

Financial Inclusion and the Banking Sector: Some Critical Issues

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**BIDS CRITICAL
CONVERSATIONS**

2017



Organization of the presentation

- ▶ Characteristics of a good financial system
 - ▶ What causes financial exclusion
 - ▶ Where do we stand?
 - ▶ Spatial aspect of financial inclusion
 - ▶ Some critical issues to discuss
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Characteristics of a sound financial system

Full range of quality
Products should be
Provided by a wide range
of providers
→ inclusiveness



What causes financial exclusion?

A. Supply side constraints

- Inadequate financial institutions and their coverages
- Inadequate financial products
- Non-affordability

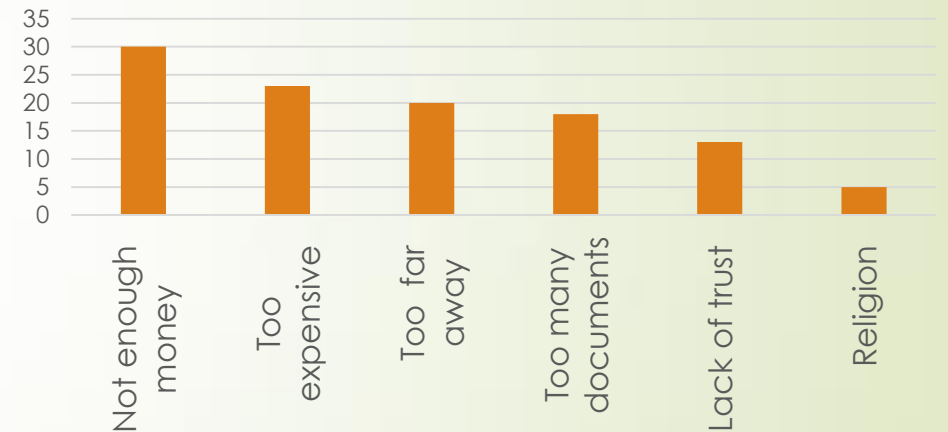
B. Demand side constraints

- Low income
- Financial illiteracy
- Religion, Norms, Behavioral rigidity

C. Information constraint

- Financial market does not work the way product market works
- Market may not clear because of lack of information about the borrowers.
- Huge idle liquidity in the banking sector, interest rate does not adjust downward
- This excludes a wide range of borrowers

Reported reasons for not having a bank account (%)



Source: GFI, WB, 2014

Where do we stand globally?

Table 1: Number of accounts with financial institutions (% of Age 15+):
2014

	Bangladesh	South Asia	Low income
Adult	31	46.4	27.5
Adult Women	26.5	37.4	23.9
Adults belonging to the poorest 40%	23.1	38.1	19.4
Adults living in rural areas	25.6	43.5	24.8

(Source: Global Findex, WB)

Bangladesh fare very badly even with South Asia !

Local Survey

(InM): Access to Financial Services Survey, 2009-10, about 9000 households

Table 2: Access to Financial Services in Bangladesh

	Access to any financial services in any market	Access to quasi-formal finance	Access to formal financial services	Access to informal finance
National	76.8	43.2	37.0	26.2
Non-poor	79.4	39.7	44.4	21.7
Poor	70.6	51.7	19.4	27.4
Rural	75.5	46.4	32.8	27.4
Urban	81.7	30.9	53.5	23.6

Khalily and Khaleque (2013)

Financial Inclusion and banks

Fig A: Agricultural Credit Disbursement (Billion Taka)

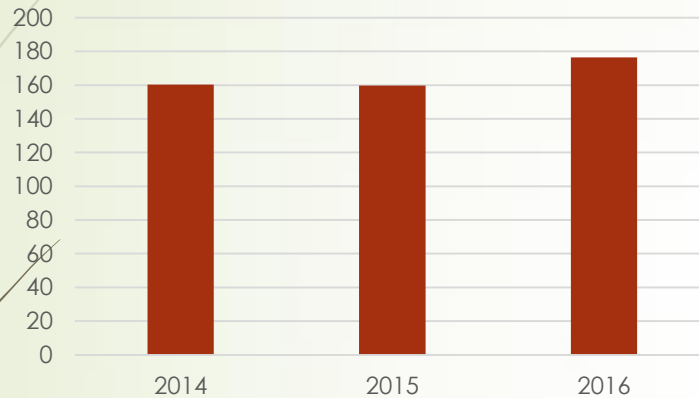


Fig B: SME Credit Disbursement (Billion Taka)

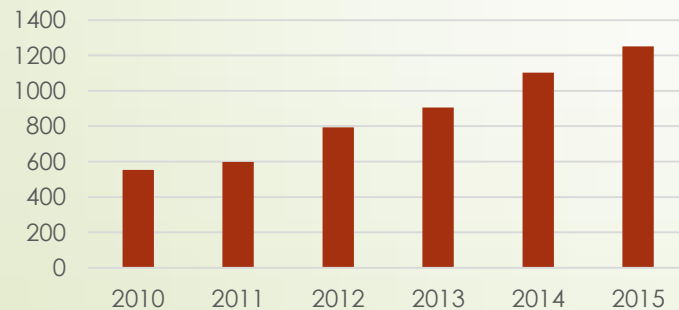
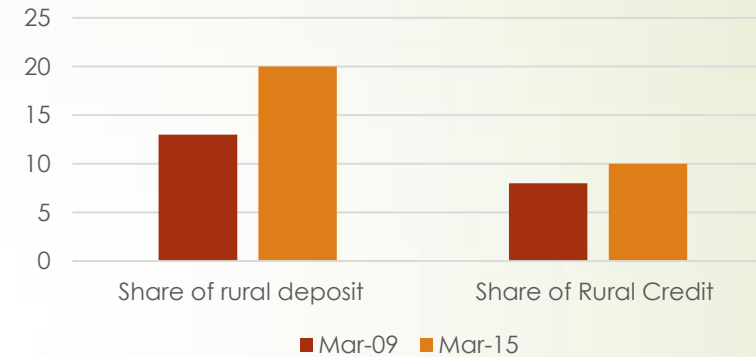


Fig C: Share of rural deposit and credit in total (%)



- Several refinance scheme
 - Dairy farming (Tk. 2 billion)
 - Share croppers (Tk. 6 billion)
 - Agro based product processing (2 billion)
- In January 2010, BB introduced No-Frill Accounts: 10 taka deposit for farmers, Diesel subsidy
- Student account, banking for street children

Sub-district level

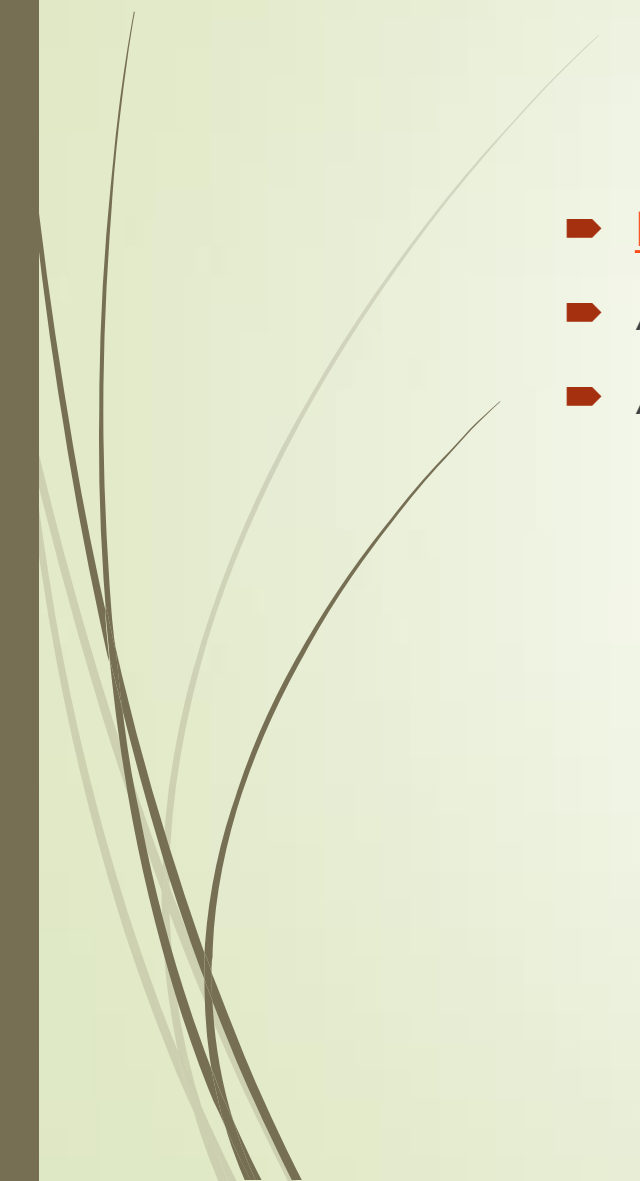
Table 3: Changes in banking variables at sub-district level

- Number of branches in a rural sub-district is half of national average
- It is the public branches that cater the rural areas largely
- However, we observe rapid increase in number and use of private branches in rural areas

Banking variable per sub-district	All Sub-districts		Rural (190 sub-districts)	
	2010	2015	2010	2015
Average number of branches	14.21	16.80	7.15	8.5
Public	8.83	9.32	5.63	5.85
Private	5.38	7.49	1.52	2.65
Average number of branches per sq. km.	0.71	0.86	0.04	0.06
Public	0.26	0.27	0.03	0.03
Private	0.45	0.59	0.01	0.03
Number of bank accounts per adult person	0.68	1.04	0.53	0.72
Public	0.50	0.62	0.49	0.59
Private	0.19	0.43	0.04	0.13
Amount of bank deposit per adult person (000)	44	118	9	22
Public	17	41	6	12
Private	28	78	3	10
Amount of bank credit per adult person	34	85	4	8
Public	10	20	3	5
Private	24	65	1	3



Sub-district level maps: 2010 and 2015

- ▶ Number of account per adult
 - ▶ Amount of bank deposit (thousand taka) per adult
 - ▶ Amount of bank credit (thousand taka) per adult
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What we have learnt so far

- Despite significant increase in SME credit, the growth of disbursement of agricultural credit has been very sluggish.
- Growth of rural deposit is much higher than rural credit.
- Despite greater proliferation of private sector banks, public banks still dominate the rural sub-districts
- Southern part of the country has seen noticeable increase in number of account and amount of deposit but not credit
- Despite initiatives by BB, government, NGOs and private sector, Bangladesh still fare very badly with the South Asia



Potential issues for the floor to discuss

A. National financial inclusion strategy (NFIS)

- ▶ BD don't have any comprehensive strategy document for financial inclusion
- ▶ More than 20 countries have developed their comprehensive NFIS
- ▶ Jointly by BB, GED and FD

B. Financial Inclusion Lab

- ▶ This is an area which requires innovation to customize local needs
- ▶ Demand vs. supply side interventions
- ▶ Many countries have set up financial inclusion lab to design and test innovative products such as digital financial services
- ▶ Master card has a financial inclusion lab in Africa funded by Bill Gates Foundation.
- ▶ A group of bankers, payment technology expert, behavioral scientist, data scientist and economist.



Critical issues...

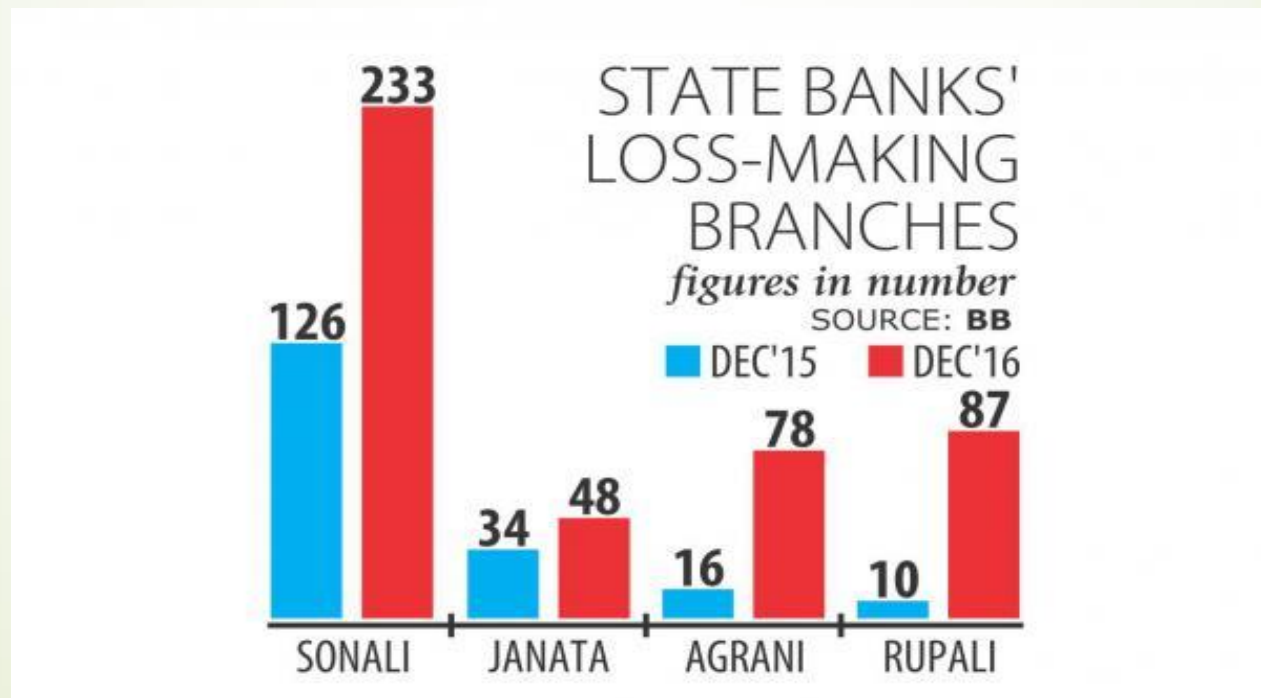
C. Financial Literacy

- <http://www.financialliteracybd.com/index.php>
- Narrow view of financial literacy – focusing on capital market only
- Basic understanding of the tools and concepts of economics and finance
- Economics and finance should be included in the text books at SSC and HSC level for science students also
- Similar to literacy survey, we should have regular rounds of financial literacy survey (e.g., every four years)

Critical issues of financial inclusion

Banking sector

- Loss making branches of public banks



Source: Daily Star, 3 April, 2017



Huge implications for financial inclusion

- What types of branches are making loss? Most likely rural branches!!
- Should we shut down the losing branches? These are public banks and they have some normative motives too!

Role of agent banking

- Is agent bank a good substitute for a bank branch?
- How the agent banks are performing?
- Among existing 12 licensees of agent banking, Bank Asia is leading (1200 agents). Dutch-Bangla Bank Ltd. is in 2nd position in terms of the number of agents.



Thank
You