



Expert Meeting on
**THE IMPACT OF ACCESS TO FINANCIAL SERVICES,
INCLUDING BY HIGHLIGHTING THE IMPACT ON REMITTANCES ON
DEVELOPMENT: ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH**
12-14 November 2014

**BANGLADESH COUNTRY PAPER ON:
IMPACT OF ACCESS TO FINANCIAL SERVICES**

UNCTAD Single-year Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth. 12 to 14 November, 2014

**Bangladesh Country Paper on:
Impact of Access to Financial Services***

1. In several instances, financial development improves the financial sector in a country which facilitates efficient allocation of capital between lenders and borrowers and promotes greater growth. There are evidences that targeted and appropriate finance facilitates transactions and reduces vulnerability to shocks, creates equal opportunities for everybody, and leads to economic growth. Research activities¹ have also showed that financial development reduces poverty without increasing income inequality. And financial services and development can be linked with the broad thematic areas of the MDGs that include poverty, education, gender equality, health, environment and global partnership.² Therefore efficient financial services and financial development could be among the significant policy options to achieve the MDGs. For effective outcome, the policy initiatives must be supported and participated by the government, central bank, civil society and private sector.
2. Inclusiveness of financial system is a very relevant dimension of financial development which is important for the achievements of MDGs³. Inclusive finance or specifically access to finance is generally perceived as a right of the poor and it has been recognized that financial inclusion efforts do have multiplier effects on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid population by providing access to formal savings arrangements resulting in expansion in credit and investment by banks. Inclusive financial sector development makes two complementary contributions to poverty alleviation: financial sector development is a driver of economic growth which indirectly reduces poverty and inequality; and appropriate, affordable, financial services for poor people can improve their welfare. On the other side, financial exclusion forms part of a much wider social exclusion faced by some groups who lack access to housing, education or health care as well as employment.
3. Considering the remarkable and sustainable impact of financial inclusion, in the context of most developing countries, ‘ensuring financial access and inclusion’ is a critical policy option area to address. Globally around 50 percent adult population does not have any transactions with formal sector banks/FIs i.e. about 2.5 billion people; and still a significant section of people heavily rely on informal sector for saving and borrowing purposes.⁴ The problem is particularly acute in developing and low-income economies.⁵ Several reasons have been identified in different studies regarding not having transactions with formal sector banks and financial institutions.

* Prepared by Dr. Toufic Ahmad Choudhury, Director General, Bangladesh Institute of Bank Management, Dhaka, Bangladesh

¹Baer, Tobias, Tony Goland and Robert Schiff (2012) New credit-risk models for the unbanked, Mckancy & Company, Washington DC.

² BIBM (2013), Millennium Development Goals and Financial Sector Development, Research Monograph no-008, Dhaka.

³ Hannig, Alfred (2013) Developing countries focused on financial inclusion are reshaping central banking, *Central Banking Journal*, Nov 2013.

⁴ World Bank (2014) Financial Inclusion, Global Financial Development Report, IFC, MIGA and the World Bank, USA.

⁵ Of the adult population, 36 percent (58% in developed and 30% in developing countries) keeps some money aside from their incomes for future use. However, only 22 percent (45% in developed and 11% in developing countries) save in formal sector banks, FIs or MFIs. Most borrowings are from informal sector [still significant reliance on informal sector]. Only 10 percent adult populations have borrowings from formal sector banks/FIs (World Bank, 2014).

According to the recent WB data (2014), 23 percent adult population in the world feel that maintaining bank account is too ‘expensive’; and around 20 percent adult populations identified ‘distance’ as the key problem. A notable percentage of remittance receivers identified ‘delay’ as a major difficulty. Right policy options of the policy makers, designing of targeted products, technology and technological innovations, and promotion of financial literacy have been contributing to handle these obstacles of access to finance in the context of a number of developing countries.

4. However, it is to be mentioned that financial inclusion is not only the process of ensuring access to financial services, it must also be appropriate. Access has to be fair, transparent and cost effective and through mainstream institutional players⁶. Only opening a bank account is not financial inclusion. Of course, access to bank account and credit facilities could be a short run targets, however, in the long run it is about credit worthiness of the financially included people to attain sustainable developmental goals. Moreover, there are clear evidences that only availability cannot ensure responses of the demand side and greater access and inclusion. Only higher number of branches and greater number of ATMs cannot ensure greater access to finance.⁷ For attaining true objectives, supply-side initiatives must complement financial literacy or awareness- the demand side phenomena.⁸
5. We all are aware that technology has brought notable changes or might bring remarkable changes in some several key areas that are mainly connected with access to financial services: one, it may help reducing transactions costs; two, it may handle the distance issue or ensure proximity of banking services; three, it may tremendously improve speed or pace of services by ensuring real time transactions. Obviously the success on these issues depends upon the market size, infrastructure, technology penetration, awareness or literacy etc. And success of virtual banking heavily depends upon ‘whether the technology adoption has brought these positive changes or not’. Yes, all these may not be attained immediately or in the short run. In many instances, banking and financial systems are successful in attaining these goals or targets especially in developed countries; however, in the context of most developing countries stakeholders are working to attain these goals. That is, in regard to the success and development, difference between low and high income countries is very obvious. Because, developed and developing economies vary in terms of technology penetration, financial literacy, infrastructure and supportive policy and regulations. Practically, still the scopes of improvements are huge in developing countries. Especially, mobile payment shows much promise and deserves much attention because of the growing use of mobile phones in developing economies.
6. After Independence, Bangladesh has come a long way in ensuring inclusive growth. In spite of some notable positive changes, still a lot to be achieved. According to the current Governor of Bangladesh Bank, in view of no widely adopted uniform definition, financial inclusion is reckoned in Bangladesh as access to financial services from: one, officially regulated and supervised entities (banks and financial

⁶ Kochhar, Sameer (2009) *Speeding Financial Inclusion*, Academic Foundation, New Delhi.

⁷ For example, in Bulgaria there are 84 branches per 100 thousand adult populations however only 53 percent has an account in formal sector banks/FIs; where as in Czech Republic there are 22 branches per 100 thousand adult populations with 81 percent has an account with the formal sector banks/FIs (World Bank, 2014).

⁸ Subbarao, Duvvri (2013) Keynote Address in India-OECD- World Bank Regional Conference on Financial Education, RBI Monthly Bulletin, India.

institutions licensed by Bangladesh Bank, MFIs licensed by the Micro-credit Regulatory Authority, registered co-operatives); and two, official entities themselves (post offices offering savings, money transfer and insurance services, national savings bureaus). In terms of above guideline, despite substantial bank branch expansion and increase of membership of MFIs and other institutions, about 25 percent of adult population is still financially excluded. However, the encouraging point is that some notable changes have taken place in recent years in creating a supportive environment for ensuring greater financial inclusion by the formal sector banks/FIs due to some remarkable initiatives of the central bank of the country- Bangladesh Bank. In last few years, Bangladesh Bank has shown great activism in its mandated developmental role, with monetary and credit policy stance supporting attainment of the government's inclusive growth and poverty reduction goals based on national aspirations and global visions like the UN MDGs. The regulatory driven 'financial inclusion' efforts of the Bangladesh Bank have been allocating particular focus on the vulnerable section of population, areas and sectors i.e. women, low income group, small enterprises, agriculture sector, and rural based income generating activities.

7. BB has undertaken a comprehensive financial inclusion campaign to reach out with financial services to the disadvantaged population of the country⁹. Along with moral suasion, a number of policy measures covering opening of bank branches, deposit and credit products, some of which are very innovative for our banking system, have been taken in this regard. These include: changing of branch opening rules from 5:1 to 1:1 (for opening 1 urban branch, 1 rural branch is to be opened), availability of highest quality banking services to farmers by allowing them to open banks account with minimum initial deposit (BDT 10 only); issuing branch licenses to all SME/Agriculture service centers; easy and effective access to banking services for physically incapable people, hard core poor, unemployed youth, freedom fighters etc.; relaxing conditions of loan repayment and providing fresh facilities to natural calamity affected farmers; mandatory participation in agriculture/rural credit for all banks; provision of agriculture credit to sharecroppers; formulation and implementation of Agriculture and SME Credit Policies and targets; putting emphasis on financing women entrepreneurs; arranging refinancing schemes for banks; developing ICT solutions (mobile banking, smart card etc.) for inclusive banking; encouraging creative partnership between banks and MFIs; agent banking, policy guidelines for Green Banking and introduction of financial inclusion oriented CSR, School banking, arranging cross country banking road show etc. Moreover, in a recent circular (May 2014), BB introduced BDT200 crore refinance facilities at subsidized rate to facilitate credit to the ten-taka account holders. Because of these remarkable pro-poor initiatives of the central bank, a recent article in China Daily (May 2014) termed the Bangladesh Bank governor as 'Poor Man's Governor'.
8. In response to the policy initiatives, total disbursements of agricultural credit in the country are on steadily rising trend since 2009. Agricultural credit at concessional interest rate is being extended by banks to farmers for growing of pulse, spices, lentils and oilseeds. To support sharecropper farmers, BB launched a refinance scheme worth BDT 5 billion for landless sharecroppers in partnership with BRAC, the largest non-bank MFI in Bangladesh in 2010. Under this scheme, loans were provided to over 15 million sharecroppers. Apart from this, state-owned banks are extending loans

⁹ Bangladesh Bank (2013) *Developmental Central Banking in Bangladesh-Recent Reforms and Achievement 2009-12*, Bangladesh Bank, Dhaka.

to sharecroppers, a considerable number of whom are women farmers. As per the BB's guideline, the private and foreign banks are also providing at least 2.5 percent of their total credit to the agriculture sector while either directly or using the linkages of NGOs or MFIs of the country. BB exercises close monitoring on the activities and credit volumes in the agricultural sector. In a major financial inclusion initiative, banks have opened over 10 million new bank accounts in favour of small farmers and other rural and urban people of small means at no charge, with nominal initial deposits as low as Taka ten (about twelve US Cents). These accounts are being used by the account holders for receipt of agricultural input subsidies; social safety net payments etc.; besides use as savings and payments medium. Considering SME development as one of the important development agenda of the country, BB has initiated a comprehensive policy and programs on SME credit. Accordingly, an indicative yearly target of disbursing SME credit by the banks and financial institutions were fixed for every year since 2010. The central bank issued policy guidelines for green banking in February 2011 that can be tagged with inclusive measures of banks. The green initiatives of Bangladesh Bank were awarded in 2012, when the Governor of the central bank was presented with the title 'Green Governor' in the United Nations Climate Change Conference in Doha.

9. For mainstreaming women in economic activities, BB has taken a number of policy initiatives so as to ensure women entrepreneurs to have financial facilities on simple terms and conditions. Every Bank mandatorily has to have a separate 'Women Entrepreneur's Dedicated Desk'. Banks are instructed to employ competent officials in that dedicated desk and to train up the said officials. Banks may sanction loan of BDT 2.5 million (USD 31,250) to women entrepreneurs without collateral but against personal guarantee under refinance facilities by BB if the borrower is a women entrepreneur or if 51percent shareholder of the borrowing enterprise are women. The SME department is operating the woman entrepreneurship scheme, through which women's empowerment and their participation in business are being ensured. To help women in increasing their contribution to industrialization, BB is detecting the hindrances on the way and it has been made mandatory that at least 15 percent of the credit would be disbursed among women entrepreneurs. Instructions are given to banks to charge reduced interest rate at 10percent to women entrepreneurs. In order to include large number of micro women entrepreneurs in the SME credit facilities, a policy of group based lending of upto BDT 50,000 or above has been instigated. In a recent initiative, BB has made it possible for all readymade garment workers to open their own bank accounts with just a meager amount of Taka 100 only. The Green Banking and CSR Department of Bangladesh had recently come up with a circular in this matter (September 2013)¹⁰. The Bangladesh Bank had taken this initiative to bring the majority of RMG workers under the banking system, as per the circulation released by the central bank. Moreover, the workers need not maintain high minimum balance in their accounts. Women working in the garments are obtaining benefits of this initiative.
10. Adoption of innovative technology has injected new impetus in the financial inclusion drive of the Bangladesh Bank. BB proved itself as an advanced organization in the pace of technological development. Using technology has been contributing in improving efficiency of banks, and financial inclusion. In connection with the regulatory environment in Bangladesh, Bangladesh Bank has been playing notable role to maintain smooth and secured e-banking operations. Online access to Credit

¹⁰ www.apparelcloud.org

Information Bureau (CIB) has been successfully started by the initiative of the Central Bank. Installation of Bangladesh Automated Clearing House (BACH), Bangladesh Electronic Fund Transfer Network (BEFTN) and National Payment Switch (NPS) are other remarkable events in the history of our financial sector. Technology has brought efficiency in the supervisory arrangement of Bangladesh Bank (BB). Considering the paramount importance of information systems security in banks, BB has issued ICT Security Guidelines for banking and financial institutions. BB issued guidelines on Mobile Financial Services in 2011 that rightly prescribed bank-led model. This is the first mobile financial services guideline in the region. Due to the contribution on promoting the mobile banking services in the country and for undertaking remarkable initiatives on financial inclusion, BB received ‘Alliance for Financial Inclusion Award’ in 2014. Bangladesh has been placed in number seven in a recently published list of top developing countries in mobile banking services by the Economist, the British Magazine.

11. Overseas remittances have been one of the most remarkable aspects of Bangladeshi labour exports. Worker remittances have consistently increased over the years. Bangladesh is among the top ten recipients of migrants’ remittances. As percentage of GDP also the country was within top 20 countries. Around 8 million skilled and unskilled Bangladeshi migrants are working in more than 108 countries who contribute almost 15 percent of GDP through sending hard earned remittance to Bangladesh.¹¹ To facilitate the migrants and remitters Government of Bangladesh established a specialized bank ‘Probashi Kallyan Bank’ in 2012 for the benefits of out-bound workers, swift and safe remittance of their wages and rehabilitation of the retrenched workers. This bank is enriched with modern IT technology to offer better remittance services. Use of ICT in the remittance flows has brought notable changes in the remittance services of banks. Other than the branch networks, a number of banks use online network, mobile network, and money transfer organizations in the process of faster channeling funds to the rural areas. Alongside using ICT tools and mobile technologies, banks have started using the services of each other networks/branches and services of MFIs more extensively. Because of the quick adaption of technology, Private Commercial Banks of the country are now dominating the remittance market. Currently three-fourth of the total remittances of the country flows in through private commercial banks.¹² In spite of huge branch network of the State Owned Banks, use of technology and linkages with other entities made it possible for Private Commercial Banks to expand their remittance services to the rural Bangladesh. IT has converted the traditional system to online system in last couple of years and people are now habituated with online channels. Day by day use and popularity of such channels are increasing and people are getting direct benefit of it. Another notable development of the popularity of these remittance channels is that, currently remitters are mainly relying on legal channels (in place of illegal channel called *hundi*) to send their money to their family members. However still in most cases, remittances are used for consumption purposes. In Bangladesh remittance has notable impact on rural consumption and investment that are directly related to poverty, education and health.
12. To bring the unbanked people under the coverage of the formal financial sector, agent banking initiatives of BB is contributing. By agent banking the formal banking sector is reaching out to the marginalized people of the society through their agents that

¹¹ <http://www.pkb.gov.bd/index.php/mission-and-vission.html>

¹² BIBM (2014), Trade Services Review of Banks, Annual Review of Trade Services Operations, BIBM, Dhaka.

provide several banking services to the people locally. In Bangladesh, the outreach of microfinance institutions (MFIs) is vast with more than 650 licensed MFIs operating in different regions with a client base of up to 40 million. Most of the big organizations like BRAC, Grameen Bank and ASA have their outreach in almost all over the country. Having targeted the poverty-stricken segment of people, they have done a great job in providing small-scale financial services to these marginalized people and making them included in the financial system. But the MFIs also have limitations in respect to providing a wide range of financial services to customers which a scheduled bank can provide. Agent banking is attempting to ensure the access of the marginalized people to several financial services, especially in remote areas using the services of MFIs and others. As per the BB circular, eligible banking agents are non-government organizations and micro-finance institutions, cooperative societies formed under the Cooperative Society Act, 2001, post offices, registered courier and mailing services, registered companies, agents of mobile network operators, offices of rural and urban local government, union information and service centres and educated individuals. Agent banking can work wonders in financial inclusion and enhancing financial activity in remote areas. It can also prove financially viable for the formal banking sector. If the vibrant banking sector puts relentless efforts by following the proper guidance of the central bank, agent banking can prove to be an effective tool for enhancing financial inclusion and materializing the dream of a poverty-free Bangladesh.

13. With a view to fostering savings habits and financial literacy among the children and young, banks have launched 'School Banking' initiatives in schools. So far, almost all scheduled banks have opened around two-lac accounts for the school students. Any student, aged between 11 and 17 years, can open an account with banks supporting the service. The account can also be opened at ease with three copies of photo of the account holder and a parent. This is basically a joint account between the student and the guardian. ATM cards are also issued for the accounts. There are some advantages of opening this account, such as waivers of fees and charges, free internet banking, a waiver of minimum balance requirement, debit card at lower costs, etc. Banks do not see school banking as a profit making business. But they hope that many of these students would become their customers in future. It has been performing wonderfully in spreading financial literacy among students and youth. As a whole the responses of all categories of banks are really inspiring. Bangladesh Bank is also recognizing the contribution of banks in this connection. In the School Banking Conferences, successful banks are being awarded by the central bank.
14. The impact of trade reform on poverty, food security and inequality in developing countries is at the centre of debate on the role of international trade in development; development and poverty issues are getting top priority in the recent forums of multilateral trade negotiations. Moreover, MDGs allocated due attention to the importance of international trade in the context of development and the elimination of poverty. Such reforms should provide the right incentives for: provision of financial services to under- served sectors; market competition and contestability (by adjusting entry and exit criteria); improving the legal framework for financial inclusion; and removing policies not properly aligned with the overall objective of improving access. To ensure financial inclusion developing country's commitment or reforms must not discourage initiatives on financial inclusion and use of appropriate technology. Export and import payments are facilitated by the banking sector. Banks also provide financing facilities to the traders. Involvement of banks in the country's trade is much higher due to the common use of documentary credit and

documentary collection in facilitation of payments by banks. Banks have been facilitating trade payment and finance services and thus contributing to the development of overall trade and national income. Garments is the main export component and a considerably large number of women labour are engaged in the garments sector of the country. Thus promoting export in Bangladesh in other terms promoting women employment alongside growth, and growth and employment affect poverty. Export-import is also the main channel of global partnership development in the context of Bangladesh. Though correlation between trade and MDG indicators may not be very straight forward, however, impact of trade on employment and poverty through GDP growth are more or less recognized.

15. To identify the future path, current challenges must be identified and handled. Still, informal money lenders are popular among rural low-income people. Banks have very limited loan and deposit products targeting low-income class of the rural Bangladesh and agriculture sector. Working and low-income women are yet to get due attention of the financial service providers of the country. On the way to attain 'financial inclusion' target, simply opening accounts by the farmers and low-income people might cause burden for banks if no further financial activities take place for these accounts. In regard to remittances, most are used for consumption purposes that need to be used for investments for better developmental impacts. Lack of customer awareness, increased ATM frauds, high setup and maintenance cost, not up-to-date technology, round the clock central monitoring are some challenges of online banking in the country. Card based payment systems are sometimes problematic for common and low-income people for non-transparent fees. Sometimes use of credit card in purchasing are discouraging for the users that involve tax or service charges. In mobile banking and payments, all licensed banks are not active and a few banks are dominating market. Daily transactions through mobile banking increased tremendously; however, KYC of mobile account remains a challenge. Some banks are skeptical about profit from the mobile banking services in Bangladesh in near future. Use of technology became helpful in handling fraud, and also exposed bank to IT related fraud. Lack of financial literacy and awareness are major barriers of financial inclusion and online banking in the context of Bangladesh.

16. 'Sustainable growth with reduced poverty and inequality' is the expected developmental goal for the country. This is in line with the prime target reported in a UN publication in regard to the post-2015 developmental agenda¹³. And for that matter the necessity of reducing social inequality among marginalized groups; achieving equality between women and men; ensuring economic, environmental, social and financial inclusion are well established. Practically, financial inclusion might affect all the developmental goals directly or indirectly. About area specific targets in regard to the financial sector of Bangladesh, remittances must be channeled to productive investments and infrastructure developments for maximizing developmental impacts. Banks should design loan and deposit products targeting remitters, low-income class of the rural Bangladesh and agriculture sector of the country. Alongside women entrepreneurs, working and low-income women should get due attention of the financial service providers. Farmers and low-

¹³ UN (2013), On the Post 2015- Development Agenda for Bangladesh, United Nations in Bangladesh.

income account holders must be facilitated with credit services using the refinance facilities of BB for obtaining the true benefits of financial inclusion. Virtual banking should be seen as a driver of inclusive banking. Thus, in near future, transaction cost has to be reduced to make the services affordable to all classes. For expansion of mobile banking, greater emphasis should be allocated on financial literacy and awareness development. It would be crucial to promote consumer protection and financial education on digitally delivered financial products and services. Online banking services should be taken to the remote areas with affordable banking facilities. Online banking is also the very first step towards green banking. To tag online banking with green banking, the use of technology should result in efficient use of scarce economic resources. Service providers should not expect profit from mobile banking and payment services immediately. I think adequate supply of the mobile banking products and awareness development programs would help banks attaining profits in the long run. For optimum benefits, more proactive supports and responses of the stakeholders i.e. policy makers, financial service providers, civil society organizations and consumers are needed.