Focus Note

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EXPLORING CLIENT PREFERENCES IN MICROFINANCE: SOME OBSERVATIONS FROM SAFESAVE

The Focus Note Series is CGAP's primary vehicle for dissemination to governments, donors, and private and financial institutions on best practices in microfinance.

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What You Do Depends On Where You Are

Microfinance products tend to be uniform across large geographic areas. For example, in Bangladesh most microfinance institutions (MFIs) offer some variant of the product pioneered by Grameen Bank—a loan with a term of about a year, repaid in frequent (usually weekly) instalments, given in a group context, ostensibly for micro-enterprise use, and with a compulsory savings element. This contrasts with East Africa, where local MFIs have been influenced as much by the Village Bank model as by Grameen. There, many similar loans given under similar conditions are repaid in sixteen or twenty-four weeks. In each case the approach has been adopted by most of the major MFIs in the area, so that a majority of MFI clients use the dominant local product type. Such dominance can be self-perpetuating: in Bangladesh, for example, PKSF (Polli Karma Shahayek Foundation), a government-supported wholesaler of microfinance funds, prefers its partners to use the dominant product. Some donors have also stipulated adherence to the model as a condition for receiving grants or loans.

Such dominance must affect our understanding of demand and provision of microfinancial services. Undeniably, as the MFIs that offer these products point out, they have been extremely popular, a fact that suggests that clients like them. But to what extent are clients' views influenced by the fact that there is very little else on offer? Do Bangladeshis really prefer to have a year of weekly repayment instalments, while similarly poor people in East Africa prefer a shorter term? It seems unlikely. Some people even express the view that Bangladeshis, by comparison with poor people elsewhere (for example in Indonesia), have a 'natural preference' for taking loans as against saving. That seems even more unlikely, but how are we to find out?

A More Flexible Model

This paper looks briefly at some preliminary data from *Safe*Save, a small MFI working in Dhaka's slums with an unconventional product that is much more flexible than the dominant product in Bangladesh. *Safe*Save's clients, who may be men, women or children, open individual accounts and are not organised into groups. They are visited every day (sometimes twice daily) in their own home or workplace, and all transactions are done during that daily visit, so the client does not have to visit a branch office nor attend meetings.

At each daily visit, clients may save as much as they like (including nothing) or withdraw as much as they like (up to the limit of their savings balance). Balances which build up over the long term are rewarded with interest at 10 percent a year, payable after five years. Clients may also take a loan on demand, and use it for whatever purpose they choose. The maximum permitted value of the loan is determined by their savings balance and their previous history with *Safe*Save, in that clients may borrow an amount equal to their current savings balance plus a further amount that grows with each loan. Loans do not have to be repaid according to a fixed schedule and there is no fixed maturity term. If they wish, clients may repay any amount during the daily visits, or choose to repay in a lump sum. If they choose to repay in a lump sum they may, if they wish, do so by cutting the sum from their savings balance. The only 'compulsory' requirement is that monthly interest charges on loans (at 3 percent per month calculated on the declining month-end balance) must be paid monthly. [1]

Such flexibility admits the possibility that different clients will choose saving, withdrawing, borrowing and repaying patterns that vary widely. One way of summarising the set of 'behaviours' that are theoretically possible with *Safe*Save's 'product II' (see footnote 2) is shown in Table 1. The column on the right of the diagram describes the behaviour that clients of the dominant product type in Bangladesh (the Grameen general loan) are expected to adopt. They are expected to borrow constantly, in sums larger than they save, [2] and then repay in fixed equal regular weekly installments while making small compulsory savings deposits at the same time. The diagram shows that this behaviour is only one of many possible behaviours open to *Safe*Save clients. [3]

*Safe*Save keeps detailed computerized records of all transactions of each client, so we were able to look in detail at the actual behaviours of a large sample of *Safe*-Save clients. The data consisted of financial records (from the first transaction until February 2000) of 2,836 clients, all of whom have been clients of *Safe*Save for at least two months and are thus eligible to use the full range of *Safe*Save services. [4] This data is currently undergoing detailed examination, but in this short paper we highlight some of the issues that emerge from the study by discussing some exemplary cases.

How Do *Safe*Save Clients Behave?

Our first observation is that, unlike the clients of the dominant product type in Bangladesh, *Safe*Save's clients do not follow just one behaviour. On the contrary, the full set of possible behaviours illustrated in Table 1 can be found among the sample of clients. For example:

- Between a third and a fifth of clients have never borrowed, despite being eligible for loans, and they include some of the biggest savers. [5]
- Among the clients who have borrowed, the majority take loans whose disbursement value exceeds the current value of their savings balances—but this is not true of all.

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

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

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

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

[5] This figure varies sharply with the type of slum. In a slum with a very large number of conventional MFIs working, the proportion of *Safe*Save clients who never borrowed is as high as 40 percent—it falls to about 20 percent in a very poor slum little served by other MFIs.

Table 1: Behaviour Possibilities with *Safe*Save and with a Standard Microcredit Product		
BEHAVIOUR DOMAIN	POSSIBILITIES WITH *SAFE*SAVE	STANDARD MC PRODUCT
SAVING BEHAVIOUR	Save frequently or occasionally Save sums of a similar or differing value at regular or irregular intervals Save without borrowing	Compulsory saving in regular equal amounts
WITHDRAWAL BEHAVIOUR	Withdraw frequently or rarely, or store for the very long term	Withdrawal restrictions
BORROWING BEHAVIOUR	Choose not to borrow Borrow regularly or irregularly at any interval	Borrow continuously at regular intervals
REPAYMENT BEHAVIOUR	Quickly or slowly, with no fixed term In instalments or in lump sums At regular or at irregular intervals	Repay in regular equal installments, amortising loan within a fixed time period
EFFECT OF BORROWING ON SAVINGS BEHAVIOUR	Discontinue saving while holding a loan, *or* Save at the same or at an increased pace	No effect

- We find savers who withdraw frequently, others who withdraw rarely, and some that have never withdrawn.

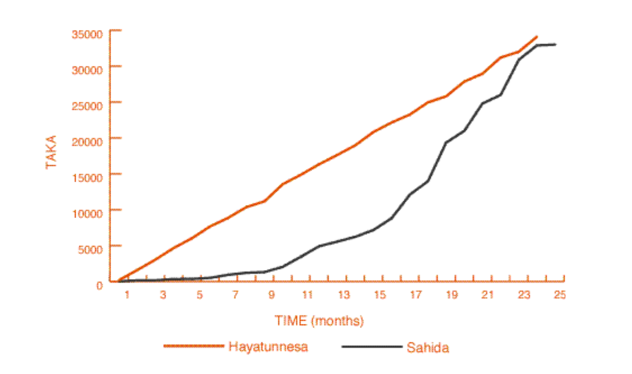
- Among borrowers we find some who both save and repay after taking a loan, some who repay only and some who save only (and then repay the loan by one large withdrawal from savings).

- Repayment patterns vary widely: there are those who repay a small amount every day, others who repay intermittently, and yet others who repay in occasional or once-only lump sums.

- As for the length of the loan term, we find that the average time between taking a loan and repaying it in full is 6.1 months, but the range of terms is from one month to over two years.

Such diversity is observed not only *across* clients but also for any given client over time. Although many clients display consistent behavioural patterns, others may switch, suddenly or over time, from one strategy to another. For example, a client with a two-year history of saving and withdrawing may suddenly take a loan, or a client who has been borrowing repeatedly may slowly stop borrowing and start to build up his or her savings.

Fig. 1: Total Savings Ever Made
Hayatunnesa and Sahida



The Two Big Savers

We begin our exploration of cases with the two biggest savers (based on the total of all savings deposits ever made). Though the total amount saved and membership length is very similar for these two biggest savers (Figure 1), they demonstrate very different behaviours.

The biggest saver, Hayatunnesa, who squats on the flood protection embankment in western Dhaka, is also a big borrower. Her monthly 'ins and outs' are shown in Figure 2.[6] Hayatunnesa is not only a big saver, but a consistent saver as well, depositing about 1,500 taka (US$30) each month since she joined in March 1998. She has never withdrawn, and started taking loans almost as soon as she was eligible to. Her first three loans were quickly repaid (in three months, one month, and six months) by big monthly payments. Since her fourth loan, however, she has changed tack, repaying most of the loan in one large payment ten months after taking the loan. She now has a balance of 34,100 taka in her savings account ($680) and no outstanding loan.

Now consider the case of Sahida. She lives in a small slum, and although she now has only 510 taka ($10) in her saving account, over time she has saved altogether as much as Hayatunnesa (Figure 1). She has never borrowed, though she is fully entitled to. It was

[6] For all monthly ins and outs diagrams, the positives on the horizontal axis are savings and repayment and the negatives on the horizontal axis are withdrawals and loans.

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

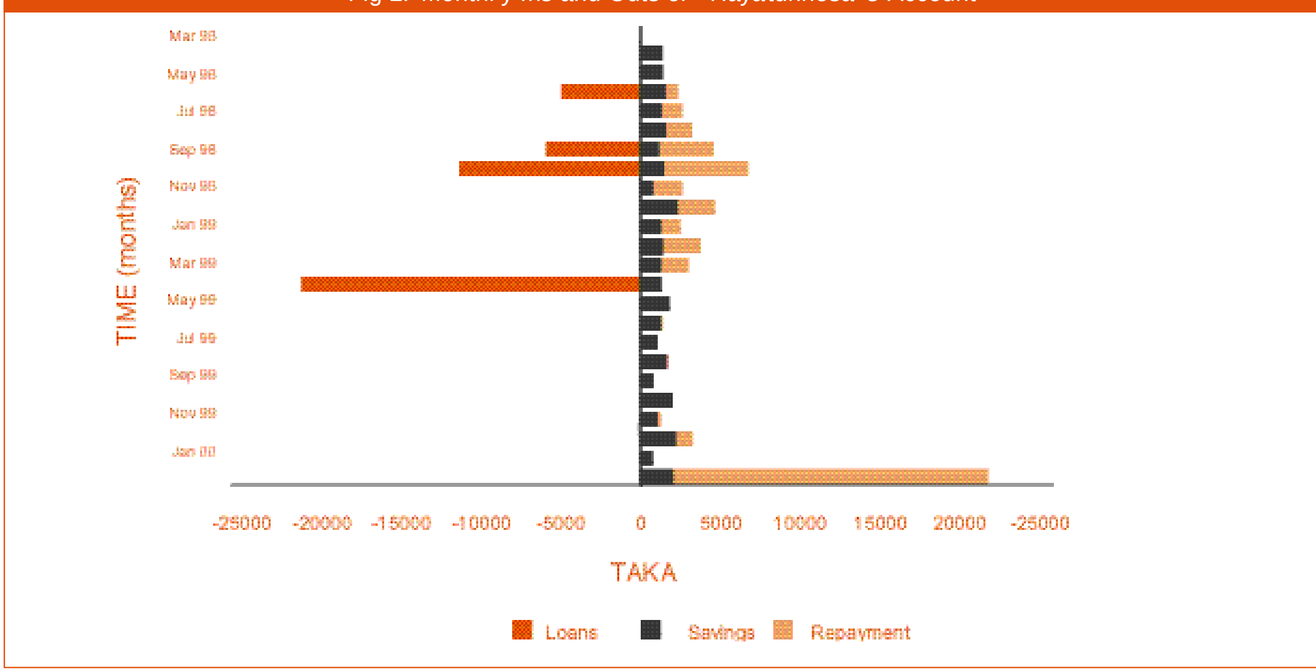
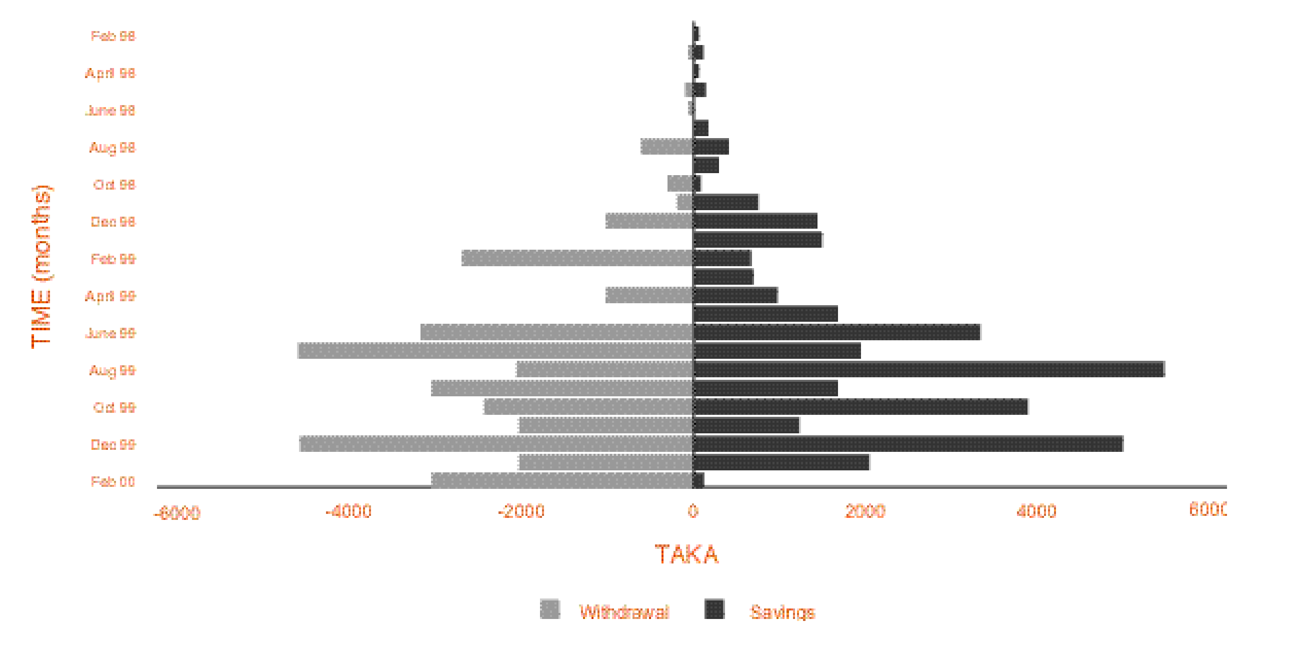


Fig 3: Monthly Ins and Outs of Sahida's Account



about eight months before she began to entrust *Safe*-Save with large amounts of savings (Figure 3). The difference in the ways in which these two big savers used the *Safe*Save product can be seen in another way in Figure 4 which plots the monthly savings and loan balances of both accounts.

Interviews with these two big savers revealed that their very different behaviours are related to both personal preference and circumstance. Both women are from poor slums, but by local standards Hayatunnesa is well-off while Sahida is poor. Hayatunnesa's husband runs a betel shop with a daily turnover of $16 and profits of $3 a day. Through judicious investments the couple now owns not just the land and shack which constitute the shop, but another small parcel of land on which they have built twenty-five bamboo rooms which they rent out at $9 a month each. This enables them to maintain their six children and still deposit surpluses with *Safe*Save. *Safe*Save loans played an important part in this process: the first went into stock for the shop, the second to make a deposit on the land for the shop, the third to build the shop structure, and the fifth loan (the biggest so far) financed the re-building of the twenty-five lodging rooms—all this activity in less than two years. The fourth loan, of $430, was used to marry one of the daughters.

Hayatunnesa makes her savings daily—one dollar a day seven days a week—and has been doing so for two years now. She agrees that her cash flow would al-

Fig 4: Monthly Balances of Hayatunnesa's and Sahida's Accounts

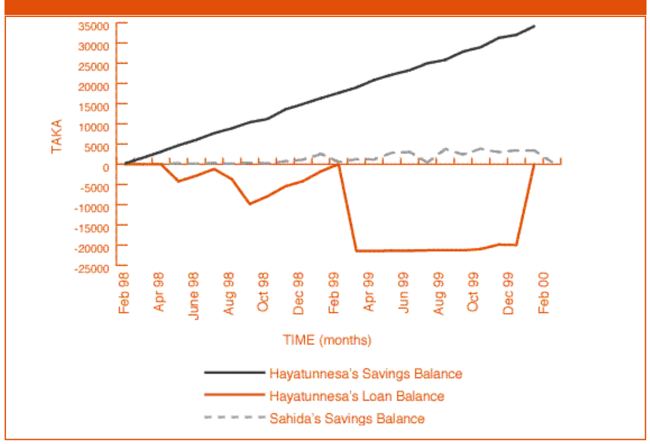


Fig 5: Monthly Ins and Outs of Jahanara's Account

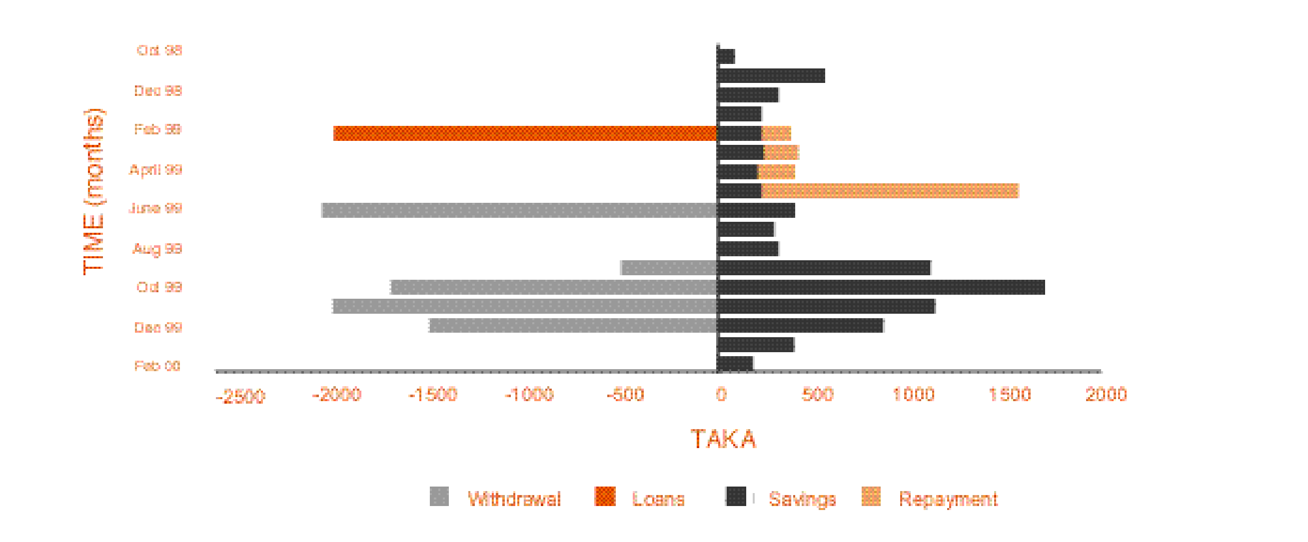
low her to make an equivalent single monthly deposit of $30, but argues that the discipline of daily deposits is a much better safeguard against trivial expenditure and therefore a much better guarantee of high monthly savings rates.

Sahida is seen locally as a poor woman. She is a landless squatter and has only four years of primary education, but her major handicap is a husband who became insane five years ago and is incapable of work. She is therefore the earner, supporting a son and three daughters as well as her husband. Part of her income comes from teaching the Koran as a home tutor, but much more important is a rental income of $35 a month from letting out three rooms attached to their tiny thatched bamboo hut, and interest earnings on loans of up to $40 a month. Sahida is a small-time moneylender, and for her the arrival of *Safe*Save meant a much easier way of handling her lending business. She stores her cash in *Safe*Save, but can withdraw it as soon as a safe lending opportunity comes along. This flexibility is important since the range of suitable borrowers is small: she lends exclusively to people of her own class, known to her and in safe occupations, like small businessmen and rickshaw and car drivers. She charges 10 percent interest a month. She also withdraws small amounts for day-to-day expenditure — for example between February and May 2000 she has withdrawn twenty-one times, including one large withdrawal of $80 but many others of less than $10 each. She describes *Safe*Save as 'her bank', and left a formal group-based NGO microfinance scheme because of its comparative inflexibility.

Thus while the *Safe*Save loans were crucial to Hayatunnesa's success, Sahida's attitude to loans is quite different. She says that 'loans are a botheration and are expensive'. Perhaps because she uses *Safe*Save as a current account, Sahida shows little concern about the returns to her *Safe*Save savings. She reports that if she ever made long-term savings she would store them not in *Safe*Save but in a contractual savings account at a conventional bank.[7]

[7] She would earn a similar rate of interest.

Fig 6: Monthly Ins and Outs of Yasmin's Account



Switching Strategies

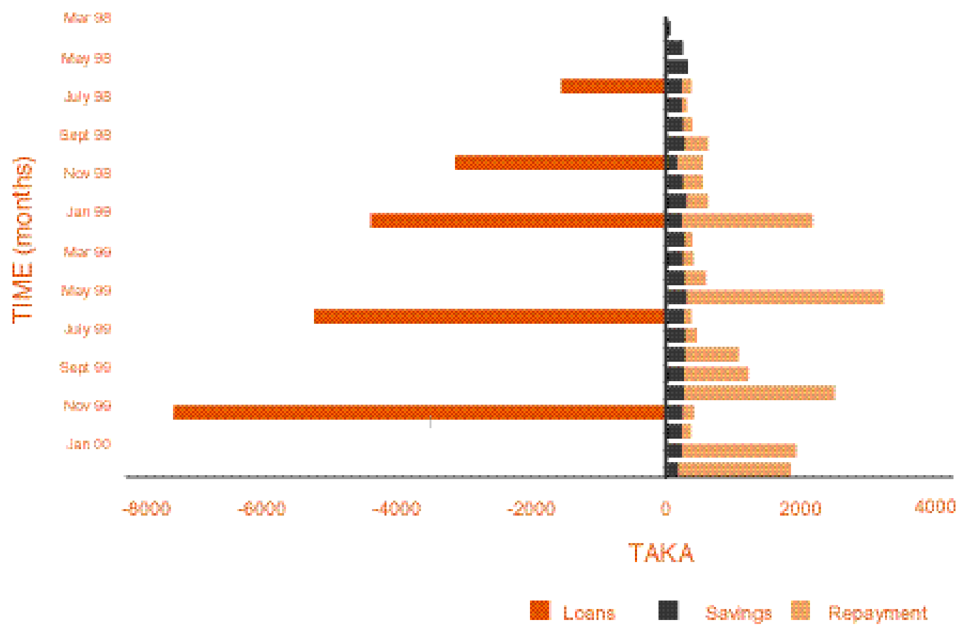
Another big saver, Jahanara, is a case of a client who changed her behaviour. She spent her first eight months using *Safe*Save as a current account, both saving and withdrawing large sums. Then abruptly she started taking loans, after which she almost stopped saving, and she repays her loans in large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

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

It is not uncommon for clients to change behaviours in this way. Yasmin, from Kalyanpur, a big and stable slum, switched strategies in a pattern that contrasts sharply with Jahanara. As her diagram shows (Figure 6), she took a loan within a month or two of being eligible to do so, paid it back in four months, and then switched to using her account as a current account, saving and withdrawing large sums in recent months.

Yasmin is a fifteen-year-old schoolgirl from a big family which struggles to survive on the earnings of her father, a rickshaw driver. She learned about *Safe*Save from neighbours, and got her mother's permission to open an account. At the time, the mother was a member of two large well-known MFIs, and saw the *Safe*Save account as no more than a convenient way of saving up for Yasmin's marriage costs. But they took a *Safe*Save loan of $40 to buy a second-hand rickshaw, and found that repaying it was much easier than in the MFIs, which demanded fixed equal weekly repayments

Fig 7: Monthly Ins and Outs of Moly's Account



and attendance at meetings. As soon as the loan was repaid, they tested *Safe*Save by seeing whether they could really withdraw all their savings, and when they found they could, the mother cancelled her membership at the two MFIs and the household went over to a strategy of saving and not borrowing. They now withdraw savings for uses that they would previously have borrowed for. Recently, for example, they have withdrawn to celebrate the Eid festival, for financing and attending a family funeral in their home village, and for stocking up with table rice.

'Conventional' Strategy by Choice

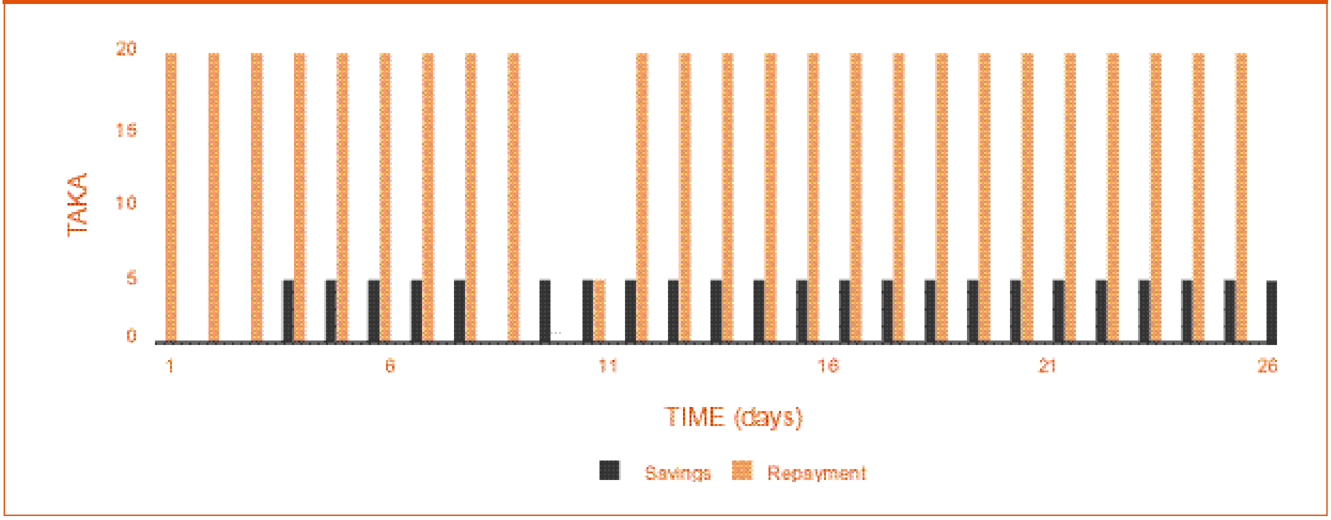
There are *Safe*Save clients whose patterns of saving and borrowing resemble those required by the dominant Grameen-style service. One such case is Moly Akhter, one of the earliest clients to open an account in Kalyanpur slum, whose record is shown in Figure 7.

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

Moly, who like Yasmin is still a schoolgirl, comes from a slum family with three income earners in it: her two parents and a brother. By slum standards they are middle-income. Moly's is one of three account held by the household[8], and all three are used similarly, primarily to shift the household income composition from labouring into self-employment and renting out assets. Thus, the first two loans taken in Moly's name allowed her mother to buy in a stock of saris which she trades around the slum. The third loan went for a second-hand rickshaw which they rent out daily. Moly's fourth and fifth loans allowed her father to set up a

[8] *Safe*Save allows multiple accounts from the same household or individuals.

Fig 8: Daily Ins and Outs of Kohinoor's Account During the Month of December 1999



new grocery shop in the slum. Loans from the other two accounts have been used in a similar way.

As well as moving from labouring into self-employment, Moly's household has shifted from using the informal to the semi-formal financial services sector. Although her parents had never been members of MFIs, her father had used ROSCAs. He reports that *Safe*Save provides a more reliable and more flexible service, and he is no longer involved in ROSCAs.

He also tells us that the regular six-month term of their loans is due in part to the fact that *Safe*Save charges a small 'renewal fee' once every six months for holding loans, and they repay within six months to avoid this fee. Without such a fee, they would have held some of their loans a little longer.

Like Moly's father, many *Safe*Save clients attribute their rapid repayment of loans (relative to the Grameen norm) to the opportunity they get to make daily repayments. Kohinoor, of Kalyanpur slum, is typical. Figure 8 shows her daily behaviour during the month of December 1999. On twenty-four out of twenty-seven working days in that month she made a 20 taka ($0.40) repayment, and on twenty-two days she deposited savings of five taka ($0.10). By using this strategy she has been able to pay off her three loans in terms of between five and eight months.

Kohinoor is thirty and has six children. Both she and her husband are in good health and are resourceful. They have developed a range of livelihood activities, including recycling waste, buying and selling milk, and buying and renting out rickshaws. The household holds three *Safe*Save accounts and uses all three in a similar way. They borrow to increase their assets, repaying daily. They save and have never withdrawn, since their objective for their savings is to finance major life-cycle events such as the marriages of their daughters.

Discussion

What are we to make of these case studies? They illustrate the wide range of needs and opportunities for which poor slum dwellers use financial services. They demonstrate that, given access to flexible services, they will use them in diverse ways, just like the less poor. Both of these observations support a growing consensus in microfinance circles that products and delivery systems need to be made more responsive to demand. In theory this can be done either through extending the range of products, as ASA is doing in Bangladesh by adding first open and then contractual savings to its standard fare of loans, or through the development of a single, exceptionally flexible product, as the present case of *Safe*Save illustrates.

They also raise many questions. We conclude with a brief commentary on three of them:

1. Would greater flexibility attract to microfinancial services clients who have been under-served so far? In particular, would *poorer* clients be attracted?
2. Can flexible products be delivered to the poor safely and sustainably?
3. Can flexible products be delivered to the poor on a large scale and in other environments, or are they suitable only for small specialist slum-based MFIs?

Can flexible services attract poorer clients?

Poor people have small and sometimes irregular or unreliable incomes, and spend a very large proportion of income on food and cooking fuel. As a result, almost any other expenditure, even for quite small items, cannot be financed from current resources. The poor then have to call on reserves of past income (savings) or advances against future income (loans). For this reason, the poor's need for financial services is more urgent and more frequent than that of the not-so-poor.

But of course it is also true that the poorer you are, the less you can save (and repay), and the more likely you are to have an income stream that is irregular and unreliable. This implies that in order to attract the very poor, MFIs need to offer both *variability* in the amounts deposited, and *frequency of opportunity* to make the deposits. **Variable pay-ins** allow the poorest clients to make deposits (either in form of savings or of loan repayments) when they have them available, rather than when they are required to by an inflexible savings or repayment regime. Many commentators have noticed that the very poor often self-exclude themselves from MFI schemes (or are kept out by other group members or by MFI staff) for fear that they will not be able to keep up with a rigid repayment schedule. **Frequency of opportunity** to intermediate maximises the tiny savings of the poor, by offering many chances to scoop up the odd cent or two when they can be spared. It is not an accident that in the informal sector many very poor people run ROSCAs with daily collections.

Preliminary investigations of two *Safe*Save working areas using focus group discussions and wealth rankings, suggests that *Safe*Save is already reaching poorer clients in greater proportions than conventional MFI do, and that this is in part due to these two features: variability and frequency. But we find that there is still much room for improvement. The ways in which field staff conceptualise and interpret the product features also has important implications on who participates and who does not. For example, we found small but important differences in the way different workers explained rules to clients, with the result that the very poorest were less likely to be recruited by one worker than by another, and that clients served by one worker were less likely to withdraw savings than those using another. Client-staff interaction, especially in terms of inclusion/exclusion and interpreting product rules, is an area that needs further research and understanding.

Can flexible products be delivered to the poor safely and sustainably?

*Safe*Save has one mature branch that is making regular monthly surpluses. It has achieved this partly by absorbing lessons already available from mainstream microfinance. A total commitment to cost-effectiveness is one such lesson that *Safe*Save learnt from ASA in Bangladesh. A second is the principle of combining maximum delegation with maximum standardisation. Delegation means that all the main activities of microfinance — collecting and withdrawing savings, issuing and collecting loans — can be done in the field by junior staff, and standardisation means that those junior staff are given no discretionary powers that may

Box 1: The Arithmetic of *Safe*save's Cost Recovery at a Mature Branch*

The following figures refer to one Bank Worker, who earns $60 a month. A branch has ten such workers, a Manager (salary $110 a month) and a Data Clerk (salary $65). Branch office rents and overheads amount to approximately $175 a month. Total non-financial costs per month for a branch are therefore $950. Loans are charged at 3% a month, savings are rewarded at 1% per month, and borrowings of capital are costed for the purposes of this exercise at 1% a month**.

A	Number of clients per Bank Worker	200
B	Number of outstanding loans per Bank Worker	100
C	Value of outstanding loans	$7,728
D	Income generated per month by loans at 3% per month (C x 3%)	$232
E	Value of saving deposits held per Bank Worker***	$5,152
F	Value of external funds required per Bank Worker (C – E)***	$2,576
G	Cost of funds per Bank Worker ((E + F) x 1%)	$77
H	Fully loaded salary cost per Bank Worker (see above)	$95
I	Total cost per Bank Worker (G + H)	$172
J	Net income per Bank Worker (D – I)	$60

The resultant surplus income is enough to cover loan losses, losses due to repayment irregularities, and erosion of capital due to inflation.

Notes: *Safe*Save keeps salaries low by employing bank workers who themselves live in the slum and have just enough education to manage basic arithmetic (usually about 8 years). They travel on foot. The Manager visits them daily from a branch not more than a mile away. Branch office are modest, consisting of one room containing a computer, printer, three tables and chairs. *Safe*Save owns no vehicles.

* Based on Mohammadpur Branch at June 2000

** Capital comes from a loan from an international NGO, PLAN, at zero interest.

*** The ratio of deposits held to loans outstanding is 1:1.5.

tempt them into rent-seeking behaviour. Note that standardisation is not a natural enemy of flexibility: an automatic cash machine runs on an absolutely standard set of clearly written rules and cannot be bribed, but it allows customers to deposit and withdraw at will. It is for reasons like these that *Safe*Save will, over the next year, be experimenting with greater use of electronic technology, in the field as well as in the branch office.

Can flexible products be delivered to the poor on a large scale and in other environments?

While *Safe*Save's experience suggests that its brand of highly flexible services can be delivered sustainably in densely populated urban areas, this says nothing about whether this can be done on a very large scale, not whether it can be done successfully in rural or less dense urban areas.

*Safe*Save is still very small, with fewer than 5,000 clients (in June 2000), and still less than four years old. The CEO knows all the field staff personally and sees them regularly. The Chairman reviews the performance of each branch each month. Small changes in the figures which may signal problems can be spotted and followed up quickly. The extent to which these features are essential to *Safe*Save's success can only be known as *Safe*Save scales up and branches into new environments, as it hopes to do in the coming years.

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