

SafeSave

Technical Assistance Report

Submitted to:

The Swiss Agency for Development and Cooperation (SDC)

July 2004

In May of 2003, The Swiss Agency for Development and Cooperation (SDC) signed a consulting agreement with Mark Staehle (mark@safesave.org) to support *SafeSave* with on-site technical assistance. This report is the second of four assignment completion reports covering technical assistance from July 2003 to June 2005.

Background

SafeSave has offered savings and loan services to Dhaka's poor since 1997. The majority of *SafeSave*'s clients, both savers and borrowers, live in what are commonly known as 'slums.' All clients receive services on an individual basis. *SafeSave* is based on the research of Stuart Rutherford, and is known for flexible financial services oriented around a daily visit from the fieldworker.

During the month of June, 2004, *SafeSave*'s 54 collectors visited 8,525 clients to offer transactions at the doorstep. More than 50,000 individual transactions occur in this fashion each month. All collectors are female, the majority of whom are economically disadvantaged and have between 5 and 10 years of formal education.

The average *SafeSave* client has a savings balance of around \$20. About two-thirds of *SafeSave*'s clients hold loans, and more than 27,000 loans have been made at an average of \$65 each. Ninety percent of all loans are given for \$100 or less. Effective interest on loans averages 40% per year, and is charged against the declining balance. Savings earns annual interest of 6%.

Borrowing is voluntary, and repayment of loan principal is flexible. Only the interest must be paid on time to maintain the right to withdraw savings and take progressively bigger loans. There is no fixed schedule or term for loan principal – loans may be paid according to the client's ability and preferences. No asset or cosigner guarantees are required. *SafeSave* is built on the principal that quality service and desirable products will ensure a sufficient rate of repayment to operate sustainably. So far this strategy appears to be functioning, as the cumulative loan loss rate is less than 2%.

SafeSave's collectors make daily visits to their clients to accept savings deposits, loan repayments, and interest payments in amounts as small as one taka (about \$0.02). This feature – the variable, frequent opportunity to deposit and make loan payments in small amounts that are not "felt" by the household – is what enables *SafeSave* clients to build savings and repay loans effectively, even when they are very poor. Small withdrawals are also made at the doorstep. In its eight years of operation *SafeSave* has handled millions of these small transactions. The frequency of transactions helps to bring microfinance to the level of the very poor.

SafeSave clients may be male or female of any age, although the minimum age for borrowing is 16. Product design features ensure that services are most attractive for the

poor, and collectors (who are themselves poor) are free to recruit anyone who has been resident in the branch area for at least a year. From the start of operations *SafeSave* clients have deposited nearly \$800,000 dollars and taken loans worth more than \$1,600,000.

On a daily basis, the details of every transaction are entered into a computerized database. Internal control keeps account records accurate to within 98%. Two experimental branches are using handheld computers for field transaction entry, a system which has greatly improved management efficiency - collectors enter transaction details directly into the device, and once per day the device is linked to the office database to update the account information.

A program of spot-checking of accounts and cash balances limits the potential for fraud by staff. A chartered accounting firm has conducted an annual external audit every year since the start of operations.¹

SafeSave reached operational sustainability in mid-2004. A line of credit has been arranged to provide funds for further expansion, and the first loan will be disbursed in late 2004.²

Recent progress

Significant progress has been made in the last year:

- ☑ Products and delivery systems have been improved, and efficiency gains have enabled small reductions in loan interest rates
- ☑ Staff training has improved customer service
- ☑ Overdue accounts are being actively managed and gradually reduced
- ☑ Two new branches using handheld computers are growing quickly

In June *SafeSave*'s fourth product was discontinued and replaced with a new design which is less expensive for clients, and will hopefully produce higher rates of savings. This move was part of a long-term strategy to consolidate *SafeSave*'s products around a common set of features believed to be most attractive for clients, while also being simpler for *SafeSave*'s staff to manage. Past products which placed heavy restrictions on savings withdrawals in the presence of loans, or which relied on contractual savings arrangements, were found to discourage active saving. Work has been underway to make products as attractive as possible, to encourage more clients to save as a consistent habit, rather than simply as a precondition for loans.

¹ The auditor's report is available from *SafeSave*'s director at hq@safesave.org.

² The Stromme Foundation (Norway) will provide the line of credit, at an interest rate of 7%. The first loan will be for \$50,000.

A major effort is also underway to improve customer service. Branch wait times for loan-taking and large withdrawals have been reduced, and clients who meet product requirements are now guaranteed withdrawals within 10 minutes of their request. Staff is being trained to view superior customer service, rather than traditional loan enforcement mechanisms like groups or collateral, as the secret to a healthy loan portfolio. Staff is enthusiastic about the initiative, and senior collectors have been put in charge of a peer-training program to conduct periodic training for less experienced collectors. A customer satisfaction survey was completed in April, and the results were positive. While some clients were unclear about *SafeSave's* product rules and benefits, the majority are very satisfied with the service they get. Especially noteworthy was the high degree of trust that clients place in their collectors.³

Despite the progress and profitability, loan delinquency is something of a problem, with 9.9% of the loan portfolio overdue by 90 days or more.⁴ Many of these overdue accounts are related to past problems which have been or are being addressed:

- Lack of staff performance incentives
- Loans issued without face-to-face contact between the client and a manager
- Multiple accounts under the control of one individual
- Internal control weaknesses
- Slum eviction

The loan loss reserve covers 5.3% of the portfolio, and accelerated provisioning should ensure that the loan loss reserves cover all doubtful loans within 1-2 years. Seven percent of all loan clients are being allowed to pay off their loans without interest, in an effort to clear up duplicate accounts and compensate for any past weaknesses in product design and customer service. About half of these accounts are being repaid slowly, at an average rate of 3-4% per month.

SafeSave will continue to grow at a modest rate – plans call for the opening of two new branches and an increase in the number of clients to 10,000 or more by the mid-2005. Rapid growth is not a priority, as *SafeSave's* legal identity as a cooperative is less than satisfactory, and *SafeSave* is already profitable with six branches and 8,500 clients.⁵

³ Those interested may obtain a copy of the report from the author at andrea_wenham@hotmail.com. Ms. Wenham was an intern with the Aga Khan Foundation in Dhaka from July 2003 to April 2004.

⁴ Since *SafeSave* does not require repayment on a schedule, loans are considered overdue when a client has overdue interests, and 90 days overdue when the client has overdue interest equivalent to the amount due for three months.

⁵ There have been seven total branches, but one branch and 1,500 clients were lost to slum eviction in 2002-2003.

Handheld computers

Since February of 2003 *SafeSave* has run an experiment into the use of handheld computers in the field. There are now almost 2,000 clients being served by the system.

Handheld computers ('PDAs') are an excellent internal control tool, preventing product rule violations and account balance errors. The cost-benefit of handheld computers will be assessed more carefully when the longevity of the handhelds is known (the oldest has been in operation for 18 months). Each handheld computer costs approximately \$125. Although paper records and manual data entry may be cheaper in terms of direct expenses, management benefits with the handhelds are substantial.

The project has cost approximately \$15,000 for software development and the handhelds to run two branches. This expense has been met with donor funds. The expenses for implementation of the system in future branches will be paid for out of *SafeSave's* revenue.

Financial results

SafeSave's balance sheet as of June 2004 is presented below in summarized fashion (figures in US Dollars; \$1 = 60 Taka):

Assets		\$313,222
Loans, net of loan loss reserve	\$243,909	
Cash and banks	\$56,652	
Net fixed assets	\$9,829	
Other assets	\$2,832	
Liabilities		\$173,883
Deposits and interests owed	\$169,840	
Other liabilities	\$4,043	
Equity		\$139,339
Grant capital ⁶	\$136,032	
Share capital	\$13,272	
Accumulated operating losses	(\$9,965)	

Despite relatively high operating expenses and small loan sizes, *SafeSave* has become self sustaining at a scale of only six branches and 8,500 clients.

⁶ Grant capital from PLAN International appears in *SafeSave's* audited financial statements as a loan, due to restrictions on the acceptance of foreign donation. However, by letter of agreement between PLAN and *SafeSave* these funds are understood to be a grant.

Risks

SafeSave's loan loss rate of less than 2%, while encouraging, does not yet include the full effects of risky debt, as the lack of a repayment schedule means that many old, unproductive loans remain in the portfolio. A relatively new policy of debt forgiveness upon death of the borrower will also add a small amount to the long-run loan loss rate.

Loan loss provisioning is one of *SafeSave's* more significant expenses as an individual lender, taking approximately 8% of total revenue. Growing arrears would put significant pressure on profitability. Maintaining a high degree of customer service will be the key to preventing an increase in overdue loans, as traditional means of loan enforcement are not available to an institution like *SafeSave* which makes unsecured loans to the poor without using group guarantee for enforcement.

The PKSF's advice to its partner MFIs to reduce their loan interest rates to the equivalent annual interest rate of 25%, if relevant to *SafeSave*, could pose a significant threat to sustainability. As it is not a partner of the PKSF, and with its registration as a cooperative, *SafeSave* may not fall victim to any surprise interest rate controls. Nonetheless, this type of intervention would threaten viability, which depends upon a loan yield of 40%.¹⁰

June 2004	
Operational Sustainability	103.2%
Sustainability adjusted for inflation ⁷	96.7%
Capital adequacy ⁸	57.1%
Liquid reserves ⁹	33.4%
Portfolio at risk, 90 days	9.9%
Loan loss reserve	5.3%
Loan portfolio yield	39.5%

⁷ Adjusts for inflation effect on grant capital.

⁸ Equity as a percentage of net loan portfolio.

⁹ Cash and bank balance as a percentage of deposits and interests owed.

¹⁰ 40% effective interest would compare to 20% flat interest on a one-year loan with regular weekly repayments; the recent directive by the PKSF instructs partners to reduce their lending rate to 12.5% flat interest.