**Inclusive Finance in Bangladesh**

- Inclusive finance is to create opportunities for all adult individuals and firms, particularly deprived poor and low income households to access financial services, more importantly credit.
- About 78 percent of the households have access to finance;
- Nine percent of the households have access to formal bank credit;
- Around 32 percent of the households have access to bank deposits;
- Around 46 percent of the households have access to micro financial services (both credit and deposits);
- More than three million individuals are clients of over 18,000 branches of some 720 licensed MFIs.
- Banks are concentrated more in urban lending. They have a network of some 9,400 branches.
WHY MFIs Contribute to Higher Intensity of Inclusive Finance?

• MFIs operate at the household and firm levels, while banks operate at the branch level.
• Micro finance and the nature of role of MFIs have changed during the past decade. Extended from:
  – Pure micro finance to finance and development services;
  – Pure finance to risk-management and growth;
  – Household-level upliftment to community level development as they are inter-linked
  – Uni-dimensional (CBN based poverty alleviation) to multi-dimensional (deprivation based sustainable poverty alleviation) approach
  – Financing income-generating activities to growth oriented micro and small enterprise financing
  – Subsistence approach to investment approach
• Just to give you few statistics: In 2015, loans disbursement was around Tk.560 billion (US$7.2 billion) with net deposits financing around 45 percent of the loan portfolio.
Presentation is made based on the findings drawn from the following studies:

- Henry Schevens (2014)
- Khalily et. al. (2013)
- Khalily et.al. (2014)
- Khalily et. al. (2015)
- Osmani and Ahmed (2014)
- Khan, Khalily and Scheyvens (2016a)
- Khan, Khalily and Scheyvens (2016b)
- Khalily, Hasan and Muneer (2016)
- Khalily, Hasan, Muneer and Others (2016a)
- Khalily, Farhana and Hasan (2016)

**Impact Assessment Approach**

- Impact is the difference between outcome of factual (micro finance participants) and counter-factual (had the micro finance participants not participated in the micro finance programs) groups.
- Both factual and counter-factual groups can not be observed at the same time. This is the problem.
- In empirical impact assessment, we consider program participants (representing factual group) and control non-participants (representing counter-factual group), provided
  - Both the program participants and non-participants are homogenous in nature, and are selected randomly without any bias.
- Therefore: **impact of micro finance interventions is:**
  \[ \Delta Q_{MF} = (Q_{MF} - Q_{NP}) \]

where, \( \Delta Q_{MF} \) is net impact of micro finance, \( Q_{MF} \) is economic outcomes of MF participants and \( Q_{NP} \) is economic outcomes of non-participants.
What New Knowledge Has Been Created?
Empirical Evidences from PRIME (North-western region)

• InM has been evaluating impacts of PRIME (Programmed Initiatives for Monga Eradication) being implemented in the flood-prone North-Western region of Bangladesh.

• Results are as follows:
  – Households receiving both financial and non-financial interventions (PCP) are much better off than the non-participating (NP) and finance-receiving (PCO) only households
  – Poverty reduction rate is higher by some nine percentage points than the PCO households and by seventeen percentage points higher than the NP households
  – Value of non-land assets for PCP is twice higher than that of NP households
  – Financial assets is three times higher for the PCP households

Cyclones in South-western region and Its Devastating Effects

• In the past eight years (2007-2015), households in the South-western region experienced three major cyclones:
  – Sidr in 2007
  – Aila in 2009
  – Mahasen in 2012 (less severe and in small areas).

• More than 95 percent of the houses of the affected households were destroyed (partly/fully). Average amount of housing property in SW region was Tk.25,000 (US$325)

• More than 80 percent of the households had their livelihood sources destroyed

• Average loss per household was equivalent to average monthly income per household of:
  – six-months in Sidr affected region;
  – 11 months in Aila affected region, and
  – two months in Mahasen affected region.
Empirical Evidences in South-Western Region

- PRIME-type program has contributed to higher level of asset-creation and increase in income and consumption expenditure.
- BUT co-variate shock has contributed to prolonged health-related idiosyncratic shocks warranting for a sound health insurance or system.
- Seasonal unemployment prevails substantially during rainy season when the basic occupation of fishing is affected
- Seasonal migration (more than forty percent of the households) takes place during the period of unemployment

What New Knowledge Has Been Created from PRIME?

- InM-IGES studies on coping ability of households (using Switching Regression technique) clearly show that households in disaster-prone areas with ex-ante access to micro finance has higher ability to cope with disaster-effects than the counter-factual.
- These households have lower probability of selling advance labor or assets than the counter-factual during a disaster-crisis
- Higher assets building and higher financial assets enable these households to cope with crisis from strength
- These studies also show that effects of disaster are not same for the households warranting household-level interventions, and
Does Access to Microcredit Reduce Adoption of Erosive Coping in Rural Area of Bangladesh

• Evidences as noted earlier reveal clearly that
  — Access to ex-ante finance reduce costly erosive strategies for the households
  — Ex-post access to finance increase income, investment, assets and financial wealth of the participating households
  — Ex-post coping strategies are not uniform in all regions; strategies adopted in North-western region are different from those in South-western region
  — Major investment in house reconstruction and maintenance is required in SW region.

• Osmani and Ahmed (2014) in a recent paper showed that probability of access to micro finance reducing adaptation of ex-post erosive strategies is 0.20.

Role of Subsidy in Improving Coping Ability and Resilience Building
- Further Evidence From ENRICH and FKW
(Khalily, Hasan and Muneer 2016; Khalily, Farhana and Hasan 2016)

• The ENRICH is an integrated approach with financial and non-financial (health, training) interventions being implemented with participation of local government and community organisations. Credit is interest bearing, but non-financial interventions are cost-free.

• The ENRICH approach where non-financial services are considered as welfare maximizing interventions. Given expected net positive welfare outcomes, non-financial services are subsidized.

• Khalily, Farhana and Hasan (2016) showed that the participants in the ENRICH program are much better off than traditional approach.

• What is important is integration of diverse components with participation of local government and community organizations following resource mapping of the households and community.
Role of Subsidy and Financial Literacy in Financial Inclusion
(Khalily, Hasan and Muneer 2016)

• The FKW Approach: Credit is cheap (interest free). Welfare is maximized using cheap fund and such surplus contributes to sustainable development.

• Khalily, Hasan and Muneer showed that, despite lower loan size, income elasticity was higher by over 80 percent, fixed assets elasticity was higher by more than 100 percent compared to those in the traditional micro finance program.

• With greater emphasis on savings, the net surplus generated from access to costless credit will fasten the process of sustainable development.

• One of the critical elements will be Financial Literacy. Khalily (2016) showed that probability to access savings or credit increases by 0.15 if individuals are financially literate.

• Will that be sufficient to sustain in case of any major fall out?

• Micro insurance can not be forgotten; it should be a critical element.

What are the Determinants of Improving Adaptation Ability and Resilience Building?

• Based on empirical evidences and limitations, we identify the following determinants:

1. Long run asset-creation strategy. Create multiple income opportunities to reduce vulnerabilities of the households
2. Households need access to large loans with higher probability of recovering from loss of economic activities
3. MFIs need to diversify financial products to address diversified needs of the affected households
4. Financial literacy
5. Role of local government and community organizations
6. Skill-development training
7. Introduce micro property (real estate and livestock) insurance and micro health insurance
8. Environment literacy

• Subsidy for non-financial services may be built in the design of a program. Without non-financial services, resilience building and sustainable development of the poor households will be questionable.
Are the Evidences Robust?
Need for Experimental Research

• Evidences in NW regions and SW regions are different. Impacts of financial and non-financial interventions are different.
• Knowledge even in Bangladesh can not be generalized.
• What works better in Bangladesh? We do not know.
• Implications for both Bangladesh and other disaster-prone developing countries have to be derived through action research.
• Action research should encompass the elements identified earlier: finance, non-financial interventions including micro insurance, training and education, participation of community organisations and local government.