Journal of Exclusion Studies
Vol. 5 No. 2, August 2015, 113-128
DOI: 10.5958/2231-4555.2015.00009.1

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Research Article

Financial Inclusion in Bangladesh: Evidence from Two Villages

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ABSTRACT

The paper uses participatory research to explore the extent of financial inclusion in two villages in Northeastern Bangladesh. It also uses Findex database to draw a comparative image of financial access in Bangladesh and other parts of the world. While Bangladesh data on financial inclusion exhibit financial capacity of the market, participatory evidence shows financial capability of the service receivers. Review of literature, secondary data and participatory evidences show that there are substantial financial gaps across the economies and within the households. In rural context, it is evident that financial access is low in developing countries like Bangladesh.

Keywords: Financial inclusion, financial inclusion gap, institutional effectiveness, mobile financial system, participatory methods

INTRODUCTION

Various studies in economics and finance show that prudent financial expansion fosters economic growth and reduces poverty (CGAP 2012, World Bank, 2008) indicating positive correlation between financial inclusion and economic growth (Levine, 2005; Demirgüc-Kunt *et al.,* 2008). On the flipside, financial exclusion spoils economic development and enhances poverty and inequality. Without inclusive financial system people rely on informal finance to cope with crises and manage resources (Beck *et al.*, 2008; Demirgüc-Kunt and Klapper, 2012). This

[1]Author is grateful to participants in the 3rd European Research Conference on Microfinance 10–12 June 2013, University of Agder, Norway for valuable comments and suggestions. Author's fieldwork in Bangladesh was financed by University Meets Microfinance (UMM), Germany.

contributes to chronic poverty, severe vulnerability and persistent inequality that degrade economic growth. Despite various initiatives for financial expansion at national and international levels, around 2.5 billion adults across the world still remain unbanked and most of them dwell in developing countries. Urban–rural gap in financial inclusion exists in both advanced and developing countries. Gender gap prevails across the globe in which women have less access to financial services compared to male counterparts (Demirgüc-Kunt and Klapper, 2012). The situation of financial inclusion in Bangladesh is diverse: (1) there are urban–rural gaps in all financial indicators, (2) poor people are excluded from the banking system as only non-poor are targeted by the banks, (3) MFIs (microfinance institutions) include poor in their financial activities where rich do not qualify, and (4) focusing poverty reduction through empowerment of women, MFIs target female members leaving their male counterpart excluded from microfinance services. In this background, this paper investigates the extent of financial inclusion in Bangladesh focusing client's participation in the financial system.

DEFINITIONS AND CONCEPTS

Financial inclusion means appropriate financial services for everyone managing day-to-day money, planning future economic activities and dealing with financial crises. It ensures access to wide range of financial services including credit, deposit, insurance, remittance and pension services for households and firms (United Nation, 2006). Measurement of financial exclusion has two aspects: (1) financial provision and (2) financial participation. While 'financial provision' measures capacity or ability of the providers to deliver financial services, 'financial participation' measures capability or willingness of the clients to receive those services. Financial capacity includes appropriate financial products, right strategies for product delivery and efficient resources for financial training. Financial capability refers to client's needs and preferences, financial literacy, access to financial advice and information and financial decision-making capacity. Any gap between financial provision and financial participation results inability, difficulty or reluctance of the clients in access to financial services that in turn causes financial exclusion (McKillop and Wilson, 2007). Exclusion from financial has various reasons. Banks may keep out a group of clients by unattainable terms and conditions or clients may opt out from a particular service due to lack of suitability to their financial activities. Reasons of financial exclusion or barriers to financial inclusion have five broad categories (Kempson and Whyley 1999; Kempson *et al.*, 2000):

Condition exclusion occurs when clients fail to meet minimum deposit requirement or unable to provide collateral for loan.

Geographical exclusion is because of banks are too far. Insurance companies in high crime zone often charge high premium and thus get low insurance buyers.

Price exclusion e.g., clients may refrain from opening account due to high interest rates for credit or low interest rates for savings together with other charges.

Marketing exclusion occurs when financial service providers do not target low-income clients fearing low profitability. Poor marketing strategies, lack of financial advice and information may make some clients feel lack of confidence in financial services.

Self-exclusion occurs when customers are reluctant to take financial services due to cultural or psychological barriers, e.g., religious ban on interest earning or paying. Low-income customers may withdraw from financial services because of lack of suitability to their basic needs.

Quantitative measures of financial inclusion focus on financial provision in two dimensions: (1) 'outreach' measures provision of financial services by geographical penetration (bank branches or ATM per 1000 square kilometres and demographic penetration (bank branches or ATMs per 100 thousand people) and (2) 'usage' measures the actual use or access to financial services (account, deposit or credit penetration, i.e. number of accounts, or deposits or credit per 1000 people). Qualitative measures, on the other hand, uses participatory research methods to reflect the perceptions and preferences of the grass root people who know best of their financial livelihoods.

DATA AND METHODOLOGY

Data sources: Two major data categories are available in the field of study: (1) Financial provision data measures market's capacity to include people in financial services. (2) Financial participation data measures people's ability to participate in financial process. Financial provision data are available in secondary sources such as financial inclusion literature and documents of financial service providers. However, financial participation data are primary data from clients of financial services. Financial participation data from two sample villages and Global Findex database was required.

Study area: The paper focused on financial activities in north-eastern region of Bangladesh, known as Sylhet division. This division has two main topographies: (1) high lands with high plains, hills and hillocks and (2) low lands with flood plain and free wetlands. Two villages were selected randomly from each region: *Ausha* is situated in high plain, 12 kilometres away from Sylhet city and *Bhadeshwari* is situated in low plain, 35 kilometres away from the city.

Data collection methods: Two qualitative instruments namely, PRA (participatory rural appraisal) and FGD (focus group discussion) were used to analyse the pattern of financial inclusion in two villages. Participants in PRA and FGDs were adult residents of the village, irrespective of gender and social status, interested in information sharing joyful exercises. Secondary data came from review of literature and financial inclusion database, Global Findex.

PRA (Participatory Rural Appraisal)

Researchers are usually ignorant of local knowledge and thus they are *outsiders and learners*. Respondents, on the other hand, are aware of local experiences and thus they are *insiders and preceptors*. In PRA, outsiders establish rapport, facilitate methods, hand over the stick and then watch and listen to insiders who use maps, models, and diagrams to discus and evaluate their livelihoods and environment (Narayanasamy, 2009). PRA involves a number of exercises such as transects, social map, seasonal calendars, Venn diagrams, mobility map, and timelines. This paper engaged following PRA exercises:

Mobility map – Mobility maps explore movement pattern of individual, group or community in search of services, facilities and other livelihood opportunities. Villagers draw maps of their economic activities and explain distance, mode of transport, importance of the destinations, and frequency of the visits.

Venn diagram – Venn diagram is a symbolic presentation of key institutions that have significant impacts on community or individual. It provides local perceptions about the role and significance of various organisations in livelihoods.

Pairwise ranking – Pairwise ranking is a method of comparing pair of elements such as problems, potentials and needs. People recognise their preferences such as need for financial instruments in their daily lives. They put them in row and column to compare each pair and finally enter the preferred item in the relevant grid. Preference score is then drawn on frequency of the items in the grid.

Direct observation **–** Observation in research is a systematic viewing of specific phenomenon for the purpose of gathering data for a particular study. Direct observation is a flexible technique that allows observer to see and record significant events or behaviour when they occur. It captures natural social context of respondents in a systematic way.

FGDs (Focus group discussions)

FGD gathers information from a group of people directly affected by an issue or exclusively involved in a programme. Two FGDs in each village were arranged: one with financial service receivers and the other with service provider (MFI field staff, moneylender, friends and family). Each group comprised 8–12 participants who discussed about needs and preferences in financial services and the role of financial institutions in their lives.

Data analysis: Access to financial services can be assessed in two approaches: (1) in top-down approach service providers assess actual and potential markets for financial services, and (2) in bottom-up approach service receivers express their affordability and willingness to participate in financial services. Bottom-up approach is a participatory approach in which people analyse own data and express their feeling. This paper is a participatory assessment of the extent of financial access in rural Bangladesh. Financial participation data on Bangladesh as a whole was drawn on financial inclusion database called Global Findex (World Bank, 2012). For grassroots analysis, PRA and FGDs transcripts of rural people's own assessment of their financial participation were used.

Major Findings

Financial Participation in Bangladesh

Global financial inclusion database, known as Global Findex presents a set of indicators that measures how adult (aged 15+) across the world participate in financial activities. Data were collected through interview with more than 150 thousands nationally representative and randomly selected adults in 148 countries in 2011. Data has been presented in global, regional, and country level indicators of financial inclusion (World Bank, 2012). According to the database (summarised in Table 1), account penetration in Bangladesh is nearly 40% which is less than half of the adults reporting to have an account in the advanced economies (around 90%). Account penetration varies across poverty group and residence status within the economies but the variation is less obvious in the advanced economies.

While 45% of the adults in advanced countries report that they save money in any formal places in the last 12 months for future spending and emergencies, only 11% report from South Asia and 17% from Bangladesh. Bangladesh is one of the few countries, which have higher use of formal loans compared to other regions (23.3% compared to 8.7% in South Asia and 13.8% in advanced countries). This may reflect the broad coverage of microfinance that reaches the doorstep of the poor in both urban and rural areas of in Bangladesh (Demirgüc-Kunt and Klapper, 2012). MFIs give services to the rural poor who are excluded from financial services for non-eligibility. Less than 3% adults in advanced countries report that they borrowed from a private informal lender. More than 5% Bangladeshi report this. For remaining indicators, advanced countries are well ahead of Bangladesh. However, Bangladesh is slightly ahead of South Asian standard in almost all aspects.

Financial Participation in *Ausha* and *Bhadeshwari*

While PRA explores the extent of financial inclusion in *Ausha* and *Bhadeshwari,* FGDs reveals client's needs and preferences in financial services and the role of

Table 1: Financial participation: Bangladesh scenario

Financial participation	Bangladesh	Comparison	
		South Asia	Advanced countries
Accounts at a formal FIs (%, age 15+)			
All adults	39.6	33.0	89.4
Extreme poor and poor	34.7	25.3	85.8
Middle and non-poor	43.1	41.0	92.1
Adults in rural area	38.5	30.8	87.0
Adults in urban area	45.9	39.2	89.0
Savings in the past 12 months (%, age 15+)			
Anywhere	26.8	21.3	58.3
With a formal FI	16.6	11.1	44.6
With group savings club	3.6	3.3	5.4
For future spending	17.7	15.5	37.4
For emergencies	23.3	17.2	44.1
Credit in the past 12 month (%, age 15+)			
From a formal FI	23.3	8.7	13.8
From family or friends	10.5	19.5	12.3
From an informal private lender	6.8	6.4	2.3

Source: World Bank (2012). South Asia comprises Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka. Advanced countries are those with per capita Gross National Income (GNI) ≥ \$12,276 in 2010 estimation by the World Bank.

financial institutions in their lives. Following discussions are based on transcripts of PRA and FGD exercises:

Financial Service Providers

Informal service providers: Two major types of informal service providers are accessible in *Ausha* and *Bhadeshwari*. 'Friends and family' are very informal and less costly. They provide *karde-hasanah* or soft loan with zero interest with or without reciprocal obligations. 'Moneylenders', on the other hand, provide loan at high rate of interest (10–15% per month, i.e., 120–180% per annum). Loans from moneylenders are sometimes unbearable for the poor. Friends and family finances are more prevalent in *Ausha* and moneylenders are more active in *Bhadeshwari*.

Commercial banks: Mobility map and Venn diagram exercises show that two commercial banks operate within the range of the villages. Clients of these branches include merchants, small traders, and grocers. Villagers also get services from a bank specialised in agricultural activities. All banks locate in the *bazar* (commercial place) where villagers meet to buy and sell commodities.

MFIs (Microfinance Institutions): Three MFIs have full-fledged operations in *Ausha* and *Bhadeshwari*. They are Grameen Bank, ASA (Association of Social Advancement) and FIVDB (Friends in Village Development, Bangladesh). They provide health, nutrition, and education support along with financial programmes in *Ausha* and *Bhadeshwari*.

Informal Financial Instruments

Informal savings: Informal savings are both in cash and kind. Cash savings are mainly coins dropped in *matir* bank (piggy bank made of clay) or cash stashed under the mattress. Savings in kind takes different forms. Smallest one is *musti chal* which is a fistful grain kept aside from each cooking. When accrues to substantial amount, saver may convert it into cash for emergency uses. Savings in kind are also held in store value materials such as jewellery, livestock, tree, and land. Rural people use grain stock to ensure food security.

Informal loans: Informal loans are provided by two agents: 'friends and family' and 'moneylender'. As discussed earlier, loans from friends and family are available at low or zero rate. Main source of this loan is surplus remittances from abroad. As the number of migrants is higher in *Ausha*, the flow of fund is eventually higher than *Bhadeshwari*. *Bhadeshwari* is a credit constraint area where moneylenders take the advantage of poor and charge high rate either in cash or in agricultural output.

Formal Financial Instruments

Major financial instruments provided by banks and MFIs in *Ausha* and *Bhadeshwari* are payments, loans and savings accounts, fixed deposits, microloans, microsavings and agricultural loans.

Payments: Remittance is the main payment services for both villages. Banks provides the service OTC (over the counter), only PIN number and a photo ID is required. ASA has remittance services in collaboration with Western Union. Recently, some mobile financial services have started mobile money operations. All services are located in *bazar* – more than 10 km away from the villages.

Savings and loans: Banks have savings instruments but these are meant for non-poor as poor cannot afford minimum savings requirement. Loans from the bank are also beyond the reach of the poor as they lack collateral. However, savings and loans accounts with MFIs are significantly higher among the poor. There is no room for rich in MFIs except for non-member deposit account Grameen Bank.

Insurance: No insurance companies have coverage for the villages under study. However, MFIs provide insurance package embedded in loans and savings services. The package contains two types of microinsurance: loan insurance and life insurance. Clients have to pay premium and in case of death their family receive payback and their loan paid off.

Effectiveness of Financial institutions in *Ausha* and *Bhadeshwari*

Mobility map and Venn diagram exercises of the rural people highlight on actual use and access to financial services. Two variables from these exercises to measure the effectiveness of financial institutions were drawn. Affordability combines 'importance' variable from the Venn diagram and 'frequency' of the service use from the mobility map. Accessibility, pools 'access' to the services from the Venn diagram and 'distance' from the financial institutes in the mobility map. Combined variables illustrate the effectiveness of the financial institutions on rural livelihoods. This is summarised in Table 2.

Table 2: Effectiveness matrix for *Ausha* and *Bhadeshwari*

Effectiveness indicators		Accessibility	
		High access	**Low access**
Affordability	High use	Most effective: FFs for *Ausha,* moneylender for *Bhadeshwari*	Less effective: MFIs for both villages
	Low use	Less effective: FFs for *Bhadeshwari*, none for *Ausha*	Least effective: Banks for both villages, moneylender for *Ausha*

Effectiveness here means client's capacity to use the services. It does not necessarily mean efficiency.

Friends and family service is highly effective in *Ausha* but lass effective in *Bhadeshwari*. This is because, as argued by the discussants in FGDs, social network is very strong in *Ausha* but relatively weak in *Bhadeshwari*. According to them remittance is the main factor behind the social bond: 'Strong feeling for the family members grows while living abroad'. Moneylenders take the full advantage of credit constrained environment in *Bhadeshwari*. They are still active in this village although MFIs are increasing their operations. However money lending is almost absent in *Ausha*. Although MFIs members emphasised that their involvement in microfinance is useful and effective, the overall performance is downgraded as the non-members are excluded from the services. Banks are totally ineffective in terms of affordability and accessibility as in case of coverage and convenience criteria illustrated in previous section.

Financial Needs and Preferences

Pairwise ranking exercises are used to understand the pattern of financial needs and preferences of the villagers. The outcomes of the exercises are summarised in Table 3. It also provide basic information for further discussions with and financial service providers and users.

Table 3: Financial institutions preference ranking

Financial institutions	Ranking	
	Ausha	***Bhadeshwari***
Commercial bank	IV	IV
Microfinance institutions	II	I
Friends and family	I	III
Moneylenders	III	II

Source: Pairwise ranking exercises by the villagers.

As in the case of financial effectiveness, banks are found to be the least preferred institution in both villages. Distance, minimum deposit requirements, collateral for loans and documents required for opening an account are among the reasons mentioned by the PRA participants. In case of deficit or crisis financing, friends and family are the first choice in *Ausha* as social network is very strong. Next in the list is MFIs followed by moneylenders. MFI is the first preference in *Bhadeshwari* followed by moneylenders, and friends and family. High demand for credit even at usurious rate from moneylenders shows that residents of *Bhadeshwari* are credit risk. Unlike *Ausha*, non-poor in *Bhadeshwari* offers loan to poor at moneylender's rate instead of soft loan. Friends and relatives of *Bhadeshwari* are not as benevolent as in case of *Ausha* indicating a weak social tie.

Table 4 shows that residents of *Ausha* have expressed top preference for informal loan from friends and family. Remittance payment facility is the second desirable service and it is also a major source of source of soft loan to the poor. For these two financial instruments, people never feel that credit constraint. Consequently, they have less preference for formal microloan and less urge for saving money. Most of the residents of *Bhadeshwari*, on the other hand, prefer microloans for household and investment finance. Next preference is informal loan which is mostly from moneylender. *Bhadeshwari* people have weak social link and thus low opportunity for interest free loan from friends and family members. Overall, people are credit constraint and they try to overcome this problem by saving more. Remittance payment facility is the least desirable among the financial services

Table 4: Financial instruments preference

Financial institutions	**Ranking**	
	Ausha	***Bhadeshwari***
Formal microloan	III	I
Informal loan	I	II
Mandatory savings	IV	IV
Voluntary savings	V	III
Informal savings	VI	V
Remittance payments	II	VI

Source: Pairwise ranking exercises by the villagers. Mandatory and voluntary savings together constitute microsavings. Informal loans are borrowing from friends and family or moneylender. Remittance payments are formal or informal services people receive remittances sent by relatives abroad

for the *Bhadeshwari* villagers as the number of immigrants is not as significant as in *Ausha*.

Financial Inclusion Gaps

Financial exclusion pushes households to financial crisis and vulnerability to poverty. Exclusion from loanable fund may compel households to take high-interest credit from informal sources resulting stress and depression as debt eventually accrues to mountain high (Balmer, 2006; Pleasence *et al.*, 2007). Financial crisis and financial exclusion reinforces each other to generate severe crisis that isolate households from mainstream economic activities and eventually lead to social exclusion (Marshall, 2004; Mitton, 2008). Despite various initiatives, financial inclusion gaps still exist in rural areas of Bangladesh. These gaps undermine the coping capacity of the poor. Following discussion highlights on financial inclusion gaps in two villages drawn on FGDs.

Payments gap: There is a severe payment gap in rural Bangladesh. Immediate access to cash is necessary for efficient management of crises. But most of the people do not have access to bank account and those who have, cannot use it properly because of high transaction costs (distance and time). Non-poor discussants in FGDs said that they do not use bank accounts frequently mainly due to distance. Discussants in poor group report that in addition to distance, they face lack of enough money and proper documents to open a bank account. MFIs working in the area do not have instant withdrawal facility. Withdrawal is restricted by amount (some percentage of total deposit) and time (at least one working day). These restrictions led them to search for alternative sources such as moneylender or assets selling which are costly.

Savings gap: Like payment gap, there are savings gaps. The reasons are fairly similar. Non-poor respondents argue that they maintain savings account in the bank to deposit remittance from abroad or surplus income from agriculture or business. However, the frequency of using these accounts is low because of distance and purpose of savings. As 'distance' matters, they urge for MFI membership that would allow them to receive doorstep financial services like the poor community receiving. MFI field staff argued that they have to follow the instruction of the MRA (Microcredit Regulatory Authority). No MFIs are allowed to accept deposits from non-members. Only exception is Grameen bank, which is functioning under Grameen Bank Act, 1983 instead of MRA (Grameen, 2012; MRA, 2011). Respondents in poor group have mixed opinion about the uses of savings. Most of the respondents defined them in their own dialect '*Bipodapod mokabela*' (combating crises and emergencies) and '*Bhobishot unnoti*' (future prospects). Between the two roles, they prefer the role of precautionary crises finance. They argue that savings for future investment may be complemented by borrowing from MFIs but saving for '*Bipodapod*' is what troublesome as MFIs impose withdrawal restrictions. Moreover, MFIs do not provide any emergency loans.

Non-member respondents (FGD participants not inclined with any MFIs) argue that they do not have 'right place' to save. Low-income people have fluctuating income. They want to save when surplus income is there to spend in deficit time or emergency. When there is no secure place to save, temptation spending is high. 'We do not have secure place to save. So we spend anyway. We drink more tea, smoke more cigarettes when we earn more'. 'Right amount to withdraw' is not a problem after the regulatory authority permitted the withdrawal of any amount (MRA, 2011). However, in reality the withdrawal is restricted by amount (some percentage of total deposit) and time (at least one working day). Sometimes, withdrawal time compels the clients to search for alternative sources in case of emergency, which are costly. All these withdrawal restrictions and savings obligations contribute to inefficient role of savings in protection and promotion of household resources. In order to ensure insurance role of savings against crises, MFIs have to modify the attributes of their savings instruments with three rights: *right* place to save and *right* time to withdraw the savings in *right* amount.

Borrowing gap: Like payment and savings gaps, there are borrowing gap too. Non-poor do not have any association with MFIs thus, they are not eligible to get loan from those institutions. Many of them have bank accounts but they are either current account or savings account. Very few of them take loan from bank. Overall, non-poor have less access to bank credit and zero access to MFI finance. As mentioned earlier, poor have almost no access to bank credit, as they are considered non-bankable by banks. However, they have access to MFIs. Grameen Bank, ASA and FIVDB have coverage of almost all (about 90%) eligible households in the sample villages. However, non-poor in both villages remain outside the range of MFIs financial services. Not that all of them require financial services from MFIs but they are think they are excluded.

Cognitive resources gap: Financial inclusion is determined by the market's capacity to provide appropriate financial services and client's capability to use these services. Financial inclusion is sustainable when those factors match with financial education (Mitton, 2008). Market's capacity to deliver appropriate financial services largely depends on its marketing strategies and staff training that in turn raises financial awareness and market literacy among the clients (Chua *et al*., 1999). Clients, on the other hand, gain financial capability through socialised and experimental learning, financial literacy training and learning by using financial services (Zarazua and Copestake, 2009). In this interactive process, clients develop behavioural and cognitive resources.

In *Ausha* and *Bhadeshwari*, we investigated the status of cognitive resources through direct observation of the group meeting in *overt* (unconcealed observation) and *covert* (secret observation) way. In ideal group meeting members discuss social and financial issues and practice some disciplinary norms to keep them updated (e.g., reciting 16 decisions in Grameen Bank group meeting, Grameen, 2012). They have to participate in training programmes such as adult learning, basic numeracy programme. FIVDB provides functional literacy programme for the adult and adolescents in two villages. ASA does not offer such training programmes. It concentrates mainly in microfinance delivery and recovery. Participation in group meeting is not mandatory and joint liability replaces individual liability (ASA, 2012). In overt and covert observations, loan officer was seen busy with receiving and calculating loans and savings instalments. She had no time for financial consultation with clients. Financial inclusion is incomplete when service providers only look for access to financial services and pay no attention to financial advice and training to improve financial literacy and capability (Ainscough and Halliwell, 2012). Financial learning is important for better access and efficient use of financial services.

Gender gap: FGDs reveal gender dimensions in financial management and coping strategies. Women are more serious in coping with crises. They keep money aside from the daily expenditure, save *musti chal* as precautionary for minor crises such as illness, and injury. Sometimes they convert accumulated savings to buy livestock, plant sapling, and even land. Men, on the other hand, are more interested in investment. Most of the male discussants argue that they are excluded from the financial services of MFIs as most of the providers give loan to women. So they feel that they are credit constrained. In reply, MFIs field staff said that they give loan to household through women, as they are more efficient in credit management and repayment. However, the male member of the household takes strategic role. He motivates his wife to take loan from MFIs and hand it over to him. In return, he offers repayment of weekly instalments (of loan and saving) on their behalf. His counterpart sees nothing to lose but gain in savings ownership. Ultimately, conventional financial behaviour retains. Men are less interested in precautionary savings and consider loan as assets building instrument. They believe in promotive role of savings, i.e. savings turns to investment. Women love protective role of savings, i.e. precautionary for risk finance.

Financial Inclusion Potentials

To ensure financial inclusion it is essential to increase the outreach of banking and financial services in a cost-effective way. Two innovations currently dominate the financial market: (1) agent banking and (2) MFS (mobile financial services). In agent banking, financial institutions appoint third parties to deliver financial services on their behalf. NGOs, MFIs and retailers can operate as agents for the banks to deliver financial services to the unbanked at relatively low cost. MFS combines agent model and sophisticated mobile technology. MFS model uses vast agent network of MNOs (mobile phone operators) and virtual airtime as e-money store to minimise transaction cost of financial services as well as distance and travel time of the clients. Technological advancement in mobile applications creates the way for mobile money platform and branchless banking to execute a wide range of financial transactions – from money transfers to loans and savings, simply using a mobile phone. Clients use mobile phone to convert physical cash into 'virtual' or electronic money (e money) and deposit into their e wallet (Figure 1). They use virtual money to pay utility bills, remit money to others, and pay tax. They also receive salary, remittance and government transfer in their e-wallet.

MFS can help microfinance to promote financial inclusion in rural areas. Mobile microfinance can solve the problem of high interest rates and transaction costs associated with financial service delivery. Main reason for high operational costs is the remote branches to deliver financial services to the doorstep of the clients. To reduce operational costs microfinance institutions may consider agent based branchless operations through mobile financial services. With advancement in technology, mobile money is a potential tool for financial inclusion in rural areas where people are more likely to own a cell phone than a bank account. In MFS approach, no cash handling occur during the group meeting, transactions normally held outside the meeting, i.e. with the agent. Clients receive virtual money in their mobile phone; thus, they do not need to go to branch office. Real-time reconciliation in MFS drastically reduces the volume of paperwork in branch and head office. Thus, MFS reduces transaction costs and save time for both MFIs

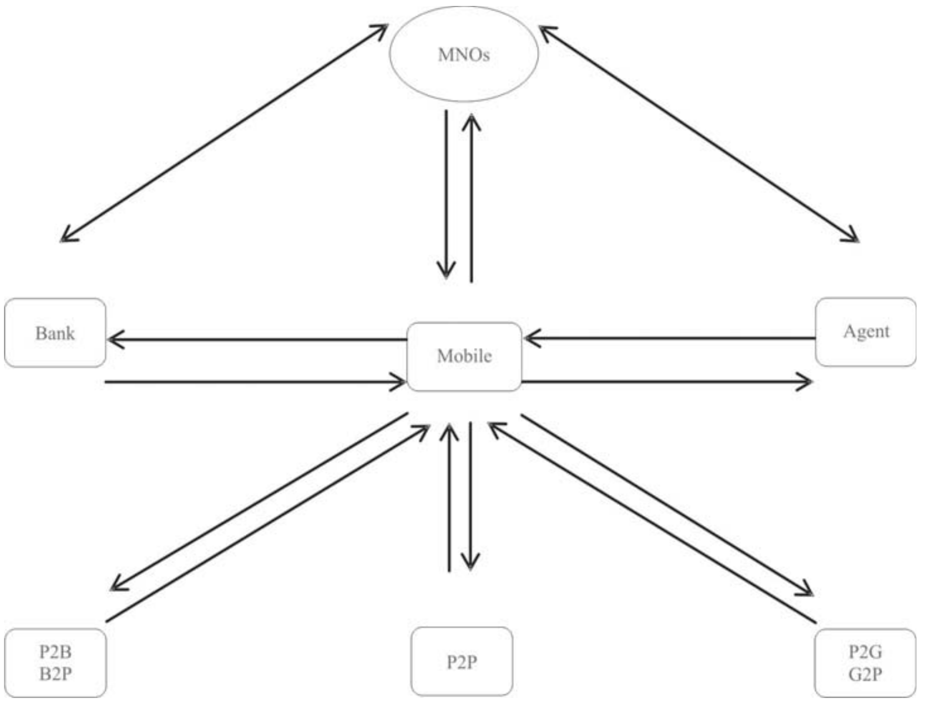

Figure 1: Mobile financial transactions

Note: P2B=person to business, e.g. utility bill, B2P=business to person, e.g. salary, P2P=person to person, e.g. remittance, P2G=person to government, e.g., tax return, and G2P=government, e.g. transfer payments.

and the clients. Now loan officers have more time to spend in organising and training the clients (cognitive resources). However, MFS approach to MFIs has limitations. MFIs often lack funds, technical skills and infrastructure needed to upgrade their MIS compatible with mobile financial services. Clients face two major challenges: (1) *low literacy* is a serious issue as mobile finance needs complicated operations and (2) *security* risks emanate from low literacy as client has to rely on others and thus PIN is no longer a secret to protect from fraud. Proper training is required for those clients.

CONCLUSION AND OUTLOOK

Financial inclusion is the combination of better access and effective use of financial services that enable households to manage money, build a stronger resource portfolio, and reduce vulnerability to poverty. Financial institutions help individual or households managing investment portfolio and diversifying income and assets. Financial services provide savings or loans for building assets base that can buffer crises (Chua *et al*., 1999). Despite of various remedial measures, financial inclusion gaps still exist with substantial impact on rural livelihoods in Bangladesh. Overall, rural people face inclusion gaps in a number of ways: payment, savings, loan, cognitive resources and gender gaps. Rich people afford to have access to banks located in urban areas but they use the services less frequently due to distance. Rich people are not eligible for MFIs that bring financial services only to the doorstep of the poor. Poor on the other hand, have very little or no access to banking services. Possible solution is making MFIs open for all and/or bringing bank services within the capacity of the poor. Poor also face lack of enough money required for minimum deposits and proper documents to open a bank account. These restrictions compel them to go for costly sources such as borrowing from moneylender or selling productive assets. To minimise the savings gap financial institutions need to focus on three rights of the rural poor: *right* place to save and *right* time to withdraw the savings in *right* amount. Gender difference in financial behaviour also exists in Bangladesh. Men are less interested in precautionary savings and consider loan as future savings that helps building assets. They consider promotive role of savings i.e., savings for investment. Women like protective role of savings i.e., precautionary measures for risk finance. Financial inclusion remains incomplete when cognitive resource gap exists i.e., when service providers only look for access to financial services and pay little or no attention to financial advice and training to improve better use of the services.

Potential solution to financial inclusion gaps lies in branchless agent banking MFS. MFS is more advanced as it combines agent banking and mobile technology. Both innovations have the capacity to minimise the most common problem in financial inclusion gap, i.e. distance. They also minimise the burden of the field staff who were too much engaged in collecting loan instalment and savings. Now they get more time in-group meeting for financial development planning and capacity building. Mobile financial services may have an important role in deepening financial inclusion in Bangladesh as there are: (1) growing number of companies interested in mobile financial services, (2) huge number of potential users and (3) potential cost effectiveness of the services. Thus, there exists a favourable environment for MFIs and banks to develop mobile financial services (Nabi *et al*., 2012). It may enable greater efficiency in financial product delivery to client's needs in investment opportunities and crises management. The biggest challenge is to minimise or illuminate potential barriers to technology adoption.

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