
Research Article**Addressing Excluded Sections through Sustainable Financing Policy Drives:
Bangladesh Context****Dr. Pinki Shah**

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Abstract: Financial inclusion could perform as a major force for the reduction of poverty by reducing inequalities. There are evidences that a small loan, a savings account or a micro insurance policy can make great difference to a low-income individual or a family. In addition, access to financial services is often viewed as essential factors to ensure participation of common people in the activities of the economy. The paper is about examining the sustainable finance initiatives of Bangladesh in the financial sector to address the vulnerable sections of the country. The paper identified certain barriers that are required to be addressed to draw expected outcomes.

INTRODUCTION

This template provides all the necessary information to the The finance to be sustainable must address financial exclusion challenge at the individual and macro levels. It is recognized that access to finance can economically and socially empower individuals, in particular poor people, allowing them to better integrate themselves into the economy, to contribute to their development and to protect themselves against economic shocks. Financial inclusion could perform as a major force for the reduction of poverty by reducing inequalities. To attain the goals of addressing excluded and vulnerable sections through sustainable finance, policymakers of several developing countries have undertaken different actions by introducing different innovative financing products and pioneered many approaches. In recent time, technology based platform has come up in a big way by offering tremendous benefits in terms of smooth and quick transaction and processing, efficient use of renewable resources, gender neutrality, youth friendliness, higher coverage, and lower cost. Increasingly favorable policy and regulatory support are helping in a great way in harnessing the potential benefits of such development in most global economies. Though, some products and innovations are replicable, however, customization is critical to draw benefits out of these schemes.

It is more or less recognised that extensive drive is required to attain sustainable finance goals in a country like Bangladesh where a big section of population remained excluded from the formal sector financing; financing requirements of a large vulnerable groups are not adequately addressed; and a big chunk of small and micro enterprises do not get access to the formal sector finance. Bangladesh Bank, the central bank of the country, has brought in a huge policy and strategic shift with several approaches of inclusive financing, green banking, women empowerment financing, corporate social responsibility, and poverty alleviation measures to address the excluded section. On the above background, the broad

objective of the paper is to examine the sustainable finance initiatives of Bangladesh in the financial sector to address the excluded and vulnerable sections of the country.

The study is based on both primary and secondary information. Secondary published articles on sustainable finance and associated areas were sources of relevant literature. Country experiences on different sustainable finance initiatives were gathered from the published information. Published data and studies were extensively used to examine sustainable finance drives and their implications in the context of Bangladesh. A section of central bankers and commercial bankers were consulted. A few cases were accommodated in the paper based on the consultation with the demand side. The paper mainly followed narrow definition focusing on the financing activities of banks and non-bank financial institutions (NBFIs) that are directly associated with sustainable development goals of the country and interests of the vulnerable section of the society.

II. SUSTAINABLE FINANCE-CONCEPTUAL AND LITERATURE REVIEW

Traditional finance focuses solely on financial return and risk, whereas sustainable finance considers financial, social and environmental returns in combination of highlighting the move from the narrow shareholder model to the broader stakeholder framework, aimed at long-term value creation for the wider community [1]. According to the London Principles of Sustainable Finance, Sustainable Finance is the provision of financial capital and risk management products to projects and businesses that promote, or do not harm, economic prosperity, environmental protection and social justice [2]. The facets associated with sustainable finance can be tagged or linked with sustainable growth targets or the key issues associated with sustainable development goals of UN (previous Millennium Development Goals or MDGs and the current

Sustainable Development Goals or SDGs) and that of most developing countries of the Globe [3].

Through the Agenda for Sustainable Development, the world has set for itself an ambitious set of objectives to end poverty, hunger and to overcome inequality in a sustainable manner by 2030. Realizing the 2030 Agenda would require a profound transformation of food systems, including the agriculture sector, as well as a transformation of rural economies as recently highlighted in the IFAD Rural Development Report [4]. G-20 recognized financial inclusion as a key enabler of growth and inclusive financial sector is considered key to attaining the goals contained in the UN Declaration. A number of standard-setting bodies have accepted that the issues relating to financial inclusion need to be incorporated in the international regulatory framework and the creation of the Alliance for Financial Inclusion (AFI) as a global platform for sharing financial inclusion insights is a clear sign of this new vision. With a shared global agenda (the Maya Declaration - a framework for domestic and collective actions with the aim to bring more of the world's poorest people into the formal financial system.) and strong national targets to bring a positive impact to the lives of the poor, more than 100 AFI member institutions have created a global momentum for change [5]. These initiatives have offered common grounds for international cooperation on the issue of financial inclusion.

In the last decade, developing countries around the world have tried to address the issues of financial exclusion through various innovative models with varying degree of success. Some developing countries have noteworthy experiences in designing and implementing inclusive products that offers invaluable lessons and information [6]. On the way to promote agricultural credit, many emerging agri-economies such as Brazil, Indonesia and Ukraine have adopted warehouse receipts (WR) systems successfully since 2000. For more than two decades, governments and donors have supported projects to promote WR systems in Africa, especially after agricultural and financial markets were liberalized. While the practice of lending against warehouse receipts is not new to India, it received major impetus post the enactment of the Warehousing of 2007, which came into force from 2010 [7].

In the area of mobile banking, South Africa is among pioneers in introducing innovative financial inclusion models by using mobile technology and Mzansi and Wizzit are their two representative products. M-PESA and M-KESHO are cited as two successful financial inclusion products originated from Kenya that use mobile phone technology to enable financial transactions. In India, development of lead bank system and mobile banking are noticeable. In China, Uniopay introduced card services in rural areas as a part of the Chinese drive to promote inclusive finance. In some Latin American countries, Brazil, Mexico, Columbia, Peru have experimented Agent banking models in the form of banking correspondents to address the challenge of financial exclusion [8]. Green banking has been offering tremendous benefits in the form of offering addressing energy sustainability, financial exclusion

and environmental risk management [9]. School based literacy programs are working in several instances. It has been proven time and again that if it's simple and effective, technology is a big enabler for the poor. Banking correspondent services that are operating across the villages in different countries has proved that technology can go a long way to bridge the divide [10].

III. POLICY DRIVES TO PROMOTE SUSTAINABLE FINANCE IN BANGLADESH

Certain strategies and interventions of the Government of Bangladesh are concomitant with the sustainable finance drives in the country. The Perspective Plan of Bangladesh 2010-2021 has provided the road map for materialization of the national goals of attaining the sustainable development agenda in the Vision 2021. The plan focuses on two principal goals of acceleration of economic growth and reduction of poverty which come about through the dynamism and inter-linkages among the three broad sectors of the economy: agriculture, industry, and services. Besides promotion of equitable, environment friendly, inclusive and socially sustainable pro-poor accelerated growth, it also sets its target regarding agriculture sector to eliminate food deficiency by 2021. The development approach underlying the Seventh Five Year Plan (7th FYP) is consistent with the global agenda for higher growth in developing countries with appropriate measures for protection of the vulnerable and environment [11]. To accelerate the poverty reduction initiative, government also undertook some strategies including the enhancement of access to micro finance of poor people.

In Bangladesh, sustainable finance approach has basically been driven by the regulatory or policy initiatives. Especially, involvement of Bangladesh Bank (BB) in attaining developmental goals by supporting attainment of the inclusive growth and poverty reduction objectives of the government can clearly be linked with sustainable finance activities of the country. Though BB has a specific department 'Sustainable Finance' to take care of the key relevant areas of sustainable finance- Green Banking and CSR, activities of certain other departments of Bangladesh Bank are clearly associated with the broad definition of 'sustainable finance'. These include Agricultural credit department, Financial Inclusion department, SME and special Program department Banking Regulation and Policy Department, Department of Off-site supervision, Financial Integrity and Customer Service Department, Payment Systems Department etc.

In order to deepen financial inclusion, BB instructed schedule banks to open bank accounts for destitute people receiving allowance from Ministry of Religious Affairs, Cleaning Staffs of Dhaka North and Dhaka South City Corporation, Ready Made Garments Workers, Workers of Small Footwear & Leather Products', Street Urchin and Working Children and Students under 6 (six) Years. In addition, to encourage 10 BDT Account Holders, Small/ Marginal/ Landless/ Natural Disaster Affected Farmers and Micro/ Small Traders, BB has

introduced a Revolving Refinance fund of BDT 200 crore from its' own source in 2014 [12].

BB has been encouraging information technology and innovation to bring the vast unbanked/under-banked population under the umbrella of formal financial service through bank-led mobile financial services (MFS). Disbursement of inward foreign remittance and domestic fund; payment of utility bills, salary, allowances, pension; buying and selling of goods and services; balance inquiry; tax payment; Government subsidy payment and payment of the benefits of social safety nets can easily and quickly be provided through mobile financial services. To make MFS service more effective, 'Guidelines for Mobile Financial Services' was issued in September 2012. MFS has created an opportunity of fast and cost- effective transaction even to the remotest corner of the village as well as it has given access to modern banking services to the rural poor including the social safety net beneficiaries.

In regard to the facilitation of agricultural financing in Bangladesh, agricultural credit at concessional interest rate is being extended by banks to farmers. Banks get interest subsidy from government through BB against these loans. To support sharecropper farmers, BB launched a refinance scheme worth BDT 5 billion for landless sharecroppers in partnership with BRAC, the largest non-bank MFI in Bangladesh in 2010. Moreover, an ADB assisted crop diversification credit project is extending credit for growing of higher value crops (vegetables, fruits, flowers, spices, oilseeds) in the country's poverty ridden north-western region. In a recent initiative, as decided by the BB, banks that want to involve with agent banking activities may participate in Agriculture and Rural credit with the support of Agent Banking/Booth. In 2015, Bangladesh Bank has given a firm push to ensure private banks including foreign banks to meet agriculture financing targets. To boost up the agricultural finance, banks were asked to formulate a separate Agricultural Department/Cell in their head offices and an officer need to be assigned in the branch level to handle different issues linked with agricultural credit [12].

Considering SME development as one of the important development agenda of the country, BB has initiated a comprehensive policy and programs on SME credit. Accordingly, an indicative yearly target of disbursing SME credit by the banks and financial institutions are fixed for every year since 2010. BB, with the help of government and different development partners, is now implementing five refinance schemes for banks and financial institutions against their disbursed SME credit. With a view to mainstreaming SME credit, banks and financial institutions are advised to adopt cluster development policy. BB has already taken various initiatives for identifying different clusters around the country and is encouraging all stakeholders for further development of such clusters. As per directives of BB, banks and financial institutions are also coming forward for SME cluster development and financing. For mainstreaming women in economic activities, BB has taken a number of initiatives to

ensure women entrepreneurs to have access to financial facilities on simple terms and conditions [12].

In the area of green banking, the most remarkable step of BB on the way to promoting & implementing green banking is the comprehensive circular of BB on 'Policy Guidelines for Green Banking', issued in February 2011. BB prepared and circulated a Guideline on Environmental Risk Management (ERM) on January 30, 2011 to streamline solutions for managing the environmental risks in the financial sector. In 2017, BB has redesigned the ERM and named The Environment and Social Risk Management Guideline (ESRM) which covered both social and environmental risk issues in bank's investment. To boost up green financing, in 2014, BB instructed banks and NBFIs to provide direct green finance as the following percentage of total funded loan disbursement on annual basis; Old banks-5%; NBFIs- 4%; new banks- 3% by 2015 and the target is 5 percent for all banks and NBFIs from 2017. BB introduced Taka 2.0 billion revolving refinance scheme in 2010 to encourage banks for financing solar energy, bio-gas plant, ETP and HHK in brick field. Banks & FIs can avail refinance facility against their finance in the specified sectors [11].

To encourage environmentally responsible practice, BB introduced a comprehensive guideline on Corporate Social Responsibility (CSR) where banks have been asked to concentrate hard on linking CSR at their highest corporate level for ingraining environmentally and socially responsible practices and engaging with borrowers in scrutiny of the environmental and social impacts. BB circulated another guideline on CSR in 2014 to improve the quality of CSR activities by banks. BB has also initiated its own CSR activities and initiatives for the rehabilitation of cyclone and other natural disaster affected people of the country time to time.

IV. POLICY RESPONSES FOR SUSTAINABLE FINANCE IN THE FINANCIAL SECTOR

Financial inclusion drives of the BB brought remarkable improvements in several socio-economic fronts. Notable changes have taken place in terms of higher access to finance, and increased geographical penetrations of the financial services. The number of deposit accounts grew by 7.32 percent per year in rural areas between 2005 and 2016 while the same was 5.44 percent in urban areas during the same period [11]. As of end June 2016, sector-wise distribution of NFAs shows that notable improvements have taken place. Total outstanding balance of school banking stood at Taka 8804.1 million against 1182179 accounts at the end of June 2016. Till June 2016, 16 banks signed bi-lateral agreement with different registered NGOs for offering the services to Working/Street Children. Under agent banking services, 12 banks have got approval from BB and 10 banks have started operation. Till June 2016, number of agents stood at 789 and number of outlets was 1281. Currently there are more than 258471 account holders maintaining accounts with agent banking. Under the revolving refinancing fund to boost up

financial inclusion, 32 banks have signed participation agreement with Bangladesh Bank and disbursed amount stood at Taka 297.46 million in FY16 [12].

In response to the financial inclusion initiatives of BB, schedule banks and NBFIs have extended formal banking services to less privileged people in urban and rural areas (Box- 1). In a major financial inclusion initiative, banks have opened over 10 million new bank accounts in the names of small farmers and other rural and urban people of small means at no charge, with nominal initial deposits as low as Taka ten. These accounts are being used by the account holders for receipt of agricultural input subsidies; social safety net payments etc. besides use as savings and payments medium. With a view to fostering savings habits and financial literacy among the young, banks have launched 'School Banking' initiatives in schools (Box -2).

Box -1: Inclusive Drives to Support Ethnic and Tribal Group

There are different ethnic & tribal groups reside in the hilly regions of a Hill District who were outside of financial network of financial services. To follow BB’s instruction, a bank of the local branch opened some 10-tk accounts for them. At the first stage, some of them took credit for ginger cultivation. Gradually, they took credit for other agricultural products & cottage industry. Now it becomes a small hub for different types of SME credits & through this a large section of deprived people are brought under our financial coverage.

Source: Based on the information on demand side.

Box-2: School Banking is Promoting Financial Literacy

Rani, an underprivileged girl living in a slum outside Chittagong with her mother and four siblings earns her living by processing fish in a factory. She earns almost 85 Taka per day and couldn’t save a penny as she did not have any bank account. But today thanks to the initiatives of Bangladesh Bank and a local bank, she can put aside some money in her bank account in the local branch through an NGO. Due to school banking, Rani has the opportunity to know about the product and using it. She has inquisitiveness to learn more about financial services that might suit her.

Note: based on the discussion with demand side.

Internet banking, online banking, mobile banking, agent banking etc. are playing a very vibrant role for covering more people in the banking services in Bangladesh. According to the Financial Stability Report 2016 of BB, in Bangladesh, 55 out of 57 banks have at least one online branch and 41 banks have introduced internet banking till December 2016. Volumes of transactions using ATMs have been rising fast since 2012 [11]. As of March 2017, there were 49.85 million registered and 23.90 million active mobile banking users against 41.08 million (total user) and 15.87 million (active user) of December 2016. Use of ICT in the remittance flows

has also brought remarkable improvements in the remittance services of banks. The ICT based banking services offered tremendous benefits to the rural community in improving their livelihoods. To promote financial inclusion in further scale, agent banking is relatively recent. Till June 2016, 12 banks have got approval from BB for agent banking services and 10 banks have started operation [13].

In terms of the dependence of the proportion of population, agriculture is the core sector of the economy. Some banks have formulated a special department to handle agricultural issues and some other established a desk under credit department to handle agricultural finance. In financial inclusion, banks and NBFIs are responding in establishing rural branches. Still most of the branches (mainly of state controlled banks) of the country are located in the rural areas, however, only insignificant portion of bellow 10 percent credit (as of December 2016) is going to the rural economy which contributes over 20 percent of total bank deposits. A target based SME lending program was initiated by Bangladesh Bank in 2010 under which the target is not imposed by the Central Bank, rather the banks and NBFIs independently decide their targets. In FY16, all banks and financial institutions disbursed a total amount of Taka 1250.4 billion among 600 thousands cottage, micro, small and medium sized enterprises, and exceeded the targets. Special emphasis has been given to bring the women entrepreneurs in the mainstream of development of the country. With the intervention of BB, the amount of financing for women entrepreneurs and the number of borrowers increased rapidly. This indicates that the policy initiatives of BB have had a substantial impact on women’s financial inclusion through MSME finance. The refinance facilities are drawing good benefits [14].

Banks and NBFIs responded to the policy and regulatory initiatives related to green banking and CSR. As per BB requirement, banks and NBFIs have established or in the process of establishing ‘Sustainable Finance Unit’ through merging green banking unit and CSR Desk, and as required, all have their approved Green Banking Policy Guidelines [12]. The green banking initiatives improve awareness and knowledge of bankers as well as of the customers regarding environmental risks and green financing. Financing to the green projects/activities cover mainly renewable energy, energy efficiency, fire burnt brick, solid and liquid waste management, recycling and recyclable products etc. Refinance scheme is utilized for financing to solar energy, biogas, hybrid Hoffman kilns, effluent treatment plants, green industry etc. during FY10-16. Though fifty-one products are included in this scheme, just about only twelve of these are availed till date. Among these products bio gas, Solar Home System, Solar Assembly Plant (SAP), HHK and ETP are growing fast over the years. In response to the BB’s initiative, the CSR expenditure by banks grown over the years. Banks continued to maintain major share in education, health and humanitarian & disaster relief. Expenditure on income generating activities for poor, cultural affairs and environment were also notable.

Disaster management receives most attention of banks in terms of expenditure by both banks and NBFIs [12].

V. RECOMMENDATIONS

In spite of some remarkable changes and improvements in certain areas of financial inclusion, several areas of agricultural, micro and green financing remained untouched. Some of these are important and relevant from the point of view of inclusive growth. Government and BB have mostly been working separately to address the issues of financial exclusion. An integrated approach of the policy maker and the industry is the key to promote sustainable and inclusive financing. Probably, in Bangladesh, it is now right time of transformation from 'Regulatory Approach' to 'Collaborative Approach' for ensuring ownership of market participants and giving the right kind of push to sustainable finance. 'Adoption of a set of Sustainable Finance Principles' by the Central Bank and Associations of bankers/banks might be useful in initiating the collaborative approach.

To ensure soft funds for banks and NBFIs to safeguard cost-effective inclusive and sustainable financing, there could be specific criteria or certification for getting access to the soft funds of government. For making refinancing attractive to the banks/NBFIs, BB may think of introducing a system of qualification based on certain criteria for getting access to the fund at a reasonably low interest rate. Donors are expected to continue with the marketing, awareness and capacity development program. In regard to the financing models, direct bank/NBFIs lending to the end users does not seem feasible in most scenarios of rural and small scale financing. In several instances, using intermediary and partnering organizations i.e. linkage approach might be effective. However, the capacity of the partnering organization must be enhanced to obtain optimum outcome.

In spite of several initiatives, financing and market development in agriculture did not get due push. Though warehouse receipts system by itself or as part of commodity exchange arrangement contributed significantly in ensuring financing to the agricultural sector in several developing and neighboring countries, Bangladesh could hardly reach near those levels. Micro insurance has also been very successful in several instances. There are huge potentials of designing and offering credit and insurance products targeting agricultural sector of the country. Though banks have finances in the SME clusters (in terms of geographic proximity), but cluster approach is missing in SME financing. It is possible to use cluster approach by forming groups and thus ensure access of small enterprises to SME financing.

It is evident that technology driven approach is much more effective to bring unbanked poor people under the coverage of financial services. Availability of internet facility and mobile along with required devices at affordable cost, supply of uninterrupted electricity, etc. are challenges. The penetration level of mobile banking is very high. If the availability and usage can be increased, mobile banking can bring a revolution in financial inclusion. Improving services, arrangement for

external evaluation, compensation for fraud and reduction of costs could contribute in expansion. Agent banking activities with the existing products may not bring expected outcome, banks need demand based products targeting rural low income population. Appropriate use of technology could offer notable efficiency in the financial literacy initiatives.

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