Financial Inclusion, Productive Capacity and Youth Employment

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Youth employment has always been a challenge and a key priority in populous low income developing economies like my country Bangladesh. Many advanced Western economies are now facing much the same challenge, in lingering growth slowdown since the global financial crisis.

Both in the developing and developed economies, continuing broad based job creation will require sustained expansion of productive capacity in all economic sectors by entrepreneurs utilizing investment resources efficiently and innovatively. Small enterprises producing goods and services figure importantly in output growth and job creation, solo or in value chains with larger businesses. Adequate financing access for the enterprises is a sine qua non for this. Urban large business focused financial markets and institutions in developing economies have
lacked motivation and readiness of reaching out to small businesses. Mainly small landholding based agriculture remains poorly served by the financial sector, so do non-farm rural and urban small enterprises.

In the post crisis economic slowdown, financial markets and institutions in advanced economies are also failing in meeting financing needs of small businesses including startups. These are languishing in credit crunch, with financial institutions swinging to extreme of risk aversion from the opposite pre-crisis extreme of quick gain focused speculative excesses. This financial exclusion of small businesses is impeding recovery of output growth and employment creation. For both developing and developed economies, sustained recovery to path of stable output growth and job creation require a fundamental reorientation of financial sector goals and motivations away from quick gains focused speculative excesses foaming creating credit bubbles towards socially and environmentally responsible inclusive financing of all productive initiatives.

Central banks can play catalytic role in this reorientation of goals and objectives of financial institutions and markets towards socially responsible inclusive lending practices ensuring adequate credit flows to small businesses and other underserved or financially excluded economic sectors and population segments. At Bangladesh Bank (BB), the central bank of a low income developing economy, we have taken this approach. Results thus far are very heartening; our financial sector maintained solvency and liquidity during the global financial crisis and in its aftermath, supporting the real economy in coping with adversities from the global slowdown instead of needing any bailout for itself. Deepening, widening financial inclusion has helped Bangladesh economy uphold domestic output and demand amid global economic slowdown, maintaining stable real GDP growth averaging over six percent per annum. Rising real wages, particularly strongly for the rural workforce, evidence rise in employment.

I am grateful to UNDESA for the opportunity of sharing with this global audience of senior policy makers our approach of guiding our financial sector into socially responsible inclusive financing practices, looking forward to gaining from your feedback comments insights and ideas about similar or other approaches elsewhere.

BB has initiated guiding Bangladesh’s financial sector towards socially and environmentally responsible financing by sensitizing banks and financial institutions about their Corporate Social Responsibilities (CSR), with a guidance circular for mainstreaming of CSR obligations in their corporate goals and objectives. The financial sector has responded with
warm enthusiasm in steadily increasing engagement in CSR initiatives. Alongside monitoring of financial sector’s progress in ingraining of CSR in corporate goals and objectives, BB has launched a comprehensive financial inclusion campaign to reach out with financial services to all hitherto underserved and excluded economic sectors and population segments.

Under the financial inclusion campaign umbrella, banks and financial institutions are being encouraged and supported in taking up financing schemes targeted to specific underserved areas, mainly agriculture, SMEs and environmentally beneficial projects. Creative partnership of banks with regulated Micro Finance Institutions (MFIs) and mobile phone/smart card based IT platforms towards devising new cost effective service delivery modes are being encouraged. Besides making modest refinance support lines available against lending to the underserved sectors, Government of Bangladesh (GOB) and BB are supporting the inclusion initiatives of banks with facilitating regulatory and IT infrastructures, including establishment of a Microcredit Regulatory Authority for licensing and regulation of MFIs, issuance of Mobile Banking Guidelines, a secure and efficient payment system with fully automated platform for online clearing and settlement of paperbacked and electronic fund transfers, and a Credit Information Bureau (CIB) accessible online by system participants.

Engagement of our financial sector in the social responsibility based financial inclusion campaign has been spontaneous and enthusiastic, signifying their realization that their participation in deepening and widening financial inclusion rewards them with future earning potentials from the newly acquired customer bases. Since launching of the campaign in 2010, new bank accounts opened for landless/small farmers, poor wage laborers and other people of
small means have reached ten million. These new accounts are increasingly being used for deposit, payment and other transaction, besides receiving government subsidies for agricultural input and social safety net payments. BB is seeing to it that financing flows to sectors targeted by inclusion initiatives take place not from unbridled overall credit expansion, but largely from rechanneling of credit resources from speculative uses and from avoidable conspicuous consumption. To this end, BB is interalia contemplating engaging with Civil Society Organizations (CSOs) and others representing the broader civil society in fostering our traditional social attitudes and values of disposable income based consumption and predominantly equity based investment; so as not to be afflicted by boom bust cycles of credit bubbles familiar in advanced Western economies.

I begun with mention of favorable growth and employment outcome of our financial inclusion approach; let me mention here that the stable fairly robust economic growth levels have been sustained with substantially lower FDI inflows than in our South Asian neighbors, and we are ahead of our higher income neighbors on many counts of social development indicators.

Let me conclude here with thanks for your patient attention, awaiting your queries and comments.

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Outline

- Introduction
- Role of Central Banks
  - Bangladesh Bank’s support to innovative financial inclusion initiatives promoting inclusive economic growth
- Concluding Remarks
Introduction

- Youth employment has always been a challenge and a key priority in populous low income developing economies like my country Bangladesh.

- Many advanced Western economies are now facing much the same challenge, in lingering growth slowdown since the global financial crisis.

- Both in the developing and developed economies, continuing broad based job creation will require sustained expansion of productive capacity in all economic sectors by entrepreneurs utilizing investment resources efficiently and innovatively.

Introduction..(Cont’d)

- Small enterprises producing goods and services figure importantly in output growth and job creation, solo or in value chains with larger businesses.

- Adequate financing access for the enterprises is a sine qua non for this.

- Urban large business focused financial markets and institutions in developing economies have lacked motivation and readiness of reaching out to small businesses.

- Mainly small landholding based agriculture remains poorly served by the financial sector, so do non-farm rural and urban small enterprises.
Advanced financial markets are also failing to serve small businesses, hurting growth recovery

- In the post crisis economic slowdown, financial markets and institutions in advanced economies are also failing in meeting financing needs of small businesses including startups.

- These are languishing in credit crunch, with financial institutions swinging to extreme of risk aversion from the opposite pre-crisis extreme of quick gain focused speculative excesses.

- This financial exclusion of small businesses is impeding recovery of output growth and employment creation.

Reorientation of goals and ethos towards socially responsible directions needed in financial systems

- For both developing and developed economies, sustained recovery to path of stable output growth and job creation require:

  ✓ a fundamental reorientation of financial sector goals, and

  ✓ motivations away from quick gains focused speculative excesses foaming creating credit bubbles towards socially and environmentally responsible inclusive financing of all productive initiatives.
Role of Central Banks

- Central banks can play catalytic role in this reorientation of goals and objectives of financial institutions and markets towards:
  - socially responsible inclusive lending practices ensuring adequate credit flows to small businesses and other underserved or financially excluded economic sectors and population segments.
  - At Bangladesh Bank (BB), the central bank of a low income developing economy, we have taken this approach and results thus far are very heartening.

BB support to innovative financial inclusion initiatives

- BB has initiated guiding Bangladesh’s financial sector towards socially and environmentally responsible financing by sensitizing banks and financial institutions about their Corporate Social Responsibilities (CSR), with a guidance circular for mainstreaming of CSR obligations in their corporate goals and objectives.
  - The financial sector has responded with warm enthusiasm in steadily increasing engagement in CSR initiatives.
BB support to innovative financial inclusion initiatives..(Cont’d)

- BB has launched a comprehensive financial inclusion campaign to reach out with financial services to all hitherto underserved and excluded economic sectors and population segments.

- Under the financial inclusion campaign umbrella, banks and financial institutions are being encouraged and supported in taking up financing schemes targeted to specific underserved areas, mainly agriculture, SMEs and environmentally beneficial projects.

- Creative partnership of banks with regulated Micro Finance Institutions (MFIs) and mobile phone/smart card based IT platforms towards devising new cost effective service delivery modes are being encouraged.

Agricultural Credit Program

- Strong agricultural growth over years has been supporting macroeconomic stability and enhancing domestic demand in Bangladesh.

- Agricultural Credit Program announced by BB enjoins all banks to engage in lending for a comprehensive range of on- and off-farm rural economic activities.

- Special priority is attached to marginal farmers; ‘area approach’ method for farming.

- Mobile phone number of each borrower is being collected for direct monitoring from the Central Bank.
Group based financing of sharecroppers through non-bank MFI

- Sharecroppers had long been excluded from formal financial system because of lack of collateral.

- In 2009, BB launched Taka 5.0 billion refinance line for landless sharecroppers in partnership with BRAC, a non-bank MFI.

- This is a first ever initiative for this productive group of farmers.

- This innovative scheme is promoting social collateral; peer pressure ensures loan repayments and mitigate default risks.

Sharecroppers Refinance Scheme..(Cont’d)

<table>
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<tr>
<th>Sharecropper's loans at a glance</th>
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<tbody>
<tr>
<td>Average loan size</td>
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<tr>
<td>Security deposit</td>
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<tr>
<td>Interest paid on security deposits</td>
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<tr>
<td>Interest rate mandated by BB</td>
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<tr>
<td>Loan term</td>
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</tbody>
</table>

- Till June 2012, BB has provided BRAC with refinance facility of Taka 4.9 billion with which BRAC has provided loans to 415,000 sharecroppers in 250 upazilas of 48 districts.
Promotion of SMEs

- Small and Medium Enterprises (SMEs) account for 75% of the domestic economy, and 90% of industrial employment in Bangladesh.

- SME Credit Policy of BB employs ‘Area approach’ and ‘Cluster approach’ and attaches special attention to potential women entrepreneurs.

- Refinance scheme of Taka 6.00 billion for small and medium enterprises.

- 15% of the refinance fund allocated for woman entrepreneurs.

SME Credit Disbursement by banks & Employment Creation Profile in 2010 and 2011

<table>
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<tr>
<th>Particulars</th>
<th>2010</th>
<th>2011</th>
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<tbody>
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<td></td>
<td>Disbursement</td>
<td>Employment</td>
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<tr>
<td></td>
<td>No. of Entrepreneurs</td>
<td>Total Credit (Billion Taka)</td>
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<tr>
<td>SME Credit</td>
<td>3,08,726</td>
<td>535.44</td>
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<tr>
<td>Women Entrepreneurs Credit</td>
<td>13,723</td>
<td>18.05</td>
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</table>
Promoting Women Entrepreneurship

- SME credit up to Taka 2.5 million can be disbursed against personal guarantee to potential woman entrepreneurs.
- 30% of BB’s refinance line for SMEs is allocated for women entrepreneurs.

BB support to innovative financial inclusion initiatives..(Cont’d)

- Government of Bangladesh (GOB) and BB are supporting inclusion initiatives of banks with facilitating regulatory and IT infrastructures, including:
  - establishment of a Microcredit Regulatory Authority for licensing and regulation of MFIs,
  - issuance of Mobile Banking Guidelines, a secure and efficient payment system with fully automated platform for online clearing and settlement of paper-backed and electronic fund transfers, and
  - a Credit Information Bureau (CIB) accessible online by system participants.
**Automation**

- Online and mobile banking
- CIB Online
  - Bangladesh Automated Clearing House
  - Bangladesh Electronic Fund Transfer Network
- Enterprise Resources Planning
- E-recruitment, E-tendering
- EXP Online Monitoring System
- In-house online connectivity
Mobile Financial Services

- Fast expanding mobile telephony in Bangladesh has opened up windows of opportunity for creative partnerships of banks and mobile telephone companies in devising cost effective arrangements for delivery of financial services.

- BB has been encouraging such bank-led partnerships which will bring win-win cases for all concerned; A number of such BB approved partnerships are already active.

- To facilitate mobile banking, BB has issued guidelines for mobile financial services.

CIB Online

- Credit information on borrowers are being collected online replacing the earlier paper based processes.

- From the information collected online, credit reports on borrowers are generated within seconds as opposed to days.
Engagement of our financial sector in the social responsibility based financial inclusion campaign has been spontaneous and enthusiastic, signifying their realization that their participation in deepening and widening financial inclusion rewards them with future earning potentials from the newly acquired customer bases.

Since launching of the campaign in 2010, new bank accounts opened for landless/small farmers, poor wage laborers and other people of small means have reached 13.0 million.

These new accounts are increasingly being used for deposit, payment and other transaction, besides receiving government subsidies for agricultural input and

**Farmer’s Account**

Bank accounts for farmers at initial deposit of Taka 10; a first ever initiative in Bangladesh.

The purpose is primarily to transfer government subsidies on agricultural inputs directly to growers, preventing abusive leakages.

Farmers are increasingly using these accounts for savings and payment transactions as well.

More than 10 million accounts already been opened so far.
BB support to innovative financial inclusion initiatives..(Cont’d)

- BB is seeing to it that financing flows to sectors targeted by inclusion initiatives take place not from unbridled overall credit expansion, but largely from rechanneling of credit resources from speculative uses and from avoidable conspicuous consumption.

- To this end, BB is interalia contemplating engaging with Civil Society Organizations (CSOs) and others representing the broader civil society in fostering our traditional social attitudes and values of disposable income based consumption and predominantly equity based investment; so as not to be afflicted by boom bust cycles of credit bubbles familiar in advanced Western economies.

BB is contributing to job creation in Bangladesh through

- Ensuring adequate credit flows to private sector while balancing the needs for macro stability.

- Promoting bank downscaling and automation to permit transition from collateral to risk-based lending, segmentation of clients by risk levels, and diversification of the lending instruments.

- Expanding special programs for areas such as SME finance and agricultural credit which are engines of job creation in Bangladesh.

- Over the past year, SME lending was 21% of overall commercial bank lending.
Government programs towards promotion of youth employment

- Skill-enhancing training program for unemployed youths in 111 formal and 476 non-formal training centers.

- 1.3 million individuals trained over past 3 years. Target set for FY 2012-13 to train another 4,37,265 people.

- A total of Taka 2.2 billion distributed by the Directorate of Youth Development over past 3 years as micro-credit among 1,15,460 trained youths to promote self-employment.

- Taka 6.87 billion proposed in non-development and development budgets for the Ministry of Youth and Sports in FY 2012-13 budget.
**Government programs towards promotion of youth employment..(Cont’d)**

- Government has introduced National Service to involve youths in national development programs with creation of temporary employment opportunities in 4 districts.

- 56,801 unemployed youths have been trained so far.

- Two years temporary employment opportunities have been created for 56,126 youths.

- In FY2012-13, government plans to provide training to 17,744 youths and to create temporary employment opportunities for 56,959 youths.

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**Financial Inclusion Outcomes**

- Financial sector of Bangladesh maintained solvency and liquidity during the global financial crisis.

- In the aftermath of global financial crisis, supporting the real economy in coping with adversities from the global slowdown instead of needing any bailout for itself.

- Deepening, widening financial inclusion has helped Bangladesh economy uphold domestic output and demand amid global economic slowdown maintaining, stable real GDP growth averaging over 6% per annum.

- Rising real wages, particularly strongly for the rural workforce, evidence rise in employment.
Real wages are in rising trend

Concluding remarks

- I would invite queries and comments for us to learn from your experiences.
Many thanks