

Deepening Financial Markets in Bangladesh



Sukhwinder S. Arora
Frank Matsaert

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Financial Services reaching large numbers

- Total Households: 25 m
- MFI members: 15 m
- Bank deposit accounts: 32 m (out of which 62% < \$100)
- Reasonable Bank coverage: 6228 branches (avg. one branch for 24 sq.km)
- Widespread demonstration of profitable delivery of financial services to the poor



Moni Begum, a home help, cries in despair as her life savings, Tk 17,000, (approx \$280) were burnt to ashes in a fire at a Rayerbazar slum yesterday” PHOTO: The DAILY STAR Dhaka 10 Feb. 2005 (***WHY DID SHE NEED TO KEEP HER LIFE SAVINGS AT HOME?***)



So what is the Problem?

- Poorly performing formal banking system
- Limited interaction between formal and informal financial sectors
- Market failures and distortions at different levels are still widespread



Some of the Bad News

- State owned banks have NPAs of 50%
- State Banks constitute 45% of the banking sector
- 6 million SMEs & microenterprises cannot access financial markets properly
- No MFI regulatory framework yet, despite 15 million clients (esp. for deposits)
- MF interest rates targeted for greater state control
- Insurance markets lack effective regulation/depth
- The capital market is weak
- Ultra poor have little access to financial markets



Some of the Good News

- Microfinance outreach estimated at 60% of poor households (but not ultra poor)
- Banking sector & SOE reform is slowly reducing NPAs
- Growing Private financial sector (15% pa) – 55% of the banking sector against 45% in 2002
- MFI regulation is coming, albeit slowly
- MF reporting & accounting standards drafted
- MF apex funds substantial and well directed
- SME and microenterprise lending increasing



Our contribution

- BRAC – Ultra poor programme
- Income III – addressing urban MF market failure with 30 partner MFIs
- Other pilots, research and dissemination
- Enterprise Growth & banking Modernisation (EGBM) - Support to state banking reform & privatisation with World Bank. SME lending window. Sister project strengthening the central bank's capacity & systems
- SEDF – accelerating SME finance – product development & capacity support to private banks; Training to banks in key risk areas
- Prosper – sector approach including support to regulation, professionalisation & Challenge Fund to address ultra poor and micronenterprise market failures