

Financial Inclusion As a Tool For Combating Poverty- The Bangladesh Approach

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Outline

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- **Approaches in widening financial inclusion- progress thus far**
- **Status of Financial Inclusion in Bangladesh**
- **Remedial Measures by the Government of Bangladesh (GoB) and the Bangladesh Bank (BB)**
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Financial Inclusion- An Overview

- Basic financial services including deposit, payments and credit services are recognized as entitlements of all citizens.
- US has a federal law prohibiting discrimination by banks against lower income neighborhoods.
- Some state laws in the US mandatorily require banks to offer basic accounts for low cost banking services .
- UK have government programs promoting financial inclusion.

Financial Inclusion- An Overview...(Cont'd)

- Financial inclusion of the poorest, particularly their access to small-sized credit is a major tool in Bangladesh for combating poverty.
- Despite substantial bank branch expansion and emergence of microfinance institutions (MFIs), scant access to basic financial services still remains as a source of deprivation.
- Access to small-sized credit for income generating self-employment activities (micro-credit) was pioneered by Nobel laureate Dr. Yunus in the late nineteen seventies, now replicated worldwide extensively.

Financial Inclusion- An Overview...(Cont'd)

- The coverage of financial services is still incomplete in Bangladesh with gaps both at the lowest end and at some patches up the income ladder.
- Large segments of the poorer rural and urban population are still out of the financial coverage restricting opportunities of freeing themselves from the poverty trap.
- Financial inclusion is, therefore, viewed as a high policy priority in Bangladesh.

Financial Inclusion- Definition

- With no widely adopted uniform definition, financial inclusion is reckoned in Bangladesh as access to financial services from:
 - a) Officially regulated and supervised entities
 - banks and financial institutions licensed by BB;
 - MFIs licensed by the Micro-credit Regulatory Authority (MRA);
 - registered co-operatives.
 - b) Official entities themselves
 - post offices offering savings;
 - money transfer and insurance services;
 - national savings bureaus.

Financial Inclusion- Measurement Issues

- Deposit services for safekeeping of savings is the stepping stone in accessing credit.
- The coverage of *deposit services* is therefore a comprehensive primary measure of financial inclusion.
- The coverage is measured as:
 - number of deposit accounts /membership in deposit schemes in MFIs, cooperatives, post offices as percentage of adult population.

Measurement Issues..(Cont'd)

- Another yardstick of financial inclusion important from the viewpoint of combating deprivation and poverty is the coverage of *credit services*:
- The coverage of credit services across income /occupational /gender groups of the population and across economic activity sectors.
- This measure is more qualitative, expressed in terms of gaps, exclusions and barriers in access to financial services.

Approaches in widening financial inclusion- progress thus far

- Early post-liberation financial inclusion initiatives in Bangladesh comprised:
 - i. Expansion of rural branches of banks (all of which were nationalized in 1971 after liberation of Bangladesh);
 - ii. Promotion of mutually-owned co-operative societies offering financial and other specified services to members.

These initiatives benefited the better off rural elite, but

- Success in financial inclusion of the broad masses of illiterate, innumerate rural poor remained limited.
- The co-operatives tended to fall prey to 'elite capture' by powerful local groups.
- Rural branches of banks focused mainly on crop loans to farmers, but were not equipped to reach out to poorer illiterate rural population.
- The regulated low interest rates on bank lending prevalent up to the late nineteen eighties, did not cover the high costs of managing small loans to borrowers in dispersed rural locations.

Emergence of Grameen Bank and MFIs in the late 1990s

- The Grameen Bank and the MFIs brought about a major breakthrough in reaching out to the rural poor with
 - lending models specifically including agenda imparting necessary minimal literacy and numeracy to aspiring member borrowers;
 - gender preference for female borrowers, in the expectation of improvement in their financial standing in the traditionally male dominated families.

Status of Financial Inclusion in Bangladesh

Year	Adult Population* (millions)	Population per bank branch (millions)	Number of bank deposit A/Cs (millions)	Deposit A/Cs as % of adult population	Number of members in MFIs (millions)	MFI members as % of adult population	Number of members in cooperatives (millions)	Cooperative members as % of adult population	Financial Inclusion** as % of adult population
1999	73.16	18669	27.30	37.32					
2000	75.16	18347	28.40	37.79					
2001	77.18	19886	30.10	39.00			7.65	9.91	
2002	79.59	20753	30.90	38.82			7.67	9.64	
2003	80.80	21406	31.30	38.73	14.63	18.11	7.57	9.37	66.21
2004	82.25	21443	31.60	38.42	14.40	17.51	7.76	9.43	65.36
2005	83.80	21420	33.10	39.50	18.82	22.46	7.92	9.45	71.41
2006	84.60	21171	34.50	40.78	22.89	26.95	8.03	9.45	77.33
2007	84.95	20920	35.70	42.02	20.83	24.52	8.22	9.68	76.22
2008	85.78	20566	37.60	43.83	20.90	24.36	8.44	9.84	78.04

Source: Scheduled Bank Statistics, Bangladesh Bank and Statistical Year Book of Bangladesh, BBS

* Adult population is defined by BBS as population 15 years and above

** Financial Inclusion is measured here as

(No. of bank deposit A/Cs + No. of MFI members + No. of members in cooperatives)/Adult population*100.

Post offices and government savings bureaus not included as these offer no credit services

Bangladesh Status...(Cont'd)

- While the number of deposit accounts in banks and memberships in MFIs and co-operatives are growing steadily, the rate of increase has slowed in the recent years.
- About 25 percent of the adult population is still to be covered by deposit and other financial services from regulated institutions.
- In access to credit, a 'missing middle' has emerged in the recent years between the poorest served by MFIs, and the relatively better off served by banks.

Bangladesh Status...(Cont'd)

- Small businesses outgrowing eligibility for micro-credit from MFIs often find themselves considered too small by banks for their lending.
- Landless sharecroppers not so poor as to be eligible for micro-credit from MFIs are considered ineligible for crop loans by banks.
- Major areas like agriculture, off-farm rural output activities and environment friendly renewable energy remain underserved by banks and other institutional lenders.

Remedial Measures by Govt. Agencies and BB

- BB has kept open refinance lines for banks against their loans to *Small and Medium Enterprises (SMEs)*.
- Multilateral development partners such as the IDA and ADB are supplementing BB's refinance programs with their co-financing lines.
- The *Agricultural Credit Program* announced by BB for FY 10 enjoins all banks to engage in lending for a comprehensive range of on- and off-farm rural economic activities.

Measures by BB...(Cont'd)

- BB has introduced Taka 2.0 billion refinance line in FY 10 against bank loans for environment friendly investments in **solar energy, biogas plants and effluent treatment plants.**
- A first ever Taka 5.00 billion refinancing line against *loans to landless sharecroppers.*
- Urging banks and financial institutions to embrace specific commitment to financial inclusion as a Corporate Social Responsibility (CSR) obligation.

Measures by the GoB

- Providing lending resources to MFIs (through PKSF) for rural on- and off-farm self-employment micro and SME credit from the national annual budgets.
- Promoting women empowerment in SMEs and other productive activities.
- Granting loans to rural poor for construction of their basic shelter housing, in a number of schemes titled **Grihayan, Ashrayan, Returning Home, and One home-One farm.**



The way forward

- Fair progress has been achieved in financial inclusion, but much remains still to be done in deepening inclusion in several where it is shallow, and in bridging the remaining gap.
- A new breakthrough is needed. Use of information technology in reducing the costs of managing small loans to borrowers in remote location affords a window of opportunity.
- Smart card based / mobile phone based arrangements can be applied cost effectively for remote delivery of financial services to clients dispersed over isolated areas.

Concluding Remarks

- Over the near term BB's policies will focus on leveraging synergies from partnerships between banks, MFIs, and telecom/mobile phone service providers in bridging the remaining gaps in financial inclusion with due attention to:
 - Risk management;
 - Consumer protection;
 - Systematic stability.
- A few such partnership proposals already received are under scrutiny.



Many thanks