

BURO, Tangail's Approach to Product Development: A Case Study

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1.0 INTRODUCTION

The microfinance industry remains a strange, archaic enigma. It is probably the only remaining industry in the world that is typically product- rather than market-driven. Companies in other industries have long since transformed to offer their clients the products that they want rather than the products that the company wants to produce. Those companies that have failed to make the transition from being product-driven to being market-driven, (i.e. have failed to respond to the needs/desires of their clients) have almost invariably been driven out of business by client responsive competitors. Inevitably, successful microfinance institutions (MFIs) will also follow this trend; for those that do not respond to the needs of their clients will eventually fail.

1.1 BURO, Tangail: The Organisation and Its Results

Through years of careful operations research, BURO, Tangail has developed and implemented a programme which emphasises the importance of savings as well a credit. It has been operating since 1989, and is dedicated to the economic development of the poor, primarily in the Tangail district of Bangladesh. Its Mission Statement is:

"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."

Scope of Operations

As of December 31, 2000, BURO, Tangail was providing flexible financial services to 73,265 members in 1,665 villages in Tangail district through 51 branches. All of these branches were managed from a head office located in Tangail town. There was a total of 613 staff who underwent regular classroom and on-the-job training.

Saving

In 1997, net savings, including members' emergency funds, increased by 100% to \$800,747. In the year to December 31, 1998, net savings, again including members' emergency funds, increased by 8% to \$863,915. The declining rate in the rise in net savings arose from the lifting of the requirement to hold 15% of loans in savings accounts and the members' needs to withdraw savings to meet emergencies in the wake of the disastrous 1998 floods. In 1999, net savings rose by 51% to \$1,303,311, and in 2000 by a further 18% to \$1,535,015.

Loans

As of December 31, 2000, BURO, Tangail's assets included \$4,263,073 in outstanding loans, an increase of 25% over the \$3,405,780 outstanding as of December 31, 1999. The loan recovery rate further improved over previous years to 96.05% borrowers with no overdue instalments (and with a portfolio at risk [>30 days] of 4.0%).

Capital Funds

As of December 31, 1998, donors had contributed \$2,885,703 (49%) of the total capital funds, and the 73,265 members had nearly matched this with \$558,380 (9%) from cumulative profits and \$1,535,015 (26%) in their savings and emergency fund accounts. The \$949,299 (16%) balance of capital funds came from commercial interest rate borrowings.

Profitability and Cost Analysis

In 1999, BURO, Tangail made a profit of \$234,597, and this brought the organisation's retained earnings to \$753,961. In 1999, BURO, Tangail was 124% operationally self-sufficient and 99% financially self-sufficient. The extensive restructuring of the programme in 2000 resulted in a loss of \$132,750, which

decreased the retained earnings to \$558,380 (after adjusting for the decrease in the value of the Bangladeshi Taka).

For details of this financial data, see Appendix 1 for the Balance Sheet and Income & Expenditure Statements and Appendix 2 "BURO, Tangail: Five Years At A Glance 1996-00".

1.2 Operations Research - Philosophy and Methods:

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

To this end, BURO, Tangail has developed a programme of operations research. The operations research agenda is guided by the:

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

The Directors use this continual research, their own direct experience and consultations with members in the field to guide their judgement and stimulate their imagination to create potential products. Stuart Rutherford describes this special process as follows: "In reality it [imagination] is there within BURO, Tangail, working like yeast, bubbling up here, short-circuiting the process there, or lying dormant for months on end only to spring to life when a Director wakes up one morning and thinks 'aha! Why don't we try something like *this* ...'" (Rutherford, 2001).

1.3 BURO, Tangail's Operations Research Programme

As part of its commitment to innovation, BURO, Tangail has developed and implemented new financial service products. Until 1996, BURO, Tangail offered limited deposit (maximum Tk.50 (\$1) per week) and limited withdrawals savings products. Within these savings programmes, 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. The components of the programmes tested and implemented are described in Table 1.

Table 1. BURO, Tangail: Savings and Loans Products Tested 1990-2000.

Product Name	Product Description	Pilot-Tested	Rolled-Out
<i>1) Savings Products/Terms</i>			
Savings Deposits	Savings deposit opportunities limited to a maximum of Tk.50 (\$1) per week.	1990 – 1991	1992
Partially Open Withdrawals System	Open access to members' savings whenever they do not have a loan outstanding. A minimum of between 25-15% (according to the size of the loan) of loan principle required to borrow and then locked in when the loan is taken.	1990 – 1991	1992

Product Name	Product Description	Pilot-Tested	Rolled-Out
Open Savings Withdrawals System	Open access to members' savings subject to maintaining 15% of the value of any loan outstanding. Note that at any one time, typically 50-33% of members do not have a loan outstanding and are only using BURO, Tangail's saving services.	1996	1997
Simple Contractual Savings Agreements	5 year contractual savings agreements. Savings to be deposited on a weekly or monthly schedule according to clients' choice.	1996	1998
Open Savings Deposits	Savings deposits at each weekly meeting originally limited to a maximum of Tk.200 (\$4), subsequently raised to Tk.500 (\$10) and then Tk.2,000 (\$40). More can be deposited at the branch at anytime.	1997	1998
Total Open Savings Withdrawals System	Open access to members' savings irrespective of whether they have a loan outstanding or not.	1997	1998
Fixed Term Deposit	Lump sum deposits from Tk.5,000 (\$100) to Tk.100,000 (\$200) for 3 months to 5 years.	None	1998
Multiple Contractual Savings Agreements	3, 5 and 10 years contractual savings agreements with varying levels of interest to create incentives for clients to take out longer-term agreements. Savings are deposited on a weekly or monthly schedule according to clients' choice.	None	1998
Product Name	Product Description	Pilot-Tested	Rolled-Out
2) Loan Products/Terms			
General Loan	Grameen Bank-inspired, group-guaranteed, loan repayable in 50 weeks. "Emergency Fund" of 5% (controlled by the <i>Kendra</i> ¹ to assist members facing legitimate repayment problems) and a <i>Kendra Levy</i> of 5% (for "community development activities"). The "Emergency Fund" and <i>Kendra Levy</i> were amended to 2.5% for roll-out.	1990-1991	1992
Special Purpose Loans For Tube-Wells and Sanitary Latrines	Essentially the same terms as the General Loans used to finance the purchase of sanitary latrines and tube-wells for drinking water.	None	1993 (to be phased out from 2002)
Simple Prepayment Facilities	Permitting prepayment of loans when members have excess liquidity.	None	1996
Line of Credit System	An overdraft facility (thus overcoming the problems of rigid repayment schedules that are so unresponsive to many members' business cycles).	1996	None (being phased out)
Removal of " <i>Kendra Levy</i> "	" <i>Kendra Levy</i> " dropped since it was unpopular and rarely used by the clients (who controlled this fund).	None	1997
Supplementary Loan System	Additional loans (half the value of the general loan principle, issued halfway through the loan repayment cycle) to maintain clients' working capital.	1997	1998 (carefully!)
Flexible Loan Repayment System	Longer (106 week) repayment terms to assist poorer members repay their normal "general" loans – the pilot-test demonstrated that there was limited demand for this.	1997	None (phased out)
Business/Leasing Loans	Larger loans of Tk.20,000 - 200,000 (\$400-4,000) for the more successful entrepreneurs and members.	1998	1999 (but very slowly)

¹ A "*Kendra*" is the 30-40 member group (comprising 6-8 groups of 5) and is headed by a "*Kendra*" leader.

Product Name	Product Description	Pilot-Tested	Rolled-Out
Short-term Providential "Hand" Loans	Three month loans for emergency needs (maximum of Tk.3,000). Issued the same day as application.	1998	2001

2.0 BURO, TANGAIL'S APPROACH: THE CASE STUDY

2.1 Market Definition

BURO, Tangail was started as an experimental programme with two significant, fundamental and defining differences from the other NGO-MFIs operating in Bangladesh in 1989. First, it would offer open access savings services to its clients and second, (in contrast to most of the industry at that time) it had an explicit commitment to achieving financial sustainability from the outset.

These objectives necessitated extensive research and experimentation to define BURO, Tangail's market and indeed its systems. Those seeking to establish new MFIs often overlook the importance of understanding the market and environment. It is the market, the "financial landscape", and the operating environment (population density, infrastructure, socio-cultural norms, etc.), that should define the system and its products, not a blueprint developed in a distant land and another organisational culture.

Thus initially, a fundamentally different institutional philosophy drove BURO, Tangail to experiment and innovate. BURO, Tangail has always charged interest rates that are significantly higher than those of its main competitors, Grameen Bank, BRAC, ASA and the Society for Social Service (SSS). In preference to reducing interest rates, and competing with its larger and better-funded competitors, BURO, Tangail has chosen to serve clients that sought user-friendly, client-responsive financial services.

As a result, subsequent product innovation has been driven by two complementary forces:

1. the feedback from clients and
2. the need for BURO, Tangail to stay ahead of the competition in one of the most fiercely competitive environments in Bangladesh.

As a result of these two forces, BURO, Tangail continues to expand its product range with varying degrees of success.

Some of the innovations (for example introducing facilities for advance repayments of loans or removing withdrawal restrictions on savings for clients with outstanding loans) were simply refinement for existing products. Other innovations (for example, the introduction of supplementary loans or contractual savings agreements) were new product development. The method of product development also differed. Product refinement usually (but not always) requires a less lengthy pilot-testing process, whereas new product development necessitates more extensive and lengthy pilot-testing.

2.2 Market Research

Initially, BURO, Tangail's systems and basic products were developed through an iterative process of operations research in five branches. This process took over two years (1989-91) of pilot-testing, monitoring, evaluation and refinement (see Wright, 2000 for detailed documentation of this process). Once the basic system and products had been defined, BURO, Tangail rapidly expanded (1992-95) at which time the emphasis was on achieving scale of outreach. Thereafter, BURO, Tangail began to develop and introduce new products and refine its existing ones.

BURO, Tangail's approach to market research is not based on formalised surveys. The organisation believes that quantitative research rarely captures the complexity of clients' (or potential clients') lives and needs for financial services. BURO, Tangail relies on a variety of informal and semi-formal approaches to explore and understand the market in which it operates.

Quantitative research is often used to assess potential market demand. However, to do this effectively, a well-defined product prototype is a prerequisite. Given the costs and complexity of conducting high-quality, quantitative research, BURO, Tangail believes that it is easier and more cost-effective to move directly to the pilot-testing phase and to learn direct from the market. For example, quantitative research would have demonstrated a high level of demand for the line of credit product, but only a pilot-test could demonstrate that clients would take the maximum line of credit and simply make the interest payments on it with little or no attempt to pay it off when cash flow permitted. Thus, pilot-testing is considered an integral element of the front-end research process rather than a procedure to test and fine-tune the "final draft" product prototype as is more typical in many MFIs.

Box 1. Line of Credit

In 1996, BURO, Tangail began a pilot-test that was designed to offer a line of credit to its more established members (i.e. those who had taken and repaid three general loans on time). The line of credit was designed for members running regular viable businesses, and set a maximum credit level for a year, renewable each year up to three years subject to satisfactory performance by the member. The borrower could at any time draw down and/or repay the loan according to her business needs. Interest was charged on the outstanding balance at the beginning of each week at 40% APR (the same rate as for general loans) and was payable weekly at the *Kendra* meeting.

The importance of effective pilot-testing was particularly well illustrated with the line of credit product. Clients used the credit product as a large working capital loan on which they made the interest payments only, rather than using it as originally envisaged – i.e. as an overdraft facility. This discovery meant that BURO, Tangail has chosen not to roll-out the product, and it is being slowly phased out.

Despite its size, BURO, Tangail's top and middle management spend a great deal of time in the field talking and listening to clients. This is a reflection of the commitment to "responsive financial services" enshrined in the organisation's mission statement. This approach is further reinforced by mechanisms to elicit and process feedback from the front-line workers who deal with the clients on a day-to-day basis. This is conducted on an informal basis as management visit branches or conduct training, and on a formal basis at the one-day workshops held twice a year with all the staff. In addition, the annual (now semi-annual) meetings of the centre (*Kendra*) chiefs from each branch provides another forum for discussion of clients' needs and opportunities and how BURO, Tangail might best respond.

As a result of its commitment to innovation, BURO, Tangail has attracted substantial attention from some of the more creative donor agencies. This has allowed the organisation to require visiting evaluation teams to examine options to further develop the products offered to its clients. This has enabled BURO, Tangail to draw on the international experience and alternative perspectives offered by these consultants. Clearly, the value-added of this approach depends heavily on the quality of the consultants involved, but BURO, Tangail has been fortunate in this respect, and review teams have involved respected authorities such as Stuart Rutherford and others interested in, and committed to, client-focused products and delivery systems.

BURO, Tangail has also used "customer consultative groups" to gain a better understanding of how its clients perceive the organisation and its services as well as the opportunities for alternative products or approaches to marketing existing products. These groups, usually comprised of the more articulate group leaders, meet quarterly in an informal atmosphere with senior staff, and are encouraged to discuss issues facing their communities and the services provided by BURO, Tangail. This mechanism has been used sporadically, and as a result has probably not realised its full potential as a source of information and guidance for the organisation². BURO, Tangail has recently taken steps to merge these with the semi-annual meetings held with *Kendra* leaders.

² PRIDE-Tanzania has implemented customer consultative groups on a regular and rigorous manner. Its senior management believe that it has provided them with invaluable information as well as a mechanism to extend important information to clients.

2.3 Competition

With all the larger Bangladeshi MFIs operating there, Tangail is one of the most competitive environments in Bangladesh – and indeed the world. Many of the ideas for product development are taken from the competition – and vice versa. Thus BURO, Tangail introduced a programme of Special Loans for Sanitary Latrines and Tube-wells as a result of the activities of other MFIs. In addition, the contractual savings agreement products were inspired by a combination of expressed client demand and the formal sector banks' popular "Deposit Pension Scheme" to which many of BURO, Tangail's clients aspired.

One of the strategic aims of BURO, Tangail is to stimulate MFIs operating in the credit-dominated Bangladeshi market into offering a more diverse range of financial services to their clients. In this, the organisation has only been partially successful. BRAC and ASA have tried to introduce voluntary, open access savings services and Grameen Bank now gives its older clients access to their savings. BRAC and ASA struggled in their efforts to offer voluntary, open access savings services primarily because of their dependence on the accumulated compulsory, locked-in savings (see Wright et al., 1997 and Wright et al., 2001 for a detailed analysis of this). Grameen Bank (which has the clearest mandate to offer high quality savings services) probably resisted opening access to members' savings for the same reason.

Box 2. Contractual Savings Agreement

BURO, Tangail's contractual savings agreement was designed to meet the expressed demand for a disciplined savings mechanism that would allow clients to save up for predictable life-events – particularly marriages. Other clients use the product to save up to buy small parcels of land or to add to/renovate housing.

The contractual savings agreement was initially pilot-tested in one form: the five-year contractual savings agreement with weekly instalments of Tk.5-100. The effective rate of interest was 15% per annum, compounded yearly. On maturity at the end of five years, the accumulated deposit with profit is immediately cashable.

To open a contractual savings account members are required to visit the branch office, discuss the scheme with branch staff and pay a fee of Tk.10 to open the account. Failure to make a weekly deposit results in a fine of Tk.1 per Tk.5 payable and this fine must be paid along with the arrears the following week. Failure to pay more than three consecutive weekly deposits anytime during the five years terminates the scheme, and the accumulated deposit amount is transferred to the member's general savings account, where it will earn the normal rate of interest on savings from the inception date of the scheme.

It is interesting to note, however, that BURO, Tangail does not conduct any formalised competition analysis (for an example of one approach to this using a "Competition Analysis Matrix" see Wright, 2001) that might further enhance its understanding of its market.

2.4 Product Concept and Prototype Development

Some of the products developed by BURO, Tangail, most notably the contractual savings product, have resulted in a higher cost of capital (relative to, for example, commercial borrowing alternatives open to it). However, by offering a variety of flexible financial services, BURO, Tangail has managed to maintain a higher than average client retention rate and to charge a higher rate of interest on loan products than its main competitors. An implicit objective in offering savings services has been to reach deeper and attract poorer clients, however the achievement (or otherwise) has never been empirically researched or proven.

BURO, Tangail does not go through a formalised process of "product concept to prototype refinement" that is typically used to refine product concepts prior to pilot-testing. In BURO, Tangail, the process of concept/prototype testing is essentially done through the process of a carefully controlled and limited pilot-testing. There have been times when it is likely that a more formalised testing of the initial product concept

(using a series of focus group discussions) to refine it into a product prototype ready for pilot-testing would have been an extremely beneficial and cost-effective addition to the product development process. For example, a concept refinement process could well have indicated the market for the multiple contractual savings agreement product offering several durations (1-5 years). In the event, this demand was demonstrated by the pilot-testing process. In addition, Stuart Rutherford's recent product review has suggested that several of the products are poorly understood by BURO, Tangail's clients. A process of concept-to-prototype refinement would have helped BURO, Tangail present these products in clear, concise, client language and thus facilitate their communication to customers.

2.5 Delivery Channel Concept Development

The delivery channels or systems for the new products have rarely varied with the product. The weekly group meeting remains the central focus for financial transactions with BURO, Tangail's clients. However, with the growth of high-value transactions, some have been transferred to the branch. Thus, higher value savings deposits and withdrawals must be made at the branch. Stuart Rutherford's (2001) recent work on BURO, Tangail suggested that it may be an appropriate time for the organisation to begin breaking out of the weekly *Kendra*-based mould and looking for more creative, client-responsive ways of delivering the financial services. BURO, Tangail, with characteristic positive responsiveness have agreed and will start this important work in early 2002.

Box 3. Business Loans

BURO, Tangail's discussions with clients indicated that within each *Kendra*, there were 3-5 (5-10%) clients who were particularly entrepreneurial and who had the capacity and desire to take and manage larger loans to develop their businesses. BRAC and other MFIs had also noticed this and were working on products to finance this sub-set of their clientele.

The group guarantee methodology was clearly inappropriate for such larger loans. Group members could not reasonably be asked to underwrite larger Business Loans many of which would require a term longer than the one year General Loan that most of BURO, Tangail's clients were using. Thus, a collateralised individual lending product was required for clients who had outgrown the basic group-based approach.

BURO, Tangail developed and pilot-tested Business Loans of Tk.15,000–200,000 (\$300–4,000) which are available to entrepreneurial clients who have taken and repaid 3 general loans on time. Business Loans, which also are charged at the standard 40% (APR) interest rate, can be repaid over three schedules with weekly repayments spread over 1-3 years. Applicants must show a business plan and the existing business to which it is based. Those with Business Loans cannot take another loan (with the exception of the Emergency/"Hand" Loan). The collateralised assets replace the group guarantee and thus clients taking business loans do not have to contribute to the Emergency Fund.

2.6 Formal Costing and Pricing

BURO, Tangail does not conduct formal costing and pricing exercises prior to the introduction of its products. It does, however, conduct informal calculations that include an analysis of interest paid on savings, the realisable rate of return on the percentage available to lend and the competition's rates. However, BURO, Tangail has still not conducted a formal product-by-product costing analysis of the wide range of products it offers. Thus, while BURO, Tangail knows the total financial costs of its products, it does not know the (often substantial) cost of delivering each of these products. Given the diversity and range of the products offered by BURO, Tangail, it is important that the organisation starts to analyse both the direct and indirect costs of delivering their products so that they can make more informed decisions on product delivery systems, promotion/discontinuation, etc. When BURO, Tangail does conduct this costing exercise, the analysis may well indicate that some products are substantially more cost-effective than others, and indeed that some products require significant changes.

After performing the costing exercise, BURO, Tangail needs to review the pricing of its products, a recent review noted that BURO, Tangail should "... improve its pricing of new products. Mistakes have been made in the past ... full scale pricing exercises do not appear to be carried out" (Stuart Rutherford 2001). Product by product pricing ensures that each product is contributing to the profitability of the institution, that returns are commensurate with the resources committed to delivering each product.

3.0 IMPLEMENTATION

3.1 Pilot-Testing

Initially BURO, Tangail used five branches to develop its basic systems. Thereafter, new products were pilot-tested in two branches with clientele who were representative of the typical branch, staff who were particularly capable and locations that were easily accessible from head office in Tangail town. Introducing the product prototypes into these branches was the central to testing their likely effect on systems, staff and financial results. Observing the impact of these pilot-tests also gave a unique understanding of the realised (as opposed to assumed) market demand for the products. Thus this process of pilot-testing is central to BURO, Tangail's product development process.

Product prototypes are tested for varying lengths of time according to their complexity and the potential risk associated with them. New/refined savings products typically require longer pilot-testing to allow the clients to test the new rules governing the products. This allows sufficient time for clients to make deposits and withdrawals to be sure that the product operates as advertised and thus to develop confidence in the product. These time consuming pilot-tests have significant implications for cash-flow, particularly for MFIs seeking to make the transition from locked-in to open access savings facilities. Many MFIs seeking to make the transition have experienced a massive outflow of funds in the first year before the net savings levels rise in the subsequent years. (This is discussed in detail in Wright et al., 1997).

As a result of the above-mentioned goals and constraints, BURO, Tangail's contractual savings product was tested in a very limited manner to assess the likely demand for the product and the potential implications for cash flow and liquidity management. BURO, Tangail often not only confines the new product prototypes to pilot-test branches but also limits the number of products sold. Thus when the contractual savings product was initially pilot-tested, within the pilot-test branches, managers were told to offer only 12 contractual savings agreements per month. The contractual savings product was pilot-tested for around 18 months before being introduced throughout the organisation. This pilot-testing process allowed BURO, Tangail to redesign its field-based records, refine its financial management and reporting systems, develop training modules and marketing mechanisms, determine the impact of the new product on staff work loads, recalculate the costing and pricing estimates and to project potential demand when the product was launched throughout the organisation.

The contractual savings products proved extremely popular, with demand far outstripping the rationed supply offered during the pilot-test, but they necessitated substantial changes in BURO, Tangail's systems. The clients' passbooks and front-line Village Development Workers' collection sheets were re-designed. The ledgers in the branch offices were changed and extended to allow analysis of the up-take of the product and a provisional assessment of its implications for liquidity management. While the Village Development Workers' workload was not significantly increased, the product (taken in conjunction with the other products introduced) necessitated the recruitment and training of new Assistant Cashiers to manage it. Additional training was designed for the staff charged with selling contractual savings agreements and those responsible for managing the resulting cash-flows.

BURO, Tangail's pilot-testing system also provides for an extensive series of interviews with clients who have used the products and those in the groups who have not used the new products in order to understand how and why (or why not) clients are using them. The on-going informal market research during the pilot-testing process also resulted in BURO, Tangail understanding the even more latent demand for contractual savings products of other (primarily shorter) durations and thus the demand for 3 and 10-year agreements.

This in turn led to another round of informal costing and pricing, and the introduction of the multiple duration contractual saving products into the organisation.

When the line of credit product was first introduced, it was also offered only to a very limited number of select clients with excellent repayment records. The behaviour of these clients was then monitored very carefully, and it soon became apparent that most simply chose to take out the maximum line of credit and then to maintain the interest payments with little or no attempt to repay the principle. This, according to the informal market research conducted, reflected the clients' need to maintain working capital within their businesses. As a result, BURO, Tangail began searching for an alternative, less permanently indebting product that could allow clients to achieve this goal. As a result, the Supplementary Loan was soon being pilot-tested.

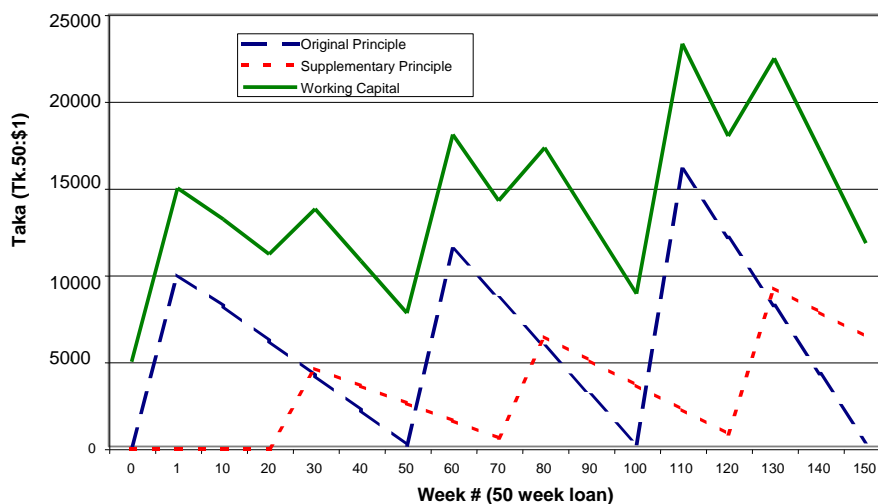
Box 4. Supplementary Loan

The traditional MFI's loan is repayable in weekly instalments. This results in an often debilitating depletion of the borrower's working capital as the loan is repaid – and many MFI clients are forced to severely reduce their business inventory in order to meet their repayments.

Recognising this, BURO, Tangail introduced a Supplementary Loan product which offers an additional loan of half the value of the principle of the outstanding loan to raise the total amount of outstanding loans to the original level and thus maintain the working capital within the client's business. This loan then runs concurrently with the original loan and is also repayable in weekly instalments (see figure 1). Care should be taken by MFIs seeking to introduce similar products not to “over stretch” the capacity of the borrower's household to service these two concurrent loans (i.e. the client's debt absorptive capacity).

In figure 1, note how the original working capital balance of Tk.5,000 is raised to Tk.15,000 by the initial loan declines to Tk.10,000 by halfway through the initial loan (as it is repaid) and is then raised back to Tk.15,000 by the Supplementary Loan. Without the Supplementary Loan, by week 50 of this programme, the base working capital in the client's business (not including profits retained) would be back down to Tk.5,000. *MicroSave's* work in East Africa has indicated that this is a significant source of problems for MFI clients – particularly those that depend on trading.

Figure 1. Working Capital and the Role of the Supplementary Loan



2.2 Roll-out

Once BURO, Tangail completes pilot-testing proposed new products, the decision is made whether or not to roll-out the product. A product can then be rolled-out all at once (in the cases where the product is simple or simply a refinement of an existing product) or phased in incrementally (5-10 branches at a time when the product is complex and requires a controlled roll-out). In all cases, staff members are trained to market and keep accounts for the product, and the operations manuals are updated to reflect the new procedures. In some cases, where the product is simple, BURO, Tangail introduces the product throughout the organisation at the onset. This procedure was more common when the organisation was relatively small. For example, when the Special Loans for Sanitary Latrines and Tube-wells was introduced, there were only around 10 branches and the product operated in exactly the same way as the General Loan. In this case, the product was rolled-out without conducting a pilot-test since no new systems or procedures were required and the risk was perceived to be low.

2.3 Entire Product Development Cycle

For BURO, Tangail, the initial basic systems development process took over two years and several iterations and was relatively expensive – after all the organisation was looking to do business in a very different manner from its competitors. The new products required differing levels of effort to develop. Given the different approaches to product development and roll-out, the cost and time needed for the product development cycle has varied substantially. The contractual savings product was the most rigorously tested prior to roll-out, and took approximately two years from design to roll-out. Other products took less time to develop, often within the space of 2-3 months. However, BURO, Tangail does not calculate the cost of the product development process as it is viewed as an integral part of its mission and operations.

With the regular introduction of products, BURO, Tangail has to invest significantly into training its staff. Most MFIs provide regular “refresher training” to staff, and BURO, Tangail is no exception. This training is, however, extended in scope to provide for prolonged discussion of new products and how staff should market them, in addition to the basics of how they should record and account for the transactions. Part of this is also covered during the annual staff meeting, which acts as a marketing device (as the staff parade through the villages and towns of Tangail to get to the meeting hall), a mechanism that allows staff to provide additional feedback to management on issues and opportunities that they have seen in the field and a place for discussion of new products under development or ready for roll-out.

2.4 Marketing

The primary forum for marketing new products to clients is the weekly group meetings. In these meetings, Village Development Workers explain new products and market them according to a prescribed “sales pitch”. Thus, for example, contractual savings agreements are marketed as ways of building up reserves for marrying-off daughters, improving housing facilities or leasing land for cultivation. The various products are also marketed during weekly presentations and discussions concerning specific themes as laid out in the field manual given to Village Development Workers specifically for this purpose. Themes in this manual vary from the treatment of diarrhoeal disease to motivational talks on why and how to save and most, if not all, are linked into a discussion of the various products offered by BURO, Tangail. For example, discussions about nutrition are often linked to topics ranging from options for borrowing to finance activities that will generate a regular flow of income. While discussions of illness are often linked to how important it is that members save more in their accounts giving them the means to respond to crises.

Another opportunity for marketing new products is provided when the centre (*Kendra*) chiefs from clusters of 4-5 branches meet for the annual (now semi annual) meetings to discuss BURO, Tangail's programme and progress. The product line is usually high on the agenda of these meetings and the *Kendra* chiefs then return to their groups to report on the discussions from the annual meetings.

In addition, BURO, Tangail periodically holds special marketing drives. In 1999, for example, it held a “Savings Week” during which special efforts were made to market its line of savings products and through this to differentiate the organisation from its credit-driven competitors.

Box 5. Savings Week

BURO, Tangail celebrated “savings week” at its branches and the surrounding areas. This was the first time such a campaign has been mounted in Bangladesh. The main theme of the campaign was to “*build-up savings for the future*”.

Leaflets and brochures were prepared and distributed to people at weekly markets, simple workshops and seminars were held, and staff conducted a door-to-door campaign to discuss savings and the opportunities offered by BURO, Tangail. Eye-catching posters featuring the traditional earthenware savings pots were prepared and printed. These were placed in strategically important places where they would attract attention. In addition, colourful ‘gates’ (traditional Bangladeshi arches of bamboo, adorned with cloth and paper) were erected in strategic locations. Public gatherings were organised and ‘*miking*’ (using a microphone mounted on a *rickshaw* to publicise) was conducted extensively.

2.5 New Product Impact on the Organisation***Impact of Products on Human Resources***

As noted above, the relatively large number of products offered by BURO, Tangail has resulted in the posting of Assistant Accountants in the branches. This was a position that was not originally envisaged and has, of course, increased the costs of providing services. In addition, (particularly in view of the savings products) BURO, Tangail dedicates significant resources to an active internal audit function that reviews both financial and operational aspects of the organisation’s activities. All of these additional staff, as well as the existing ones, require regular substantial training to keep them up-to-date with the organisation’s efforts to develop and implement new products.

The new Business/Leasing Loans have been introduced at the same time as an extensive training programme on business development financed by USAID. This has meant that BURO, Tangail has been able to cover much of the cost of training its staff in business development services and loan application/business assessment using the training project funds. Nonetheless, the systems for appraising loan applications and managing an individual-lending based sub-section of the portfolio are very, very different from the group-based methodologies hitherto used by BURO, Tangail. Recognising that these individual-based lending products are fundamentally different in nature and risk from the group-based loans they have traditionally offered, BURO, Tangail has approached them with special care and attention. In particular, BURO, Tangail has developed systems for assessing and processing loan applications (including analysing the businesses the loans are financing and the household cashflows that will finance the repayment instalments), as well as for collateralising assets.

Impact of Product on Corporate Culture

The development of new products is an integral part of BURO, Tangail’s mission and corporate culture. Staff members are encouraged to think about clients’ needs and opportunities, and to voice these in meetings. BURO, Tangail takes pride in its innovative and client-responsive services. Indeed it is this approach that has given it a voice and credibility within the microfinance industry in Bangladesh (and indeed the world). This is quite a tribute to BURO, Tangail as its medium size (by Bangladeshi standards) is disproportionate to its large influence.

2.6 Product Life-cycle Management

BURO, Tangail monitors the up-take of each individual product in its management reporting systems and in its annual report. This information should allow BURO, Tangail to manage the life-cycle of its products. For example, it is clear that the demand for the Special Loans for Sanitary Latrines and Tube-Wells is falling, and it may be time to phase out this product. However, there appears to be little done with this information, and this remains an area that requires strengthening. The Fixed Deposit product remains used by very few

clients (and the majority of users are "Associate Members" – the non-poor who do not attend group meetings or borrow from the institution). On the basis of comparisons with the evolution of ASA's savings products, there also appears to be a relatively high level of cannibalisation between BURO, Tangail's contractual savings product and its current account savings product. These issues and their implications for the service and cost structure of the organisation have probably been inadequately analysed and considered to date. Furthermore, there is concern amongst some observers that BURO, Tangail may be facing "product proliferation", with little net benefit either for the organisation or for its clients. In response, BURO, Tangail and its development partners commissioned a review of its product portfolio in early 2001.

The Product Development Review

During April 2001, Stuart Rutherford conducted the Product Development Review. The main aims of the review were to determine the extent to which BURO Tangail's products respond to their customers' needs and demands, and to suggest how their design and delivery might be improved. The review noted that BURO, Tangail does not compete with other MFIs on the basis of individual products but rather on the basis of the institution:

"BURO, Tangail staff do not see themselves as sales persons, but as development workers specialising in financial services. Nevertheless, they compete fiercely with other MFIs. But the arena of competition is not the product but the institution" ... of which BURO Tangail's range of products is a major part. "BURO, Tangail has over the years developed an excellent range of financial products that answer to many of the needs of poor villagers and townspeople. The range is unrivalled among major MFIs in Bangladesh."

However, the review also concluded that if BURO, Tangail is to increase access to its products, it needs to look beyond features of individual products, to the way the product is delivered to its clients:

"Nevertheless, access to these excellent products is constrained by the nature of the delivery environment through which the products are offered – the traditional Bangladeshi joint liability group system."

"Running trials is the best form of market research in the conditions that they work in, so the trick is to work out exactly what it is that you need to run trials on. Studying your own data, talking to your own staff and clients, consulting others, visiting, reading, thinking, watching and dreaming are all good ways to do that. BURO, Tangail does all that... what they must do now is to apply these same techniques that have led to an excellent set of products, to the improved design of the delivery environment. In this way they may be able to open BURO, Tangail services to a wider public who may be able to use them even more intensively."

The review concluded:

"BURO, Tangail should now pioneer innovations in the 'delivery environment' in just the same way as they have successfully pioneered innovations in product design. Specific suggestions include:

- a. in different branches, test various combinations of product linkage and joint liability. For example, in a small set of branches, try abandoning joint liability altogether. In another set, abandon joint liability on savings but keep it on loans. In another set, abandon all inter-product linkages.
- b. in different branches, test various combinations of patterns of regularity, frequency and location. For example, in one 'poor area' branch and one 'richer area' branch allow loans and withdrawals to be made at the *Kendra*. In another pair of branches, experiment with variable-value weekly repayments. In yet another, try out general loans with a wide variety of terms (3, 6, 9, 12, 15 and 18 months, for example). In another pair, try out the establishment of 'savings and repayment collections points' in the villages where the *Kendras* are located, where members can deposit pay-ins between meetings if they wish."

The final suggestions included in the report were:

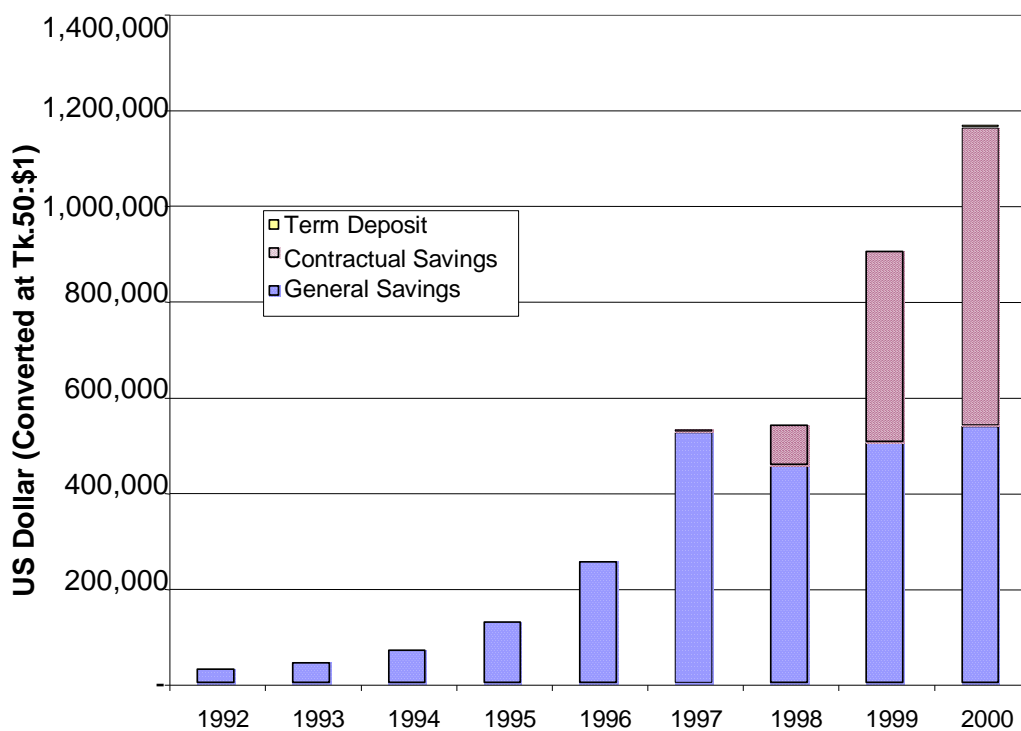
1. "Consider dropping the disaster, tube-well and latrine loans, since their functions can now be carried-out just as well by the general, supplementary or emergency loan.
2. Rethink the three business loans (project loan, line of credit, and micro-enterprise loan). The market BURO,Tangail has developed so far appears too small to justify three loan types. Telescope the best features of the existing three products into one product, and consider, as part of the new 'micro-enterprise strategy' identifying specialist staff to deal with them. This would leave the ordinary Village Development Worker with just six products to manage – general savings, contract savings, time deposits, general loans, supplementary loans, and emergency loans".

3.0 FINANCIAL RESULTS (see Appendix 3):

3.1 Savings Products

The savings products have seen a sharp rise in the balance of Contractual Savings Agreement product over the last three years. Indeed the Contractual Savings Agreement seems to have substantially cannibalised the General Savings product. It appears that many of BURO, Tangail's members hold both accounts and use the General Savings account as a current account while saving for the longer term through the Contractual Savings Account. Prior to the introduction of the Contractual Savings Account, the growth in the General Savings Account was faster since the members were also making less liquid savings through this account. See graph below.

Figure 2. BURO, Tangail Savings Products over Time

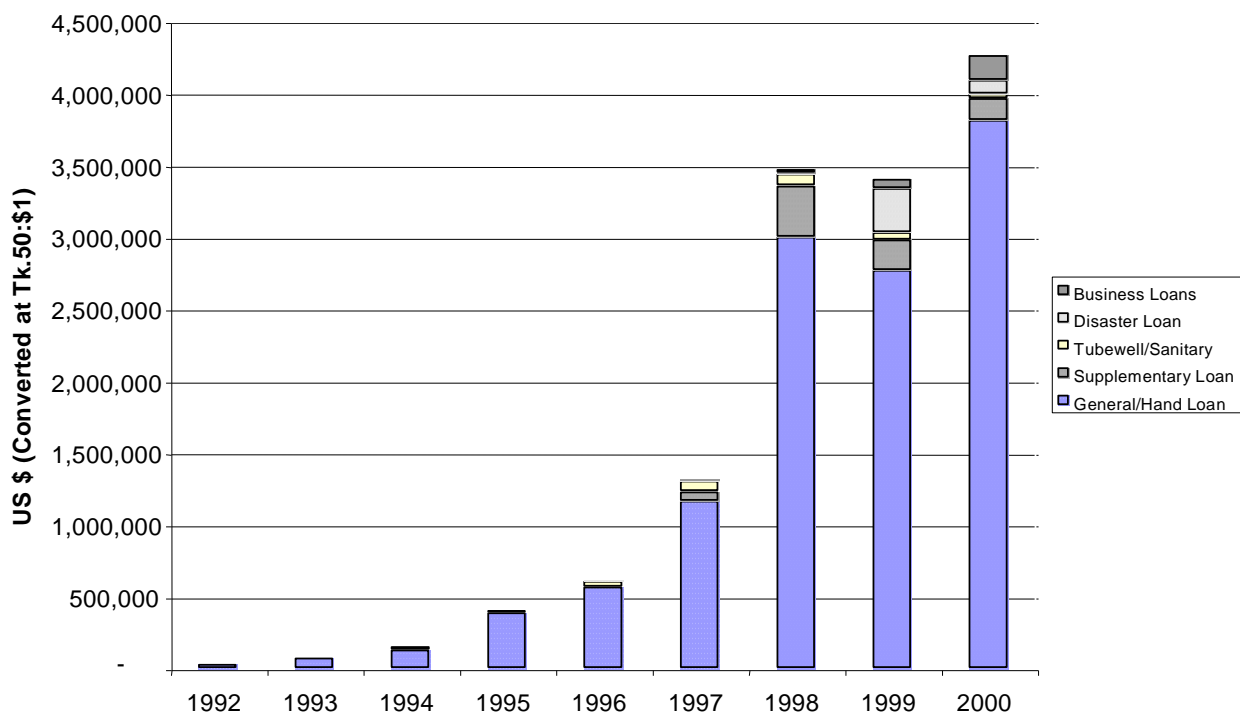


3.2 Loan Products

The results of the loan products have been mixed, perhaps reflecting their specialised nature. The relative importance of the Special Loan for Sanitary Latrines and Tube-Wells has decreased over time. Some might

suggest that this reflects the growing prevalence of these facilities in households; others would argue that this also reflects the growing availability of other loan products to meet emergency needs. In this context, it is interesting to note that the uptake of the “hand [emergency] loans” was remarkably low as of the end of December 2000. This reflects the fact that BURO, Tangail has only very recently rolled-out this product – starting January 2001. The uptake was good and in January through February 2001, when 575 of the “hand [emergency] loans” alone were issued, totalling \$31,000 in value. The growth continued into 2001, and in July through August 2001, 828 “hand [emergency] loans” were issued, totalling \$44,700 in value.

Figure 3. BURO, Tangail Loan Products Balances over Time



Business loans (Business/Leasing Loans, MicroEnterprise Loans and the Line-of-Credit product) have been growing steadily over the last three years and now represent 4% of BURO, Tangail’s portfolio. The importance of the Supplementary Loan product has decreased significantly in relative and absolute terms for a combination of reasons. In the wake of the disastrous floods of 1998 that swept through BURO, Tangail’s areas of operation, the demand for these supplementary loans decreased and BURO, Tangail restricted their availability for fear of “overstretching” households’ ability to repay during such difficult times. 1999 saw a high level of outstanding disaster loans that had been granted to assist with the rehabilitation process.

Despite all of the above, the General Loan remains the dominant product in BURO, Tangail’s portfolio. This reflects a series of issues:

1. the recent introduction of other loan products – clearly the new business loans are a growing part of the portfolio;
2. the specialised nature of the other loan products; and
3. the on-going process of “reformation” to consolidate operations and the loan portfolio after the problems caused by (*inter alia*) the 1998 flood (which is also reflected by the dip in total loan portfolio in 1999).

Conclusions

The process of product development is complex, but is not as complex or difficult as many observers describe it. In part, the complexity of the product development process depends on the nature of the new product. Refining an existing product to make it more appropriate for clients is often relatively low risk and can be accomplished with relative ease. For example, when BURO, Tangail offered the prepayment facility to allow clients with excess liquidity to pay off their loans in advance, this required only a few changes to the accounting systems and staff training. The risks associated with offering this facility lay in clients paying off one loan quickly in order to get another that was beyond their ability to service. Pilot-testing would have shed little light on this issue (unless the pilot-test had gone on for at least a year or more), and so BURO, Tangail chose to go straight to roll-out with this change in the product.

On the other hand, introducing new products beyond the current scope of the MFI's operations – such as individual based lending programmes (for traditional group-based lending MFIs) or voluntary savings accounts (for traditional credit-driven MFIs) – is a more complex and risky undertaking. Such new products demand extensive pilot-testing. Open access savings accounts or contractual savings agreements in particular often require fundamental changes in procedures, accounting and financial management systems, internal audit procedures, training, staff attitudes and so on. These require careful, controlled and extensive pilot-testing so that these changes can be understood, documented and implemented fully, thus allowing effective and rapid roll-outs.

BURO, Tangail's experience suggests that once market research systems have provided the basic ideas and inspiration for new products, these can be effectively examined and refined through thorough pilot-testing procedures. An effective pilot-test that analyses systems, costing and pricing, training, etc., including client focused market research, will provide invaluable information about all the changes that the MFI will need to make in order to roll-out the product effectively. In addition, it will provide a clear indication of realised effective demand (as opposed to the theoretical demand that may have been estimated from quantitative surveys but is often not realised in practice). Finally, a well-conducted pilot-test will provide important information about how the clients perceive and use a product, and thus how the MFI should seek to market the product.

More risky products can be tested in a rationed manner (i.e. by limiting the number of products offered to clients) thus reducing the organisation's exposure to potential failure. The drawback to rationed pilot-tests is that they do not provide the same amount of information about realised demand for the products. For this reason, BURO, Tangail often conducts a two-stage pilot-test. The first stage is one of rationed testing to refine accounting and financial management systems, assess costing/pricing issues, optimise training methods, modules and marketing strategies. Once this has been completed, the second stage offers the product to all clients within the pilot-test branches to assess realised effective demand and provide interim information on the problems that are likely to be encountered as the product is rolled out into a market that offers a more representative variety of products.

BURO, Tangail has developed an impressive array of financial services, and as a result remains popular amongst its clients despite its relatively high interest rate on loans. It has managed to do this through:

1. an institutional commitment to high quality, client-responsive financial services delivered on a sustainable basis;
2. a simple system of market research embedded in its operations and procedures and involving all staff from top management to the front-line Village Development Workers as well as the clients themselves; and
3. a thorough system of controlled pilot-testing that allows the organisation to refine its accounting and financial management systems, cost/price analyses, training and marketing systems, etc. prior to roll-out.

By this approach, BURO, Tangail has consistently led the market in Tangail (and indeed most of Bangladesh) in terms of market-responsive products. Clearly, as increasing numbers of MFIs are facing

growing competition and recognising the need for client-responsive financial services, much can be learned from the experiences of BURO, Tangail.

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Appendix 1

BURO, Tangail			
Balance Sheet			
As on 31 December 2000			
		1999	2000
PROPERTIES AND ASSETS			
Fixed Assets		11,484,287	21,877,658
Loan to Members		170,288,985	213,153,665
Investment		51,645,547	37,818,310
Other Current Assets		9,155,633	12,456,125
Cash and Bank Balance		43,966,035	16,207,435
TOTAL		286,540,487	301,513,193
FUNDS AND LIABILITIES			
Fixed Assets Funds (Grant)		3,453,771	2,418,544
Revolving Loan Funds (Grant)		106,301,903	106,301,903
Emergency Disaster Funds (Grant)		30,653,811	32,211,859
Borrowing from SDC		43,566,368	43,566,368
Borrowing from Sonali Bank		-	2,000,000
Capital Funds		33,174,278	27,220,328
Members' Savings		45,160,022	58,368,066
Members' Emergency Funds		12,185,669	15,312,643
Loan Loss Reserve		9,800,000	11,300,000
Staff Security Money		2,244,665	2,813,482
TOTAL		286,540,487	301,513,193

Income and Expenditure Account For the year ended 31 December 2000			
		1999	2000
I N C O M E			
Foreign Donations		2,928,117	-
Life Member Fees		790,900	1,554,300
Service Charges		54,139,916	49,809,213
Sale of Form		708,086	952,593
Admission Fees		280,190	309,020
Bank Interest		871,039	2,944,449
Sapling Sales		265,722	18,500
Miscellaneous		229,937	806,149
Total Income		60,213,907	56,394,224
E X P E N D I T U R E			
Consultancy & Audit Fees		95,000	203,256
Interest on General Savings		1,254,887	1,218,498
Interest on Contractual Savings		933,302	2,177,418
Interest on Time Deposit		-	23,255
Interest on Borrowing from SDC		1,226,000	3,049,600
Interest on Borrowing from Sonali Bank		-	23,014
Loan Loss Provision		3,300,000	1,500,000
Salary and Allowances		28,210,073	32,877,850
New branch Establishment Cost		439,256	1,926,943
Training Center Repairs			1,661,823
Transportation		2,874,579	3,310,886
Rental Office		1,447,160	2,023,850
Training Expenses		3,297,272	3,586,155
Operation Research Cost		462,994	341,035
Office Supplies		1,966,722	2,211,081
E-mail, Telephone and Fax		503,573	588,837
Postage and Telegram		176,705	217,471
Entertainment		833,534	857,989
Electricity, Gas and Water		360,236	464,182
Sapling/Seed Purchase		50,985	-
Bank Charges		96,543	255,497
Miscellaneous		2,173,788	2,207,206
Depreciation		189,046	1,622,328
Total Expenditure		49,891,655	62,348,174
Excess Transferred to Capital Funds		10,322,252	(6,372,022)
Grand Total		60,213,907	56,394,224

Appendix 2 BURO, Tangail: FIVE YEARS AT A GLANCE

		Amount in BD Taka				
	Particulars	1996	1997	1998	1999	2000
A.	INSTITUTIONAL PROFILE					
	Number of Branches	30	40	41	41	51
	Number of Villages	574	1,032	1,362	1,374	1,665
	Number of Primary Membership	32,744	45,003	71,479	67,357	73,265
	Number of Kendras	1,412	1,958	2,587	2,637	3,424
	Number of Contractual Savings Accounts	-	-	13,495	36,970	26,540
	Number of Staff	312	424	448	513	613
B.	PROFILE OF SAVINGS SERVICES					
	Yearly Savings Deposit	9,448,916	19,604,759	30,480,509	63,487,684	84,490,321
	Yearly Savings Withdrawals	3,195,928	5,689,691	30,143,526	45,342,052	71,282,277
	Net Savings	12,762,339	26,677,407	27,014,390	45,160,022	58,368,066
	Net Balance Savings Growth Rate	96%	109%	1%	67%	29%
	Average Net Savings per Member	390	593	378	670	797
C.	CAPITAL ADEQUACY					
	Equity as Percent of Total Assets	66%	53%	31%	32%	35%
D.	PROFILE OF CREDIT SERVICES					
	Number of Outstanding Borrowers	12,684	25,652	55,670	62,382	54,189
	Outstanding Loan Balance per Members	2,434	2,571	3,120	2,730	3,934
	Average Loan Size	3,863	4,913	5,396	5,223	6,565
	Loans (Taka)					
	Outstanding Balance	30,867,079	65,960,403	173,699,453	170,288,985	213,153,665
	Net Outstanding Loan Growth Rate	51%	114%	163%	-2%	25%
	Portfolio at risk: Past due by week (Taka):					
	0 Payments	98.05%	98.07%	98.08%	96.03%	96.05%
	1-4 Payments	0.13%	0.25%	0.25%	0.18%	0.12%
	5-12 Payments	0.16%	0.15%	0.15%	0.19%	0.22%
	13-25 Payments	0.16%	0.49%	0.49%	1.34%	1.14%
	>26 Payments	1.05%	1.04%	1.03%	2.26%	2.47%
E.	PROFITABILITY					
	Adjusted Net Profit for the Year	4,396,739	7,240,151	8,059,525	10,322,252	(6,372,022)
F.	CAPITAL FUNDS FINANCED BY					
	Donors Grant	35%	46%	55%	51%	49%
	Borrowing	0%	0%	14%	16%	16%
	Members	65%	54%	31%	33%	35%
G.	KEY RATIOS					
	Return on Performing Assets	44%	41%	33%	29%	24%
	Financial Cost Ratio	2.15%	2.37%	1.75%	1.72%	2.75%
	Operating Cost Ratio	35%	40%	23%	20%	20%
	Cost of Per Unit of Money Lent	17%	16%	10%	14%	16%
	Operational Self-Sufficiency	120%	96%	134%	124%	101%
	Financial Self-Sufficiency	98%	78%	102%	99%	82%
	Savings/Loans	41%	40%	16%	27%	27%
	Total Loans to Total Deposit	198%	206%	479%	297%	289%
	Quick Ratio (Liquid Assets/Current Liabilities)	78%	73%	84%	81%	87%
	Return on Investment Fund (Net Profit/Total Assets)	10%	7%	4%	4%	-2%
	Cumulative Average Exchange Rate:					
	1 US \$ = BD Tk.	39	40	42	44	48

Appendix 3 BURO, Tangail Loan Products Over Time.

	Year End Balance in US \$ (Conversion rate Tk.50:\$1)								
	1992	1993	1994	1995	1996	1997	1998	1999	2000
General Loan	33,450	77,507	131,817	390,496	571,622	1,166,847	3,003,652	2,768,699	3,814,238
Supplementary Loan	-	-	-	-	-	62,670	352,392	211,788	147,848
Tube-well Loan	5,000	10,052	20,505	13,795	30,505	61,648	79,190	44,394	28,370
Sanitary Latrine	1,300	2,406	3,205	4,205	5,405	16,405	7,435	3,693	4,806
Line of credit	-	-	-	-	-	8,070	22,380	35,074	30,074
Disaster Loan	-	-	-	-	9,810	3,568	930	310,474	97,851
Project Loan	-	-	-	-	-	-	8,010	26,758	100,072
Hand Loan	-	-	-	-	-	-	-	4,900	3,280
MicroEnterprise Loan	-	-	-	-	-	-	-	-	36,535
\$	39,750	89,965	155,527	408,496	617,342	1,319,208	3,473,989	3,405,780	4,263,073
	BURO, Tangail Savings Products Over Time. Year End Balance in US \$ (Conversion rate Tk.50:\$1)								
	1992	1993	1994	1995	1996	1997	1998	1999	2000
General Savings	31,414	44,592	70,843	130,187	255,247	525,180	455,941	503,512	538,552
Contractual Savings	-	-	-	-	-	6,057	84,347	399,688	622,563
Term Deposit	-	-	-	-	-	-	-	-	6,246
\$	31,414	44,592	70,843	130,187	255,247	531,237	540,288	903,200	1,167,361