

# InM

## ANNUAL REPORT

2016-17

journey  
towards  
excellence



Institute for Inclusive Finance and Development (InM)





**InM**  
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2016-17



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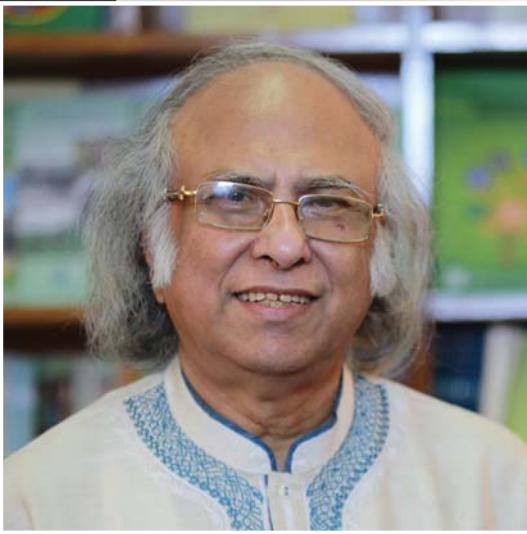
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# MESSAGE

**DR. QAZI KHOLOUZZAMAN AHMAD**

**CHAIRMAN, InM**

It is my great pleasure to write this message for the Annual Report 2016-17 of the Institute for Inclusive Finance and Development (InM). Since January 2016, InM (earlier Institute of Microfinance) has been working with a wider focus and new directions to maximise its relevance to the policy makers and other stakeholders.

I am glad to note that InM has moved quite rapidly within a short period of one year towards seeking out its niche from the wide diversity of issues involved in inclusive finance and development in Bangladesh. I strongly believe that the key to success for the InM will be to offer high-quality, policy-relevant and action-oriented inclusive finance and development related research, training, education and knowledge management outputs along with activities directed towards better understanding of the dynamics of inclusive finance and development interfaces.

**“I strongly believe that the key to success for the InM will be to offer high-quality, policy-relevant and action-oriented inclusive finance and development related research, training, education and knowledge management outputs along with activities directed towards better understanding of the dynamics of inclusive finance and development interfaces.”**

It is gratifying for me to learn that the InM has been pursuing its broader mandate to address financial sector issues in a holistic manner rather than microfinance issues alone. This is imperative for Bangladesh to meet the challenges of finance and development within the comprehensive and sustainable development perspectives.

Obviously, a short span of one-and-a-half year is not enough for an Institute like the InM to do justice to its new mandates and responsibilities. The InM has, in fact, quite successfully managed its transition in all its activities covering research, knowledge management, education and training to chart out its new institutional path. The current research agenda covers a number of issues including financial inclusion for disaster and climate resilient households and communities, financial empowerment for vulnerable working street children and youth, microinsurance services, demand side issues in financial inclusion, microenterprise development challenges, and opportunities and other priority issues in finance and development.

During the period, the InM Highlights has emerged as the voice of the Institute. This quarterly newsletter highlights key finance-development interfaces in Bangladesh, which need the priority attention of policy makers and development practitioners. During the year, the InM has brought out a special Bangla publication named ‘Porjeshona’ which compiles highlights of transformations and achievements of ten years of the InM’s noteworthy journey. The InM has also published a book on “Rural Mechanisation: A Driver in Agricultural Change and Rural Development” during the year. I believe the book will provide important policy implications on rural mechanisation

considering political, institutional, and economic contexts of Bangladesh and other developing countries.

During the year, Training Division provided training and capacity building courses to more than 1,200 MFI practitioners. The Division is also working on adopting new and innovative efforts to broaden and deepen its training coverage and make the capacity development activities more meaningful for the microfinance sector. The Education Division, since its beginning in 2015, has provided Diploma in Microfinance to more than 200 MFI practitioners and other graduates wishing to pursue their career in the microfinance sector. The InM Education Division has also taken steps to launch a Masters Degree programme in Inclusive Finance and Entrepreneurship through establishing a School of Inclusive Finance as a constituent institution of the University of Dhaka.

Finally, I want to congratulate Dr. Mustafa K. Mujeri and his team for commendable achievements during the year. No doubt, the InM has a long way to go to fulfill its mandate and emerge as a centre of excellence in inclusive finance and development in Bangladesh and around the world. It also has several binding limitations, especially in terms of access to required resources and logistics. Indeed, these are significant constraints but, I am confident, the InM will overcome these difficulties with its own efforts and support from its partners and well wishers.

I would like to thank the members of the Governing Body and the General Body of the InM for their support, guidance and contributions in different ways for moving forward. I also want to thank PKSF and MRA for their support and encouragement to the InM to fulfill its mandates.

I wish the InM all success in its future endeavours.



Qazi Khaliquzzaman Ahmad



## DR. MUSTAFA K. MUJERI EXECUTIVE DIRECTOR, InM

The Institute for Inclusive Finance and Development (InM) started its journey on 1 January 2016 towards a broader and more challenging territory having new vision, mission and mandate. For the purpose, InM has been undertaking continuous efforts for refining its focus and direction to maximise its relevance to the policy makers and other stakeholders. For transiting towards the right direction, InM management has adopted three guiding principles: (i) enhance the ability of the Institute to meet the genuine demands for knowledge and services covering its mandate; (ii) identify specific niche for inclusive finance and development related research, training and related activities including addressing existing gaps; and (iii) adopt ways to prepare and place itself in a unique position to fill-in these specific needs.

During the last one-and-a-half year, InM has also remained vigilant against any mismatch between rapid growth of its activities and its present capability which may result in too much reliance on outside skills to supplement the gaps in in-house skills and resources. We deliberately avoided unsustainable pressure on our capacity to coordinate, maintain high quality, and ensure timely delivery of outputs.

From the management perspectives, emphasis has been put on two priorities during the period: (i) refocus, strengthen and reinforce organisational strategy and capability to deliver its mandate, extend its operations, and adopt a programme of routine review of its strategies and business models; and (ii) adopt short-term and initiate medium-term measures so that InM can undertake the best possible ways to plan and manage changes to remain relevant, effective, and credible.

During the year, priority has been placed to undertake policy-relevant and specialised research in the inclusive finance sector focusing on issues, challenges and experience of inclusive finance and its relations with poverty and development. In the past, InM research portfolio included several relevant core areas e.g. poverty and microfinance; evaluation of grassroots programmes; and development of inclusive finance products and institutions. In this context, some of the ongoing studies include access to financial services; microinsurance; vulnerability and dynamics of poverty; and long term dynamics of livelihoods programmes in Bangladesh. During 2016-17, we completed research studies on such diverse areas as diagnostics of microenterprise lending by MFIs in Bangladesh, livelihood sustainability of climate change refugees and environmentally vulnerable communities, financial inclusion of street children and youth, and micro health and property insurance.

While the above areas remain relevant to the Institute and we are pursuing these activities to derive maximum values, we also plan to widen the Institute's research portfolio particularly to cover macro-level, broader and medium term issues of inclusive finance in the context of financial sector development as well as SDGs and other priority agendas. For moving along these lines, InM has identified three immediate challenges which have been given priority attention: (i) create an in-house dynamic research cadre to ensure longer term sustainable research capacity; (ii) develop mechanisms to resolve the research dilemma of making strategic choices, such as balance between providing knowledge, lessons and new ideas for adoption by the policy makers and other stakeholders where country and local relevance is a key issue; and conduct global and regional research on inclusive finance sector with international recognition; and (iii) initiate joint research collaboration with reputed national and international organisations and distinguished researchers at home and abroad. InM considers that developing such relationships and collaborations are important components of the Institute's research agenda.

During 2016-17, the training activities of InM were targeted to NGO-MFIs in areas like scheduled and tailor-made courses, training of trainers, and training evaluation. The Institute pursued three major areas of training: PKSF partner organisations training; MRA- licensed MFIs training; and tailor-made training. Along with strengthening current training areas, new initiatives during the year included efforts to diversify the training programme and undertake demand-driven regional training programmes.

During the period, knowledge management has been treated as the hub of the Institute for disseminating InM activities including packaging new knowledge, lessons and ideas emerging from research and other activities, both in-house and outside. The InM Knowledge Management Team, along with its regular activities of organising seminars, meetings and consultations and producing reports and other routine publications, has undertaken a number of new and innovative activities during the year including documenting MFI success stories, publishing policy briefs and features, and conducting other knowledge management related activities.

The graduation ceremony of the participants of three batches of the Diploma in Microfinance Programme was organised during the year by the Education Division. The academic programme for the seventh batch of participants also started in 2017. During the year, InM re-designed the Diploma Programme on the basis of survey findings of the participating MFIs. During 2016, InM established the 'School of Inclusive Finance' under which activities will be started for the Master in Inclusive Finance and Entrepreneurship (MIFE) Programme. We have also been taking measures to affiliate the InM School of Inclusive Finance with the University of Dhaka.

Although the Institute has moved a long way within a short span of time, we realise that InM will have to undergo transition and re-organisation for a considerable period of time, during which period the question of longer-term sustainability would remain at the core of the entire transition process. For charting out ways to achieving sustainability, the Institute intends to prepare a detailed and realistic plan covering a reasonable time frame. For the present, two issues of sustainability are explicitly considered: institutional sustainability and financial sustainability.

For institutional sustainability, InM takes into account three major sources which can act as significant contributor towards gaining strength. First, InM has close relations with the PKSF. Moreover, there exists strong organisational links with PKSF as all members of the Institute's General Body are nominated by PKSF and three members are drawn directly from PKSF. Second, the Institute should be able to create a strong basis for sustainability by strengthening its niche which is already supported by its mandate and wide acceptance of its services among the stakeholders. Through maintaining and further strengthening its successful records, the demand for its services can further be enhanced which can become a significant source of sustainability. Third, InM will ensure a relatively strong base through its good initial start, committed staff, and institutional linkages and networks. If these are properly cultured and expanded along new directions, InM should be able to develop the required capacity of sustaining and expanding its activities in future which will guarantee its institutional sustainability.

In the case of sustainability, the critical area of concern is, of course, financial sustainability. One may, however, argue that there is no reason to expect that a social institution like InM should fully fund all its activities from its own revenue sources either at present or in the future. Moreover, probably there does not exist any research and training institute even at the global level which generates sufficient income from its own activities to ensure financial sustainability.

While the above arguments may be valid, the reality is that InM shall have to develop adequate funding mechanisms based on realistic expectations. For the purpose, the Institute will explore multiple sources of finance e.g. core funding, grant funding, and project funding. To pursue the issues in a coherent manner, InM intends to develop a credible financial sustainability plan consisting of: a fundraising strategy and action plan (identifying potential funding sources and adopting best approaches to soliciting and procuring funds); a research portfolio for project funding (flexible to accommodate donor concerns); and a strategy and action plan for raising the Institute's own income-earning services. For core funding, endowments will be sought from different national/international organisations along with adopting a rational asset (fund) management strategy.

InM's long-term success will be built on a firm foundation of its becoming a centre of excellence in research, knowledge management, training and education including a well-developed culture of prudent risk management, accountability and integrity.

I am glad that we have achieved significant success in moving along these directions in 2016-17. On behalf of the InM staff, I would like to thank our Chairman Dr. Kazi Khaliquzzaman Ahmad, and the members of the Governing Body and the General Body for their continued strong leadership and enthusiastic support. I would also like to thank our partners particularly PKSF and MRA, donors and well-wishers for their continuous support, and for representing InM so well in the many communities they serve. I am confident they will continue to do so for years to come.

Finally, I want to express my deep appreciation to all InM staff for their whole-hearted efforts to transform InM into a centre of excellence.



Mustafa K. Mujeri



# GLIMPSES OF 2016-17



The background of the image features a minimalist, abstract design. It consists of several overlapping geometric shapes in a color palette of light beige, white, dark grey, and red. The shapes are arranged in a way that suggests depth and movement, with some shapes appearing to be in front of others. The overall effect is clean and modern, providing a sophisticated backdrop for the text.

# THE INSTITUTION

## About InM

The **Institute for Inclusive Finance and Development (InM)** is working since 1 January 2016 (previously known as Institute of Microfinance) as a non-profit organisation established primarily to meet the research and training needs of national as well as global financial sector including microfinance institutions (MFIs). Its predecessor, Institute of Microfinance, was established on 1 November 2006. The InM is registered as an independent non-profit institution under the Societies Registration Act 1860. The Institute works for developing the overall capacity of the financial sector and strengthening the links between the financial and real sectors through undertaking research, training, education, knowledge management and other programmes in priority areas including microfinance, inclusive finance, poverty and development.

## Vision

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**Towards establishing a poverty free world, InM sees itself as a frontline centre of excellence in research, training, education and knowledge management.**

## Mission

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The InM undertakes capacity building and knowledge generating activities for the financial (including microfinance) sector, organises training and academic programmes for human development, conducts research and undertakes dissemination of new knowledge and technology, and implements activities for the benefit of the sector. The aim is to emerge as a knowledge centre in inclusive finance, poverty, enterprise development, and other key areas. InM works at both national and international levels through building networks with financial institutions, development practitioners, academicians and researchers for collaboration and exchange of ideas and experiences.

## Objectives

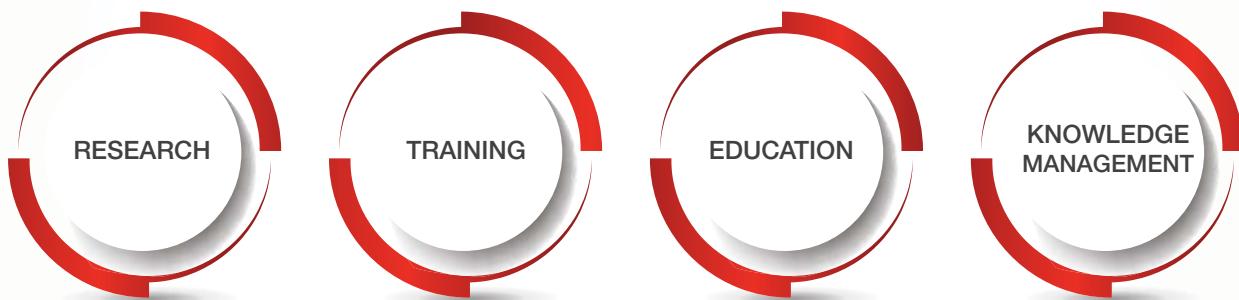
The activities of the Institute are directed towards achieving several key objectives:

- ▶ To conduct research on inclusive finance and development along with their interactions with the real economy, poverty, inequality, vulnerability and other key socioeconomic dimensions.
- ▶ To initiate, undertake and promote research and action research activities directed towards the expansion, integration and consolidation of different components of the financial sector to deepen the linkages between the real and financial sectors.
- ▶ To undertake joint collaborative activities with national and international agencies, research and professional institutions and universities including livelihood promotion, environment and climate change, inclusive finance and priority development issues.
- ▶ To use research results and lessons of national and cross-country experiences and prepare research/policy notes and reports to help policymakers and practitioners of the financial sector and assist in setting standards, preparing best-practice examples, formulating policy documents and preparing guidelines.

- To develop and undertake training and capacity development programmes for appropriate finance and microfinance professionals and practitioners from home and abroad.
- To maintain information warehouse and develop database using primary surveys and secondary sources on national and global microfinance and financial sector issues including financial inclusion.
- To provide certificate, diploma and post-graduate education to meet the needs of qualified and professionally trained people in the financial sector especially through blending theoretical knowledge with practical training who would be equipped to face the challenges of dominant transformations of the financial sector.
- To work towards building InM as a dynamic, forward looking and a self-sustaining institution in the arena of knowledge management and capacity building of the financial sector.

## Major Services

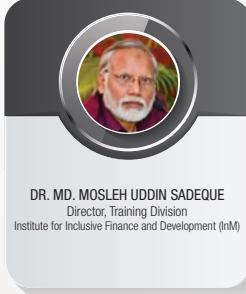
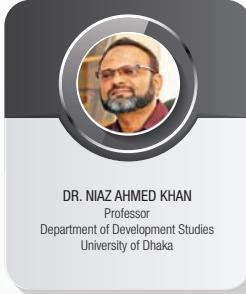
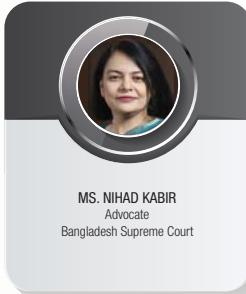
The major services that InM provides are research on poverty, microfinance, enterprise development, impact assessment and evaluation of microfinance programmes. InM also provides microfinance related training, education, capacity building support and knowledge management services to microfinance institutions and other development organisations. Further InM provides education support through designing and providing demand-driven programmes.



## Legal Entity

InM is registered as an independent non-profit research and training institute under the Societies Registration Act 1860.

# InM GENERAL BODY



The General Body is the Institute's highest authority. It is responsible for the overall policy guidance and direction for efficient functioning of the Institute. Total number of members of the General Body is 14 (fourteen), including 7 (seven) members of the Governing Body.

# InM GOVERNING BODY

The Governing Body, subject to general control and supervision of the general body, holds the responsibility to pursue and carry out the goals of the organisation. In order to realise the organisation's intended goals, it determines the direction and scope of the activities. The basic governance lies with the governing body. It comprises of seven members, including the Executive Director of the Institute as an ex- officio member. There are seven members in the Governing Body.



DR. QAZI KHOЛИQUZZAMAN AHMAD  
Chairman  
InM and PKSF



MR. MD. ABDUL KARIM  
Managing Director  
Palli Karma-Sahayak Foundation (PKSF)



DR. JAHANGIR ALAM KHAN  
Former Director General  
Bangladesh Livestock Research Institute



DR. NILUFAR BANU  
Executive Director  
Bangladesh Unnayan Parishad (BUP)



DR. M. A. QUASSEM  
Former Director General  
Water Resources Planning Organisation



MS. NIHAD KABIR  
Advocate  
Bangladesh Supreme Court



DR. MUSTAFA K. MUJERI  
Executive Director  
Institute for Inclusive Finance and Development (InM)

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# RESEARCH

# Research

Research is one of the core activities of InM. The research activities aim to promote policy-oriented discourse to support informed policy making. The priority research agenda covers strategic issues of financial inclusion and development covering both short and long term concerns. The key consideration is to derive lessons and provide insights to the policy makers and practitioners for the financial sector in general and microfinance sector in particular so that research outputs can be of direct relevance to the sector stakeholders, both at macro and micro levels.

In recent years, InM Research has covered a number of dynamic issues and real sector-financial sector interfaces in the context of Bangladesh and other developing countries. Further, recent research coverage has widened significantly beyond microfinance-related activities to cover broader inclusive finance and development agenda. The focus areas have also broadened to cover a wider horizon of financial inclusion involving supply and demand side issues, poverty, and digital finance and technology in the context of development. Research on inclusive finance and development also highlights interactions with the real economy including poverty, inequality, vulnerability and other key socioeconomic dimensions. The Research Division activities are also directed towards expansion, integration and consolidation of different components of the financial sector to deepen the linkages between the real and financial sectors including livelihood promotion, environment and climate change, inclusive finance and priority development issues. The Division also uses research results and lessons of national and cross-country experiences and prepare research/policy notes and reports to help policymakers and practitioners and assist in setting standards, preparing best-practice examples, formulating policy documents and preparing guidelines. Its activities further highlight the major concerns of the Sustainable Development Goals (SDGs) agendas.



# COMPLETED RESEARCH

## Diagnostics of Micro-enterprise Lending by MFIs in Bangladesh: Opportunities and Challenges

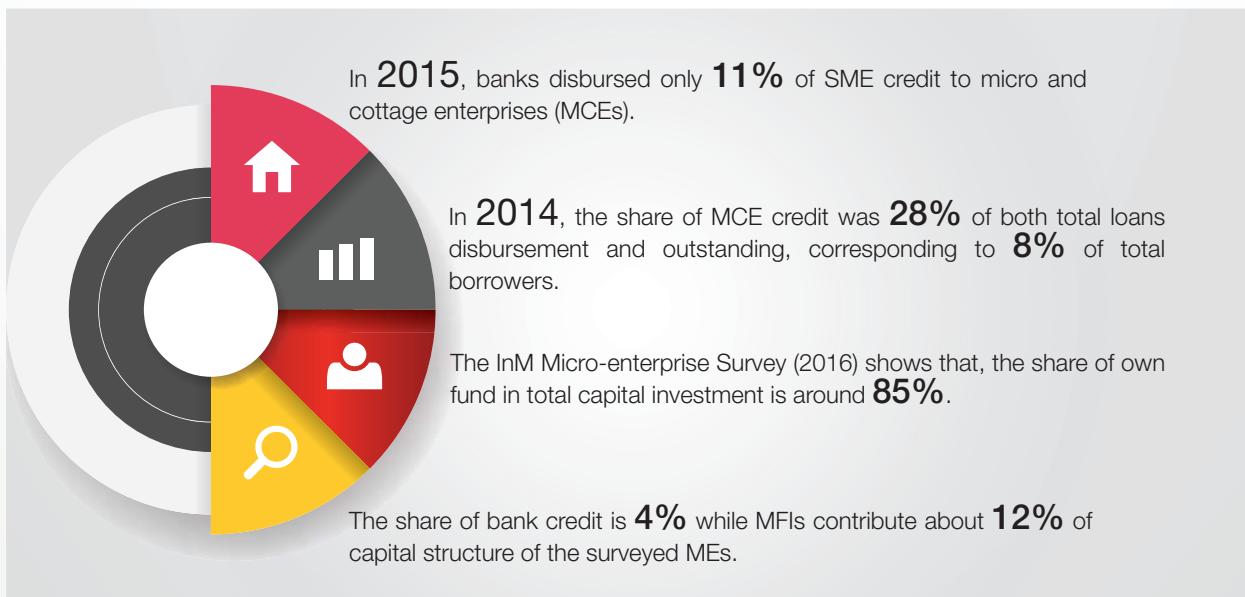
The micro enterprises (MEs) play a crucial role in the Bangladesh economy especially as key sources of growth and employment. Development of MEs contributes to poverty alleviation through creating self- and wage-employment opportunities; and promotes growth through forward linkages and developing factor and product markets. These enterprises show significant dynamism and flexibility, and they can adapt quickly to changing market demand and supply situations. The MEs are important vehicles for diversifying economic activities and have the ability to make significant contribution to economic well being of the people. These enterprises also contribute to enhancing competition and entrepreneurship and have benefits on economy-wide efficiency, innovation, and aggregate productivity growth.

Available statistics on intensity of ME financing show that market failure exists for MEs in the formal bank-credit market. The microfinance institutions (MFIs) have advantages over banks in financing because of its network and simplicity in operation. In terms of intensity of access to ME loans, measured by the number of ME borrowers, MFIs have great opportunities for both graduating MFI members and lateral entrants.

The InM analysis is based on primary data collected from 600 MEs selected randomly from different districts and information gathered from secondary sources and discussion with bank and MFI officials. The secondary sources include publications and reports of Bangladesh Bank (BB), Microcredit Regulatory Authority (MRA) and various MFIs.

### Constraints to ME Development

Constraints faced by MEs are broadly categorised as: (i) non-financial and (ii) financial. Non-financial constraints include, but not limited to, lack of infrastructural facilities and utilities, time consuming regulations, corruption, and political instability. However, financial constraint –in the form of inadequate sources of fund-- is the major constraint in developing MEs.



## Major Constraints that MEs in Bangladesh Face

Shortage of fund, product marketing

Scarcity/high price of raw materials

Competition with others, and low demand for the product in the market

## Demand for ME Loan: Demand-Supply Gap

The MEs overwhelmingly identify shortage of fund as the major constraint to enterprise development. This implies that MEs have higher demand for loan than what they receive from various suppliers. In the study, the demand for loan has been measured from the sample survey. The following assumptions are made for estimating the loan demand of MEs:

- Since the survey coverage is for cottage (95 percent) and micro-enterprises (4 percent) loan, demand of small, medium and large enterprises is not estimated.
- The total number of MCEs is 6.95 million according to the 2013 Economic Census conducted by BBS. The number is taken as constant in the loan demand projection. Hence, there could be downward bias indicating that the actual loan demand is likely to be higher than the projected amount.

## Some Facts



## Average Loan Demand by MEs—Key Findings

- Average loan demand of surveyed enterprises is Tk. **114.8** thousand. Average loan demand of borrower entrepreneurs are Tk. **141** thousand, much higher than non-borrower entrepreneurs. The borrower entrepreneurs actually received Tk. **119.6** thousand as loan. So, **15** percent of the loan demand of the borrower entrepreneurs remains unmet.
- Average loan demand is primarily determined by status relating to access to finance and the size of the enterprise. Enterprises with membership of MFIs have much higher loan demand than those who are not members. Also large enterprises have higher demand for loan.
- Loan demand is highly responsive to change in interest rate. Demand for loan increases by **18** percent if interest rate falls by **1** percent. Loan demand will fall if interest rate rises, but at a lower rate—demand will fall by **1.8** percent if interest rate increases by **1** percent.
- The demand for loan would have been **240** percent higher than what they have actually received if no institutional loan ceiling exists.

Source: InM Micro-enterprise Survey 2016

## Major Constraints

MFIs identify three sets of constraints in financing MEs – operational constraint, financial constraint, and regulatory constraint. More than 72 percent of the participants and MFIs identify operational and financial constraints as major ones.

The operational constraints relate to:



Identified financial constraints are:



## Why financing through MFIs?

In practice, MEs can have access to borrowing from both banks and MFIs. The 2016 InM ME Survey also focuses on the preference of the lenders by MEs.

### Major advantages of MFIs

- Low transaction costs of borrowing as reflected in ease to get loans and ease to repay installments.
- Less time required to get loans appears to be the dominating advantage of MEs borrowing from MFIs.
- Lower transaction cost is further exemplified by the fact that MFIs operate at the door steps of the MEs.

### Major disadvantages of borrowing from banks

- Banks are difficult to access with no bank branches nearby and lengthy procedures involving too many paper works
- However, MFIs in order to increase intensity of coverage need to tackle the problem of high lending interest rate and lack of diversified loan portfolio and high credit rationing as perceived by the MEs

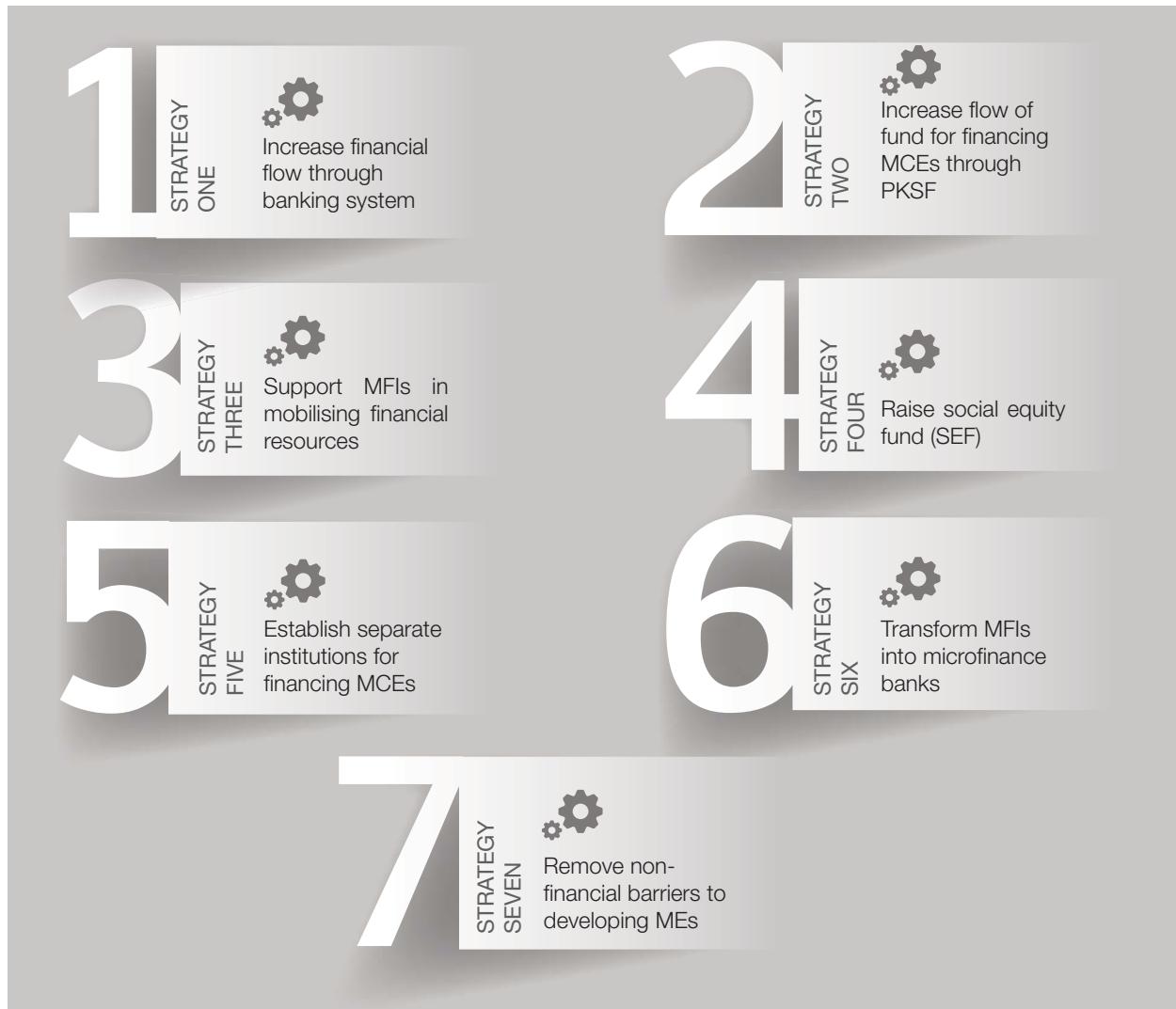
## Policy Strategies for ME Financing

The analysis shows that banks have limited scope for financing MEs mainly because of their loan product approach. They are more inclined towards financing large and medium enterprises and, when they do, it is largely for working capital financing. Even when banks are financing MEs they are basically servicing the upper strata of MEs that are closer to graduation to small enterprises. Moreover, their operations are limited mostly to urban areas. In such a situation, it becomes quite difficult for banks to finance rural MEs. Specialised agricultural development banks with their specific portfolio are more engaged in financing the agriculture sector.

Policy options are proposed under different scenarios. Moreover, not all suggested policy options are mutually exclusive. The options also need deeper critical examination and proposed changes need a comprehensive approach to

implementation, as these will have different implications for various stakeholders having their own perspectives. In the case of financial market related policies, these should be evaluated both from micro and macro perspectives as well as from firm and market perspectives.

### Some suggested strategies are:



In the study, some policies are also suggested for ME financing. More specifically, the study suggests two sets of strategies – one for improving access to ME credit market, and the other for creating an enabling environment for promoting and developing MEs. The policies, as suggested, are not mutually exclusive. All policies have advantages and can be implemented.

What is necessary is to have regular policy dialogues among Bangladesh Bank (BB), Microcredit Regulatory Authority (MRA), PKSF, Ministry of Finance (MOF) and other stakeholders. Each strategy needs to be examined with potential costs and benefits. The suggested strategies may be structured in term of priority for implementation. Moreover, implication of each of the strategies on the behaviour of the financial market needs exploration. It needs to be emphasised that the microcredit market cannot be separated from the formal bank-credit market. These are inter-related. Any wrong policy in one segment will have adverse impact on the behaviour of lenders as well as on the overall financial market. It is important to undertake critical analysis of all relevant issues along with effective coordination especially among BB, MOF and MRA. Moreover, for increasing supply of funds for ME financing it is necessary to pursue a comprehensive approach that combines all plausible instruments in a strategic fashion so that they become mutually reinforcing.

# ONGOING RESEARCH

## Financial Inclusion for Disaster and Climate Resilient Households and Communities

While some understanding of good practices for microfinance exists, to effectively support climate change adaptation, microfinance must continually evolve in response to changing conditions that households experience as well as the future projected impacts of climate change. In the context of climate change, action research within an experimental design is needed to identify effective institutional and operational arrangements and intervention packages to build adaptive capacities at household and community levels.

Given the need for an experimental action research on household and community level adaptation, a comprehensive framework for action research needs to be designed. Such a design requires a number of background studies such as: (i) intervention stocktaking, (ii) balance sheet analysis (iii) spatial analysis.

Intervention stocktaking provides stocktaking of NGO-MFI interventions that are relevant to climate change adaptation and disaster risk reduction. Balance sheet analysis assesses the impact of disaster and climate change vulnerability on the financial performances of MFIs operating in the climate vulnerable areas. Spatial analysis addresses how vulnerability to climate change and natural hazards influence the spatial distribution of NGO-MFI services and how this spatial distribution has changed over time.



For this research, nine districts from south-western region of Bangladesh are identified as the study area. Most of these areas are affected by Sidr or Aila. A household survey has been conducted for intervention stocktaking analysis, MFI branch survey has been conducted for balance sheet analysis and GIS information of branches operating in the study area has been collected for spatial analysis. Some FGDs and discussion meetings have also been organised as part of Intervention stocktaking and balance sheet analysis. All these survey findings along with lessons learned from international best practices will be synchronised to design the action research.

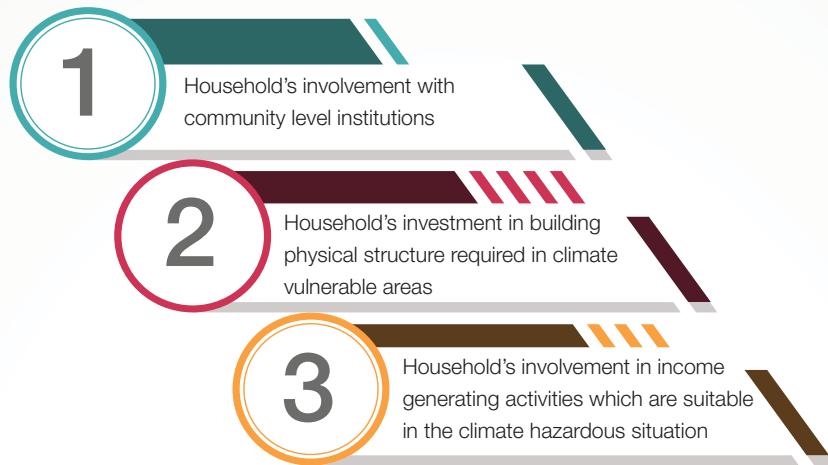
### Some important findings from the household survey and FGDs

#### Vulnerability to climate change and recovery strategy

- Majority of the households (88 percent of Sidr affected and 75 percent of Aila affected households) report that their houses are damaged during cyclones.
- Almost half of Sidr and Aila affected households could not recover at all or recovered only a very small share of their cyclone related losses.
- Savings and current income contribute a lot in financing the recovery process. This suggests the importance of appropriate savings product for the climate vulnerable people which will encourage them to save more. Establishing secured income source is equally important for the resilience building of the climate vulnerable poor.
- Households who have ex-ante membership of MFIs or banks can recover more than those who do not have such membership in financial institutions.

## Household resilience building

Household resilience building requires three levels of activities:



### Research Highlights

- Only little more than 1 percent households have membership with climate change adaptation group. Membership with other types of community level groups/institutions is also low, only about 2 percent.
- Raising the plinth of the homestead is particularly important for flood prone areas. Building durable/pucca houses is also important in flood/cyclone prone areas. Only 48 percent have raised the plinth of homestead, 43 percent have built pucca houses, 40 percent preserve rain water, 29 percent have built hygienic toilet in high places, and less than 3 percent use environment friendly cooking stoves.
- Households identify several income generating activities such as goat/sheep rearing in slatted housing (42 percent), duck/poultry rearing (36 percent), homestead vegetable gardening (32 percent) and pigeon/quail rearing (20 percent)

## Inclusive Insurance Project

In Bangladesh, households recurrently face various types of adverse shocks and can cope with these shocks well if they have access to formal insurance mechanisms. As formal insurance industry is still less developed in Bangladesh, poor households often resort to informal mechanisms to cope with these shocks including borrowing from friends and moneylenders, selling productive assets such as livestock, cultivable land and selling other properties. In such circumstances, the poor households are forced to reduce their consumption which threatens their food and nutrition security and constrains their ability to improve their social and economic welfare. In order to ensure inclusive development of a poor-friendly microinsurance (MI) sector in Bangladesh and promote sustainable expansion of on-going and new MI programmes, government and various non-government organisations are trying to develop and implement various insurance products for the vulnerable people.

In InM's research on MI, several important findings are noted. Research findings reveal that existing micro health insurance (MHI) products in the market are featured with various drawbacks like insufficient risk coverage, extremely high premium rates unrelated to any plausible model of mortality of the insured, lengthy process of claim settlement and, above all, high costs of intermediation. Such products therefore appear unattractive to the vulnerable people. Voluntary schemes face low

demand (i.e. low enrolment and low renewal) in Bangladesh. In terms of number of schemes, population coverage and growth of MHI is limited. It may be noted that health insurance through private insurance schemes has a low coverage in Bangladesh as well. Voluntary health insurance has also not been popular in the formal sector. Demand side factors in the MHI market are lack of confidence/trust on prepayment mode, lack of awareness about the benefit of prepayment scheme, lack of affordability to pay premium and giving more weight to present consumption; these play important roles in low development of MHI. Similar to the demand side factors, supply side also includes various barriers. Supply side factors in the MHI market include low level of benefit, high copayment charged, committing fraud, complex procedures of claim submission, delay in claim settlement and rejecting the claims. Lack of trust as well as absence of insurance culture also contributes to underdevelopment of the insurance market.



Similar to the health insurance product, despite being a disaster prone country, in Bangladesh there is no private insurance market for property damages resulting from natural disasters. Demand side barriers of developing property micro insurance (PMI) are low level of income of the rural population; lack of understanding of financial services in general and the concept of insurance in particular; lack of trust on insurance providers; and the like. Supply side barriers of developing PMI are challenges in offering PMI for catastrophic risks such as lack of title deeds for informal housing, high costs of handling claims and difficulties in managing fraud risks. Therefore, implementing PMI against natural catastrophes is a challenging mission in Bangladesh.

For moving out of poverty in a sustainable manner, the critical challenge for the poor is to acquire and accumulate productive assets that will create sustainable sources of raising household income and generate a virtuous cycle of increasing well being of household members. In the presence of very limited formal institutional mechanism of risk mitigation for the poor and low income population, the disaster-affected poor households resort to coping mechanisms which, in most cases, create negative impacts on their survival strategies. MI, a low-cost insurance policies that cover lives, health, crops, livestock and property of the poor and vulnerable groups, is often seen as a central way of providing social protection to the increasing numbers of the poor affected by natural disasters and other shocks across the world. Therefore, developing and implementing inclusive insurance mechanism for protecting the poor is a burning issue for today. InM is actively working to build up well-designed, effective and sustainable insurance products for the low income population.

## Key Findings at a Glance

- There is no effective insurance product for the poor.
- The disadvantaged groups face diverse shocks where health is a dominant category.
- About 49 percent of sample individuals report self-reported morbidity over last three months.
- Around three-quarters of the patients seek healthcare from informal providers.
- The average consolidated out of pocket payment (OPP) per episode of illness is Tk. 1,745.
- The cost of drug per episode of illness is the leading factor of OPP payment (52 percent).
- In such situations, indemnity type mechanism is required for the poor to protect them during any health related shocks.
- Overall, the prospects of MHI have not been bright so far in Bangladesh.
- There is a significant demand for well-designed and effective micro health insurance products.

# Financial Empowerment for Vulnerable Working Street Children/Youth

An important component of Bangladesh's development agenda is to empower, include and educate all children and youth for a life free from poverty and financial instability. The aim is to ensure that youngsters of today grow up to become confident and responsible adults of tomorrow who believe in themselves and their ability to guide the country's development towards making the middle income country status a reality for Bangladesh in the near future. In this context, an important challenge is to ensure financial empowerment and inclusion (FEI) for the vulnerable street and working youth/children.

Available evidence shows that street and working youth/children are among one of the most deprived and disadvantaged segments in Bangladesh society. The vulnerable street and working youth/children mostly come from families with financial hardship, often plagued by poverty and indebtedness. Overall, the vulnerable street children/youth face many barriers to accessing financial services, including restrictions in the legal and regulatory environment, inappropriate and inaccessible products and services, and low financial capabilities. Overcoming these barriers and achieving successful FEI requires a multi-stakeholder approach that engages government (including policy makers, regulators and line ministries), financial service providers, NGO-MFIs and other stakeholders. The street children/youth need, of course, to be at the centre of the entire process.



This study explores the current status of FEI of vulnerable street children/youth in Bangladesh along with providing an in-depth assessment of present Bangladesh Bank initiatives for providing these children with access to bank accounts through participating banks and NGOs. In this context, the study examines the hypothesis that providing street children with access to banking services can be most effective when the service is provided within a package of complementary services such as financial literacy, communication skills and mentoring.

## Key Findings

- The study examines the behaviour of 600 children (60 percent of the sample) having Tk. 10 bank account as well as children/youth having no bank accounts. Children having no bank account do also save.
- Around 70 percent of children have a saving habit either formally or informally.
- Around 45 percent of the children not having savings accounts in banks keep some of their earnings in a secret place. This indicates that the children have a demand for secured savings methods that they can trust with their savings.
- Another important observation is that even though 60 percent of the children have savings accounts in banks, they do not have adequate financial awareness.
- Only 41 percent of children having bank savings possess knowledge about benefits of savings in banks. Regarding borrowing behaviour of children, 38 percent of the children have borrowed at least once and almost all borrowings are from informal sources like friends, neighbours or employers in their work places. However, these children wish to borrow from formal financial institutions like banks or MFIs.
- Around 80 percent of the children wish to take loan from financial institution and around 45 percent of them plan to take loan from banks or MFIs in future to develop their own enterprises if they are provided with access to formal financial institutions. This indicates a significant demand for enterprise loans from formal institutions in future when the children will turn up to adults after the age of 18.

# Demand-side Study for the National Financial Inclusion Strategy of Bangladesh

This ongoing study of InM is supported by Department for International Development (DFID) under its Business Finance for the Poor in Bangladesh (BFP-B) Programme. The main purpose of the study is to understand the demand and supply side constraints, possibilities, and ways to encourage and achieve the development of financial inclusion strategy for the excluded groups of Bangladesh. This study will support the development of the National Financial Inclusion Strategy of Bangladesh (NFIS-B).



Available statistics show that 57 percent of the adults in Bangladesh do not have formal financial accounts although access to basic financial products and services makes a substantial positive difference in the lives and livelihoods of all population, especially the poor and disadvantaged sections in society. Access to formal financial system remains a big challenge especially for the people residing in geographically vulnerable areas like chars, haors, hilly and other hard-to-reach locations and

different disadvantaged and tribal population groups. In addition, the challenge is to reach the low income segments in society such as the cleaners, garment workers, transgender, maidservants, and urban slum households, natural disaster affected people and working street children; most of whom are excluded from formal financial systems.

People living in disadvantaged areas and belonging to different marginalised groups face an entirely different socioeconomic reality than the rest of the population. From the demand side perspective, it is necessary to identify the major financially excluded groups and the main reasons of their exclusion. This study, conducted in seven geographically vulnerable areas like char areas, haor, tea garden, tribal areas, and ethnic minority areas, uses a sample of 700 purposively selected households and FGDs/case studies to capture the demand side characteristics of different financial products and services of disadvantaged groups to support the preparation of the national financial inclusion strategy of Bangladesh.

Savings, credit, payments, insurance and other risk management services are considered as prudent financial products/-services by these individuals. These are mostly offered by banks, NBFIs, and MFIs. Based on the findings, it is seen that close to half of the households (49 percent) access any kind of financial services from the formal market. MFIs are the largest source of credit (35 percent) followed by banks and other financial institutions (26 percent) like mobile accounts and cooperatives. In contrast, 59 percent households take financial services from informal sources. Informal credit market is characterised by low transaction cost, free from requirement of collateral, relatively flexible loan contracts, relatively small size loans, loans for any economic and non-economic purposes and interest rate varying from zero (relatives) to very high (moneylender).

Despite the existence of a large number of insurance companies in Bangladesh, the sector has marginal coverage of microinsurance activities for the poor; and though cooperative sector has significant potential, it does not have a notable presence in the country's financial market. None of the households has account in agent banking and 8.14 percent have any kind of insurance coverage e.g. loan insurance, life insurance or health insurance.

While analysing the barriers to accessing credit, it is found that most common response, given by 65 percent households who did not open a bank account, is that it is because too many rules or paper works are needed to open a bank account. Other considerable obstacles cover lack of suitable product design and delivery system. Besides, one of the major reasons is their low income which keeps them away from availing the services of commercial financial institutions.

The primary reasons for not becoming member of MFIs mostly reflect demand side constraints; 53 percent report no demand for loan and 13 percent cite insufficient income. The supply side barriers for not becoming a member of MFIs are mainly high interest rate (41 percent), too many rules needed to become a member (27 percent) and distance of the MFI branch from residence (12 percent). On the other hand, dominant reasons for not opening mobile bank account are lack of awareness and literacy about mobile financial services. For intensifying and augmenting financial inclusion, the government and regulatory authorities need to address all these barriers and need to resolve the issues carefully.



Financially excluded households have lower average household size, older household head, higher proportion of female household heads, lower annual household expenditure, lower annual household income as well as per capita income, lower access to electricity and sanitation, lower annual investment and lower schooling years of household head. An interesting picture emerges from income levels of population in various income quintiles. The average annual income of households in lower four quintiles is almost same for financially excluded and included households. However, average income of financially included households is decidedly higher than those who are financially excluded.

The marginalised and excluded groups have demand for four different financial services--credit, savings, insurance and mobile banking having desirable characteristics. Credit and savings products are the most desired services for these groups. The decision to take credit from a particular institution--bank, MFI or informal market-- depends critically on the level of procedural complexity involved in getting the loan. Proximity is another important contributor for preferring a particular financial service provider. Households have a preference towards a particular type of institution because it is near to their home. For saving products, similar conclusions are derived.

For insurance, there are no specific desired features identified by the households. However, most of the households perceive insurance as a savings product. So, most households actually report that they would like to save more or want to receive more profit from insurance. Lack of knowledge about different insurance products is a major factor in accessing insurance. For mobile banking services, the crucial factor is to increase the usability of electronic financing. Around 52 percent of households do not use the service. Perception of insecurity to transact through mobile banking and lengthy procedure of opening an account are important factors deterring expansion of this service.

There is no doubt that several communities and groups remain excluded, and thus vulnerable sections like blind, disabled and transgender populations must be supported in different phases for graduation: starting with addressing health and social issues; then capacity and confidence building; and followed by creating demand for financing. Considering their ongoing operations and experiences, NGO-MFIs might play notable role in creating these linkages. Financial service providers should be offered with adequate training and awareness to treat vulnerable sections with empathy. Banks/NBFIs must also come forward to address blinds, disabled, transgender and other disadvantaged populations. Adequate infrastructure in bank/NBFI branches and ATMs must be ensured so that these sections may obtain the required services.

To inspire and motivate the stakeholders of microfinance programmes, activities of MFIs and NGOs should be recognised in the policy and strategic documents of the country. High cost fund, higher monitoring cost, and integrated support services do not allow MFIs to offer credit facilities at the desired rate in most instances, and thus certain socially desirable programmes should get soft funds and at easy terms and conditions. Their activities must be monitored, however, at the same time, some of the programmes of the MFIs/NGOs should get continuous support from the government for handling unforeseen risks and making funds available at the time of distress.

Financial literacy and awareness has no alternative for ensuring better outcomes. Extensive awareness and motivation programmes both on demand and supply sides could contribute a lot for effectiveness of the existing inclusive finance products, and might create demand amongst vulnerable sections of the population. Simple and less complicated loan application procedures, flexible terms and conditions for opening accounts, withdrawing mandatory reference letter, diminishing minimum balance for opening account for the poor and suitable location of branches may increase financial access of the excluded groups.

While the above and other demand side issues need due consideration while fine tuning specific approaches under the financial inclusion strategy, efforts are needed towards strengthening financial capabilities in a number of key areas. The provision of financial education tools for better management of income, encouraging households to use long term savings products to effectively manage savings goals, providing clear implications of debt burden to facilitate responsible borrowing, generating awareness on alternative risk coping mechanisms, education on exercising consumer rights and accessing grievance channels, and removing mind-set barriers to using new financial products and services are important considerations for implementing the national financial inclusion strategy.



# KNOWLEDGE MANAGEMENT

# Knowledge Management

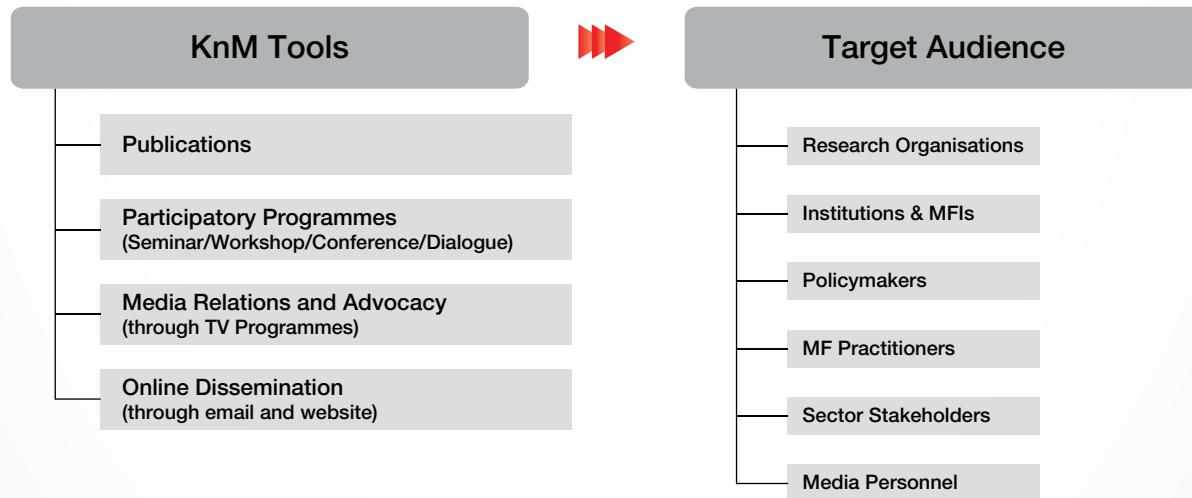
Knowledge Management (KnM) Division facilitates peer learning and sharing of experience and insights especially on inclusive finance and development issues. Management and dissemination of new knowledge for advocacy and policy are the primary goals of this Division. Generally, KnM works as the voice of InM by featuring its activities to wider audience and managing public relations. For realising its goals, the Division undertakes a number of activities including:



## Knowledge Dissemination

Recognising the right to knowledge as a basic human right, KnM Division has emerged as the hub of knowledge generation, dissemination and preservation activities of InM. The aim is to act as the depositor of accumulated knowledge to assist in decision making by individuals, households, policy makers and various stakeholders.

The knowledge dissemination process follows a target oriented approach as follows:



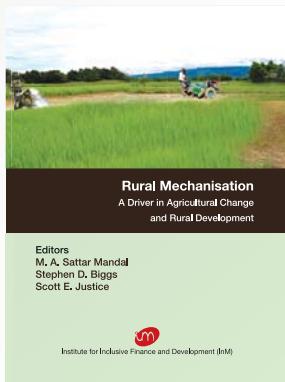
## Publications

InM publishes its intellectual properties as research findings, academic papers, reports, working papers, policy papers, books and in other published forms through KnM Division.

## Book

### Rural Mechanisation: A Driver in Agricultural Change and Rural Development

Edited by: M. A. Sattar Mandal, Stephen D. Biggs and Scott E. Justice



The book looks into the significance of the pattern of rural mechanisation for agricultural and rural development in Bangladesh. It identifies policy issues and explains why small-scale mechanised transformation can serve as a strong driver of transformation of Bangladesh's rural economy. The book shows that the spread of small-scale equipment has resulted in widespread mechanisation of agriculture in the country. Such mechanisation has also been accompanied by some workers leaving rural areas and finding profitable employment in urban areas and rising inflow of remittances. In many areas, shortages of labour at peak times have also led to substantial increases in real rural wages benefitting the poorer groups. This has brought significant dynamism in the rural economy with varied multiplier impacts. In regions where smaller-scale mechanisation has taken place, there has also been a growth of rural industries and strong linkages with the broader national economy. The book terms this distinct process of rural transformation through smaller-scale rural mechanisation as unique to Bangladesh which is not seen elsewhere where larger-scale commercial agriculture dominates.

For copies, contact InM Head Office. Price: BDT 1,000; USD \$25 (Hard Cover). It is also available at InM official web. For free download please visit <http://inm.org.bd/books/>

## Policy Paper

### Diagnostic of Micro-enterprise Lending by MFIs in Bangladesh: Opportunities and Challenges



This policy brief identifies constraints to developing MEs especially relating to financing issues, and outlines different strategies for promoting and developing MEs based on the findings of the InM study. It identifies constraints faced by MEs, their current financial and capital structure and intensity of access to different credit markets and provides estimates of projected demand for ME credit and suggests policy options for improving accessibility of MEs to credit markets. Exploring the potentiality of banks and MFIs in financing of MEs has particularly been examined in the study.

It is evident from available statistics on intensity of ME financing that market failure exists for MEs in the formal bank-credit market. The MFIs have advantages over banks in financing because of its network and simplicity in operation. In terms of intensity of access to ME loans, measured by the number of ME borrowers, MFIs have great opportunities for both graduating MFI members and lateral entrants. As such, the policy brief focuses on ME financing through the microcredit market. The analysis is based on primary data collected from 600 MEs selected randomly from different districts and information gathered from secondary sources and discussion with bank and MFI officials. The secondary sources include publications and reports of Bangladesh Bank (BB), Microcredit Regulatory Authority (MRA) and various MFIs.

## Working Paper Series

### Working Paper 52: Impact of Mobile Financial Services on Financial Inclusion in Bangladesh

by Nahid Akhter and M. A. Baqui Khalily

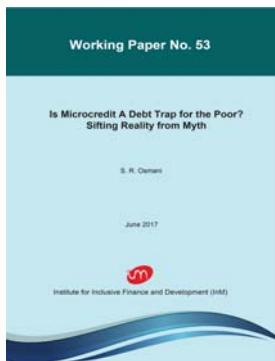
Competition in financial markets and the drive for higher market share are the major drivers in expansion of financial

services, which has higher impacts on growth and financial development in countries like Bangladesh. Innovation in finance, either as a new product or a new process, has contributed to such competition and expansion of financial services. Technology and innovation has positive impacts on production and efficiency, and in turn, to growth at the macro level and institutional performance at the firm level. Two key factors are major determinants of acceptance of technology, as perceived by users: perceived usefulness and ease of use. Positive perception of usefulness and ease of use is influenced by low transaction cost, ensures security, improves convenience and minimise transaction risk for the users of financial services. Mobile technology is one of the financial innovations, which has multi-dimensional impacts. In technical terms, it improves efficiency and financial inclusion. The paper investigates the impacts of mobile financial services on financial inclusion in Bangladesh. The outcome shows that the need for mobile financial services is beyond any question. Mobile financial services have brought major changes in financial products and institutional structure. It can reach excluded low-income and micro and small entrepreneurs, which will have wider impact including growth and poverty alleviation. Our analysis showed positive role of mobile banking on financial inclusion. The findings do suggest that the role of banks and MFIs to expand services in inaccessible areas can be effective if they are complemented by mobile money and appropriate regulatory framework.



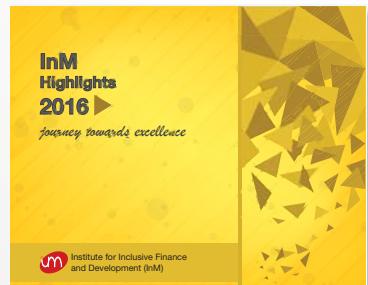
### Working Paper 53: Is Microcredit A Trap for the Poor? Shifting Reality from Myth

by S. R. Osmani



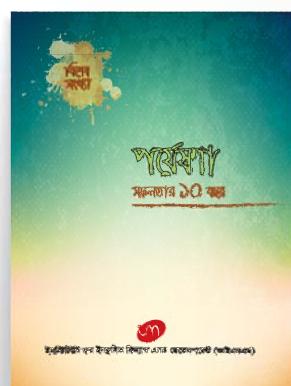
There appears to exist a deep-seated scepticism about microcredit in popular perception in Bangladesh. One manifestation of this scepticism is the oft-repeated allegation that microcredit is leading hordes of borrowers into a 'debt trap'. The empirical basis of this allegation has never been established, though, beyond some anecdotal evidence. The present paper makes the first systematic attempt to empirically investigate the existence, nature and magnitude of debt trap among microcredit borrowers in Bangladesh. The investigation relies on a large-scale nationally representative rural household survey, covering the period 2007-2013. The paper begins by examining the prevalence of two inter-related practices – namely, 'overlapping borrowing' and 'borrowing to repay', which are often taken as indicators of debt trap in popular discussion of the subject. The paper argues that that although these practices could sometimes lead to a debt trap, neither of them necessarily does so, so that the magnitude of debt traps could not be deduced from the magnitude of these practices. After defining the criteria for identifying a debt trap, the paper finds that debt traps can be said to characterise at most 4.5 per cent of microcredit borrowers who engage in 'borrowing to repay' and only about 1.4 per cent of all microcredit borrowers. Furthermore, even in these few cases, microcredit cannot generally be held responsible for their plight. Debt traps occur when extremely vulnerable households are faced with overwhelming shocks; and the role of microcredit here is one of mitigation rather than causation. That is, in most cases, debt trap occurs not because of but in spite of microcredit; as such, its occurrence reflects not so much the failure of microcredit as the failure of the society at large to look after its most vulnerable people.

### Special Publications



#### InM Highlights 2016

পর্যবেক্ষণ  
Celebrating a decade  
of InM's journey.



## Newsletters



InM Insights Vol 1 Issue 2

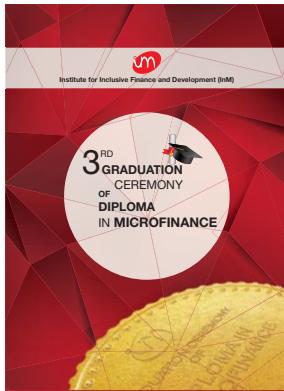


InM Insights Vol 1 Issue 3

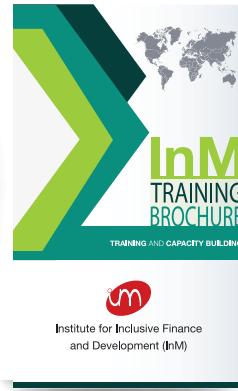


InM Insights Vol 2 Issue 1

## Other Publications



Diploma in Microfinance 3rd  
Graduation Ceremony  
Brochure



InM Training Division  
Brochure



InM Education Division  
Flyer



Six different modules of InM Diploma in Microfinance Programme

# Seminar/Workshop/Dialogue/Conference

To circulate research findings, KnM also arranges dialogues, workshops, seminars and other meetings.

## In House Seminar

### **Financial Inclusion of Vulnerable Working and Street Children**

*Keynote Presenter: Farah Muneer*

InM organised an in house seminar titled “Financial Inclusion of Vulnerable Working and Street Children” on 29 March 2017, at InM Conference Room. The Keynote Presenter was Ms. Farah Muneer, Senior Research Associate, InM. The presentation discussed about the financial behaviour of vulnerable working and street children. The sample of the study consists of 600 children having BDT10 bank account which makes 60 percent of the sample. Around 70 percent of children in the sample have a saving habit either formally or informally. It is also important to note that children who do not have savings account in banks also have a tendency to save. Around 45 percent of the children not having savings account in bank keep some of their earnings in a secret place. This indicates that the children have a demand for secured place/person whom they can trust with their savings. Another important observation from the presentation is that even though 60 percent of the children in sample have a savings account in banks, they do not have satisfactory financial awareness. Only 41 percent of children having bank savings possess knowledge about benefits of savings in banks.

### **Branch Expansion: Implications on Institutional Efficiency of MFIs in Bangladesh**

*Keynote Presenter: Dr. Farhana Nargis*

InM organised an in house seminar titled “Branch Expansion: Implications on Institutional Efficiency of MFIs in Bangladesh” on 27 April 2017, at InM Conference Room. The Keynote Presenter was Dr. Farhana Nargis, Senior Research Associate, InM. The seminar aimed at addressing and disseminating the findings from the research study conducted by InM on the Implications on Institutional Efficiency of the MFIs in Bangladesh in terms of Branch Expansion. With rapid growth of the microfinance sector and increase in the number of MFI borrowers, the microfinance institutions (MFIs) have adopted branch expansion as an important vehicle of delivering loans to the poor households. The location of MFI branches that offer financial services is one of the fundamental determinants of access to financial services by the poor. From the economic point of view, it would be rewarding for MFIs to invest in opening a new branch if the expected revenue from the branch exceeds its expected costs. However, such a strict economic logic may not be tenable in all cases. Thus, it is important for MFIs to understand the factors that should be taken into account while opening a new branch so that such decisions are rational along with creating positive impact on the organisation’s efficiency and productivity. Thus, although there could be a differing set of determinants, a relevant question is: What are the important factors that MFIs take into account while taking decision on opening a new branch? How do they decide on its location? Does the decision to open a new branch and its location have any implications on MFI efficiency and productivity? How an optimal decision can be made by the MFIs in these respects? These are some of the issues that are examined in this research.

### **Empowering the Disabled through Financial Inclusion**

*Keynote Presenter: Sifat-E-Azam*

InM organised an in house seminar titled “Empowering the Disabled through Financial Inclusion” on 30 May 2017, at InM Conference Room. The Keynote Presenter was Ms. Sifat-E-Azam, Deputy Director, InM. The seminar was aimed at addressing and disseminating the findings from the diverse experience regarding the role of YPSA to empowering the disabled of Bangladesh through financial inclusion.

# Advocacy

## Articles/Papers for the stakeholders

- বাংলাদেশের অর্থনৈতিক অগ্রযাত্রাঃ উন্নয়ন ও সমৃদ্ধির এক অনন্য মডেল
- Accountability for SDG4 and Citizen's Participation
- Role of Digital Financial Services in Promoting Inclusive Growth in Bangladesh: Challenges and Opportunities
- Concept of Poverty

## Newspaper Article

- বাংলাদেশে স্কুলঅর্থায়নের বিবর্তনে আইএনএমের ভূমিকা  
[The Daily Banik Barta]
- Transition of NGO-MFIs in Bangladesh: Emerging Challenges for Microfinance Sector [The Financial Express]



## Networking



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

InM has taken initiatives to form the Financial Inclusion Network--Bangladesh (FIN-B) as a proposed forum for bringing together stakeholders including public, private, MFIs and civil society organisations interested in the pursuit of the common objective of promoting financial inclusion for all. The aim of the Network will be to develop knowledge and expertise in financial inclusion through stimulating exchange and collaboration amongst its members and promote the Network members as centres of excellence in the field of inclusive finance. The Network will promote both institutional and financial collaboration amongst its members working in development sectors like finance (including microfinance) and development in areas of research, training, education and public policy. The FIN-B will provide a unique platform to bring together all financial sector stakeholders including banks/MFIs/NGOs/financial institutions/local governments and grassroots organisations for sharing ideas and best practices from home and abroad. Formal activity of the Network is expected to begin during 2017-18.

## Video Conferencing Sessions with JICA and IGES

An agreement between Japan International Cooperation Agency (JICA) and the Institute for Inclusive Finance and Development (InM) was signed on 9 October 2016 to conduct the research on the 'study on financial inclusion for vulnerable segments in Bangladesh' including three components: (i) Disaster and climate resilient households and communities; (ii) Vulnerable street and working children/youth; and (iii) Microinsurance for vulnerable people.



InM provided the progress of activities during the first and the second quarters respectively. All activities of the study are being implemented in line with the study design and activity schedule, and JICA-Bangladesh Office has expressed its satisfaction over the progress of activities. As per the activity schedule, InM organised two video conference session to conduct the steering committee meetings on 29 November 2016 and 8 May 2017. In the meeting all the steering committee members were present. Both the meeting was chaired by Dr. Qazi Khaliquzzaman Ahmad, Chairman, InM.

## Book Launching Ceremony

The Institute for Inclusive Finance and Development (InM) organised a ceremony on 16 April 2017 in the PKSF Auditorium in Dhaka to launch a new book titled *Rural Mechanisation: A Driver in Agricultural Change and Rural Development*. The book, published by InM, is edited by M. A. Sattar Mandal, Stephen D Biggs and Scott E. Justice. Begum Matia Chowdhury,



Minister of Agriculture attended the ceremony as the Chief Guest while Dr. Atiur Rahman, former Governor of Bangladesh Bank was present as the Special Guest. Dr. Qazi Khaliquzzaman Ahmad, Chairman of InM presided over the function.

Among others, Mustafa K. Mujeri, Executive Director of InM, M. A. Sattar Mandal, co-editor of the book, Akhter Ahmad of IFPRI-Bangladesh, Wais Kabir, former Chairman of BARC and Timothy J.

Krupnik from CIMMYT spoke on the occasion. Academics, policy makers, practitioners and representatives from the development partners attended the ceremony.





# TRAINING AND CAPACITY BUILDING

# TRAINING AND CAPACITY BUILDING

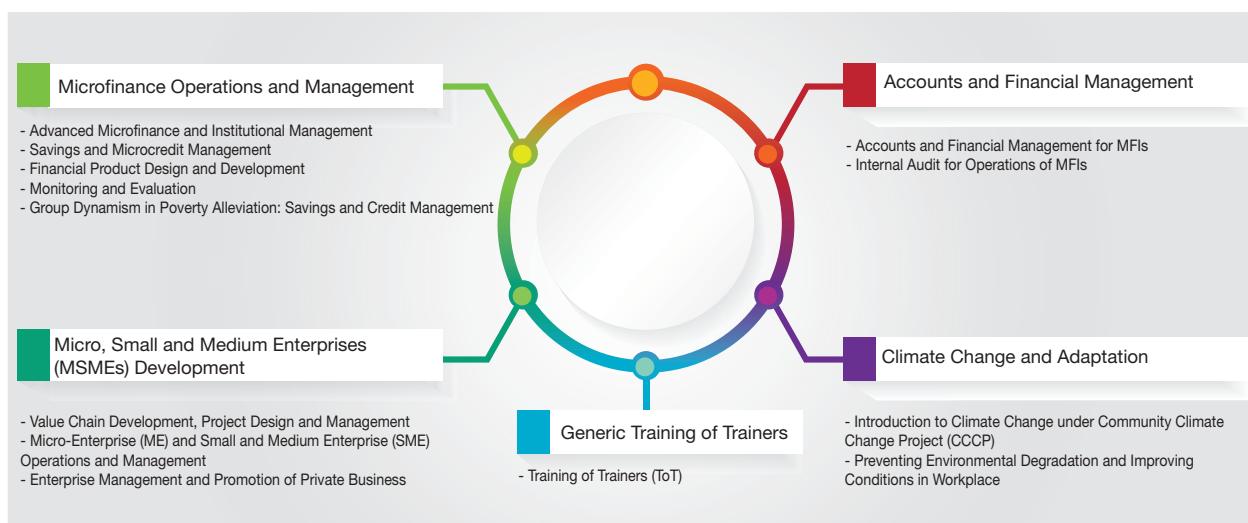
During 2016-17, InM training activities targeted the NGO-MFIs in areas like scheduled and customised courses especially in the domain of microfinance, microenterprises and environment. The course designs highlight efforts towards fulfilling the organisational mission of MFIs for improving their productivity and enhancing capacity to deliver quality products and services in an effective manner.

InM's regular training programmes are organised for PKSF partner organisations (POs) and MRA-licensed MFIs. Besides regular training, new initiatives during the year have included efforts to diversify the training programme and undertake demand-driven programmes for NGO-MFIs. In all these efforts, InM's special thrust has been on designing need-based customised training programmes having standard and integrated modules rather than organising prototype training. During the year, there has been a growing demand from MRA-licensed small MFIs, not necessarily partners of PKSF. Specialised courses for the PACE Programme of PKSF were also designed during the year. All these led to generate revenues for long term sustainability.

## InM Training Programme

### PKSF-POs Training

PKSF--country's leading apex microfinance and capacity development organisation--has been assisting its POs to strengthen their capabilities in different areas. InM, jointly with PKSF, organises different training programmes for the POs. During the year 2016-17, the following courses were organised for PKSF POs:

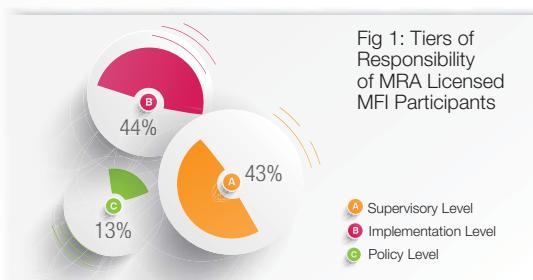


A total of 1,156 participants from 155 POs of PKSF joined these training courses.



## MRA-Licensed MFIs Training

Microcredit Regulatory Authority (MRA) is the central regulatory body to monitor and supervise microfinance operations in the country. License from MRA is mandatory to operate microfinance operations in Bangladesh. InM regularly conducts training programmes jointly with MRA to enhance the capacity of pre- licensed/licensed MFIs. The courses especially aim at shedding lights on various aspects of governance and regulatory issues related to operations of MFIs. During the year, one specialised course was designed in consultation with MRA and offered for MRA licensed MFIs titled “Financial Management and Internal Control for MFIs”. A total of 12 batches of training were organised during the period. Participants from different tiers of responsibilities from MFIs joined the courses (Figure 1).



The courses offered a framework for financial statement preparation and analysis and interpretation for decision making, asset-liability management, internal control mechanism, governance issues, regulatory framework, and operational aspects of anti-money laundering issues. The course enhanced the capacity of the personnel of MFIs on addressing various dimensions of microfinance issues.

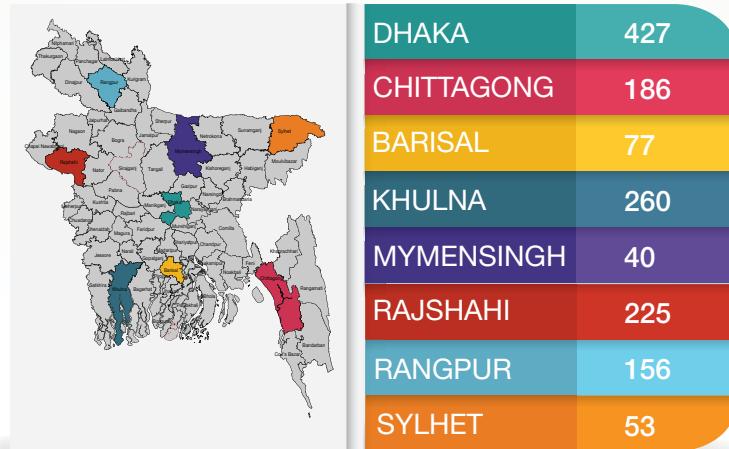
## Customised Training

Customised training programmes are carefully designed, prepared and carried out according to specific requirements of MFIs. Customised training courses pave the way for trainers to go that extra miles to get into the heart of the matter, something that is not available in standard books or training manuals. InM organises customised training courses both at national and international levels. These include: Risk Management and Product Development, Enterprise Development, Environment Issues, Gender and Development, Digital Financial Services, Financial Management and Governance, among others. During the year, a special course was organised for Muslim Aid Bangladesh on Interpersonal Communication and Risk Management where 25 mid-level participants joined the course. Another special course was organised at InM by Dushtha Shasthya Kendra (DSK) on *Cash Transfer Programming for Effective Humanitarian Response* for 24 mid-level participants.

## Highlights on Training Since Inception



## Regionwise Training Glimpse During 2016-17



## Module Development

Till to date, InM has developed 14 training modules of international standards to cater to the needs of microfinance practitioners at national and international level. The modules are as follows:

Modules	Duration	Language
Microfinance Operations and Management	10 days	
Microfinance Operations and Management	05 days	
Book Keeping and Accounting Management for MFIs	05 days	Bangla & English
Financial Management for MFIs	05 days	
Accounting and Finance for Non-finance Executives of MFIs	05 days	
Financial Analysis	05 days	
Monitoring and Evaluation of Microfinance Programme	05 days	
Improving Participatory Managerial Skills and Management Style	05 days	
Legal & Regulatory System and Governance	05 days	
Microfinance Credit Delivery Process and Operations	05 days	
Microfinance Product Design and Business Planning	03 days	Chinese & English
Effective Management of Microenterprise Loans	05 days	
Advanced Generic ToT	10 days	
Interpersonal Communication & Risk Management	05 days	English

InM regularly updates its curricula and modules based on current research and field operation findings to keep pace with new innovations and practices.



## International Collaborations

The Institute builds networks through jointly organising training courses with various national and international organisations, both at home and abroad; and organises exposure visits on issues of mutual interest. Presently, InM has collaboration with following international organisations:

- China Association of Microfinance (CAM), China
- China International Centre for Economic and Technical Exchanges (CICETE), China
- Beijing HuXinCheng Investment Management Centre, China
- Asian Institute of Technology (AIT), Thailand
- Frankfurt School of Finance & Management, Germany
- International Federation of Training & Development Organisations (IFTDO), United Kingdom
- UTT Microfinance, Tanzania
- Institute for Global Environmental Strategies (IGES), Japan



With invitation from InM, China Association of Microfinance (CAM) organised an exposure visit for a 13-member high level Chinese Delegation from 24-29 September 2016. Among others, Mrs. Zhang Rui, Chief of Division of People's Bank of China; Mrs. ZHANG Chenghui, Director General of Financial Research Institute (FRI); and Mr. Zhang Bin, Vice Chairman of Harbin Bank Co. Ltd. accompanied the Delegation. During the period, the delegates also visited PKSF, Grameen Bank, BRAC, ASA, and bKash and observed field level operations of selected institutions.

## Demand for InM Training

There is a growing demand for InM's training activities to build capacity of MFIs so that practitioners can make tangible efforts towards building a sustainable microfinance sector. This demands skilled manpower, linkage between training and career, proper training materials and appropriate course design, standard training modules for professional development where InM has the opportunity to emerge as the leading provider of training and capacity building service for the MRA pre-licensed and licensed MFIs, PKSF partner organisations (POs), customised courses for NGOs and development organisations at home and abroad.

## InM Training Centre

InM has a well equipped training centre located at the heart of the capital city, Dhaka. It comprises of conference rooms, training classrooms and dormitory facilities to cater to the needs of national and international participants. During July 2016 to June 2017, 1,424 national and 13 international participants enjoyed the facilities of InM Training Centre



## Training Centre Facilities



The background of the image features a large, abstract geometric shape composed of several overlapping triangles. The triangles are colored in shades of red, black, and white. The red triangles are positioned in the upper right and lower left quadrants. The black triangles are located in the upper right and lower right quadrants. The white triangle is positioned in the center-left area. The overlapping of these triangles creates a sense of depth and movement.

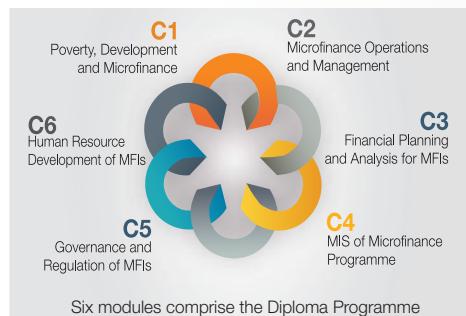
**EDUCATION**

# EDUCATION DIVISION

Since 2014, a full-fledged Education Division is functioning in InM to contribute to capacity building of the microfinance sector through equipping the practitioners with updated knowledge, requisite skills and practical know-how. The Education Programme has started with a Diploma in Microfinance which is the only such programme available in Bangladesh. Since the beginning over 200 practitioners have been enrolled in InM Diploma in Microfinance Programme. The participants have come from leading MFIs, banks, and international and apex organisations of the financial sector including PKSF, MRA, Bangladesh Bank, BRAC, ASA, PADAKHEP, SOJAG, UDDIPAN, Sajida Foundation, CODEC and others. So far, the participants in the InM Diploma Programme have come from a total of 62 different organisations; nearly 60 percent of the participants belong to medium and smaller MFIs. The average number of participants in each batch is around 30.

## Education Programme at a Glance

The Diploma in Microfinance Programme offered by InM adopts a long term human capital formation approach where the participants are offered both theoretical reasoning and practical knowledge through classroom sessions, hands-on training and field exposure. For better understanding and comprehension, the modules are available in both Bangla and English. Special sessions are also arranged for the participants on a regular basis where renowned personalities and resource persons having long-term experiences in the microfinance sector are invited.



Dr. Qazi Kholiuzzaman Ahmad, Chairman, InM & PKSF and S N Kairy, Chief Financial Officer, BRAC shared their experiences among the students of 7th Batch of Diploma in Microfinance.

## Field Exposures

Field exposures are arranged for the participants to relate the concepts and theories of microfinance with field realities. The participants of the 6th batch Diploma Programme went to SOJAG in Dhamrai near Dhaka in December 2016 to visit different programmes of SOJAG. During the visit, the participants got acquainted with different projects such as cereal seed production, cattle rearing, artificial insemination, urea granule production, biogas plant, and human resource management practices. Besides, the Group visited the SOJAG Training Centre to get better insights into capacity building of MFIs.

## Third Graduation Ceremony

The 3rd Graduation Ceremony of InM Diploma in Microfinance Programme was held on 27 April 2017 at PKSF Auditorium, Agargaon. A total of 54 participants from the 4th, 5th and 6th batches received their Diploma Certificates in the ceremony. Two participants were awarded Chairman's Gold Medal for their outstanding performance. Professor Dr. A A M S Arefin Siddique, Vice Chancellor, University of Dhaka was present as the Chief Guest while Dr. Qazi Kholiuzzaman Ahmad, Chairman of InM presided over the ceremony.



Participants from the fourth, fifth and sixth batch with the honorable guests (left to right)



# ADMINISTRATION, HRM and FINANCE

# ADMINISTRATION and HRM

The Administrative Division is responsible for managing human resources, logistics, assets and property, vehicles of InM Headquarters and the Training Centre as well as procurement, routine maintenance of infrastructure and providing security and safety services to the Institute. It also provides support services to the functional divisions and ensures coordination among all functional and supportive divisions and senior management.

During 2016-17, the Administration intensified its efforts to comply with set rules and regulations to ensure organisational transparency and accountability. During the year, the Administration has undertaken initiatives to review and finalise all rules and policies such as HR policy, finance policy, vehicle management and other policies along with getting approval of relevant policies from the Governing Body. During 2016-17, special efforts have been taken to improve InM administrative functions and systems through a number of initiatives including (i) introducing automation in Office Management System; (ii) reviewing and improving policies and procedures; (iii) intensifying collaboration with national and international organisations; (iv) procuring organisational land in Dhaka; (v) initiating joint programmes with IDF to develop InM's Training Centre at Cox's Bazar into an International Convention Centre; (vi) holding Governing Body and General Body meetings regularly; and (vii) implementing other administrative actions as required by the management.

## Automation in Office Management

During 2016-17, InM started automation involving software based office system to maintain complete database without piles of papers and multiple filing cabinets. The introduction and maintenance of the software system help processing of data kept in one place at ease along with driving decisions based on it. It also helps to save money and time so that employees can concentrate more on strategic issues.

The InM Administration started to adopt the software based Office Management System in January 2016. The following major actions are already implemented through the automation system: (i) human resources information system (HRIS), which includes employee's attendance system with a attendance record machine, employee's database management system as a part of personnel record, and employee's leave application and management system; (ii) vehicle management system, which includes database of all vehicles and drivers, vehicle maintenance record and analysis system and vehicle's fuel consumption record and analysis system; (iii) store management system, which includes store inventory record management, store procurement requisition system, material requisition system and record management and store item procurement, consumption and cost recording and analysis system; (iv) contract management system, which includes institutional and individual contract record management system and deliverable submission tracking management system.

InM is continuing with further expansion of the automation system. The areas to be covered in the second phase of automated software management system include administrative filing management system, procurement management system, fixed asset management system and dispatch management system.

## Review of Organisational and Policy Frameworks

As a part of its institutional transformation process, InM started reviewing all InM policies and procedures in 2016-17. During the year, InM has already completed the review of the following and received approval from the Governing Body. The newly approved policies will be made effective from 1 July 2017. These are:

1. InM Human Resources Policies and Procedure Manual, 2017
2. (Revised) Organogram of InM 2017

In addition, InM is in the process of framing and introducing the following guiding documents for more effective performance of administrative activities:

- Financial and accounting manual
- TA/DA policy, procurement policy, overtime policy
- Employee hand book based on the approved HR policy
- Archiving old movement and personal files
- Entitlement of official assets
- Strategic plan of InM for the next five years

## Procuring Organisational Land in Dhaka

Considering the future growth plan of the Institute, InM has already in the process of procuring an organisational land in the heart of the city. The land is located in Pallabi, Mirpur beside the 120 feet main road. InM plans to build a multi-storied complex for its Head Office, Training Centre, Dormitory and InM School of Inclusive Finance. The physical work is expected to begin in 2018.

## Developing International Conference Centre in Cox's Bazar

InM owns fifty decimal of land along with a two-storied building in Kolutoli, Cox's Bazar which was donated by the World Vision Bangladesh in 2011. In 2016, InM has taken up a plan for renovating the property with the aim of constructing an International Convention and Training Centre along with well-equipped dormitory and other facilities. The Centre will be developed jointly by InM and IDF. It has been agreed that a company will be formed named 'Innovations for Inclusive Development Plc (IID)' which will manage the facility. The physical work is expected to begin in 2017.

## Board Meeting and EGM in 2016-2017

InM organisational governance system requires that four regular meetings of the Governing Body be held in a year. Accordingly, InM organised four meetings of the Governing Body and two meetings of the General Body during 2016-2017:

1. 7th Extra-ordinary General Meeting on 24 November 2016
2. 44th Governing Body Meeting on 28 December 2016
3. 11th Annual General Body Meeting on 28 December 2016
4. 8th Extra-ordinary General Meeting on 22 February 2017
5. 45th Governing Body Meeting on 20 June 2017
6. 9th Extra-ordinary General Meeting on 20 June 2017



# FINANCE and ACCOUNTS

A major re-organising of the activities of Finance and Accounts Division is currently underway under which further automation of all relevant activities has been given the priority. Divisional activities are being progressively automated and all staffs are being trained to adopt the digital format in finance-related activities.

## Internal and Budgetary Control

In line with the newly adopted strategic framework in 2016, activities are being implemented to improve overall internal control by instituting relevant measures across the entire organisation. Overall budgetary control has also been greatly improved through implementation of a more organised and effective activity-based, and result-oriented budgeting system. Budget monitoring and variance reporting has also been ramped up to improve the budgetary control.

## Software Based Accounting System

The Finance and Accounts Division has initiated the work on transition to a more robust and updated accounting software to improve reporting and fulfil internal and external reporting needs in a more efficient and timely manner.

## InM Budget 2017-18

The InM budget for FY2017-18 was presented to and approved by the Governing Body and the General Body on 20 June 2017.





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# INDEPENDENT AUDITOR'S REPORT

**Governing Body**  
Institute of Microfinance (InM)

We have audited the accompanying financial statements of Institute of Microfinance (InM) for the period from 01 July 2015 to 31 December 2015, which comprise the statement of financial position, statement of comprehensive income, statement of changes in fund and statement of cash flows for the period from 01 July 2015 to 31 December 2015 and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for The Financial Statements

These financial statements, which are set out on pages 03 to 18, are the responsibility of the Management of InM.

The Management of InM is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies as summarised in Note 2 and 3 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

It is important to recognise that there are inherent limitations in the auditing process. Audits are based on the concept of selective testing of the data underlying the financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed. Audits are, therefore, subject to the limitation that material errors, fraud or non-compliance with law or regulations having a direct and material financial statement impact, if they exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion and falsified documentation, an audit designed and executed might not detect a material fraud. Our audit should not be relied to disclose fraud and error that may exist.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Institute of Microfinance (InM) as of 31 December 2015, and its financial performance and its cash flows for the period then ended in conformity with the accounting policies summarised in Note 2 to the financial statements.

## Emphasis of Matter

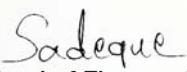
Without modifying our opinion, we draw attention to the note # 4.01 where management explains, the current condition of the land and adjacent constructed buildings located in Cox's Bazar and their future course of action on that.

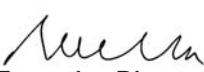
Dhaka  
08 September 2016

  
**ACNABIN**  
Chartered Accountants

**Institute of Microfinance (InM)**  
**Statement of financial position**  
as at 31 December 2015

	July 2015 to December 2015 Taka	July 2014 to June 2015 Taka
<b>Assets</b>		
Property and equipment	60,240,157	56,275,361
Intangible assets	-	-
Short term deposit with bank	181,717,712	236,083,009
Interest receivable on short term deposits	3,188,150	3,788,646
Other receivables	2,647,483	2,626,444
Advances, deposits and prepayments	11,059,505	9,498,199
Cash and cash equivalents	48,577,281	23,890,718
<b>Total Assets</b>	<b>307,430,288</b>	<b>332,162,195</b>
<b>Fund and Liabilities</b>		
Accrued expenses and provision	18,213,582	37,153,048
Other liabilities	2,927,037	194,918
Deferred grant income for assets	23,250,000	24,025,000
Grant received in advance	27,175,821	52,851,985
Fixed asset fund	37,506,877	32,250,359
Development Fund	196,252,426	183,601,607
Foreign currency translation reserve	2,104,544	2,085,278
<b>Total Fund and Liabilities</b>	<b>307,430,288</b>	<b>332,162,195</b>

  
**Sadeque**  
Head of Finance & Admin

  
**Muin**  
Executive Director

  
**Chairman**

Dated, Dhaka  
08 September' 2016

  
**ACNABIN**  
Chartered Accountants

**Institute of Microfinance (InM)**  
**Statement of comprehensive income**  
for the year ended 31 December 2015

	July 2015 to December 2015 Taka	July 2014 to June 2015 Taka
<b>Income</b>		
Grants	75,549,962	110,144,223
Contribution for research projects	8,631,328	4,729,250
Training fees	7,401,555	8,170,467
Others	450,617	3,226,435
<b>Total income</b>	<b>92,033,462</b>	<b>126,270,375</b>
<b>Expenditure</b>		
Research expenses	24,636,116	16,305,685
Training expenses	13,359,970	16,799,185
Knowledge management expenses	16,261,661	24,954,132
Salaries and allowances	24,397,396	44,895,971
Administrative expenses	6,996,254	12,740,528
Financial expenses	100,578	104,144
Depreciation and amortisation	3,368,031	5,470,730
Income tax expenses	2,913,457	5,000,000
<b>Total expenditure</b>	<b>92,033,462</b>	<b>126,270,375</b>
Net Surplus/ (Deficit) for the year	-	-

  
**Sadeque**  
Head of Finance & Admin

  
**Meera**  
Executive Director

  
**Chairman**

Dated, Dhaka  
08 September' 2016

  
**ACNABIN**  
Chartered Accountants



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