

FIN-Biz

Finance for All

Issue 4 | December 2019

Bangladesh's Progress in Financial Inclusion
How Technology Improves Financial Inclusion
Does Access to Mobile Financial Services
Benefit Micro Merchant Businesses?
Cluster Development and Value Chain
Financing for SMEs in Bangladesh
Scaling-up Sanitation and Hygiene Facilities
through Rural Microfinance

CORRESPONDENT BANKS: Banking For The Poor

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FROM THE EDITOR

Banks hardly fall among popular institutions among both individuals and small businesses. Insurance companies also do not rank any higher. However, the 40 million people-- more than half of Bangladesh's total adult population--who do not have access to bank accounts, loans and insurance service, might think differently, especially if the access that they do gain is much more benign than the way that banks and insurers have traditionally treated their customers. The financial lives of the poor people are no different from those of the rich. If one is poor, he/she does not have a regular income and the banks aren't interested in doing business with the poor.

Banks are profit-making organisations with big overheads. It isn't that the banks should get involved in financial services for the poor, but rather there are other things the banks can do, such as lend money to microfinance institutions. And as technology improves, there are opportunities such as within mobile money, where banks can get involved with the poor on a profit-making basis. It is true that the poor in Bangladesh feel alienated and neglected by them because financial solutions are usually not tailored to their needs. Financial exclusion breeds poverty traps and inequality, and delay the development of efficient financial markets. Fixing this is important for Bangladesh.

Policies that empower women as educators of children on financial basics and as entrepreneurs themselves can help realise their untapped potential as financial inclusion enablers with enormous economic and social benefits. New technology like biometric information and digital IDs has opened up exciting new channels for financial inclusion. The government needs to work closer with the private sector to improve internet connectivity for banking through a massive programme to boost rural broadband internet infrastructure.

Regulations must encourage transparent transactions and deliver better protections for poor users. Financial institutions should avoid technical jargon in their communications with consumers; regulations must be written in simple language with no concealed exclusions or deductibles.

Above all, the need is to listen to the poor when drawing up policies to bring them within formal finance. That way, we won't end up creating more problems than we solve.

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Photo: S. M. Mahadi Masnad

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Immersive Story

No End to Poverty without Financial Inclusion

"You have good finance, bad finance, and ugly finance... You need to make sure it serves citizens, the SMEs [small and medium enterprises], and not just the banker, or the wealthy, or the chosen few"

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Fin-Biz
Finance for All

INSIGHTS AND IDEAS
FROM FINANCIAL INCLUSION
NETWORK BANGLADESH (FIN-B)
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Financial Inclusion and Women's Empowerment

A recent report by the United Nations titled, 'Turning Promises into Action: Gender Equality in the 2030 Agenda for Sustainable Development', says that achievement of Sustainable Development Goals (SDGs) could be difficult without gender equality and women's empowerment. In fact, development in any sphere would be incomplete without equitable participation and contribution of women.

Indeed, it is difficult to conceive an equal world without empowering women with equal social and economic opportunities. Empowerment is a holistic concept that requires targeted interventions across multiple action areas. However, including women in the financial mainstream and making them financially literate are among the most important action areas.

According to the World Bank's Global Findex Database 2017, in developing economies female account owners are, on average, five percentage points more likely than male account owners to have an inactive account. In Bangladesh, however, this gender gap is about twice as large, says the report, adding that more than half of women with an account made no deposit or withdrawal in a year.

Bangladesh needs to sustain the present momentum to transform into a completely financially inclusive economy. Otherwise, despite being linked to bank accounts, the rural and the excluded population will not be able to avail full advantage of financial inclusion. Building and enhancing financial literacy and education of the population, especially women's, is imperative to sustain financial inclusion while ensuring women's empowerment.

There are varied reasons for low financial inclusion and literacy among women. A majority of women in Bangladesh, especially in rural areas, are homemakers, which is a full-time job with no payment. Lower participation in workforce and wide gender pay gap are other constraints. According to the Labour Force Survey 2016-2017, the labour force participation rate in Bangladesh is 36.3% for females as against 80.5% for males. The survey also finds that irrespective of the education level and the residence (rural/urban), the average per day wage/salary earned by a female is less than that earned by a male.

This results in weak economic and decision-making power for women within the household. Usually, women in the rural areas do not possess any assets other than gold. Land and other assets are hardly

bought in their names. Absence of assets leaves women with fewer opportunities to avail institutional credit.

This huge gap, however, also provides an opportunity to change the narrative. For this, women need to be educated on the importance of institutional savings, avenues of subsidiary income and ways to avail institutional credit for micro-entrepreneurship activities. Financial education can empower women to develop a financial identity even with their small and micro household savings, and help them to get access to formal credit for gainful occupation giving them economic freedom and power. Financial literacy can motivate women generating sustainable income through micro activities to wholeheartedly use financial systems and institutions and slowly create a ground for their graduation to higher income opportunities.

Embedding financial literacy and education in programmes where women have significant representation could be a good starting point. For instance, a linkage programme between the banks and the MFIs can emerge as one of the largest programme in terms of client base and outreach, providing successful individuals and enterprises with access to institutional lending. And these entrepreneurs are more likely to comprise exclusively of women.

We also need to innovate and use technology to deepen financial education among women. Physical distance from the financial education contact centres and trainers and the socio-cultural contexts are major impediments in extending financial literacy/education to women. Therefore, there is a need to use interfaces that allow women to access financial literacy/education easily, conveniently and without disturbing their contexts.

Bangladesh has witnessed revolutionary penetration of mobile phone technologies even in the hinterlands. We need to ensure that every woman who owns a mobile phone or has access to one is able to use it for educating themselves and managing their own finances.

Bangladesh will truly become 'Digital Bangladesh' when every woman has access to mobile devices and is able to use these channels for their own empowerment and gaining economic freedom.



Is Microfinance Same as Financial Inclusion?

Many of the nearly 35 million poor people in Bangladesh lack access to institutional financial services.

The formal financial institutions mostly deny the poor their services because of perceived high risks, high costs involved in small transactions, and the poor's inability to provide marketable collateral for loans. Promotion of financial inclusion is a common development theme for Bangladesh and is key to inclusive and balanced economic growth. Providing the poor with improved facilities to save and to have better access to credit, insurance, and payment services helps them manage risk, build assets, increase income, and enjoy a better life.

A key question that the development practitioners often face is:

Is there any difference between microfinance and financial inclusion?

Since the 1970s, microcredit has pioneered a transformative vision of reaching the poor people (particularly poor women) who had previously been excluded from financial services. Starting with the group-based model, microcredit has passed through a number of transformations towards microenterprise development in the early 1990s, progressed to microfinance in the late 1990s, and now heading up to financial inclusion.

Photo: Tahidul Islam

The original microcredit model has now exploded with at least five major elements to promote financial inclusion:

1 New products beyond the original individual/enterprise credit, to encompass all forms of credit, savings, insurance, and payments.

New populations, both upmarket and downmarket of the populations traditionally reached by microfinance, and including new groups that microfinance largely ignored before, such as persons with disabilities, beggars, marginalised groups, and the elderly.

3 New platforms, using digital technologies to connect with people at more times and places.

New providers, not just traditional microfinance institutions, but a range of private formal and not-for-profit providers, with governments kicking in some helpful impetus through G2P transfers.

5 New policies facilitating all activities.

The easiest way of differentiating between the two is that microfinance covers a certain segment of the excluded market with targeted products, while financial inclusion looks at everyone who is excluded and the full range of services they need.

The spirit of microfinance is to provide financial services in a way that helps people move themselves out of poverty. This spirit contains an end objective that goes beyond delivering financial services in a business-like way. However, if we restrict the scope of microfinance as delivering useful financial services to the poor people then there can be a lot of overlap between microfinance and financial inclusion, with the key difference being that financial inclusion focuses on a very broad range of services and providers, while microfinance focuses only on a targeted range of each.

But if the broader spirit is taken, then the key difference is the end objective. Financial inclusion seeks to make sure that everyone has access to useful financial tools, while microfinance wants to make sure that the use of those tools leads to positive benefits for those living in poverty. In this view, microfinance links in with other development needs, like health, education, housing, and access to markets. It is concerned to see how the delivery of financial services can help clients address other aspects of their lives that keep them trapped in poverty.

Thus, the quality of financial inclusion—making sure that products really help people meet their needs—is important so that access to quality financial services does, in fact, help people with health, education, housing, etc. The issue is to give the poor the tools to take charge of their own development, and that is probably true of financial inclusion.

Obviously, the holistic microfinance programmes that exist in Bangladesh go beyond finance; and financial inclusion has a big vision as well. For example, if anyone is still excluded, we have not really attained full financial inclusion. If we work to include all, and at the same time do it in a way that makes sure that the poor have products and services that would help them move out of poverty, then we end up developing synergies between financial institutions, government transfer payments, mobile platforms, and other development providers. This is the sort of financial inclusion that is exciting.

Overall, these developments have been good for the poor in that they have helped expand the range of financial service providers, increased the number of products and services, improved access to millions of people, identified the need for client protection and transparency, and brought financial inclusion into the development mainstream.

Central to the above is a better understanding of what the poor need and how financial services can be made available to them in ways that align with how they live their lives. This calls for paradigm shifts and approaches that put clients at the centre of financial inclusion.

The focus on client-centred leadership and organisational culture, client experience and the business case for client centricity is the key which needs building platforms representing telecoms, consumer goods companies, fintech firms, microfinance institutions, commercial banks, insurance companies, and others.

By building a larger community, which shares best practices and challenges, client centricity will become embedded in the way these organisations work and create a broader demonstration effect. Clients will not only access services but use them continuously and effectively to improve their lives.

There is a growing body of evidence (31 randomised evaluations) about the beneficial economic impact of using savings, credit, insurance and payments. Further, we realise that financial inclusion is not an end in itself. Rather, it is a critical factor for enabling people to access better economic opportunities and improve their lives.

■ FIN-B Desk, InM



১৭ লাখ ছাত্র-ছাত্রীর উপবৃত্তির টাকা সরাসরি তাদের বিকাশ একাউন্টে পৌঁছে যায়

গণপ্রজাতন্ত্রী বাংলাদেশ সরকারের উপবৃত্তি কার্যক্রমের উদ্দেশ্য হচ্ছে স্কুল থেকে দরিদ্র পরিবারের শিশুদের ঝরে পড়ার হার কমানো ও লেখাপড়ায় তাদের অংশগ্রহণ বাড়ানো। উপবৃত্তি প্রদানের মহৎ এই ডিজিটাল উদ্যোগের সাথে সম্পৃক্ত হতে পেরে বিকাশ গর্বিত। এজন্য ছাত্র-ছাত্রীদের ক্যাশ আউট করতে কোনো খরচ হয় না বা কোনো সার্ভিস চার্জ দিতে হয় না।





Scaling-up Sanitation and Hygiene Facilities through Rural Microfinance

Out of 165 million people, around 85 million lack improved sanitation facilities in Bangladesh. One recent study reveals that only 37 per cent of the country's latrines are hygienic, while 35 per cent are unclean. In rural areas, lack of water and improved sanitation facilities, overcrowded population, unhealthy ways of disposing waste, lack of finance and finally lack of awareness contributes to the sanitation crisis.

Rural households generally prefer to invest money in income generating activities that will return cash money or invest money in asset creation or physical assets like household accessories. They are also less conscious about hygiene practices. In particular, they often see toilet as a less essential item than immediate concerns such as food. Even if they are aware of the need to improve and maintain their toilets, they are often unable to save enough money or borrow from conventional banks. As a result, the sanitation situation is very poor and in some cases there is no

toilet or sometimes the toilet structure is in vulnerable condition.

While visiting Rahima Khatun's (not her real name) house in a remote village of Mymensingh district, the author found that her house had all household equipment including television, but the toilet had no shed with bad structure. Rahima is not interested to take loan for repairing her toilet; if she gets credit, she would like to buy a cow.

New approaches are needed to improve the sanitation quality in rural areas at a scalable and sustainable mode. The 2005 National Sanitation Strategy promotes the concept of a hygienic latrine with the intention that people gradually move towards this technology. Donors typically choose a subsidy model. Some large microfinance institutions (MFIs) provide retail loans for household sanitation facilities. The joint monitoring programme of WHO/UNICEF shows that 61 per cent of population use an improved sanitation facility in Bangladesh (Table 1).

Photo: Sadia Afreen Poma

Table 1: Access to sanitation in Bangladesh

Type	Sanitation coverage, % of population					
	Urban		Rural		Total	
	1990	2015	1990	2015	1990	2015
Improved facilities	58	58	34	62	39	61
Shared facilities	27	30	16	27	18	28
Other unimproved	8	12	11	9	10	10
Open defecation	7	0	39	2	33	1

From global experiences, it is well known how support for microfinance can be incorporated into broader sanitation programmes.



Rahima Khatun's Toilet



Rahima Khatun's Tubewell

Global experiences provide a large number of lessons for expanding improved sanitation services. An NGO, named iDE, has implemented the sanitation marketing pilot project in Cambodia from 2009 to 2011. The project facilitates the market for rural sanitation by training small-scale artisans in the production and sale of sanitary latrines. As a result, 17,424 unsubsidised pour-flush sanitary latrines are purchased by rural households in 11 districts of Cambodia. The project finding shows that 'large-scale efforts to offer financing packages for latrines should therefore be aggressively pursued in rural Cambodia'. In India and Kenya, Water.org provides training and technical assistance, what they refer to as 'smart subsidies', which are handed out to selected NGOs and MFIs. In Bangladesh, Water.org is working with 13 local MFIs to expand WaterCredit in Bangladesh. They are exploring opportunities to partner with additional organisations, both financial and non-financial, to provide alternative water and sanitation solutions. From global experiences, it is well known how support for microfinance can be incorporated into broader sanitation programmes. This is not a one-size-fits-all approach, so each organisation needs to try to test different approaches and adopt a careful step-by-step approach for understanding the market, understand where to intervene, and define where external intervention is needed.

All MFIs may not be keen to support sanitation services because they are focused on their 'core business' and sanitation loans are not income-generating activities as such, and therefore seen as riskier for microfinance service providers. The donors and/or local investors can help to change the mind set to start sanitation services by the local MFIs. Such support will generate greater interest in sanitation from the local MFIs.

■ Farhana Nargis, Research Fellow
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Photo: Md. Shihab Uddin



Correspondent Banks: Banking for the Poor

Mustafa K Mujeri

Correspondent banking is one of the promising strategies for offering financial services to the poor and the excluded. In this model, financial institutions work with networks of existing nonbank retail outlets—such as convenience stores, gas stations, and post offices—to deliver financial services. The approach can be especially powerful when serving the unbanked poor because of its ability to reduce banks' cost-to-serve and reach low-income workers where they live.

Correspondent (or agent) banking benefits a range of stakeholders. The poor gain convenient access to financial services in their own communities. Financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with customers.

But implementing correspondent strategies can be tough. It may be hard to build networks of partners that can fulfil the correspondent role. The economics are still uncertain for players that do not offer a range of services. And because the strategy is relatively new for financial-services providers, it is difficult to know exactly what will work and what will not in each particular community.

Despite the challenges, several organisations have quickly succeeded to establish sustainable operations that dramatically increase the use of financial services

by the poor. Four years after Brazil, for instance, passed legislation enabling the expansion of correspondent banking, providers have extended formal financial services to every municipality (about a third of which previously did not have any outlets offering formal banking services). In Mexico, a programme of electronic transfers through the country's Diconsa stores, which sell food and other basic goods in the poorest and most rural communities, reached 200,000 households within two years of launch and could reach two million to three million more. Kenya's M-Pesa, a highly successful mobile-payment provider, has developed a network of over 16,000 agent points since 2007. They operate like correspondent outlets, putting most citizens within reach of a physical location providing cash-in, cash-out services.

A majority of the low-income people who do not use financial services live in areas that are difficult and expensive to serve. Most of these communities lack bank branches but do have other retail outlets, such as convenience and grocery stores, gas stations, kiosks, pharmacies, or post offices.

Correspondent banking enables financial-services providers to reach these communities through existing retail outlets that potential customers use for other purposes. People know the businesses, since they already frequent them for other purposes—for

Photo: Tahidul Islam

instance, purchasing groceries or fuel or picking up mail. They may even have developed a level of comfort with the proprietor and the staff. That could make customers likelier to entrust such a retailer with their finances.

The correspondent strategy is effective because it enables organisations to establish a physical presence near their customers without building new branches and thus to expand their reach dramatically at a lower cost. Providers do not have to incur the expense of building new branches and can share fixed outlays with their retail partners. Correspondent models therefore have lower average costs per transaction than traditional bank branches do.

The World Bank's Consultative Group to Assist the Poor (CGAP) estimates that the average overall monthly cost to customers of using correspondent and mobile phone-based models is 19 per cent lower than the cost of these services in traditional branches—and up to 50 per cent lower for some products, such as medium-term savings and bill payment.

Correspondent models thus help organisations serve low-income consumers at a lower cost, which is particularly important because people in the segment typically transact in small sums.

Correspondent banking can have a significant impact. But in many markets, the window of greatest opportunity may be open for only a short time, and the uncertainties related to implementation are not trivial. Some small communities have very few retail outlets, for example, and those few may belong to small operators with little or no reach across regions. Opportunities to strike partnerships may be limited.

Identifying the right retail partner can be hard, in particular because most financial institutions have no experience operating in nonfinancial retail contexts. As a result, they may find it difficult to determine which retailers have the necessary relationships with customers or struggle with how to build the reach that would deliver sufficient volume to justify the investment.

The economics can be challenging, especially for institutions that do not have diversified product offerings. Revenues generated by the small accounts and the cost of the frequent transactions typical of the working poor make it difficult for providers to generate sustainable returns through savings and payment services alone.

Perhaps above all, correspondent banking is still relatively new in the context of financial inclusion. The rules of the game vary by geography and the game itself changes as the strategy develops: competition is increasing, regulatory landscape is shifting, and customer attitudes are evolving. While uncertainty opens opportunities for innovative institutions, it also presents risks, particularly for companies that cannot refine their approaches by incorporating what they learn during implementation.

The correspondent strategy is effective because it enables organisations to establish a physical presence near their customers without building new branches and thus to expand their reach dramatically at a lower cost.

Correspondent banking is one of several models that can be deployed to advance the cause of financial inclusion. Traditional microfinance institutions and branch-based models will continue to be important but on their own cannot provide the scale needed to reach the vast population that does not use formal financial channels.

The success of organisations in countries (e.g. Brazil, Kenya, and Mexico) suggests a path for the next generation of correspondent-banking models. **Drawing on these experiences, four guidelines have been identified that can help organisations implement successful correspondent strategies.**

Move quickly to capture early-entrant advantages

Moving early is risky, particularly because the pioneers often incur hefty development costs that laggards avoid. But the risks (which of course must be managed) are justified in the case of correspondent banking because early entrants may sew up the most attractive partners before later competitors arrive.

Success in correspondent banking—a play for scale in a low-margin business—depends on the ability to develop an extensive network of retail outlets in underserved communities. The fewer partners the better, since complexity can overwhelm institutions that must manage too many relationships. The most efficient correspondent operations involve partnerships between one financial institution and one distribution network that has extensive reach across the entire relevant geography.

Early entrants often have the greatest freedom to select the best partners, leaving followers to patch together networks of smaller chains and independents—more difficult to manage and more

expensive to operate. Early entrants also have an opportunity to build the first formal relationships with their low-income customers, which may create loyalty that proves beneficial when competitors emerge.

Build the partner network rigorously

Financial institutions must take into account a range of factors when picking retail partners. Reach is one of the most important, but others, such as cost-to-serve and local consumer trust, also play a role.

Providers can use a cost curve analysis to understand the relative expense and potential reach of different channels in different communities of varying population densities. The Mexican market, for example, suggests that correspondent banking would be a good way to expand capacity in large cities and the only viable option in small villages. But it would be more difficult in midsize towns where large retail networks are scarce. This kind of evidence can help financial institutions understand how to configure a correspondent network so they can find retail partners that provide the appropriate reach into the communities they want to serve.

Trust can also be an important factor, particularly early in the effort. The case of Diconsa, in Mexico, shows that existing retail outlets often have relationships with target customers, who may therefore be more likely to trust the retailer to act as their financial representative. Diconsa stores are owned cooperatively by the communities where they are located, and community members elect the storekeepers. This cultural context is an important success factor for Diconsa.

Organisations can build trust over time by providing a consistently high-quality experience. Those that already operate correspondent networks and have a good reputation with the customer base may gain trust more easily when they open new correspondent locations. Likewise, financial institutions that are starting up networks may benefit from identifying and prioritising partners that have good relationships with target consumers to increase the likelihood of their using correspondent services once they are available.

Create diversified product offerings

Providers must develop product offerings that not only attract consumers but also generate sufficient value to sustain banking operations. Correspondent partnerships that offer more than bill-payment services and savings accounts are likelier to thrive than those that do not.

In addition to savings accounts, providers should consider offering four promising services: government payments, domestic remittances, international remittances, and direct deposits. Each offers significant value for customers, and they also enable providers to generate value through transaction fees and lay the basis for them to provide other services in the future.

Correspondents could also create value for consumers by making international remittances cheaper and more convenient; this market is typically dominated by cumbersome, inefficient, and risky informal channels. Direct-deposit services also offer value for both consumers and providers of correspondent services. Such products could also serve as the foundation for credit offerings based on expected cash flows from employers.

Conduct pilots that can be rapidly implemented and continually refined

The learning curve for correspondent banking in the context of financial inclusion is steep. Organisations should expect to make mistakes when they develop their models. The most successful operations design processes that enable them to learn from their mistakes and to develop solutions as they proceed.

To promote rapid and continual learning, organisations should develop processes to conduct targeted pilots that can be quickly revised through customer feedback and then relaunched. By enabling organisations to learn as they go, this approach minimises the risks they run while experimenting to find the best way forward.

Through relying extensively on user-centred prototyping rather than trying to launch a perfect product at scale the first time around, a series of field experiments may be conducted so that the customer behaviour can be observed and real-time refinements can be made. This approach gives the partnership early successes and help expand offerings more quickly.

Organisations around the world demonstrate the value of correspondent banking. As the strategy evolves, it will become increasingly important as a way to develop scale in financial inclusion. It is not only an effective alternative to building new branches but also an important adjunct to mobile financial services, providing cost-effective outlets for cash-in, cash-out services. Experience suggests that early entrants gain the most. Organisations that start now could promote social and economic benefits for the poor people by dramatically expanding financial inclusion and thus helping a growing number of low-income people gain access to financial tools that they can use to improve their lives.

■ Mustafa K Mujeri, Economist and Executive Director
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Agent Banking Sees Rapid Growth in Bangladesh

According to Bangladesh Bank's Agent Banking Guidelines 2013, agent banking is limited scale banking and financial services for those living in remote areas across the country through persons under a valid agency agreement, rather than a teller or cashier. An agent is a third party owner of an outlet who conducts banking transactions such as cash deposits, withdrawals, small value loan disbursement and recovery of loans, transfer of funds, paying bills under the government's social safety net programmes, and account inquiries on behalf of a bank.

Although the Bangladesh Bank issued the guideline in 2013, the banks started full-fledged agent operations in 2016. The business took off almost immediately, with 544,536 accounts with deposits of Tk. 380.68 crores opened between October and December that year. As per the Bangladesh Bank's provisions, the agents are expected to provide maximum number of services to the clients, and should not limit themselves only to facilitating account access to customers or transferring money.

Agent banking started off with 10 banks; and now 16 commercial banks run agent operations - Dutch-Bangla Bank Ltd (DBBL), Bank Asia Ltd, Al-Arafah Islami Bank Ltd, Social Islami Bank Ltd, Modhumoti Bank Ltd, Mutual Trust Bank Ltd, NRB Commercial Bank Ltd., Standard Bank Ltd, Agrani Bank Ltd, Midland Bank Ltd., First Security Islami Bank Ltd., City Bank Ltd., Islami Bank Bangladesh Ltd, Premier Bank Ltd, United Commercial Bank Ltd., and AB Bank Ltd. Further, Trust Bank Ltd, South Bangla Agriculture and Commerce Bank Ltd, Brac Bank Ltd, and NRB Bank Ltd have secured licenses from the Bangladesh Bank to operate agent banking.

There are two existing models for agent banking. Most follow the traditional approach: bank-branch-agent/partner-teller-customer. DBBL uses the distribution model for agent banking operation. It partners with master agents who work as distributors.

These master agents help to source agent banking outlets in popular bazar areas in align with bank own field force monitoring.

According to the Bangladesh Bank data, the number of accounts with agents increased to 2.46 million at the end of 2018 from 1.21 million in 2017--more than doubled in a year. The number of agents increased to 4,493 in 2018 from 2,577 in 2017 and the number of bank agent outlets rose to 6,933

from 4,157 over the same period. Total deposit collection through agent banking was Tk. 3,112.41 crores, which was Tk. 1,399.39 crores in 2017. Bangladeshi expatriates sent Tk. 5,557.42 crores through the agent banking channel in 2018, up from Tk. 1,982.02 crores in 2017.

According to experts, agent banking has been able to get such popularity mainly because of its simplicity to the clients and cost-effectiveness for the banks. Thus, it benefits both the banks and the clients, while the country's economy benefits through financial inclusion. The banks have been able to increase customer volume, improve financial appearance, lower operating costs, expand business, increase deposit collection, improve banks' branding and widen their spreads.

Agent banking has facilitated customers by providing full-fledged banking services at their doorsteps in the remote areas, and it has made convenient and easy for channeling remittances. The agent banking outlets are now not only limited to services like cash deposits, cash withdrawals, and remittance payments only, the banks have also started giving out small loans through the outlets.

Obviously, there are many challenges as well such as selection and monitoring of agents; issuing cheque books issue and clearing cheques; limited transaction time; power failures; cash carrying and management risks; physical and cyber security; and settlement of complaints. Further, agent banking is mostly concentrated in two banks (DBBL and Bank Asia) covering more than 86% of the agent banking accounts.

Agent banking is a model that can reduce costs and reach the doorsteps of micro, small and medium enterprises (MSMEs) and poor individuals with required financial services which are affordable for them both in terms of locality and prices. For the banks, it is a profitable and sustainable venture to take up this alternative delivery channel of financial services in addition to traditional branch-based banking.

Cluster Development and Value Chain Financing for SMEs in Bangladesh

Globally, cluster and agglomeration economies have increasingly drawn attention of the policymakers. The idea of promoting clusters is based on the empirical evidence that firm-level performance benefits from agglomeration. Empirical analysis points out that firms gain from agglomeration because of externalities and hence the most successful and productive firms choose to locate in the same geographic location. Agglomeration reduces the transportation cost of firms and increases the flow of technology.

Clusters of small and medium enterprises (SMEs) are probably the most important type of industrial agglomerations, and they are perhaps more in need of support than other competitive big firms though the cluster culture is mostly observed in large and medium industries. It is because networking is very weakly developed among small and medium enterprises and majority of enterprises are not aware of the fact that agglomeration and coordination are beneficial for firm performance. Sometimes the value chain linkages among the cluster do not develop as strongly as expected for a variety of reasons related to coordination failures. Coordination failures among different parts of the value chain may lead to suboptimal allocation of resources if not properly addressed by interventions. In many developing countries, successful policy interventions for different actors of value chain have developed successful clusters. These interventions can provide financial facilities or technical assistance such as training or facilitate market access by introducing the buyers and sellers to each other.

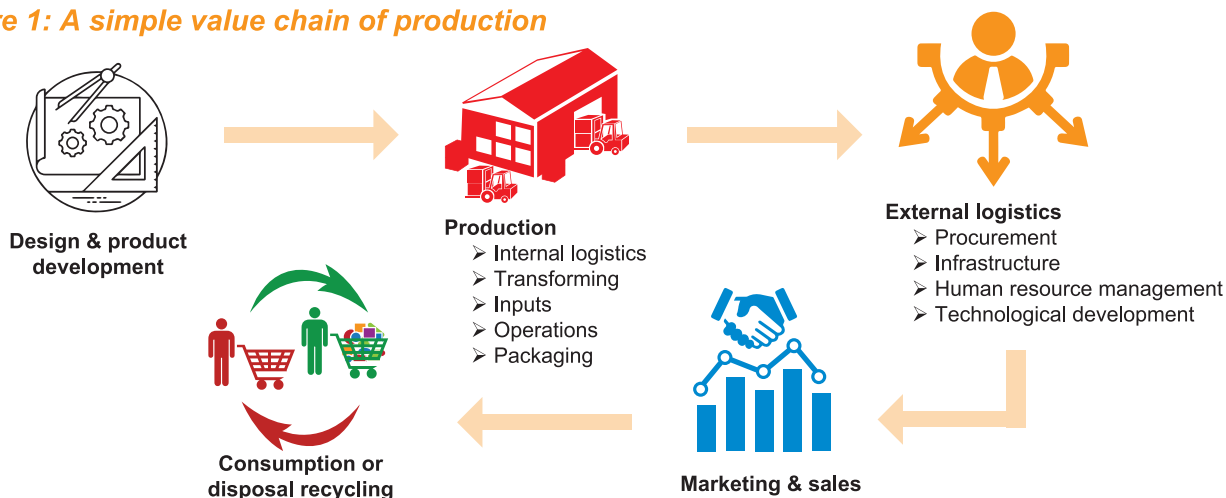
A cluster may be defined as a group of firms, suppliers, related industries and specialised institutions engaged in similar or related activities in particular fields that are present in particular locations. In Bangladesh, the SME credit policies and programmes of Bangladesh Bank define the cluster as a local agglomeration of mostly small and medium enterprises which are producing and selling a variety of allied and complementary products or services.

On the other hand, a value chain is defined as a set of activities or actions that a firm or workers do to bring a product to its target customers or market from its beginning to its final use or disposal. It indicates a full life cycle of a product or process. With growing competitiveness, division of labour and dispersal of production of components, facilitating specific actors of the value chain and efficient production is the best policy to facilitate individual producers to amplify their share of gains. Basically it reinforces market relationships so that

Photo: Internet

businesses or industries collectively work better to play a significant and competitive role in the global market. The simplest version of a value chain can be seen in Figure 1.

Figure 1: A simple value chain of production



The value chain financing therefore refers to financial products or services that flow to or through any point in a value chain that facilitate investments and increase actors' profits and the development and competitiveness of the chain. That is, value chain finance links up with two or more value chain players. It offers an opportunity to increase the scope of financing and reduce the cost and risk of it. For instance, if any credit or any other financial service facilitates any actor of a value chain, it refers to value chain financing. This leads to more secured and improved finance at any precise point of a value chain which involves multiple actors and boost up the efficiency of the entire value chain.

SME cluster and value chain financing in Bangladesh

Different institutions work within their scope to develop SMEs in Bangladesh. Although several banks and MFIs have started to provide finance to the SMEs in recent years, the volume of credit is extremely low. Available estimates show that the total amount of credit disbursed to a total of 308,601 enterprises by the country's state-owned and private banks amounts to BDT 696.70 billion during January-June 2016 of which only about BDT 37 billion (5 per cent) was disbursed to cluster-based ones. Considering the importance of financing SMEs, Bangladesh Bank and Microcredit Regulatory Authority (MRA) have enacted rules and regulations to promote financing of SMEs through banks and MFIs. The Bangladesh Government has formulated SME Policy Strategies for implementation by SME Foundation and other organisations.

The SME Foundation, for the first time in Bangladesh, took initiatives in 2013 to locate various clusters of

small and medium enterprises in Bangladesh. The SME Foundation identified 177 clusters consisting of different products. Three major types of cluster include: (i) agro-processing; (ii) light engineering; and (iii) knitwear and RMG clusters. Agro-processing clusters are mostly located in Khulna division while light engineering clusters are in Dhaka and Chittagong divisions, and knitwear and RMG clusters are mostly concentrated in Dhaka division. The total number of enterprises identified within these 177 clusters is almost 70,000; while 2013 Economic Census conducted by BBS identified 0.87 million manufacturing enterprises in 2013. This implies that only about 8 per cent of the enterprises are located in the clusters. Although these two figures may not be strictly comparable, one may broadly conclude that very few industrial enterprises enjoy the economies of concentration.

The Bangladesh Bank (BB) has also taken initiatives to identify different clusters throughout the country. The SME Credit Policy of BB emphasises 'area approach method' in disbursing SME loan. However, all the products listed under the different regions do not necessarily form clusters.

Cluster development and value chain financing

Although MFIs are disbursing ME loans since 2006 and banks are disbursing SME loans after enacting the SME Credit Policy by BB in 2010, these programmes do not normally use cluster based financing or development approach. Thus it is true that, with increase in the volume of enterprise credit by banks and MFIs, financing to individual actor(s) in the value chain has increased, but an integrated approach covering the entire value chain is mostly lacking. Thus, it is likely that some value chain actors

in the clusters identified by SME Foundation have some degree of access to finance; it is not possible to quantify the share of enterprises within a cluster that have access to financial services. However, it may safely be concluded that in the absence of an integrated cluster development approach, financial inclusion of the clusters is low.

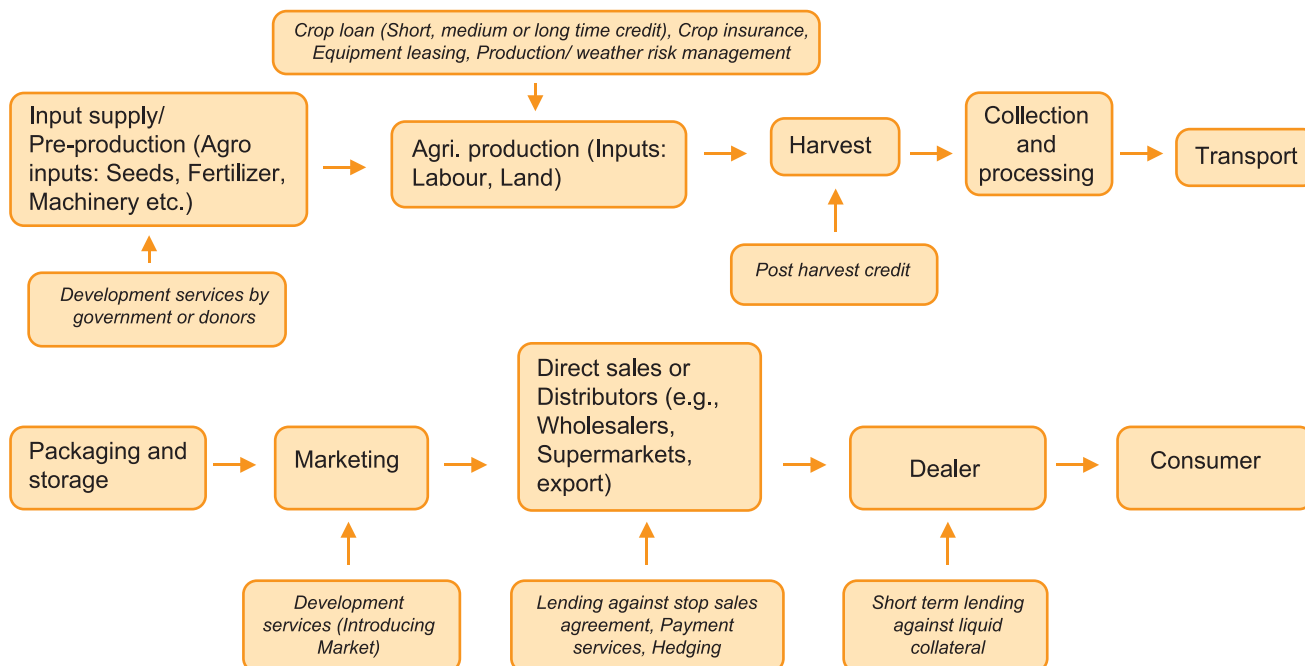
In this context, one may note that the SME Foundation has started work on development planning for the identified clusters and has so far identified 'development demand' of eight clusters. It is currently working with development demand identification for five more clusters. In addition, PKSf is working on ME cluster development through different interventions. Two projects initiated by PKSf are, 'Finance for Enterprise Development and Employment Creation (FEDEC)' (2008-2014) and 'Promoting Agricultural Commercialisation and Enterprises (PACE)' (2015-2020). Cluster development initiatives of PKSf basically consist of training, technical, technological and marketing support for the entrepreneurs; financial services like credit for microenterprises.

Facilitating credit services to resolve common problems through a joint effort and resulting dialogue

facilitates the building of trust among the groups and encourages them to specialise in complementary tasks in order to achieve economies of scale. The scope for cluster development for any product gets flourished if the important actors of the value chain of the product get financing facility. There are many examples of success while working through value chain financing across different countries. For example, while working with dairy clusters in Bolivia, strategic collaborative approach taken by Save the Children created a win-win situation for both the dairy farmers and milk processing company Delizia. The dairy farmers increased their incomes, Delizia satisfied the unmet demand for milk in the market, the financial institute increased its agricultural loan portfolio and decreased the credit risk, and Save the Children was able to work towards its goal of decreasing chronic malnutrition among Bolivian children. These achievements were possible because strong, trust-based relationships were developed that worked as soft collateral among the four parties, enabling clients without hard collateral to gain access to credit, and creating sustainable relationships among the parties. Bangladesh can benefit by following the success cases of cluster and value chain financing mechanism of other countries.

A framework of the typical value chain financing of an agricultural product is shown in following Figure.

Figure 2: Typical value chain financing of an agricultural product



■ Nahid Akhter, Senior Research Associate
Institute for Inclusive Finance and Development (InM)



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AN INTERVIEW WITH JACK MA

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Jack Ma (China, 1964) is the founder and former chairman of Alibaba Group, one of the leading tech companies in the world along with Google, Facebook, Amazon and Microsoft. He is in the process of implementing five new strategies that will drastically disrupt the ecommerce market today. Through his Foundation, Jack has one great plan: to rethink and disrupt the current global education system so that it can face the challenges of the digital era. The following gives selected portions of his interview on important aspects of financial inclusion.



AN INTERVIEW WITH JACK MA

Elena Cué: *The Jack Ma Foundation you started in 2014 gives support to schools in rural areas in China. What are your future plans in that area?*

Jack Ma: There are close to 40 million students and young people living in poor rural areas. I think the best way to help kids is to help their teachers. Teachers in rural areas have very poor conditions. They are not respected and no one cares about them. We are trying to build a system to encourage, inspire and support them. Another way to help teachers is to train their headmasters. Most teachers give up on teaching because they do not like their headmasters. Headmasters in rural areas have never received even an hour of training, so how could they inspire teachers? That prompted us to start this programme.

Unfortunately, a lot of schools in poor areas do not have enough kids. Each school has about 15 students in each grade. We try to combine them and create boarding schools with over 100 students. Teachers love to go and teach there. China, Africa and a lot of developing countries are experiencing the same problem. We are developing a huge plan. We want to improve the model we have in China and then use it in other countries. The other thing is how we can use internet and technology to train students, teachers and headmasters. I am really interested in this type of education.

Elena Cué: *Considering the current exponential development of technology, transhumanism and artificial intelligence, what do you think should education be focused on in this new world that is coming?*

Jack Ma: My view is that the whole education system needs to be upgraded. Today's education system was designed 100 years ago during the industrial period. It trains people to remember and calculate things; it makes people smarter and more hardworking. Unfortunately, we are moving from an industrial period to a digital one. Over the past 30 years we have been trying to make people like machines. In the next 30

years we will be making machines like people. The current education system trains people to compete with machines.

Elena Cué: *Is not that an impossible battle?*

Jack Ma: Yes, there is no doubt in the digital age in which we live. The only way to succeed is to start teaching our kids to be more creative, constructive, and innovative. This is the way the education system should follow. We have to train our kids not to have to best scores but to be the best version of themselves because no matter how hard you work on remembering and calculating things, a machine will always be able to do it much better than you will. If we do not change the way we teach, our kids will be in big trouble in the future. In the age of information explosion, we should teach our kids to have independent thought.

Elena Cué: *Now, human beings worry a lot about artificial intelligence and robots...*

Jack Ma: But I do not. Robots are machines; they do not have a heart. They only have a chip. A chip can never dream like a heart does. The heart has love, dreams and creativity. If human beings only use their brains, no matter how hard we work, we will not be able to compete against the machines. Heart is about EQ and brain is about IQ. If we only compete with our IQ, we will be gone. We have to compete with our EQ and LQ plus our IQ. That is the educational system that the world needs.

Elena Cué: *What does creating the E-commerce world giant Alibaba Group mean to you?*

Jack Ma: What we want to do is not to just make E-commerce. Alibaba facilitates all aspects of business. During the industrial era, only big companies were successful. They had the money, resources, network and technology. However, 99% of the businesses worldwide are small businesses. So

we want to help small businesses compete and be prosperous. Today, Alibaba does everything to empower small businesses and young people to grow. Our dream is through technology to enable that every small dream comes true. That is why we focus on marketplaces. We build logistics, financial and cloud computing systems. These are the systems that can improve any small business and make it competitive. In the beginning nobody believed my vision but in the past 20 years all companies that have used our marketplace and systems have gone on to be successful.

Elena Cué: *What changes of your "Five Big New" strategies do you consider will be the most important in the future?*

Jack Ma: In the next 10 to 20 years we will be moving into the new retail. It is redefining the way retail works. Offline shops are waiting for customers to come. New retail is offline and online combined. It is no longer you going to the shop, now the shop goes to you. New retail has new manufacturing as well. In the old days, manufacturing was about ideas and engineering, making a product and selling it in the market. Because of data, in the future we will know exactly what everybody wants so we will be able to tailor-make it. In the past it was B2C (business to consumer), now it is C2B (consumer to business).

The financial system of the past was the big banks looking for a customer who would like to invest. In the future, we will empower every small business that needs money. As long as they have a good credit rating system, they will get finances. We are redefining the financial system.

Cloud computing and internet technology is going to replace traditional technology. In the last century the competitive advantage was oil, this century it is data. Without data, it is difficult to customise and be innovative. Data is very important. These are the five elements that we think are going to change the world significantly. At first, the retail and manufacturing industries will not like it. Successful people love yesterday. But successful people only represent 20% of the population. What we want to do is make 80% of people more successful while making sure everyone is competing for the future, not for yesterday.

Elena Cué: *How can Artificial Intelligence help humanity?*

Jack Ma: Every technological revolution brings a disaster. The initial intention is always good but the consequences are not. As I said in Paris and New York, the First Technological Revolution, directly or

indirectly, caused World War I. The Second Technological Revolution again, directly or indirectly, caused World War II. Now we are in the Third Technological Revolution. If human beings do not respect it, embrace it and lead it into the right direction, we may have some big problems. If there ever is a World War III, it should be a war against poverty, disease and environmental issues. Humans should use technology to solve their problems instead of using it to become more powerful and compete against each other. That is crazy and stupid.

Elena Cué: *What is the greatest contribution of the current Technological Revolution?*

Jack Ma: The first technological revolution relieved human energy. The second relieved distance. The current one relieves the brain. It will bring challenges but it will make human life better. I am 100% sure about that. The only issue is how we are going to train and develop our current and future generations to be ready for it. If you are not ready for that technology, you will be scared. And with fear comes problem. It is not the young people or poor people who are worried about the technological revolution; it is the powerful rich people and developed countries. That is very interesting. Artificial intelligence is coming. You cannot stop the new technology but you can change yourself and embrace it. Technology should be used for good deeds. Tech companies have to take responsibility. Especially companies like us, Google and Amazon. We have a big responsibility to care for issues like jobs, privacy, etc. Only then will we grow together.

Elena Cué: *You said that the fact that 47% of your employees are women has contributed to your company's success. In which ways do you think they did?*

Jack Ma: We no longer have 47% as we have just acquired two big companies with mostly male employees so that percentage lowered down a bit. I am giving my plea to the team so we can get back to those figures. If we have it below 33%, then we have a problem. I did not know we had so many female colleagues in the company until an American journalist asked me about it. I did not realise it at the time. Then I looked it up and realised it was true. More than 34% of our senior managers are women. That is a lot of women leaders. Alibaba became so popular on the internet. 15 years ago I told the team that the computer is all about code. However, it is not the computer talking to another computer; it is the people behind the computers communicating with each other. The computer is only a tool. We thought about making

our services, software and products more human-like, more considerate. We found out that women do a better job on that. Women care about others much more than men. Unfortunately, men care more about themselves. Women care about their husbands, children, parents. They are more considerate. You need more people that care about others in your company. Women are more loyal as well. It is very difficult for other companies to steal them as employees. If you treat them fairly, they will be very loyal. We have so many great women leaders and employees at our company. Men think about what they can get. Women think about what makes them happy. In this century there will surely be more women leaders, not only in business, but in the world itself. The world will be more balanced.

Elena Cué: *You have included the practice of Tai Chi Chuan, which you consider essential for your life, as part of your employees' working day. Why is it so important to you?*

Jack Ma: Tai Chi is a philosophy about balance. It is about hard and soft, fast and slow. This is the philosophy I like. No matter how strong you look, you should be very soft on the inside. If you want to live longer, you should not do much exercise. Turtles do not move but live very long. However, if you want to live a healthier life, you should exercise more. That is how health and longevity compare. Turtles have a lot of diseases but they manage to live longer because they save energy. A lot of animals, who run fast, do not live long. That is the balance. When you create products for your customers, you should also have this philosophy in mind. A lot of young people love to move fast. If slow is done properly, it ends up being fast. This is the philosophy I want to bring to the company. In the western society, young people like boxing. Boxing is fast but how many years can you do boxing? By 50 you are gone. With Tai Chi, when you are young it does not make any sense. But when you reach 50-60, you get a much more balanced body. I want to make companies live longer with a philosophy behind them. If you only live for the next quarter, forget it. If you want to live 100, 200 years, you need to think about the culture that will make you live longer.

Elena Cué: *The most important thing about a company are the employees ...*

Jack Ma: In our company we believe everyone should treat work happily but treat life seriously. I always say "Do not work too hard. Please work happily." I hate when people work very hard. How can they last? Only when you are happy, you get creative and innovative

and you last long. When you find the click of happiness, a fountain of ideas comes out.

Elena Cué: *China has become one of the greatest world powers. What factors do you think have been the keys in the remarkable development of China?*

Jack Ma: In the past 40 years, what China has done is to start learning. Learning is so important. China used to be so closed. When a country or a person is closed, he/she refuses to learn from others. What does close-minded mean? It means you refuse to learn new things. China opened its mind. We have learned from the US, Japan, Europe. Our people are so hardworking because we have been poor for so many years. For example, today in China, in a city like Beijing or Shanghai, if you take 100 young people, 90 of them can speak at least 20 English words. But if you go to New York or Washington and take 100 American young people, how many of them can speak a foreign language? Why? Because we have learned. Learning and hard work can change everything. The other factor is that China really respects knowledge. It is improving a lot. In the early days, we took on a lot of the outsourced low-end work from the US related to road work and clothes manufacturing. We did not care; we just wanted to do it. Everyone can be successful if he/she works hard. You do not care if it is big or small, you just do it. There are a lot of reasons behind China becoming the second largest economy. This is something that the world should see and respect. We are hard-working, we learn, we are open-minded. Of course, there are still a lot of things that China needs to improve.

Elena Cué: *According to your experience, what is the current state of the commercial relationship between the United States and China?*

Jack Ma: USA and China have some problems and this is very natural. We have had 40 great years of business partnership. We should find positive ways to solve these problems and we need to consider both sides. Competition and cooperation should be considered together instead of turning a competitor into an enemy. We should not solve a problem by causing another one. We have to always look positively. The bottom line is there needs to be a working relationship in place. When USA and Russia have a good relationship, it means world peace. When USA and China have a good relationship, it means prosperity.



Reaching Digital Economy's Last Mile

Over the last decade, Bangladesh has made tremendous progress in expanding access to financial products and services for underserved communities. The 2017 Global Findex database shows that nearly 36 million adults have obtained a bank account since 2011, including 27 million since 2014.

Access alone, however, is not enough to achieve meaningful financial health. Many of the financial accounts opened are dormant. Some account holders simply convert the digital payment to cash. Clearly more work is needed to ensure that the base of the pyramid (BOP) users can join, participate and benefit from the growing digital economy.

There are various pathways for building robust, commercially viable approaches to digital financial inclusion. The potential for digital growth is still largely untapped. In Bangladesh, only a small share of person-to-merchant payments are digital. Addressing these opportunities can unlock the spending potential of financially underserved populations. The potential for digital growth lies with connecting suppliers and merchants who touch consumers, employees and entrepreneurs who are under or unbanked on a daily basis.

The goal should be to develop and deepen digital liquidity throughout the payments ecosystem. Building digital liquidity means making it easier for people to access a digital account; use it to transact and keep or grow their balance over time. But this development and deepening often doesn't come effortlessly or all at once. To build digital liquidity in a balanced and inclusive way, we need to develop a full view of how consumers receive and make payments. **There are three areas of focus for driving digital liquidity:**

Payment Inflows.

How consumers and businesses receive money—either in the form of wages or social subsidies from the government, or payments from customers.

How consumers and businesses spend money—at retailers, on transport and basic services, and in payments to suppliers and employees.

Payment Outflows.

Value Chain Payments.

How consumers and businesses participate in value chains.

These opportunities offer benefits for society, but also for business. For the purpose, one should identify various sectors where these opportunities are largely

untapped and where businesses can leverage their networks to help bring consumers into the digital economy.

Many merchants and suppliers are already realising the value of digital transactions: Payments are easier and real-time data makes for better business decisions. Moving away from cash yields greater efficiencies and enables expansion to new markets.

Non-traditional actors such as contract manufacturers, mass transit providers, fast-moving consumer goods companies, energy providers and agribusinesses will be important for building digital liquidity and driving financial inclusion. These are the organisations that sell to, buy from and employ millions of consumers and small merchants who are still left out of the formal economy. These are the sectors where we see the strongest potential for payments growth. Not only do these actors play a critical role in serving the base of the pyramid, they also have an interest in the digitalisation of their business models. They stand to benefit from the tools—more efficient digital payments, as well as from the outcomes—greater financial inclusion.

Contract manufacturing: Digitising payrolls for garment industry workers has shown great promise in reducing inefficiencies. In Bangladesh, the Business for Social Responsibility partnered with the Bill & Melinda Gates Foundation to digitise worker salaries in 21 factories. Subsequent surveys found that factories that implemented digital payments saw a 53 per cent reduction in time spent on administration. Furthermore, the proportion of women who could not save because a family member controlled her wages decreased by 69 per cent.

Mass transit: Even as urbanisation takes hold at a rapid pace, mass transportation remains unaffordable for the poorest 20 per cent of the population in many emerging cities. The opportunity to digitise recurring transit payments presents benefits for governments, business and society as a whole. Access to convenient and affordable mass transit will allow cities to operate more efficiently and enable greater economic mobility.

Fast-moving consumer goods: Digital payments also provide access to new markets and new revenue sources for merchants. The Jaza Duka partnership between MasterCard and Unilever is a good example. By digitising information from suppliers and local distributors, one can analyse merchants' purchase history, and transform it into a proxy for credit. Together with Unilever, this has created a safe digital platform for merchants to access and use low-risk

microcredit, which is underwritten by a local bank. Participating merchants saw sales grow 20 per cent on average in the first six months after gaining access to the loans.

Energy access: A revolution is being witnessed in energy access especially with the introduction of pay-as-you-go (PAYG) providers, which is not possible to scale without the incorporation of digital payments. The combination of solar technology, the internet of things (IoT) and digital payments has produced a new business model capable of reaching millions of new consumers who were previously off the grid. MasterCard formed a partnership with M-KOPA, a PAYG provider operating in East Africa, to provide an open and interoperable solution that allows customers to make payments through the use of QR codes and their mobile phones. Furthermore, energy access is only the beginning of applications for the PAYG business model, which has the potential to bring valuable products and services to entirely new markets, leveraging the data captured through consistent digital transactions.

Agriculture: Finally, food and beverage companies that source agricultural products are another high-opportunity sector. Digital payments make doing business for the small farmers safer and more efficient. The farmer no longer has to hold large amounts of cash during harvest, for example. And doing business digitally means fewer farmers must travel long distances to markets. For agribusinesses, having more digital payments means more real-time data on transactions up and down the chain, which can inform better business decisions. Digitising transactions between the agribusiness and a farmer also creates a 'data footprint' that allows greater supply chain visibility.

While these stakeholders have not traditionally been considered drivers of financial inclusion, they have a vested interest in and stand to benefit from greater financial inclusion and digitisation of payment ecosystems. It is abundantly clear: we cannot make progress toward sustainable change without collaboration with 'last mile' partners who also believe in the power of financial inclusion and digitisation to lift people out of poverty. Furthermore, 'last mile' stakeholders who participate in this effort will gain corresponding benefits to their business while also helping to create a robust payments ecosystem.

By engaging with a broad and diverse group of strategic 'last mile' partners we can tackle the challenge of viable financial inclusion and help move millions of people towards financial health and inclusive growth.

■ FIN-B Desk, InM



Risk Mitigation: Innovative Models in Operation

In China, the agriculture FinTech Company Nongfenqi assesses creditworthiness of customers through conversations with their business partners, customers and fellow villagers. Analysing customers' reputations anecdotally has resulted in a default rate of just 0.1% on loans made to over 20,000 farmers till early 2017.

In India, CreditVidya assesses lending risk by analysing consumers' internet footprint, social media usage and psychometric test results. Within two years, the company has five million customers and partnerships with over 20 leading financial institutions.

In a number of markets, FICO collaborates with psychometric credit scoring partner EFL Global to send psychological questionnaires to potential borrowers via their mobile phones. Using this technique, it validated over one billion individuals for more than US\$1.6 billion in loans from 35 financial institutions within a year in 2017. Partner banks were able to use risk-based pricing, with defaults remaining manageable at low single digits in India to low double digits in Brazil.

In India, FinTech Signzy provides cloud API-based background checks on digital identification, forgery detection and contract management system services.

This has helped reduce the identification and verification process for some banks from approximately two weeks to two days.

In India, Aye Finance is a small businesses lender that develops credit assessment processes using business and behavioural data, trade associations and referrals, coupled with modern workflow automation. It has disbursed US\$32 million of loans to MSMEs in India since 2014.

In Mexico, Konfio is an online lending platform that measures credit worthiness of MSMEs through a proprietary algorithm that uses more than 5,000 biographical, social and financial data points to create a single credit measure. Since launching its first product in 2014, Konfio has originated more than 50,000 business loans.

In Kenya, Kopo Kopo, a business management software provider, offers unsecured cash advances to merchants accepting electronic payments via its system within 24 hours, aligning their expected cash flows to loan repayments. It facilitated loans of over US\$2 million to almost 600 merchants within a year of launch.

■ FIN-B Desk, InM

The Age of Digital Interdependence



Digital technologies are rapidly transforming societies, simultaneously allowing for unprecedented advances in the human conditions and giving rise to profound new challenges. Growing opportunities created by the application of digital technologies are paralleled by stark abuses and unintended consequences. Digital dividends co-exist along with digital divides.

People who lack safe and affordable access to digital technologies are overwhelmingly from the groups who are already marginalised: women, elderly people and those with disabilities; indigenous groups; and those who are poor, and live in remote or rural areas. Many existing inequalities – in wealth, income, opportunity, education, and health – are being widened further. One key issue is: How can we use digital technologies to contribute to the achievement of the SDGs?

The Panel appointed by the UN Secretary-General in July 2018 on digital cooperation and how digital cooperation can contribute to the achievement of the SDGs, comes up with several priority actions that deserve immediate attention.

AN INCLUSIVE DIGITAL ECONOMY AND SOCIETY: By 2030, every adult should have affordable access to digital networks, as well as digitally-enabled financial and health services, as a means to make a substantial contribution to achieving the SDGs. There should be a platform for sharing digital public goods, in a manner that respects privacy, in areas related to attaining the SDGs. The private sector, civil society, national government, and other stakeholders should adopt specific policies to support full digital inclusion and digital equality for women and marginalised groups.

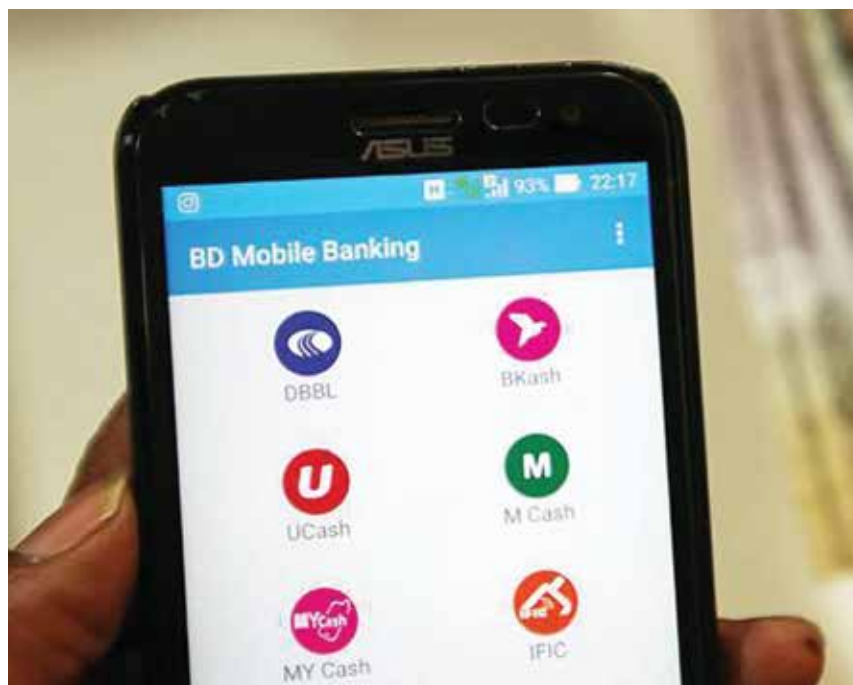
HUMAN AND INSTITUTIONAL CAPACITY: Regional and global digital help desks should be established to help government, civil society and the private sector to understand digital issues and develop capacity to steer cooperation related to social and economic impacts of digital technologies.

HUMAN RIGHTS AND HUMAN AGENCY: A review should be made on how existing international human rights accords and standards apply to new and emerging digital technologies and how to apply existing human rights instruments in the digital age in a proactive and transparent process. Social media enterprises should work with government, international and local civil society organisations and human rights experts to fully understand and respond to concerns about existing or potential human rights violations. Audits and certification schemes should monitor compliance of artificial intelligence (AI) systems with engineering and ethical standards, which should be developed using multi-stakeholder and multilateral approaches. Life and death decisions should not be delegated to machines.

TRUST, SECURITY AND STABILITY: A Global Commitment on Digital Trust and Security should be developed to shape a shared vision, identify attributes of digital stability, elucidate and strengthen the implementation of norms for responsible uses of technology, and propose priorities for action. If we are to deliver on the promise of digital technologies for the SDGs and avoid the risks of their misuse, we need purposeful digital cooperation arrangements. Given the wide spectrum of issues, there will of necessity be many forms of digital cooperation; some may be led by the private sector or civil society rather than government or international organisations. Moreover, special efforts are needed to ensure inclusive participation by women and other traditionally marginalised groups in all new or updated methods of global digital cooperation. The 75th Anniversary of the UN in 2020 presents an opportunity for an early harvest in the form of a Global Commitment for Digital Cooperation enshrining goals, principles, and priority actions.

■ FIN-B Desk, InM

Does Access to Mobile Financial Services Benefit Micro Merchant Businesses?



In recent years, micro merchants have been receiving increased policy attentions as they are one of the key drivers of economic growth and structural transformation in Bangladesh. These businesses show significant dynamism and flexibility, and they can adapt quickly to changing market demand and supply situations. They are important vehicles for diversifying economic activity and have the ability to make significant contribution to economic well-being of the people. According to the 2013 Economic Census, there are about 8.0 million economic units compared with 3.7 million in 2003 and, out of these 8.0 million, more than 35% are economic households. The majority of these economic households have micro merchant businesses.

In recent decades, mobile money technology acceptance rates increased among small and medium businesses. The remarkable gains made towards mobile phone access have seen a steady progress in the scope of innovations deriving from utilisation of these fairly new technologies. However, for microenterprises or micro merchant businesses the scopes for utilising mobile technology as a means of accessing financial services are yet to be flourished.

A recent study by InM shows that micro merchants using own mobile account have 20% of their total capital funded by commercial banks through loans which is significantly high while comparing it with the average of all the micro merchants. The result also indicates that access to bank financial services increases with mobile banking irrespective of transacting from others' account or own account. However, the probability of positive impact is statistically significantly higher for the micro merchants having own mobile account. It is also observed from the research that transaction using own mobile



account influences the profit in a greater way than transacting from others' account. The result shows that using own mobile account is expected to increase the micro merchant's profit by 0.34% as opposed to 0.17% for the micro merchants using others' mobile account. It is expected because business transaction becomes easier with the use of mobile account and if the merchant operates his own account it becomes even more flexible for him to conduct day to day transaction.

The study also confirms that majority of micro merchants are mostly unaware of the benefits of using mobile financial services in business purposes. Therefore, policy makers and other relevant stakeholders (such as the ministry of education) may opt for policies that would boost financial literacy among the micro merchants and other potential and existing financial service holders. It is also important to create digital awareness among micro merchants by improving their understanding regarding the benefits of using own mobile accounts along with developing financial literacy. As the study shows statistically positive impact of having access to mobile account (especially conducting transaction from own mobile account) on micro merchant business' profitability, policy makers can promote expansion of MFS account for merchants through developing innovative digital payment instrument, enabling digital platforms and providing trainings to the micro merchants to be able to manage cash, accounts and inventories using mobile technology.

■ Farah Muneer, Senior Research Associate
Institute for Inclusive Finance and Development (InM)

Take fresh look at
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In 2019

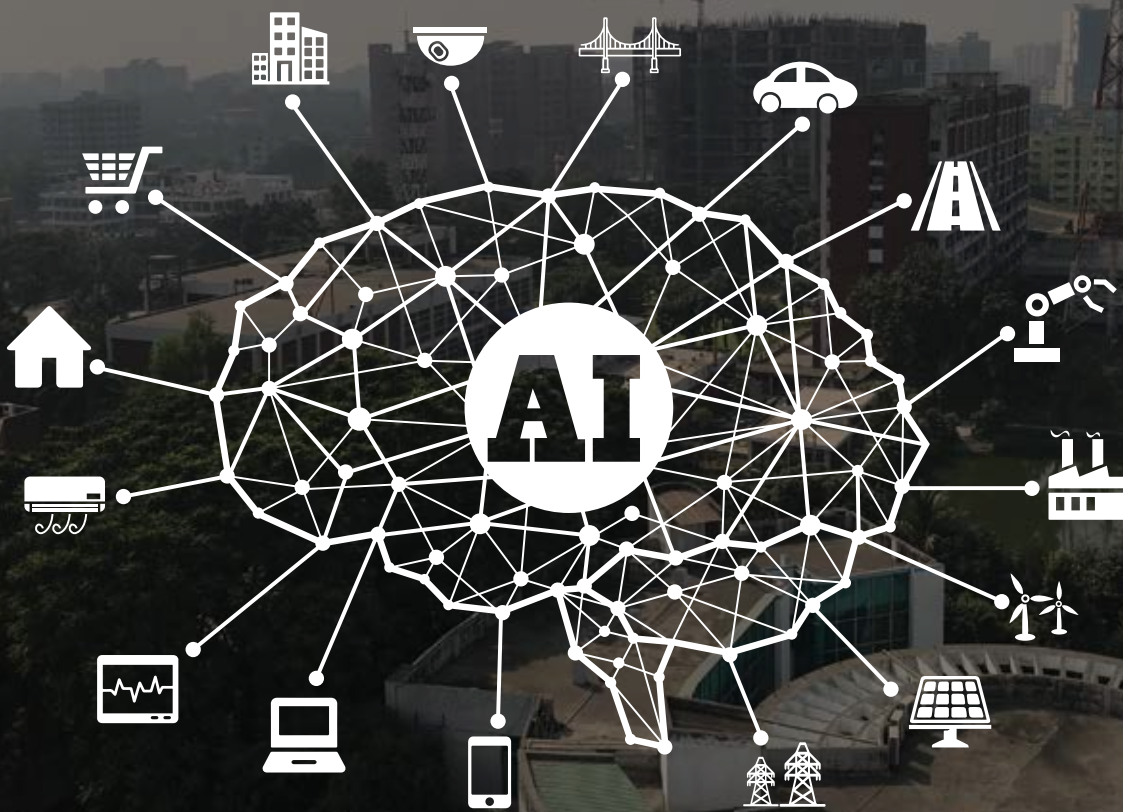


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Using AI for Development

Artificial intelligence (AI) -- through intelligent automation -- can increase labour capabilities and innovation; and add significantly to gross value added of the Bangladesh economy. Now is the time to recognise the potential of AI which is the world's fastest growing economy. Technologies like machine learning, artificial intelligence, Internet of Things, 3D Printing, and initiatives like Digital Bangladesh can help in establishing the country as a digital economy.

For joining the AI race, Bangladesh needs to develop a national strategy for AI and identify key focus areas such as healthcare, agriculture, education, smart cities and infrastructure, smart mobility and transportation and how AI can transform these sectors through innovation in the delivery of services.

There are, of course, many challenges to AI across these sectors such as lack of data, inadequate research, lack of AI expertise and manpower, high costs, low levels of awareness, unclear regulatory framework and a discouraging IP regime. But Bangladesh also has key advantages in a massive workforce, a growing start-up scene and opportunities for data mining as an increasing population shifts to smartphones.

In manufacturing, AI can modernise and hence expedite processes and decision making. It can also lead to improvements in logistics, supply chain management and maintenance of equipment. A 'hybrid' team of human workers and robotics can enhance labour output. In the electronics sector, AI can be used in manufacturing and automated testing processes. It may also be deployed in end processes as robotic appliances, user interface and virtual assistants. Smart Factories may be set up that are fully automated with the help of AI and the Internet of Things (IoT).

In the automobiles sector, AI can be used in the manufacturing process and for developing autonomous and intelligent transport. In India, Bengaluru Smart City is using a prototype of AI powered traffic management system in collaboration with Electronics City Township Authority (ELCITA). The system uses video streams from multiple cameras to perform traffic management tasks of vehicle detection, controlling traffic lights and estimating traffic density.

In FinTech, AI can revolutionise financial transactions by making them presence-less, cash-less and

consent-based. This may reduce possibilities of fraud and multiply opportunities for transactions. AI can also help in accurate risk assessment of borrowers in the lending market, thus increasing credit while also protecting banks from non-payment of loans and can also be deployed to manage investment risks.

In health, AI technologies can help in collection of health data for R&D purposes, supporting management of routine clinical problems and advanced diagnostics and detection. For the differently-abled, AI can be deployed significantly for visual and hearing aids, brain machine technologies, prostheses, mental health screenings, and robotic assistance.

In a country without a universal healthcare plan and a majority rural population that do not have access to doctors and pharmacies, AI can help bring good health to many by enabling access, reducing the workload of doctors and specialists and instant diagnosis.

Agriculture, a major contributor to Bangladesh's GDP and employment, can benefit from AI in areas of real time weather support, crop prediction, irrigation and intelligent mechanisation of farms. This can enhance the yield per hectare significantly. Digital agriculture is the use of IoT, AI and data analytics in agricultural processes. It allows for a real time understanding of crop behaviour, weather predictions and supporting a higher yield per hectare through improved tracking and monitoring systems. The International Crop Research Institute for the Semi-Arid Tropics (ICRISAT) has developed an AI sowing app in collaboration with Microsoft to send sowing advice to farmers through a feature phone. Microsoft has also collaborated with United Phosphorus (UPL), India's largest producer of agrochemicals, to create the Pest Risk Prediction App that leverages AI and machine learning to predict the risk of pest attack. Similarly, CropIn, a Bengaluru based start-up, is deploying a 'smartfarm' solution that helps in weather predictions, farm monitoring, farmer education, pest advisories and harvest estimations through AI.

Bengaluru based Intello Labs is using deep learning algorithms for agriculture product grading and infestation alerts. Gobasco, is an Uttar Pradesh based company working to revolutionise the agricultural supply chain through real time data analytics powered by AI. Jivabhum's 'Foodprint' is a 'smart agricultural marketplace' that aggregates farm produce using blockchain technologies. Similarly, pollution control at source, identifying harmful pollutants, prediction of depletion of natural resources and prediction of

meteorological phenomena can all be made possible through deployment of AI technologies.

AI can be used to ensure more efficient deliverance of public utility. It can have implications in curbing corruption and monitoring provision of services. AI can help in data protection and transparency with respect to consumer data. It can safeguard against breaching of standards. Further, it can aid the government in levelling the playing field for smaller retailers.

AI can help in measurement of teacher and student outcomes leading to better resource management. It can also create dynamic course syllabus, useful in individual learning. It can also support teaching and learning methodologies.

No doubt, data availability and security, digitisation of systems and employment concerns may emerge as major challenges for AI deployment in Bangladesh. It is true that trust, data literacy and lack of awareness are hindrance to widespread deployment of AI. There are also issues related to ethical usage of AI and establishing legal provisions for regulation of AI activity. While a short term job disruption may be expected due to AI technologies, it is also likely to create new employment opportunities in the long run that may offset the balance in the coming years. Setting up of data sharing platforms, data marketplaces with due consideration to security and privacy will drive the data hungry AI networks.

If Bangladesh is to fully exploit the opportunity that AI presents, vast infrastructural refinements are necessary. In order to make quick intelligence decisions, it is important for the AI technology to be cognisant of the real time situation, updated to the last millisecond. This requires an information infrastructure capable of high speed, real time data communication. This entails sensors, computers and communication systems that collect intelligence across land, air, sea, space and the cyberspace and fast processing, analysis and delivery. Public-private partnerships can be beneficial in laying down the infrastructural underlay and AI supportive technologies.

There is also a need to establish a comprehensive set of legislations to regulate unmanned armies and autonomous weaponry so as to adhere to ethical and moral reasoning. They must be governed by strict configurations and safeguards. Experts should work on deploying Lethal Autonomous Weapon Systems (LAWS) that once activated can select and engage targets without further human intervention.

■ FIN-B Desk, InM

How Technology Improves Financial Inclusion

In Bangladesh, more than a third of the population is unbanked. It has not been economically viable for the financial system to provide financial services for these individuals, as they do not meet the minimum profitable threshold for the financial institutions.

The introduction of new technologies has created the potential to lower the cost of overcoming the hurdles that stop people entering the banking world - be they geographic or regulatory inaccessibility, product mismatch, or a lack of trust, or other reasons. Some lack access to banking institutions, while others simply have needs that existing products cannot address.

One big problem is onboarding people who have never had access to banks or credit. How do you get them to trust banks with their money, and vice versa? Banks are now able to offer innovative solutions, such as bank account that bundles low-cost insurance protection with the benefits of a savings account. This will foster trust among customers – many of whom will use credit products in the future.

Channel innovation is also a key. Digital channels can provide greater convenience for customers as well as lowering the cost for banks, and have been instrumental in helping providers overcome challenges related to infrastructure and geography. bKash, for example, allows people to exchange hard currency for e-money through a network of community-based agents. This can then be used to transfer money to others, receive money, and buy mobile airtime.

Building effective financial inclusion requires a 'bricks-and-clicks' distribution model, including physical branch presence to build trust and confidence, perhaps supplemented by agents (such as post offices and



supermarkets). This may take nontraditional forms, such as floating bank branches allowing inhabitants of remote areas to access financial services. Indonesia's Bank Rakyat has even gone so far as to launch its own satellite to provide reliable connectivity and reduce operating costs.

Technology also allows financial institutions to overcome the lack of credit histories. Many financially excluded individuals do not have the financial track record that banks traditionally rely on to support lending decisions, nor do they necessarily have formal proof of identification. Pioneers in this space are developing new underwriting and credit scoring analytics for individuals and businesses to assess lending risk.

In Mexico, the lending platform Konfio measures creditworthiness of potential business clients through a proprietary algorithm. By looking at cash flow and willingness to repay through analysing the online application, social data, e-commerce platforms, and other data sources, they are able to create a credit rating for business that would previously be turned away. In China, the agriculture fintech company Nongfenqi does the same through conversations with customers' business partners, customers, and fellow villagers. These new ways to calculate risk save financial institutions money while allowing them to expand their customer base significantly.

There has never been a better time for banks to seek revenue growth through financial inclusion. Banks that seize the opportunity opened up by new, cheaper, technology will be well positioned to capture market share and play a lucrative and transformative role in market growth in Bangladesh.

■ FIN-B Desk, InM

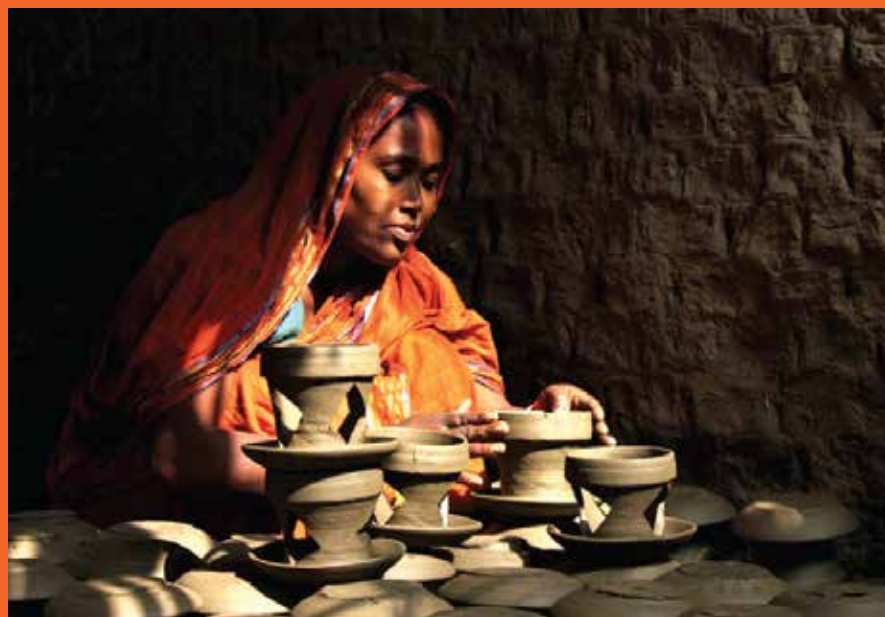


No End to Poverty without Financial Inclusion

Two things come to mind for Ceyla Pazarbasioglu when she thinks of financial inclusion. First is the core mission of the World Bank, where she has been vice-president for equitable growth, finance and institutions since October of last year.

“You step in the main entrance here and it says, ‘Our dream is a world free of poverty.’ That’s the first thing that hits you. And I really think we’re not going to eradicate poverty unless we have financial inclusion,” she says.

Yet Ms. Pazarbasioglu also warns that unless finance is expanded in the right way, it has the potential to backfire dangerously — a cautionary note that is informed in part by her previous roles at the International Monetary Fund and as a government official in her native Turkey.



“You have good finance, bad finance, and ugly finance... You need to make sure it serves citizens, the SMEs [small and medium enterprises], and not just the banker, or the wealthy, or the chosen few,” she adds.

Margaret Miller, global lead for responsible financial access at the World Bank, explains that adults without an account at a financial institution or a mobile money provider share several traits: individuals have lower incomes; they are

Photo: *Internet*



geographically isolated, usually in rural areas; they have lower levels of education; and they are predominantly female — 56 per cent of the unbanked globally are women, according to Findex.

But the growth of technology including fintech is now offering a promising new avenue to accelerate the efforts already under way to narrow these gaps.

“It reduces costs, it’s much more efficient, it can be scaled up,” Ms. Pazarbasioglu says. **“It does come with risks as well because, you know, you really don’t want to hurt those that are most vulnerable,”** she adds, referring to threats such as cyber security and people borrowing excessively. **“So we have to be careful. But I think it is really remarkable.”**

“The number of institutions and people talking about financial inclusion and the need for it has really, I think, grown very sharply in the last

decade,” Ms. Pazarbasioglu says. **“You also see a lot of the private sector now talking about it and being engaged.”**

Crucially, too, national regulators and central bankers, which might have resisted pushes for financial inclusion in the past for fear that they could destabilise their financial systems, have become much less sceptical. **“I think it’s much more clear now that unless you have an inclusive system, it’s not a sustainable or stable system,”** Ms. Pazarbasioglu says, **“There is much more awareness and much more understanding.”**

“What I like about technology is that it starts by asking a question, and is trying to find a solution to a problem,” she says. **“How can I solve it with limited costs, and then see if it can be scaled up?”**

■ FIN-B Desk, InM



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Photo: Tahidul Islam

Bangladesh is a remarkable country on many counts; it is one of the fastest growing economies in Asia. It has transformed itself from a low-income and agriculture-oriented economy to a modern manufacturing-led one that is likely to achieve upper middle-income status within the next few years.

To most economists, Bangladesh appears to be doing very well. Growth is strong, at more than 8% last year. Inflation is low and per capita income is rising fast. Yet, despite the success, there is an intense debate on whether economic growth is really being translated into gains that improve the lives of the common people.

Many people think that there are large disconnects between what the numbers show and how the common people feel; and there is a need to look beyond the averages. While the average growth might be robust, there is a growing disparity between the labour working in services and those in manufacturing. Wages in the manufacturing sector, which is mostly export-oriented, are growing higher than in services.

Similarly, while average inflation might be low, food and housing costs have been rising at a faster pace, more so in urban areas. Low-income households spend much more of their income on food and housing, and in fact, the poorest 10% spend around two-thirds of their income on these two items, which have seen the greatest cost build-up.

Ensuring that people have greater opportunities to improve their lives, and access to social safety nets to help protect them from shocks, is essential to inclusive growth. At present, Bangladesh has a

LOOKING BEYOND AVERAGES

unique window of opportunity to deepen reforms and to ensure that proceeds of economic growth can be broadened to benefit everyone.

Bangladesh now has a chance to undertake bold reforms. There are a number of priorities that include measures to raise the productivity level, strengthen the provision of social assistance for low-income households, and facilitate the achievement of inclusive growth, through policies that level the playing field in access to services and economic opportunities (including measures to increase women's labour force participation).

As the country moves closer towards achieving upper middle-income country status, it is important to be aware of the broader aspects of development that are not captured by GDP growth such as health, education, and environmental sustainability. Navigating this change is not easy, but Bangladesh now has an opportunity to become known as a nation that is remarkable for not just achieving high rates of economic growth, but for sustainable and inclusive growth that truly benefits all.

■ FIN-B Desk, InM



Photo: Internet



Inclusiveness in Bangladesh

Bangladesh has made significant progress in reducing extreme poverty and as a result, less than 13% of the people live below the national extreme poverty line today. As Bangladesh moves up the income ladder, common perception about a minimally acceptable standard of living will change as well. All Bangladeshis are aiming higher and setting their sights on a better quality of life. Bangladesh's journey towards becoming a middle-income nation will become more meaningful if all people are given the opportunity to share the benefits of prosperity. These shifting expectations apply not only to income, but also to access to affordable services and amenities that safeguard the individual's dignity as a fully functioning member of society.

Given the high-income and social standards that Bangladesh aspires to achieve, existing gaps and vulnerabilities cannot be easily dismissed as isolated cases. For example, more than 54% of preschool-age children, equivalent to about 9.5 million children, are stunted; 56% are underweight; and more than 17% are wasted. Equally important, significant rates of stunting are found in cities as well as in rural areas, and across all divisions, all ethnicities, and all levels of income and maternal education. More than 50% of women suffer from chronic energy deficiency and studies suggest that there has been little improvement in women's nutritional status over the past 20 years. Equally important, significant rates of stunting are found in cities as well as in rural areas, and across all

divisions, all ethnicities, and all levels of income and maternal education.

Improving nutrition can have a significant impact on survival as well as physical and cognitive development and productivity. Good nutrition, comprising adequate quality and quantity of food intake and reduction of illness is also a basic human right and is an essential input for development.

For going forward, social policies and interventions could be made more effective by tailoring them better to people's living conditions. The impact and cost-efficiency of cash transfer programmes could surpass the effectiveness of past programmes, by adjusting eligibility criteria and benefit levels to account for household size and composition, as well as differences in the cost of living in urban or rural areas.

Bangladesh's journey towards a middle-income country will become more meaningful if all individuals are given the opportunity to share in the monetary and non-monetary benefits of this prosperity. Bangladesh is well-poised to develop a larger and more resilient middle class, which itself can be an engine of future growth and a champion for better governance and increased accountability. This commitment to inclusiveness— and to addressing prevailing gaps and vulnerabilities – will eradicate poverty and improve the standards of living for all in Bangladesh.

■ FIN-B Desk, InM

Photo: InM



Bangladesh's Progress in Financial Inclusion

The Bangladesh Government continues to make progress on its financial inclusion goals through the implementation of initiatives designed to reach the financially excluded, particularly the poor. Financially included adults made up 47 per cent of the population in 2018, a 10 percentage-point increase from 2017.

Banks drove this increase, partly due to the government's push to expand agent-banking services in rural areas. This expansion has led to growth in the number of financially included individuals among the rural poor. Registered bank users, among the rural poor, have increased by 7 percentage points since 2015 when agent banking was first introduced. Despite increases in registered bank account holders, there remains a 10 percentage-point gender gap in favour of men.

A key component of the government's financial inclusion strategy is to promote a 'Digital Bangladesh' that includes the uptake of mobile money and other digital payment platforms. In 2018, 35 per cent of adults were digitally included via a mobile money, bank, or NBFI account with digital access compared with 28 per cent in 2017. The number of registered mobile money users, however, remained the same from 2017 to 2018, at 17 per cent. This was, in part, due to vigorously enforced know-your-customer rules.

Nearly a quarter of adults (23 per cent) were financially included through microfinance and other nonbank financial institutions (NBFIs) accounts. More

people used NBFIs for savings and loans than any other type of formal financial institution. Registered account holders were more often women, rural and below-poverty groups in comparison with their demographic counterparts. Public and private entities continue to work with a variety of stakeholders to implement initiatives designed to reach more of the financially excluded – particularly the rural poor and women.

- 1 Registered users of mobile money are primarily male, from urban areas, and live below the \$2.50/day poverty line.
- 2 41 per cent of adults in Bangladesh have ever sent or received a text message.
- 3 81 per cent of men own a mobile phone, compared with only 53 per cent of women.
- 4 Among the mobile money users, 64 per cent are over-the-counter users while 36 per cent are registered users.
- 5 Among the financially included, 17 per cent have mobile money accounts, 25 per cent have bank accounts, and 23 per cent have accounts in non-bank financial institutions.
- 6 A persistent gender gap of 10 percentage points remains among registered bank users in 2018. The mobile money gender gap is wider at 14 percentage points in 2018. Female NBFI registered users have consistently outnumbered male NBFI registered users since 2014, indicating that NBFIs tend to be the preferred financial institution among women.
- 7 Financially numerate adults were 50 per cent more likely to have a registered mobile money account than those who were not financially numerate. However, the ability to text and navigate the phone menu are stronger predictors of having a mobile money account than is financial numeracy.

■ FIN-B Desk, InM

FIN-B Highlights in 2019

FIN-B Regional Dialogue, Kurigram
27 November 2019



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**FIN-B Collaboration
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04 April 2019**

**FIN-B Member's
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**3rd Steering Committee
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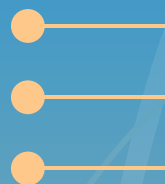
Financial Inclusion Network-Bangladesh (FIN-B) is working to develop, share and disseminate knowledge and expertise on financial inclusion through stimulating exchanges, developing collaboration, and promoting the Network to its members as a knowledge partner in their preferred areas of inclusive finance. FIN-Biz, the prominent publication of FIN-B, is providing insights into challenges and recent developments in the country as well as in the world.

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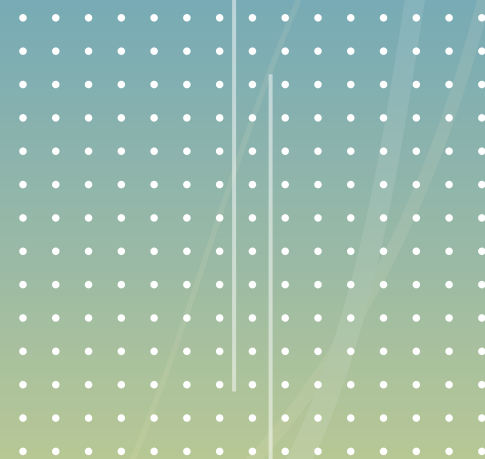


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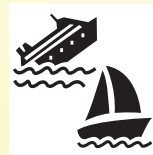
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