFI's needs:** how often can staff collect and account for these regular deposits ? how will these interface with the staff's existing duties and routines ? what is the organisation's need for capital ? does it have the management information systems and fund/liquidity management systems to manage the resultant fund flows effectively ?; and
3. **the market in which the MFI is operating:** the market will not only provide the competition, but also dictate the level of product recognition: if the new product is a better priced or delivered version of an existing facility already known and accepted in the community, it will probably be easier to "sell" than a brand new product which has to be explained at length to potential clients.

These latter, organisational issues, together with **cost analysis** will be the basis on which the product must be initially priced before comparing that price to the market. The cost of delivering and administering the product must be carefully analysed, for later comparison with the earnings that are expected to be derived from the product. Thus, for example, if a new 3 month providential loan product (repayable in weekly amounts) is under consideration, the MFI would examine how staff would collect and account for these regular repayments ? how will these interface with the staff's existing duties and routines, and thus what would be the marginal or incremental costs ? what additional book-keeping and portfolio tracking systems would be required ? what would be the expected level of take up of the new product, and thus what are the implications for the above issues and the organisation's liquidity and capital funds ? what level of risk is involved, and therefore what level of bad debts are expected ?

Given the commitment of most MFIs to institutional sustainability, the above cost analysis will provide an indication of the minimum **price** at which the new product can realistically be delivered. Similarly, unless the MFI is delivering an entirely new or significantly improved product, the competition will give an indication of the maximum price that clients are willing to pay for a similar service. Between the two is where the MFI should price its financial service product ... at least for the pilot-testing phase.

B. Implement the New Products on a Pilot Basis

It is important to implement the new products in a limited number of representative and easily accessible branches so that the results and issues can be monitored easily and any necessary corrective action taken promptly. If several products are to be pilot tested, they should be initially introduced in separate branches so that the marginal effects on operations and financial results can be monitored.

"It is difficult to estimate accurately for each instrument - in advance of the savings mobilization effort - what the labour costs will be, what the demand will be, and what interest rates will serve to make the instrument attractive and profitable. Therefore, pilot projects are needed to set appropriate interest rates for savings instruments, and to establish suitable spread. ..." (Robinson, 1995).

1 Contractual Savings Agreements (CSA), commit clients to save a specified amount, every specified period, for a specified number of periods in return for a pre-determined pay out on successful completion of the CSA. Thus for example a woman with a 14 year old daughter that she expects to marry off at 19 years of age might undertake a CSA to save 10 rupees a week for five years in return for a lump sum of 3,500 rupees on successful completion of the CSA.

When introducing the new products, the MFI will have to amend bookkeeping systems to ensure that the financial flows and receivables/payables arising from the product can be properly and promptly tracked and controlled. Thereafter the MFI must conduct the training necessary to ensure that outreach staff can promote the product and record the transactions that go with it, and that the branch level staff can effectively account for it using the new systems. Finally, when these steps have been completed the MFI and its staff can then undertake the marketing exercises to promote the product.

Senior staff of the MFI should regularly visit the branches where the new services is being delivered to review how the services is being sold and implemented in the field, how the services are being received by the clients, and the effect of the new services on the organisational and financial management systems. These visits will allow for rapid corrective action where necessary, and provide first hand knowledge of issues that will prove invaluable when it comes to evaluating the results of the pilot test.

BURO, Tangail's piloting of Contractual Savings Agreements is being pilot tested in only two branches: the two experimental branches were given a target of opening only 12 CSA accounts each per month. This demonstrates the conservative, limited scope and care taken by BURO, Tangail to pilot test and constantly review the dynamics of the new scheme's implementation. The actual performance is given below (taken from Rutherford and Hossain, 1997).

Contractual Savings Agreement Scheme size	<u>Pathorail branch</u>		<u>Silimpur branch</u>	
	7 months to December '96	11 months to April '97	7 months to December '96	11 months to April '97
Taka 5	11	11	7	2
Taka 10	42	43	43	-
Taka 15	2	2	40	-
Taka 20	72	73	0	-
Taka 25	0	2	0	-
Taka 50	0	2	2	-
Branch Total	127	133	92	100
Total Taka (Taka 40: 1US\$)		67,586		47,130

3. Monitoring and Evaluation Of The Pilot Test:

A. Monitor Financial and Organisational Consequences

The MFI should pay careful attention to both the financial and organisational results of introducing the new product, both on a short and medium term basis. Regular visits to the branches should examine the effects on the number and nature of clients, on the workload of staff at all levels of the organisation, and on costs, liquidity, capital funds and ultimately profitability. Clearly, these will change over time and the "short and medium term" will vary according to the speed of marketing outreach and resulting client take-up of the new products, as well as the timeframe of the products on offer. It is often easier to understand the dynamics of products with a shorter maturity than those that require longer-term commitments from the MFI and its clients. Nonetheless, as soon as possible, the MFI should attempt to project the long-term financial and organisational implications of the new financial service product being pilot tested.

2 Analysis not carried out by the review team

B. Conduct market research

As part of the pilot testing process, the MFI should also conduct periodic evaluations through its staff (and where necessary or desirable consultants) to examine the clients' perceptions and use of the new product. These surveys can be conducted through both informal discussions and more formal qualitative techniques (focus group discussions etc.) in an attempt to examine the reactions of clients to the product (both positive and negative), and in particular how could the product and its delivery be improved to better meet their needs.

BURO, Tangail are starting to use "Customers' Consultative Groups" which are formed of elected *kendra* (comprising 20-30 members - 4-6 groups) leaders and hold regular consultations with the Branch staff, occasionally with Head Office staff in attendance. These Customers' Consultative Groups were formed to "develop an increasingly co-operative form of participatory management" and "allow the BURO, Tangail staff a better understanding of the needs, grievances, problems, opportunities and constraints (economic and social) of the members; and give the members a clear understanding of their organisation, its opportunities and constraints (financial and operational), and its policies" (BURO, Tangail, 1996).

Particular attention should be given to the risk of over-extending the clients' household economic flows from which savings deposits or loan repayments must ultimately come. Many MFIs (and indeed formal sector financial organisations) have experienced problems when the loans issued exceeded their clients' capacity to repay, and contractual savings agreements present similar risks.

4. Revision and Scaled-Up Implementation:

A. Make Necessary Amendments

As a result of the monitoring and evaluation steps outlined above, the MFI will be in a position to amend the product design, pricing and marketing, or implementation systems (book-keeping, training etc.) in order to optimise it. These amendments will involve revising not only the design, delivery, marketing and accounting systems wherever necessary, but also reviewing the cost-analysis and thus the pricing of the product in the light of the experience and data gathered during the pilot testing. By this stage, the MFI should be in a much better position to prepare these analyses and to finalise the pricing and marketing of the product.

"The design of trade marks for savings products at BCS, BAAC and BRI has proven to attract depositors. These three institutions promote savings products that have self-explanatory names (BAAC's Save to Increase your Chances, BCS's Grow Every Day and BRI's Savings of the Rural Community accounts) and showy trademarks. While special product labels make it easier for customers to understand the particular design of each savings product, they also help to distinguish the products from those offered by competing financial institutions.

Except for RBP, market studies have been relied upon as important tools to develop and introduce new savings products. Analysis of market potential, field pilot testing of new savings products and re-testing of the revised products on a larger scale are common practices. BRI and BAAC have undertaken extensive field testing, taking between one and two years, before launching each of their new savings products nationally. BCS and RBP constantly observe the savings conditions and marketing strategies of their competitors." (GTZ, 1997d).

B. Scaled-up Implementation

Once the process of reviewing the pilot testing experience and data, and making the necessary amendments has been completed, the MFI is almost ready to implement the new product throughout the organisation. Before doing so, the MFI should ensure that the accounting systems for the new product are fully integrated into the organisation's management information system, while also being available for separate analysis and tracking. The scaled-up implementation of the new product will require extensive training and distribution of revised bookkeeping and marketing systems, and may therefore best be done in a phased manner if the MFI is a large and widespread organisation.

C. And Beyond ...

“When the instruments, pricing, logistics, information systems, and staff training are completed, the program is ready to be gradually expanded throughout the branches of the institution.

When the institution has successfully expanded its instruments and services to all branches, and such new branches as may be opened, the emphasis should switch from the logistics of expansion to the techniques of market penetration. The former is a necessary, but not sufficient, condition for massive deposit mobilisation. When well run institutions offer appropriate deposit facilities and services, they can quickly gain the accounts of people living or working nearby the bank offices; this is known as the “easy money”. Market penetration of the wider service area, however, requires other methods. These include: development of a systematic approach to identification of potential depositors; implementation of a staff incentive system based on performance (so that the staff will seek out the potential depositors, rather than waiting for them to come to the bank); development of effective methods for intra-bank communication; more extensive market research; a major overhaul of public relations; and massive staff training” (Robinson, 1995).

Introducing a range of high quality financial services will respond to Wood's (1997) concerns, “It seems important to have a more disaggregated understanding of the poor, and to recognise the diversity of their capacities, social position, family circumstances and livelihood options. They are not a homogeneous, undifferentiated mass, to be offered an undifferentiated, single, universal package of financial services.” Furthermore, as Berenbach and Guzman (1994) remind us, “Market responsiveness is another element of success. Programs that want to attract and maintain a large client base must adopt a package of services and a means for service delivery that satisfy client preferences. ”

The development of the variety, flexibility and quality of financial services to meet the wide diversity of needs of the poor is the challenge for forward thinking and successful MicroFinance Institutions.

**BURO, Tangail - An Overview
As Of December 31, 1998**

Organisation: BURO, Tangail has been operating since 1989, and is dedicated to the economic development of the poor, primarily in Tangail district, with the Mission Statement: **"To establish an independent, sustainable organisation dedicated to providing effective flexible and responsive financial services to promote self-reliance among the rural poor in Bangladesh."**

Through years of careful operations research, BURO, Tangail has developed and implemented a programme which emphasises the importance of savings as well a credit, and has become one of the more innovative and influential NGOs operating in Bangladesh.

Savings and Credit Activities: BURO, Tangail encourages potential clients drawn from the poorer "target" section of the community to form groups, encourages them to save, and provides credit to capitalise their income generation activities. By charging rates of interest designed to cover implementation costs and contribute to the capitalisation of the organisation, BURO, Tangail has developed a cost-effective and sustainable savings and credit system that by 2001 will provide financial services to around 100,000 members in a geographically compact area.

Members' Participation: The BURO, Tangail system encourages the members to participate in the planning, implementation and monitoring of the financial services and village development activities provided by the organisation, through participatory workshops, PRA and the Customers' Consultative Groups.

Scope of Operations: BURO, Tangail provides flexible financial services to 1,362 villages in Tangail district through 41 branches, which are managed from a head office located in Tangail town. There are a total of 448 staff who undergo regular classroom and on-the-job training.

Savings: In the year to December 31, 1997, net savings, including members' emergency funds increased by 105% to US\$ 797,858, and the weekly savings rate in mature branches continued to rise, and was significantly above (usually more than double, often triple) the projected/budgeted rate of US\$ 0.125. In the year to December 31, 1998, net savings including members' emergency funds increased by 14% to US\$863,915. The declining rate in the rise in net savings arose from the lifting of the requirement to hold 15% of loans taken in savings account and the members' need to withdraw savings to meet emergencies in the wake of the disastrous 1998 floods.

Loans: As of December 31, 1998 US\$ 12,242,543 in loans had been disbursed, and US\$ 8,106,841 had been recovered. The loan recovery rate further improved over previous years to 98.08% loanees with up-to-date repayment records (with only 1.03% of loans with repayment instalments more than 26 weeks overdue).

Capital Funds: As of December 31, 1998, donors had contributed US\$ 2,210,180 (59%) of the total capital funds, and the 71,479 members had matched this with US\$ 647,508 (17%) from branch profits and US\$ 863,915 (24%) in their savings and emergency fund accounts.

Profitability and Cost Analysis: In 1998, BURO, Tangail made a profit of US\$ 376,219 (excluding grants of US\$ 272,680 (reflecting the high rate of expansion at present) and the cost of donated capital (imputed at 10%): US\$ 193,377), and this brought the organisation's retained earnings to US\$ 647,508. Total expenditure for 1998 was 12.7% of the loans disbursed.

For details of this financial data, see "BURO, Tangail At A Glance 1993-98"

BURO, Tangail

Operations Research: Philosophy and Methods

BURO, Tangail is unique in Bangladesh since (unlike the other better known NGOs) it has always offered its members access to all of their hard-earned savings. BURO, Tangail is committed to further enhance and improve the flexibility and responsiveness of its savings and credit facilities to meet the needs of its members.

BURO, Tangail has developed a programme of operations research to improve the flexibility of the financial services offered by the organisation, and to ensure that these are responsive to the members' needs. The operations research agenda is guided by:

- i) the results of the organisation's attempts to improve the members' participation in its organisational and financial services development, including the Customers' Consultative Groups, PRA-based monitoring and evaluation techniques, and workshops with members and staff - i.e. client-based, or demand-driven, market research;
- ii) the reviews of external consultants; and
- iii) examination of successful products offered by other informal and semi-formal financial services providers.

Detailed design, costing and pricing of new products is undertaken by the Finance Director and his staff in collaboration with the Programme Implementation staff prior to the start of pilot testing. Pilot testing of new financial service products is conducted in well-established branches close to the head office in order to facilitate effective training, intervention and monitoring. Staff from these branches are trained in the new products and the accounting systems necessary to track them, and the pilot testing begins.

Senior staff from the Programme Implementation and Finance sections of head office then make regular visits to review the progress of pilot testing in the field. They examine staff, implementation, accounting and organisational issues and make any necessary recommendations on product design. The Customers' Consultative Groups are designed to allow clients to provide feedback on product design. Once the pilot has been running for a while, staff in the pilot Branches work with senior staff from the Finance section to examine profitability and liquidity issues, and to revisit the costing analysis and thus pricing of the product.

This process is further strengthened by an operations research review team of MicroFinance experts (researchers, practitioners and accountants) drawn from outside BURO, Tangail, which conducts periodic reviews of the progress of the operations research programme, implementation issues, and clients' perceptions of the financial service products being offered, as well as ideas and options for further research.

Once pilot testing is completed (the period required to complete pilot testing of different products has varied with the complexity of the product, the success of the pilot test, the need for revisions to the design and pricing of the product etc.), successful financial service products are extended out to other branches as quickly as possible, in a phased approach.

BURO, Tangail

Operations Research Programme

Until 1996, BURO, Tangail offered limited deposit (maximum Taka 50 per week) and limited withdrawals savings products (under which clients could only access their savings if they did not have a loan outstanding). The organisation also offered a traditional Grameen Bank-inspired loan programme, offering loans repayable in non-negotiable 50 weekly instalments. As part of its commitment to innovation and to offering the best possible services to its clients, BURO, Tangail is now developing and implementing new financial service products. New components of the programme proposed for testing and implementation include:

Savings Facilities

1. **Open Savings Deposits** - offering unlimited savings deposit opportunities (now introduced in all 40 branches).
2. **Open Savings Withdrawals System** - allowing open access to members' savings subject to maintaining 15% of the value of any loan outstanding (now introduced in all 40 branches).
3. **Total Open Savings Withdrawals System** - allowing open access to members' savings irrespective of whether they have a loan outstanding or not (currently being pilot tested in 1 branch).
4. **Fixed Term Deposit Scheme** - offering higher rates of interest for longer term (2, 5 and 10 years) contractual savings agreements (currently being pilot tested in 2 branches).

Credit Facilities

1. **Supplementary Loan System** - offering additional loans to maintain members' working capital (currently being pilot tested in 1 branch).
2. **Simple Prepayment Facilities** - allowing prepayment of loans when members have excess liquidity (now introduced in all 40 branches).
3. **Line of Credit System** - offering an overdraft facility (thus overcoming the problems of rigid repayment schedules that are so unresponsive to many members' business cycles) (currently being pilot tested in 2 branches).
4. **Business Loans** - larger loans of Tk. 20,000 - 75,000 for the more successful entrepreneurs among BURO, Tangail's members (currently being pilot tested in 3 branches).
5. **Leasing Loans** - larger loans of Tk. 20,000 - 75,000 to finance the acquisition of fixed assets (currently being pilot tested in 3 branches).
6. **Flexible Loan Repayment System** - offering longer repayment terms for repayment of the business and leasing loans and to assist poorer members repay their normal "general" loans (currently being pilot tested in 2 branches).
7. **Short-term Providential "Hand" Loans** - offering 3 month loans for emergency needs (currently being pilot tested in 2 branches).

BURO, Tangail believes in the open exchange of information to further the development process. It seeks to disseminate the results and findings of the programme and operations research to other NGOs (through the Credit Development Forum an umbrella organisation of over 300 savings and credit NGOs in Bangladesh), and to donors and other interested parties (through the BURO, Tangail donor support group and CGAP) and regular publication of annual reports and working papers.

Contact **BURO, Tangail** at:

18/Ka Pisciculture Housing Society, Ring Road, Shymoli, Dhaka 1207, Bangladesh
Tel. 880-2-815815 Fax. 880-2-9125492 E-mail. burot@bdmail.net

References

- Abdullah**, Tahrunnesa , Stuart Rutherford and Iftekhar Hossain “BURO, Tangail Rural Savings and Credit Program - Mid Term Review”, *Manuscript*, Dhaka, 1995.
- Berenbach**, S., and D. Guzman, "The Solidarity Group Experience Worldwide", in Maria Otero and Elizabeth Rhyne, “The New World of Microenterprise Finance”, *Kumarian Press*, West Hartford, 1994, and *Intermediate Technology Publications*, London, 1994.
- BURO, Tangail**, “Sustainable Rural Savings and Credit Programme, Project Document, Phase IV (1997-2001)”, *BURO, Tangail*, Dhaka, 1996.
- Edgcomb**, E. and J. Cawley, "The Process of Institutional Development: Assisting Small Enterprise Institutions Become More Effective", in Otero, Maria, and Elizabeth Rhyne, “The New World of Microenterprise Finance”, *Kumarian Press*, West Hartford, 1994, and *Intermediate Technology Publications*, London, 1994.
- GTZ**, “Comparative Analysis of Savings Mobilization Strategies - Rural Bank of Panabo (RBP), Philippines (Draft)”, *CGAP Financial Instruments (Savings Mobilization) Working Group*, Eschborn, 1997a.
- GTZ**, “Comparative Analysis of Savings Mobilization Strategies - Bank Rakyat Indonesia (BRI), (Draft)”, *CGAP Financial Instruments (Savings Mobilization) Working Group*, Eschborn, 1997b.
- GTZ**, “Comparative Analysis of Savings Mobilization Strategies - Banco Caja Social (BCS), Columbia, (Draft)”, *CGAP Financial Instruments (Savings Mobilization) Working Group*, Eschborn, 1997c.
- GTZ** “Comparative Analysis of Savings Mobilization Strategies (Draft)”, *CGAP Financial Instruments (Savings Mobilization) Working Group*, Eschborn, 1997d.
- Hulme**, David and Paul Mosley, “Finance for the Poor or the Poorest ? Financial Innovation, Poverty and Vulnerability” in “Who Needs Credit ? Poverty and Finance in Bangladesh” (eds.) G.D. Wood and I. Sharif, *University Press Limited*, Dhaka, 1997, and *Zed Books*, UK, 1997.
- Robinson**, Margueritte, “Introducing Savings Mobilization in Microfinance Programs: When and How ?”, *Microfinance Network*, Cavite, Philippines, and *HIID*, USA, November 1995.
- Rutherford**, Stuart, “A Critical Typology of Financial Services for the Poor”, *ActionAid and Oxfam*, London 1996.
- Rutherford**, Stuart, and Iftekhar Hossain, “BURO, Tangail’s new products: Preliminary Operational Research”, *Manuscript*, Dhaka, 1997.
- Wood**, G.D., “Breaking Out of the Ghetto: Employment Generation and Credit for the Poor”, in “Who Needs Credit ? Poverty and Finance in Bangladesh” (eds.) Geoffery D. Wood and Iffath Sharif, *University Press Limited*, Dhaka, 1997, and *Zed Books*, UK, 1997.
- Wright**, Graham A.N., Stuart E. Rutherford and Mosharrof Hossain “Savings: Flexible Financial Services for the Poor (and not Just the Implementing Organisation)”, in “Who Needs Credit ? Poverty and Finance in Bangladesh”, edited by Geoffery D. Wood and Iffath Sharif, *University Press Limited*, Dhaka, 1996 and *Zed Books*, UK, 1997.