Financial Inclusion Bolstering Inclusive Economic Growth in Bangladesh

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- Financial inclusion as a tool for bolstering inclusive growth
- Bangladesh Bank (BB) initiatives for inclusive financing
- Financial inclusion status in Bangladesh
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Financial Inclusion: how does it accelerate inclusive growth?

- Financial inclusion:
  - A key element of social inclusion
  - Necessary to foster inclusive growth
  - Combats poverty by opening up blocked opportunities

- Inclusive financing of farm/non-farm output initiatives generate new employment on the demand side
  - Matching new domestic output on the supply side
Why do we need inclusive financing

- Conventional monetary and financial policies do not address inclusivity concerns, liquidity flows into profit seeking from speculative pursuits.

- Bangladesh Bank therefore stepped in with financial policies steering initiatives financing away from speculative uses towards socially responsible productive pursuits.

- BB initiatives include interalia motivational efforts, creation of necessary enabling environment, and policy support.
A glimpse of financial inclusion programs in Bangladesh
Three broad pillars of inclusive financing in BD

- BB’s inclusive financing thrusts are on output initiatives in
  - Agriculture supporting food security and food price stability
  - SME financing promoting output, employment and income generation
  - Green financing supporting environmental sustainability

- Widening advancement opportunities for the poorer population segments
Agriculture contributing about a fifth of GDP gets less than 6% share of total bank credits

- Policy initiatives of ensuring adequate financing for agriculture include:
  - Mandatory minimum 25% agricultural lending target for all banks
  - Government interest subsidy on loans for specified higher value exotic crops and spices
  - Banks with inadequate rural branch presence can lend through local MFIs
  - Credit needs of tenant farmers supported by lending through a large reputed MFI
  - Bank accounts for farmers available at nominal deposits; 10 million accounts opened so far
Small and medium enterprises (SMEs)

- Contributes to 22.5% of GDP and 40% of employment.

- SME financing supported by refinance lines funded partly by development partners (IDA, ADB and JICA) and partly by BB.

- Taka 3.45 billion disbursed from refinance window

- 21.9% of the SME credit distributed to women entrepreneurs

- ‘New Entrepreneurs Fund’ and ‘Jute Sector Fund’ launched in 2014
SME credit rose sharply in recent years

![Chart showing the growth of SME credit as a percentage of total domestic credit from FY 06 to FY 13. The chart includes bar and line graphs indicating a significant increase in SME credit over these years.](chart Image)

Source: Bangladesh Bank
Green financing

- Macro prudential policy support for green financing includes:
  - Banks & financial institutions must allocate $\geq 5\%$ of loan portfolio to green finance by 2016.
  - Better supervisory (CAMELS) rating for good performers
  - Differential equity margin and loan pricing requirement according to environmental risk grading

- Green financing supported by refinance lines funded by BB & ADB

- Refinance line covers 47 green products.
Green financing..(cont’d)

Refinance supported green financing covered:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount (million Taka)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar home system</td>
<td>154</td>
<td>4,867</td>
</tr>
<tr>
<td>Irrigation pumps</td>
<td>68</td>
<td>12</td>
</tr>
<tr>
<td>Solar PV module plants</td>
<td>421</td>
<td>3*</td>
</tr>
<tr>
<td>Biogas plants</td>
<td>524</td>
<td>1,578</td>
</tr>
</tbody>
</table>

* Total capacity of 53 MW/year

- Taka 112.57 billion invested so far as green finance.

Source: Bangladesh Bank
Inclusive financing delivery supported by major modernization of financial sector IT infrastructure

- Multifarious initiatives launched to digitize the financial sector:

  - Bangladesh Automated Clearing House (BACH)
  - National Payment Switch (NPSB)
  - Online credit information and supervisory reporting
  - Mobile financial services (MFS)
  - Enterprise Data Warehouse
  - Online Bond Trading
  - Anti-Money Laundering Monitoring (goAML)
Mobile Financial Services (MFS)

- **Why MFS in Bangladesh?**
  - Agro-based livelihood
  - Cash based economy
  - Significant domestic remittance flows
  - Growing urbanization
  - Omnipresent mobile telephone network

- Guidelines on MFS and agent banking issued to facilitate inclusive financing

- 25.2 million mobile bank accounts opened so far, employing 0.5 million agents
Regulatory Structure for MFS

- **Stakeholders**
  - Banks
  - Mobile Network Operators
  - Technology Providers
  - Distributors
  - Agents
  - Involvement of other Regulator (i.e. BTRC)

- **Bank-led Model**
  - Regulated by Bangladesh Bank
  - Financial institutions provide the service
  - MNOs provide mobile connectivity for fees
  - Customers and agents use their handsets
  - Guidelines issued in September 2011
  - 28 banks were permitted; now over 20 million accounts
Common people transferring money from urban to rural

✔ $1 billion transaction per month

Source: Bangladesh Bank
Other financial inclusion programs

- Bank accounts for
  - school children
  - itinerant wage labourers
  - street children

- 850 thousand school bank accounts opened so far

- 5 million ‘10 Taka’ accounts opened to distribute financial aid to:
  - social security program beneficiaries
  - hardcore poor, freedom fighters
  - destitute beneficiaries under Hindu Welfare Trust
Status of financial inclusion in Bangladesh
**Status of financial inclusion in Bangladesh**

- Banks are obliged to maintain a 1:1 ratio in rural-urban areas for opening of new bank branches.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of bank branches</td>
<td>7,187</td>
<td>8,821</td>
<td>23%</td>
</tr>
<tr>
<td>a) Urban</td>
<td>3,051</td>
<td>3,787</td>
<td>24%</td>
</tr>
<tr>
<td>b) Rural</td>
<td>4,136</td>
<td>5,034</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank
Status of financial inclusion...(cont’d)

Number of Bank Branches & ATMs

Demographic Penetration of Bank Services

Growth and stability outcomes of financial inclusion programs
Growth and stability outcomes

- Sustained 6% plus economic growth over the last decade with:
  - sound macroeconomic fundamentals
  - downward edging inflation
  - moderate fiscal deficits

- Incremental domestic output stabilizing domestic prices

- Inclusive financing stabilizing the financial sector by bringing large and diverse bases of small loans and deposits

- Inclusive growth strategy generating strong internal demand
Highest growth prospect in the region

Source: World Economic Outlook (Sept. 2014), IMF
2nd highest growth and lowest volatility in the region: 1995-2014

India: 6.77 percent average GDP growth and 2.13 percent volatility
Sri Lanka: 5.49 percent average GDP growth and 2.61 percent volatility
Pakistan: 4.29 percent average GDP growth and 1.95 percent volatility
Bangladesh: 5.73 percent average GDP growth and 0.57 percent volatility

Source: World Economic Outlook (Sept. 2014), IMF
Inflation is falling since the end of 2011

Source: Bangladesh Bank
Projected inflation shows a downward trend

Source: World Economic Outlook (Sept. 2014), IMF
Lowest inflation and volatility in the region: 1995-2014

Source: World Economic Outlook (Sept. 2014), IMF
Investment as share of GDP is steadily rising

Source: World Economic Outlook (Sept. 2014), IMF
Trade-GDP Ratio: Bangladesh is opening up gradually

Source: World Economic Outlook (Sept. 2014), IMF
Worker's remittances are on the rise

Source: Bangladesh Bank
Lowest Debt-GDP Ratio in the region

Source: World Economic Outlook (Sept. 2014), IMF
Exchange rate is stable since June 2013

Source: Bangladesh Bank
Concluding remarks

- Inclusive and environmentally responsible financing is of high urgency for low income climate-change threatened economies like Bangladesh.

- Inclusive financing has served Bangladesh well to retain real and financial sector stability amid the global financial crisis.

- Bangladesh’s approach of internalizing inclusive, green financing within the framework of traditional stability focused monetary and financial policies have started attracting external attention.