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24 October 2010

Online at <https://mpra.ub.uni-muenchen.de/26152/>
MPRA Paper No. 26152, posted 27 Oct 2010 21:11 UTC

An Assessment of Demand for Flexible Saving Services: Evidence from Bangladesh¹

Abstract

This paper uses Plan-InM household survey data on the participants of Plan Bangladesh Funded Flexible Microfinance Services. The analysis suggests that the extreme poor households who may have likelihood to be self excluded from the financial services have a significant higher preference or demand for flexible saving services. The migrant households have a positive significant demand for flexible saving services. But the demand for flexible saving service is inversely related to the households' food vulnerability and unexpected financial crisis, such as loss in income due to injury of household members, price hike, etc.

Key words: Flexible saving, demand, counterfactual, ultra poor

Introduction

The Microfinance Institutions (MFIs) of Bangladesh have attained a reputation in the globe for their success in delivering the microcredit facilities to the rural poor, and making micro credit recognized as one of the dominating anti-poverty alleviating interventions. Micro credit has created opportunities for the millions of poor to alleviate their poverty level. It is well established in the literature that micro credit makes positive impact on different outcomes – savings, wealth accumulation, net-worth, employment and vulnerability minimization (for example, Khandker; Khandker et. al.; Hulme and Mosley; Matin; Zohir et. al., Khalily et. al.). The access to microcredit program has created the other dimension of access such as access to insurance services, saving services, risk fund services, etc., as nowadays microfinance program is an integrated programs. This program has become successful in ameliorating the aggregate household well-being such as increases the income

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from self-employment as well as income from wage-based activity like farm-wage income as the spillover effect causes a rise in village level wage rate (Khandker, Khalily, Khan; Khandker). Many of the poor households are now being covered under the microfinance program and the benefits from this program is widespread across the nation.

The profound dependency on lending to assist the poor represents a fundamental misunderstanding of the demand for financial services. There is evidence that some of the poor can make profitable use of loans to augment physical capital and expand and begin enterprises in the traditional investment pathway through which financial services help reduce poverty. But a larger number of poor people have greater demands for other types of services like savings, insurance, etc. The poorer the household, the more important are non-lending services to assure food security, smooth consumption, manage risks, reduce vulnerability and meet other basic needs (Rutherford, 2000; Sebstad and Cohen, 2001; World Bank, 2001; Zeller, et al., 1997).

The microcredit has succeeded in reaching its pinnacle by covering the large number of the upper level poor group of Bangladesh. The marginal success of the microfinance program, therefore, was tremendous at the early era of microfinance revolution, but the marginal success in terms of coverage seems to be in near stagnation. The research finding suggests that only 24% of the services of the microfinance institutions go toward the extreme poor². This situation is mainly because some of the poor are yet out of financial services; such poor are predominantly belonged to the extreme vulnerable or ultra poor group who are financially excluded either by self-exclusion or institution. Most of the extreme poor voluntarily excluded from the services or sometimes the institution excludes these groups due to high risk of default. However, many of these extreme poor people have unmet demand for other arrays of financial services like innovative savings and credit services, insurance, leasing, pawn, and mortgages to meet emergencies and distress situations. Since most NGOs have not diversified their products to meet these demands, some new products should be developed in an innovative way to motivate the ultra poor household to participate the financial services so that they become eligible for formal access.

² Adopted from Rahman, Hossain Zillur "Bangladesh: Dynamics of Rural Poverty", Paper presented International Conference on Poverty, 9-11 February 1998, Dhaka, Bangladesh.

Two critical elements are required to get out of poverty – human capital and financial capital development. Since creation of human capital is a long run and continuous process, the financial capital development, particularly of the poor households, can be ensured through access to credit, access to saving, then investment opportunity and thereby reducing the poverty gap.

“The poor cannot save” is one of the prominent hypotheses before exploring the microfinance program in Bangladesh. The traditional microfinance institution offered a constant weekly saving scheme and part of which was forced and part of which was voluntary. Albeit the design of saving service includes the voluntary as well as forced system, the weekly features excludes some of the poor households from the saving services and then from the credit services as credit services is built in saving services³ to a great extent. Wright (2000) argued that product design is one of the most important factors affecting participation. In addition to the evidence presented in the Hashemi study, he cited a study by Alamghir (1997) who found that about twenty-five percent of non-participants did not join because they were unable to make weekly savings installments, about 15 percent could not make weekly loan installments, seven percent were not interested in getting a loan, and another seven percent did not want to attend weekly meetings. Wright (2000) reported that many of the BRAC member dropouts from the BRAC program which is almost over 15 percent of its membership in 1992 and almost 11 percent the next year. By analyzing those dropouts, they come to a conclusion that BRAC was losing many of its older, experienced and more cost-effective clients due to the inflexibility of the BRAC model, especially the lack of access to savings in times of emergency. Strict rules governing savings deposits and withdrawals suggest that members perceive that compulsory savings are an additional cost of borrowing (Montgomery, et al., 1996). At the end of 1995, Grameen experienced an unusual repayment problem because of a widespread strike among clients in Tangail who demanded access to their compulsory group savings funds. Before the strike was settled and Grameen provided greater access to savings, some 60,000 borrowers with payments more than 25 weeks overdue had an unpaid amount of over Tk. 82 million or US\$2 million (Wright, 1999).

³ The households have to save certain amount of savings to get credit.

This paper aims at to search the following questions: (I). “If there is a provision of flexibility in depositing any amount of savings, does the amount of savings increase for those who have such facility than the others who have no access to such facility?” (II). Does the extreme poor or ultra poor households have high preference for flexible saving services compared to moderate poor or non-poor households?

Counterfactual Agents and Demand Identification

The present study is based on the observations of counterfactual agents of the participants of flexible service program. The households who prefer the flexible saving services, counterfactually they dislike the inflexible saving services, that is, if the participant households which like or demand the flexible saving services, would dislike the traditional forced and inflexible saving services or would voluntarily exclude themselves from the program or would drop out from the program in the immediate future. On the other hand, the households which do not prefer the flexible saving program or remain indifference between the two programs – flexible saving services versus inflexible saving services, counterfactually represents those households who do not have demand for such services, albeit they are the participants of the flexible microfinance modality⁴. Counterfactually, inflexibility is the price of flexible saving services, that is, if the flexibilities of the flexible saving services were increased, the demand for the program would decline. In the present case, the demand for flexible services is discrete, representing by the dummy variable containing the value 1 if the households prefer the flexible saving services and 0 otherwise. The current model, therefore, is estimated independent of price as all the households are the participants of the flexible microfinance services.

Data

Under the support of Plan Bangladesh, ComeToSave (CTS) is working with its 10 branches at Chirirbandar and Khansama Upazila of Dinajpur district. It has covered 23 villages in

⁴ The flexible microfinance modality is a combination of various flexible services such as flexibility in loan repayment, saving services like depositing or withdrawing savings from their account.

Chirirbandar and 30 villages in Khansama mobilized 21170 beneficiaries in aggregate. People's Oriented Program Implementation (POPI) under Plan's flexible microfinance program is working with 7 branches in Hatibandha Upazila of Lalmonirhat and Jaldhaka Upazila of Nilphamari. It has brought 21 villages in Hatibandha and 17 villages in Jaldhaka under the program, and mobilized about 10,984 beneficiaries in Hatibandha and 7862 beneficiaries in Jaldhaka by the end of first quarter of 2010. Therefore, under Plan program, CTS and POPI together have been providing flexible financial services to about 40,016 beneficiaries through 17 branches.

The proportion of branches of CTS and POPI is 10:7 which implies that approximately 60 percent of 17 branches were operated by CTS and 40 percent were operated by POPI. Therefore, in drawing sample the numbers of branches covered by the Plan's Partner were considered. Ten branches out of 17 branches were randomly selected on proportional basis. Four branches from POPI and six branches from CTS were selected. Of the selected 10 branches, 2 villages from each were randomly picked up. From each sample village, we randomly selected 30 members. Therefore, we selected 600 sample members from the treatment villages, of them 360 samples were drawn from CTS villages and 240 samples from POPI villages

Background of Flexible Saving Services

Both microeconomic and macroeconomic view suggests that savings and investment follows an identity, that is, the amount invested is equal to amount saved and this happens only through saving mobilization. But the extreme poor should have first the access to saving program and which help them to form financial capital. But since the inception of microcredit program, savings services have been ignored relative to credit by the entire microfinance industry, this problem was acute for extreme poor. An experimental project implemented by SafeSave since 1996 in the slums of Dhaka demonstrates that strong demand exists for voluntary open-access savings among the very poor or ultra poor; and they are motivated and capable of saving when offered attractive, convenient and flexible savings and credit services. SafeSave collectors travel daily throughout the slums to call on clients who have the choice of making deposits of any size that day or waiting until another

day. Withdrawals are available upon demand from current accounts. Contractual savings products and loans are also offered. Clients earn the automatic right to borrow an amount equal to their current savings balances plus a future amount that grows with each loan repayment (Matin, Rutherford, and Maniruzzaman, 2000). Loans can be paid back at any time but the interest charges of three percent per month calculated on the declining balance must be paid monthly, and there is no joint liability. Loan recovery has been satisfactory in spite of insecure tenure slum clearances and fires. The number of clients and volume of savings mobilized and loans outstanding have grown steadily (SafeSave, 2000). An experiment will be undertaken to determine if this type of program can be successfully replicated in rural areas where there is more seasonality and lower population density. By comparison, most MFIs require all clients to save fixed amounts on a weekly basis, and savers cannot access their compulsory savings until they repay their loans and discontinue their membership. The large MFIs have viewed compulsory savings as a means to fund their loan portfolios and provide a lump sum pension when the clients leave the organization (Zaman, 1999). Some MFIs require group savings that are managed by the group and can be lent to group members or used for emergencies. Access to compulsory savings has been a contentious issue and has caused strikes and ill will between clients and MFIs. BURO Tangail is one of the few MFIs that stresses voluntary savings and was one of the first to offer “associate member” status to those who want to save and not borrow. The research reported here clearly suggests that clients demand a greater variety of and more flexible financial products than is typically offered by most MFIs, but it is not a trivial matter for MFIs to supply them, as described in the well-documented attempt by ASA to offer more flexible savings services (Wright, Christen, and Matin, 2001).²⁰ In 1997, ASA followed the example of Grameen and BRAC and began to offer voluntary savings products. ASA’s chief objective was to continue to disburse and recover small loans in an efficient manner, especially to women, but voluntary savings were seen as an excellent way to access relatively cheap capital, increase outreach and loan volume, maintain portfolio quality, increase productivity, and reduce poverty and vulnerability.²¹

Features of Flexible Savings Program:

There is no ceiling on the amount of savings deposit. Savers can save any amount any number of times during a month and any amount⁵. This flexibility can be implemented because collector (generally community worker appointed from the community) moves to every HH (Household) every day to collect deposits. No group meeting is held to collect deposits. Collector record the amount of deposit in the Pass Book held by the savers. No service charge is imposed to open a saving account. However, a nominal fee of Taka 20 is charged for closing any deposit account.

Savers can withdraw maximum of Taka 200 from the collectors in their own village. But withdrawing beyond Tk. 200 requires savers to withdraw from the branch office. This kind of transactions takes place in 24 hours. Depositors are paid an interest rate of six percent on their net deposits.

Set of Hypothesis

The present studies aims to test the following hypotheses:

- (a) The extreme poor like moderate poor or non-poor do have demand for flexible saving services.
- (b) The off-farm employers have demand for flexible saving services compared to farm employers.
- (c) The financial shocks or vulnerability have no effects on demand for flexible saving services.

Methodology

Probit is a popular binary or discrete outcome or qualitative response model. In discrete outcome or qualitative response models for a dependent variable that indicates m mutually exclusive categories of the outcome of interests.

⁵ The savers can save even a 1 taka a day (1.43 cents)

For binary outcome data the dependent variable \mathbf{y} takes one of two values. We let:

$$\mathbf{y} = \begin{cases} \mathbf{1} & \text{with probability } p \\ \mathbf{0} & \text{with probability } (1 - p) \end{cases}$$

A regression model is formed parameterizing the probability p to depend on a regressor vector \mathbf{X} and a $K \times 1$ parameter vector $\boldsymbol{\beta}$. The commonly used models are of single-index form with conditional probability given by $p_i = \Pr[y_i = 1|X] = F(x_i'\boldsymbol{\beta})$; here $F(\cdot)$ is a specified function. To ensure that $0 \leq p \leq 1$ it is natural to specify $F(\cdot)$ to be a cumulative distribution function.

The probit model specifies the conditional probability: $p = \Phi(x'\boldsymbol{\beta}) = \int_{-\infty}^{x'\boldsymbol{\beta}} \phi(z)dz$; here $\Phi(\cdot)$ is the standard normal cdf (cumulative density function), with derivative $\phi(z) = (1/\sqrt{2\pi})\exp(-\frac{z^2}{2})$, which is the standard normal density function.

The probit maximum likelihood estimation (MLE) first – order conditions are that $\sum_{i=1}^N w_i (y_i - \Phi(x_i'\boldsymbol{\beta})) x_i = 0$; here, w_i is the weight which is defined as $w_i = \phi(x_i'\boldsymbol{\beta}) / [\Phi(x_i'\boldsymbol{\beta}) - (1 - \Phi(x_i'\boldsymbol{\beta}))]$ varies across observations. The probit model marginal effects are $\frac{\partial p_i}{\partial x_{ij}} = \phi(x_i'\boldsymbol{\beta})\beta_j = \phi(\Phi^{-1}(p_i))\beta_j$, where $p_i = \Phi(x_i'\boldsymbol{\beta})$.

In our analysis, we have used probit for discrete variables⁶. In the index function formulation interest lies in explaining an underlying unobserved preference toward flexible saving program \mathbf{y}^* , but all we observe is the binary variable \mathbf{y} , which takes value 1 or 0 according to whether or not \mathbf{y}^* crosses a threshold.

Let \mathbf{y}^* be a latent or unobserved variable such as the desire to save or propensity to save under flexible saving program. The natural regression model for \mathbf{y}^* is the index function model:

⁶ A latent variable is a variable that is incompletely observed. Latent variables can be introduced into binary outcome models in two different ways. In the first the latent variable is an index of an unobserved propensity for the event of interest to occur. In the second the latent variable is the difference in utility that occurs if the event of interest occurs, which presumes that the binary outcome is a result of individual choice.

$$y^* = X'\beta + u$$

However, this model can't be estimated as y^* is not observed. Instead, we observe:

$$y = \begin{cases} 1 & \text{if } y^* \text{ response positively} \\ 0 & \text{if } y^* \text{ response negatively} \end{cases}$$

Here the threshold of zero is a normalization explained in the following.

$$\Pr[y = 1|X] = \Pr[y^* > 0] = \Pr[X'\beta + u > 0] = \Pr[-u > X'\beta] = F(X'\beta)$$

Here F is the cdf of (-u), which equals the cdf of u in the usual case of density symmetric about zero. The probit model will arise if the error u is standard normal distribution.

Who demands the flexible saving service and why?

The demand for flexible saving service depends on various factors, such as the overall well-being of the household (poverty status), the income source (remittance), the vulnerability to food deficiency or risks like natural shocks or financial shock, etc. We observed that about 17% of the sample households were extreme or ultra poor who joined the flexible microfinance program. Almost 67% of the sample household demands for flexible saving services, and 12% faces an unanticipated or unexpected financial crisis, such injury of earning member and thereof reduction in income. Since the objectives of the flexible microfinance program supported by Plan Bangladesh was to reach the poor, especially extreme poor, we find that about 44% households were affected by seasonal food deficiency. So the present study focuses the demand for flexible saving services of the vulnerable to food and risk nested ultra poor households.

Empirically, we have found that inflexible microfinance services, specially, inflexible saving services were one of the major causes of membership dropout. Now, we should test this hypothesis assessing the demand-driven flexible saving services. Since we are aiming at to assess the demand for flexible saving services, we are simply dealing with a single controlled variable, but a set of control variables is being used for proper assessing the demand causal factors. To find the factors affecting the demand for flexible saving services compared to inflexible saving services, we have incorporated the percentage of household members who are educated, the log of annual income, food vulnerability of the household, risks, dummy

for the remitter households, dummy for the extreme poor households and occupation of the household head as explanatory to assess the demand for flexible saving services.

Table 1: Probit and Logit results of demand for flexible savings

	Probit	Logit
% of family member educated	0.003* (0.002)	0.006* (0.003)
Log of annual income	-0.073 (0.077)	-0.124 (0.131)
Vulnerability of Shock to Food	-0.330*** (0.113)	-0.546*** (0.186)
Financial shock	-0.476*** (0.167)	-0.782*** (0.271)
Natural shock	0.055 (0.114)	0.079 (0.189)
Migrate: Yes = 1, No=0	0.341* (0.198)	0.553 (0.347)
Employment in non-agriculture	-0.047 (0.113)	-0.078 (0.187)
Extreme poor household	0.424** (0.171)	0.698** (0.299)
Constant	1.169 (0.846)	1.966 (1.447)
Number of observations	584	584
Log-Likelihood	-352.09	-352.20
Adjusted R2	0.050	0.050

Note: .01 - ***; .05 - **; .1 - *;

The probit result suggests that the extreme poor have a significant demand for flexible saving services. The result shows that the extreme poor have the higher probability to choose the flexible saving services compared to the moderate poor or non-poor. The odd ratio of extreme poor household calculated by logit model explains that the odds of

demanding flexible saving services increases by a factor of 2.01, holding all other explanatory variables constant. The result we have obtained is logical and plausible, because the extreme poor do not have smooth consumption and smooth income and so the timely saving scheme does not encourage them to be participant of the saving program and voluntarily exclude themselves from the financial services like savings, credit, insurance, etc. But the provision of flexible saving services allures them to be the participant of the saving program and ensures the financial access of them.

To find the demand for flexible saving services across different occupation, we have included the dummy for employment which is equal to 1 for the households whose head is employed in non-agriculture. Our postulation was that among the non-agriculture employees the likelihood to prefer flexible saving program is lower than the employees who are engaged in agriculture. Our result supports the sign of the hypothesis, but this relation is not statistically significant. We also postulate that the poor households who are employed in non-agriculture have a positive preference for flexible saving services. This sign of the postulation is satisfied but again this is not statistically significant.

The dummy for migration is included in the demand function for the flexible saving program to identify the causality of irregular flow of income and demand for flexible saving. The poor households, who migrate, send their remittance with irregular interval. Such irregular interval of sending money is not suitable for savings of fixed interval such as weekly savings. Our result reveals that the migrant households prefers the flexibility in saving program to specific fixed interval approach more than the non-migrant households.

The economics of savings tells that the saving decision is independent of flexibility for the higher income bracket households. This is because the constant flow of income enables the household to save a certain amount of saving if the household desires to save and face no obstacles in the process of saving decision. The coefficient of log of annual income of both models is negative and insignificant; in spite we observe a direction of income increase and demand for flexible saving services. The logit result shows that for a standard deviation increase in the log of the household annual income, the odds of demanding flexible saving services are 0.88 times lower, holding all other variables constant (*ceteris paribus*).

The inauguration of flexible saving services is sometimes incapable of save augmenting inducement of some households who are extremely vulnerable to food deprivation and affected by the financial shock like unanticipated loss in income due to injury of household members, unexpected price hike, etc. The households which have high likelihood to food vulnerability, they are less likely to save even if flexible saving service is being ensured, because they try to reduce their food vulnerability spending almost the entire income on food. Hence the food vulnerable and unexpected financial shocks do not demand for saving services – whether the saving service is flexible of inflexible. The probit result reveals that the demand for flexible saving service is inversely related to food vulnerability and financial vulnerability and this relation is statistically significant at 1 percent level.

Conclusion

To bring the ultra poor under the access of financial services tree, products should be designed in such a way that it follows the life-cycle of the ultra poor. The flexibility in saving services is expected to bring the extreme or ultra poor people under the financially served people. Such changes required for the microfinance industry to better serve its clients of all types – extreme poor, moderate poor or non-poor. The microfinance providers must formulate their new products and policies in such a way that these are opting for implementations and simple for implementations. The trade-off between product flexibility and client satisfaction, on the one hand, and costs and risk for the MFIs, on the other, must be recognized and managed during implementing such program. The pressures to do a better job of serving the very poor complicates the task and the historical belief that the poor need externally imposed discipline to encourage them to save discourages attempts to provide the poor with the very financial service that may be most valuable. The MFIs in Bangladesh – the motherland of microfinance – have enjoyed a worldwide reputation as leaders in the microfinance industry. They are now being challenged to demonstrate that they can successfully move into the next phase of supplying demand-driven flexible financial services.

Table 1: Summary Statistics

Variables	Mean	SD
Extreme poor	0.17	0.37
Vulnerability of Shock to Food	0.44	0.50
Prefer flexible saving?	0.67	0.47
% of family member educated	53.76	29.60
Log of annual income	11.01	0.81
Financial shock	0.12	0.33
Natural shock	0.42	0.49
Migration	0.12	0.33
Household head employed in non-agriculture	0.41	0.49
Head of extreme household employed in non-agriculture	0.05	0.22

Figure 1: Predicted Probabilities of Probit Regression

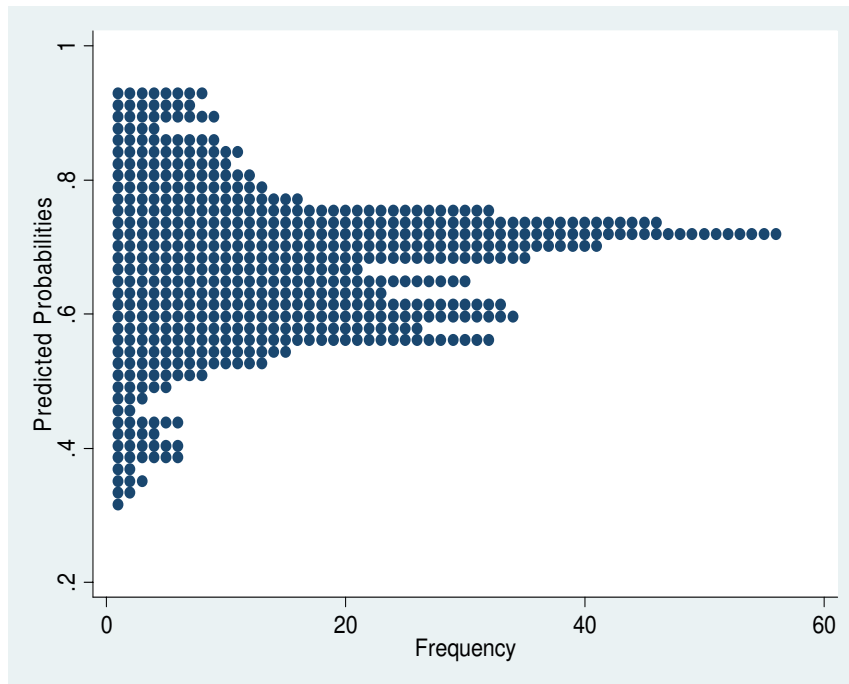


Table 2: Coefficients and the odd ratio

Can save any amount?	b	Z	P>z	$e^{\hat{b}}$	$e^{\hat{b}StdX}$	SDofX	$e^{\hat{b}}$	$e^{\hat{b}StdX}$	SDofX
				Factor change in odds			Factor change in odds: reverse		
% of member educated	0.01	1.76	0.08	1.01	1.18	29.60	0.99	0.85	29.60
Log of annual income	-0.12	-0.94	0.35	0.88	0.90	0.81	1.13	1.11	0.81
Food vulnerability	-0.55	-2.93	0.00	0.58	0.76	0.50	1.73	1.31	0.50
Financial shock	-0.78	-2.89	0.00	0.46	0.77	0.33	2.19	1.29	0.33
Natural shock	0.08	0.42	0.68	1.08	1.04	0.49	0.92	0.96	0.49
Migrate	0.55	1.59	0.11	1.74	1.20	0.33	0.58	0.83	0.33
Head employed in non-agriculture	-0.08	-0.42	0.68	0.92	0.96	0.49	1.08	1.04	0.49
Extreme poor	0.70	2.34	0.02	2.01	1.30	0.37	0.50	0.77	0.37

b = raw coefficient

z = z-score for the test of $b = 0$

$p > |z|$ = p-value for z-test

$e^{\hat{b}}$ = $\exp(\hat{b})$ = Factor change in odds for unit increase in X

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Appendix

Plan Bangladesh and Flexible Saving Program

Plan Bangladesh implements program through its partners under Family Economic Security (FES) Program in the line with Plan's core approach called Child Centered Community Development Approach (CCCD). Plan provides financial and technical supports to partner MFIs to work with the extreme people through financial innovation in a sustainable manner. Currently, four MF core partners (SafeSave, CTS, DKS and POPI) of Plan Bangladesh are working in urban and rural area. Plan also provides technical support to a local NGO called Ashrai to provide microfinance to tribal people in the rural area. Plan has identified SafeSave approach as core model for partners to adapt in the rural area of Northern Bangladesh through intensive and well designed action research framework.

Financial Services for the Extreme Poor and the poor – Plan Microfinance model:

“Reaching the poor, especially the extreme poor through microfinance innovation and pro-poor financial institution development” is the code aspect of Plan Bangladesh's microfinance strategy. Plan supported financial services (savings and loan) are demand driven and are designed to serve the poor, especially extreme poor through participatory product development processes where community and the organization identify and design the financial products through participatory market research. For this seasonality of food availability, income and vulnerability factors have been studied in-depth through interaction with the community. The products are delivered to the individual households on a daily basis by a collector selected by the community and recruited by implementing partner. The individual approach has been taken by Plan to address the issue of social exclusion, fragile source of income, low income and joint liability for which the poorest household have always been excluded by the traditional MF. All children, men and women have access to become clients. However, special attention is given to attract more women to increase their access to financial asset and to improve impact on their empowerment process.

Increasing and deepening outreach

During the last CSP period, Plan and its partners experimented different product innovations and tried out types of delivery mechanisms to reach the extreme poor and poor

effectively. The tireless experimentation and piloting has provided Plan and its partners to identify best possible mechanisms to reach the extreme poor and poor. However, the approach and current innovation is not static and Plan and its partners will continue to strive to improve its operation and development through action research and learning. During this CSP period, Plan's microfinance partner organization will continue its special drive to serve the extreme poor. At the same time, they will put its effort to increase outreach and provide sustainable financial services to more poor, especially extreme poor with high level of efficiency.