



## FINANCIAL INCLUSION

“Inclusive and sustainable finance initiatives for financial and social stability”

Conventional monetary and financial policy approaches focused on short term business cycles are failing to address the longer term needs of inclusive and sustainable growth pursuits which foster financial and social instability. Inclusive and sustainable initiatives facilitate equitable distribution of resources and environmental protection that generate financial and social stability...



Bangladesh Bank

.....It leads to a quiet revolution in many countries bringing formal financial services to thousands upon thousands of households and small entrepreneurs who previously never had a relationship with a financial institution.

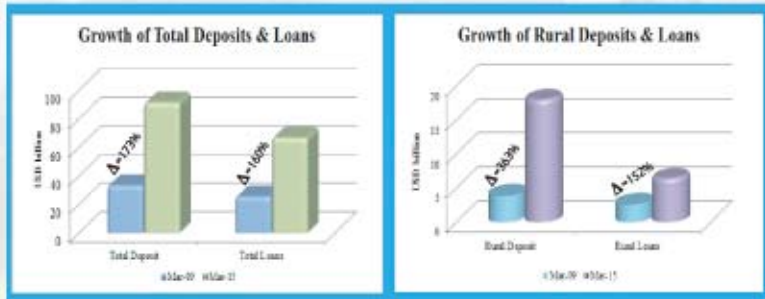
Most of this "NEWLY BANKED" are....

- women,
- low-income families,
- rural dwellers, and
- members of marginalized groups such as religious and ethnic minorities

Financial inclusion provides a more secure future to these 'newly banked' mostly from the developing world, who unfortunately have been out of formal financial services and deprived of their financial rights.



Spearheaded by Bangladesh Bank, the past 6 years have seen a dramatic expansion of financial inclusion in Bangladesh. And the banking sector in Bangladesh is lending its considerable weight to this expansion. A great many programs can be discussed, and a great many types of institutions are involved, but right away we can see clear evidence of this expansion:

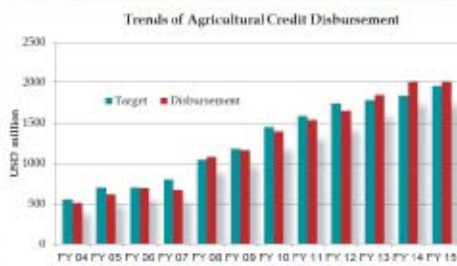


This transformation has been achieved through a visionary, well planned, nicely harmonized and comprehensive work approach of BB. Most importantly, BB motivated banks and FIs to be engaged into financial inclusion initiatives spontaneously. Along with the inclusive and sustainable initiatives, BB strengthened its regulatory and supervision framework to upgrade the level of corporate governance and risk management as well as to ensure productive usage of credit supply. Thus, financial inclusion initiatives taken in this time could extend the fruits to the targeted beneficiaries on one side and did not open the door of instability and vulnerability on the other.

Financial inclusion initiatives undertaken by BB have been cost-effective for banks in recent years. The median level of adjusted operating expenses, as a percentage of average total assets, was a respectable 1.83% in 2014 for a reference group of 12 large private conventional banks, up only slightly from the previous year, and down considerably from 2.47% in 2010. The state-owned commercial banks, which are fully participating in the financial inclusion initiatives have achieved an even lower median operating expense ratio of 1.40 % in 2014.

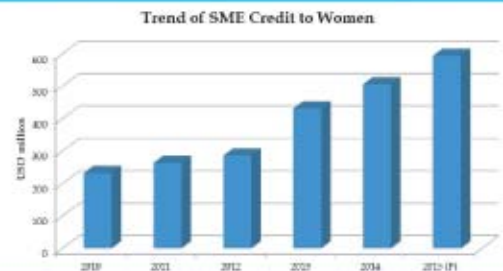
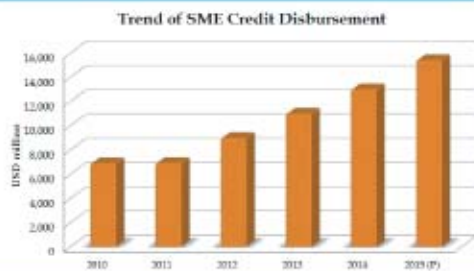


### Three Main Thrust Areas of Inclusive Financing- Agriculture, SME, Green/Environment Friendly



#### Policy Initiatives and Financing Support for Agricultural Credit:

- > Annual target at 2.5% of total credit
- > Refinance lines specially for sharecroppers
- > Credit at concessional rate - 4% for maize, pulses, oilseeds, spices production and 5% for tribal peasants
- > Priority for women in availing credit facility



#### Beneficiaries under SME Credit Programmes

Year	No. of Enterprises (in '000)	No. of Women Enterprises (in '000)
2010	309	14
2011	319	17
2012	463	17
2013	747	42
2014	541	43
2015*	860	333

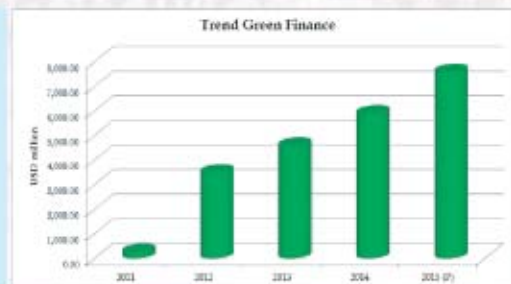
\*Projected

#### Policy Initiatives and Financing Support for SME Credit:

- > Annual consultative target for banks and FIs
- > Special Priority for micro, small and women entrepreneurs
- > 'Area approach' and 'cluster development' policy
- > Refinance lines for 'Women' & 'New' Entrepreneurs and Capacity Development

#### Policy Initiatives and Financing Support for Green Finance:

- > Policy guidelines for Green Banking in 2011 with specific instruction to banks for green finance
- > Refinance line for 47 renewable energy and green products
- > Annual target at 5% of total loan disbursement

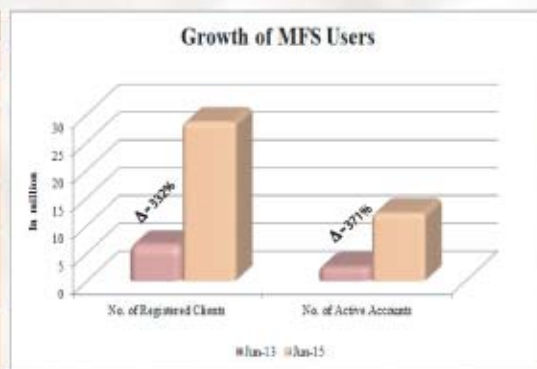


### Transformation by BB in Service Delivery Channel and Payment System-Digital Financial Inclusion

- Introduced Mobile Financial Services in 2011 for facilitating financial services to priority un-served and underserved
- Mandating banks in 2010 to open at least 50% of their branches in rural areas
- Introduced Agent Banking in 2013 to provide banking services in remotest areas of the country
- Making the cheque clearing process automated reducing processing time by 2 days/cheque
- Introduced Electronic Fund Transfer facilitating internet banking and online fund transfer
- Introduced Real Time Gross Settlement that will make transaction real time in any mode
- Developed Financial Service Point Interactive Map supported by Bill and Melinda Gates Foundation to bank branches, ATMs, microfinance institutions, cooperatives, mobile money agents and post offices



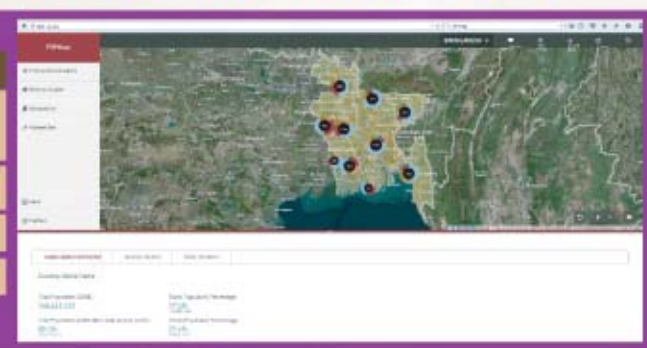
Comparative Status of Mobile Financial Services			
Indicator	June 2013	June 2015	Growth
No. of agents	99,582	538,170	440%
No. of total transaction (in Million)	18	96	446%
Total transaction (in USD Million)	540	1,667	208%
No. of daily avg. transaction (in '000)	587	3205	446%
avg. daily transaction (in USD Million)	18	55	208%



### Growth of Banks' and MFIs' Deposit Account

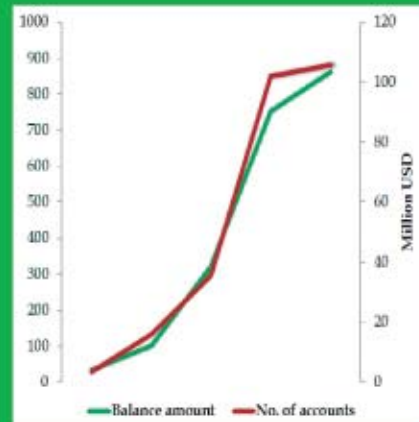
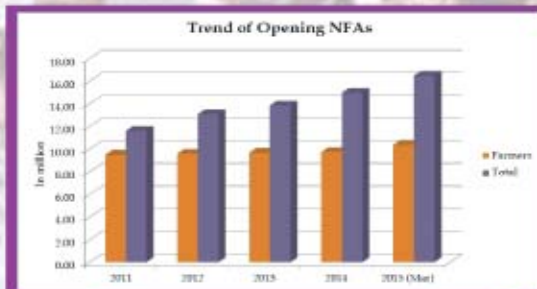
	Mar-09	Mar-15	Growth
No. of Banks' Deposit Accounts (in million)	38	71	87%
No. of MFIs' Deposit Accounts (in million)	25	26	5%

Rural-Urban Penetration of Bank Branches			
	March 2009	March 2015	Growth
Urban	2914	3912	34%
Rural	3986	5163	29%
Total	6900	9075	31%

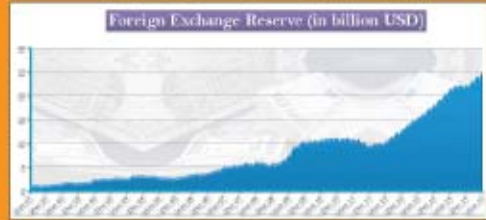
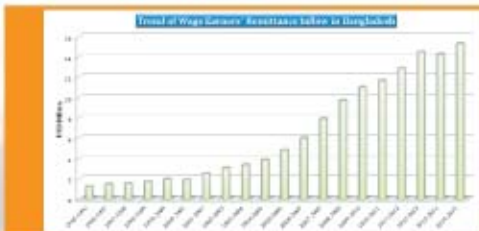


In January 2010, BB introduced No-Frill Accounts (NFAs) by instructing state-owned banks to open NFAs for farmers. Following that, NFAs have been made available for the underprivileged populace who were excluded from financial services under the 15 categories so far. To get these accounts active, BB has constructed a refinance scheme of 25.70 million USD (BDT 2 billion). Moreover, school banking and banking for street children have been introduced for motivating minors in savings and expediting financial education.

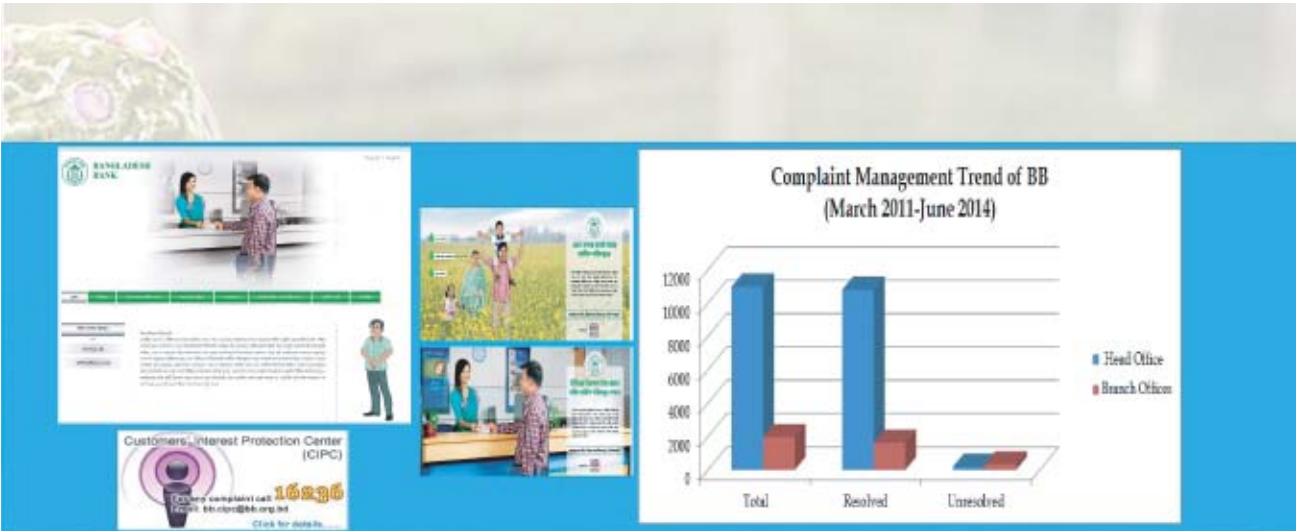




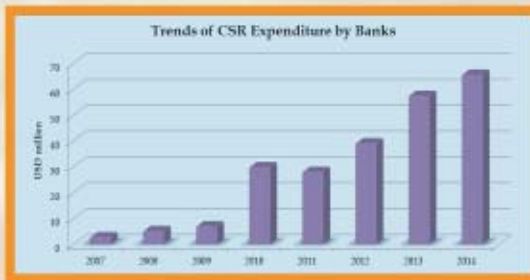
To increase banking and investment facilities for Non-Resident Bangladeshis (NRBs), BB undertook various initiatives. Easing up of opening a foreign currency account, sending remittances through banking channels, updating the regulations of wage earners' development bond, and creating an online NRB database are some of these initiatives. Additionally, 3 banks have been licensed which are owned by NRBs. The country already gets the benefit of these steps. Consistent positive growth of inward remittance has facilitated the building up of sound foreign exchange reserve for the nation.



To make its financial inclusion initiatives fruitful and comprehensive, BB has strengthened the consumer empowerment framework and initiated financial education programmes. BB has set up a dedicated department for attending customers' complaints within its own structure and issued comprehensive Guidelines for Customer Services & Complaint Management in banks. For educating the consumers, BB arranged an array of Cross Country Road Shows, SME fairs, SME credit programs and Capacity Building Programs, Open Agri-Credit Disbursement Programs and School Banking Conferences in collaboration with banks. It has designed a Financial Education web portal.



In 2008, BB issued instructions to banks and FIs for mainstreaming CSR activities into their core business operation to engage the financial sector in social development. BB has mandated the banks and FIs to spend 60% of the CSR expenditures for education, health and environmental development activities. In 2013, BB constructed a fund for its own CSR activities, which has been a groundbreaking initiative as a central bank.



### Impact of financial inclusion on financial stability

- Direct impact of financial inclusion on financial stability:
- > Promotes a more diversified funding base;
  - > Promotes a more diversified loan base;
  - > Diminishes the appeal of potentially unstable savings channels;
  - > A more inclusive financial sector has greater political legitimacy

- Indirect impact of financial inclusion on financial stability:
- > Promotes financial stability at the household level;
  - > Promotes financial stability at the SME level;
  - > Promotes greater income equality, thereby fostering financial stability;
  - > A more inclusive financial sector has greater political legitimacy

BB is pursuing its financial inclusion initiatives not only in its attempt to contribute to the national goal of inclusive growth but also to strengthen and reinforce the development of the financial networks by reaching these to the underserved regions and the unbanked population of the country.

There are many reasons to believe that financial inclusion can support financial stability. In order to play this supporting role, however, it has to be the right kind of financial inclusion. Accordingly, financial inclusion products must be tailored carefully to their needs, at a reasonable cost, and they cannot be "overloaded" with financial services that they do not need or want. Proportionate regulation is key to avoid customer abuse by unscrupulous providers. In some cases, financial literacy education may be required, so that the tools they are provided can be used properly.

Vigilant implementation of financial inclusion programs can open up worlds of opportunity for those who were previously excluded, expanding the customer base for a whole range of financial products, and in so doing contribute mightily to a vibrant and stable financial sector.

