



Institute for Inclusive  
Finance and Development (InM)

## INSIGHTS

InM Newsletter

### NGO-MFIs and Financial Inclusion



Bangladesh's microfinance sector is a strong enabler of financial inclusion especially for those who are underserved and unserved by the formal financial ecosystem. Available evidence shows that the poor and rural households have higher access to NGO-MFIs while the non-poor and the urban households enjoy higher access to formal financial institutions. Over the years, NGO-MFIs have contributed much towards expanding access of the poor and low-income households to financial services. However, it is also true that a significant number of vulnerable and low-income households including labour- and female-headed households still remain outside the network of financial services.

The sector has brought over 30 million individuals under microfinance network and more than 2 million small businesses as lateral entrants into the credit network. These clients are the part of 'missing middle' in the formal bank credit market. The horizon of MFIs has also expanded; micro loan products have diversified including financial and non-financial products. Moreover, the regulations of MFIs have contributed to a structural shift in the microcredit market, signifying a move towards microenterprise based higher loan size creating intense competition for loans between microenterprise and traditional household based activities.

With emphasis on sustainability, MFIs have targeted their activities with a renewed focus on transaction costs and risk minimising approaches. On the other hand, the coverage of the poor members under the MFI financial network has been facilitated by the availability of subsidised fund, institution of risk minimising informal microinsurance (e.g. credit life insurance, livestock insurance, health insurance) and project induced and targeted lending activities. However, the recent shift towards microenterprise based lending activities has perhaps affected the loan portfolio of the extreme and moderate vulnerable poor households to a certain extent.

There exist three major targeted clientele groups of MFIs—the vulnerable poor including extreme poor and moderate poor, graduating members, and lateral entrants of small businesses. Recent evidence shows that microfinance activities are now oriented more towards the latter two groups. While meeting the demands of these two clientele groups comprising the 'missing middle' requires huge supply of funds, bringing the excluded vulnerable poor households would require the MFIs to design need-based financial and non-financial products including financial literacy, in addition to solving the problem of asymmetric information.

**3**

Research Updates

**4**

Education Updates

**4**

Training Updates

**5**

Knowledge Management  
Updates



For financial inclusion of these excluded groups, the need is to use appropriate technologies and design a set of financial products so that they can graduate from their present level of economic insecurity and vulnerability on a sustained basis. This requires access to finance along with non-financial interventions like capacity building and training to remove the barriers to accessing financial services. Similarly, the low-income vulnerable poor households in the relatively less accessible regions need specific policies covering multiple areas such as regulations, financial infrastructure, governance issues and supply of fund. Further, NGO-MFIs need to work out the right balance between financing the income generating activities of the poor and deprived groups and financing micro enterprises and making larger loans such that credit rationing does not limit the ability of NGO - MFIs to bring new groups of low-income and vulnerable poor households under the financial network.

In the context of financial inclusion, NGO-MFIs also need to work on designing new and innovative financial products and services with terms and conditions more suitable for the vulnerable and risk-averse groups of poor households. Probably, these financial products and services need to give more emphasis on creating multiple income sources, accumulating productive assets and adopting risk minimising techniques (e.g. microinsurance) for the risk averter and vulnerable left-out poor households. Evidently, the need is to identify the constraints against expanding NGO-MFI services more to the relatively vulnerable and less accessible areas and to more vulnerable and low-income households and work together with all stakeholders to remove these constraints. The use of technology like mobile banking, on-line banking and ATMs may provide new avenues to reduce risks for both lenders and borrowers in less accessible areas. Along with appropriate supply side policies, demand side interventions are necessary to ensure that the poor and low-income households are financially literate with ability to use the services productively and efficiently.

Over the years, interplay of both external and internal factors motivating the MFIs to develop innovative financial products and services to expand outreach and create internal capacities for delivering better services to the clients has been driving the expansion of the microfinance sector in Bangladesh. The government's policy and institutional reforms have also played a key role in healthy growth and development of the microfinance sector especially in developing suitable delivery techniques and appropriate products.

The Microcredit Regulatory Authority (MRA) has laid down the policy, regulatory and institutional frameworks for integrated development of the microfinance sector proving the 'double bottom line' view that microfinance is both socially beneficial and profitable. In addition to the traditional microfinance products, the development of a wide range of appropriate financial products including micro-deposits, microenterprise loans, micro-agriculture loans, housing microfinance, microinsurance for crops, livestock, poultry, dwellings and other assets now provides a broad array of financial products to serve the low-income segments of the population.

In fact, the double bottom line of fulfilling the social mission and providing services in a profitable and sustainable manner has been guiding the new generation of activities of NGO-MFIs in Bangladesh. The MFIs are increasingly adopting more effective and innovative business models for ensuring financial viability, supported by tested loan collection techniques and monitoring and supervision methods. The operational characteristics of the microfinance market in Bangladesh show that:



Considering these realities, three aspects of financial operations of MFIs are important for financial inclusion: financial constraint; absence of appropriate financial products including housing and emergency loan products to meet the needs of the excluded poor households; and asymmetric information problem of the excluded households. In addition, capacity building of the MFIs needs priority to meet the demand of different segments of the targeted population through addressing problems like lack of skilled and trained staff; inaccessibility to *char*, *haor*, hilly and similar areas; limited access to information technology; limited information on excluded households; and low financial literacy.

Both push and pull factors are needed for driving financial inclusion by the NGO-MFIs. The push factors will come from external sources outside the sector that will motivate the MFIs to develop innovative financial products and services to expand outreach to currently excluded and low-income groups. Internal factors will act as pull forces which will come from within the institutions encouraging them to develop internal capacities for delivering better-suited and efficient services to these groups.

The most important push factor will be the government's determination to make the financial sector more inclusive. In this context, a



three-pronged approach is needed for the microfinance sector: (i) raise the trust and confidence of the potential consumers regarding delivery of efficient financial products and services by NGO-MFIs; (ii) provide information and education on access and use of available financial instruments by the microfinance sector; and (iii) encourage the delivery of a variety of products and services in line with the needs and demands of different target groups. The MRA, as the key regulator of the sector, needs to design specific measures in these areas. MRA should explore several opportunities to enhance financial inclusion through the MFIs:



The digital financial services (DFS) are rapidly expanding; and have already emerged as one of the largest drivers of innovation, competition, and growth in Bangladesh. Even though many people are still excluded, tremendous opportunities have emerged to support financial inclusion and development. For the MFIs, it is important to understand the trends and challenges that the microfinance industry faces today in the context of DFS revolution and design the strategy that the industry needs to remodel itself in order to stay ahead of competition. The major focus has to be on tailoring DFS, nurturing innovations, developing partnership models and customer-centric approaches, and promote women's digital inclusion.

## Research

### PKSF Water Supply Interventions in Coastal Belts

InM's recent study on 'Innovative Solutions to Sustaining Access to Safe Drinking Water for the Poor in the Saline-prone Coastal Belt: A Critical Review of LIFT Initiative of PKSF' made an intensive review of the PKSF- supported partner organisation (PO)-installed reverse osmosis (RO) drinking water supply plants in the southern coastal belt in Bangladesh. The coastal region suffers from a looming crisis of safe drinking water due to presence of salinity and other pollution in surface water and excessive iron, arsenic and salinity in shallow tube well water. People usually buy drinking water collected from different sources such as deep tube well, protected pond, and RO plants often at high prices. Other sources of drinking water in these areas are rain water harvesting and pond sand filters (PSF) from where people can collect safe water without any cost. But, these sources are inadequate and cannot supply water round the year and sometimes the water is contaminated with bacteria due to lack of regular maintenance. Also, these water points could be located far away from home.

The research observes that RO plants have not only met the drinking water needs of the people, but have also enabled the communities to remain secure from various water-borne diseases. Moreover, the RO plants are effective as the only sustainable source of safe drinking water. It appears that RO system supported by proper maintenance and management can truly resolve the problem of safe drinking water crisis in the coastal region. The study identifies four important elements for ensuring profitability of RO plants: (i) duration of operation; (ii) volume of water production; (iii) price setting behaviour; and (iv) sources of power supply. The outline of the business model suggested by the study explains how sustainable water supply plants can be promoted by PKSF for implementation by POs.

A key concern of the proposed business model is to eventually transfer the operation and management of the water supply system to the local people. This will also create employment opportunities at the local level. For the plants, it is very important to achieve operational sustainability. The adoption of a socially responsive water pricing policy is crucial in this respect.

Average per Plant	Non-profitable Plants	Profitable Plants
Duration of operation (months)	5.7	16.2
Water Production		
Annual water production ('000 liter)	122	345
Water distributed at subsidised rates ('000 liter)	24	29
Water distributed in regular rates ('000 liter)	80	255
Capacity utilisation (percent)	10	19
Revenue		
Annual revenue ('000 Tk.)	59	196
Revenue per liter (Tk.)	0.48	0.57
Cost Component		
Salaries ('000 Tk.)	44	92
Electricity costs ('000 Tk.)	10	27
Fuel costs ('000 Tk.)	9	6
Other costs ('000 Tk.)	271	26
Annual cost ('000 Tk.)	334	151

## Education

### Diploma in Microfinance 8th Batch Begins

The 8th Batch of InM Diploma programme has started on 14th October 2017 in which 30 participants are enrolled. The participants have come from different organisations including BRAC, SOJAG, UDDIPAN, PADAKHEP, RIC, CDIP, and Sajida Foundation.

Eminent resource persons including Dr. Qazi Kholiquzzaman Ahmad, Chairman, InM; Mr. Md. Zakir Hossain, Executive Director, BURO Bangladesh; and Mr. S. N. Kairy, Treasurer, BRAC University and former CFO, BRAC have shared their microfinance related experiences with the participants.



## Training

### Customised Training for NGO-MFIs

A specially designed training on "Risk Management and Monitoring in Microfinance Operations at Field Level" was offered to a total of 51 senior officials (Zonal Managers/ Area Managers) of PADAKHEP Manabik Unnayan Kendra. The course was blended with various exercises and case studies to sharpen the microfinance management skills with new ideas and concepts especially in the areas of risk management and its monitoring techniques. An in-house training course on 'Effective Communication and Presentation Skills' was organised for the teachers / tutors of InM Diploma programme in November 2017.

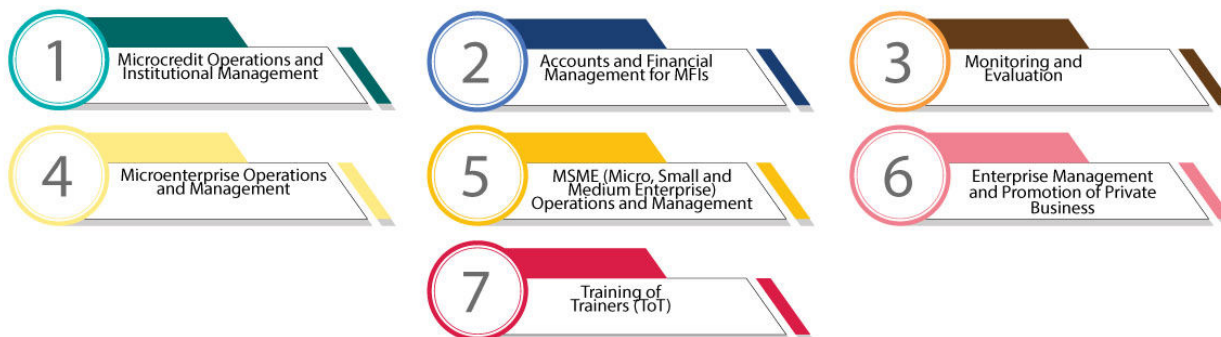


### Training for MRA Licensed MFIs

During the period, InM organised two batches of training courses on "Financial Management and Internal Control for MFIs" for 37 participants of MRA licensed MFIs.

### Training for PKSF Partner Organisations (POs)

Jointly with PKSF, InM organised training programmes for POs where a total of 305 professionals of POs successfully completed the following courses:



Another **75** participants in three batches will be trained by December 2017.



## Knowledge Management

### Policy Advocacy through Disseminating Research Findings

InM organised a National Conference on 'Financial Inclusion of Vulnerable Segment in Bangladesh' on 20 September 2017 at PKSf Auditorium in Dhaka with support from the Japan International Cooperation Agency (JICA). The Seminar aimed at contributing towards national policy discussions on financial inclusion of financially excluded disadvantaged groups in society through disseminating research findings conducted by InM. The conference was inaugurated by the Chief Guest, Dr. Mashiur Rahman, Adviser on Economic Affairs to the Prime Minister of Bangladesh while Mr. Md. Abdul Karim, Managing Director PKSf and Professor Tsuji Kazuto, Visiting Senior Adviser of JICA were present as Special Guests. Dr. Mustafa K Mujeri, Executive Director, InM chaired the session and welcomed the participants and presented the main findings of the research on financial inclusion of specific disadvantaged groups. The seminar was divided into three sessions covering three key areas: designing appropriate financial products and delivery channels for climate vulnerable people in the coastal region; devising financial empowerment models for the vulnerable working street children/youth; and developing and implementing inclusive insurance for the poor in Bangladesh.



### Financial Inclusion Network, Bangladesh (FIN-B)

InM is working towards forming the Financial Inclusion Network-Bangladesh (FIN-B) to develop, share and disseminate knowledge and expertise on financial inclusion through stimulating exchanges, developing collaboration, and promoting the Network to its members as a knowledge partner in their preferred areas of inclusive finance. The first Steering Committee meeting of FIN-B was held on 23 October 2017 at PKSf Conference Room in which important decisions to activate the Network were taken. It was decided that FIN-B will be formally launched in January 2018 through organising a day long workshop on its future activities.

FIN-B will leverage expertise in advancing financial inclusion as a key instrument for poverty reduction and inclusive growth and development. It will be a unique platform to bring together all financial sector stakeholders including banks/MFIs/NGOs/financial institutions/local government and grassroots organisations for sharing ideas and best practices from home and abroad. For ensuring effective functioning of FIN-B, a Steering Committee has been formed under the Chairmanship of Dr. Qazi Kholiquzzaman Ahmad, Chairman of InM and PKSf including representatives from Bangladesh Bank, Financial Institutions Division of the Ministry of Finance, banks, MFIs and other stakeholders for providing guidance to the Network.



### High-level Policy Roundtable on Interoperability of Digital Finance

InM, in collaboration with United Nations Capital Development Fund (UNCDF), organised a high level policy roundtable discussion on 'Interoperability of the Digital Finance in Bangladesh: Challenges and Taking off Options', at Lake Shore Hotel on 26 October 2017.

The roundtable provided the platform to engage policy makers, practitioners, industry leaders and other stakeholders for jointly identifying key challenges and practical options for extending the frontiers of interoperability of digital financial system in Bangladesh. The discussions highlighted major challenges and explored alternative taking off options. The goal was to support financial inclusion priorities of the government and achieve SDGs. A total of 75 representatives from the Ministry of Finance, Bangladesh Bank, Micro Finance Institutions (MFIs), telecoms regulatory authority (BTRC), commercial banks, DFS providers, Telcos, technology companies, donors, development partners and relevant government officials took part in the dialogue.



Mr. M. A. Mannan MP, Honourable State Minister for Finance and Planning, Government of Bangladesh graced the occasion as the Chief Guest. Mr. Subhankar Saha, Executive Director, Bangladesh Bank and Mr. Arijit Chowdhury, Additional Secretary, Financial Institutions Division, Ministry of Finance were present as the Special Guests. Dr. Lila Rashid, General Manager, Payment Systems Department, Bangladesh Bank presented her observations as designated discussant. Mr. Md. Ashraf Alam, Country Project Coordinator, SHIFT UN Capital Development Fund (UNCDF) gave the introductory speech while Dr. Mustafa K Mujeri, Executive Director, InM presented the keynote paper. The session was chaired by Dr. Qazi Kholiquzzaman Ahmad, Chairman of InM.



### Participation in PKSF Development Fair 2017



InM participated in six-day long 'Development Fair 2017' of PKSF starting on 29 October 2017 at the Bangabandhu International Conference Centre in Dhaka. A total of 89 partner organisations of PKSF displayed different products produced by grassroots participants of different PKSF programmes. In the fair, the InM stall exhibited its publications and other activities. Five seminars were also organised on development issues of Bangladesh. and PKSF were held. Dr. Mustafa K. Mujeri, Executive Director, InM presented the key-note paper on 'Bangladesh Economy: An Overview' in one of the seminars.

### KnM Study

## Closing Gender Gap in MFS: Wage Digitisation in Garments Industry

Bangladesh has long been a success story for women's financial inclusion, where more than 90 percent of the 21 million clients served by MFIs are women. Moreover, about 35 percent of women in Bangladesh hold a bank account, which is above the regional average for South Asia. But in terms of digital finance, the situation is different; female MFS users are almost half of male MFS users. Only 6 percent of women have registered accounts compared with 19 percent of men. All available information indicates that there exists significant gender divide in access to digital financial services. Addressing this involuntary exclusion by expanding women's access to MFS is a policy priority for the country. The MFS market growth can be accelerated through offering banking products through the mobile channel.

Bangladesh's garments industry employs over 4.5 million workers, mostly women. At present, a large majority (90 percent of total wages) of these factories pay workers in cash, often having them queue up on payday and face the security risk of transacting in cash. The fact is that 80 percent of them are women, many of whom lack financial literacy and access to formal financial services.

Wage digitisation in the garments industry will provide benefits on multiple fronts: both for the management and the workers. For factory managers, wage digitisation increases efficiency and cost-saving in the long term, while reducing the security risk involved in handling large sums of cash. For the workers, it increases transparency and accountability in the factories by requiring businesses to keep track of employee hours worked and wages paid, alongside reducing social and economic vulnerability by providing female factory workers with formal financial access.

In fact, by removing some of the accessibility barriers female workers might face, such as inadequate physical access to ATM machines or insufficient income to open personal accounts, wage digitisation offers an accelerated approach to financial inclusion. A recent study focused on RMG workers indicates that only 5 percent of the workers have access to any form of financial services. From women's empowerment and financial inclusion perspectives, there are compelling reasons for large-scale wage digitisation in the garments industry.





### Building a digital payment 'use-case'

Developing 'use cases' that suit the needs of specific populations is the fastest means to increase uptake of financial services. Receiving wages digitally instead of in cash could be the first step into the formal financial services sphere for many of these women. In the long term, this will improve the financial capability levels amongst female garment factory workers. It is also likely to improve the economic outlook of their families, since women are much more likely to invest in their families' health, nutrition and education. All these will contribute to women's empowerment.



### Salaried workers are ready for financial inclusion



Based on 2015 FII data, 23 percent of Bangladeshis are identified as gainfully employed and receive salary on a regular or irregular basis. Although the analysis extends beyond the garments industry, the data show that of the 23 percent workers, only 48 percent are financially included. However, 83 percent of these workers have access to a mobile phone and SIM card. Currently, less than 3 percent receive wages in their bank accounts and an even smaller proportion report receiving wages in a mobile account. Overall, these employed working populations are well positioned to be financially included which include the women garments workers.

### Develop required financial ecosystem

For moving female garment workers from cash to digital wages, and ensure continued use of digital financial services, an ecosystem approach is needed to building an inclusive digital payments network. Initially, most female workers may be hesitant—even resistant—to receiving wages digitally in an environment where all their payments have to be made in cash. In the current cash-led ecosystem, instead of simplifying the delivery of financial payments, digital wages actually add an additional step for the salaried workers. They have to cash out their wages before making their grocery, rent or school fee payments.



For resolving the issue, a deeper understanding of the payment streams is needed that should be digitised. We need to develop an open and inclusive digital payments ecosystem. Further, any robust and effective digital payments network would require an enabling regulatory framework that promotes transparency and accessibility, and proactively engages all stakeholders. In particular, existing financial system players and components, such as formal bank accounts, microfinance institutions, credit bureaus, card payment platforms, ATMs, agents, merchants, and payment networks must be able to function in a cohesive manner.

For resolving the issue, a deeper understanding of the payment streams is needed that should be digitised. We need to develop an open and inclusive digital payments ecosystem. Further, any robust and effective digital payments network would require an enabling regulatory framework that promotes transparency and accessibility, and proactively engages all stakeholders. In particular, existing financial system players and components, such as formal bank accounts, microfinance institutions, credit bureaus, card payment platforms, ATMs, agents, merchants, and payment networks must be able to function in a cohesive manner.

The building of a digital payments ecosystem is vital not only to encourage use of digital financial services, but also to cultivate the accompanying effects of wage digitisation on social financial ecosystem of the workers. Those who are in the garment factory workers' social network, such as household members, community members or others, are likely to benefit from having increased interactions with digital financial services through the garment workers. This is especially likely as female garment workers usually live and transact in fairly small social ecosystems, where digitising one payment stream could have numerous far-reaching effects on adoption of financial services.

### MOU with Prime Asia University Bangladesh



An MOU has been signed between Institute for Inclusive Finance and Development (InM) and Prime Asia University (PMU) in December 2017. Mustafa K Mujeri, Executive Director, InM and Professor Abdul Hannan Chowdhury, Vice-Chancellor, PMU signed the contract and exchanged their thoughts regarding potential areas of collaboration. Other senior officials from both the institutions were present in the signing ceremony.

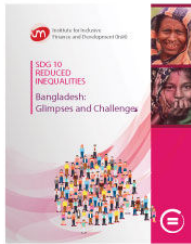


www.inm.org.bd

Electronic version available at;

<http://inm.org.bd/publication/newsletter>

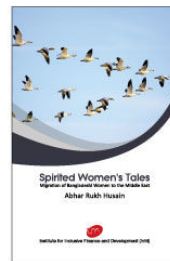
## Publications



InM is an active member of the 'People's Voice: Strengthening SDGs Implementation in Bangladesh' formed at the initiative of PKSf. Under the platform, InM specifically advocates and promotes SDG 10-Reducing Inequalities within and among countries. This special publication of InM, **SDG 10 Reducing Inequalities, Bangladesh: Glimpses and Challenges** provides perspectives on economic and social inequalities from both local and national levels in Bangladesh.

## New InM Book

A new book on **Spirited Women's Tales: Migration of Bangladeshi Women to the Middle East** written by Abhar Rukh Husain has been published by InM in November 2017. The book draws on the stories of twenty eight Bangladeshi women who went to the Middle East as domestic workers to bring out the inner dynamics of their interactions with migration middlemen and employers and offers a complex understanding of their migration journey. The book uses the methodological approach of Grounded Theory and the findings are particularly important as these are generated by the marginalised/disenfranchised Bangladeshi women and their otherwise unappreciated perspectives as the basis of knowledge creation.



### Editorial Team

#### Editor

Mustafa K Mujeri

#### Associate Editor

Sifat-E-Azam

#### Concept

Sifat-E-Azam

#### Design & Illustration

Montosh Paul

#### Published Date

December 2017

#### Published By

Knowledge Management

## 2017 InM Activities



## Sponsorship Opportunities

Under the InM's 'Deepening Knowledge on Inclusive Finance in Bangladesh (DKIF-B)' Programme, InM undertakes a series of activities including research and database development. Under the Programme, sponsorship opportunities are offered. Interested government agencies, banks, financial institutions, microfinance institutions, corporate bodies, and other organisations are requested to contact: Coordinator, DKIF-B, InM;



Institute for Inclusive Finance and Development (InM)

PKSF Bhaban, E-4/B, Agargaon, Sher-e-Bangla Nagar, Dhaka - 1207, Bangladesh  
InM Training Centre, House# 30, Road# 03, Block: C, Monsurabad R/A, Adabor, Dhaka - 1207.

PABX: +88-02-8190269, 8190364, Fax: +88-02-8190364

E-mail: [info@inm.org.bd](mailto:info@inm.org.bd), Web: [www.inm.org.bd](http://www.inm.org.bd)