Innovations for Poverty Action

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Microfinance done different: SafeSave

Over at the Financial Access Initiative, Jonathan Bauchet has an interesting post up on a very different kind of microfinance called SafeSave. Here's Bauchet:

> *At the heart of SafeSave's methodology are the 66 collectors, who visit clients at their homes or workplaces every day and provide them with an opportunity to make savings deposits or withdrawals, and repay their loans (clients need to go to the branch for loan disbursement and large savings withdrawals). All collectors are women who come from the same neighborhoods that SafeSave serves. To match clients' irregular income flows, savings and loan repayments are optional, and clients choose how much they want to save or repay on a given day. Loans therefore do not have a definite term. The collectors record all transactions on smartphones, to help in the accounting.*
>
> *SafeSave collects savings and extends loans. Savings earn clients six percent interest per year, and interest on loans costs three percent per month. Quick repayment of loans is encouraged by conditioning the increase in the clients' credit limit by how fast they repay their existing loan.*

The SafeSave model differs notably in two ways from the paradigmatic microfinance model: joint liability and fixed loan repayments. By providing added flexibility to its clients, SafeSave is able to tailor financial services to the oftentimes-irregular income schedules of borrowers. At the same time, this flexibility is not always desirable: Bauchet points to the example of an individual who describes a need for rigid payment schedules. All of which goes back to the point made in earlier posts, that "one-size-fits-all" solutions are rarely the right way in which to think about issues in development. Bauchet's conclusion is similar to Bill Easterly's point that we need "functional problem-solving systems", not blanket solutions, in order to facilitate development.

However, one unifying thread can be identified in both rigid and flexible microfinance repayment models: a relationship of trust that has been built up between loan officers and clients. The lack of a principal-agent separation is an intimate part of Grameen's success and no doubt forms a crucial part of SafeSave's initiative as well.

Finally, hat tip to David Roodman for the heads-up on Bauchet's post. If you are even remotely interested in microfinance, Roodman's blog is an indispensable read and well worth checking out.

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