



INSIGHTS

InM Newsletter

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How MFIs Can Use Mobile Financial Services Effectively

Over the years, NGO-MFIs have contributed much towards expanding access of the poor and low-income households to microfinance services in Bangladesh. However, it is also true that significant numbers of vulnerable and low-income households including labour-headed and female-headed households still remain outside the network of financial services. For financial inclusion of these excluded groups, the need is to use appropriate technologies and design a set of financial products and services to address their economic insecurity and vulnerability on a sustained basis.

Despite wide expansion of microfinance services, around 45 percent of both extreme and moderate poor households do not have access to the microfinance market. To further intensify the contributions of MFIs in financial inclusion, along with strengthening the existing processes and practices, there is a need for innovation

and adoption of pro-active approach to bolster financial inclusion through MFI interventions.

From the supply side, one of the factors that constrain further expansion of the MFI network is their inability to build and maintain branch infrastructure at close distances and remote locations. In recent years, mobile financial services (MFS) has shown great potential to transform the delivery of financial services and dramatically reduce costs for serving the poor households who transact in small amounts.

MFIs can use this transformative technology effectively to expand beyond the limits of traditional branch-based transactions. The key for MFIs will be to achieve profitable growth in this channel and adopt effective microfinance 'm-banking' designs.



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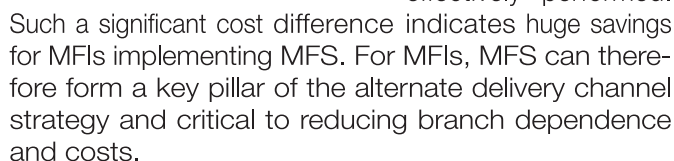
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costs and facilitate client growth. The ultimate goal would be to earn higher returns from increased sales of more products and services.

Portfolio diversification and productivity gains

The mobile channel can increase timeliness and convenience for clients when they can make more frequent smaller payments conducive to limited cash flow. The channel can reduce the time required to conduct group lending tasks and create scope to undertake more valuable social activities. Along with increased adoption by target population, the productivity of the loan officers will also increase. Further, MFIs will be able to cater to markets unavailable during branch hours and design specialised products that otherwise would not be supportable without MFS.

In practice, setting up and maintaining an agent network would be less costly than a traditional branch network but this will not necessarily generate increased revenues. Evidence, however, shows that a digital transaction cost can be 88 percent lower than a branch transaction, if effectively performed.



■ How Banks Can Innovate for Financial Inclusion in Bangladesh?

Traditionally, the banks do not view the poor and financially excluded individuals as well as micro, small and medium enterprises (MSMEs) as profitable target customers. However, technological advances are increasingly reducing the cost of serving these customers and opening up potentially significant growth opportunities for banks in Bangladesh.

No doubt, expanding financial services to these excluded groups will be easier for the banks having supportive market infrastructure and government policies that allow adoption of innovative strategies, such as customising products and services, developing innovative channel strategies, and employing creative risk mitigation and credit profiling techniques. More often, the financially excluded have inadequate education and no valid identification or credit history, or face financial products that are too expensive and suffer from geographic challenges.

Since Bangladesh has now embraced technology-led innovation and adopted clear and supportive policy framework for financial stability, financial inclusion growth opportunities for the banks have expanded significantly in

recent years. The technology and infrastructure drivers include rapidly rising levels of mobile adoption and e-payments; national digital identity (ID) systems; credit data infrastructure; open access to digital data; and possibilities of virtual currencies with the potential to improve transaction oversight to reduce fraud and counterfeiting. A combination of these new technologies can radically improve financial inclusion.

As new technology infrastructure increasingly permits secured exchange of up-to-date customer information, MSMEs may also seek standardised and simplified means to identify and verify themselves with banks. Already concepts like 'digital passport' and mechanism for trusted and secure customer information exchange between multiple providers are being explored which would enable easier identification, help build credit histories and make it easier for customers to switch providers by facilitating e-Know Your Customer (e-KYC) and onboarding processes.

Bangladesh is also progressing rapidly in adopting policy and systemic drivers covering strong customer safeguards; responsible financial literacy and education programmes; bankruptcy regimes; regulatory incentives for banks; diverse financial ecosystems; and interoperable financial systems.



With right infrastructure and policies, what is needed for the banks is to: (i) customise offerings to raise relevance and deepen account adoption; (ii) innovate channels to reach more customers at lower cost; and (iii) mitigate risk in creative manners to address the absence of credit histories.

The approach that a bank could take for driving financial inclusion depends on its business model. Some may focus on developing innovative products or credit-scoring techniques, while others may prefer to transform delivery channels. MFIs, for example, are aligned to small customers, which places them in a position to focus on customising products. In contrast, telcos and FinTechs could concentrate on utilising innovative channels and alternative credit-scoring techniques. However, the banks, with established brands and branch networks, would be the primary winners of the opportunities presented by greater financial inclusion in Bangladesh.

What the banks need to do is to seize the opportunity today; and acquire the ability to strategically customise the offerings, utilise innovative channels and creatively mitigate the risks to play the transformative role in the country's financial inclusion initiatives.

Net-Neutrality for Promoting Financial Inclusion

According to InternetworldStats, Bangladesh has 21.4 million internet users in 2016 giving a penetration rate of 13.2 percent. The number was only 15.3 million in 2014. This shows that the number of internet users is rising rapidly which is supported by fast digitalisation of the country. In this context, one of the important aspects that come into play for financial inclusion is 'net-neutrality'. Net neutrality is the principle that the government should mandate Internet service providers (ISPs) to treat all data on the Internet the same and not discriminate or charge differently by user, content, website, platform, application, type of attached equipment, or method of communication. Under these principles, ISPs are unable to intentionally block, slow down or charge money for specific websites and online content.

In Bangladesh, the present lack of regulation ensuring net-neutrality might pave the way for discriminatory practices. There should be transparency without any discrimination based on speed or price. The internet should be open and neutral. In short, net neutrality ensures fairness and equality on the internet.



Net neutrality is important for Bangladesh as digital financial services is the key driver for financial inclusion in the country. There are no laws regulating ISPs requiring them to treat all data equally. ISPs are more than welcome to pick winners and losers, or even coerce payments from others. This might not be important at this moment, but it may soon become significantly so. ISPs already have broad powers to restrict access to websites. Over the years, the government's broad initiatives under Digital Bangladesh and Vision 2021 have resulted in rapid expansion of internet users but it is also important to protect them too.

In India, the Telecom Regulatory Authority of India (TRAI) has banned differential pricing of data services in 2016. The regulator has an ex ante regulation instead of a case by case tariff investigation regime which gives the industry participants the much needed certainty and the regulator to avoid the high costs of regulation that will be required for investigating each case of tariff discrimination. Moreover, the regulation does not prescribe a blanket ban on differential pricing and provides an exception in case of public emergency or for providing emergency services.



Research

Branch Expansion and Institutional Sustainability of MFIs in Bangladesh

In Bangladesh, the number of branches of microfinance institutions (MFIs) has steadily increased from 7,733 (469



MFIs) in 2005 to 15,609 (697 MFIs) in 2015. This study explores the factors considered by MFIs while opening a new branch. Both head office and branch level information of different sizes (small, medium, large and 'giant') of

MFIs are used in the analysis. It is observed that the 'giant' MFIs emphasise on economic returns while expanding branches; the large, medium and small MFIs, on the other hand, expand branches to facilitate operation of additional activities.

The study indicates that operation self-sufficiency (OSS) is closely related with branch expansion. For relatively large MFIs, branch expansion slows down after a certain point along with declining OSS, whereas for smaller MFIs branch expansion contributes to operational sustainability. Overall, in order to increase access to financial services in remote areas, expanding branches is a powerful tool as the poor people prefer physical proximity of institutions for financial transactions.



To enhance outreach in remote areas and provide fast services to existing borrowers, mobile financial services are good options. The MFIs may develop partnerships with agents and mobile phone operators to reach the unbanked low income people. The majority of the surveyed MFIs in the present study are not familiar with advantages of adopting mobile facilities in their lending and borrowing activities. In addition, some apprehend that operating branch activities through mobile phone may reduce physical communication with the beneficiaries resulting in increased risk of loan default.



Training

New InM Training Courses

InM is developing three specialised courses for mid-senior level staff of NGO-MFIs.

Risk Management at Operational Levels for MFIs

This three-day course will help MFIs to develop and improve the quality of their own risk management processes through focusing on problem prevention, early detection and control. The course builds on guidelines for establishing operational activities that would assist MFIs to identify vulnerabilities, design and implement controls, and monitor the effectiveness of controls with special focus on operational and financial risks.

Preparing MFIs' Operational Business Plan at Branch Level

The three-day training enables the participants to develop market driven, appropriate and sustainable financial products based on the organisational target including business plan at the branch level for microfinance programmes. This will equip the branch managers to prepare disbursement plan at the branch level facilitating the credit delivery process.

Building Workplace Attitude and Values for Enhancing Organisational Commitment

The three-day course facilitates indoctrination of the employees in institution's culture to enhance their commitment, learn and practice social skills needed to perform their jobs. The training will help retain quality staff members, ensure that they mature as the organisation evolves, and heighten staff morals to transform them as good team players with required motivation.



Education

8th Batch Diploma Participants Visit SOJAG

For comparing classroom concepts and theories with field realities, participants of the 8th batch of InM Diploma Programme visited SOJAG, Dhamrai on 10 February 2018. The group visited different programmes of SOJAG and met with the management. The group visited training centre of Kalampur and a mini poultry farm to get more insights.





Knowledge Management

■ Launching Ceremony of FIN-B Held



The Launching Ceremony of the Financial Inclusion Network, Bangladesh (FIN-B) was organised by InM on 18 January 2018 at the PKSf Auditorium in Dhaka. Mr. M. A. Mannan MP, State Minister, Ministry of Finance and Ministry of Planning graced the occasion as the Chief Guest. The session was chaired by Dr. Qazi Kholiquzzaman Ahmad, Chairman of InM. Dr. Atiur Rahman, Professor of the Department of Development Studies, Dhaka University and Former Governor, Bangladesh Bank presented the keynote paper. Selected dignitaries, policymakers, academicians, researchers, relevant stakeholders, and development practitioners were present at the ceremony.

■ CDF Regional Dialogue: Local Level Partners of SDGs Implementation

The Credit and Development Forum (CDF) arranged a regional dialogue on 27 February 2018 in Khulna where Dr. Mustafa K Mujeri, Executive Director presented the key note paper on NGO-MFIs in Bangladesh: Local Level Partners of SDGs Implementation. Mr. Abdul Karim, Managing Director, PKSf, Mr. Amalendu Mukherjee, EVC, MRA, Mr. Aminul Ahsan, Deputy Commissioner, Khulna, Mr. Emranul Haq Chowdhury, Chairman CDF, Mr. Abdul Awal, ED, CDF, Mr. Zakir Hossain, ED, BURO Banglash and representatives from MFIs in Khulna division were present in the Dialogue.



■ Seminar on SDGs by People's Voice

A seminar on 'Successful Implementation of 2030 Sustainable Development Programme in Bangladesh' was jointly organised by PKSf and People's Voice- A platform for strengthening implementation of SDG in Bangladesh on 28 February 2018. Dr. Mustafa K Mujeri, Executive Director, InM presented a paper on 'SDG10 titled, 'Reduced Inequalities: Sharpening People's Voice in Bangladesh'. Mr. Md. Abul Kalam Azad, Chief Coordinator of the SDGs in the Prime Minister's Office graced the occasion as the Chief Guest.



The session was chaired by Dr. Qazi Kholiquzzaman Ahmad, President of the People's Voice. Mr. Md. Abdul Karim, Managing Director of PKSf, Dr. Touhid Reza Nur, Assistant Professor, Dhaka School of Economics; Dr. Sultan Ahmed, Director General, Department of Environment were also present along with other selected dignitaries, policy makers, academicians, researchers, relevant stakeholders, and development practitioners.

■ Dissemination Seminar on Mobile Financial Services and Cluster and Value Chain Financing for MSEs



UK Aid funded Business Finance for the Poor in Bangladesh (BFP-B) Programme organised a dissemination seminar on 'Mobile Financial Services and Cluster and Value Chain Financing for MSEs'.

Value Chain Financing for MSEs in Bangladesh' on 11 March 2018. In the seminar, key findings were presented on potential and challenges of small businesses, policy actions to consider and way forward from two policy studies titled 'Mobile Financial Services for MSEs in Bangladesh: Prospects and Challenges' and 'Cluster and Value Chain Financing for MSEs in Bangladesh: Current Practices and What Can Be Done'. Dr. Mustafa K Mujeri, Executive Director InM acted as the moderator of the session on 'Mobile Financial Services for MSEs in Bangladesh: Prospects and Challenges'.

■ FIN-B 2nd Steering Committee Meeting Held

The second Steering Committee (SC) meeting of FIN-B was held on 8 March 2018 at PKSF Conference Room in which important decisions were taken about the future activities of the Network.



■ MOU with North South University (NSU)

An MOU has been signed between InM and NSU on 21 March 2018. Mustafa K Mujeri, Executive Director, InM and Professor Atiqul Islam, Vice-Chancellor, NSU signed the contract and exchanged their thoughts regarding potential areas of collaboration. Dr. Katherine Li, Director, Office of External Affairs and other senior officials from both the institutions were present in the signing ceremony.



Administration

■ Innovation for Inclusive Development Foundation (IIDF)

InM and Integrated Development Foundation (IDF) have jointly formed the Innovation for Inclusive Development Foundation (IIDF) to establish an International Convention and Training Centre at Cox's Bazar having standard international facilities including dormitory, catering, convention centre, training and conference venues and other facilities.

The Company will be run by the Board of Directors nominated by InM and IIDF. Dr. Qazi Kholiquzzaman Ahmad, Chairman of InM will be the Chairman of IIDF.

The first meeting of the proposed Board of Directors was held on 26 February 2018 and Mr. Zahirul Alam, Executive Director of IDF was unanimously elected as the Managing Director of IIDF and Ms. Mosmt. Ifrat Jahan, Deputy Director, InM as the Company Secretary.



■ Foundation Stone of International Convention and Training Centre at Cox's Bazar Unveiled

The foundation stone of International Convention and Training Centre at Cox's Bazar to be built by the Innovation for Inclusive Development Foundation (IIDF), an InM and IDF (Integrated Development Foundation) joint venture company was unveiled on 1 March 2018 by Dr. Q. K. Ahmad, Chairman of InM. Senior officials of InM, PKSF and IDF were present on the occasion.





Financial Inclusion Network Bangladesh (FIN-B)

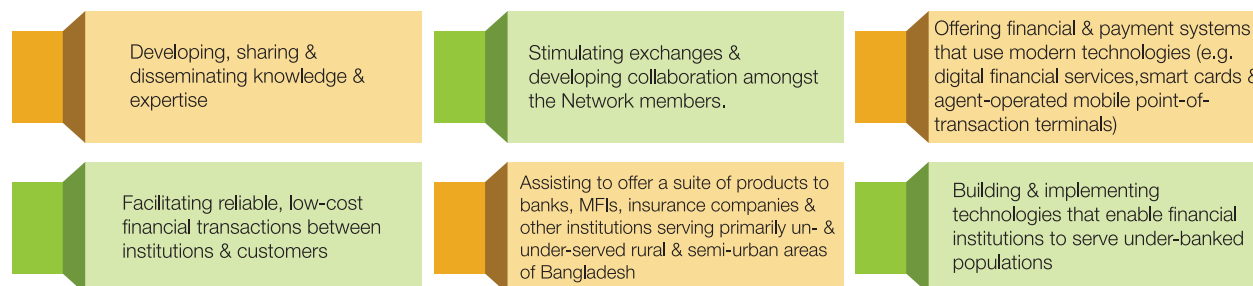
*An initiative of
Institute for Inclusive Finance and Development (InM)*

Bangladesh's goal is to become a developed country by 2041. For achieving this comprehensive vision, the government wants to increase the access for all individuals and enterprises to quality financial products and services so that the inclusiveness of the financial sector matches the depth and diversification of the country's development goals and social imperatives. As a policy, financial inclusion has significant potential of improving the well-being of all population, especially those in unserved and under-served financial markets; micro, small and medium enterprises (MSMEs); small and marginal farm households; participants in informal sector activities; youth and women belonging to poor households; indigenous peoples; persons with disabilities; and other disadvantaged groups. Being both pro-growth and pro-poor, financial inclusion is an important policy agenda for Bangladesh to reduce poverty and inequality and promote shared prosperity and social cohesion.

In view of the utmost importance of financial inclusion, it is crucial to gather all stakeholders involved in the financial inclusion process to raise awareness on financial inclusion challenges, build trust among relevant stakeholders, adopt comprehensive and integrated approaches to promote financial inclusion, and contribute towards developing a clear road map on how to implement and coordinate the financial inclusion initiatives.

FIN-B brings together all stakeholders including banks, NGO-MFIs, public and private sector institutions, professional bodies, think tanks and civil society organisations having interest in promoting **financial inclusion for all** in Bangladesh.

The Network will ensure Financial Inclusion through



Challenges

A number of challenges that financial institutions face when serving low-income customers including low financial education, information asymmetry, inadequate infrastructure, security, and—most importantly—high cost relative to transaction size.

FIN-B works to enable the providers to overcome these barriers to achieve financial sustainability and scale in serving unserved populations.

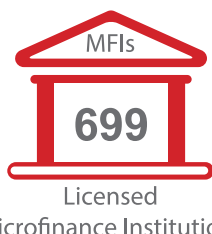
Key Drivers

Exploit market opportunities for technology that would enable financial institutions to serve more than 90 million financially excluded Bangladeshis cost-effectively.

Pursue the mission to enable greater financial inclusion among the un- and under-served populations especially the poor and disadvantaged groups in Bangladesh.

Financial Inclusion Factsheet

Banks and MFIs



■ State Owned Commercial Banks (SOCBs), which are fully or majority owned by the Government of Bangladesh.

■ Specialised Banks (SBs) established for specific objectives like agricultural or industrial development. These banks are also fully or majority owned by the Government of Bangladesh.

■ Private Commercial Banks (PCBs), which are majority owned by private entities.

■ Foreign Commercial Banks (FCBs) operate in Bangladesh as branches of banks that are incorporated abroad.

Overall Formal Banking Snapshot



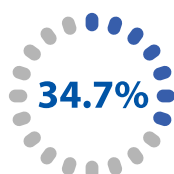
19% of the total adult have access to banks

14% Among these 19%, belong to URBAN areas

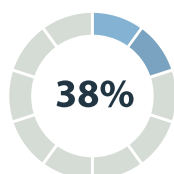


Only **5%** of RURAL adults have access to banks

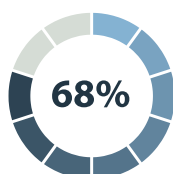
MSME Facts



Small businesses don't have access to finance due to lack of bank transaction history, collateral and high interest rate



Microenterprises do not have bank accounts



Prefer cash transaction (Among mentioned 38% microenterprises)

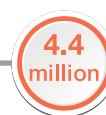


There is **5%** gender gap in financial literacy & **26%** gender gap in MFS;

Only **16%** of women can make decisions on daily HHs expenses & **88%** of Bangladeshis do not have a financial plan for unexpected events



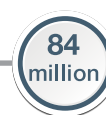
Bank accounts of Tk. 10, Tk. 50 and Tk. 100 for farmers and underprivileged



Bank accounts for beneficiaries of social safety net programmes



Accounts for school-goers aged below 18



Total deposit accounts with banks

Key MFS Indicators	No of Agents (million)	No of Registered Clients (million)	No of Active Accounts (million)	No of Avg Daily Transaction (million)	Transaction Value in (million)
January 2014	0.21	14	7.0	33.25	৳ 71,489
January 2015	0.54	25	11.1	82.07	৳ 113,376
January 2016	0.57	33	13.6	118.83	৳ 167,453
January 2017	0.72	42	16.5	139.83	৳ 252,059
January 2018	0.79	59	20.7	171.28	৳ 303,960



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, Web: www.inm.org.bd

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Editor

Mustafa K Mujeri

Associate Editor

Sifat-E-Azam

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Md. Jewel Mia