



**Consultative Group to Assist the Poorest (CGAP)
Working Group on Savings Mobilization**

**BEYOND BASIC CREDIT AND
SAVINGS: DEVELOPING NEW
FINANCIAL SERVICE PRODUCTS
FOR THE POOR**

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CONTENTS

ABBREVIATIONS	iii
LIST OF TABLES	iii
1 INTRODUCTION	1
2 IDENTIFICATION OF NEEDS AND OPPORTUNITIES	2
2.1 Review existing systems and conduct market research	2
2.2 Review the literature and contact market leaders	3
3 DESIGN AND PILOT TESTING	4
3.1 Design, cost-out and price new products.	4
3.2 Implement the new products on a pilot basis	5
4 MONITORING AND EVALUATION OF THE PILOT TEST	7
4.1 Monitor financial and organizational consequences	7
4.2 Conduct on-going market research to review progress	7
5 REVISION AND SCALED-UP IMPLEMENTATION	8
5.1 Make necessary amendments	8
5.2 Scaled-up implementation	8
5.3 And beyond	8
6 EMPIRICAL EVIDENCE FROM BURO TANGAIL: OPERATIONS RESEARCH - PHILOSOPHY AND METHODS	10
7 REFERENCES	11

ABBREVIATIONS

ASA	Association for Social Advancement
BAAC	Bank for Agriculture and Agricultural Cooperatives
BCS	Banco Caja Social
BDB	Bank Dagang Bali
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesi
BURO Tangail	Bangladeshi MFI
CGAP	Consultative Group to Assist the Poorest
CSA	Contractual savings agreement
EU	European Union
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
MFI	Microfinance Institution
NGO	Non-governmental Organization
PRA	Participatory Rapid Appraisal
Tk	Taka (Currency)

LIST OF TABLES

Table 1:	Pilot test results of BURO Tangail's Contractual Savings Agreement	6
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1 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. Such facilities will also provide more capital funds for the MFI than the compulsory savings systems that have so far prevailed (Robinson 1995; 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 marketing "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 recognize that 'the poor' are not a homogeneous group with broadly similar needs. ... Recognizing 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. 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 – it is estimated 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. 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 Working Group on Savings Mobilization, and Marguerite Robinson's work on Bank Rakyat Indonesia (BRI).

2 IDENTIFICATION OF NEEDS AND OPPORTUNITIES

2.1 Review existing systems and conduct market research

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?

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.¹ 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 product pricing, delivery and marketing strategies.

- The field-research conducted as part of the preparation for rural finance component of the EU-funded Central Cordillera Agriculture Program, 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.
- "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, convenience, liquidity, and a positive rate of return (GTZ 1997b)."
- "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)."
- "The common denominator underlying savings programs of Bank Dagang Bali (BDB), 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)."

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.

¹ For a fascinating description of 58 varieties of financial service systems for the poor see Rutherford, *A Critical Typology of Financial Services for the Poor* (1996).

Encouraging field-based staff in particular to be aware of the organization'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.

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 surveys, which limit the opportunity and motivation for follow-up and probing, discovering what is really important - particularly for poorer households. Ideally, 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.

2.2 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 organization 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 that need not be learnt the hard way. As the microfinance net-working and e-mail and internet services grow, this exchange of experience will become easier.

3 DESIGN AND PILOT TESTING

3.1 Design, cost-out and price new products.

On the basis of the results of identification of needs and opportunities activities outlined above, the organization 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 organization'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 organizational and financial perspectives.

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 organizational and financial requirements. Thus, for example, if there is a demand for contractual savings agreement (CSA) facilities,² the periods on offer both for regularity of savings deposits and the time period of the CSA should be driven by a combination of:

- 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.?
- 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 organization's need for capital? Does it have the management information systems and fund/liquidity management systems to manage the resultant fund flows effectively?
- 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 a 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, organizational 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 analyzed, for later comparison with the earnings that are expected to be derived from the product. Thus, for example, if a new savings service for school children is to be introduced, the MFI would examine various aspects: How to launch and market the product? How would staff collect and account for these savings – at the school or in the branch? 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 systems and stationery (passbooks etc.) 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 for the organization's liquidity and capital funds? What level of liquidity risk is involved, and therefore what proportion of the funds can be intermediated into loans? How much can the institution expect to make on loans? And so on.

As fully-fledged financial institutions should be sustainable, 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

² 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.

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.

3.2 Implement the new products on a pilot basis

It is important to implement the new products in a limited number of easily accessible and representative³ 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 labor 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)."

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 field 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 are 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 organizational 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 illustrated in the following table.

³ In terms of client mix, characteristics, socio-cultural and economic variables etc. and in terms of the staff and systems of the MFI.

Table 1: Pilot test results of BURO Tangail's Contractual Savings Agreement

Contractual savings agreement scheme size	Pathorail branch		Silimpur branch	
	7-11 months		7-11 months	
	December 1996	to April 1997	December 1996	to April 1997
Tk5	11	11	7	- ⁴
Tk10	42	43	43	-
Tk15	2	2	40	-
Tk20	72	73	0	-
Tk25	0	2	0	-
Tk50	0	2	2	-
Branch total	127	133	92	100
Total Taka⁵		67,586		47,130

Source: Rutherford and Hossain (1997).

⁴ Analysis not carried out by the review team.

⁵ Tk40/US\$.

4 MONITORING AND EVALUATION OF THE PILOT TEST

4.1 Monitor financial and organizational consequences

The MFI should pay careful attention to both the financial and organizational 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 organization, 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 organizational implications of the new financial service product being pilot-tested.

4.2 Conduct on-going market research to review progress

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 as for example focus group discussions etc. They should examine positive as well as negative reactions of clients to the product to determine how the product and its delivery could be improved to better meet their needs.

BURO Tangail, for example, are starting to use Customers' Consultative Groups, which are formed of elected *kendra*⁶ 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 organization, 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 many formal sector financial Organizations - have experienced problems when the loans issued exceeded their clients' capacity to repay, and contractual savings agreements present similar risks.

⁶ Comprising four to six groups with 20-30 members each.

5 REVISION AND SCALED-UP IMPLEMENTATION

5.1 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 optimize 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 finalize the pricing and marketing of the product.

For more effective marketing, special attention should be paid to easily recognizable trade marks and product names: "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 trade marks. 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 (GTZ 1997d)."

5.2 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 organization. Before doing so, the MFI should ensure that the accounting systems for the new product are fully integrated into the organization'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 organization.

5.3 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 mobilization. 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 recognize 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.

The microfinance industry has reached a critical time in its development, a time when decisions have to be made, and indeed are being made, about how best to build on the success to date. Even once a credit and savings system has been implemented, there is a need for an on-going program of "product development" to improve the quality of financial services being made available to clients. This is the challenge for the future. The eventual impact of microfinance on poverty and the sustainability of MFIs will ultimately depend on organizations' systems and products. The more appropriate and the higher the quality of financial services on offer, the better business will be both for MFIs and for their clients.

6 EMPIRICAL EVIDENCE FROM 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 program of operations research to improve the flexibility of the financial services offered by the organization, and to ensure that these are responsive to the members' needs. The operations research agenda is guided by:

- The results of the organization's attempts to improve the members' participation in its organizational 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;
- The reviews of external consultants; and
- Examination of successful products offered by other informal and semi-formal financial service providers.

Detailed design, costing and pricing of new products is undertaken by the Finance Director and his staff in collaboration with the Program 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 Program 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 organizational 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 test 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 program, implementation issues, and clients' perceptions of the financial service products being offered, as well as ideas and options for further research.

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.). Once pilot testing is completed, successful financial service products are extended out to other branches as quickly as possible in a phased approach.

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