



SAFESAVE (B): PROVIDING FINANCIAL SERVICES TO SLUM DWELLERS

In 1998, Mr. Stuart Rutherford started an experiment on financial services, which were offered in the slums of Dhaka City, Bangladesh. The experimental model offered the clients savings, loans, and loan-related services at their doorstep daily. Loans were voluntary and their amount based on the client's request. There was no minimum amount or repayment schedule for the principal. The maximum loan amount, however, depended on the borrower's savings deposit level and/or the amount pegged by the project implementers. The basic principle was that clients could take out loans in whatever amount, pay whenever and in whatever amount, and on terms the clients determined, with the clients' enjoying the privilege of being able to change the terms anytime. The savings scheme was likewise fashioned such that clients could save and withdraw whatever amount whenever they like.

In 2002, Mr. Rutherford's experiment was turned into a permanent microfinance institution (MFI). Registered as cooperative society in Dhaka (capital city of Bangladesh), SafeSave was owned by the General Body made up of individuals with microfinance knowledge. They elected a seven-member Executive Committee to govern the institutionalized model. The proponents of the experiment, Rutherford and Islam, became the Chairman and Vice Chair, respectively.

SafeSave's mission was to provide "commercially viable financial services that poor and very poor individuals value." Given its goal to be self-sustaining, SafeSave stopped accepting subsidy for operating expenses starting June 2002, although it

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continued to enjoy Tk8 million (about US\$140,000)¹ in no-cost loan capital, a grant from PLAN International.²

In the years 2002 and 2003, which were Safesave's first two years of operation as a formal entity, the organization was in the red. But by 2004 it was able to generate profits of almost Tk134,000.

As Safesave moved on to its fourth year, Mr. Rutherford reviewed its past performance and targets for the next three years. For 2005 alone, the organization hoped to increase its return on equity from the current 1.5 percent to 6 percent. It also hoped to achieve a higher operational sustainability³ of 108 percent from the previous year's 101.4 percent. It intended to put up another branch in 2006 and to grow its client base from over 9,000 clients to 11,500. Mr. Rutherford then wondered how Safesave could achieve these goals.

BRANCH OPERATION

Each SafeSave branch employed 10 collectors, all of them female and each earning US\$60 a month; a Branch Head earning US\$110 monthly; and a Data Clerk with a monthly salary of US\$65. As personnel expenses comprised 70 percent of SafeSave's non-financial costs, the organization kept salaries low by employing workers who themselves lived in the slums and were attracted to the idea of earning a fixed salary. These personnel had received enough education, usually about eight years, to be able to do basic arithmetic.

The branch office was modest: a room containing a computer, a printer, three tables, and chairs. SafeSave owned no vehicle so that its workers traveled on foot. Office rent and other overhead expenses were around US\$175 a month. Ideally, a Bank worker served 200 clients, half of whom had borrowings averaging US\$77 per client.⁴ The ratio of deposits held to loans outstanding was 1:1.5.

Interest Collection and Loan Repayment

The organization's systems created a situation whereby interest payments on a large number of outstanding loans were overdue. Clients could pay the monthly interest on their loan outstanding any time within the month, but they had to settle the amount in

¹ \$1: Tk 58 at end 2003

² Founded in 1937 and originally named 'Foster Parents Plan for Children in Spain', Plan is one of the world's largest development organizations, working in 45 developing countries. In 2003 it invested about \$341 million on health, education, livelihood, housing, water and sanitation projects, and cross-cultural learning.

³ Computed as operating income divided by total operating expenses (before adjustments for inflation and subsidies)

⁴ In 2005, however, 64 percent of SafeSave clients had an average outstanding loan of US\$55; more than 90 percent of which amounted to US\$100 or less. Average savings per client amounted to US\$21.

full by the end of that particular month. Collection of interest payments was low, such that loan disbursement fees and deposit service charges became the main source of SafeSave's income in 2002. While SafeSave's loan recovery rate⁵ had been always high at over 98 percent, on-time interest payment was around 85 percent, reflecting its clients' rational preference to delay interest payments in favor of principal repayment. Clients also tended to avoid interest payments altogether, if they realized they would not be taking another loan.

To accelerate interest collection, SafeSave therefore issued a new policy in August 2002 requiring clients to settle their interest payments and overdue fees before other types of transactions could be made with the organization. The new policy gave SafeSave's General Manager the opportunity to negotiate overdue fees balances with existing clients on a case-to-case basis. The negotiation process eliminated overdue fees through a combination of clients' savings and the "granting of forgiveness" which yielded an 80-percent reduction in all overdue payments, thereby creating substantial additional revenue for SafeSave. Since then, overdue fees were used as an indicator of loan risk in the absence of a loan repayment schedule. This policy, however, was noted to have had a negative impact on savings mobilization and loan principal repayment.

In 2003, SafeSave came up with incentive schemes to address the repayment issues. Historically, collectors were paid according to two basic parameters: client numbers and longevity. That year, a new factor was added to the collectors' performance indicators: on-time interest collection rate. The new policy also rewarded the high-performing collectors with a monetary incentive: a salary increase of 20 percent or more. The branch manager of high performers also received as much as 75 percent of his/her monthly salary in commissions. The underperformers, on the other hand, could experience a decrease in pay if they had a large client portfolio but a poor on-time fee collection record. This new incentive scheme increased the monthly interest collection rate from 85 percent in 2002 to 95 percent in 2003. Further, around 50 percent of the collectors attained a high level of performance within the first eight months of the scheme's implementation and were therefore eligible for a salary increase.

To encourage collectors to build up savings but without pressuring the clients to save up, SafeSave created an annual "Star Awards" bonus to reward collectors with high on-time fee collections, as well as a large loan portfolio, thereby generating large revenues for the organization. As loan size was a function of savings in all products (except for the recently developed Product 7), the award was expected to motivate client savings without needing to establish a savings quota.

A profit-sharing bonus was likewise introduced for managers and assistant managers in an effort to reduce administrative expenses, promote client savings which provided much cheaper capital than the external sourcing of funds, and to promote high on-time fee collection, in effect reducing provision expenses. The bonus was given to managers as a group so as to encourage cross-branch assignments and teamwork in solving problems in underperforming branches. The bonus scheme also encouraged the

⁵ The amount recovered as a percentage of the average outstanding portfolio.

managers to point out problems with products and policies to senior management—something that was culturally difficult for Bangladeshis to do.

Internal Control

SafeSave realized that the complexity of products—approximately eight unique transactions per client per month, the schedules of which were not set and the amounts involved unpredictable—created opportunities for errors and fraud. By mid 2002, the rate of errors between client's and SafeSave's records ranged between 10 percent and 20 percent; one branch had a 50-percent rate of error. At the field level, account errors were generally the result of poor handwriting and incorrect arithmetic.

To address this problem, a Data Clerk was tasked to verify that the account balance in MIS matched the one written on the field collection sheet. This step ensured that the data gathered from the field was consistent with the branch's database. Collector errors were thereafter noted and tracked by the Data Clerk. Resolution of the account error was designated as the Branch Manager's responsibility in an effort to add pressure on the collector to write neatly and compute figures carefully. In less than a year, the error rate was reduced to two percent in all SafeSave branches.

The spot-checking of accounts and cash balances was institutionalized to limit the potential for fraud that took on the form of the creation of fictitious accounts and the temporary use of funds by staff, among others. For instance, a collector was reported to have run away with Tk1,000 by creating false accounts; also, money (one case involved \$500) was known to have "disappeared" in a branch. Apprised, the Chairman reviewed the performance of each branch every month so that small discrepancies in figures, which might signal problems, could be spotted and followed up immediately. The Chief Operating Officer also regularly met with the staff, all of whom he knew personally. The problem remained, however, if the manager colluded with the fieldworkers.

External Factors

The demolition of slums in at least two locations was a major setback for SafeSave. In 2002, for example, the Agargaon slum was cleared, causing SafeSave to lose 550 clients. The following year, the Kalyanpur slum, served by one of SafeSave's most successful and profitable branches, was bulldozed overnight. Some households then lived on the streets, others moved in with relatives in other slums, while some others re-erected their shanties in other slums. Although the said incidents resulted in the loss of 1,250 SafeSave clients, the staff worked relentlessly to release savings to clients who needed money at that time; and closed accounts, returning savings with interest to those who had to relocate elsewhere. The results of the two clearances totaled Tk1.5 million in capital losses.

PRODUCT INNOVATIONS

Product Modification

The products launched from 1997 to 2000 were modified in 2003. For example, Product 2's five-year savings plan was eliminated in favor of a simple interest-earning savings scheme. The relationship of loans to savings was also modified to provide borrowers partial access to their savings so that if a client had a loan, she/he may withdraw from her/his savings provided that the said account should always hold at least 50 percent of the current outstanding value of the loan.

The tie-up feature of Product 3's long-term loan with long-term savings was similarly altered: the combined total savings of the clients, whether short-term or long-term, had to equal or exceed one-third of the loan balance.

Product 4 was also modified to promote the simple interest-earning savings package in place of the original contract savings facility.

The modified product features are summarized on Table 1:

Table 1			
	Product 2	Product 3	Product 4
Year launched	1997	1999	2000
Service area/s	Tikkapara, Kalyanpur, Beri Band (flood-prone areas where people lived in bamboo huts on stilts)	Geneva (refugee camp site)	Bauniadad (less poor area, dwellers lived in titled lands)
Client base	3,600	1,500	1,800
SAVINGS			
Amount	Any amount, any time	<ul style="list-style-type: none"> • Short-term or current savings: any amount any time • Long term: clients could choose from among the fixed monthly deposit amounts in multiples of Tk 50 up to Tk2,000 for 60 months (five years) 	Any amount, any time
Requirements		Monthly service charge of Tk10	
Interest	Six percent annually but applied only in months when the balance does not fall below Tk1,000 and not before the account is six months old. Interest is credited to the account annually or when the	For short term, six percent annually but applies only in months when the balance does not fall below Tk1,000 and not before the account is six months old. Interest is credited to the account	Tk1 for each full Tk200 in the account throughout the month. Interest is credited to the account annually or when the account is closed.

	account is closed.	annually or when the account is closed.	
Withdrawal	If no loan is outstanding, any amount may be withdrawn any time. If with a loan outstanding, the savings balance must be at least 50 percent of the loan balance. If withdrawal is Tk500 or less, transaction may be done through the collector; a higher amount requires that transaction be done in the branch.	<ul style="list-style-type: none"> • Short-term or current account: any amount, any time subject to restrictions on loans • Long term: withdrawals not allowed; however, if one closes the account before 60 months, s/he gets the money without interest 	If no loan, any amount may be withdrawn any time. If with loan outstanding, no withdrawal is allowed.
LOANS			
Amount	Maximum of twice the savings balance, up to a fixed maximum of Tk5,000 (in Tikkapara) and Tk2,000 (in other branches). Subsequent loans may be increased by Tk2,000 (in Tikkapara) and Tk1,000 (in other branches), but cannot be more than twice the savings value.	Maximum of three times the sum of savings accounts up to a fixed maximum of Tk3,000. Subsequent loans may be increased by Tk1,000 but cannot be more than three times the savings account balances.	Any amount not to exceed Tk3,000 plus the balance of the savings account. Additional loans may be made after some repayments or new savings have been made, as long as the new balance does not exceed the saving balance plus Tk3,000
Requirements	Disbursement fee of three percent; loans may be made when the account is at least one month old	Disbursement fee of three percent; loans may be made as soon as the account is made.	Disbursement fee of four percent; loans may be made when the account is at least two months old and as long as savings account is at least Tk500 and has been so for at least a month.
Interest	Three percent per month on declining balance; must be paid before any transaction is made	Three percent per month on declining balance; must be paid before any transaction is made	Four percent per month on declining balance, collected at any time within the following month.
Term	Nominal of one year, renewable at a price of three percent of outstanding loan	No fixed term	No fixed term

Source: Adapted from Products <<http://www.safesave.org/products.html>>

To get a new loan, a client should first pay off the balance of the existing loan, so as to avoid incidents of refinancing. While the client was made to decide on the loan term s/he wanted, the incremental loan amount would depend on her/his previous transaction record. A record of regular payments entitled the client to a higher loan amount provided that the client had the capacity to pay. For example, if one’s monthly payment was equal

to 10 percent of the loan amount, then the client's credit limit would be raised by Tk500 (US\$10).

Loans had to be secured by savings. Generally, one-third of the loan amount had to be covered by savings, in effect restricting the amount that a client could withdraw from his/her savings account. The SafeSave personnel's standard explanation for their clients was:

You came to us because you have no collateral for a bank loan. You live here and your assets are old. There's no physical asset you can put against the loan. In SafeSave, we need financial collateral versus the loan. You have to save before you can get a loan. You have to show us your transaction history.

Product 5 Development

In its attempt to cater to the rural poor, SafeSave started a rural experiment and developed Product 5, a "radically simplified product,"⁶ under the assumption that there would eventually be fewer clients per collector and fewer educated collectors available for employment. It was believed that the resulting lower revenues from the rural area would be compensated by lower operating costs, particularly in terms of staff costs salaries.

Hrishipara, the selected pilot area some three hours away by road from Dhaka, was densely populated by largely landless people who worked as ferrymen, rickshaw pullers, petty producers and traders, or agricultural laborers. The area was surrounded by farming villages, more typical of rural Bangladesh. This combination of areas allowed SafeSave to start an operation similar to its urban-based business prior to moving out to the farming communities.

MFIs and informal lenders had a strong presence in the Hrishipara. However, since the area had suffered from many fraudulent savings schemes, SafeSave wanted to offer the clients a chance to borrow without having to put up savings, if they felt more comfortable doing so.

Launched in 2002, Product 5 was SafeSave's first product that did not link loan facilities with savings. Only one loan could be held at a time and the loan had to be repaid in full before a new one could be taken. The first loan could be for Tk1,000 maximum, while the value of each subsequent loan could be increased by Tk500.

Most clients chose the loan term ranging from two to 12 months. To simplify transactions, interest charges of 3 percent per month over the loan period were all deducted upon loan disbursement. Per this arrangement, collectors needed to manage savings and loan principal repayments only.

⁶ www.safesave.org/products.html

Loans were repaid in amounts of up to Tk500 to the collector, while any amount below, beyond or equal to Tk500 could be paid in the branch. Loan insurance for debt-relief-on-death was included in the charges.

Like any SafeSave product, Product 5 featured a savings option which was, however, not necessary for loan applications. The said option allowed clients to put in savings of any amount at any time. An interest rate of six percent annually applied to a monthly balance that did not fall below Tk1,000. Withdrawal of Tk500 was allowed any time during the collectors' visit; larger amounts, however, required the client to give a day's notice to the branch and to get the money personally.

Product 6: Handheld Computers in Service Delivery

In 2003, SafeSave launched a new product, Product 6 in Kurmitola slum. This project utilized a new information system employing handheld computers for field transaction entry. Similar to other SafeSave products, Product 6 welcomed savings from anyone; but only those 14 years old and older were allowed to take out loans.

Savings could be of any amount and made any time. Interest was at Tk1 per quarter for a full Tk50 savings balance throughout the period. Loans could be taken out a month after the account was opened but were limited to a maximum of three times the savings balance up to a fixed maximum of Tk3,000. Unless an interest rate of 10 percent per quarter was paid in full during the period it falls due, clients could not withdraw their savings nor repay their loans. In taking out a loan, clients had to go to the manager and then give the passbook to the collector who checked the loan amount limit (client could avail of less) for that particular client and the client's payment history.

A loan did not have a fixed schedule of repayment nor a fixed term. Instead, loan repayments of any amount up to Tk500 could be made to the collector, while payments of any amount bigger than Tk500 could be made at the branch. The collectors carried with them their handhelds whenever they went to the clients and used these handhelds like a collection sheet for recording the details of savings and loan transactions. Although the collectors had only five to 10 years of schooling, they experienced no difficulty working with handhelds because of the gadgets' simple graphics and sounds. Data entries made in the handheld went directly to the MIS database, thus eliminating the need for paperwork on the part of the collector and an encoder.

The use of handheld computers resulted in a better control system, as product rules could no longer be manipulated. In addition, the system did not give the collectors any discretionary power over loan amounts. It also made transactions easier for both staff and clients as the system provided the collectors with a running cash-on-hand balance. Moreover, errors in recording constituted only 10 percent of errors occurring in a paper-based system, thereby saving US\$10 to US\$20 per month in management time (or the time spent by the branch managers checking the records and correcting errors). With

better efficiency, management now had more time to provide customer service. Table 2 shows the cost comparison of paper-based and handheld-based transactions.

Table 2

Paper based transaction entry		Palm Pilot based transaction entry	
Item	Monthly expense for 2,000 clients	Item	Monthly expense for 2,000 clients
Amortized software development expenses	200 Taka	Amortized software development expenses	1,000 Taka
Software maintenance expense	-	Software maintenance expense	500 Taka
1,200 'collection sheets' for field transaction recording	600 Taka	11 palm pilots, each with a useful life of 18 months	4,400 Taka
50% of assistant manager's time for data entry	3,000 Taka	20% of assistant manager's time for data management	1,200 Taka
20% of branch manager's time for cash management and accounting	1,600 Taka	15% of assistant manager's time for cash management and accounting	900 Taka
Subtotal direct costs	5,400 Taka	Subtotal direct costs	8,000 Taka
10% of branch manager's time for the correcting of account errors	800 Taka	5% of branch manager's time for the correcting of account errors	400 Taka
10% of assistant manager's time for the correcting of account errors	600 Taka	5% of area supervisor's time for the correcting of account errors (including travel time)	500 Taka
5% of each collector's time for the correcting of account errors (10 collectors)	2,000 Taka	2.5% of each collector's time for the correcting of account errors (10 collectors)	1,000 Taka
10% of each collector's time spent on cash management (10 collectors)	4,000 Taka	10% of each collector's time spent on cash management (10 collectors)	4,000 Taka
	-	Loan loss provisioning expense reduced by 10%	(800 Taka)
Total transaction entry costs	12,800 Taka	Total transaction entry costs	13,100 Taka

Source: SafeSave's Experience with Handheld Computers, Microsave, March 2005.

The system, while being debugged during the trial run, was backed up by paper records. But by end 2003, it was running at full speed.

Although transaction entry accuracy exceeded 99.8 percent, management remained opposed to the idea of providing the collectors with data-wise account history information via the handheld as it could create opportunities for fraud. As of 2005, a typical hand-held computer-enabled branch detected less than one error per 1,000 transactions, while paper-based branches had one error per 100 transactions. Despite the computerized systems, however, spot checks and monthly audits were still conducted to check on discrepancies between the clients' passbooks and the computer entries.

With SafeSave's more sophisticated and reliable system, Kurmitola clients were expected to increase from 450 at the end of 2003 to at least 2,500 the following year.

SAFESAVE'S PERFORMANCE IN 2004

Branch Expansion and Product Development

In 2004, SafeSave developed another product also intended for the Hrishipara area, but this time catering to the market traders and other clients who were perceived risky as they either did not have permanent addresses or resided in an “unstable” area such as the flood-prone Kalyanpur. Known as the “capital builder product,” Product 7 motivated clients to save as it provided for the immediate coverage of their loans by their savings.

For those considered “risky” clients, Product 7 required an opening fee of Tk 20. Two weeks after an account was opened, a collector was obliged to visit the client daily, the frequency of visits dwindling as mutually agreed upon by the collector and the client. Such arrangements particularly held for clients who were not available everyday in the working area.

The amount and the timing of savings put in were not fixed, while withdrawals of Tk500 or lower could be done through the collector. The withdrawal of higher amounts had to be conducted at the branch office. Credited quarterly, interest on savings was computed at progressive rates as follows:

- 3 percent for a balance of Tk1,000
- 4 percent for balance up to Tk5,000
- 5 percent for balance up to Tk10,000
- 6 percent for balance up to Tk20,000
- 7 percent for balance above Tk20,000

Clients were asked to nominate a beneficiary for their savings in case of death.

Loans could be taken out upon account opening. Only one loan could be held at a time and should have been repaid in full before a new one could be issued. Loan amounts could be Tk5,000 more than the savings balance maximum, at the time the loan was made (which meant Tk5,000 at most for those without any savings balance). After five loans had been taken and repaid satisfactorily for a maximum term of one year, the loan amount could be increased to Tk10,000 more than the savings balance, and after another five such loans, to Tk15,000. When a loan was taken, Tk1,000 of the loan amount had to be deposited to the client's savings account. For risky clients, the loan amounts were reduced to Tk2,000 over the savings balance for the initial loan, Tk3,000 more than the savings balance for the next five loans, and after another five such loans to Tk5,000 more.

Interest charges were automatically deducted from savings at the rate of three percent per month, if the loan balance was equal to or greater than the savings balance; or at the rate of one percent per month, if the loan balance was less than the savings balance. If a loan was repaid within a month after it was taken out, a three-percent processing

charge was deducted from the savings balance. Loan insurance for debt-relief-on-death was included in the charges.

By the end of 2004, some 372 clients had availed of Product 7, all of them adult male market traders. The Hrishipara branch, which was staffed by one branch manager, one data processor, and five collectors for Product 5 and three for Product 7, had a net surplus of over Tk480,000 that year. At the start of 2005, the rural experiment became an independent organization called Shohoz Shonchoy Ltd.

Still in 2004, another branch in Millat utilizing the handheld-based MIS (Product 6) was established. It was expected to be fully profitable within 18 months after opening and to earn 1.3 times the operating expenses under full-scale operations. By June of that year, it was serving 743 clients with Tk350,000 (US\$5,800) in savings and Tk500,000 (US\$8,300) in loans. In its first 12 months, the branch roughly doubled the best performance of the older branches, accumulating a savings portfolio of more than Tk1 million.

By February 2005, around 3,000 clients or 30 percent of SafeSave's clientele base had been served by the handheld computer system, which had handled more than 100,000 transactions by December 2004. This figure translated to an average of 11 transactions per client per month. However, management's challenge remained: how to balance the costs and benefits of the new technology, and how to maintain the MIS properly over the long run.

Internal Control

While management focused on on-time interest collection in the past, in 2004 it concentrated on the recovery of overdue loans. SafeSave preferred not to write off loans while a client remained in the working area. To avoid unproductive loans, however, borrowers with high levels of interest payments overdue—which constituted around seven percent of all borrowers in 2003—were allowed to pay off their loans without interest. Although SafeSave's write-off of bad debts remained at less than two percent, its loans overdue by 90 days or more comprised 12 percent of its portfolio by the end of 2003. For this reason it intended to build its loan loss reserves (which stood at only 6.5 percent in 2003).

Loan recovery rate by June 2004 was more than 97 percent. By December, loan loss reserve⁷ reached 66 percent of the portfolio at risk⁸ (90 days or more), from only 31 percent at the start of the year. The clientele served by branches using handheld computers also expanded to 3,000.

⁷ A balance sheet entry representing the amount of the outstanding portfolio whose recovery was not expected.

⁸ Computed as outstanding balance of loans with past due payments divided by the current portfolio outstanding. It measured the level of risk in the portfolio.

An audit committee was formed in 2004, and until SafeSave could afford to hire the services of an internal auditor who had to be paid enough for him/her to steer clear of the temptation to accept payment in exchange for ignoring irregularities, it had to make do with these control mechanisms.

Sustainability

SafeSave's experience in mature branches proved that the surplus income of each branch was enough to cover loan losses, losses due to repayment irregularities, and erratic capital due to inflation, over and above the operating expenses. In 2003, SafeSave achieved 96 percent operational self-sufficiency with six branches run by a staff of 70. Each branch served an average of 1,200 clients for a total client base of 7,200. The average client savings balance was Tk1,100 (US\$ 20), while about two-thirds of SafeSave's clients had loans averaging Tk2,900 (US\$50).

In 2004, SafeSave achieved both operational (101.4 percent) and financial (94 percent) sustainability⁹ in the second and the fourth quarters, respectively. Customer service was given significant attention that year such that the staff achieved a maximum turnaround time for loans of one working day and 10 minutes, for savings withdrawals of up to Tk5,000. On the other hand, the organization's client base grew to 9,329 while its branches grew to seven, although one closed down due to demolition operations in the service area.

SafeSave's cost expense ratio of 25 percent remained significantly higher than that of the competition and its operation continued to be affected by external factors such as flooding in 2004. The flood that hit the outer slums of Dhaka in July put the homes of 885 SafeSave clients under water and damaged their sources of income.

Having barely recovered, Dhaka again suffered another flood in September 2004, convincing SafeSave that its flexible loan repayment service allowed its clientele to cope with natural disasters better than the other MFIs' compulsory weekly scheme.

Tables 3 – 5 summarize SafeSave's performance over the last eight years. (see also Exhibits 1 and 2 – Financial Statements)

⁹ Measures the degree to which operating income covers the adjusted operating expenses to include subsidies and cost of inflation; computed as operating income divided by the sum of operating expenses and adjustments for subsidies and cost of inflation.

Table 3. Overview of Performance and Projection¹⁰

	December 2005 (forecasted)	December 2004	December 2003
Clients	11,500	9,443	7,326
Borrowers	7,200	5,950	4,670
Branches	8	7	6
Total staff	98	76	70
Clients per total staff	117	124	105
Loan portfolio	23.0m	19.7m	13.9m
Savings portfolio	15.0m	11.7m	9.1m
Average deposit balance	1,304	1,242	1,242
Average loan balance	3,194	3,319	2,980
Average loan at disbursement	3,605	3,641	3,404
Loan write-off rate ⁷	2.1%	2.3%	1.7%
Loan loss provision rate ⁸	2.9%	2.9%	3.4%
Balance of doubtful loans ⁹	1.6m	1.6m	2.0m
Loan loss reserve balance	1.4m	1.1m	1.5m
	Calendar year 2005 (forecasted)	Calendar year 2004	Calendar year 2003
Loan portfolio yield ¹⁰	37%	37%	38%
Administrative expense ratio ¹¹	31%	33%	37%
Operational sustainability	108%	102%	97%
Return on average equity	6%	1.5%	(2.4%)
Growth in total clients	22%	29%	11%
Growth of deposit portfolio	35%	30%	36%
Growth in total assets	24%	27%	14%
Growth of loan portfolio	17%	42%	30%
Revenue growth	34%	33%	15%

Source: SafeSave Annual Report, 2004

Note 7: Write-offs divided by the sum of repayments and write-offs

Note 8: Provisions divided by disbursements

Note 9: Doubtful loans have a past due interest balance of 90 days or more

Note 10: Gross loan portfolio

Note 11: Wage and administration expenses compared to average gross loan portfolio

Table 4. Transaction Volume in December 2004 (all branches)

Month of December 2004	Total		Per fieldworker	Per Client
Deposits	56,891	56.4%	1,073	6.1
Loan repayments	25,693	25.5%	485	2.8
Loan fee payments	16,684	16.5%	315	1.8
Withdrawals	1,239	1.2%	23	0.13
Loan disbursements	345	0.3%	6.5	0.04
All transaction types	100,852		1,903	10.8

Source: SafeSave Annual Report, 2004

¹⁰ The inflation rate in the country as of 2004 was six percent. Source:
<<http://www.cia.gov/cia/publications/factbook/geos/bg.html>>

Table 5. Cumulative Transactions (in Taka)

	Cumulative	2004	2003	1997-2002
Deposits	53.0 million	12.1m	10.1m	30.8m
Withdrawals	41.3 million	9.5m	7.8m	24.0m
Loans	108.7 million	30.3m	18.1m	60.3m
Loan repayments	89.0 million	24.5m	14.9m	49.6m
Write-offs	2.1 million	1.0m	0.3m	0.8m

Source: SafeSave Annual Report, 2004

In 2005, SafeSave faced a new set of goals and challenges. It aimed to reach the following:

	2005	2006	2007
Number of branches	8	10	12
Number of clients	11,500	16,000	20,000
Operational sustainability	108%	110%	111%
Return on equity	6%	9%	10%

Safesave's annual report in 2004 indicated that although branches reached profitability in 18 months, this feat largely depended on their ability to charge 36 percent effective interest rate on their loans. Most MFIs in Bangladesh charged between 27 percent to 32 percent effective interest.

Further, Safesave started implementing more stringent policies in 2005, including lending only one loan per household and basing increases in credit limits on regular monthly payments. However, Safesave continued to offer loans without a repayment schedule: clients decided when and how much to repay monthly. The only amount due was monthly was the loan interest.

Mr. Rutherford expressed,

SafeSave is still working on the staff incentive and an analytical model. We are also studying the changes that are to be made on policies regarding higher credit limits of Tk30,000 or more.

The New Microfinance Law has also been drafted, which will categorize SafeSave under the Micro Capital Bank. Under this classification, the bank will have a specified geographical area for its operations. It will also be required an equity investment of \$350,000. On one hand, the bank will have unlimited right to mobilize savings and to foreign ownership and can expatriate dividends. On the other hand, a new regulatory body will still have to be set up to make the rules and regulations. No one is certain yet as to what will happen. And I have to be extra careful as I am not a Bangladeshi.

Exhibit 1				
SafeSave				
Balance Sheet (in Taka)				
Assets		2002	2003	2004
Cash and bank current account		1,220,375	1,470,540	1,697,642
Interest bearing deposits		3,775,964	3,768,366	2,000,000
Loan outstanding		10,407,698	12,368,973	18,697,256
Advance and deposits		100,800	124,100	99,500
Accrued interest on fixed deposits			15,600	130,554
Total current assets		15,504,837	17,747,579	22,624,952
Fixed assets		577,038	536,447	516,844
Total assets		16,081,875	18,284,026	23,141,796
Liabilities and Net Worth				
Liabilities				
Client savings		6,970,704	9,101,867	11,723,250
Interest on client savings		894,617	324,335	537,323
Member savings		3,300	3,300	3,300
Staff savings		316,274	423,334	552,974
Interest on staff savings		64,790	91,643	53,234
Provision for audit fees		31,350	36,500	36,575
Provision for performance bonus			78,800	287,946
Advance from PLAN International			134,333	13,992
Total current liabilities		8,281,035	10,194,112	13,208,594
Borrowings		7,957,785	8,061,893	9,265,893
Total liabilities		16,238,820	18,256,005	22,474,487
Net Worth				
Grant capital				87,666
Member shares		14,300	395,300	813,300
Accumulated deficit		(171,245)	(367,279)	(233,657)
Total net worth		(156,945)	28,021	667,309
Total liabilities and net worth		16,081,875	18,284,026	23,141,796
Source: SafeSave Annual Report, 2003 and 2004				

Exhibit 2			
SafeSave			
Profit and Loss Account (in Taka)			
	2002	2003	2004
Financial Income			
Fees from loans	4,075,638	4,669,712	6,249,778
Service charge fee	159,962	178,688	171,120
Admission fee		9,100	50,860
Bank interest	349,915	282,964	180,561
Total financial income	4,585,515	5,140,464	6,652,319
Financial Cost of Lending Funds			
Interest on client savings	359,895	344,110	489,408
Interest on staff savings		35,464	52,929
Interest on borrowings	25,539		
Total financial cost	385,434	379,574	542,337
Gross financial margin	4,200,081	4,760,890	6,109,982
Loan loss	353,731		
Loan loss provision	292,897	1,532,257	522,377
Net financial margin	3,553,453	3,228,633	5,587,605
Operating expenses			
Staff salary	2,574,442	3,192,375	3,656,072
Rent	348,201	481,454	500,726
Traveling and entertainment	227,207	163,571	143,412
Advertising, printing, and stationery	376,769	223,578	255,770
Telephone and email	82,197	61,248	62,634
Consultancy fees	70,525	4,750	
Bank charges	3,021	5,648	5,322
Audit fees	31,350	52,000	51,046
Performance bonus		78,800	585,440
Depreciation	178,698	166,724	158,788
Miscellaneous	140,853	131,020	54,576
Total operating expense	4,033,263	4,561,168	5,473,786
Net income from operations	(479,810)	(1,332,535)	113,819
Non-operating income			
Grant from PLAN International	134,855	1,095,892	
Fees from consultancy	99,500	12,500	
Other income	6,550	27,609	19,803
Income from sale of old assets	45,580		
Total non-operating income	286,485	1,136,001	19,803
Net profit / (loss)	(193,325)	(196,534)	133,622
Source: SafeSave Annual Report, 2003 and 2004			

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