Current Event Analysis

Whither Financial Inclusion? Performance of Bangladesh in the 2017 Global Findex

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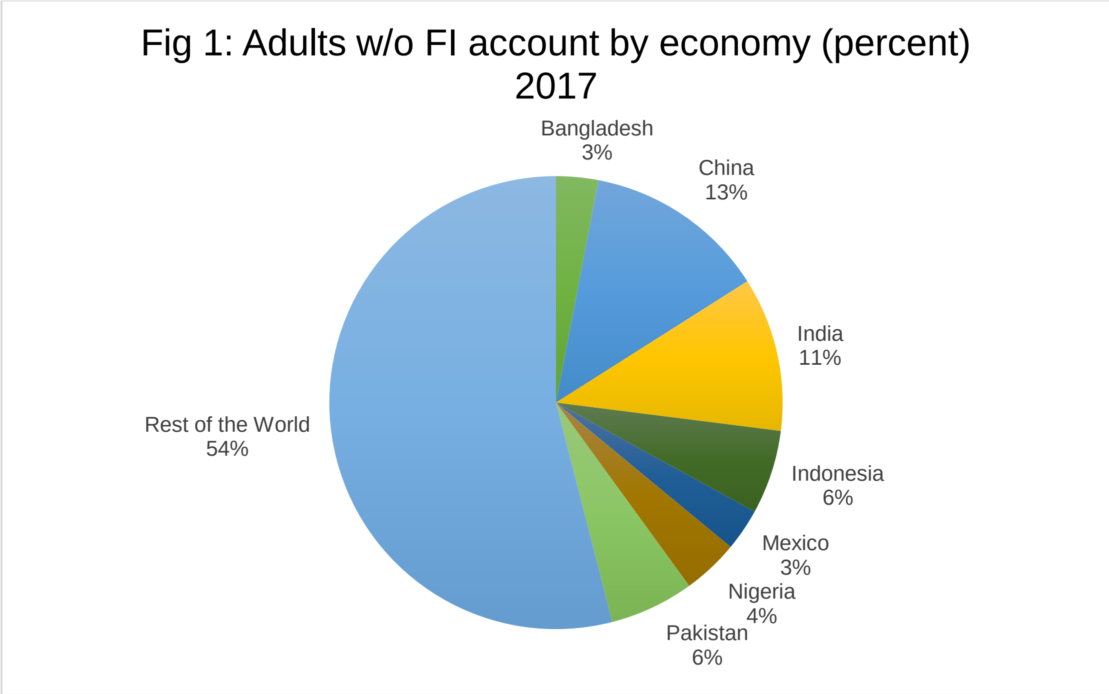
Background

On April 19, 2018, the third Global Findex Database was released by the World Bank at the Bank's Spring Meetings. According to CGAP,[1] this dataset is "the financial inclusion community's best demand-side measure of financial inclusion globally."[2] Queen Maxima of the Netherlands, a strong and vocal proponent of financial inclusion,[3] opined, "For those of us committed to advancing financial inclusion, no tool is of greater value than the Global Financial Inclusion (Global Findex) database."[4]

Launched with funding from the Bill & Melinda Gates Foundation, the Findex database now has three years of time series data available, for 2011, 2014, and 2017, which can tell a compelling tale on access to financial services over the past 6 years. In terms of methodology, the research consists of nationally representative surveys of more than 150,000 adults, age 15 and above, in over 140 countries. The survey was conducted in collaboration with Gallup, Inc. The final dataset is publicly available on the World Bank Group website, on which this article is based.

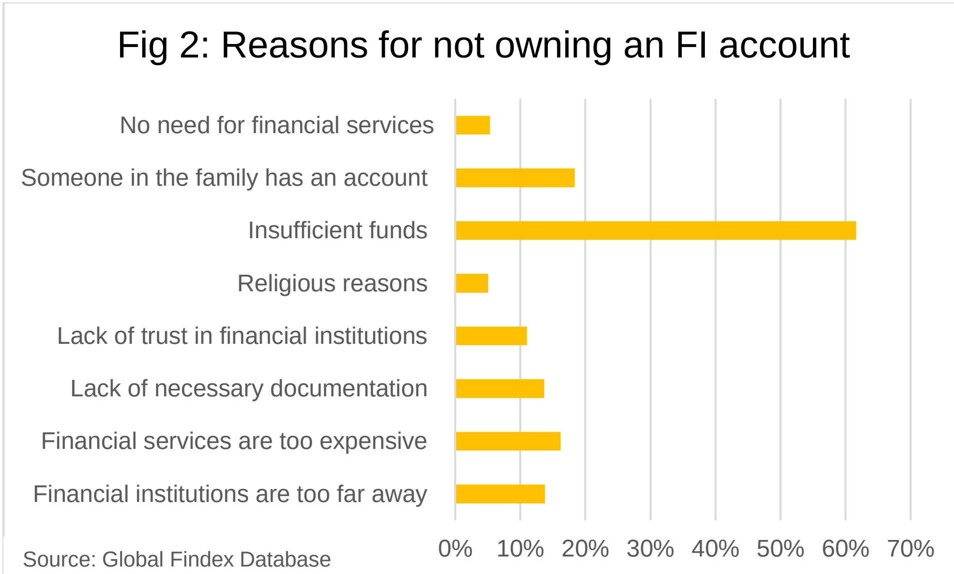
Overall, the dataset points to an increasingly inclusive financial world that is also transitioning to a digital economy. Between 2014 and 2017, 515 million adults globally opened some sort of formal financial institution account.[5] While financial inclusion has taken great strides, nearly half of all unbanked adults live in just seven economies, including Bangladesh (Fig 1).



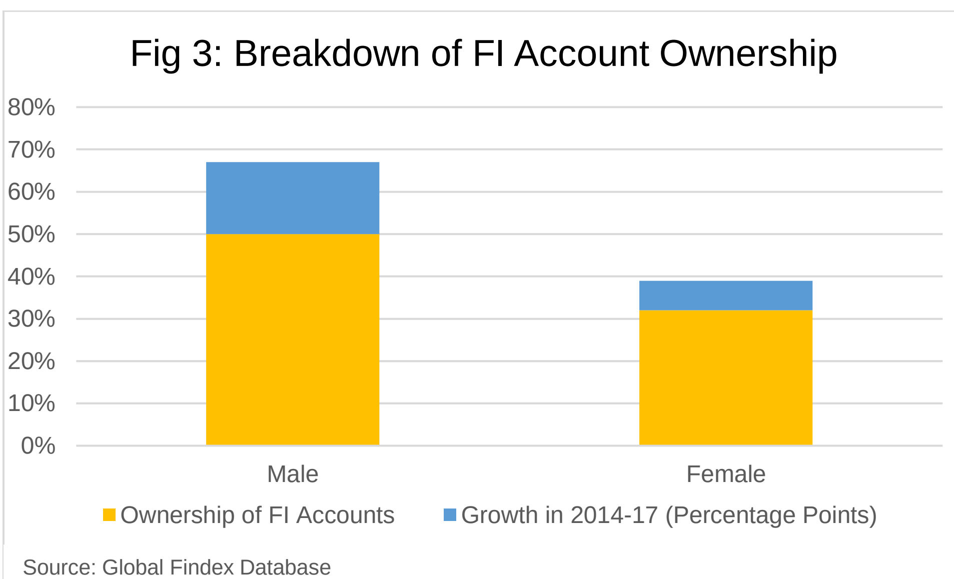
Performance of Bangladesh

However, Bangladesh, too, made impressive gains in certain yardsticks for financial inclusion. For instance, the share of people with financial accounts increased from 29 percent to 41 percent, in three years. This may appear to be high and is an outcome of the fact that the World Bank definition of a financial account included bank accounts or accounts at other financial institutions such as microfinance institutions, cooperatives, and credit unions.

Those without a financial institution account were asked their reasons for not owning one. About 62 percent cited insufficient funds as a reason for not owning a financial account. Other reasons frequently cited include "someone in the family has an account," "financial services are too expensive," "financial institutions are too far away," and "lack of necessary documentation" (Fig 2).

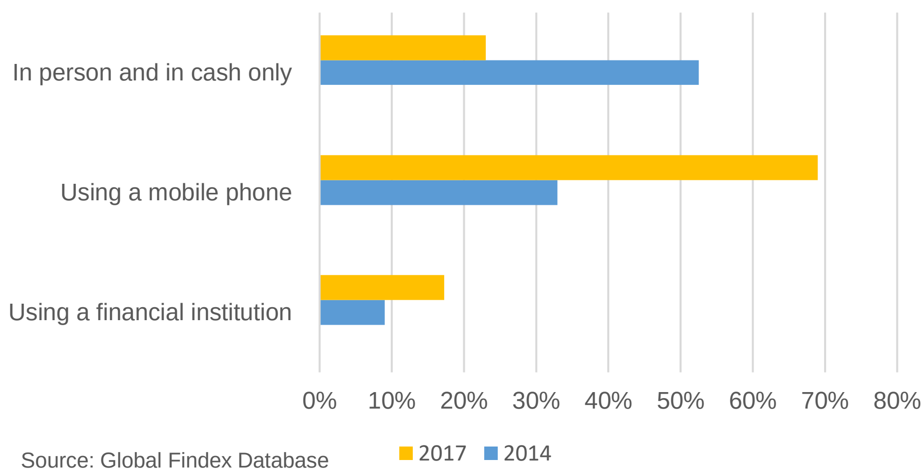


Moreover, while 50 percent of Bangladeshi males have a financial institution account, only 32 percent of females do (Fig 3). The growth for males over the last 3 years is 17 percentage points while the growth for females is 7 percentage points. This is interesting given that the World Bank measure of a financial account includes microfinance institutions, the primary account holders for which, are women. This may indicate that the more recent progress in financial inclusion may have been driven more by mobile money accounts than by microfinance accounts.



Looking at remittance-related data, a more positive picture emerges. The share of people sending or receiving remittances increased from 19 percent to 29 percent, according to the Findex data. Among those who sent remittances, the share of senders who used a financial institution account increased from 9 percent to 17 percent. Meanwhile, senders who used a mobile phone to send remittances increased from 33 percent to an impressive 69 percent. Senders who sent remittances in cash and using in-person delivery, decreased from 53 percent to 23 percent (Fig 4). Clearly, remittance sending is moving from informal to institutional channels, which bodes well.

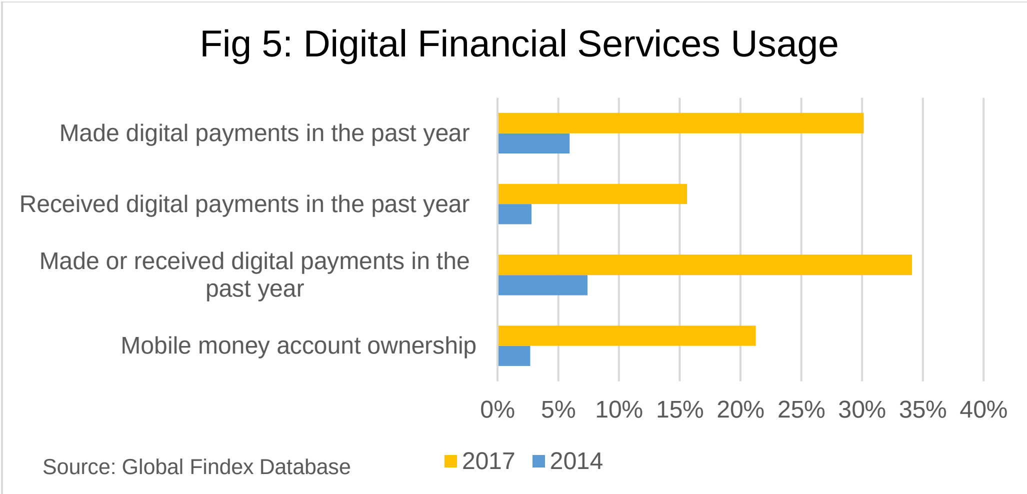
Fig 4: Preferred Channels for Remitting



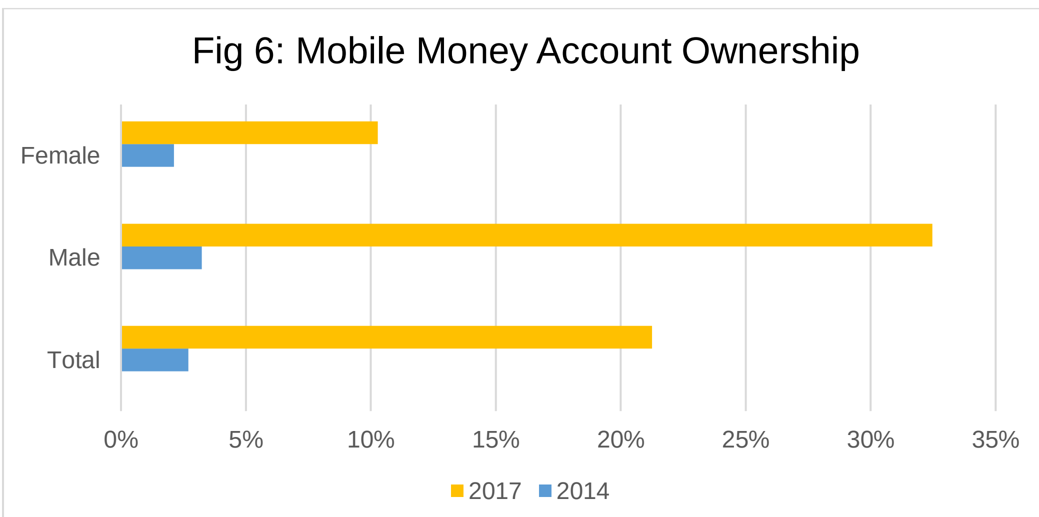
Source: Global Findex Database

Significant gains have also been made with respect to paying utility bills through a financial institution account. Among those who paid utility bills, the share of those who paid through an account increased from 4 percent to 31 percent. This is indicative of the growth potential of agent banking in Bangladesh as agents are encouraged to collect utility bills as a way of generating revenue for themselves, outside of the banking services they promote.

In general, in the realm of digital, significant gains are noticeable. For instance, in three years, share of people with mobile money accounts increased seven times, from 3 percent to 21 percent (Fig 5). Share of people who made or received digital payments increased from 7 percent to 34 percent.



However, there is a persistent gender gap in the realm of digital financial services as well. Although the ownership of mobile money accounts among women has increased five times in the last three years, it is still at 10 percent, compared to 32 percent for men (Fig 6).



In addition to such persistent inequalities, there is considerable scope for improvement with respect to usage of accounts. Usage clearly trails access and financial inclusion cannot be merely about increasing the number of accounts but also ensuring people are using their accounts. Among those with a financial account, people who made deposits went down from 60 percent to 51 percent (Fig 7). Cumulatively, the share of people who made withdrawals or deposits stayed about the same.

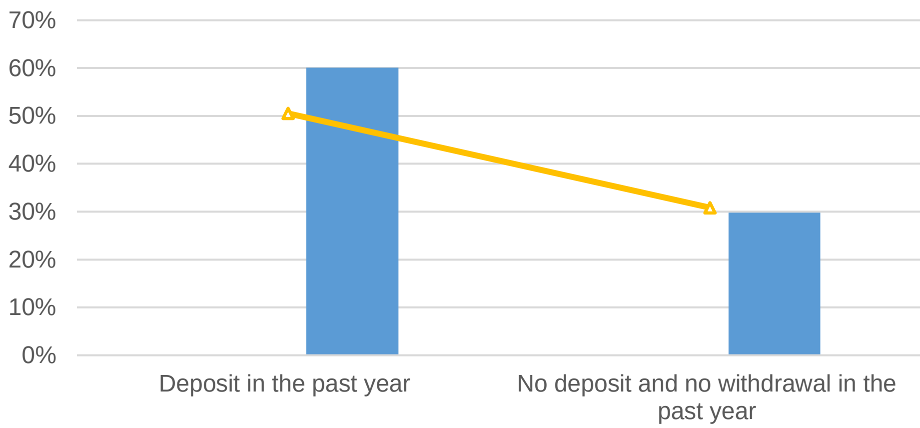


Fig 7: Insufficient Usage of FI Accounts

Source: Global Findex Database

Conclusion

Referring to the 2017 Global Findex, Ms. Greta Bull, CEO of CGAP and a Director at the World Bank Group, had to say, “I have been working in the financial inclusion industry for 18 years, and I have never seen the kinds of gains in access we have seen over the past decade. It is an exciting time to be involved in financial inclusion.”[6] While that certainly may be the case, and the focus on financial inclusion by governments and the private sector appear to be intensifying globally, it is important to take stock of both the achievements and the areas for improvement. Recent progress around the world and in Bangladesh have been driven by a mixture of a push towards digital payments, favorable government policies, and a new generation of financial services accessible via mobile phones and the internet. Globally, companies pay wages in cash to hundreds of millions of unbanked adults. A transition to an electronic payroll could help these workers join the formal financial system and also ensure transparency and accountability of the financial function at these companies. This is true for Bangladesh as well. For instance, if the large Ready-made Garments (RMG) manufacturers adopted such initiatives at digital transformation, millions could benefit in the long run. Certain international donor-funded projects that are working with agent banking units of private commercial banks are trying to encourage banks to adopt such practices. Last but not the least, all stakeholders involved ought to prioritize the focus on usage of accounts. It is only when people are actively using their accounts will we have meaningful financial inclusion, and the impact of ongoing efforts will be fully realized.

[1] CGAP (the Consultative Group to Assist the Poor) is a global partnership of more than 30 leading organization that seek to advance financial inclusion. It is housed at the World Bank.

[2] Bull, Greta. (2018). New Global Findex: What You Need to Know. CGAP Blog. Available at: http://www.cgap.org/blog/new-global-findex-what-you-need-know

[3] Her Majesty Queen Máxima of the Netherlands is UN Secretary-General's Special Advocate for Inclusive Finance for Development and Honorary Patron of the G-20's Global Partnership for Financial Inclusion.

[4] Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank.

[5] Data on adults with a financial institution account include respondents who reported having an account at a bank or at another type of financial institution, such as a credit union, a microfinance institution, a cooperative, or the post office (if applicable), or having a debit card in their own name

[6] Bull, Greta. (2018). New Global Findex: What You Need to Know. CGAP Blog. Available at: http://www.cgap.org/blog/new-global-findex-what-you-need-know

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The mission of CES is to produce high-quality research and knowledge in order to bridge the theoretical and empirical interface between enterprises and society. Its vision is to enable an entrepreneurial society in Bangladesh, built on ethical foundations.

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With regard to capabilities, CES has a strong track record of economic research, policy research, social research, and survey research using both qualitative and quantitative techniques. Our survey research abilities are built on the deep experience of the Center's Staff in this field, many of whom have garnered research experience in leading global and Bangladesh-based universities and research organizations before joining the Center.

The University of Liberal Arts Bangladesh's Center for Enterprise and Society (CES) seeks to advance understanding of the opportunities and challenges to entrepreneurship and enterprise development in Bangladesh through objective, academic study.

Why "enterprise *and society*"? The solutions to the challenges confronting enterprise development in Bangladesh go far beyond entrepreneurs and the private sector. At the most basic level, Bangladesh's business development depends on improving its human resources. In addition, civil society and average ordinary citizens have an important role to play in overcoming a host of challenges impacting our business climate. These range from traffic problems, to power availability, to urban planning. As such, we believe there is a strong relationship between enterprise and societal development.

The Center is exploring these themes in three broad areas:

- Conducting academic research
- Encouraging public engagement and debate
- Improving university education

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