



# Pioneering Cashless Microfinance in Bangladesh

SAJIDA Foundation's Experience Offering Repayment  
and Savings Collections Using Mobile Money

**OPTIX**

**MetLife**  
Foundation

**BFA**

**ROCKEFELLER**  
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## Summary

**SAJIDA Foundation** is a non-governmental organization (NGO) in Bangladesh serving low-income customers. It is focused on poverty alleviation and social development and has been offering microfinance since 1993. Today, it operates over 200 branches located in 22 of 64 districts. Its microfinance operations serve 300,000 clients (referred to as “members” by SAJIDA), of whom 250,000 have an active loan. Around 75 percent are group-based microcredit borrowers with an average loan size of Tk. 24,000 (US\$300) and average savings of Tk. 10,000 (US\$125).

As part of the OPTIX project, funded by MetLife Foundation and run by BFA, SAJIDA in early 2017 started exploring options to improve operational efficiency and better serve its members. SAJIDA identified mobile money (MM) as a significant opportunity to cut costs and improve the customer experience thanks to ease of collecting loan payments and savings. Since December 2017, SAJIDA has offered MM as a new way for loan recipients to make repayments and save at an initial five branches that serve about 10,000 members.

SAJIDA partnered with Rocket, a digital financial service (DFS) offering from Dutch-Bangla Bank Limited (DBBL), so customers could start making loan repayments at any small merchant acting as a Rocket agent. SAJIDA members who are part of this pilot are able to make their payments through the bill-pay option when and where they choose. SAJIDA processes these transactions via middleware developed under the OPTIX program, handling between 20,000 and 24,000 transactions from 8,000 clients totaling Tk. 48 million (US\$600,000) every month.

Over 18 months, SAJIDA and BFA monitored the results of these initiatives and together performed an evaluation in September 2018. The evaluation sought to understand how MM loans impacted SAJIDA’s business case, the member experience, and internal staff organization.

This brief shares three key takeaways from this initiative:



## Customer Experience

Members have embraced the flexibility and convenience MM-based transactions offer, but may be saving less overall.

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## Business Case

The seemingly small (1 percent) fee per transaction represents more than 10 percent of the overall expenses of servicing a portfolio over MM rails, but this cost could be covered by increased productivity and lower overhead at each branch.

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## Change Management

Field staff have seen significant changes to their responsibilities and will require a reframing of their job descriptions to keep their functions in line with reality.



# Making the Most of Flexibility and Convenience

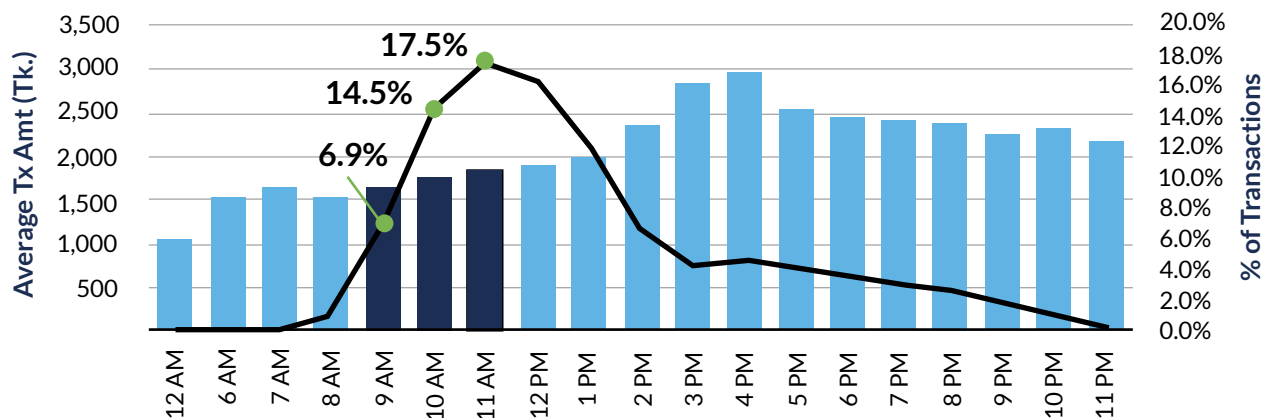
SAJIDA members opting for mobile money loans make repayments through a network of agents via Rocket and no longer need to go to the branch to make repayments. In-depth interviews and focus groups tell us that SAJIDA members appreciate the flexibility and convenience of being able to repay their loans at a time and place convenient for them. Figure 1 illustrates how members spread their transactions over the day, with only 39 percent choosing to pay between 9am and

noon, when group meetings usually take place. Moreover, members who have larger amounts to repay do so later in the day; the average payment size is around Tk. 1,600 (US\$20) at 9am and Tk. 3,000 (US\$36) at 4pm. This self-selection is primarily attributed to small business owners who want to 'make their money work for one more day.' Some branch staff note that salaried workers are now becoming members because repayment hours are no longer inaccessible to them.

“ I did not like having to make my son wait after school was over while I had to attend meetings for an hour every week. Now I can make the payments when I am returning home after dropping him off. This is a big convenience for me. ”

Aisha, SAJIDA member

Figure 1. Distribution of Transactions and Amounts by Time of Day. (Oct 2018, N = 217,000)



Transacting with MM has brought benefits specific to female members, who make up most of SAJIDA's microcredit borrowers. Women who borrow without the knowledge of their husbands do not have to risk him learning of it from others when they appear at group meetings. Socially conservative women prefer to transact at a Rocket agent who they know well rather than meet personally with the predominantly male field officers (FOs). Additionally, those members who are relatively better off do not have to worry about losing face before their neighbors when they find out about the loan, often taken to smooth over a temporary financial shortfall.

One of the biggest challenges continues to be getting the older, less educated members to accept SMS confirmations as proof of payment, instead of passbook entries. It does not help that the SMSs are in English, which many do not speak, and they are often ignored because of the volume of other promotional messages they often receive. In response, SAJIDA introduced monthly paper statements in Bangla, to be handed out at the monthly meetings. Members welcomed this as they saw it as a "bank statement," though distributing it to all members added work for FOs who have deliver them to the homes of those who do not show up to the monthly meetings.

Declining savings levels at some branches also presents a challenge, as typical withdrawals

exceeded MM-based collections. FOs are no longer physically present during collections to continue to encourage members to save and so some members save less than they had committed to or give up saving altogether. This effect is not uniform, however; member savings dropped 15 percent in nine months at one MM branch yet increased by 37 percent at another over the same period.

A third, more philosophical challenge is posed by the fact that these collections are composed of over-the-counter (OTC) bill pay-like transactions, and do not require the members to have mobile wallets. The first iteration of the program started with SAJIDA actively opening mobile wallets with bKash, the largest DFS provider in Bangladesh, but the initial know-your-customer process turned out to be cumbersome; it took days to complete the paper-based steps, and agent error forced customers to start all over more often than was manageable. Moreover, those who did not use bKash for other purposes needed to find an agent to cash-in for the sole purpose of transferring to SAJIDA, and this was seen as a hassle. Switching from wallet transfers to OTC required a change in service providers, but it significantly improved customer experience and removed pain points. Paradoxically, what made it easier for SAJIDA go cashless also deferred the onboarding of members into a digital payment ecosystem – an observation consistent with comparable markets around the world.





## When a 1 Percent Fee is Too Much

Financial sustainability is a key consideration when a financial institution launches a new delivery channel. However, a sustainable business case for cashless transactions is not a guaranteed outcome. The following section draws on numbers that are sufficiently close to reality to illustrate observations but obfuscated enough so as not to reveal any confidential information.

For each transaction of any amount of funds via the MM channel, SAJIDA paid Rocket a fee of around 1 percent and this payment represents the key sticking point in SAJIDA's MM business model. Like most other microfinance institutions in Bangladesh, SAJIDA's microcredit product has an annual percentage rate (APR) of 24 percent, translating to a yield of approximately 11 percent; i.e., for every Tk. 10,000 in disbursed loans, SAJIDA earns Tk. 1,100 in annual revenue. Margins, however, are extremely thin, mostly due to small loan sizes and significant staff involvement on a weekly basis. The 1 percent fee that applies to both principal and interest amounts adds an additional Tk. 111 in expenses, which climbs to over Tk. 120 when saving collections are considered. This additional Tk. 120 must come out of that Tk. 1,100 in revenue. One can appreciate the difficulty in adding 1.2 percent in expenses when top-line returns are at 11 percent, and there is no margin to start with.

One might argue that the funds will be revolved and therefore earn SAJIDA repeated interest income on the same principal amount, but this fails to consider that the 1 percent fee will follow these funds as long as they remain in the MM-based ecosystem. The impact is the same irrespective of whether one considers the 11 percent yield or the 24 percent APR as the basis – MM fees add roughly 10 percent to overall expenses of servicing the portfolio.

The 1 percent fee ultimately also represents a significant portion of the branch's expense profile. Figure 2 outlines the breakdown for a typical MM branch, which has five FOs each managing a Tk. 10 million (US\$125,000) portfolio. The MM fee amounts to about Tk. 60,000 per month, which is 6 percent of the branch's monthly expenses and around half of what is paid to FOs in salary. Note that this is a fully-loaded expense breakdown based on portfolio managed, so the Tk. 600,000 includes allocation of head office expenses in addition to rent, transportation costs, and so on that are specific to the branch.



**Surely, we can cut 6 percent in overall costs, if digital money is anything like what we've been made to believe?**

**SAJIDA senior manager**

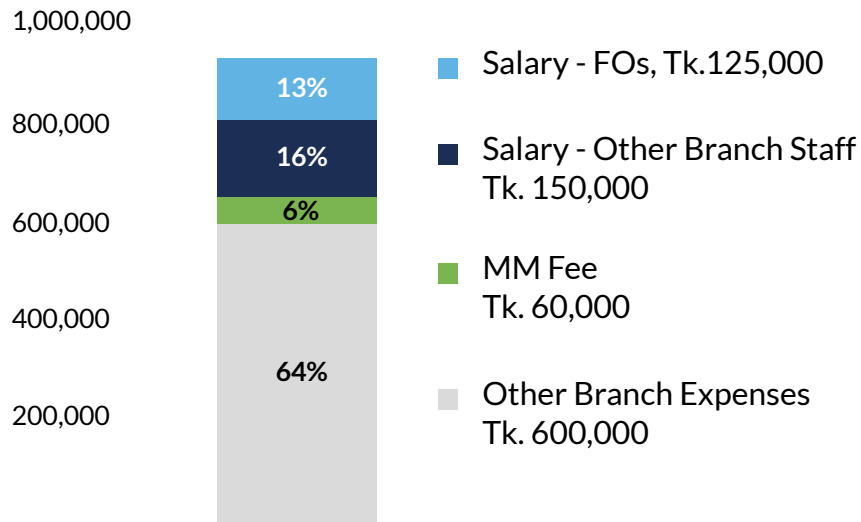


Obtaining a 6 percent reduction in overall costs could be feasible through a combination of increased revenue and reduced costs.

Detailed time allocation studies conducted as part of the product-costing exercise tell us that cash handling around collections demands 31 percent of an FO's time, 11 percent of a branch manager's time, and 46 percent of an accountant's time. This time is now available to tend to additional loans.

Not content with letting FOs organically increase efficiency by utilizing the freed-up time, SAJIDA decided to jump-start the process by reducing the number of staff in some of the pilot branches.

**Figure 2.** Breakdown of fully-loaded expenses for a portfolio supported at typical MM branch



The Abdullahbag branch had two out of five FOs reassigned, and their portfolios were distributed to the remaining three, leading to a portfolio increase of more than 50 percent per FO. In two other pilot branches, one FO was reassigned from each, leading to a portfolio of increase of about 25 percent for the remaining FOs. There were no reassignments in the remaining two pilot branches. SAJIDA found that an increase of 25 percent was sustainable but that the increase by over 50 percent was not; one FO was brought back to Abdullahbag after a few months.

While we have not exhaustively compared financial statements between MM and non-MM branches, portfolio-level reports show that the size of the portfolio and the corresponding income have increased more at the MM branches. This has been corroborated through feedback from FOs.

Furthermore, a significant amount of SAJIDA's audit and monitoring efforts go toward ensuring the sanctity of cash handling operations. Most of these expenses are no longer necessary, as the scope for cash mishandling at the branches has effectively been eliminated. All records are digitized, allowing easy access from a central location instead of having to sift through

reams of paper on location. These should also contribute to reduced overhead expenses.

SAJIDA continues to iterate on the cashless concept beyond the scope of the OPTIX pilots. When the pilots started, cashless disbursements were also made to the members' MM wallets. A regulatory change in early 2017 rendered this practice unfeasible as it restricted cash-outs to Tk. 10,000 per day. Given that the minimum microcredit loan size was over Tk. 20,000 and the average was more than Tk. 30,000, this meant that members would have to withdraw the disbursed amount over three or four days. This was simply untenable. Nevertheless, SAJIDA remained keen to complete the cashless credit loop and, in that spirit, it has begun check-based disbursements at these branches.





# From Servicers of Payments to Troubleshooting & Recovery Agents – A Metamorphosis for FOs

For staff – FOs, branch managers, accountants – working in SAJIDA’s pilot cashless MM branches, the quality of working life has significantly improved. They appreciate being able to spend more time with clients, preparing loan files, or answering questions and addressing concerns. They do not have to worry about checking for counterfeit notes or the risk of carrying around large sums of money, especially in the more insecure areas SAJIDA serves. Some are proactively recruiting more educated salaried workers for whom the flexible hours and monthly payment schedule are compelling. Staff at all levels can also proactively respond to real-time information on collections and defaults. These effects have encouraged SAJIDA staff to embrace the changes wrought by MM.

On the other hand, an FO’s job has also become more challenging in some ways. A lack of weekly center meetings creates less accountability for members to pay their installments on time, requiring FOs to call and visit the homes of those who are consistently late. Two-thirds of FOs reported spending more time with members who are not repaying their loan on time. Center meetings are now held monthly, in response to the realization that despite all the convenience and flexibility offered by MM collections, there

is a need for regular human interaction to maintain a working relationship with members.



**At first I thought whether it is possible or not. How can it be possible? But now we are receiving money automatically from early morning. It’s a surprising matter. Outstanding loans can be deposited at holidays as well as at night. I can monitor these things staying at my home. This is amazing.**

**Badda branch manager**



**People are not coming to the center and this is creating a distance and members are becoming unfamiliar to us. ... Collecting installments directly was better.**

**Abdullahbag branch FO**



Recruitment practices have changed somewhat as well. Monthly meetings do not bring enough new potential clients through drop-ins or referrals, which is how most prospective members were introduced to SAJIDA. FOs now have to visit shops and go door-to-door more often to recruit. They also miss the opportunity to seek character references from other center members and receive advance warning of members who are planning on leaving the area without settling their account.

Some FOs report feeling more stressed. When the program started, some members would get angry when their payments were not recorded in the passbook. When a member leaves cash at a Rocket agent, but the agent does not transmit the collections to SAJIDA on time, this causes confusion and lack of confidence in the system that the FO has to deal with.





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**If I cannot collect the amount, then I feel really upset.**

**Tongi branch FO**

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Loan disbursement, delinquency management and savings collection all seem more daunting to the less confident FOs in this new digital system.

It must be recognized that the job description of FOs has changed drastically at these five MM pilot branches. In a typical branch, an FO spends roughly equal amounts of time on originating loans, servicing payments, and chasing delinquent customers. They have the satisfaction of bringing back most of the cash they disburse and take responsibility for pursuing what is late. In a cashless branch, all collections occur automatically and dealing with delinquent members takes up a greater amount of available time. Reading the numbers off the web portal does not seem to have the assuaging effect of physically securing the repayments and members taking advantage of the flexibility to pay at a later hour only adds to the trepidation FOs feel as the day nears an end.

Conflating what they experience with reality has a potentially pernicious effect. Even though more than 90 percent of the loans are paid on time, FOs feel that a huge number of loans are in danger of

going bad because the majority of their interactions with existing members are around getting them to pay on time. There is also a tendency to resort to hyperbole and generalize from a few memorable interactions, as is evident the quote (at right) from the FO at the Vatara Branch. To the extent that perception is reality when it remains unchecked, these negative sentiments can snowball.

SAJIDA management could counter this tendency by recognizing that FOs are no longer loan and savings portfolio servicing agents but are more like troubleshooters and recovery staff. This requires a change in framing of the job of a FO, as well as sufficient (re-)training, ongoing support, and the creation of grievance-addressing mechanisms to ensure a smooth transition to a redefined role.

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**We do not understand statement, confirmation message. So previous system was better, please fill up my book, otherwise I will not repay the installment, “many people say.” On being asked to describe the actual size of this group of ‘many,’ the interviewee replied that: “About 2 percent claim this.”**

**Vatara branch FO**

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## Conclusion

SAJIDA's mobile MM-based product created opportunities and also brought challenges. As SAJIDA continues to monitor the program, it will perhaps be most important to pay close attention to the financial sustainability of maintaining almost two parallel systems in the field, as SAJIDA will continue to offer both cash-based and cashless services in the foreseeable future. Sustainability is attainable through increased efficiency and reduced overhead costs at the branch level but requires deliberate effort.

Secondly, helping staff embrace their new roles needs to be central to the change management process in the field, as well as up the management chain. Incentives may need to be realigned to recognize the shift in focus of hands-on work

for FOs from loan servicing to loan recovery.

Finally, SAJIDA Foundation must continue to iterate on this solution to keep flexibility and convenience to customers as clear and compelling value propositions for DFS-based transactions. This involves continuing to respond appropriately to member and staff feedback, particularly as it digitizes other steps in the process, including disbursements and initial due diligence.

Cashless microfinance is the future. The systems and practices SAJIDA Foundation put in place under the OPTIX project makes it a pioneer amongst its peers and positions it well to continue to lead the way toward a digitized future for microfinance in Bangladesh.



### About

## OPTIX

**BFA** and **MetLife Foundation** created **OPTIX** to support financial institutions in building better portfolios of products and services for their low-income customers. Beginning in 2016, OPTIX partnered with four financial institutions in **Mexico, Colombia, Vietnam, and Bangladesh** to explore cross-sell opportunities, enhance operational efficiency, and improve the financial health of their clients.

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