



FINANCIAL INCLUSION: The Next Chapter*

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Dr Atiur Rahman

Governor, Bangladesh Bank

Email: governor@bb.org.bd

Financial exclusion, or deprivation from access to financial services leading into significant extent of social exclusion, is endemic in poverty ridden low income countries; but exist even in affluent countries, arising from wars, social conflicts, religious, ethnic or ideological alienations etc.

In Bangladesh and elsewhere, the thrust for fuller Financial Inclusion (FI) has thus far been not from spontaneous initiative of banks and financial institutions in reaching out with financial services to the excluded population segments, but rather from civil society/NGO activism (*setting up Micro Finance Institutions {MFIs}, credit cooperatives and so forth*) and from public authority directives (*laws/regulations requiring banks to open accounts of people of small means, directives for channeling adequate credit for agriculture and SMEs alongside refinance support lines, etc.*). These civil society and public authority initiatives have made significant strides in broadening financial inclusion. Despite constraints of low literacy among the poorer masses, nearly four fifth of the adult population of Bangladesh are now covered by basic financial services from banks, MFIs, Cooperatives and Post offices regulated, supervised or run by public authorities. Use of mobile phone and smart card technologies is making possible cost effective remote delivery of financial services to rural and urban clients in myriads of small value transactions. Bangladesh coped well in the recent global financial meltdown mainly because of buoyant domestic demand well supported by financial inclusion initiatives of authorities in areas including agriculture, SMEs and renewable energy.

The government and the central bank in Bangladesh have intensified efforts to bring the remaining excluded population segments and economic sectors into financial inclusion; with new support programs like refinance against loans to sharecroppers (besides mandatory involvement of banks in agricultural financing), micro and small enterprises, renewable energy and effluent treatment projects; encouraging creative partnerships between banks, MFIs, mobile phone and smart card technology platforms innovating cost effective financial service packages for various client segments.

Progress thus far in broadening FI has been substantial, but there are gaps to be bridged, and extensive swathes of shallow FI patches to be deepened (a fifth of the adult population of Bangladesh still to be drawn into FI, scaled up SME financing from formal institutions not easily accessible by MFI clients rising up the income ladder, difficulties for SMEs

in marketing their produces at fair prices, environmental sustainability issues in micro/SME output activities not adequately addressed). Sorting these problems out on a sustainable, durable basis will require formal financial and non financial businesses to be drawn into business models that explicitly include the low income poor as their new customer bases in socially and environmentally responsible business pursuits. There are already several instances of such successful initiatives around the world, under rubrics such as 'social entrepreneurship', 'socially responsible competition', 'social market economy' and so forth; aimed at promoting inclusive growth and hastening poverty reduction in the billions at the 'bottom of the pyramid' living on income of two US dollars or less a day. In Bangladesh, BRAC is a major success example in engaging formal bank, MFI, and non-financial businesses in viable horizontally and vertically integrated linkages with micro and small enterprises. The bank and MFI arms of BRAC finance micro enterprises and SMEs in diverse pursuits; non financial business units of BRAC further process or sell the output of micro/SMEs, using retail chains and marketing links in and outside the country. Grameen Bank has also developed some similar linkages between its micro/small enterprise clients and larger non-financial businesses. Many other MFIs have forged linkages with banks, they now need to focus on extending these linkages to socially and environmentally responsible non-financial businesses; in sustained viable relationships.

The incipient trends in socially and environmentally responsible business practices aiming at fuller financial and social inclusion with inclusive growth and rapid poverty reduction will need to be supported actively, both globally and nationally. At the global level, the ISO may complete its already taken up work of setting the standards for socially and environmentally responsible business practices, both financial and non financial. The ICC and its country chapters may usefully hasten adoption of the agreed upon standards. In Bangladesh, the CSR guidelines for the financial sector issued by Bangladesh Bank encourage forging of linkages of the formal financial sector with MFIs and non-financial businesses. National authorities may encourage and promote tie-ups of larger non-financial businesses with micro and SMEs with incentives like time-bound tax waivers/concessions on income from socially and environmentally responsible business lines. Global dialogs on these issues should have adequate representation of non G20 countries, as these are where most of the world's financially and socially excluded population live.

* *The above text is Bangladesh Bank Governor's input in the Financial Inclusion panel of the FT Sustainable Banking Conference participated among others by the World Bank President Robert Zoellick.*