Survey on Impact Analysis of Access to Finance in Bangladesh

July 2019

Bangladesh Bank

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Foreword

Finance is a powerful intervention for economic growth especially in a resource-constrained country like Bangladesh. Access to finance is essential for promoting inclusive economic growth and eradicating poverty in the country. The country's development strategy recognizes that socio-economic development would be undermined if expanded financial services are not available to the poor and other disadvantaged groups. Inclusive financial system provides a number of benefits to the economy. It makes available more resources for investment especially for the promotion of small and medium enterprises (SMEs). It creates employment opportunities, ensures economic and financial stability through reducing vulnerability and contributes to poverty reduction. Access to a well–functioning financial system can economically and socially empower individuals, in particular poor people and women, allowing them to better integrate into the economy and actively contribute to development.

Access to finance means an opportunity for future planning development and a cushion in time of crises for the low-income group and poor. Access to finance helps to equalize opportunities and reduce inequalities. The supply-side driven financial inclusion initiative of Bangladesh Bank is considered as a path-breaking landmark which has been facilitating greater access to credit and other financial services to the poor and un-served people. The intervention has been playing an important role to significantly increase farm and non-farm productivity, to attain higher level of income and improve socio-economic conditions of the targeted households which ultimately gear up inclusive economic growth in Bangladesh.

Moving beyond financial inclusion to social inclusion is also the demand of the time. Conventional microfinance lends only the active poor and low-income group; extreme and destitute poor are excluded because of their high risk. It is undeniable that Islamic microfinance (IM) can provide small investments for the poor people or people having good expertise without start-up capital.

This study was carried out by the Research Department of Bangladesh Bank with the objective of assessing the existing state of access to financial services and measuring the impact of financial products and services. The study found that availing financial services had a strong bearing on savings, borrowing and investment decision of the households. The extent of remittance flows went up along with the adoption of supply-driven people-oriented financial services.

We strongly believe that the findings of this study would be beneficial for Bangladesh Bank in respect of its policies related to access to finance with new insights. It would also be beneficial for the policy makers and researchers who are interested to contribute in this area. In line with the government efforts, Bangladesh Bank is spearheading the efforts to foster access to finance in Bangladesh. We hope that the findings and recommendations of this report would lift-up the ongoing endeavors to address this challenge.

Finally, we would like to thank all the members of the study team for their efforts. In addition, we would also like to thank various organizations and individuals associated with this study for their contribution and support. Comments on this report will be highly appreciated.

(Md. Abdul Awwal Sarker)
Convener of the study, and
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Acknowledgement

The study team wishes to express its gratitude to the higher authority of Bangladesh Bank for assigning the field study on "Access to Finance" and especially is indebted to the Financial Inclusion Department, Bangladesh Bank which laid the foundation stone of the study a year back. The team acknowledges cooperation and contribution made by the team members, enumerators, respondents, banks and financial institutions, NGOs and other organizations. Mr. Md. Abdul Awwal Sarker, General Manager (Research) and Dr. Md. Akhtaruzzaman, Executive Director (Research) rendered invaluable insights, guidance and advice throughout the whole study.

The study team has also immensely benefitted from the deliberations offered to the bankers, which took place in the branch offices of Bangladesh Bank. The cooperation extended by the BRAC deserves a special mention. The team extends its thanks to Mr. Anwar Aftab Ahmed, Deputy General Manager and Coordinator of the study team for rendering painstaking tasks for compilation of the findings of the study and giving the present shape of the report.

Finally, we, in the Research Department are very much grateful to Mr. Abu Hena Mohd. Razee Hassan (the then Deputy Governor), Mr. S. M. Moniruzzaman, Deputy Governor-1, and Mr. Fazle Kabir, Governor, Bangladesh Bank for their kind patronage to the study.

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EXECUTIVE SUMMARY

Access to financial services is the absence of any obstacles to the use of required financial services. Inclusiveness of a greater segment of people in the financial system is a pre-requisite for economic development of a country like Bangladesh. As such recently the policy of access to finance or financial inclusion is seen as an effective tool for poverty reduction by reaching missing marginal, female and poor segments of the population, especially the unbanked people of the country. Access to finance denotes the provision of banking services at an affordable cost to the various sections of disadvantaged and low-income groups. These include access to savings, credit, insurance, payments and remittance facilities offered by the formal financial institutions to those who tend to be excluded. Therefore, in short, access to finance or financial inclusion means providing access to financial services to all the people in a fair, transparent and equitable manner at an affordable cost.

Considering the remarkable and sustainable impacts of financial inclusion, in the context of most developing countries, 'ensuring financial access and inclusion' presently is a critical policy option area to address. Likewise, although a large number of bank branches and Micro Finance Institutions (MFIs) are available in the country, a big segment of the population particularly rural poor has little access to banking services. In this context Bangladesh Bank (BB) undertook a comprehensive financial inclusion movement to reach out with financial services to the un-served and underserved poor population segments to the formal financial network by its regulatory driven 'financial inclusion' efforts through a mix of incentives, regulations and policy measures for financial institutions which are already in operation.

With a view to ensuring inclusive growth in line with the government's overall development agenda, Bangladesh Bank has adopted various financial inclusion measures encompassing all spheres of the society. As a part of this drive, Bangladesh Bank has issued a set of directives to the state-owned commercial banks and specialized banks to open farmers' accounts, government's social safety-net program accounts, freedom fighters' special accounts, small life insurance accounts, street and working children accounts, and students' accounts etc. Besides these measures Bangladesh Bank has instructed the scheduled banks to open bank accounts by receiving BDT 10, 50, and 100 from the marginal, deprived, and financially excluded populace who are social safety-net program beneficiary, ultra-poor women beneficiary, garment workers, city corporation cleaners, footwear and leather goods manufacturing workers, tornado victims, and physical challenged persons including the blind. Opening of rural branches of scheduled banks, easy credit at low interest rates for the agriculture and small and medium enterprises sectors, agent banking and mobile banking etc. have been playing a crucial role in the central bank's pursuit for financial inclusion for the unbanked population.

Bangladesh Bank addressed the financial inclusion question both from the supply and demand sides. As a regulator of the banking sector, Bangladesh Bank issued numerous guidelines / circulars in regard to the widening of financial services to the underserved and un-served population segments. The total number of banks and their branches were 48 and 6,717 respectively in 2007, which reached to 57 and 9,955 respectively in 2017. Presently the ratio of rural – urban bank branches stands at

48:52. The credit/deposit ratio of the scheduled banks excluding the specialized banks is 0.86, which was 0.81 a decade ago.

The main objective of the current survey was to assess the impacts of Bangladesh Bank's financial inclusion measures. In this regard a total of 2,872 respondents along with a number of branch managers of the banks and other financial institutions were interviewed with structured questionnaire. On the basis of responses from the beneficiaries a number of impacts of financial inclusion were identified. 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 acknowledged that they borrowed some amount of money from the formal sources within the preceding one year period. About 34 percent banked respondents reported that they had received money both from domestic and foreign sources within the preceding twelve months. The adoption rate of insurance policy was found higher for the banked respondents.

Chapter - 1

Introduction and Background of the Survey

1.1 Introduction

Access to financial services is the absence of any obstacles to the use of required financial services. Inclusiveness of a greater segment of people in the financial system is a pre-requisite for economic development of a country like Bangladesh. As such recently the policy of access to finance or financial inclusion is seen as an effective tool for poverty reduction by reaching missing marginal, female and poor segments of the population, especially the unbanked people of the country. Access to finance denotes the provision of banking services at an affordable cost to the various sections of disadvantaged and low-income groups. These include access to savings, credit, insurance, payments and remittance facilities offered by the formal financial institutions to those who tend to be excluded. Therefore, in short, access to finance or financial inclusion means providing access to financial services to all the people in a fair, transparent and equitable manner at an affordable cost.

A World Bank report states, financial inclusion or broad access to financial services is defined as an absence of price or non-price barriers in the use of financial services. It recognizes the fact that the financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fees. It makes the point that creditworthiness of the customer is important in providing financial services. The report also stresses the distinction between ‘access to’ and ‘use of’ financial services as it has implications for the policymakers. ‘Access’ essentially refers to the supply of services, whereas use is determined by demand and supply. Among the non-users of formal financial services a clear distinction needs to be made between voluntary and involuntary exclusion. Access to finance addresses the ‘involuntary excluded,’ as they are the ones who, despite demanding financial services, do not have access to the services.

Being central to the incidence of poverty, the low economic and financial opportunity limits capacity of the poor to utilize their skills for income generation. Access to affordable financial services; credit, savings, and insurance could help empower them to change their lives and those around them. The mainstream banks having adequate resources in terms of available funds and extensive branch network do not consider them bankable. Therefore, lack of access to financial services restricts them from undertaking business pursuits for self-employment. Hence, much of the human and material resources remain unexploited (ADB, 2009).

1.2 Rationale of the study

Inclusive finance or specifically access to finance is generally perceived as a right of the poor. It has been recognized that financial inclusion efforts do have multiplier effects on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid population by providing access to formal savings arrangements resulting in expansion in credit and investment by banks. An inclusive financial system is desirable for many reasons. First, it facilitates efficient allocation of productive resources. Second, access to appropriate financial services can significantly improve the day-to-day management of finances. And third, an all-inclusive financial system can help reduce the growth of informal sources of credit (such as moneylenders), which often tends to be exploitative. Thus, an all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

Considering the remarkable and sustainable impacts of financial inclusion, in the context of most developing countries, 'ensuring financial access and inclusion' presently is a critical policy option area to address. Likewise, although a large number of bank branches and Micro Finance Institutions (MFIs) are available in the country, a big segment of our population particularly rural poor has little access to banking services. In this context Bangladesh Bank (BB) has undertaken a comprehensive financial inclusion movement to reach out with financial services to the un-served and underserved poor population segments to the formal financial network by its regulatory driven 'financial inclusion' efforts through a mix of incentives, regulations and policy measures for financial institutions which are already in operation.

Along with moral suasion, a number of policy measures including opening of bank branches, providing deposit and credit products, some of which are very innovative for our banking system, have been taken in this regard. These also include: changing bank branch opening rules from 5:1 to 1:1 (for opening 1 urban branch, 1 rural branch is to be opened); offering highest quality banking services to farmers by allowing them to open bank accounts with minimum initial deposit (BDT 10 only); issuing branch licenses to all SME / agriculture service centers; providing easy and effective access to banking services for physically incapable people, hard core poor, unemployed youth, freedom fighters etc.; relaxing conditions of loan repayment and providing fresh facilities to natural calamity affected farmers; making participation in agriculture/rural credit for all banks mandatory; providing agriculture credit to sharecroppers; formulating and implementing Agriculture and SME Credit Policies and targets; putting emphasis on women entrepreneurs finance; arranging refinancing schemes for the banks; developing ICT solutions (mobile banking, smart card etc.) for inclusive banking; encouraging creative partnership between banks and MFIs; enacting, policy guidelines for Green Banking and agent banking; and introducing financial inclusion oriented corporate social responsibility (CSR) and school banking guidelines; and arranging cross country banking road show etc.

Efficient financial services and financial development could be among the significant policy options to achieve the SDGs. In line with the broad thematic areas of the SDGs and 7^{th} Five Year Plan of the government, it has been expected that the comprehensive and inclusive policy measures taken by BB facilitated the stiffening of the disadvantaged population of the country with formal financial services. Therefore, BB needs to ascertain the effective outcomes of such policy initiatives. To this end the higher authority of BB instructed the Research Department to conduct a field survey to evaluate the impacts of the financial inclusion initiatives.

1.3 Literature Review

Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Access to finance is important for growth and economic development. Having an efficient financial system that can deliver essential services can make a huge contribution to a country's economic development. Greater financial development increases growth, reduces economic volatility, creates job opportunities and improves income distribution, as has been established by a large empirical literature.

Kumbhare, S. S. and Kumar, U. (2016) conducted a survey in two districts of Maharashtra – Gadchirolli and Bhandara in India. They took sample from three villages in each district for survey. They used random sampling in choosing households from vulnerable sections and judgmental sampling as well for avoiding such households that evidently seem to be well off. They collected primary data from their survey and secondary data from various government departments Websites to assess the impact of the National Financial Inclusion Programme (NFIP). They used two approaches, that is (i) vulnerability approach, and (ii) affordability approach to assess the impact of financial inclusion. However both the approaches could not be studied in isolation rather in relation to each other to have a holistic analysis of financial inclusion. Their study showed that awareness is an important determinant of inclusion and lack of awareness caused the NFIP fail in the surveyed two districts of Maharashtra. They said unless the awareness is pervasive, the vulnerable remains excluded from the folds of the scheme. So they suggested promoting extensive awareness through erecting camps in the village.

The Boston Consulting Group (BCG-2011) studied the potential social and economic impacts of mobile financial services over the decade. This report summarizes the findings of the study, which focused on five countries (Pakistan, Bangladesh, India, Serbia and Malaysia) representing a broad development range. They mentioned that in the developing world, more than 2.5 billion adults—or approximately 72 percent of the developing population—are unbanked, meaning they have no access to financial services. At the same time, nearly 2.5 billion people in developing countries have mobile phones. This means that there could be up to 2 billion mobile phone users who are not financially included and who could be served through mobile financial services (MFS). They mentioned in their study that, Bangladesh currently has a 55 percent financial inclusion rate. This means that in Bangladesh today, 45 percent of adults have no access to formal financial services. Among the financially included, 16 percent are fully banked, meaning they are able to take advantage of a full range of financial services (including savings, insurance, credits and others); and 39 percent are under-banked, with only basic access, such as a savings account. Bangladesh's inclusion rate, which is extremely high given its current level of economic development, is driven primarily by microfinance, and the percentage of active users of the full range of financial services is probably lower. Looking across the five study countries, they concluded a number of key findings that, MFS presents enormous potential and certain challenges. More than 2.5 billion people in the developing world are financially excluded, but many already have mobile phones and relationships with telephone companies. MFS has the potential to be the most powerful tool for economic and social development for all the countries covered in this report. For such potential to be realized, multiple elements must be established. And finally, regulators have to create a supportive environment that manages risk but also makes room for flexibility and innovation as the MFS ecosystem evolves.

Khalily, M. A. B. (2016) showed that over the past 10 years, intensity of financial deepening and access to financial services has increased in Bangladesh. Both banks and microfinance institutions have contributed to higher intensity. In his paper, regulatory policies have been evaluated and the effect of financial literacy on financial inclusion has been examined empirically. The empirical evidence, based on household level data, shows that the intensity of financial literacy in Bangladesh is moderate and it has a positive impact on inclusive finance. These findings warrant more emphasis on increasing financial literacy for access to finance and informed investment decisions.

Mujeri, M. K. (2015), while providing inputs to the 7th Five Year Plan document conducted a study on 'Improving Access of the Poor to Financial Services' based on secondary data and materials. According to the study while the number of deposit and credit accounts per 1,000 populations in the country during 2005-2010 increased from 242 to 333 and from 51 to 63 respectively, the increase in the rural areas was from 127 to 189 for deposit accounts over the same period. On the other hand, the number for the credit accounts actually declined from 53 in 2005 to 51 in 2010. This shows that a significant share of the population in Bangladesh do not have access to the formal financial institutions who are mostly the poor in the rural and urban areas. In recent years, the access to financial services has steadily increased. The overall access as a share of total population increased from 44 percent in 2005 to 56 percent in 2010. As a share of total adult population, it increased from 71 percent to 87 percent over the same period. He suggested that for promoting access to financial services at the required pace and breadth, BB should develop and adopt a comprehensive and detailed guideline for creating inclusive financial system involving the formal banks and financial institutions.

The Institute of Microfinance (InM) conducted the Access to Financial Services (A2FS) Survey, a comprehensive national survey of all major financial services (savings, credit and insurance), between October 2009 and April 2010. The survey showed that around 77 percent of the households had access to any financial services in Bangladesh. However, the access to formal financial services is only 37 percent and that to quasi-formal finance is 43 percent. A total of 26 percent of the households have access to informal finance.

The survey showed that the poor and the rural households had higher access to quasi-formal finance (52 percent and 46 percent respectively). On the other hand, the non-poor (44 percent) and the urban households (54 percent) had higher access to formal finance. This is not surprising as the MFIs provide services mostly to the poor in the rural areas and the non-poor have better ability to meet the requirements of accessing formal finance. It is seen that although nearly 52 percent of the poor households had access to quasi-formal finance, 40 percent of the non-poor also had access to quasi-formal finance.

The survey found that the poor households had higher access to credit (59 percent) relative to the non-poor households (52 percent) while the non-poor households had greater access to savings (61 percent) relative to 47 percent for the poor and insurance services (13 percent) compared with 7 percent for the poor. It is also seen that the urban households were mostly (67 percent) savers and the rural households are mostly borrowers (56 percent). The urban-rural difference was linked with higher coverage of the formal market in the urban areas and the greater presence of the quasi-formal market in the rural areas. The expansion of MFIs and the wide coverage of poverty-targeted programme both by the government and the NGOs have no doubt contributed to high intensity of access of the poor and the rural households to financial services. In terms of geographical location, the access to savings is relatively high in Dhaka, Chittagong and Rajshahi divisions while the access to credit is high in Barisal and Rajshahi divisions.

Manohar, S. and Varambally (2016) assessed the nature and extent of financial inclusion and its impacts on the socioeconomic status of households belonging to vulnerable sections focusing inclusive growth in Karnataka, India by analyzing the primary data collected from the Revenue Divisions of Karnataka. Their results showed that, there was disparity in nature and extent of financial inclusion. Access to formal banking services paved the way to positive changes in the socio-economic status of households belonging to vulnerable sections leading to inclusive growth, based on the result the paper proposed a model to make financial system more inclusive and pro-poor.

Khalily, and Khaleque (2013) showed a relationship between access to credit and the factor productivity of enterprises using the data collected through a nationally representative household survey conducted by the InM in 2010. The survey data showed that about 32 percent of the households had at least one enterprise and some of the enterprises had received credit from different sources such as formal institutions, micro-finance institutions, and informal lenders, and hence they had some access to credit. Notwithstanding, it was found that many enterprises were credit-constrained, and so it was plausible that credit constraint or credit rationing affected the productivity of the enterprises. By applying instrumental variable and two stage least squares techniques their results showed that the access to credit (i) contributed to high average labour productivity and (ii) influenced total factor productivity positively. Therefore, they concluded that access to credit contributed to the productivity in a positive manner.

YadavJ.P., Sharma A., and Meena, M.(2016) tried to bring out issues and challenges for reducing financial exclusion by highlighting the factors, significance and tracing out challenges of financial inclusion with social and economic development of the rural India. They concluded that banks should take a step forward to formulate specific plans to enhance financial inclusion of unbanked section of the society. At the same time they should device the strategies to reduce their transaction cost to actively participate in the process of financial inclusion treating it as business opportunity and corporate social responsibility.

Onaolapo, A. R. (2015) extracted secondary data spanning about thirty years period, 1982 to 2012 and using the Ordinary Least Square (OLS) method and examined the effects of financial inclusion on the economic growth of Nigeria. The overall results of the regression analysis showed that inclusive financial activities greatly influenced poverty reduction (R2=0.74) but marginally determined national economic growth. Financial intermediation through enhanced bank branch network, loan to rural areas, and loan to small scale enterprises yielded about 50% relatedness between variables on either side of the equation. The study suggested that financial inclusion would have positive significant impacts on economic growth of Nigeria and therefore stressed the need to create deposit and borrowing windows at affordable cost to the poor and to the income group erstwhile tagged the 'un-bankable.'

However all the studies mentioned were mostly related to improving access of the poor to financial services. Against this backdrop, the present study especially highlighted BB's different innovative financial inclusion programme to bring the excluded population segments and economic sectors into formal financial services and compared the progress of household livelihood condition after the intervention of the programme. In addition, this study tried to find out impacts of financial products and services on rural economic development with respect to income and employment generation.

1.4. Objectives of the study

An overall and even development of the country is not possible bypassing a large segment of the population. Despite the considerable growth of banking sector in Bangladesh and also government's efforts to increase financial access in rural areas, rural financial markets have shrunk in relative terms. As a result, access to finance by marginal, small, and medium-size farmers especially the poor segment of the population who dominate the agrarian structure in Bangladesh remains limited. This is considered as a matter of great concern because these groups are playing a crucial role in the growth of rural Bangladesh in terms of income, employment, and contribution to GDP. Before the intervention of BB's inclusive policy measures most of them were found to have suffered from relative credit/service deprivation from formal sources compared to the other segments of the population and they were mostly dependent on high cost informal sources. In this context BB's main objectives with the financial inclusion schemes are to bring the un-served segments of the population to the formal financial system. The study tried to reveal how far BB's initiative is successful in achieving the objectives. The study attempted to measure the dynamics of the extent of access to finance and assess its impacts on rural development as well as on overall economic development of the country. The study also aimed at sharpening the understanding of how the access of the poor people to formal financial institutions has evolved over time. This will help to gain insight of the access to finance and how it contributes to inclusive growth by reducing poverty and income inequality in the country.

The supply-side driven financial inclusion initiative of BB is considered as a landmark which has been facilitating greater access to credit and other financial services to the poor and un-served people. It is expected that the intervention has been playing an important role to significantly increase farm and non-farm productivity, to attain higher level of income and improve socio-economic condition of the targeted households which ultimately has geared up the inclusive economic growth in Bangladesh. The study also tried to examine the sustainability of the outcomes of financial inclusion policy and its impacts on such growth as well. So the main objectives of the study were:

a. To measure the impacts of financial products and services and their extent of adaptability dynamics into access to finance, assess its achievement. The main areas to be focused are— financial products and services provided by banks, MFIs (Big 4, i.e., GB, ASA, BRAC and PROSHIKA), mobile phone operators, ATMs and POSs and insurance sector;
b. to evaluate the achievement of BB's objectives for different inclusive policy measures aiming to ensure broader financial inclusion along with various refinance schemes;
c. to identify the barriers to access to finance;
d. to suggest new areas for extending sustainable financial inclusion; and
e. to endow with policy options and suggestions.

1.5 Methodology of the survey

To accomplish the objectives of the study, the required information/data was collected from primary sources. To this purpose a field survey was conducted through face to face interviews of the targeted respondents by a set of well-structured questionnaire.

a. The survey covered eight divisions of the country, namely Dhaka, Chattagram, Khulna, Rajshahi, Sylhet, Barisal, Rangpur, and Mymensingh. The survey teams collected data of 2872 respondents from different categories associated with widening of financial inclusion.

b. Along with the qualitative analysis of data the study also applied quantitative analysis by using the statistical tools (SPSS) to find out the robust results.

1.6. Sample selection, data collection and compilation

Both qualitative and quantitative data was collected from the respondents. The whole process of the survey was completed through the following actions:

a. The survey was conducted basing on Multi-stage Sampling Method. Eight districts from 8 divisions were randomly selected. A total of 8 Upazillas were chosen from 8 districts. For the selection of samples 4 Unions of each Upazilla and 2 villages of each Union were chosen.

b. On the basis of bank account statistics published by the Financial Inclusion Department, 3 state-owned commercial banks (Sonali Bank Limited, Janata Bank Limited, and BASIC Bank Limited), 2 specialised banks (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) and 2 private commercial banks (Dutch-Bangla Bank Limited and Islami Bank Bangladesh Limited) were selected, who are the major transmitters of different financial inclusion programme through their branch network in the rural areas.

c. Each interviewer attended 9 respondents in a day on face-to-face interviews with the help of selected bank branches through the set of questionnaire. A total of 2872 respondents were contacted during 20 working days (4 weeks) from 8 divisions. The distribution of samples are as follows—

Table 1.1 : Distribution of the sample across the Divisions

Division	Banked	Un-banked	NGO members	Total
Dhaka	179	93	70	342
Chattagram	189	84	70	343
Khulna	203	91	69	363
Rajshahi	182	120	66	368
Barisal	185	114	69	368
Sylhet	187	114	66	367
Mymensingh	178	120	68	366
Rangpur	191	90	74	355
Total	**1,494**	**826**	**552**	**2,872**

Source: Survey data

1.7 Limitations of the study

As in most empirical research, this study suffered several limitations which left scope for future research. The study was conducted with the help of seven commercial banks and three MFIs, which were major agents of financial inclusion programme in the country. It therefore understated the actual situation of financial inclusion. Due to limited time and cost, the study interviewed 2872 respondents randomly chosen from eight Upazilas of eight districts. Since respondents from only one Upazila were considered in a district, the findings may not be applicable to the broader aspect. Therefore, in future research, it would be logical to elevate sample size as well as sample area. Impacts of access to finance were measured by using the cross sectional data collected from field survey. A longitudinal study and panel data would have given robust information and results in this direction.

1.8 Structure of the study report

The executive summary is presented at the beginning of the report, which offers a brief account of the study. Chapter-1 provides introduction, rationale of the study, literature review, objectives, methodology and limitations of the study. An overview of access to financial services in Bangladesh is illustrated in chapter-2. Chapter-3 explores measures taken by Bangladesh Bank to increase access to finance and its present status. Statistical analysis of the survey data is presented in chapter-4. Chapter-5 lists a set of barriers to financial inclusion. Outcome and impacts of financial inclusion on the surveyed respondents are summarized in Chapter-6. Finally, the report ends with conclusions and policy recommendations in chapter-7.

Chapter - 2

Access to Financial Services in Bangladesh — An Overview

Access to financial services is considered one of the most effective tools among policy makers around the world to ensure inclusive and sustainable economic development. Bangladesh Bank has undertaken various initiatives to bring the huge number of financially excluded people under formal financial services to create sustainable socio-economic structure of the country. Government's as well as Bangladesh Bank's emphasis on financial inclusion as an explicit development policy, the intensity and the access especially of the poor to financial services has increased rapidly in recent years. At present, the rural financial markets are more innate and more developed than ever before. The urban financial markets also feature high concentration of formal banks and institutions. The financial sector of Bangladesh is mainly dominated by the banking sector. Besides the banking sector, microfinance institutions (MFIs) also play a crucial role in providing financing services to the poor. This chapter describes an overview of the access to existing financial services in Bangladesh.

2.1 Measuring access to finance

To measure the extent of access to financial services or the status of financial inclusion in an economy various indicators can be used (see, for example, Mehrotra et al 2009, Sarma and Pais 2011, UN 2006). Generally these indicators refer two aspects of financial access: (i) outreach dimension; and (ii) actual usage dimension. In the case of outreach dimension, there are two types of indicators: geographical penetration (number of bank branches or ATMs per 1,000 square kilometers) and demographic penetration (number of bank branches or ATMs per 100,000 people). More bank branches and ATMs per 1,000 square kilometers signify lower distances to the nearest physical bank outlets and easier geographical access. Demographic penetration measures the average number of people served by each bank branch or ATM. Higher numbers imply that there are fewer clients per branch or ATM and also indicate easier access to bank services. Sarma and Pais (2011) provide a multidimensional index for measuring the degree of financial inclusion that includes information on bank penetration, availability of banking services and usage of banking system. Demirgüc-Kunt et. al (2008) also compile demographic and geographic penetration data on access of general banking branches or ATM booths.

In the case of actual usage dimension, two broadly used indicators are: (i) number of loan accounts per 1,000 people; and (ii) number of deposit accounts per 1,000 people. These indicators measure the use of banking services/access to financial services. Another frequently used indicator of usage is the deposit GDP ratio or credit-GDP ratio or (deposit plus credit)-GDP ratio.

2.2 Access to finance through banks

The banking sector of the country comprises four types of banks — state-owned commercial banks (SCBs), state-owned specialized banks, private commercial banks (PCBs), and foreign commercial banks (FCBs). At present the total number of scheduled banks stood at 58, among which 6 are SCBs and 3 specialised banks, the numbers of PCBs and FCBs are 40 and 9 respectively. These banks had a total number of 10,114 branches of which 4,890 were rural branches and 5,224 were urban branches (Table 2.1). Although the number of bank branches has witnessed a significant growth of

65.3 per cent during December 2000 to June 2018, the share of rural branches has declined substantially from 59.8 percent in December 2000 to 48.3 percent in June 2018. The decrease in the share of rural branches was due to upgrading of some of the rural areas into urban area.

Table 2.1 : Branches, deposits and advances in the banking system — rural and urban

Year	Number of branches			Deposits (billion BDT)			Advances (billion BDT)		
	Urban	Rural	Total	Rural	Urban	Total	Rural	Urban	Total
2000	2,460	3,659	6,119	160.6	549.2	709.8	100.1	493.5	593.6
2005	2,638	3,764	6,402	218.3	1197.6	1415.9	117.6	999.7	1,117.3
2010	3,265	4,393	7,658	436.9	2,942.3	3,379.2	206.9	2,367.5	2,574.4
2015	3,944	5,187	9,131	1,575.1	6,364.7	7,939.8	571.3	5,227.3	5,798.6
2018(June)	5,224	4,890	10,114	2,142.8	8,223.6	10,366.4	863.1	7,607.1	8,470.2

Source: Banking Regulation and Policy Department, and Statistics Department, BB

The distribution of bank branches in the rural and urban areas implies that the branches are largely concentrated in the urban areas. About 20 percent of the total deposits are collected from the rural areas while only 10 percent of the advances are supplied to the rural areas (Table 2.1). Considering the number of scheduled bank branches by rural and urban locations in different administrative divisions of the country, the bank branches are mostly concentrated in Dhaka and Chattogram

Table 2.2 : Division-wise distribution of the bank branches

Division	2009			2010			2015			2018 (March)		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Chattogram	662	922	1,584	707	989	1,696	881	1,262	2143	941	1,361	2,302
Dhaka	1,361	1,097	2,458	1,459	1,214	2,673	1,717	1,385	3102	1,832	1,506	3,338
Khulna	279	480	759	299	495	794	357	547	904	382	567	949
Rajshahi	451	944	1395	307	580	887	370	629	999	394	645	1,039
Barishal	104	277	381	114	282	396	155	323	478	173	332	505
Sylhet	194	416	610	203	437	640	245	488	733	253	502	755
Rangpur	-	-	-	176	396	572	210	431	641	225	443	668
Mymensingh	-	-	-	-	-	-	128	269	397	142	275	417
Total	3,051	4,136	7,187	3,265	4,393	7,658	4,063	5,334	9,397	4,342	5,631	9,973

Note: Before 2010, Rangpur Division was with Rajshahi Division and before 2015, Mymensingh Division was with Dhaka Division
Source: Statistics Department, BB

divisions accounting for more than 56 percent of the total bank branches in the country as of March 2018 (Table 2.2). Although, only about a quarter of the country's total population lives in the urban areas, more than 52 percent of the bank branches are located in the urban areas. This shows that bank density is much higher in the urban areas compared with the rural areas. It also implies that the intensity of access to banks of rural households and enterprises has not kept pace with their urban counterparts.

The numbers of bank branches with respect to area and population are two key indicators for measuring the accessibility of banking services. The ratio of bank branches per 100 square kilometers increased from 4.87 percent in December 2009 to 6.76 percent in March 2018. The Table 2.3 shows that the Dhaka division has the highest density of bank branches (more than 16 percent) per 100 square kilometers and the Barishal Division has the lowest density (3.82 percent).

Table 2.3 : Division-wise Scheduled Bank Branches (Per 100 sq. km.)

Division	2009	2010	2015	2018 (March)
Chattogram	4.67	5.00	6.32	6.79
Dhaka	7.88	8.57	15.13	16.28
Khulna	3.41	3.56	4.06	4.26
Rajshahi	4.06	4.89	5.50	5.72
Barishal	2.88	2.99	3.61	3.82
Sylhet	4.83	5.07	5.80	5.98
Rangpur	-	3.53	3.96	4.13
Mymensingh	-	-	3.72	3.91
Total	4.87	5.19	6.37	6.76

Note: Before 20010, Rangpur Division was with Rajshahi Division and before 2015, Mymensingh Division was with Dhaka Division.
Source: Statistics Department, BB.

The ratio of bank branches per 100,000 persons increased from 4.98 percent in December 2009 to 6.04 percent in March 2018 (Table 2.4). As of March 2018, the ratio was the highest for Dhaka division (almost 8 percent) and the lowest for Mymensingh division (3.31 percent). These indicate that though the overall access to financial services from the banks has increased over time but has not improved to any significant level especially for the rural households.

Table 2.4: Division-wise Scheduled Bank Branches (Per 100,000 Population)

Division	2009	2010	2015	2018 (March)
Chattogram	5.64	5.96	6.85	7.07
Dhaka	5.43	5.83	7.74	7.99
Khulna	4.48	4.63	5.24	5.28
Rajshahi	3.97	4.59	4.91	4.90
Barishal	4.01	4.11	5.22	5.29
Sylhet	6.59	6.83	6.72	6.65
Rangpur	-	3.51	3.69	3.69
Mymensingh	-	-	3.28	3.31
Total	4.98	5.24	5.93	6.04

Note: Before 2010, Rangpur Division was with Rajshahi Division and before 2015, Mymensingh Division was with Dhaka Division.
Source: Statistics Department, BB

2.3 Access to finance through agent banking

Agent banking is an emerging financial inclusion tool that provides unhindered access to the tailor-made financial products to the underprivileged, underserved, and poor segment of the population, especially in the geographically remote locations through outlets of banks where branch establishment is extremely difficult or not feasible. This new tool facilitates serving the financial needs of the population at an affordable cost within their vicinity.

The ‘Guidelines on Agent Banking’ was issued in December 2013 and subsequently, a ‘Guidance Note for Approval and Operation of Agent Banking Activities for Banks’ was issued in June 2014 to accelerate safe, secured and smooth alternative delivery channel of financial services for the unbanked people. Agents can offer a number of banking services, including cash deposit and withdrawal, fund transfer, utility bill payment and disbursement of salaries. To deepen inclusive growth, banks are instructed to maintain 2:1 ratio for opening rural and urban outlets.

As of June 2018, 20 banks got approval for agent banking services of which, 17 have started commercial operation. The number of agent outlets increased from 3,224 to 5,351 and the number of account holders increased from 0.87 million to 1.78 million during June 2017 to June 2018. Total balance of these accounts increased to BDT 20.12 billion in June 2018 from BDT 6.51 billion from June 2017. Till June 2018, Bangladeshi expatriates remitted foreign currency equivalent to BDT 35.14 billion through these accounts.

2.4 Access to finance through mobile phones

Rapid countrywide expansion of mobile phone network as well as exponential growth in the number of subscribers has opened up opportunities for introducing innovative mobile phone based off-branch financial services. Utilizing this opportunity, Mobile Financial Services (MFS), since its inception in 2011, has been experiencing remarkable growth. MFS becomes one of a key driver of financial inclusion through providing services for the unbanked population segment and in unblocking the advancement opportunities for the underserved section of the society.

As of June 2018, eighteen banks and one subsidiary have been permitted to provide MFS, whereas sixteen banks and one subsidiary are in operation. Bangladesh Bank permits only bank-led MFS providers to operate in the country.

The Mobile Financial Services in broad categories are:

(a) Cash-in and cash-out using mobile accounts through agents, bank branches and ATMs,

(b) Disbursement of inward foreign remittances (only the domestic part of transaction, no cross border transaction is permitted),

(c) Person to business payments. e.g. utility bills, merchant payments,

(d) Business to person payments, e.g. salary disbursement, dividend / interest and refund payments,

(e) Government to person payments. e.g. elderly allowances, social safety net,

(f) Person to government payments e.g. tax, levy payments,

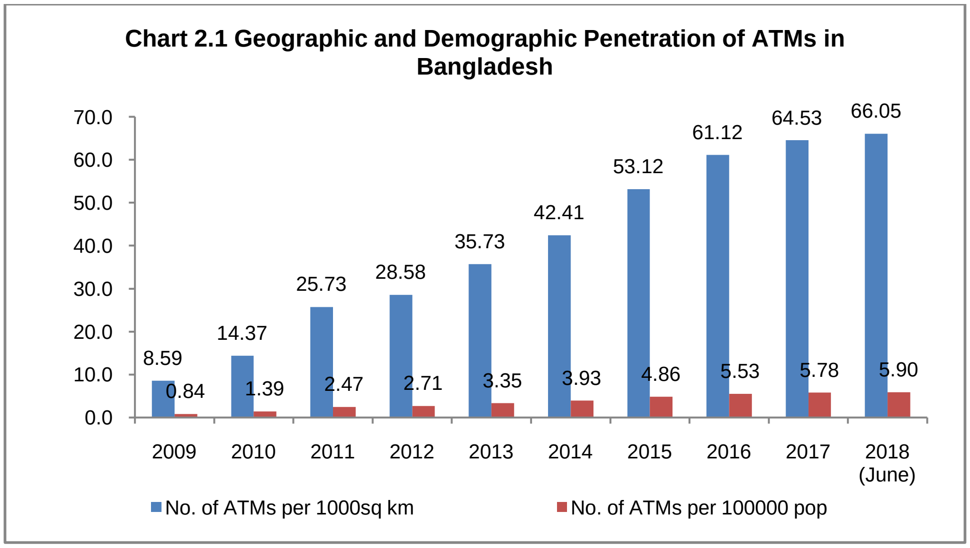
(g) Person to person payments (one registered mobile account to another registered mobile account), and

(h) Other Payments like microfinance, overdrawn facility, insurance premium, DPS, etc.

As of June 2018, a total of around 830 thousand agents are serving 61.08 million registered customers with a continuous growth in number and in geographical location.

2.5 Access to finance through ATM and POS

In order to facilitate interbank electronic payments originating from different payment channels such as Automated Teller Machines (ATM), Point of Sales (POS) and Internet banking etc., Bangladesh Bank introduced National Payment Switch Bangladesh (NPSB) in December 2012. The main objective of NPSB is to act as a mother switch and to connect all other payment switches of the country. Out of 58 banks conducting card business in Bangladesh, interbank ATM transactions of 51 banks and POS transactions of 50 banks are being routed through NPSB. The number and volume of the interbank ATM and POS transactions through NPSB are growing rapidly.



In FY18 about 16.4 million interbank ATM transactions amounting to BDT 116.1 billion took place. The figures for interbank POS transactions for the same period were about 3.6 million and BDT 13.8 billion. The number of ATM booths per 1000 square kilometre increased significantly from 8.59 in 2009 to 66.05 in June 2018. On the other hand, the number of ATM booths per 100,000 persons increased from 0.84 in 2009 to 5.90 in June 2018 (Chart 2.1).

2.6 Access to finance through Micro-finance Institutions (MFIs)

MFIs in Bangladesh are a major vehicle of financial services to the financially excluded people. Offering credit to the poor population characterizes the main thrust of MFIs operation in the country. To institutionalize microfinance operation and build up an inclusive financial sector, the Microcredit Regulatory Authority (MRA) as the regulator of the microfinance sector was established. Since its inception the MRA has been monitoring the MFI's and their microfinance activities through MRA-Act, MRA-Regulations, circular, off-site supervision, and on-site supervision. The MRA issued 805 licenses for the MFIs till June 2018. Moreover, the MRA issued provisional permission to 128 MFIs to operate microfinance activities. In FY18 the 705 licensed MFIs and 128 provisional licensed MFIs disbursed more than BDT 1350.0 billion to 30.5 million clients. At the same time, total savings of the MFIs sector crossed BDT 270 billion (source : MRA).

2.7 Access to finance through the insurance sector

The insurance sector has immense potential in accelerating access to finance in Bangladesh. The industry started its journey after the independence of the country with two nationalized insurance companies — one life insurance company and one general insurance company, and one foreign insurance company. In the mid 80s, a number of private insurance companies emerged in the market.

In 2011 the Insurance Development and Regulatory Authority (IDRA) was instituted as the regulator of the insurance industry. The mission of IDRA is to protect the interests of the policy holders and other stakeholders under insurance policy, supervise and regulate the insurance industry effectively, ensure orderly and systematic growth of the insurance industry and for matters connected therewith or incidental thereto.

At present, a total of 78 insurance companies are in operation under the Insurance Act, 2010. Of the total companies, 32 companies are life insurance companies including 1 foreign company and 2 state-owned companies, and 46 companies are general insurance companies including 1 state-owned company.

The insurance services include life insurance, general Insurance, reinsurance, micro-insurance, and Takaful or Islamic insurance. At the end of 2017, the number of depositors was 15,854,037 of which the life insurance depositors were 14,384,763 and the non-life insurance depositors were 1,469,274. In the same period the number of deposit accounts was 16,929,191 of which the life insurance deposit accounts were 14,618,867 and the non-life insurance deposit accounts were 2,310,324.

2.8 Access to finance through the co-operative sector

The co-operative sector is also playing a great role in broadening access to finance in rural areas. There are 176,841 co-operatives operating in Bangladesh as of March 2018. The number of beneficiaries was 10,684,749, of which the male members were 8,298,102 and the female members were 2,386,647. Total outstanding loans to the beneficiaries stood at BDT 188.84 billion. The co-operative societies are regulated by the Co-operative Directorates under the “National Co-operative Act, 2012.”

Chapter-3

Bangladesh Bank's Financial Inclusion Initiatives

With a view to ensuring inclusive growth in line with the government's overall development agenda, Bangladesh Bank has adopted various financial inclusion measures encompassing all spheres of the society. As a part of this drive, Bangladesh Bank has issued a set of directives to the state-owned commercial banks and specialized banks to open farmers' accounts, government's social safety-net program accounts, freedom fighters' special accounts, small life insurance accounts, street and working children accounts, and students' accounts etc. Besides these measures Bangladesh Bank has instructed the scheduled banks to open bank accounts by receiving BDT 10, 50, and 100 from the marginal, deprived, and financially excluded populace who are social safety-net program beneficiary, ultra-poor women beneficiary, garment workers, city corporation cleaners, footwear and leather goods manufacturing workers, tornado victims, and physical challenged persons including the blind. Opening of rural branches of scheduled banks, easy credit at low interest rates for the agriculture and small and medium enterprises sectors, agent banking and mobile banking etc. have been playing a crucial role in the central bank's pursuit for financial inclusion for the unbanked population.

Bangladesh Bank issued instructions for the scheduled banks to open farmers' No-frills Accounts (NFA) with TK 10 deposit on 17 January 2010. At present these NFAs are being used for disbursing government subsidy and agricultural credit for the farmers. Like the regular bank accounts these special accounts enjoy the facilities of both domestic and international inward-outward remittance and transferring funds. The NFAs are free from minimum balance requirement and service charge / fee at the client level. Bangladesh Bank has added 12 more categories of NFAs other than farmers' accounts for the scheduled banks. The updated list of NFAs includes hardcore poor, social safety net allowance, ready-made garment workers, and physically challenged persons accounts etc.

The total number of NFAs stood at 17,881,118 as of June 2018. Farmers' accounts topped the list with 9,317,557 accounts followed by social safety-net allowance accounts with 4,700,466 accounts. Other major NFAs included ultra-poor employment programme accounts (2,483,832), readymade garment workers' accounts (274,756), physically challenged persons including the blind accounts (182,694), and small life insurance policy accounts (111,514).

The total accumulated balance of NFAs was BDT 16.1 billion as of June 2018. Social safety-net allowance accounts reported the highest share of BDT 5.2 billion (32.3 %) followed by farmers' accounts share of BDT 3.0 billion (18.6%) in the total balance. The shares of other major accounts were: ultra-poor employment programme accounts BDT 2.6 billion (16.1%), freedom fighters' accounts BDT 2.1 billion (13.0 %), and readymade garment workers' accounts BDT 1.3 billion (8.1%).

3.1 Bangladesh Bank refinance scheme for BDT 10 accounts

With a view to gearing up the BDT 10 accounts activities Bangladesh Bank established a revolving refinance fund of BDT 2.0 billion in May 2014. The highest limit of refinance facility is BDT 50,000 under this scheme and 39 participating banks that signed agreement with Bangladesh Bank provide interest subsidy under certain conditions. As of June 2018, BDT 2.7 billion has been disbursed among 51,965 accounts.

3.2 Farmers' BDT 10 accounts

The farmers' accounts constitute the main building block of the financial inclusion drive of Bangladesh Bank. As of June 2018 the total number of farmers' accounts was about 52.1% of the total NFAs. The cumulative deposits with these accounts stood at BDT 3.0 billion. The objective of the farmers' account is to receive government subsidy along with other banking services. The number of farmers' accounts enjoying government subsidy totaled 1,993,598 with cumulative deposit of BDT 0.5 billion. On the other hand Bangladesh Bank refinance scheme covered 37,103 farmers' accounts for government subsidy, through which BDT 0.80 billion credit was disbursed. A total of 19,910 farmers' accounts reported BDT 0.71 billion as foreign remittance deposit.

3.3 Accounts other than farmers' BDT 10 accounts

The remaining 48% NFAs include accounts other than farmers' accounts. These accounts are mainly used for various government allowance and salary disbursement. As of June 2018 the total number of accounts other than farmers' accounts stood at 8,563,561 with cumulative deposit of BDT 13.1 billion. A total of 2,661,253 accounts received government allowance / salary in this period. The cumulative deposit of these accounts under the government allowance / salary category was BDT 6.3 billion. Although 5.228 accounts were used for remittance purpose, only BDT 72.80 million of remittance was reported as of June 2018.

3.4 School banking

School banking is an important initiative of financial inclusion agenda. The purpose of school banking is to familiarize the students aged below 18 years with banking service and modern banking techniques along with savings practices. The main objective of the programme is to bring the students under the financial services of the country, which is supposed to ensure their participation in the economic activities. Bangladesh Bank gave instructions to the scheduled banks to launch school banking programme through a circular issued on 2 November 2010. Later Bangladesh Bank issued comprehensive policy guidelines regarding school banking on 28 October 2013.

In line with the guidelines the scheduled banks open school banking account with the minimum deposit of BDT 100. The benefits of school banking programme include attractive profit offer, no service charge, ATM / debit card, and school based financial literacy campaign. As of June 2018 a total of 1,539,836 school banking accounts have been opened with total deposit of BDT 14.20 billion. All the 58 scheduled banks except one have school banking operation. The private commercial banks have the maximum school banking accounts of 973,618, which is 63.23% of the total accounts. The total deposits with these accounts was BDT 12.00 billion, which is 84.50% of the total deposits. On the other hand, state-owned commercial banks reported 436,001 (28.31%) school banking accounts having total deposits of BDT 1.80 billion (12.64%).

3.5 Working / street children banking

With a view to bringing the working / street children under the financial services and securing their savings, Bangladesh Bank issued directives to the scheduled banks on 9 March 2014 to open NFAs of the children with minimum BDT 10 deposits. Non-government Organizations (NGOs) working for this category of children are a partner of the initiative. Like other BDT 10 accounts no service charge is applicable for these special accounts. As of 30 June 2018 a total of 19 banks and 15 NGOs jointly conducted 4,684 working / street children accounts with cumulative balance of BDT 3.39 million.

3.6 Agent banking

In pursuance of the objective of extending affordable financial services to the underserved and unserved population Bangladesh Bank launched agent banking guidelines for the commercial bank in December 2013. With a view to disseminating modern banking services at an affordable cost among the unserved population especially in the remote areas, the agent banking activities have been undertaken by the commercial banks with the help of authorized bank agents.

As of September 2018 Bangladesh Bank has given permission to 20 scheduled banks to conduct agent banking. Presently in total 18 commercial banks have agent banking operation, where the total number of outlets and agents stand at 5,791 and 3,902 respectively. The total number of agent banking accounts is 20,28,864 with total deposits of BDT 2.58 billion. A total of 6 commercial banks disbursed BDT 1.51 billion of credit till September 2018. The agent banking has remittance transfer services too. The total amount of remittance distribution through 16 commercial banks stands at BDT 4.64 billion as of September 2018.

3.7 Mobile financial services (MFS)

Against the backdrop of wide mobile phone network and large number of users and rapid modernization of the payment system and information technology as well, Bangladesh Bank introduced off-branch mobile financial services (MFS) in 2011. MFS has become a key driver of financial inclusion by tapping the low cost feature of the service. As of September 2018 a total of 18 banks had MFS with 862,103 agents countrywide. The total numbers of registered clients and active accounts were 66.74 million and 31.45 million respectively. The number of average daily transactions was 6.87 million and average daily transacted amount was BDT 10.06 billion.

3.8 Financial literacy programme

Bangladesh Bank has undertaken various financial literacy initiatives for the financially excluded population. The organization developed a Web-link titled “Financial Literacy” in its Website in FY14. The financial literacy campaign included creation of a dynamic interactive Web portal, press layouts, and television and radio commercials. The Web-link contains story books, games, videos, texts, financial calculator, products and delivery channels. Bangladesh Bank has joint collaboration with the ministry of education for financial literacy programme in the school and colleges.

3.9 Small and medium enterprises (SMEs) financing

Bangladesh Bank formulated a comprehensive policy and programme “SMEs Credit Policy and Programme” for the small and medium enterprises (SMEs) considering the sector’s crucial role in the inclusive economic growth. It launched a target based SMEs credit programme in 2010. The banks and financial institutions set the target for SMEs credit instead of the central bank.

3.10 Agricultural credit

Bangladesh Bank puts utmost emphasis on the agriculture sector development as the sector has crucial bearing on the economy. As a part of Bangladesh Bank’s financial inclusion strategy, it deployed agricultural and rural credit policy to ensure flow of funds to the rural economy. Bangladesh Bank set the FY19 target for agricultural credit disbursement at BDT 218.00 billion, which was 6.86 percent higher than the preceding FY’s target. During July-September 2018, the total agricultural credit disbursement stood at BDT 34.94 billion.

Chapter - 4

Statistical Analysis of the Sample Survey

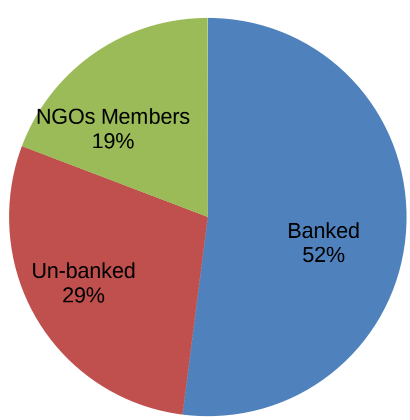
4.1 Description of the sample

The survey captured a nationally representative sample of 2,872 respondents selected on the basis of the March 2018 quarterly update review of Financial Inclusion Department of Bangladesh Bank using multi-stage sampling method. The sampling frame was stratified by the eight administrative divisions of the country, namely Dhaka, Chattagram, Sylhet, Rajshahi, Barishal, Khulna, Mymensingh, and Rangpur. Subsequently eight districts were randomly chosen from these divisions. The sample was allocated to these districts proportionately to the number of financially included persons in the sample frame. Finally, a respondent was randomly selected for the survey. The sample consisted of 1,494 banked persons (financially included), 826 un-banked persons (financially excluded) or control group, and 552 Non-government Organizations (NGOs) members. A list of reserve respondents for possible replacement was also randomly selected. Any respondent that could not be interviewed was immediately replaced with a respondent from the reserve.

4.2 Socio-economic and demographic characteristics

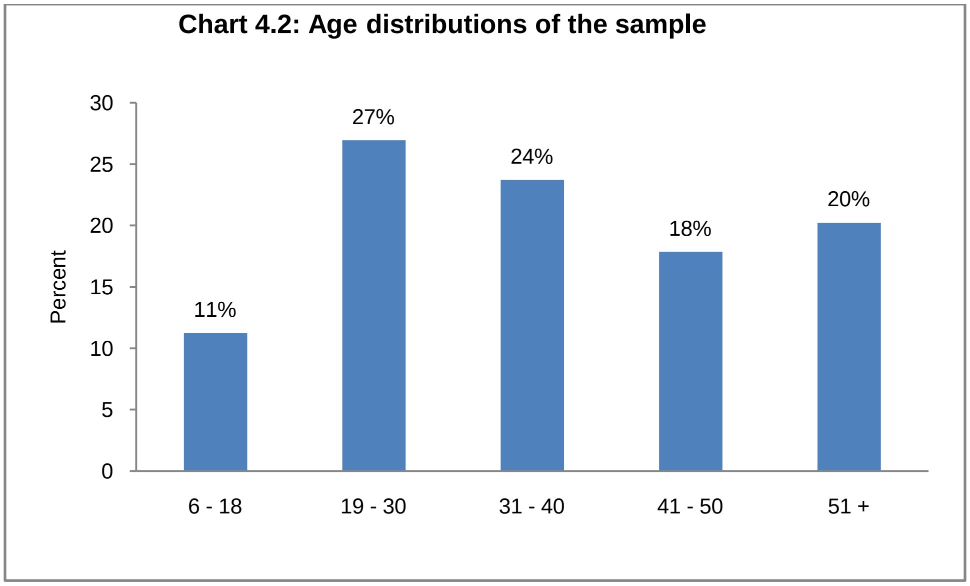
The total number of respondents was 2,872. Of these respondents, the banked or financially included persons (1,494) accounted for 52 percent of the total respondents. The control group or un-banked respondents (826) and NGOs members (552) shared 29 percent and 19 percent of the total respondents respectively (Chart 4.1).

Chart 4.1: Distribution of the sample



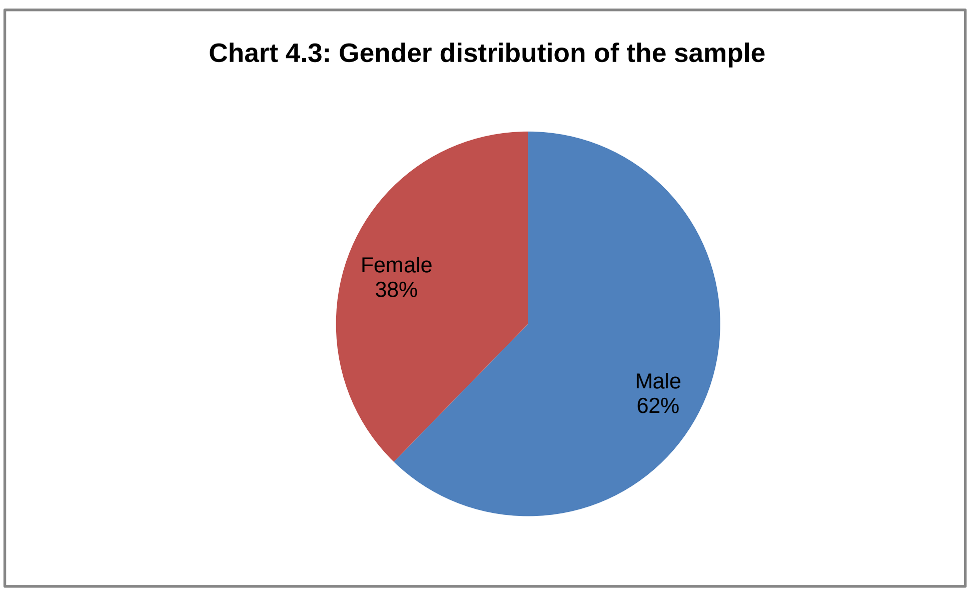
4.3 Age distribution

The mean age of the respondents was 38 years and the standard deviation of age distribution was 16.48 years. The highest number of respondents belonged to the 30-39 years age group (chart 4.2).



4.4 Gender distribution

Of the total 2,872 respondents, the shares of male and female respondents were 62 percent and 38 percent respectively. About 48 percent respondents of the total female respondents were NGOs members (Chart 4.3).



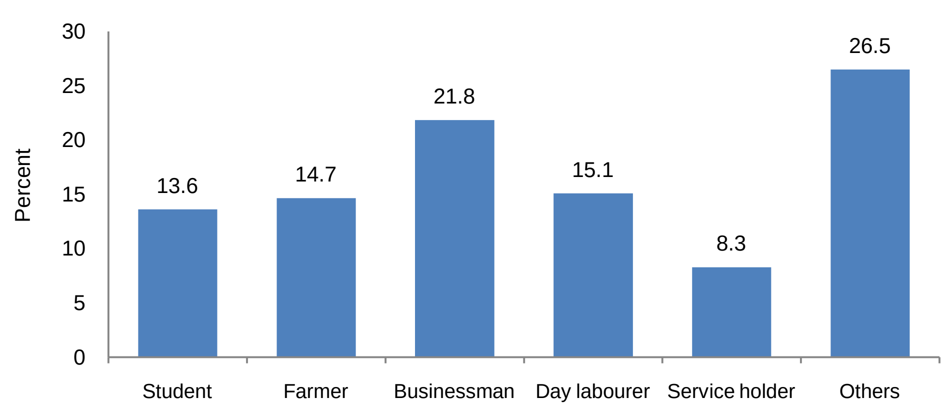
4.5 Occupation types distribution

Business was the dominant occupation type among the sample respondents with 21.8 percent share. However, a good number of respondents were found housewives, who were categorized in the others group. Laborers and farmers represented the subsequently less dominant occupation types reporting 15.1 percent and 14.7 percent contribution in the sample. In the banked category, students and farmers played the leading role as occupation types. On the other hand, businessman and laborers occupied the major stake in the un-banked category of occupation (Table 4.1, Chart 4.4).

Table 4.1: Occupation types distribution of the sample

Occupation	Banked	Un-banked	NGOs members	Total
Student	320	70	1	391
Farmer	299	99	23	421
Businessman	281	268	78	627
Day labourer	138	285	10	433
Service holder	147	70	21	238
Others	309	34	419	762
Total	1494	826	552	2872

Chart 4.4: Occupation types distribution of the sample



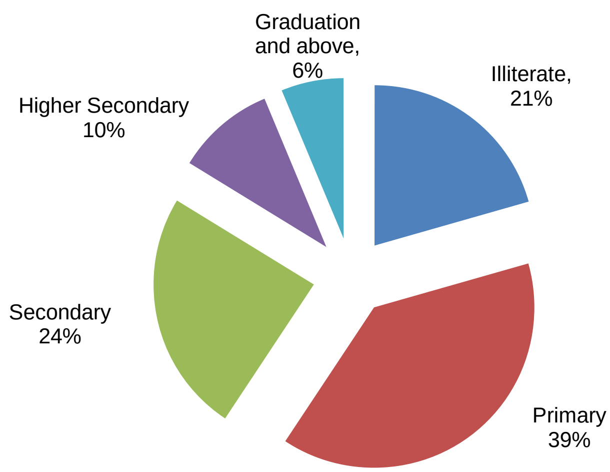
4.6 Education levels distribution

The majority of the respondents belonged to the primary education level. The number of respondents included in this category was 1,113 (38.8%). The category of graduation and above reported the lowest enrolment of 181 (6.3%). However, the banked category had the highest ratio of graduation and above respondents, that is, 10.5 percent. On the other hand the un-banked group posted the lowest share of graduation and above respondents (1.7%) (Table 4.2, Chart 4.5).

Table 4.2: Education levels distribution of the sample

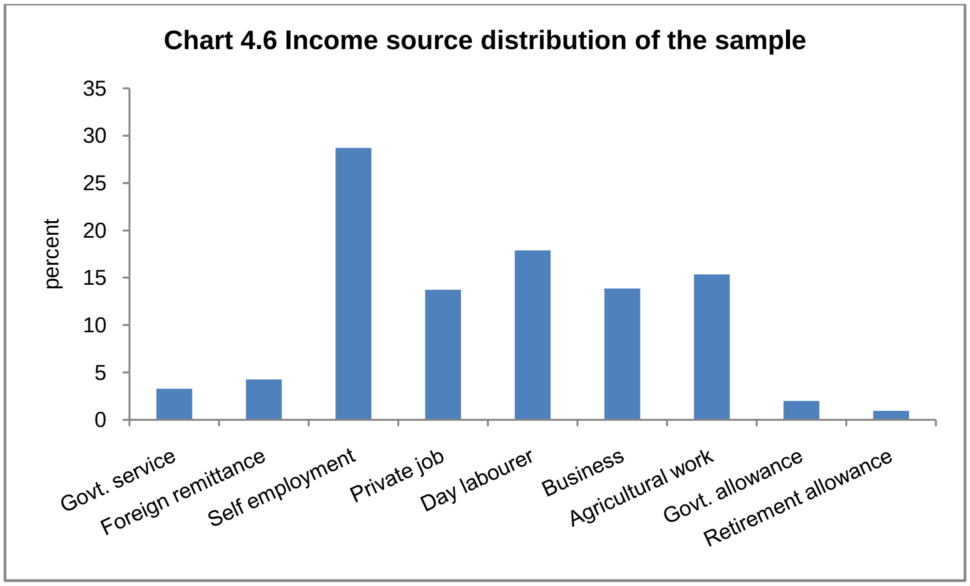
Education levels	Banked	Un-banked	NGOs members	Total
Illiterate	277	200	114	591
Primary	457	370	286	1113
Secondary	387	189	125	701
Higher secondary	216	53	17	286
Graduation and above	157	14	10	181
Total	1494	826	552	2872

Chart 4.5: Education levels distribution of the sample



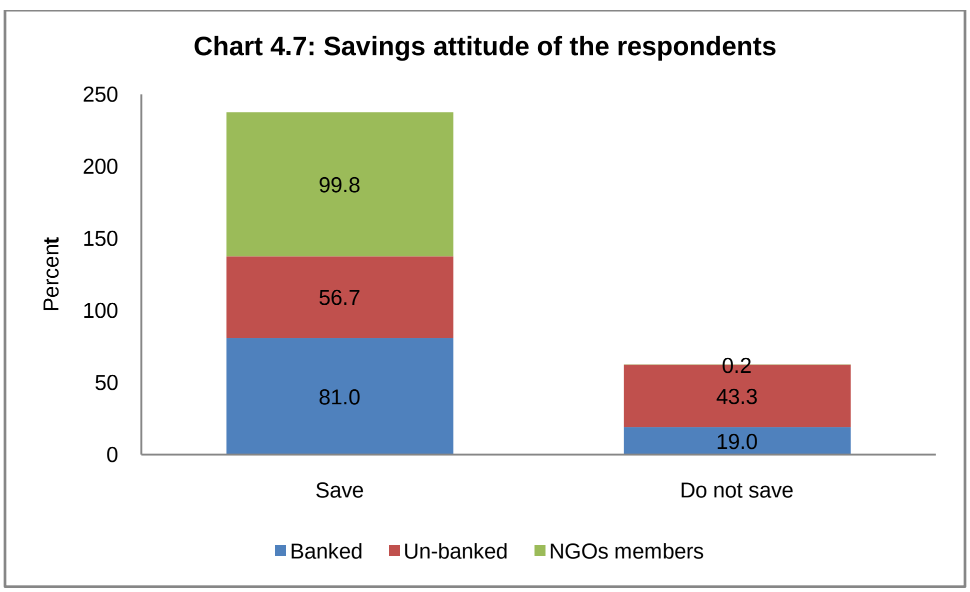
4.7 Income sources distribution

Self employment was the dominant source of income for the respondents. A total of 825 respondents (28.7 percent) reported self employment as their main income source. The second highest number of respondents belonged to the category of day labourer (514 respondents). Agricultural works ranked the third highest class in terms of income source with 441 respondents. Although self employment topped the list for income sources, the share of banked respondents in this category was the lowest, that is, 39.5 percent. As expected government services, government allowances, and retirement allowances depicted high ratio of banked respondents, since these services were channeled through bank accounts. Foreign remittance and agricultural works had very high ratio of banked respondents (67.2 percent and 66.4 percent respectively). Foreign remittance depends mainly on the banking network. Due to farmers' accounts initiative of Bangladesh Bank, much of the fund for agriculture is linked to the banking system (Chart 4.6).



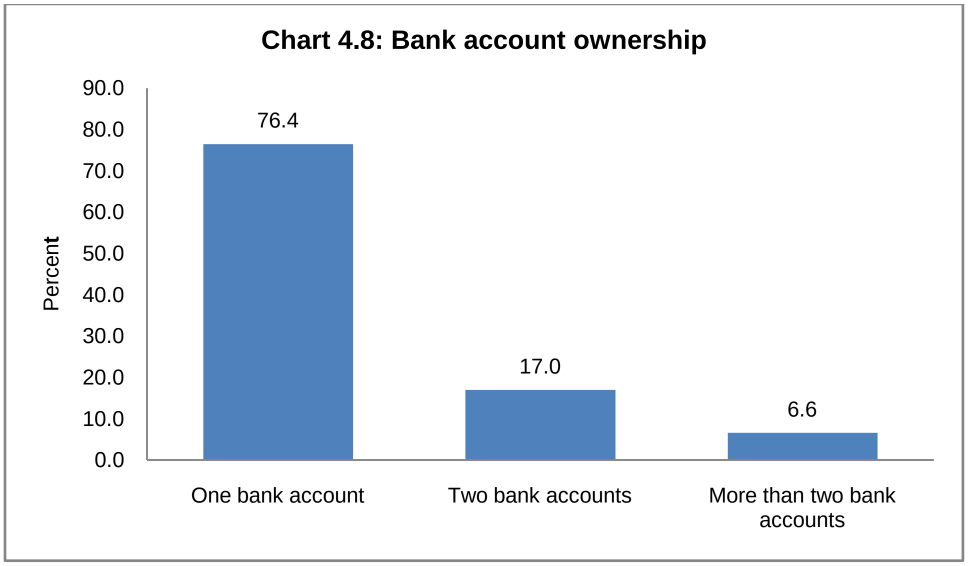
4.8 Savings practices of the respondents

A total of 2229 respondents (77.6 %) reported that they did some forms of savings, while the remaining 643 respondents (22.4%) did not have any sorts of savings. Of the total banked respondents, 1210 respondents (81.0%) had savings. For the un-banked respondents, 468 respondents (56.7%) kept savings in some forms. It clearly depicted stronger savings attitude of the banked respondents. However, the savings propensity was extremely high (99.8%) for the NGOs members since savings was mandatory for them (Chart 4.10). About 91 percent of the banked respondents reported that they had more savings after being financially included, while about 9 percent of the respondents ended up lower savings following financial inclusion (Chart 4.7).



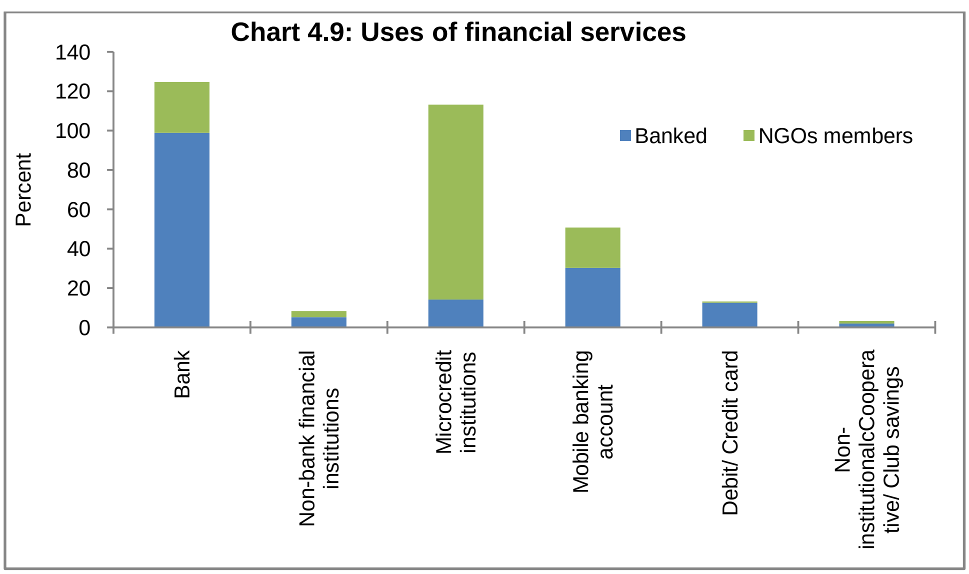
4.9 Bank accounts ownership

Of the total banked respondents, 1142 persons (76.4 percent) had one active bank account. A total of 254 (17.0 percent) banked respondents possessed two bank accounts. The rest 98 (6.6 percent) respondents owned three or more bank accounts (Chart 4.8).



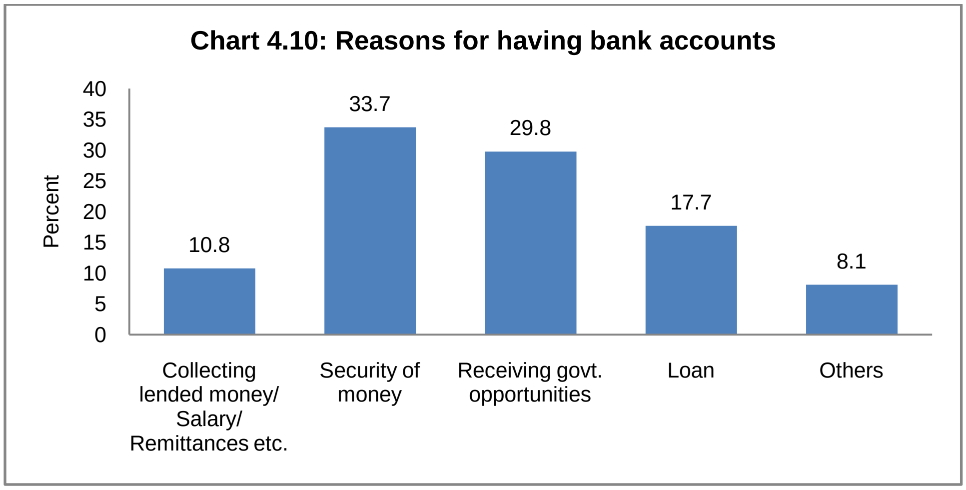
4.10 Uses of financial services

Of the total banked respondents, 98.8 percent avail financial services from bank branches, 30.2 percent get services from mobile banking account, 14.2 percent get services from microcredit institutions, 12.5 percent uses debit / credit cards, 5.2 percent get services from non-bank financial institutions and 2.0 percent receive services from non-institutional cooperatives/club savings. On the other hand, of the total NGO respondents, 98.9 percent get financial services from the microcredit institutions, 25.9 percent uses bank branch services, and 20.5 percent uses mobile banking services (Chart 4.9).



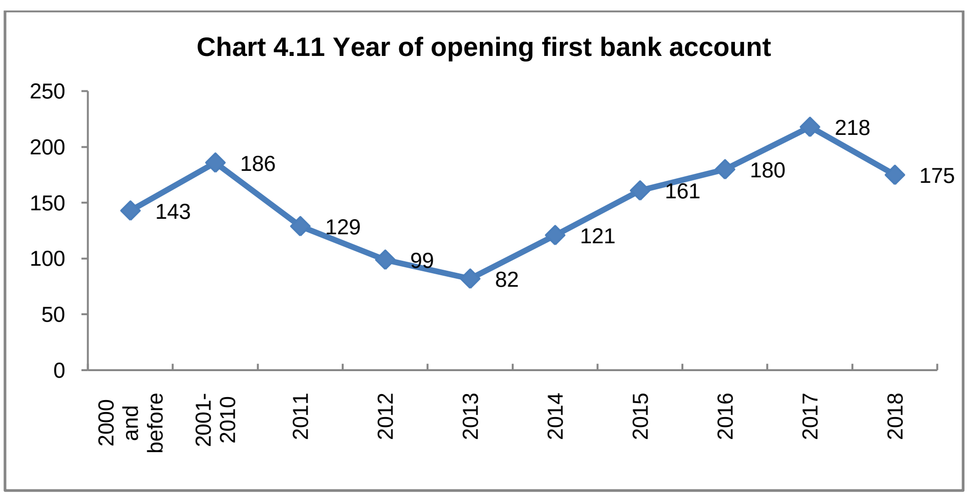
4.11 Reasons for having bank accounts

Security of money appears as the prime reason for having bank accounts. Of the total banked respondents, 33.7 percent respondents maintained that security of money was the main reason for opening bank accounts. Receiving government allowances was the second important factor for opening bank accounts as 29.8 percent respondents reported that the government allowances prompted them to avail banking services. Loan facility was the third ranked reason for opening bank accounts, where 17.6 percent banked respondents claimed credit opportunity as the reason for seeking banking services (Chart 4.10).



4.12 Period of opening first bank account

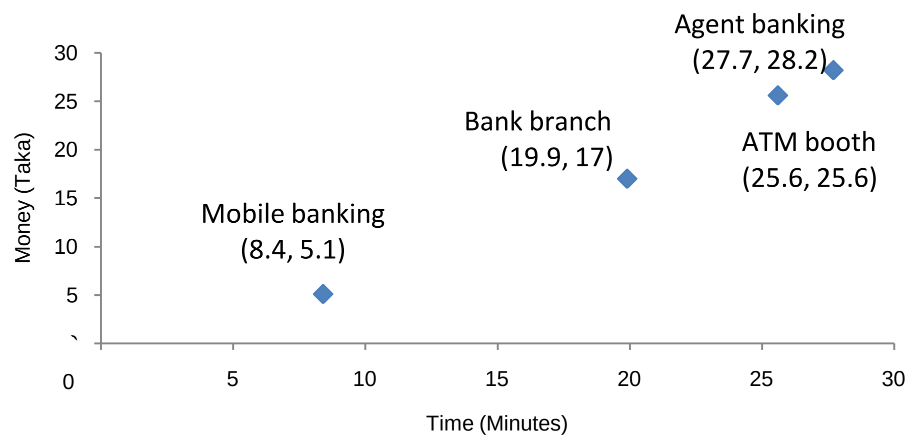
For the clear understanding of Bangladesh Bank's financial inclusion drive the whole period of respondents' opening first bank account was divided into three separate time frame — before 2000, 2001 to 2010, and 2011 onwards. Of the total banked 1,494 respondents about 78 percent respondents had their first bank accounts opened after 2010. It may be noted that Bangladesh Bank spearheaded its financial inclusion initiatives in the early years of the current decade when innovative financial schemes like no-frill accounts, farmer accounts, students accounts etc. were launched (Chart 4.11).



4.13 Accessibility of financial services

Mobile banking service was found to be the most easily accessible financial service with an average of 8.5 minutes and BDT 5 to avail the service for a respondent. Wide coverage of mobile phone network and penetration of mobile banking together made the mobile phone based financial service most cost effective one in terms of time and money required. Agent banking service was reported to be the most expensive service with an average time and cost of about 28 minutes and BDT 28 respectively (Chart 4.12).

Chart 4.12: Constraints to avail financial services



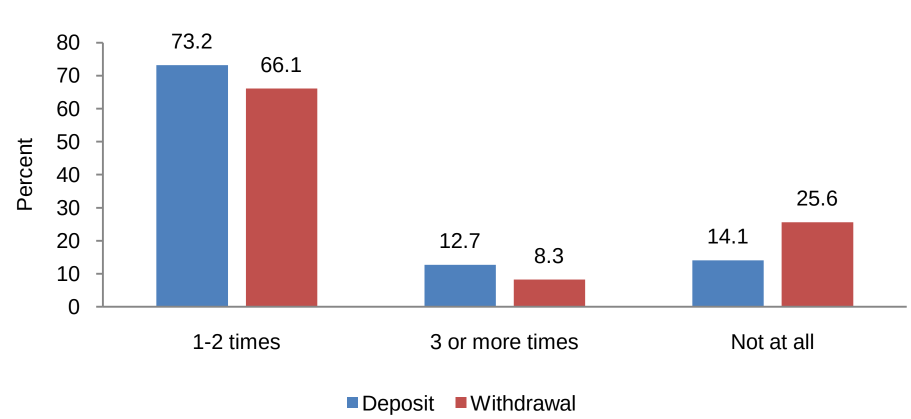
4.14 Minimum deposit for accounts

About 84 percent of the banked respondents reported that they had to keep some amount of money while opening bank accounts for the first time.

4.15 Deposit and withdrawal frequency

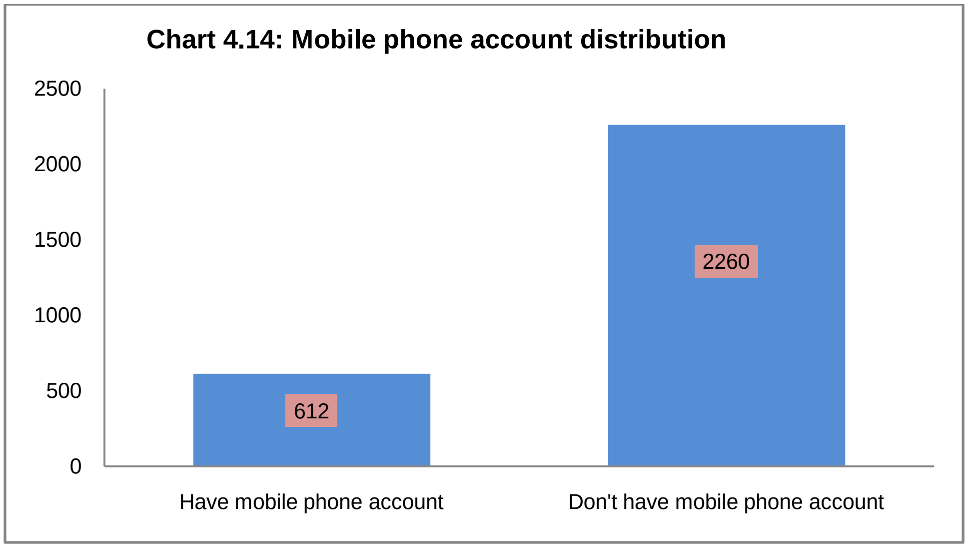
Deposit and withdrawal frequency report usage of accounts held at formal financial institutions. About 73 percent banked respondents replied that in a normal month, money was deposited into their accounts 1 or 2 times while about 66 percent banked respondents had withdrawal of money 1 or 2 times from their accounts (Chart 4.13).

Chart 4.13: Deposits and withdrawls in a month

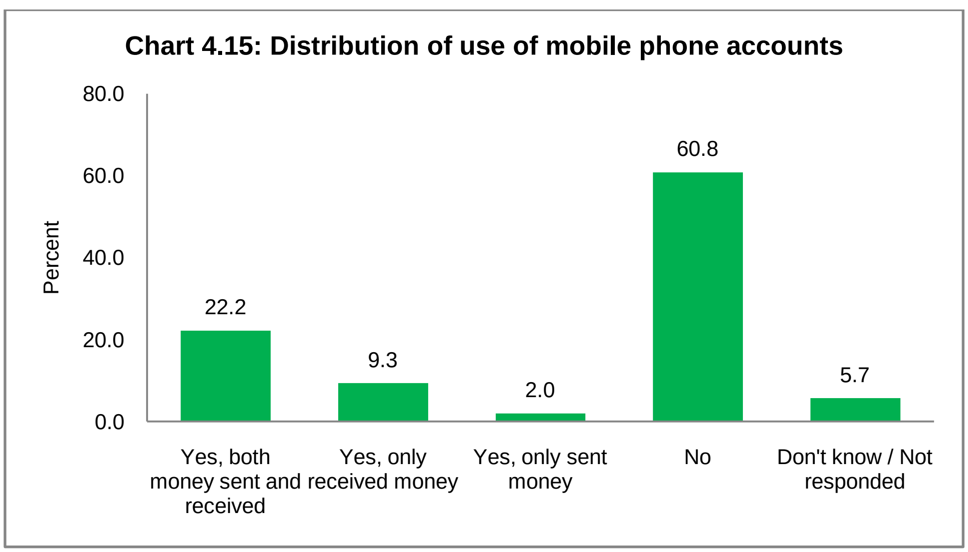


4.16 Mobile phone accounts

About 22 percent of the respondents owned mobile phone accounts. Although almost all the respondents had their own mobile phones and connection, they tended to rely on commercial agents for mobile based money transfer (Chart 4.14).



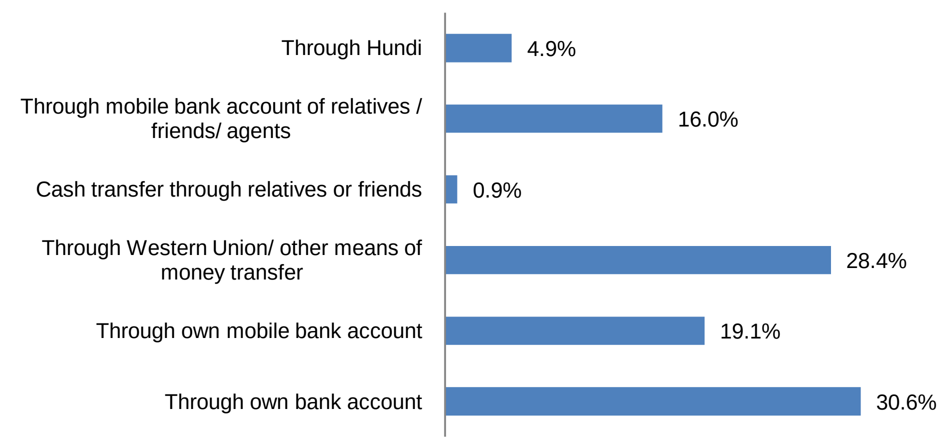
Of the total respondents having mobile phone accounts, about 22 percents account holders had used mobile phone accounts in the preceding 12 months for both receiving and sending money. Whereas, almost 61 percent account holders had not used mobile phone for transferring money during the same period (Chart 4.15).



4.17 Remittance from abroad

Of the total respondents only 319 (11.1 percent) reported that they receive remittances from abroad. Of this 319 remittances receivers, 231 (72.4 percent) are banked, 42 (13.2 percent) are un-banked and remaining 46 (14.4 percent) are NGOs members. Of this 231 banked respondents, 38.1 percent receive remittances through own bank account, 26.8 percent receive through western union, 19.5 percent through own mobile banking account, 10.0 percent through other's mobile banking account and 5.6 percent through Hundil. Among the un-banked respondents, 50.0 percent report that they receive remittances through Western Union, 42.9 percent through other's mobile banking account and 7.1 percent through Hundi. Of the NGO respondents, 28.3 percent receive remittances through own mobile banking account, 23.9 percent through mobile banking account of other's, 21.7 percent through own bank account, 19.6 percent through Western Union and 6.5 percent through Hundi (Chart 4.16).

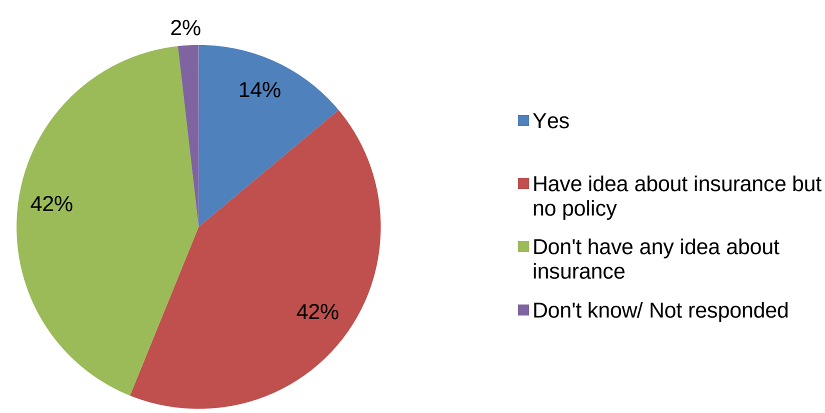
Chart 4.16 Distribution of remittance channel from abroad



4.18 Insurance usage

Usage of Insurance policy was found very low among the respondents. About 14 percent respondents had various types of insurance policies. Of the total respondents 42 percent respondents reported that they had no idea about insurance. Adoption of insurance was very common among the NGO members since it was almost mandatory for the members.

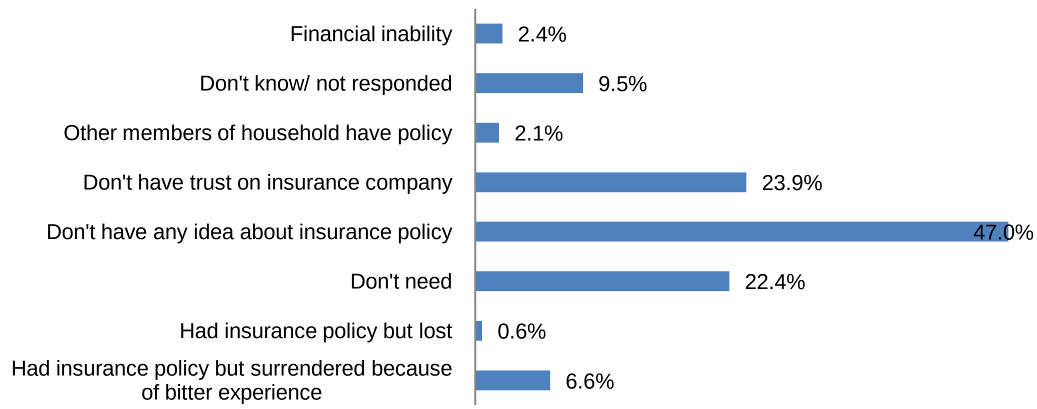
Chart 4.17: Insurance usage



4.19 Reasons for not having insurance

Of the respondents without insurance policy, 47 percent respondents reported that they did not have any idea about insurance policy, 23.9 percent reported that they did not trust insurance companies, 22.4 percent said that they did not need insurance policy, 9.5 percent did not respond and 6.6 percent said that they had insurance policy but they surrendered because of bitter experience with the insurance agents (Chart 4.18).

Charts 4.18 Reasons for not having insurance (multiple responses)



Chapter-5

Barriers to Access to Finance

Despite substantial expansion of bank branches and increase in the membership of MFIs and other financial institutions, a large number of the country's adult population still remains financially excluded. The access to credit for the farmers from the banking system is significantly low relative to their contribution to the GDP. In Bangladesh, the financially excluded sections of the population comprise different poor and marginal groups including small and marginal farmers, tenant farmers, landless labors, self-employed and unorganized sector employees, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, poor senior citizens and women. While there are pockets of large excluded population in the urban areas, the rural areas contain most of the financially excluded population. Measures for accessibility, affordability and eligibility can indicate the extent of barriers to the financial services in terms of deposits, loans, payments, locations, technology etc.

There are a variety of reasons for financial exclusion. From the demand side, lack of awareness, low income / assets, social exclusion, and financial illiteracy act as barriers to accessing financial services. From the supply side, distance from the bank branch, branch timing, cumbersome documentation and other procedures, unsuitable products, staff attitudes are common reasons for exclusion. These impediments result in higher transaction cost and lower profitability. On the other hand, flexibility, availability, and other attractive features of informal credits make such credits popular and despite the fact that informal credit is costlier than other sources of credit. Therefore, in brief the challenges and barriers to access to finance stand as follows:

(i) *Poor physical access or banking infrastructure:* Physical access refers to the points of service delivery. Greater physical access means services are delivered in multiple and more convenient ways which ensure greater access to financial services. In Bangladesh a large number of the adult population still remains financially excluded. The major barrier is geographical or physical access measuring the average distance from households to bank branches. However, the number of branches per 1,000 square kilometers could be used as crude indicator for providing an initial idea to the barriers to inclusion. For example, Spain has 96 branches per 100,000 people and 790 branches per 1,000 square kilometer, while Bangladesh has less than 7 branches (or ATM) per 100,000 population and about 67 branches (or ATM) per 1,000 square kilometer (Khalily and Khaleque). A large section of the population who do not have any physical access to the banking services are in the rural and remote areas in the country. Distance, cost and required time is crucial factor of having a bank account which act as the main barrier to access to financial services.

(ii) *High requirement of minimum balance:* Minimum amounts are required to open an account in Bangladesh. On the other hand, no minimum amounts are required in South Africa or Swaziland. While most people in Bangladesh live below poverty line and their per capita income is very low than any other countries, so this minimum amount restrict poor people from using formal banking services. These types of fees observed in many countries may effectively prevent the poor from using banking services. Opening bank accounts may be made free of charges for the poor people in the interest of financial inclusion.

(iii) *Inadequate financial literacy or education:* Financial literacy and awareness are very low in the country, particularly in rural areas. It makes a large segment of household difficult to get financial services from the banking system in terms of savings, credit, and payments. Although access to financial services is increasing in the country, financial literacy levels, especially among the poor, remain a challenge. In many cases, people are not aware of the available services or how to access them.

(iv) *Lack of proper documentation:* Another barrier to financial inclusion is lack of proper documentation including ID cards, introducers, wage slips, proof of domicile and reference letter required to open a checking or savings account in the country where many people do not have such documents. Similarly, the requirement of a physical address or of a formal sector job as eligibility criteria to open an account excludes the majority of people in many developing countries, where a large percentage of the population lives in rural areas and works in the informal sector. To quantify these eligibility requirements, a simple example is exposed that, to open a checking and savings accounts while banks in Albania, Mozambique, Spain, and Sweden demand on average only one document; banks in Bangladesh, Cameroon, Chile, Nepal, Sierra Leone, Trinidad , Tobago, Uganda, and Zambia require at least four documents (Khalily and Khaleque).

(v) *Lack of initiatives of banks and financial institutions:* The inclusive banking measures are bank-led and regulatory driven. These are not really spontaneous initiatives on the part of banks and financial institutions, without which sustainability of inclusive banking cannot be established. The measures so far taken are still not fully able to address the demand side problems of the financially excluded section of the population.

(vi) *Low level of technological infrastructure:* As a competitive and cost effective strategy, major banks focus on large scale of loans instead of providing services for small loans. As a result, rational business decisions prevent a major portion of people from accessing loan services including SME and agriculture loans. Promoting technological and institutional innovations as a means could expand the financial system access and usage. However, less than 4 persons per 1,000 persons in the country are using credit cards, which indicates the technological and infrastructural weaknesses (Khalily and Khaleque).

(vii) *Lack of suitable product structure of banks and MFIs:* To enable the currently un-banked poor and low income population access financial services from the formal financial system, the development of appropriate financial products is necessary.

(viii) *Low income:* Having insufficient amount of money is another barrier for people to open bank accounts. There is still a large section of household in the country, particularly in rural areas, having extremely low level of income. Therefore, those people are un-served by any financial institutions.

(ix) *Opportunity cost of getting financial services:* For meeting the daily financial transaction, people generally go to banks and other financial institutions. For this, they have to spend time and money. Time spent for completing their transaction with banks is a crucial factor for taking into consideration specially for the rural people. The opportunity cost of time is higher than that of other factors, i.e., the time cost has been measured in terms of wage. If the people of the households do not go to banks, they would go to their works and earn more wages, which is identified as a major barrier to access to financial services in the rural area.

(x) *High cost of product:* The cost of product of MFIs compared to that of banks (interest rate) is still high indicating another barrier to financial inclusion.

(xi) *Absence of credit bureau and insurance of MFI borrowers:* Spreading of outreach by the MFIs is quite impressive in rural areas. But, there is no credit bureau for identifying overlapping borrowers and their indebtedness. At the same time, there is no micro insurance for borrowers. Over the past ten years, Bangladesh Bank, has resolutely pursed the agenda of financial inclusion and achieved discernible progress in improving access to financial services for the masses. However, the progress is far from satisfactory level. It suggests a crying need for a further push to the financial inclusion agenda to ensure that the people at the bottom of the pyramid join the formal financial system, reap benefits and improve their financial wellbeing.

Chapter 6

Financial Inclusion: Outcome and Impact

Financial inclusion is considered an indispensible factor for inclusive growth. There is ample evidence in many countries that high degree of financial inclusion is associated with high economic growth. Against this backdrop Bangladesh Bank in pursuance of the government's inclusive growth agenda undertook a wide range of financial inclusion initiatives. The main theme of these initiatives was to bring the disadvantaged segment of the population into the mainstream development path.

Bangladesh Bank addressed the financial inclusion question both from the supply and demand sides. As a regulator of the banking sector, Bangladesh Bank issued numerous guidelines / circulars in regard to the widening of financial services to the underserved and un-served population segments. The total number of banks and their branches were 48 and 6,717 respectively in 2007, which reached to 57 and 9,955 respectively in 2017. Presently the ratio of rural – urban bank branches stands at 48:52. The credit/deposit ratio of the scheduled banks excluding the specialized banks is 0.86, which was 0.81 a decade ago.

Bangladesh Bank has launched a multitude of financial inclusion initiatives. These initiatives includes no-frills accounts, farmers' accounts, freedom fighters' accounts, school banking, street children banking, agent banking, SMEs and agricultural credit financing, refinance schemes, and financial literacy programme etc. The scope and volume of these initiatives have witnessed rapid growth over the years.

The main objective of the current survey was to assess the impacts of Bangladesh Bank's financial inclusion measures. In this regard a total of 2,872 respondents along with a number of branch managers of the banks and other financial institutions were interviewed with structured questionnaire. On the basis of responses from the beneficiaries the following results were found:

(i) Saving behavior of the respondents was found to have noteworthy association with the degree of financial inclusion. Majority of the banked respondents reported that they were induced to do savings after establishing relationship with the financial institutions. About 91 percent of the banked respondents reported that they had more savings after being financially included. While comparing savings tendencies of the respondents, it was revealed that 81 percent banked respondents kept savings. On the other hand, 56.7 percent un-banked respondents reported that they had maintained some forms of savings by various means other than formal banking institutions.

(ii) Availability of financial services had a strong bearing on borrowing behavior of the respondents. Almost 24 percent banked respondents acknowledged that they borrowed some amount of money from the formal sources within the preceding one year period. Compared to this result, the share of un-banked respondents that borrowed from other informal sources during the same period was found about 20 percent. The average amount of borrowing for the stated period was higher for the banked respondents, BDT 9,700, which was BDT 7,500 for the un-banked respondents. However, borrowing was found very common among the NGO members. Almost 98 percent NGO members borrowed money from the respective organizations.

(iii) The difference between banked and un-banked respondents in relation to remittance was quite evident from the survey data. About 34 percent banked respondents reported that they had received money both from domestic and foreign sources within the preceding twelve months. On the other hand, the share of unbanked respondents receiving remittance was found 29 percent during the same period. The frequency of remittance received from both the sources was found higher for the banked respondents too. For the preceding one month period, the share of respondents receiving remittance at least once was 9 percent for the banked respondents, while it was 4 percent for the un-banked ones.

(iv) In the same manner, with regard to sending money to domestic destinations, the banked respondents were found to have higher stake. Almost 38 percent banked respondents stated that they had sent money to domestic destinations within the preceding twelve months. For the un-banked sample, about 31 percent respondents had sent money within the same period. The survey responses confirmed that mobile phone based financial services was instrumental in bringing about this success.

(v) The surveyed respondents had very low rate of insurance exposure. Only 14 percent respondents had various types of insurance policies. However, the adoption rate of insurance policy was found higher for the banked respondents. About 17 percent banked respondents had insurance policies, while 8 percent un-banked respondents were found to have insurance policies.

(vi) The banked respondents were asked to rank the extent of influence of financial inclusion on their income, employment, assets, education levels, health services, expertise and empowerment, and capability and confidence. Over sixty percent respondents reported that their expertise and empowerment, and capability and confidence levels were greatly enhanced after they started receiving formal financial services. Over seventy five percent respondents stated that they experienced moderate enhancement of their employment, education, and health services levels due to financial inclusion. With regard to income and assets, 38 percent respondents were found to have experienced slight increment following adoption of formal financial services.

Chapter-7

Conclusions and Policy Recommendations

The concept of financial inclusion has gained utmost importance over the last few decades. Almost all the countries have witnessed success after implementing financial inclusion agenda. Experiences of Bangladesh as well as other countries offer strong proof that pursuing such a strategy eventually results in higher growth and fair distribution of its benefits. The Government of Bangladesh (GOB) has included financial deepening as one of the pillars in its 7th Five Year Plan.

The current survey was carried out to investigate the impacts of Bangladesh Bank's various financial inclusion measures. Although the study was based on a small size of the whole population, the survey findings were very positive in relation to both demand and supply side impacts. Bangladesh Bank being the central bank laid the foundation of financial service revolution more than a decade ago. Its main thrust has been to enhance financial deepening and to ensure financial services for the underserved and un-served population. Over the years all the indicators of banking system have confirmed success of these initiatives. The number of banks and bank branches, financial products and channels, customers and beneficiary etc. has outgrown the expectations. Bangladesh Bank has continuously strived to upgrade its legal and regulatory framework to strengthen its financial inclusion agenda. Most respondents covered in the survey confirmed that they had been induced to do savings after opening bank accounts. Financially included respondents were found to have borrowed more money compared to the ones who were excluded. Both domestic and foreign remittances were higher for the banked persons. Finally, financial inclusion was found to have a strong impact on the respondents' socio-economic wellbeing.

The field level survey was very effective in identifying barriers to financial inclusion, problems and difficulties faced by customers, and difficulties encountered by the financial institutions. The respondents reported a good number of obstacles to access financial services, which need to be seriously addressed. The branch managers of financial institutions listed a range of suggestions to overcome the problems of financial inclusion initiatives. Feedback from both the supply and demand side stakeholders and observation of the enumerators and Bangladesh Bank officers who were the members of the survey team together constituted a useful basis for policy recommendations.

Against the backdrop of extensive survey procedure and its further analysis the survey team finds it very demanding to put forward the following policy recommendations:

(i) Bangladesh Bank's financial inclusion initiatives have been successful in all respects, especially in relation to the uplift of people's socio-economic condition. The GOB and BB as well need to continue with the development of financial inclusion strategy. The survey results indicate that there is still a large share of rural population without formal financial services. BB may put more emphasis on devising effective policy guidelines to beef up the present financial inclusion stand.

(ii) The survey finds the financial literacy most crucial area where the GOB and BB may embark upon rigorous campaign to ensure higher level of financial inclusion. The general level of understanding of the rural people in regard to financial services is lower compared to that of the urban folks. Insufficient information about the financial products barred a large group of rural population from accessing financial services. Along with the government, the banks and financial institutions may also undertake financial literacy programme to educate the un-banked persons.

(iii) The GOB and BB may take initiatives to ensure competition among the financial service providers. In some cases public banks, especially the specialized banks are found to receive special government privileges. Such government allowances offer leverages for the public banks and cause distortion in the financial market, which eventually result in inefficiency and misallocation of resources.

(iv) Diversified financial products may be offered to lure unbanked population to available financial services. Demand for financial products varies across demographic, geographic, and occupational characteristics etc. BB and commercial banks need to assess market condition and take necessary steps to launch new bank product which would satisfy potential customers.

(v) Banks and financial institutions should shorten the list of required documents for opening bank accounts. The large number of necessary documents of the clients is a major barrier to financial inclusion. Rural population, especially engaged with informal sector, often fail to produce identification document, reference, utility bill copy etc. High service charges of banks discourage the poor population to access bank facilities. These charges need to be rationalized according to the ability of the customers.

(vi) Bank personnel should be properly trained to win customers' confidence. Attitude of bank staffs has strong influence on client enrolment. Rural people tend to avoid bureaucratic office environment. Steps should be taken at bank outlets to create client-friendly condition. Setting up help desk / reception desk could be useful in this regard.

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