INSIGHTS

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Inclusive Green Finance, Financial Inclusion and the SDGs

In the real world, the pursuit of green policies with exclusive effects is relatively easy. For instance, if the use of only renewable energies is made compulsory across all countries in the world, then green policies in the energy sector will be achieved but the consequences could be devastating. Most human beings on the planet will be shut-off from any productivity gain that the modern industrial technologies have provided to humankind, individuals will be forced to walk, and probably will also starve. Even if some negative environmental impact is accepted, it will not be so easy to be inclusive: exclusion often arises due to risks most incumbent institutions try to avoid in the absence of laws and regulations.

In reality, the real challenge in policy making is how to balance the two rather opposing policy objectives: saving the environment while ensuring inclusive growth and equal opportunities for all. The key will be to design strategies and frame laws and regulations in the financial sector for promoting inclusive green finance at the intersection of finance, technology, and sustainable development.

In countries like Bangladesh, inequalities as well as environmental, social, health and political crises hit the poor, disadvantaged, excluded and vulnerable communities first mainly for three reasons:

First, their income level tends to be low and under-diversified with high degree of variability; their livelihood rests on what they create and earn with their human labour;

Second, these poor and vulnerable individuals and communities usually have low level of education; limited access to health and nutrition, live in fragile environments and ecology, and have limited capacity to switch to better living environment and pursue decent livelihoods; and

Third, these poor, vulnerable and marginalised communities suffer from social, economic, cultural, political and all other forms of exclusion and have limited or no voice, power and participation in policy making and governance in society. They are deprived of their basic human rights in many respects; and in the society and economy, they are the risk-takers rather than the risk-makers.

Thus the key task for the decision makers is to strive towards making the right balance among the challenges of inequality, underdevelopment and changing environmental, social and political conditions. Since the process also involves linkages and externalities, creating the appropriate legal framework and regulations is of outmost importance for extracting the synergies. But one must also realise that most developing countries have limited regulatory capital and resources and creating well-functioning institutions in general, and regulatory institutions in particular, is a major hurdle. Also, a fundamental question is: how to ensure which regulations would work best under their specific circumstances? In the above context, the recent experience of the Covid-19 pandemic reveals several insights.

The Covid-19 pandemic in most countries highlighted the exposure of the vulnerable communities often with very harsh consequences. Millions of people across all countries lost their livelihoods and incomes, suffered from hunger and malnutrition, and forced into deeper poverty and deprivation. The pandemic further undermined years of efforts towards achieving the SDGs and furthering sustainable development. On the other hand, Covid-19 pandemic also brought rapid digitisation across all economies which has emerged as a ray of hope for the future.

Across the developing world, the SDGs and sustainable development in general rely primarily on creating sound social institutions such as the labour market that can ensure equitable sharing of growth benefits and opportunities. Obviously, sound labour market regulations play a crucial role in this regard. In most countries, adequate labour market regulations are lacking; and even in countries where such regulations exist, their enforcement is weak and ineffective due mainly to low institutional effectiveness and existence of a large informal sector in the economy.

The existence of the large informal sector (around 85 percent of Bangladesh's labour is employed in the informal sector) showed its vulnerability during the pandemic. Due to high informality of employment and its underlying financial relations, it became difficult to calculate the government-to-people (G2P) compensation payments for the loss to the labourer due to the pandemic nor could the payment be paid out on time. Moreover, employee-related measures and public benefits could not soften the adverse financial impact of the pandemic. The core of the problem lies in financial exclusion.

The United Nations has recognised that financial inclusion is a facilitator for many of the SDGs. In the Report of the Secretary General of the United Nations Social Commission, financial inclusion is mentioned twice, once as 'access to credit' and secondly as 'access to digital payments'. The SDGs include eliminating poverty, creating jobs, improving gender equality or good health, to name a few.

Pressing global challenges—the lingering effects of the Covid-19 pandemic, unpredictable climate shocks, protracted international conflicts, high inflation and rising food insecurity—continue to adversely impact the developing economies. Women are the worst hit. Over the past decade, 80 percent of the 250 million people forcibly displaced by natural disasters in emerging economies were women. Yet they have less access to technology and productive resources, and have less capacity to adapt their livelihoods.

Digital financial services can enable financing for billions of people facing emergencies, such as health crises, natural disasters and conflict. The digitisation of public sector wages and social protection schemes in recent years, especially during the pandemic, prompted millions of previously unbanked women to open accounts. Digital financial inclusion, when done responsibly, not only drives growth, but also advances the SDGs, helping reach financial equality for women.

Thus, financial inclusion deserves more attention. The development experience across the countries shows that financial inclusion is a precondition for any crisis-resilient policy approach seeking to combat inequalities --- based on gender, race, social or economic dimensions.

Financial inclusion is usually understood as the access of all adult populations, including all the poor, marginalised, excluded and vulnerable, to financial services. Along with formal access to a payment account, the meaningful use of savings, credit, investment and insurance services by the poor and vulnerable has also become of utmost importance.

Social development, including labour relations, protection of the vulnerable, development of social institutions and stable inclusive growth rests largely on financial inclusion. As a matter of fact, financial Inclusion implies economic and social empowerment of the disadvantaged.

Once there is a trail of payments from the employers to the employees, this gives an accounting fit for determining public and private benefits in and out of crisis; not to speak of ways to calculate fees and taxes to finance any benefits. At the same time, financial inclusion policies further the development of service models adequate for retail clients, microenterprises and the vulnerable, thereby fostering employment and growth.

Many convincing case studies from different countries show that long-term financial inclusion policies drive fundamental and inclusive economic change. Technology allows today for digital micropayments that come with zero costs and allow the payments for fruits purchased in the street corner shop. High financial inclusion rates eventually lead to the formalisation of the economy and technical innovations that allow for decently paid long-distant, home office and/or platform work models.

While not without challenges, if properly regulated and supervised, these examples show that financial inclusion creates opportunities and employment for everyone in society. Obviously, digitisation is a key enabler to financial inclusion: it bridges the last mile issue in remote locations, trains and protects the vulnerable, and traces and furthers financial flows in both directions.

By focusing on digital financial inclusion, the institutions usually best equipped in many countries—central banks, finance ministries and financial regulators—become part of the solution. Financial supervision becomes instrumental in furthering equality in the labour market and social sector as well as the economy at large.

Digitisation also allows for the provision of individual and business identities (i.e. the buildup of a labour and payments history) where a legal, economic or social formal identity is otherwise lacking. For individuals, this can be based on biometric features difficult to forge, such as fingerprint and iris scans. For micro-SMEs, there is in fact in many cases limited differentiation with their owners: a digital business ID combined with digital individual ID can thus be particularly powerful.

Many of the people who lack a formal ID often belong to the disadvantaged communities, suffering social and economic exclusion: when people need to travel several days to the public office that issues formal ID, those who have to take care of their children and families at home face the greatest challenges to apply for a formal ID in a distant place. In most parts of the world, women take care of their children. A digital system can bridge this gender divide, and financial inclusion may become the enabler: small value, net positive digital banking can and does often rely on biometric identification; a formal ID may be issued much later, when amounts surpass critical thresholds.

Often social difficulties stem from environmental stress. For instance, where water is scarce or cyclones are frequent, the discriminated and vulnerable will feel this first, for reasons of economic imbalance and lack of diversification.

Such exposure turns into real world hardships in times of environmental crises. It is much harder for women who have to take care of children and families to change places when environmental conditions change. And where men hold control over financial flows and critical infrastructure, it is certain that this control is exercised most beneficially for the control holder.

For these reasons, the term sustainable development encompasses, in addition to economic dimension, environmental, social and governance dimensions as well. For any effort aiming at employment growth and creating equal opportunities for all, the long-term need is to focus on financial inclusion first, as part of a comprehensive strategy.

For promoting inclusive green finance policy, the leadership of the government is critical. In reality, the relevant markets are poor in assessing uncertain, long-term risks due to the lack of reliable data regarding the future. Further, inclusion and the environment are ‘public goods’ as individual entities do not directly reap the full benefits from investments in financial inclusion and environmental protection. In the absence of regulation, private actors will under-invest in inclusion and environmental protection and this is true regardless of social, labour or financial inclusion or any such issue.

It is thus important to identify the driving factor that will facilitate and support inclusive growth, inclusive labour markets and inclusive development that leave no one behind. The reality in developing countries shows that any social or economic inclusion -- be it economic participation, decent well-paid labour or representation in state institutions -- rests on financial empowerment and financial inclusion. For the former, we need digital access for the disadvantaged, acceptance of some form of digital ID where formal IDs are lacking, and facilitation of payment and additional basic services, such as disaster insurance and credit for microenterprises.

Economic empowerment through financial inclusion will allow for choice: instead of being forced to accept informal labour and discrimination without social protection, the financially included can search for formal and better paid jobs and start economic activities where labour conditions are dissatisfying. At the same time, the state can support formal activities and individuals in need, especially during crises.

Financial inclusion provides a choice for those short of opportunities. It has often created in its aftermath decent jobs in new, sustainable, and growing sectors, notably the green economy, platform economy, care economy, and social and solidarity economy.

Thus, any effort aiming at furthering employment growth and equal opportunities in developing countries should seek to further financial inclusion, as part of a comprehensive strategy such as the one needed towards promoting inclusive green finance.

Research & KnM Highlights

Comprehensive Rural Finance Study

Under an agreement signed on 17 May 2022 between the Bangladesh Bank (central bank) and InM, the Institute is conducting a study entitled 'Comprehensive Rural Finance'. The study will provide credible research support for designing rural finance policies and institutional reorganisation by Bangladesh Bank and other policy makers to support the long-term policy agenda of the government for transforming Bangladesh to a high income country by 2041.

Field Level Surveys/Investigations

During the period under review, InM has been conducting, along with other activities identified in the Work Plan, different field level investigations including quantitative data collection, conducting focus group discussions (FGDs) and key informant interviews and case studies by using structured questionnaires and checklists.

Prior to the field survey, the InM Research Team provided five days of rigorous training to the field staff explaining the objectives of the study and the survey questionnaires/checklists. During the survey, all data were collected using the Kobo toolbox. A total of 52 field staff (42 field enumerators and 12 field supervisors) were selected for conducting the field operations.

As per the study plan, a total of 7,033 sample survey data from 38 districts were collected. Data were collected from seven broad categories of respondents/establishments: rural households, households exclusively from disadvantaged areas, farming and non-farming households, rural enterprises and women entrepreneurs, and agent banking users. Quantitative data were collected

During the enterprise survey, one field enumerator is collecting data while the representaitve from Bangladesh Bank, Dr. Md. Salim Al Mamun, Additional Director is present at the session.

One field enumerator is collecting data from the respondent while the representaitve from Bangladesh Bank, Mr. Md. Zahirul Islam, Deputy Director, is present at the session.

One field enumerator is collecting data from the respondent while the representaitve from Bangladesh Bank, Mr. Mizanur Rahman, Additional Director, is present at the session.

Glimpses from the FGDs at the field

during the period of May to June, 2023. During the field survey, members of the InM Research Team and representatives from Bangladesh Bank visited purposively selected locations and monitored the field work for ensuring quality and robustness. The collection of quantitative data has been completed in June 2023 while the collection of qualitative data and information using FGDs/case studies is currently on-going.

Advisory Committee Meeting

Since the beginning of the study, a six-member Advisory Committee has been formed to guide and facilitate the activities starting from its conceptualisation until completion. The 2nd meeting of the Advisory Committee was held on 15 May 2023 at PKSF Bhaban in Dhaka. Dr. Qazi Kholiquzzaman Ahmad, Chairman of the Advisory Committee chaired the meeting which was attended by Dr. Toufic Ahmad Choudhury, Director General, Bangladesh Academy for Securities Markets; Mr. Helal Ahmed Chowdhury, Former MD & CEO, Pubali Bank Limited; Dr. Mustafa K. Mujeri, Executive Director, Institute for Inclusive Finance and Development (InM) and Dr. Nazma Begum, former Professor, Department of Economics, University of Dhaka. The meeting reviewed the progress of the studies including the field level activities currently on-going across the country and the work plan for the next six months. The members explored different options and suggested various measures to ensure the quality and relevance of collected data and information. The members also appreciated the efforts put forward by InM to achieve the overall objectives of the study.

Background Study Report

Under the Comprehensive Rural Finance Study, so far two background study reports have been completed.

Background Report No. 2023-01: Changing Face of Rural Finance in Bangladesh: Achievements and Future Challenges, July 2023

The report reviews and evaluates the past and current policies and major actions taken by the government in general and the Bangladesh Bank in particular in the context of rural finance and indicates areas where future efforts need to be concentrated to achieve broader national development goals in Bangladesh. Over the past fifty-three years, key elements of the dynamic context of the rural economy include diversification of the rural economy, continuing high vulnerability of rural household income and changing profile of the agriculture sector. In addition, Bangladesh agriculture has been witnessing a marked shift from food grain orientation to commercial and horticulture crops over the past few years. The rural financial market therefore needs to cater to financing newer crops and technologies, both in order to benefit from the changing profile of agriculture as well as to facilitate the change towards higher productivity while at the same time mitigating risks in an optimal and cost-effective manner. Some important policy announcements and guidelines over the last one and a half decades (2006-2022) are also summarised in the report.

For ensuring Bangladesh's future rural transformation which will support and promote the country's longer term journey towards becoming a high income country (HIC) by 2041, rural finance is a vital tool. In particular, ensuring access to finance for two target groups—small and marginal farmers and the rural nonfarm sector including the CMSMEs—in production activities with widely varying potential is a key challenge for rural finance. The way forward would be to design and operationalise an overall framework for rural finance and adopt operational guidelines and regional strategies with scope both for innovations and for consolidation of successful practices.

However, it should also be recognised that rural finance is not a panacea. It is one of several important areas for action and its impact will be fully realised only when conducive macro and sectorial policies are in place, modern technologies are accessible and innovations are supported, functioning markets are present, market linkages are strong, and business development and nonfinancial services are available. Moreover, the poor and disadvantaged sections in rural society may have to be more effectively reached through direct promotion of microenterprises and income generating activities, income transfers, safety nets and social protection and improved human development and infrastructure services. The key is to realise that a policy cannot cover all fields of needed intervention and should not be mechanically adopted. It needs to be adapted to the specific socioeconomic setting of each location along with scope for financial innovations and local adaptations.

Background Report No. 2023-02: Financial Needs of Selected Marginalised and Vulnerable Communities in Bangladesh, August 2023

Under the study, data/information were collected from five selected marginalised and vulnerable communities of Bangladesh: (i) ethnic minorities of hilly areas and plain lands; (ii) tea garden workers; (iii) cleaners/sweepers/Dalits; (iv) transgender community; and (v) commercial sex workers through FGDs/KIIs/case studies. The results indicate that the marginalised and vulnerable communities in Bangladesh suffer more from social exclusion and 'cruel' social attitude and dealings due to existing socio-cultural norms rather than extreme poverty. They are highly vulnerable, prone to life cycle poverty especially during old ages, and are deprived of basic education, healthcare facilities and employment opportunities as well as suffer from financial exclusion due to their multiple deprivations. These people have incomplete and low educational attainments mostly due to their socioeconomic exclusion as well as poverty and harassment and thus they end up with very low levels of employment and income earning opportunities.

Targeted financial inclusion programmes are necessary for these people to address their specific constraints while the banks and financial institutions including the MFIs could develop financial products and services specifically keeping their needs and demands in perspective. While the government has taken several measures and is implementing a number of development interventions for the wellbeing of these disadvantaged communities which are important positive developments, further actions are needed to integrate them in the mainstream development process.

WaterCredit Adoption (WCAD) Programme —Second Phase

After the successful completion of the pilot stage, InM is currently implementing the second phase of the WaterCredit Adoption (WCAD) programme with support from Water.org. The phase aims to extend the reach of providing impoverished households with access to small loans -- offering an affordable financing solution to realise household water and sanitary latrine facilities.

In this phase, InM is implementing the programme in partnership with eight WCAD partner microfinance institutions (MFIs) including Development Initiative for Social Advancement (DISA), Padakhep Manabik Unnayan Kendra (PMUK), Shakti Foundation for Disadvantaged Women (SFDW), Integrated Development Foundation (IDF), BASA Foundation, Society Development Committee (SDC), Gram Unnayan Karma (GUK) and Shariatpur Development Society (SDS).

The WCAD programme has been designed to meet the demand of safe water and sanitary latrines of the customers at the bottom-of-the-pyramid (BOP). Under the WCAD model, MFI partners receive technical assistance from InM/Water.org to implement WaterCredit. The target group is the households earning less than BDT 600 ($6) per day. Depending on MFIs, the average loan size is between BDT 25,000 and BDT 30,000, however, loan size can vary depending on product design as well. WaterCredit is similar to other loan products in the MFI portfolio. Service charge of WaterCredit is based on the existing policy of the MFIs. Depending on MFIs' internal policies, the duration of the product is generally one year. Over time, WaterCredit has emerged as a proven microfinance solution to impact in the WASH sector through water and sanitation loans.

This phase spans over a duration of 12 months, during which period approximately 75,000 water supply and sanitation (WSS) loans are expected to be disbursed. This effort aims to benefit around 322,500 people, leading to improved water and/or sanitation facilities and increased capital mobilisation.

As part of the programme, InM is conducting a series of activities, including Training of Trainers (ToTs), Capacity Building Managerial Staff Training (CBMST) programmes, Field Staff Training (FST) programmes, and ongoing monitoring of field activities. InM has successfully completed two ToTs with all eight partners and conducted five staff training programmes in various districts including Bogura, Jessore, Shariatpur, Tangail, and Dhaka.

Continuous field monitoring is being carried out by InM to ensure the successful implementation of the programme. A total of 250 managerial staff members from partner MFIs will undergo capacity-building training conducted by InM. Additionally, all staff members from the partner MFIs have the opportunity to receive training through InM's Digital Training Platform, which is free of charge for the partners.

'Specialised Exposure Visit on Microfinance Operations in Bangladesh' for BFIN-Nepal Team

InM organised a 'Specialised Exposure Visit on Microfinance Operations in Bangladesh' for a 14-member team from Banking Finance and Insurance Institute of Nepal (BFIN) during 14-18 May 2023. The specialised exposure visit was designed to help understand the operational procedures of the MFIs to achieve their mission and goals in Bangladesh. The Team comprised of 14 senior officials from several microfinance institutions in Nepal. Under the programme, the Team visited field operations of Grameen Bank, PMUK, DISA and other organisations as well as held intensive interaction meetings with senior staff of the MFIs and InM to gain first-hand knowledge on the operational characteristics and identify underlying success factors of the microfinance sector in Bangladesh. The Team also visited Cox's Bazar to see field operations in the region.

InM Publication

Bangladesh Poverty Watch Report 2023

The series of publication under the title 'Bangladesh Poverty Watch Reports', jointly prepared by the Institute for Inclusive Finance and Development (InM) and the Center for Inclusive Development Dialogue (CIDD), aims to ensure that grassroots voices of the 'left behind' and disadvantaged and excluded communities are heard and their voices are reflected in policies.

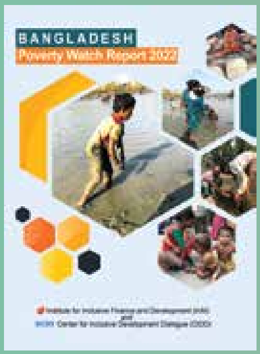
The central part of the Reports consists of the voices and opinions drawn from face-to-face meetings with individuals of specific marginalised and excluded communities. In their 'stories', the participants share their experience of having found themselves in poverty, exclusion and extremely difficult conditions re-inforced by systemic errors and structural inequalities.

In reality, poverty is more than just material deprivation; money and statistics cannot provide a full picture of poverty. Self-realisation and individual experiences are important dimensions of poverty. Self-categorisation can sometimes be more compelling than what a researcher – or any other person analysing the criteria to decide who is poor – can observe as critical for the poor. Nor do persons living in circumstances of great scarcity necessarily see themselves as poor.

When one is poor—over days, year after year, and over generations—he/she is speechless. How can one describe the exhaustion, hopelessness, sense of being stuck, depression, falling down and scrambling up again? The fact is that not everyone is able to cope with such a life. Many tragedies have their origins in such everyday experiences of poverty. But most people are determined to keep going. When it becomes too much, they may take a break for a while. And then, they will go on for a better living. This has been the enduring story of humankind over centuries of human civilisation!

In fact, the participants 'write' their own life stories under the series; the biggest value added of which is the insights into the 'making of poverty and deprivation' in their communities. The analysis brings out emerging priorities for policies as well as challenges of poverty and deprivation in Bangladesh.

The Bangladesh Poverty Watch Report 2022 was published in December 2022 while the second one in the series – Bangladesh Poverty Watch Report 2023 -- is expected to be published in December 2023.



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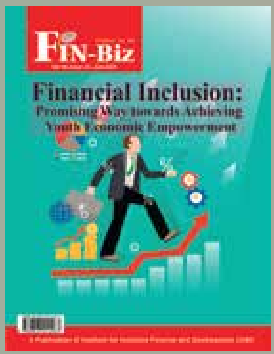

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