

Financial Services at People's Doorstep



Dr Atiur Rahman
Governor
Bangladesh Bank
E-mail: governor@bb.org.bd

Abstract

The paper focuses on the present monetary and credit policy of Bangladesh Bank (BB) towards attaining broader financial inclusion. Bangladesh Bank has come forward with technology driven, innovative, environment and poor friendly banking approach; bringing a qualitative change in banking, preparation of monetary policy, application of advanced banking technology, and use of ICT (Information and Communication Technology) to extend financial services to the door step of common people. To ensure access to financial services for all, various steps have been taken so far in the area of trade finance; digitalization of the financial sector; channeling liquidity into productive and supply augmenting investments including agriculture, SMEs, Green Banking and CSR activities; expected to lead to more broad-based inclusive growth, and therefore reduce poverty; required for pushing the country on course to the targeted vision of digital Bangladesh by 2021; the year of Golden Jubilee of our independence.

1. Introduction

Being the monetary authority of the country, Bangladesh Bank (BB) is empowered to formulate and execute monetary policy; fine tune of the credit system; fostering growth and development of country's productive resources in the best national interest (Bangladesh Bank Order 1972, amended 2003). Therefore, perfect fiscal-monetary policy mix is essential for attaining an inclusive economic growth to ensure financial and social security of the people.

BB monetary policy stance for the second half of the current fiscal year, FY10 (January-June, 2010) has also restated (as the first half of FY10) its firm stand on quality of growth measured in terms of inclusiveness and environmental sustainability. Keeping thrust on broadening financial inclusion BB has launched several refinance support lines for increased lending to sectors like agriculture, SMEs (small and medium enterprises), renewable energy (solar, biogas etc.) and effluent treatment plant (ETP). BB is motivating banks to expand lending to these under-served sectors both as business case and CSR (corporate social responsibility) obligation; through bank branches as well as by 'branchless banking' in innovative partnerships with MFIs, (microfinance institutions) mobile phone companies and other IT based networks for cost effective remote delivery of financial services.

In the backdrop of recent global economic downturn, Bangladesh Bank continues to keep credit conditions easy; put emphasis on channeling liquidity into productive and supply augmenting investments including agriculture, SMEs, Green Banking and CSR activities; expected to lead to more broad-based inclusive growth, and therefore reduce poverty.

Bangladesh has weathered the financial crisis due to credible monetary policy, extended budgetary assistance to agriculture and SMEs to strengthen domestic demand and production, and timely stimulus packages for recession hit export sector; coverage of social safety net has been widened as well. This could also be attributed mainly to the structure of the economy, prudent regulation and effective supervision of the financial sector. As a consequence, Bangladesh is walking on the path of 6 (six) percent GDP growth rate with a modest inflation rate.

In line with the pledge of the present government to materialize the 'Vision-2021', the image of Bangladesh in 2021 with the hopes and aspirations to have an economically inclusive and accountable digital society, Bangladesh Bank as the Central Bank of the country formulates a 5-year (2010-14) strategic plan, and takes various steps to facilitate financial access to the common people who have been under-served or entirely excluded from any kind of banking service until today. Therefore, technology driven financial inclusion is the priority agenda of Bangladesh Bank. Financial inclusion has two dimensions of customer access. Firstly, customer has access to a

range of formal financial services; from simple ones like credit and savings to more complex ones like insurance and pensions. Secondly, customers have access to more than one provider of financial services. Limited access to affordable financial services by the vast majority of population in rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus.

Therefore, the paper focuses on the BB initiatives, particularly during last one year with a view to bringing a qualitative change in banking, preparation of monetary policy, application of advanced technological innovations, and use of ICT (Information and Communication Technology) to extend financial services to the door step of common people.

The remainder of the paper is organized as follows: section 2 illustrates financial inclusion process in Bangladesh; section 3 explains the financial services with advanced technological applications; section 4 contains innovations in banking services, and finally section 5 concludes.

2. Financial Inclusion towards Inclusive Growth

The 'inclusive growth' as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities for all along with ensuring equal access to them. Financial inclusion is a necessary condition for sustaining equitable growth. There are few, if any, instances of an economy transiting from an agrarian system to a post-industrial modern society without broad-based financial inclusion.

Financial inclusion - financially strengthen a majority of population by providing financial services at a fair cost based on transparency and equality. Financial and social inclusion is the notion of inclusive growth, a growth process participated by and benefitting all population segments. Financial inclusion does not restrict itself to credit. It involves financial awareness, knowledge about banking facilities and channels, in other words financial literacy. Greater financial inclusion presents opportunities for everyone to contribute broad-based economic growth, financial stability and social cohesion. Access to affordable financial services especially credit and insurance enlarges livelihood opportunities and empowers the poor. Such empowerment aids social and political stability.

Importantly, access to financial services helps the poor insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. Needless to say, financial inclusion protects the poor from the clutches of the usurious money lenders. Financial inclusion will also make it possible for governments to make payment of social

security transfers, agricultural input subsidies, agricultural loans etc. The more obvious benefit is that financial inclusion provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channels them into investment. Second, the large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposits and help them to better manage both liquidity risks and asset-liability mismatches.

On the other hand, financial exclusion is a multidimensional issue and can result from a range of barriers such as access exclusion, e.g., limited availability of services; condition exclusion, e.g., identity requirements; price exclusion, e.g., unaffordable charges for services and/or self exclusion, e.g., disengagement due to negative experiences or discouragement (Siddique et al. 2010). However, Sinclair (2001) terms financial exclusion as the inability to access necessary financial services in an appropriate form. Carbo et al.(2005) defines financial exclusion as the inability to some societal groups to access the financial system.

Poverty related deprivations in health, education and asset ownership are major causes of financial and social exclusion. Physical and mental disabilities, discrimination by race, religion, caste, gender, social disruptions from prolonged conflicts and wars are among other causes of financial and social exclusion. This is likely to be seen in varying degrees in almost all countries, developing and developed, and therefore, social and financial inclusion figure prominently in policy agenda even of mature developed countries. Poverty related deprivations and exclusions are starker and more entrenched in low income developing countries like Bangladesh.

Banks largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Apart from the supply side factors, demand side factors such as lower income and/or asset holdings also have a significant bearing on financial inclusion. Owing to difficulties in accessing formal sources of credit, poor individuals and small enterprises usually rely on their personal savings or internal sources to invest in health, education, housing and entrepreneurial activities to make use of growth opportunities.

Despite substantial expansion of bank branches and the roles thus far of co-operatives and MFIs, financial inclusion in Bangladesh has much further to go in adequately covering all population segments and all sectors of economic activities. About one-fifth to one-fourth of the population of Bangladesh still live in extreme poverty; many of them are not capable of undertaking micro-credit supported self-employment initiatives. With few financial service outlets reaching out to this weak population segment, drawing from the official sources whatever small social safety net payments they are entitled to require them to incur substantial cost in time and travel expenses. Further, financial exclusion is not limited only within people in the lowest rungs in the income ladder. MFI borrowers successfully breaking out of extreme poverty and outgrowing eligibility

for micro-credit often find themselves in a 'missing middle', still to be considered eligible for larger loans from banks or other formal institutions. Significant market gaps and failures persist in financing of important, growth oriented activities like agriculture and SMEs. Such exclusions and gaps are holding down economic growth and poverty reduction. Financial inclusion is therefore a high policy priority in Bangladesh, for faster, more inclusive growth.

Financial inclusion by way of the poor's access to small-sized loans for income generating self-employment activities (micro credit for example) from microfinance institutions has been extensively employed in Bangladesh as a tool for combating poverty related deprivations. Grameen Bank and MFIs brought about a major breakthrough in reaching out to the rural poor. Their lending models specifically included imparting of necessary minimal literacy and numeracy to aspiring member borrowers; they have also been unrestricted in realizing interest and service charges at rates covering their higher costs. Their programs designed with some degree of gender bias favoring women, in the presumption that women's enhanced financial standing and stature in the traditionally male dominated families will lead to better upbringing and education of their children.

Besides extending micro-credit, many MFIs in Bangladesh are collaborating with insurance companies in extending microinsurance to the poor, offering modest covers such as *credit life insurance* ('debt dies with debtor'), health and accident insurance (for sicknesses and injuries requiring hospitalization etc.), property insurance (usually for livestock bought with MFI loans), at affordable rates of premium. Typically the MFIs act as partner agents of the insurance companies, collecting microinsurance premia on their behalf, most often by deduction at source while disbursing micro-credit loans. Regular published data on microinsurance in Bangladesh are as yet unavailable; a February 2007 survey posted in CGAP's microfinance gateway (www.microfinancegateway.org) reported 10 insurance companies in partnership with 61 MFIs, offering difference microinsurance products in 81 schemes; with cumulative premium collection of over Taka 11.2 billion from about 4.5 million clients.

Many banks have partnered with microfinance institutions that provide financial services to relatively high risk segments of the population. Microfinance has provided access to finance to an entire sector of people left behind by the formal financial sector, and micro finance has demonstrated how these low-income categories are indeed a 'bankable' proposition. But cost remains an issue. Compared to the informal sector, perhaps the interest rates are lower, but there are questions about whether these rates are affordable. Ideally, the rate of interest charged should not be out of alignment with the cost of funds, transaction costs, risk costs and a certain margin, and in any case, there is a need for transparency in its determination and fairness in its application. A regulatory authority, MRA (microcredit regulatory authority) has been established

to regulate the services of MFIs to prevent deception in MFI activities and ensure broader inclusion of rural poor.

Financial inclusion is reckoned in Bangladesh as access to financial services from entities supervised by official authorities, or from official institutions, including banks and financial institutions supervised by BB, MFIs supervised by the MRA credit co-operatives supervised by the Registrar of Co-operative Societies, insurance companies supervised by Insurance Regulatory Authority, capital market institutions like investment banks, merchant banks, stock exchanges supervised by the Securities and Exchange Commission (SEC), post offices and Bureau of National Savings.

Bangladesh Bank takes initiatives to reach under-served and unreached people with banking facilities. Credit facilities have been extended to farmers, small entrepreneurs, who have been a 'missing middle' long time. In access to credit, a 'missing middle' persists between the poorest served by MFIs and relatively better off served by banks. Small businesses outgrowing eligibility for micro-credit from MFIs often find themselves considered still too small by banks for their lending, share-croppers for example; not so poor as to be eligible for micro-credit from MFIs are deemed ineligible for crop loan by banks with little or no collateral. In terms of sectors of economic activity, important areas like agriculture, off-farm rural output activities and environment friendly renewable energy (solar, bio-gas for example) remain under-served by banks and other lenders. Recently, BB led a countrywide road show with a view to disseminating knowledge and information on banking services like lending, remittance payment etc. to root level population for deepening financial inclusion. Different banks and financial institutions has participated the road show which helps to build up awareness among common people regarding money laundering and illegal hundi channels in remittance delivery.

- ***Agriculture***

Agriculture plays the central role for achieving inclusive growth for an agrarian economy like Bangladesh. Bangladesh Bank declared its agricultural credit policy for the fiscal year 2009-10 with a record target of Tk. 11,500 crore; 23 percent higher than the previous fiscal year. About 71 percent targeted credit has already been disbursed and 54 percent of loan (due for recovery) has been recovered during first 9 months of the current fiscal (July 09 to March 10).

The policy has given priority to marginal farmers and woman entrepreneurs. 'Crop diversification' and 'area approach' methods are strongly recommended in the policy. 'Open credit disbursement program' has been introduced across the country to ensure transparency and reduce corruption. A 3-level (BB Head Office, BB branch office and concern bank) monitoring system has been developed for proper disbursement and recovery of the loan.

Banks are encouraged to open more rural branches to extend banking services to rural areas; about 67 percent of submitted applications have sought for opening rural branches this year though present branch opening ratio is 4:1, which means one rural branch is mandatory for every 5 new branches for a particular bank.

Meanwhile, BB has extended facility for farmers instructing all state-owned banks to open 'farmer account' taking deposit of Tk. 10 (January 2010) for hassle free transaction of government subsidy money or loan of the farmers. Farmers need not submit any document except the 'Agriculture Input Assistance Card' or 'National ID card' in opening the account. Meanwhile about one crore 'farmer account' has been opened in different banks. This is a historical signpost of the country's financial inclusion process. For further expansion of the process, state-owned banks have been instructed to open account for unemployed people with a deposit of Tk. 50 (May 2010). Students will also be given opportunity for opening bank account with a minimum deposit in near future.

Another new provision of agricultural credit has been created for sharecroppers, first time in the history of Bangladesh. A refinance scheme for Tk. 500 crore has been launched for group-based (group considered as collateral) sharecroppers under supervision of an MFI. Meanwhile, 3897 male groups have been formed in 150 Upazillas of 35 districts where 68,634 sharecroppers have already received Tk. 50.37 crore as of April 30, 2010. Besides, 28 female groups are formed comprising 425 female sharecroppers.

To mitigate risks in agricultural production (and hence in agricultural financing), introduction of crop insurance has been included in GOB's Food Policy agenda. Introduction of a scheme of partial guarantee for mitigating SME lending risks likewise merits consideration.

- ***Small and Medium Enterprise (SME)***

Small and Medium Enterprises (SMEs) can play pivotal role in attaining inclusive economic growth in Bangladesh with its comparative advantage of large manpower. Since the sector is labor intensive with short gestation period, there is enormous possibility of employment generation and therefore, increased national income. For instance, SME financing has helped innovative entrepreneurs in small light engineering workshops in Bangladesh to develop and expand into a huge network producing plant/machinery spares (and sometimes plants/machines in entirety) of all descriptions for the manufacturing, transportation, construction and agricultural sectors, at fractions of import costs. In early 1980s the emerging apparels export sector had scant access to foreign exchange for their import of inputs, the innovation of back-to-back usance LCs for input imports against export LCs from buyers got around the problem, unleashing decades of sustained growth.

Bangladesh Bank has already declared a comprehensive SME credit policy for 2010 with a record target of Tk. 24 thousand crore. The policy has given priority to small and woman entrepreneurs. Banks and financial institutions are advised to disburse at least 40 percent of the target to small entrepreneurs. SME credit for Tk. 25.0 lac can be disbursed against personal guarantee for woman entrepreneurs. 'Cluster' and 'Area' approaches are strongly recommended in the policy. A revolving refinance scheme for about Tk 1000 crore (provided by BB, ADB and IDB) has been facilitated to small and medium enterprises. At least 15 percent of the refinance fund has been allocated for woman entrepreneurs. A total of 15,672 organizations have received Tk. 1540.93 crores as of March 2010 through BB refinance window. A new department has been established at BB in order to accelerate the SME activities and strengthen monitoring and supervision.

3. Financial Services with Advanced Technological Applications

Innovative technological solutions such as mobile phone banking can push forward the financial inclusion process reducing barriers to access related to cost and distance. Use of technology has helped in overcoming some of the obstacles like geographical distance, higher transaction costs etc. Bangladesh Bank has already formulated a 5-year strategic plan for the financial sector based on advanced technological applications to deliver banking services with utmost efficiency to a wider network. The ultimate goal is to make Bangladesh Bank a world class Central Bank transforming it into a paperless organization.

Bangladesh Bank which is indeed the nerve centre of financial world cannot remain behind in this race of digitization. Bangladesh Bank has achieved a historic milestone in trade and business arena, departing conventional banking with the introduction of e-commerce recently; a giant stride towards digital Bangladesh. Banks have been allowed to make online money transactions; payment of utility bills through internet, transfer of funds (account to account), payments for trading goods and services, and facilitate online credit card payments in local currency. Indeed, the electronic payments will be considered as cash transactions, which will be regulated under the 'Anti-Money laundering Act' as well as other relevant rules and regulations. A national payment gateway, connecting all banks for inter-bank transactions (e-banking) is expected to be established soon. Electronic Fund Transfer will also be possible in near future.

Installation of '**Bangladesh Automated Clearing House (BACH)**' is another remarkable event in the history of the financial sector in Bangladesh; will ease the remittance channel and payment system, and therefore, bring dynamism in business activities. The system has been started in early November 2009 on experimental basis, participated by some well prepared banks; will be inaugurated formally soon. Applying sophisticated technological method, the system needs only images and corresponding information of the submitted cheque leaves instead of physical one; will send them to the BACPS (Bangladesh Automated Cheque Processing System) using a

secured communication link. New cheques/clearing instruments (standardized) will contain Magnetic Ink Character Recognition (MICR) line that encompasses information regarding the amount, transaction code, clients account details, routing number (numeric code assigned to bank branches for easy identification of origin and destination of the instrument), cheque leaf's serial number and so on. The system will support both intra-regional and inter-regional clearings based on a centralized processing centre in Dhaka and designated clearing regions; conforms to the international best practices, cost effective solution for cheque processing.

Therefore, after getting customers' cheques for collection in the bank-branch, collecting banks will check the prima facie information of the submitted cheques, capture images and information, and send them to BACPS electronically. BACPS will then process and send the images and information to the paying banks for validation. Paying banks will examine the pertinent images and information, and send back to the BACPS for payment (further examination if any inconsistency like fund insufficiency or mismatch of signature etc.) Then BACPS will accumulate all the information; workout a single net amount for each bank, and send back to the collecting banks. As such, cheque clearing time is expected to be turned down to a single day for countrywide payment. In other cases, this will be a matter of couple of hours only.

Remittance and Payments Partnership (RPP) project of BB is promoting innovations of faster and cheaper remittance and money transfer services; broadening and deepening financial inclusion particularly of recipients of remittances from family members working elsewhere within or outside the country. BACH will hopefully trigger innovation of yet other new service packages custom tailored to needs of specific client segments, further widening and deepening financial inclusion.

Mobile banking (m-banking), using cell phone as a tool, extends banking services to the door step of the common people. An account holder can check account history/statement, status on cheques, payment order or stop payment and so forth with his/her cell phone. Commercial banks have already been allowed mobile banking to accelerate inward remittance/transfer with the help of the outlets of mobile companies. Recently, Bangladesh Bank has strengthened its monitoring and supervision activities on agricultural and SME loan with the help of the existing countrywide mobile network, keeping record of cell phone numbers of farmers and small entrepreneurs.

Mobile commerce (m-commerce) is the process of providing the buyers of goods and services, the option to carry out such transactions, and pay for the same, without being physically present. It can bring efficiency and cost benefits to buyers; offers abundant scope for inclusive growth; promises business opportunities to service providers and other players in the field of mobile communications. Mobile can only be a facilitator for this channel. Similarly, in m-banking or m-

payment, we require collaboration between mobile service provider and banking/payment service provider. M-commerce has the capability to be inclusive due to the wide spread use of mobile phones.

Extending m-commerce facility, it is necessary to understand the risks; anonymity, elusiveness, rapidity and poor oversight. Anonymity is the risk of not knowing a customer's actual identity; elusiveness is the ability to disguise mobile transaction totals, origins and destinations; rapidity is the speed with which illicit transactions can occur, and poor oversight identity refers to the level of regulation of service providers. Philippines have been the pioneer in enabling financial services through use of mobile phones. The first product introduced in the country was SMART money - a partnership between SMART telecom, Banco de Oro. The country has seen the development of partnership between the mobile payment platforms provided and rural banks there.

In this regard, we recognize that mobile phone can be an important mode for propagation of financial inclusion. The coverage of mobile phones and the use of such instruments by all section of the population can be exploited for extending financial services to the excluded population. The convenience of mobile phone as an instrument for conduct of financial transactions and the immense potential it has in the process of financial inclusion and growth is well recognized. We agree that the benefits of m-commerce should reach the common people at the remotest locations in the country. However, the extent and the manner in which m-commerce should be facilitated needs a cautious and well considered approach keeping in view the concerns on money laundering and financial terrorism and the stability of the payment and settlement systems.

In promoting financial inclusion, BB is looking forward to more of innovative partnerships between banks, MFIs and mobile phone companies and payments related IT platforms coming up with manifold cost effective financial service delivery packages especially tailored to the needs of the urban and rural poor and their economic activities thus far not served or under-served by the financial market. These partnerships need to be bank-led because of prudential regulations and consumer protection concerns.

Online CIB report, a vital component of risk management measure, is expected to be launched by 2010. Lender banks and financial institutions will be able to access the CIB data base of BB, and get the credit report of the concerned borrower using his/her borrower code. The database consists of detailed information of individual borrowers, owners and guarantors. Meanwhile a project 'online credit bureau' has been working using advanced technology to establish online connectivity between CIB (Credit Information Bureau) of Bangladesh Bank and Head offices of all banks and financial institutions. It becomes crucial to upgrade the capacity of CIB to respond the policy priority accorded to financial inclusion; expansion of SME and agricultural lending, and overall increasing growth of trade and business. Online CIB will minimize the extent of

default loan by facilitating the banks and financial institutions with credit reports of the loan applicants very quickly, and therefore, lending institutions would not encounter any credit risk while extending lending or rescheduling facility.

Bangladesh Bank itself had major institutional reforms ongoing including commissioning of Enterprise Resource Planning solutions (ERP), banking and data warehousing facilities with all BB offices in an online integrated IT platform with a view to ensuring efficient management of assets including human resources.

Under networking program, all the departments of Bangladesh Bank Head Office and its nine branch offices have already been brought under computer network (LAN/WAN) connecting almost 3100 PCs. Therefore, any official sitting elsewhere in Bangladesh Bank (Head office or branches) has access to the same kind of resources; sharing knowledge and information; ensure knowledge based management. Enterprise Resources Planning (ERP) solution covers digitization of procurement (e-procurement), cash management, access control etc. Meanwhile, recruitment process under Bangladesh Bank has been digitized (online application, sorting, validation etc.).

Banking application includes automation of all the accounts with Bangladesh Bank (banks, financial institutions and government), Foreign Exchange Management, Currency Management, Treasury and Securities Systems/Module, Public Debt Management Module, and also establishment of a Central Depository System (CDS) to build a platform for secondary trading of treasury bills and bonds.

Enterprise Data Warehouse (EDW) creates an electronic data bank, which will provide all information and statistics of monetary, trade and fiscal areas of the national economy, where all the concerned people of BB will have access to use it for further policy analyses. Besides, BB is going to commence web based e-tendering system which covers announcement of tender, distribute schedules, bidding etc. to ensure simplicity and transparency of tendering process.

Policy makers can encourage more technology driven innovations through effective policies to protect property rights. Given the trust-based nature of financial markets, policy makers and regulators can also play a key role in building public confidence in new technologies and innovative financial products.

4. Innovations in Banking Services

BB's strategic goals and objectives have been revisited and refocused in a strategic planning retreat, clearly articulating and cohesively integrating financial inclusion and CSR objectives within the core central banking priorities of maintaining price stability, financial system development and stability and support for national policies pursuing sustained high inclusive economic growth for rapid poverty reduction and human development.

Bangladesh Bank has brought a new dimension in banking services during last one year. Apart from the humanitarian approach in banking (CSR activities), BB has introduced environment friendly 'green banking' programs to ensure a sustainable green development. A Tk. 200 crore refinance line has already been launched for environment friendly investments in renewable energy sector like solar energy, biogas and effluent treatment plants (ETP). Meanwhile, 18 commercial banks have signed agreement (MOU) with BB for availing the refinance window for green investment. Bangladesh Bank itself has already set up a 20-kilowatt solar panel on the top of its Head Office (main building), which is saving electricity from national grid.

Another potential environment friendly renewable energy is biogas, which has enormous possibility in an agrarian society like Bangladesh where farmers are not only involved in crop production but also engaged in diary or fish cultivation. Therefore, a farmer can easily build an integrated farm with 2/3 cows; can get 12-15 litres milk per day; produce 100 kg organic fertilizer per day and 135 cft biogas with which at least 6 persons' meals can be cooked. This organic fertilizer can replace the use of urea in cultivable land, and keep the land arable. In this way, we can save natural gas (used for urea production) and transmit it to power generation. One experiment finds that 4 hours' irrigation can be possible with the power generated from biogas produced from 6/7 cows. One commercial bank has already come forward to avail BB refinance window (Tk. 30 lac) for investment in biogas plants in Manikgonj.

CSR is gaining fast global acceptance as a standard for environmentally sustainable and socially equitable business practices. CSR programs of business can bridge the market failures and market gaps that limit the access of the poor to the services necessary for their well being and thus ensure inclusive economic development. BB has been exhorting banks and financial institutions to embrace fostering financial inclusion as a Corporate Social Responsibility (CSR) obligation. CSR activities are now mandatory for banks and financial institutions. A policy guideline will be declared soon. Bangladesh Bank will publish a CSR report shortly on banks and financial institutions reviewing their current engagements and gaps in CSR activities. Besides, special tax incentives are on cards in the upcoming budget to encourage corporate houses in embarking CSR activities.

Bangladesh Bank has given direction to the banks and financial institutions to put emphasis on humanitarian banking services. To ensure easy and effective access of physically disable/incapable people to banking services, banks are directed to designate an official as 'Focal Point' at the entrance of the bank branch.

Bangladesh Bank has made efforts continued to align its prudential norms more closely with international standards. BB has issued guidelines on asset-liability management, foreign exchange risk, credit risk, internal control and corporate governance, anti-money laundering and information and communication technology.

BASEL-II capital requirement has already been implemented to strengthen the capital base of the banks. Banks have been advised to establish a 'Risk Management Unit' to oversee the risk management of the bank. Stress testing techniques are now applied to measure and evaluate the overall risk of the banking sector. Special care has been given in the foreign exchange management particularly in the context of the recent global meltdown. With a comfortable foreign exchange reserve (USD 10.67 billion as of ----), BB has deployed part of its foreign exchange reserve in newer growth supportive uses, including placements in offshore unit of banks and augmentation of 'export development fund (EDF)' for financing capital goods and input procurements. Credit facility from 'export development fund (EDF)' has been increased to USD 300 million from USD 150 million. Limit of advance payment from 'Exporters' Retention Quota (ERQ)' has been enhanced to USD 10,000 from USD 5,000 for emergency import payment. Besides, a good number of measures have been taken for trade finance to face the crisis successfully. Meanwhile Dhaka Inter Bank Offer Rate (DIBOR) has been introduced from 6th January 2010 to deepen inter- bank market and therefore, determine a rational interest rate considering it (DIBOR) as benchmark.

In the context of power crisis, Bangladesh Bank is financing infrastructure development sector, particularly power plants through its project 'Investment Promotion and Financing Facility (IPFF)' apart from its refinance window for solar energy plant. Total 178 megawatt electricity has already been transmitted to national grid through 7 PPP (public-private partnership) projects under IPFF. Another USD 257 million credit facility has been provided by the World Bank recently for facilitating local infrastructure development especially small power plants with PPP initiatives.

Bangladesh obtains sovereign credit rating from two international credit rating agencies - Standard & Poor (S&P) and Moody's where Bangladesh gets credit rating BB- and Ba3 respectively. Both the agencies term Bangladesh as a reliable destination for international creditors and investors. The rating has been determined considering the macroeconomic fundamentals, sound foreign exchange reserve and liquidity supported by apparel export and

remittance as well as external donor funding. However, agencies identified low revenue and export base as rating constraints. This rating indeed will facilitate borrowing from abroad by private sector industrial enterprises, confirmation of credit lines on more favorable terms and therefore, reduce cost of trade finance (since low country risk premium charged).

5. Conclusion and Policy implications

Financial inclusion, though well recognized as a means for inclusive growth, is constrained by several factors in Bangladesh. The banks are faced with high operating cost n extending the financial services to the remote areas; further reaching out to the illiterate people. About 25 percent of the adult population is still to be covered by deposit and other financial services from regulated institutions quite probably the hardest to reach. An access to affordable services can be brought about by leveraging technology, spread of financial literacy and creating awareness. BB's policies are currently focusing on leveraging the potential synergies in innovative cost-saving partnerships between banks, MFIs and telecom/mobile phone service providers in bridging the remaining gaps in financial inclusion; with due attention to the risk management, consumer protection and systemic stability issues likely to arise in the new arrangements. Cost-saving IT based remote delivery arrangements are possible for numerous government payments in small amounts like social safety net allowances for the eligible poor, pension payments, subsidies for farmers and so on. Well -designed IT based arrangements of this kind will prevent leakage or wrongful delivery of benefits, besides deepening financial inclusion.

With the arrival of banking technology and realization that poor are bankable with good business prospects, financial inclusion initiatives will strengthen financial deepening further and provide resources to the banks to expand credit delivery. The banking technology initiatives meant for financial inclusion should be collaborative and innovative with and objective to reduce the transaction costs. Thus financial inclusion along with the Governmental developmental programs will lead to an overall financial and economic development in our country and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

Financial inclusion also combats poverty by unblocking advancement opportunities for the disadvantaged poor, thereby fostering social inclusion and inclusive socioeconomic growth. In Bangladesh, following bank branch, co-operatives and MFI based phases of major expansion, we are pinning hopes and efforts on IT based cost-saving innovations for another phase of major breakthrough in closing the remaining gaps and shallow patches in financial inclusion.

Bangladesh Bank intends to reap over the coming years the fullest possible benefits from financial inclusion and CSR engagements in terms of inclusive environmentally sustainable economic growth at sustained high rates and steeper decline in poverty. Monetary and credit policies of BB seek to contain inflationary pressure both on demand and supply sides. Demand side pressures are kept in check using monetary policy instruments to regulate liquidity and monetary growth; while credit policies and programs aimed at channeling adequate credit flows to all productive sectors stimulates supply responses easing price pressures. Deeper financial inclusion in all population segments and all productive sectors will lead to financial deepening affording wider, newer transmission channels of monetary policies for more effective containment of price pressures on demand side. Financing access afforded by financial inclusion to micro, small and medium scale enterprises will simultaneously yield increased output response on the supply side, easing price pressures with increased contribution to the country's GDP.

People got understand that financial services are no longer beyond their reach rather it is their fundamental right. Banks will not only serve the elite group of the society but also reach the mass people. BB will continue to work with its stakeholders including academia, think tanks, and trade bodies to pursue its strategies for attaining inclusive growth in addition to monetary policy formulation and implementation.

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