

Banks should open their doors to the urban poor



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“Financial inclusion” has been a buzzword in Bangladesh for many years. As most people in the country, primarily the poor, do not have bank accounts, this term has been used to justify the increase in the number of financial institutions here, especially banks. Some shrewd oligarchs became successful in getting a licence to open banks by persuading the authorities that financial inclusion is necessary for attaining rapid economic growth. It was argued that a large number of banks would increase formal finance and lessen the impact of exploitative informal credit markets, which are non-institutional and unregulated ways of extending credit mainly by various income groups including moneylenders.

Informal credit markets prevail in an economy because banks cannot reach all potential customers, especially the poor, mainly due to a mismatch between demand for and supply of financial services. In Bangladesh, the rural poor have easy access to microfinance institutions, which mostly work in rural areas. However, the urban poor have less access to finance since the number of microfinance institutions in urban areas is very low. Surprisingly, banks cannot serve the urban poor either. Consequently, many urban poor depend on informal finance to reduce their liquidity constraint.

There are a number of practical reasons why people access informal credit markets. These markets grant loans without any physical collateral. A borrower does not need to make any periodical savings; rules and regulations are not rigid; there is flexibility in loan size

and instalment repayment; and at times, the borrower does not even need to mention the purpose of a loan. Moreover, informal loans are sometimes a matter of verbal agreement without a formal contract; borrowers do not need to produce paper documents and fill out an application form, and loan disbursement is done very quickly. All these factors make informal credits easy for the poor.

The advantage of informal finance is strongly supported by an empirical research that I conducted in 2023 on 400 poor people in Dhaka city to explore their financial behaviour. In the research, 24 percent of the respondents took loans from moneylenders, 13 percent from local income groups, five percent from goldsmiths, and seven percent from *dadon* loan suppliers, which is a loan in cash for crop production or product manufacturing, to be repaid in the form of produce with its price predetermined

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generally at a lower rate than the normal market price. Other poor respondents borrowed from their relatives (20 percent), neighbours and friends (28 percent).

It was also found that nearly 70 percent of the loans were granted without collateral. In these credit markets, collateral is required when a loan size is large, the borrower is perceived to be risky and has no third-party guarantee. The research notably identified

generous friends at minimum interest rates. It was identified that informal loans were taken for both productive (income-generating) and unproductive (consumption) purposes. Nearly 56 percent of the loans were taken for consumption, which is quite normal because formal credit markets do not extend loans for such purpose.

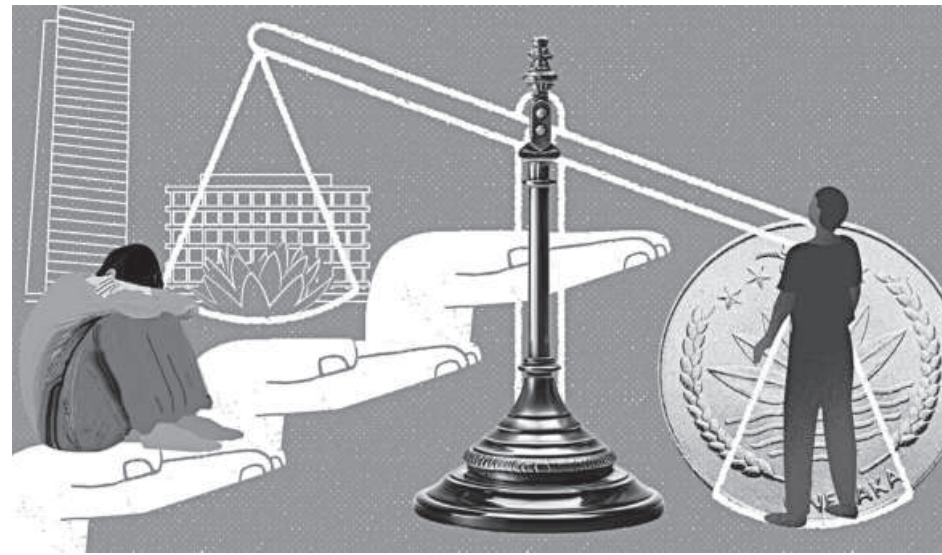
About 30 percent of the borrowers were found to have defaulted on loans. The main

Borrowers frequently default and lose their valuable collateral, which aggravates their poverty. There are also other humiliating consequences of loan default. Hence, it is necessary to take these people out of informal credit markets.

However, our formal financial institutions, principally banks, largely fail to reach the poor. Banks tend to produce large loans that the poor hardly need. Their loans require collateral that the poor generally lack. In banks, a person has to fill out a long account opening form; their loan application form is even longer; they need many other documents too. A borrower has to visit a bank several times for a loan. To the poor, every visit has a high opportunity cost—the cost of not being able to work during the visit, for example. All these factors make the lending process complex for them, and banks fail to meet the urban poor’s financial needs.

Our banks are also less eager to provide financial services to the poor. When a bank perceives that potential customers are not good suppliers of deposits, it discourages them from opening accounts. The overall environment of a bank branch is uncomfortable for the poor as well. Many of our so-called smart bankers are also less interested in conversing with poor customers. They deal with poor customers only when they are bound to do so by the Bangladesh Bank. For instance, private banks are less involved in granting agriculture loans. They fill the quota of this loan because it is a requirement set by the central bank.

The number of banks in Bangladesh stands at 62 now. But 53 percent of the population, mainly the poor, do not have bank accounts. It is impossible to attain real development while keeping this large number of people outside the banking network. These unbanked people must be integrated into the formal financial channels. Banks must be proactive and help reduce the prevalence of informal credit because the sizeable presence of informal finance indicates a big failure of formal finance.



FILE VISUAL: ANWAR SOHEL

that about 51 percent of respondents borrowed from informal credit markets because they found it easy. While quick funding attracted 19 percent of borrowers, no collateral requirement drew in 14 percent of borrowers. Less paperwork and the unavailability of formal credit encouraged seven percent and six percent of borrowers, respectively.

The average size of the loan was Tk 25,580. The interest rate ranged between zero and 250 percent with the average of 24 percent. About 45 percent of borrowers took loans from their affluent relatives, well-off neighbours, and

reason for default was high household expense (38 percent), followed by loss in business (30 percent), accidental cost (29 percent), and lack of financial discipline (three percent). The most dominating consequence of loan default was harassment—verbal abuse, physical assault, threat in the public and others—by the lender (71 percent), followed by absconding (14 percent) of borrowers, and loss of collateral (11 percent).

Informal finance has been found to be exceedingly exploitative. It is almost impossible to use informal credit profitably at abnormally high interest rates.

How to use RTI when there are no information commissioners

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SHAMSUL BARI AND RUHI NAZ

The right to information (RTI) regime in Bangladesh lost momentum with the departure of all three commissioners of the Information Commission following the mass uprising in July-August 2024. However, determined citizens are trying to make do and refusing to give up. Conferring with RTI activists from around the country, we can discern how they are creatively making the most of the situation.

In Dinajpur sadar, an RTI applicant was outraged by the quality of public healthcare services at local facilities. Reports of inadequate medical supplies, cleanliness, and insufficient staff were widespread. The lack of transparency regarding healthcare budgets and service standards further exacerbated the community’s concerns. Responding to these challenges, she filed an RTI request with the relevant health authorities, seeking information about the allocated healthcare budgets, expenditures, and service standards for local healthcare facilities. To her utter delight, she and others soon noticed a conspicuous change in the quality of healthcare services in the concerned area. The authorities appeared to have immediately undertaken a review of their service standards. Medical supplies were replenished, cleanliness and hygiene were improved, and efforts were made to ensure staffing levels met the established standards.

The interim government should encourage all public officials to respond diligently to the citizens’ RTI requests by using these examples, pending the appointment of the information commissioners.

Adapting to the absence of information commissioners, it would be best to focus RTI interventions more on systemic change in governance, which serves public interest, rather than

on matters of individual interest. Records show that since the adoption of the RTI Act in 2009, citizens have largely used the law for personal reasons, such as accessing benefits under the government’s safety net programmes, obtaining various types of licences, and securing job promotions, among others. Gradually, we have moved on to addressing small-scale transparency issues of societal interest, such as reviewing contract documents for the construction or repair of local roads and ensuring transparency in the tender process.

The next level involves invoking the law in matters such as unfair and discriminatory practices, misuse or abuse of power, deprivation of

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entitlements, corruption in public works, and the implementation of laws and administrative orders.

With increased experience, consideration was given to applying the law to address larger national issues. For example, there were thoughts about filing RTI requests to investigate the escalating costs of numerous megaprojects in the country, such as the Padma Bridge. However, fear of official retaliation prevailed. The July uprising spurred hope that the law could now be applied without fear or anxiety, but that hope remains unfulfilled just like the positions of the information commissioners.

Focusing on transparency and accountability issues of public interest that are aimed at systemic change aligns with the

fundamental objectives of the RTI Act. A close reading of the law makes it abundantly clear that its ultimate aim is to change how the country is governed. The idea is to banish the age-old practice of official secrecy and replace it with open governance where citizens can monitor the government’s work and hold public officials accountable for their negligence and/or misdeeds. This is best achieved when citizens utilise the law to serve as watchdogs over the work of government offices, monitoring how government policies are implemented and the obstacles they encounter along the way.

To advance this objective, the best approach would be to frame RTI requests in a manner that designated officials, charged with dealing with RTI requests, would not feel any personal unease about the request but would rather be inclined to respond positively as part of their national responsibility. Filing multiple applications on the same subject by many applicants may be the trick in this regard.

To what issues can this approach of broader societal benefit be applied? A recurring topic is the poor state of the public health sector, which affects ordinary people daily. The absence of doctors in public clinics or hospitals during duty hours, along with their general indifference towards patients, is legendary. Concerted efforts may help change the situation. The first task would be to identify the target clinic or hospital, request the names of doctors assigned to it, and ask for their attendance records. It will be difficult not to respond if there are many requests on the same subject. Success here may be multiplied by similar approaches at other places.

Another hot topic is the chronic teacher absenteeism and poor academic outcomes in public primary schools, particularly in rural areas. Citizens may request teacher attendance records, school inspection reports, and student performance data. An approach like this in Nilphamari resulted in disciplinary steps against absentee teachers.

A perennial problem for the marginalised population in the rural areas is that eligible children of these communities are often denied government scholarships/stipends.

RTI requests for a list of recipients from the school or education office, as well as information on the selection criteria and attendance records, should suffice. Such an approach helped uncover irregularities in some cases, and students got their entitled benefits.

Ordinary citizens often face delays, bribes or manipulation when attempting to register or transfer land. A strategy to address the situation would be to obtain information on the number of mutation applications received and

resolved over the past six months and inquire about the reasons behind pending cases. Additional requests for prescribed official processing times and staff duty rosters can also be helpful.

Allegations of nepotism or bribery in the recruitment of schoolteachers, health workers, and other professionals are also prevalent in many places. Information requests for the list of applicants, selection committee members, and final merit lists may be the trick to cracking the nut. Requesting interview scores and

appointment letters is also likely to be helpful.

There are numerous other similar issues for which the RTI request strategy may be effective. We hope that the citizens will continue to use the law despite the temporary setback they face due to the absence of information commissioners. Such broader use of the law will build on the gains made over the years by many dedicated RTI users. In the meantime, we urge the interim government to prioritise the appointment of new information commissioners.

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