

Financial Inclusion Landscape in Bangladesh: Strengths and Weaknesses¹

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Abstract

The paper reviews the current state of financial inclusion landscape in Bangladesh to find out strengths and weaknesses. The analysis shows that financial inclusion has been broadened and scaled up many fold over the last ten years. The study finds that the major strengths are the marginal farmers, sharecroppers, and women entrepreneurs who were excluded or underserved can access financial services due to pursuing credit policy of agricultural and CMSMEs, and scale up financial inclusion through agent banking and MFS in rural areas. The paper also finds out some weaknesses such as ‘the missing middle’ segment of MSMEs, existing higher interest rates, very low insurance coverage and delays to adopt NFIS which are critical for broadening financial inclusion in future.

Keywords: Financial Inclusion, Financial Services, Financial Accessy

JEL Classification: G10, G20, O16.

¹ The views expressed in the paper are authors own and do not reflect those of Bangladesh Bank;

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1. Introduction

Promoting financial inclusion is one of the cherished goals in the development agenda of Bangladesh. Accordingly, Bangladesh Bank (BB) has been pursuing financial inclusion strategy since 2010 for inclusive growth and sustainable development. A multipronged financial inclusion strategy has been adopted by the BB and governments to expand financial services to unbanked/underserved adult population, firms, farmers and cottage, micro, small, medium enterprises (CMSMEs).

A growing recognition is that financial inclusion is critically important for development and poverty reduction (WB, 2014, King *et. al*, 1993; Beck *et. al*, 2000, 2004; Levine, 2005, Demirgüç-Kunt *et. al*, 2008, and Islam, 2015). Financial inclusion has been identified as an enabler for seven of the 17 Sustainable Development Goals and which appears to be an enabler for achieving our national goals: to become a poverty-free middle-income country and to be a more inclusive and equitable society.

In order to broaden financial inclusion, BB has adopted a multi-pronged strategy by ushering ideas and policies which are critical for accelerating financial inclusion. The major approaches are to expand credit flows to agricultural, CMSMEs; to bring a large number of un-banked/under-banked, socially disadvantaged people into the ambit of financial services; to adopt mobile financial services by tapping mobile and telephone density; to expand banking services to remote areas through agent banking; and to adopt information and communication technology (ICT) in delivering financial products at an affordable cost.

In accelerating financial inclusion initiatives, BB has enabled regulatory environment for banks and non-bank financial institution (NBFIs). As a result, the role of inclusive finance is gradually being realized: to significantly increase outreach to un-served and under-served households and enterprises. Supported by a sound policy, together with an appropriate legal and regulatory framework, any country should have a continuum of financial institutions that collectively offer appropriate products and services to all segments of the population at an affordable cost (Rahman, 2013).

The financial inclusion drive has been taking place since 2009 and access to financial services has been broadened. To scale up financial inclusion in future,

the paper reviews the current state of financial inclusion landscape and to find out strengths and weaknesses.

The remainder of the paper is structured as follows. Following the introduction, section 2 gives a short summary of the literature on financial inclusion aspect, section 3 reviews the financial inclusion landscape, section 4 analyzes financial inclusion status based on accessibility, availability and usage of financial services, section 5 finds out the strengths and weaknesses of financial inclusion, and section 6 concludes.

2. Literature Review on Financial Inclusion

Ample of studies accomplished worldwide in the arena of financial inclusion by the institutions as well as individual level but review on the specific issue like landscape of inclusion covering strengths and weaknesses like ours for Bangladesh not yet done. This study tries to cover specially the issues on landscape of financial inclusion including current state of financial inclusion landscape, strength and weakness of financial inclusion in Bangladesh. Financial inclusion is vital for sustainable development and economic growth in any developing country like Bangladesh. Similarly, financial inclusion and human development are closely related with each other (Sarma, M. and Paris, J., 2011) in any country. Access to finance is the driver for poverty eradication which facilitates new establishment for small and medium entrepreneur (SME), micro small and medium entrepreneur (MSME) and help to run rural economic activity. Rahman, A., (2009), argue that financial inclusion combats poverty by expansion opportunities for the disadvantaged poor and promoting social inclusion and inclusive socio-economic growth.

In literature, financial inclusion is a process that assures the ease of access, availability and usage of the formal financial sector for all economic agents specially un-served or under-served people who are not connected with formal financial system. The G20 defined financial inclusion as: “A state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers”. Another prominent economist Rangarajan committee (2008) has defined financial inclusion as, “The process of ensuring access to financial services and timely and adequate credit where needed

by vulnerable group such as low income groups at an affordable cost”. According to Reserve Bank of India (RBI 2012), “financial inclusion is the process of ensuring access to appropriate financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players”.

In the real economy, the financial inclusion also provide widening financing support to productive SME and MSME enterprises to increase their production on the supply side along with generating employment and income. United Nations (UN) published a milestone report in 2006 as name of “Building Inclusive Financial Sector for Development” known as “blue book” for financial inclusion around the whole world. This report focuses importance of access to financial services for achieving millennium development goals (MDGs) and help policymakers to initiate national policy for building inclusive financial sectors.

Bangladesh Bank (BB) and the Government of Bangladesh (GoB) have taken several initiatives and policy measures to encourage and expand access to financial services for all. Bangladesh Bank’s financial inclusion programs have been successful in all respects, especially in relation to the uplift of financially excluded people’s socio-economic condition. Rahman. A (2014) identify Bangladesh Bank’s efforts to boost financial inclusion will provide solid foundation for an inclusive sustainable growth process for Bangladesh. Islam and Mamun (2011) argue that Bangladesh Bank pursuing priority policy for financial inclusion in formal and informal financial sector to maintain monetary and financial stability. Bangladesh Bank introduces many more financial inclusion strategies with national policy for inclusive growth as reflected in both sixth five year plan and also the perspective plan. Bangladesh Bank took plenty of initiatives including no-frill account, mobile financial services and agent banking to ensure financial inclusion in under-served population and economic agent (Hossain, S.M., et. al 2015). Mobile financial services are a great technical innovation of financial system in Bangladesh. Bangladesh Bank made and circulated a proper mobile financial services guideline for smoothing payment system through mobile financial services. Akhter, N. and Khalily, B., (2017) found that the positive role of mobile financial services on financial inclusion including growth enhancement and poverty alleviation.

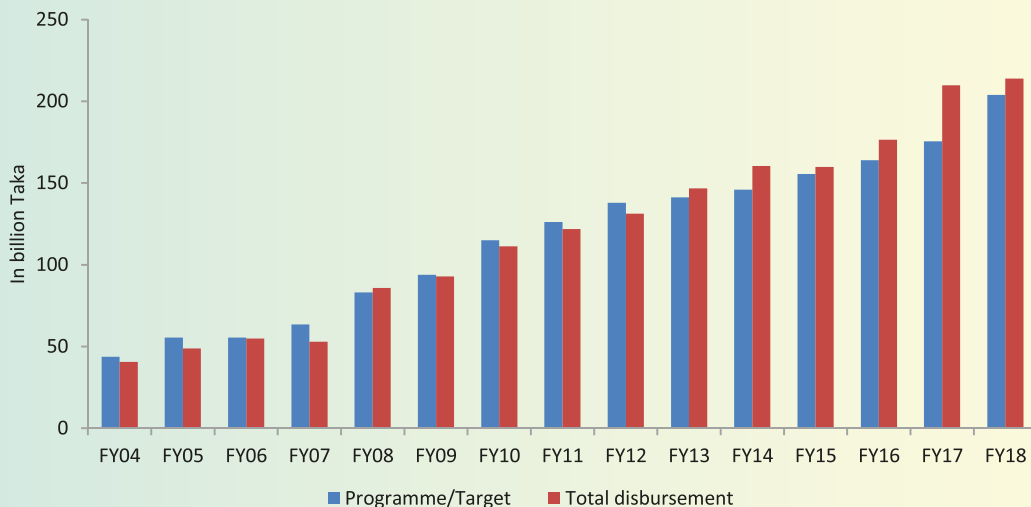
Small and Medium Enterprises (SMEs) and; Micro, Small and Medium enterprises (MSMEs) are priority sector in Bangladesh for manufacturing as well as overall economic growth. In SME financing, BB has kept refinance scheme available to banks against their loans to Small and Medium Enterprises; multilateral development partners such as the IDA and ADB are supplementing BB's refinance scheme with their co-finance. Besides, BB is allowing banks to open SME service booth in areas with no branches of the banks concerned. In 2016, Bangladesh Bank conducted a survey on MSME financial indicators. According to this survey, MSME business has sufficient access to financial services. Almost all (97 percent) of the sample respondents reported that they do not face any difficulties in getting MSME loan. The survey also revealed that a large portion of the respondents (89 percent) reported opening a bank account for the business purposes is not so difficult. On the other hand, on an average, 26 days required to get sanction of the loan. The agricultural credit program is one of the important policies for development of agriculture which announced by Bangladesh Bank for every fiscal year. All scheduled banks operating in Bangladesh participate in lending for sharecroppers to expand rural economic activities and also availing refinancing schemes for rural and agricultural development of BB. Khalily, M.A.B. (2016) showed that both banks and microfinance has contribution to increase intensity of financial deepening and access to financial services in Bangladesh. A lot of initiatives and programs have been performed for uplifting the economic condition of the distressed population of the country through financial inclusion. Now it is time to evaluate the usefulness of the initiatives and current state of financial inclusion landscape in Bangladesh and also find out the strengths and weaknesses. BB also continues all along efforts to enhance financial inclusion and revisiting guidelines and polices regularly based survey impact. In this regard, a Survey on Impact Analysis of Access to Finance in Bangladesh in 2019 conducted by BB (BB, 2019). According to this survey, majority of the banked respondents reported that they were induced to do savings after establishing relationship with the financial institutions. Almost 24 percent banked respondents out of 2872 respondents acknowledged that they borrowed some amount of money from the formal sources within the preceding one year period.

3. The Current Stock of Financial Inclusion Landscape

3.1 Agricultural Financing and Financial Inclusion

BB has adopted a pragmatic agricultural credit policy for extending credit facilities to marginal farmers, sharecroppers, women and landless farmers. Under this agricultural credit policy, a substantial amount has been allocated to the agriculture sector due to its major contributions to employment generation, poverty reduction, food security and sustained economic growth. Chart 3.1 plots agricultural credit targets and actual disbursements for the period from FY04 to FY18. Total agricultural credit disbursement by banks has increased nearly doubled to BDT 213.94 billion in FY'18 from BDT 111.17 billion in FY 10.

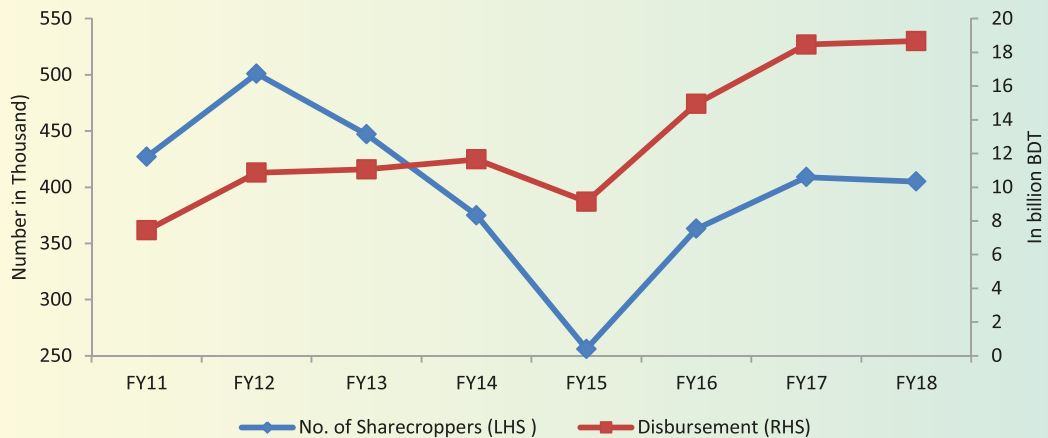
Chart 3.1: Trends in Program and Disbursement of Agricultural Credit during FY04-FY18



Source: Agricultural Credit Department, BB

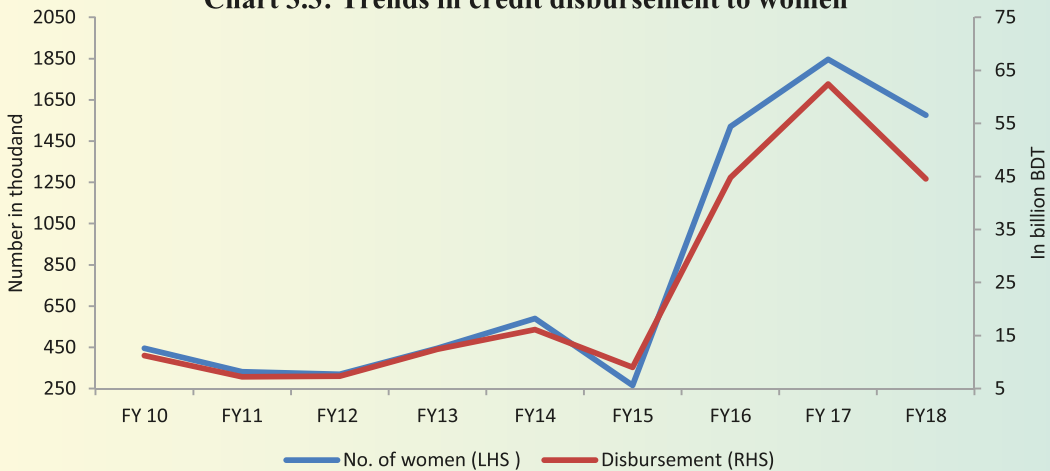
In FY10, the sharecroppers were brought into the agricultural credit program under a revolving refinance credit scheme of BDT 5 billion. It is noteworthy that the sharecroppers now enjoy credit facilities having been previously excluded from bank credit. In FY18 BDT 18.67 billion was disbursed to 375,000 sharecroppers from BDT 4.30 billion to 374,000 farmers in FY10 (Chart 3.2).

Chart 3.2: Trends in credit disbursement to Sharecropper



Source: Agricultural Credit Department, BB.

Chart 3.3: Trends in credit disbursement to women



Source: Agricultural Credit Department, BB.

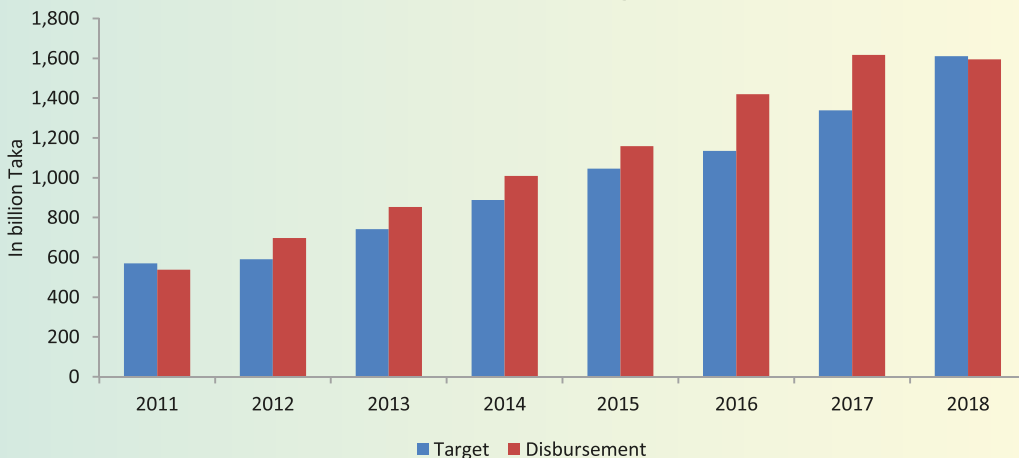
Banks are instructed to extend credit facilities to women for agricultural activities such as gardening, nursery, post-harvesting activities, production and preservation of seeds, bee rearing/apiculture and honey production, food processing, fisheries, the animal resources sector, and many other occupations. In the agricultural and rural credit policy, banks are directed to provide credit facilities to the women on a priority basis. In FY18, 1.57 million women have received BDT 63.09 billion credit which was BDT 11.23 billion in FY10 (Chart 3.3).

BB arranges credit facilities at a 4 percent concessional interest rate to promote production of agricultural import substitute crops. Agricultural credit at a concessional 4 percent interest rate is being extended by banks to farmers for growing of pulses, spices, oilseeds, and maize. Banks get a 6 percent interest subsidy from the government through Bangladesh Bank against these loans. Local production of these specialized crops is already contributing significantly towards reduction of import dependence.

3.2. CMSME Financing and Financial Inclusion

BB formulates CMSME credit policy and prudential guideline for increasing financial flow to CMSMEs sectors. The main purposes of the policy are create a window for unbanked/underserved CMSME including women entrepreneur to access affordable financial services offered by banks and Non-bank financial institutions. Reaching the micro, small and medium-size enterprises (MSMEs) are one the major segments of financial inclusion in Bangladesh.

Chart 3.4 : Trend in SME Loan Target and Disbursement



Source: SME & Special Programs Department, BB and Annual Report, 2017-18, BB.

In 2010, a target-based CMSME lending program was initiated. Since then banks and non-bank financial institutions prepare their disbursement target based on CMSME credit policy of BB. Under this credit program, a number of women entrepreneurs can access financial services on simple terms and conditions, some entrepreneurs get loan without collateral, and rural entrepreneurs also can access

to credit facilities. Total loan disbursement to CMSMEs increased many fold during last ten years. In 2018, Banks and NBFIs disbursed altogether BDT 1595.10 billion to 687,522 enterprises in 2018, up from BDT 535.44 billion to 310,000 enterprises in 2010 (Chart 2.4).

In 2018, 135,941 thousand new entrepreneurs (about 20 percent of total entrepreneurs) got BDT 269.77 billion loan from banks and NBFIs. In rural area, 192,116 thousand entrepreneurs received BDT 345.83 billion from banks and NBFIs in 2018. The number of women entrepreneurs who access to financial services has been increasing since CY2010 (Table I.)

Table-I: CMSME credit disbursement to women entrepreneurs during 2010-2018

Year	No. of Women Entrepreneurs	Amount Disbursed (In billion Taka)
2010	13,831	18.05
2011	16,696	20.48
2012	17,362	22.44
2013	41,695	33.47
2014	42,730	39.38
2015	31,242	42.27
2016	41675	53.45
2017	53874	47.73
2018	57571	55.17

Source: SME & Special Programmes Department, BB.

3.3 Mobile Financial Services and Financial Inclusion

To meet the objectives of financial inclusion BB leverages the mobile phone platform. The developments in mobile phone density in Bangladesh, with 116.6 million subscribers, present a unique opportunity. To tap the opportunity, BB published the “Guidelines on Mobile Financial Services for Banks” on 22 September 2011 and revised it in 2018 as the legal framework for a mobile technology based payment system. This event served as a milestone in financial inclusion activities in the country. The activities of mobile financial services have been expanded tremendously since 2011. At the end of December 2018, the number of total agents was 880 thousand and the number of registered customers was almost 67.52 million, of which active accounts were almost 37.32 million.

The number of total transactions was 210.09 million, while the amount of total transactions was BDT 321.06 billion in December 2018 (Table II).

In the banking sector, 28 banks have received permission for providing financial services through mobile technology as an alternative payment channel. Of these, 20 banks are already carrying out activities such as disbursement of inward remittances, financial transactions through agent/bank branch/ATM/ mobile operator outlet, payments of business organizations (such as utility bills) by individuals, payment of individuals by business organization (such as salary distribution) payment of individuals by Government (such as old-age allowance, freedom fighter allowance, etc.), payments of Government by individuals (such as tax payments), individual to individual transactions (from one registered mobile account to another registered mobile account) and other transactions such as microfinance, overdraft facilities, insurance premiums, etc.

Table II: Trends in Mobile Financial Services in Bangladesh

Description	December 2015	December 2016	December 2017	December 2018
No. of Banks currently providing the Services	18	17	18	18
No. of Agents (in thousands)	561	710	786	880
No. of registered clients (in Millions)	31.85	41.08	58.8	67.519
No. of active accounts (in Millions)	13.22	15.87	21.00	37.323
No. of total transaction (in millions)	115	134	166.32	210.09
Total transaction amount (in billion BDT)	161.25	232.14	285.71	321.06
No. of daily average transaction (in millions)	3.83	4.46	5.37	6.78
Average daily transaction (billion BDT)	5.37	7.74	9.22	10.36
Product	(In billion BDT)			
Inward Remittance	0.04	0.08	0.05	0.64
Cash In transaction	68.30	100.16	120.28	122.62
Cash Out transaction	59.31	90.46	108.95	122.14
P2P transaction	27.51	33.68	44.25	50.74
Salary Disbursement (B2P)	1.54	2.35	4.0545	6.13
Utility Bill Payment (p2b)	1.09	1.81	1.85	2.85
Merchant Payment			1.30	4.25
Government Payment	-	-	1.28	6.57
Others	3.45	3.58	3.71	5.13

Source: Payment System Department, BB.

3.4 Agent Banking and Financial Inclusion

BB has taken initiatives in agent banking in 2013 to reach out to the unbanked and underserved segments of the society as well as existing bank customers with a range of banking services especially to geographically dispersed locations with comfortable cost. It is an alternative delivery channel of banking services under the financial inclusion strategy program and the regulations and guidelines for agent banking operations were issued on 9 December 2013 and revised in 2017⁶. The activities of agent banking have been expanding rapidly. Presently, 21 banks have been licensed so far for starting agent banking services and 19 banks are in operation. The agent banking system provides a comprehensive range of banking services to the unbanked portion of the society, and provides efficient services to the existing customers⁷. The performances of agent banking are given in Table III.

Table III: Performances of agent banking activities

	2017	2018	Change, %
1. No. Agent (in number)	2577	4493	74.35
a. Urban	267	429	60.67
b. Rural	2310	4064	75.93
2. No. of outlet (in number)	4157	6933	66.78
a. Urban	364	601	65.11
b. Rural	3793	6332	66.94
3. Total Account, in million	1.22	2.46	101.85
a. Urban	0.18	0.32	80.43
b. Rural	1.04	2.14	105.49
3. No. of Account (Men), in million	0.83	1.59	92.50
4. No. of Account (women), in million	0.38	0.85	125.52
5. Total Deposit amount (In billion BDT)	13.99	31.12	122.49
a. Urban	4.83	6.57	36.02
b. Rural	9.16	24.55	168.10

⁶ As per the guidelines, the aims of agent banking are to serve the non-privileged, underserved population and the poorer segments of society, especially those from geographically dispersed locations. Banks will give much emphasis to the rural areas to cover the lion's share of the target group. The ratio of the numbers of sub-agent/ outlets of a bank will be 2:1 for rural and urban areas.

⁷ Through agent banking, a customer can get a variety of banking services, including (1) small value cash deposits and cash withdrawals, (2) collection of foreign remittances, (3) small value loan disbursement and loan repayment in installments; (4) cash payments under the social safety net program of the Government; (5) utility bill payment; (6) fund transfers, (7) account opening, (8) application for loans, and (9) collection of debit/credit cards.

6. Loan Disbursement (In billion BDT)	1.09	1.49	37.05
a. Urban	0.11	0.26	128.85
b. Rural	0.98	1.23	26.41
7. Inward Remittances (in million BTD)	19.81	55.57	180.49
a. Urban	1.99	5.07	154.57
b. Rural	17.82	50.50	183.39

Source: Quarterly Report on Agent Banking, October-December, 2018, BB.

The financial services (deposits, loan and inward remittances) have been reaching to women and rural area through a number of outlets of agents (Table III). In 2018, the outstanding of deposits, loan and inward remittances reached BDT 31.12, BDT 1.49 and BDT 55.57 billion respectively. Out of this, women in rural area are main beneficiary.

3.5 Innovative Account (No Frills Account)

Bangladesh Bank brings socially disadvantaged and financially excluded people into financial services under its on-going financial inclusion program⁸. BB has advised the banks to open bank accounts with a minimum deposit of BDT 10 and BDT 100, with the one step of filling out the KYC (Know Your Customer) form to cover those people. These accounts are free of service charges. Up to 2018, a total of 19.02 million accounts had been opened by the state-owned banks and specialized banks (Table IV). Of these accounts, 9.89 million are BDT 10 farmers' account.

Table IV: Developments in Innovative Accounts as of December 2018

Name of Accounts	No. Account (cumulative), in Million	Outstanding deposit, in billion BDT	Using for subsidy/ salary		For using Refinance/loan from BB's 2 billion fund		Foreign Remittances	
			No. account, in million	Outstanding deposit, in billion BDT	No. Account, in thousand	Disbursement, in billion BDT	No. account, in thousand	Amount, in billion BDT
Farmer's BDT 10	9.89	3.034	2.073	0.612	43.911	1.258	26.749	1.299
Social safety net Beneficiaries	5.09	5.377	1.692	3.661	5.108	0.034	2.553	0.017
Freedom	0.21	2.544	0.979	0.681	9.330	1.787	0.230	0.011

⁸ Socially disadvantaged and financially excluded people are farmers, the ultra-poor, freedom fighters, beneficiaries from the social safety net program, small life insurance policy holders, ultra poor women, vulnerable people who are getting grants for rehabilitation under the Ministry of Religious Affairs, cleaners of Dhaka North and Dhaka South City Corporations, and others (vulnerable people who are getting grants from the Hindu Religious Welfare Trust, Tornado (Aila) affected people, etc.).

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fighter								
Small insurance policy holder	1.17	0.176	0.005	0.018			0.441	0.017
Others	2.67	6.80	0.13	3.98	6.87	0.22	1.66	0.04
Total	19.02	17.927	4.878	8.948	65.217	3.298	31.628	1.379

Source: Quarterly Report, December 2018, FID, BB.

3.6 Financial Literacy and School Banking

The level of financial literacy is association with financial inclusion. Financially literate people can manage the financial product risk better than the illiterate people. Subbarao, D. (2010) argues that financial inclusion and financial literacy are twin pillars and while financial inclusion acts from supply side providing the financial products and services that people demand, financial literacy stimulates the demand side – making people aware of what they can demand.

To increase financial literacy, BB introduced school banking in 2010 which is one of the good initiatives in promoting financial inclusion. The goal of the school banking program is to introduce the students to modern banking services and technologies, and to encourage them to participate in financial activities through saving. With this aim, Bangladesh Bank asked all scheduled banks to implement school banking with special priority. The activities of school banking have been expanded rapidly. At the end of 2018, the number of accounts and deposit balances stood at 1818,413 and BDT 15.13 billion respectively under this school banking program (Table V). The outstanding savings of the female students both in rural and area reached BDT 6.44 billion in banks at the end of December in 2018 which was 42 percent of total school banking savings.

Table V: Trends in School Banking Account and amount in Bangladesh

Year	No. of accounts	Balance amount (in BDT billions)
2011	29,080	0.31
2012	132,537	0.97
2013	295,802	3.06
2014	850,303	7.17
2015	1034,954	8.44
2016	1257,370	10.21
2017	1453,936	13.62
2018	1818,413	15.13

Source: Quarterly Report, December 2018, FID, BB.

3.7 Protection of Consumer Right

With the rapid expansion of banking network within the country, demands and expectations for services of the customers are increasing rapidly and therefore, banks are paying more attention to these increasing expectations of customers. As the supervising and controlling authority of banks and financial institutions of the country, Bangladesh Bank has kept a keen eye on the standardization of customer-service along with maintaining stability in the financial market. With a view to ensuring hassle-free smooth banking services for innumerable clients from both home and abroad and to upholding the standard of services of our banks at desired level, a full-fledged department named ‘Financial Integrity and Customer Services Department (FICSD)’ was established in Bangladesh Bank in 2012. The department has been playing an important role in bringing discipline in the financial sector by resolving various types of complaints of the customers, developing the banker-customer relationship and protecting interests of the customers. Rate of resolution is quite high which indicate that consumer is getting protection under financial inclusion program (Table VI).

Table VI: Complained Received and Resolved during 2014-2017.

Financial Year	Complaints Received	Complaints Resolved	Rate of Resolution
2013-14	4476	4291	95.87
2014-15	3930	3930	100.00
2015-16	4530	4530	100.00
2016-17	3521	3519	99.94

Source: Annual Report, 2016-2017, FICSD, BB.

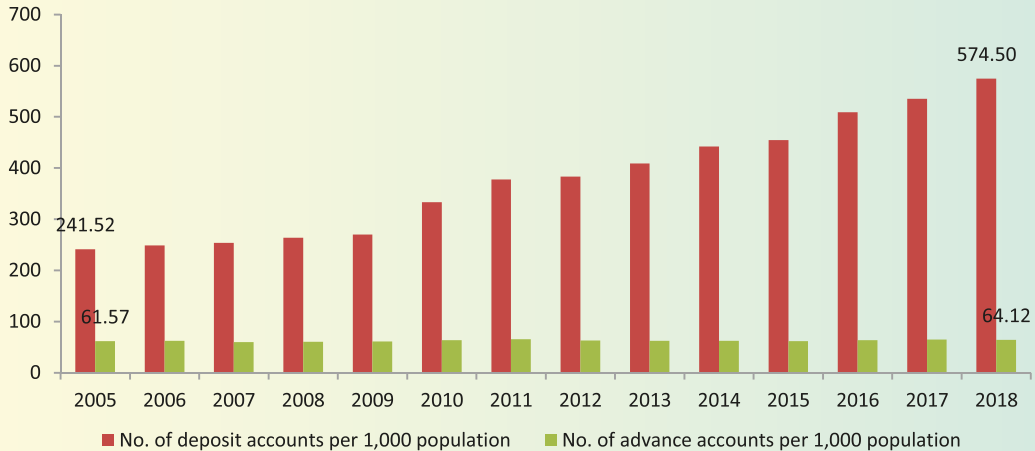
4. Analysis of Financial Inclusion Status

This section review financial inclusion status of Bangladesh based on three basic dimensions of financial inclusion—accessibility, availability and usage of financial services. Accessibility has been measured by the penetration of the banking system proxied by the number of bank accounts (hereafter A/Cs) per 1000 population. Availability has been measured by the number of bank branches and number of ATMs per 100,000 people. The proxy used for the usage dimension is the volume of credit plus deposit relative to the GDP.

4.1 Accessibility of Financial Services

The number of deposit accounts per 1000 population grew sharply to 574.50 in 2018 from 241.52 in 2005. Loan accounts growth, on the other hand, was moderated to 64.12 in 2018 from 61.57 in 2005 (Chart 3.1).

Chart 4.1: No. of deposit and loan accounts per 1,000 population



Sources: Authors own calculation based on data available in scheduled Bank Statistics, BB; Islam and Mamun (2011).

Chart 4.2: Deposit account per 1000 persons

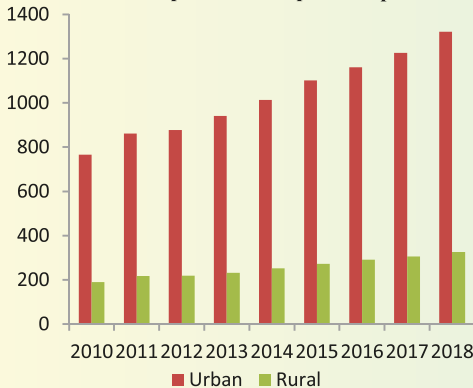


Chart 4.3: Loan account per 1000 persons



Sources: Authors own calculation based on data available in scheduled Bank Statistics, BB; Islam and Mamun (2011).

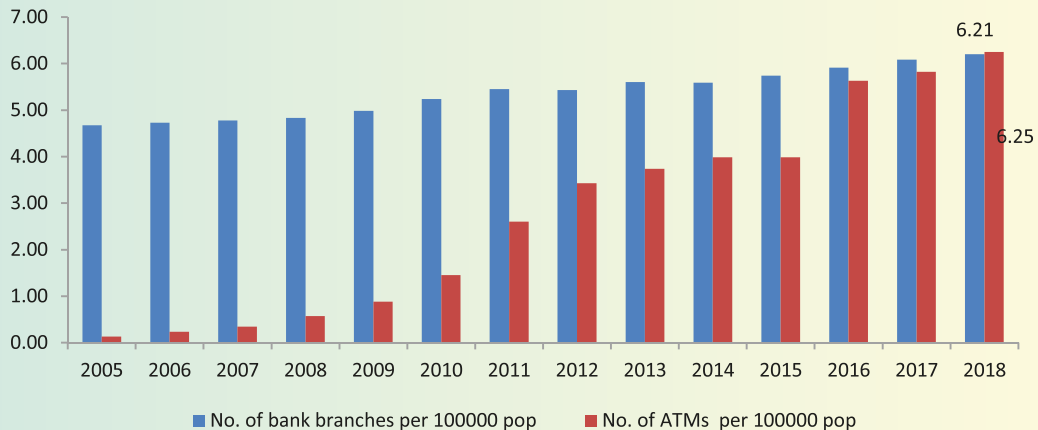
Access to banking services both in rural and urban areas in terms of deposit and credit accounts per 1000 population was quite impressive during 2010-2018 (Chart 3.2 and 3.3). Data on deposit account in rural areas show that number of deposit accounts per 1000 reached 326.61 in 2018 from 189.17 in 2010 due to

increasing deposit account, on average, about 11.91 percent per year in rural areas between 2010 and 2018. Access to banking services in urban area grew faster during 2010-2018. Deposit account per 1000 population increased to 1321.17 in 2018 from 765.25 in 2010. The deposit account in urban area grew by 11.98 percent per year between 2010 and 2018. The number of credit accounts during the same period increased, on an average of 0.22 percent per year in rural areas, compared with 4.37 percent in urban areas during 2010-2018.

4.2 Availability of Financial Services

In term of demographic penetration, the number of branches per 100,000 populations increased from 4.67 in 2005 to 6.21 in 2018. The number of ATMs per 100,000 population increased from 0.13 in 2005 to 6.25 in 2018 (Chart 3.4). Trends in demographic penetration indicate that access to banking is steadily increasing overtime in Bangladesh.

Chart 4.4: Demographic Penetration of Banking Services



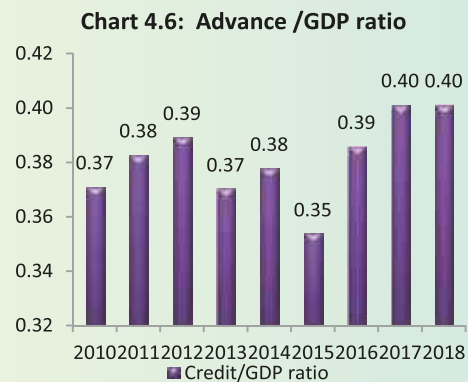
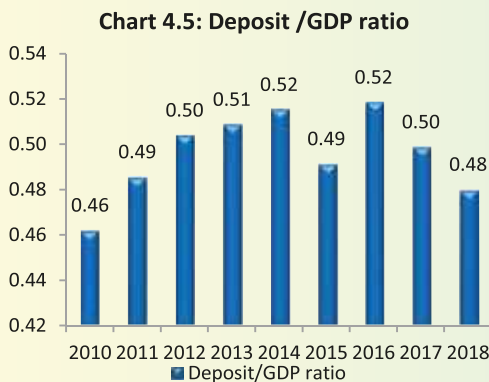
Sources: Authors own calculation based on data available in Scheduled Bank Statistics, BB; Islam and Mamun (2011).

4.3 Usage of Financial Services

The deposit growth in rural area increased substantially between 2010 and 2018, up 44.88 percent, on average, per year to BDT 2232 billion in 2018 from BDT 486 billion in 2010. The same in urban area also grew faster during the period and up 21 percent, on average, per year to BDT 8582 billion in 2018 from BDT 3202 billion in 2010. Advances to rural area also increased substantially during the

period, registering by 38.16 percent per year, on average, to BDT 940 billion in 2018 from BDT 232 billion in 2010. Advances to urban area increased by 24.57 percent, on average, per year between 2010 and 2018.

The ratio of total deposit as percent of GDP shows some volatility during the period, increased from 46 percent in 2010 to 48 percent in 2018. Total Banks' advance ratio as percent of GDP increased from 28 percent in 2005 to 38 percent in 2018 (Chart 3.5 and 3.6).



Sources: Authors own calculation based on data available in Scheduled Bank Statistics, BB; Islam and Mamun (2011).

4.4 Access to MFIs Financial Services

Micro Finance Institutions (MFIs) have expanded their financial services to mostly women in rural area which is remarkable in Bangladesh. The MFIs have diversified their financial service product overtime. The financial products are loan (general micro credit, ultra poor loan, microenterprise loan, and house loan), savings (client compulsory savings and others), and agriculture finance (loan). Agricultural loan varies on their activities, generally off firm activities like house stead agriculture and small food processing activities. The latest data indicate that 806 MFIs operated through 18,088 branches throughout the country (mostly in rural areas)⁹. The total number of clients of MFIs, stood at 31.08 million in June 2018 from 24.85 million at the end of June 2009. Total outstanding savings mobilized by MFIs increased to BDT 262.36 billion at the end of June 2018, compared with BDT 50.61 billion at the end of June 2009. Total outstanding loan disbursement reach BDT 671.16

⁹ Data are available in NGO-MFIs in Bangladesh, June 2018, MRA, Bangladesh and FSR, 2018, BB.

billion at the end of June 2018, significantly up from BDT261.18 billion at the end of June 2009.

Data show that MFIs disbursed BDT 403.05 billion to 5.1 million microenterprises up to 2018. These microenterprises are mostly excluded from bank financing. To promote innovative finance and financial services for microenterprise, MFIs are maintaining a huge fund to provide them financial services.

4.5. Overall Financial Inclusion

The overall financial inclusion, measured by number of deposit accounts as a percentage of the total adult population, has increased at a modest pace in Bangladesh during the last 10 years. It is observed that financial inclusion by banks, measured by the number of deposits accounts as percent of the total adult population, increased from 42.2 percent in 2009 to 87.0 percent in 2018 due to the opening of a significant number of innovative accounts, including the farmers' BDT 10 account, small insurance policy holder accounts, social safety net beneficiary account, school banking account, agent banking account in the last several years. There are some multiple account holders in deposits accounts.

Global Findex database shows that access to financial services by adult populations, women, adult belonging to the poorest 40%, and adult living in rural area during last ten years¹⁰. About 50 percent adult populations (age 15+) of Bangladesh have accounts in 2017, up from 31.7 percent in 2011. Adult's women accounts went to 35.8 percent in 2017 from 26.01 in 2011 which reduce gender gap in financial inclusion. Rural people account also sharply increased to 49.9 percent in 2017 from 20.32 percent in 2011 (Table VII).

Table VII: Development Account Penetration in Bangladesh during 2011-2017.

	2011	2014	2017
Account (% age 15+)	31.74	30.99	50.05
Account, female (% age 15+)	26.01	26.45	35.84
Account, in labor force (% age 15+)	39.35	39.16	62.94
Account, income, poorest 40% (% ages 15+)	19.06	23.03	40.08
Account, rural (% age 15+)	29.72	29.63	49.93
Account, young adults (% ages 15-24)	20.32	20.83	40.99

Source: Findex, World Bank, 2018.

¹⁰ The Little Data Book on Financial Inclusion, Findex, World Bank Group, 2018.

5. Strength and Weakness of Financial Inclusion

5.1. Strength

The drive of expanding financial inclusion through various approach such as branch expansion both in rural and urban area; adopting agent banking as an alternative channel for banking service to rural area; creating a digital platform by enabling MFS; and pursuing a pragmatic agricultural and CMSE financial policies for marginal farmers, share cropper and financial excluded entrepreneurs to access financial services is the major strength of financial inclusion.

To bring a vast segment of financial excluded population through innovative account is another praiseworthy strength of financial inclusion. Besides, cooperatives, post office, non-scheduled banks, insurance company, and NBFIs have expanded financial services to unbaked people both in rural and urban areas in the country and they have a potential platform for inclusion drive. Recent data show that 0.17 million cooperatives loan disbursed BDT 45.24 billion to 11.24 million members and collected deposits about BDT 77.52 billion in FY19¹¹. NBFIs mobilized BDT 480 billion deposit in 2018.

Coordination among financial regulation is necessary for strengthening financial inclusion strategy. Rahman (2015) argues that since all financial sector regulators (MRA, BB, BSEC, IDRA) are under the umbrella of one government ministry (Ministry of Finance, MoF), which is a factor facilitating coherence and coordination in financial policies. Accordingly, BB ushered in fresh ideas and policies for broadening financial inclusion.

5.2 Weakness

A large number of micro and small firms have difficulties in accessing bank financing because of collateral and lack of proper accounts (documentations). These segments of MSMEs are identified as ‘the missing middle’ and that firms are also too big to qualifying for loans from MFIs (WB, 2019). This is one of the major weaknesses for broadening financial inclusion.

Banks and NBFIs are charging higher interest rate for CMSMEs loan compare to large and medium industry. Interest rate of microenterprise loan from MFIs is

¹¹ See Annual Report 2018-19, Department of Cooperative, Bangladesh.

higher than 25 percent. The prevailing high interest rate for CMSMEs loan is another weakness of financial inclusion. The interest rate should be more justified and the loan processing system should be faster and hassle free so that people are encouraged to seek an institutional loan (BBS, 2014).

Microcredit borrowers are facing challenges to mitigate different types of risks due to absence of micro insurance services. The very low insurance penetration (0.60 percent of GDP) compared to India (3.69 percent of GDP) reflecting that the insurance sector is still in nascent stage which is another weakness for financial inclusion during last ten years. The premium for life and non- life, as percent of GDP, has been declining since 2013 (BB, 2018).

Access to financial services has been expanded but usage of financial services is not up to market. Many household depend on family and friend sources for borrowing (WB, 2017 and BBS, 2014). Many accounts are lying in dormant. Another weakness is that there are multiple borrowing and overlapping among the MFIs, banks, and cooperative members.

Many countries are pursuing financial inclusion strategy by adopting national financial inclusion strategy (NFIS). Although financial inclusion has been pursuing since 2009, Bangladesh has yet to launch the NFIS. To broaden financial inclusion in future, adopting NIFS is necessary.

Lack of proper measurement for safe and secure financial transaction is also hindrance for financial inclusion. To ensure safe and secure financial transaction, a better Coordination among Mobile Network Operator (MNO), financial service provider, and regulators is necessary.

6. Conclusion

The main objective of the paper was to review the financial inclusion landscape and to find out strengths and weaknesses of financial inclusion. The analysis indicates that financial inclusion has been scaled up and diversified significantly since 2009 because BB has ushered in policies and ideas for expanding financial inclusion and adopted pragmatic prudential guidelines and approaches. The notable approaches are to expand credit flow to agricultural, MSMEs; to bring a large number of un-banked/under-banked socially disadvantaged people into the

ambit of financial services; to adopt mobile financial services and agent banking to expand banking services to remote areas, and to tap information and communication technology (ICT) in delivering financial products at an affordable cost have impacted for broadening financial inclusion.

The analysis of geographical and demographic penetration indicates that access to banking is increasing overtime, both in urban and rural area in Bangladesh. The overall financial inclusion, measured by the number of deposit accounts as a percentage of the total adult population, has increased at a modest pace in Bangladesh during the last ten years. The paper shows that number of deposit accounts as a percentage of the total adult population increased from 42.2 percent in 2009 to 87.0 percent in 2018 due to opening a significant number of innovative accounts (no frills accounts) in the last several years. Usage of financial services through MFS has been scaled up many folds.

The paper has identified some strength in financial inclusion such as access to financial services by the marginal farmers, sharecroppers, and women entrepreneurs who were excluded or underserved. The pursuit of credit policy of agricultural and CMSMEs played a critical role for accessing more bank finance in achieving food security, employment generation and poverty reduction, which are considered national priorities in Bangladesh. The paper also finds out some weaknesses such as ‘the missing middle’ segment of MSMEs, exiting higher interest rates, a very low insurance coverage and delays to adopt NFIS which are critical for broadening financial inclusion in future.

The rapid digitization has opened an opportunity to expand financial inclusion landscape in Bangladesh. Deepening the usages of ICT in financial payment and creating inter operability among banks, NBFIs, and MFIs, may exploit more digital landscape to financial inclusion in future.

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