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Financial Inclusion: The Role of Bangladesh Bank

Dr. Md. Ezazul Islam
Md. Salim Al Mamun

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Research Department
Bangladesh Bank
Head Office, Dhaka

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Introduction

Financial inclusion has emerged as a tool to achieve inclusive growth for poverty reduction since 2005, a year that the UN has declared International Microcredit Year. Studies (King *et. al*, 1993; Beck *et. al*, 2000, 2004; Levine, 2005 and Demirgüc-Kunt *et. al*, 2008) indicate that a positive correlation exists between financial development and economic growth. Current development theories suggest that greater financial inclusion can have a positive impact on the lives of the poor.

Financial exclusion refers to the lack of access to financial services. It limits opportunities for employment and enterprise development and imposes a premium on the cost of basic services. Financial exclusion thus makes it difficult to reduce inequalities and alleviate poverty. Beck *et. al* (2008) finds that financial exclusion is a barrier to economic development. Financially excluded populations include marginal farmers, landless labors, unorganized enterprises, urban slum dwellers, migrants, senior citizens and women. Financial inclusion is thus a high priority policy goal for developing and developed countries in order to ensure stable and equitable economic growth.

1.1 Definitions/Concepts

1.1.1 While the need to promote financial inclusion has received global importance, a consensus has not been reached on the definition of financial inclusion. The provision of financial services from banks is sometimes referred to as financial inclusion, but financial inclusion actually refers to a broader concept.

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1.1.2 United Nations (2006), in its blue book titled "Building Inclusive Financial Sectors for Development", defines financial inclusion as the "access to the range of financial services at a reasonable cost for the bankable people and farms". Basic financial services include savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances. Rangarajan Committee (2006) defines financial inclusion as the "process of ensuring access to financial services and timely and adequate credit for low income people at an acceptable cost". An inclusive financial system thus has to provide access to an extended range of services to the poor.

1.1.3 Financial inclusion also refers to the ability of individuals to access appropriate financial products and services (House of Commons Treasury Committee, 2006). An understanding of appropriate financial products and services includes financial awareness, knowledge about banks and banking channels, facilities provided by the banks and advantages of using the banking channel. The Center for Financial Inclusion (CFI), an affiliate of US-based nonprofit ACCION International, argues that quality financial services in a full inclusive financial system would be provided at affordable prices, in a convenient manner, and with dignity for the clients. Mainstream providers considered as officially regulated and supervised entities provide quality products developing capacity and usage of financial services reflected in the perfect financial inclusive system (European Commission's Report, 2008).

1.1.4 Rahman (2009) defines financial inclusion in Bangladesh as access to financial services from officially regulated and supervised entities in which banks and financial institutions are licensed by the Bangladesh Bank, MFIs by the Microcredit Regulatory Authority (MRA), registered cooperatives by the Department of Cooperatives; and official entities themselves including post offices and National Savings Directorate. Microfinance activities in Bangladesh, pioneered by Nobel laureate Dr. Yunus and replicated extensively worldwide, have been expanding the access of financial inclusion.

1.1.5 Thus, the definitions of financial inclusion indicate that appropriate financial inclusion is multidimensional in nature offering quality financial services in a convenient way, extending access to all segments of the population and providing equal opportunities and reducing inequalities in an economy.

1.2 Various criteria to measure the status of financial inclusion

1.2.1 Studies (Mehrotra et. al 2009, Sarma, et. al 2010, and United Nation, 2006) use various criteria to measure the status of financial inclusion in an economy such as (i) outreach dimension and (ii) actual usage dimension. In terms of outreach dimension, there are two types of indicators: geographical penetration (number of bank branches or ATMs per 1000 square kilometers) and demographic penetration (number of bank branches or ATMs per 100000 people). More bank branches and ATMs per 1,000 square kilometers indicates smaller distances to 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's services. Sarma *et al.* (2010) constructed a multidimensional index for measuring the degree of financial inclusion that includes information on bank penetration, availability of banking services and usage of the banking system. Demirgüc-Kunt *et. al* (2008) also compiled demographic and geographic penetration data on access of general banking branches or ATM booths.

1.2.2 In terms of actual usage dimension the indicators are (i) number of loan accounts per 1000 people (ii) number of deposit accounts per 1000 people. These indicators measure the use of banking services/access to financial services. Another frequently used indicator of usage is the ratio of deposits/GDP or credit/GDP or (deposit + credit)/GDP. The measurement of financial inclusion depends on the level of development of a country and varies across countries/regions.

1.2.3 In Bangladesh, as in other developing countries, indicators are measured in terms of outreach and actual usage dimensions. According to Rahman (2009), we also measure overall financial inclusion for Bangladesh. Bangladesh and an inclusive financial system may consider the following institutions in measuring access to financial services (Rahman, 2009):

i) Banks and financial institutions supervised by the BB;

ii) MFIs supervised by the Microcredit Regulatory Authority (MRA);

iii) Credit cooperatives supervised by the registrar of cooperative societies;

iv) Insurance companies supervised by Insurance Regulatory Authority

v) Capital market institutions like investment banks, merchant banks, stock exchanges supervised by the Securities and Exchange Commission;

vi) Post offices under the Post Office Department of the government offering savings, money transfer and insurance services; bureaus of National Savings Directorate of the government issuing government savings instruments.

1.2.4 Insurance companies and capital market institutions are not the primary sources of clientele information for deposit-taking financial services; therefore, these need not to be included in measuring the extent of inclusion.

1.2.5 A comprehensive primary measure of financial inclusion is, therefore, the coverage of deposit services which is measured by the number of deposit accounts/clients/members in deposit schemes in banks, MFIs, post offices as percentage of total population. The coverage of credit services is another benchmark in measuring the extent of inclusion, expressed in terms of gaps, exclusions and barriers in access to financial services.

1.3 Importance/Benefits

1.3.1 Access to credit in the formal sector may also open up entrepreneurship opportunities for low income populations and increase the scope for investment.

1.3.2 Linkages with the formal financial sector enable clients to access different credit, savings and insurance products with soft conditions provided by regulated institutions. In terms of cost, easy access to the formal financial sector reduces the growth of informal sector credit provided by moneylenders which can often be expensive and exploitive.

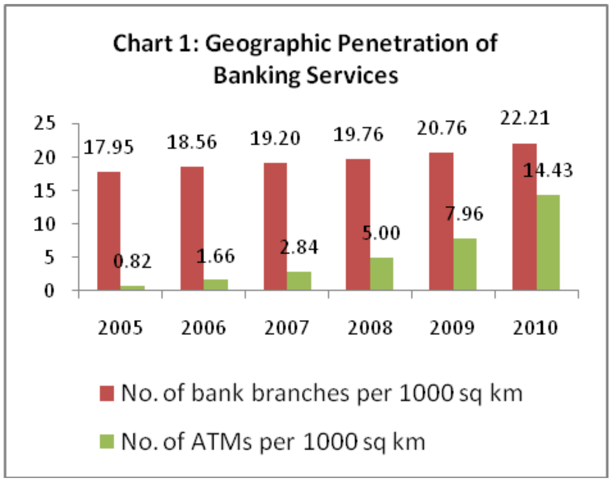
1.3.3 An account can be used for multiple purposes including making payments for essential utilities, receiving benefits from government programs; therefore contributing to financial deepening.

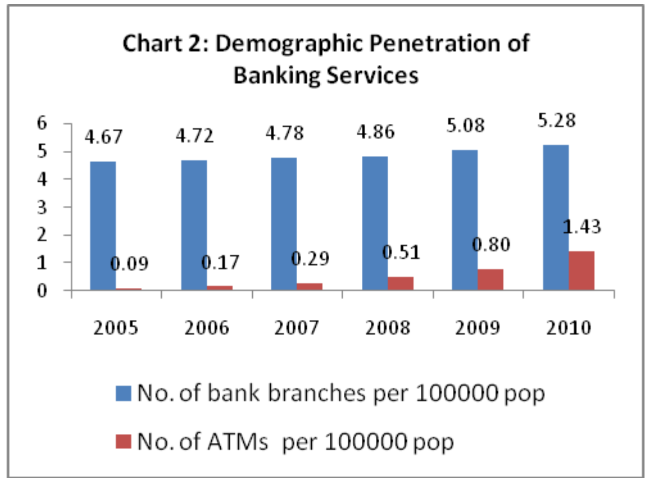
1.3.4 Studies suggest that access to financial services allows the poor to save money safely outside their homes, prevents the concentration of economic power with a few individuals and helps to mitigate the risks that the poor face as a result of economic shocks or natural calamities (Mehrotra *et. al,* 2009).

2. The Status of the Overall Financial Inclusion in Bangladesh

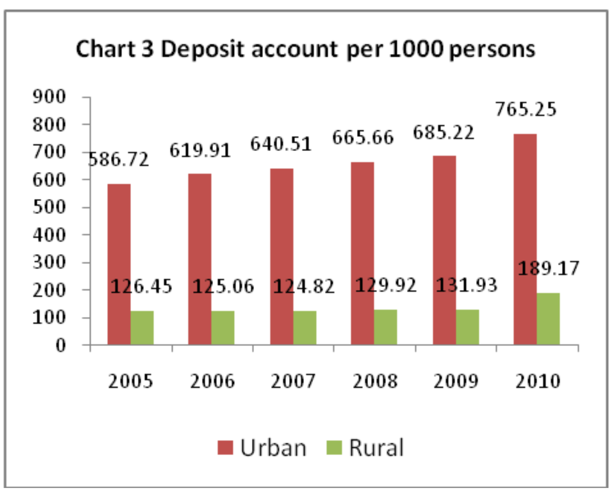
Access to Bank

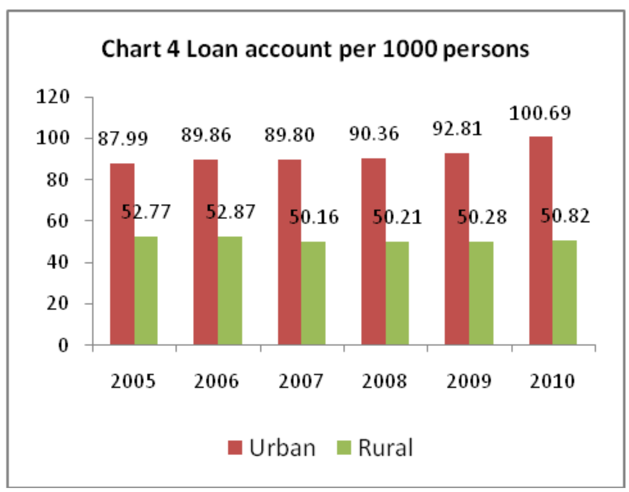
2.1 Geographical penetration indicates that number of bank branch per 1000 square kilometer increased from 44.24 in 2005 to 53.34 in 2010. Number of ATM booth per 1000 square kilometer increased tremendously from 0.82 in 2005 to 14.43 in 2010 (Chart 1). In term of demographic penetration, number of branches per 100,000 populations increased from 4.67 in 2005 to 5.28 in 2010. Number of ATM per 100,000 populations increased from 0.09 in 2005 to 1.43 in 2010 (Chart 2). Trend in geographical and demographic penetration indicates that access to banking is increasing overtime in Bangladesh.



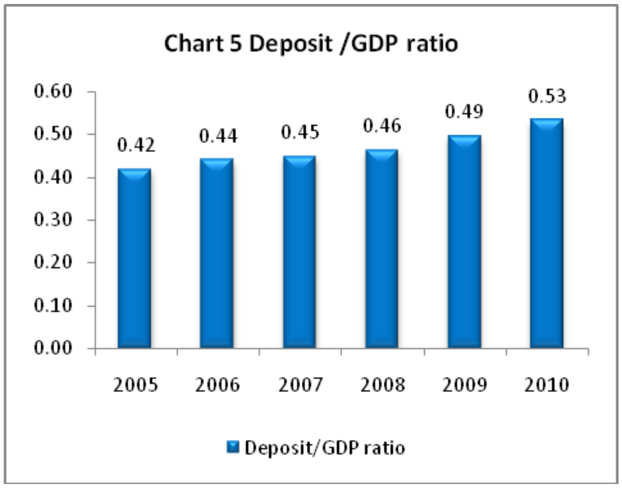


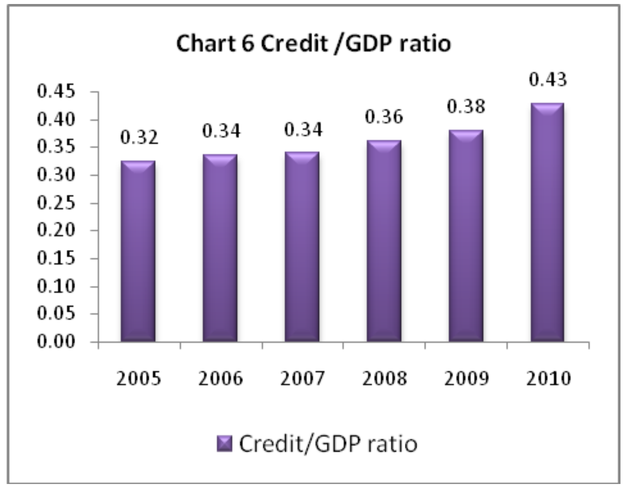
2.2 Access to banking in rural areas in terms of bank branch expansion, number of deposit a/c, number of credit a/c was quite impressive during 2005-2010. Recent data show that in rural areas total rural bank branch grew, on average, about 3.39 percent during 2005-2010 as against the 4.75 percent growth in urban areas during the same period. Number of deposit account grew by 11.91 percent in rural areas between 2005 and 2010 while the same was 7.82 percent in urban areas during the same period. Number of credit account during the same period increased, on an average of 0.54 percent in rural areas as against 4.41 percent in urban areas during 2005-2010.



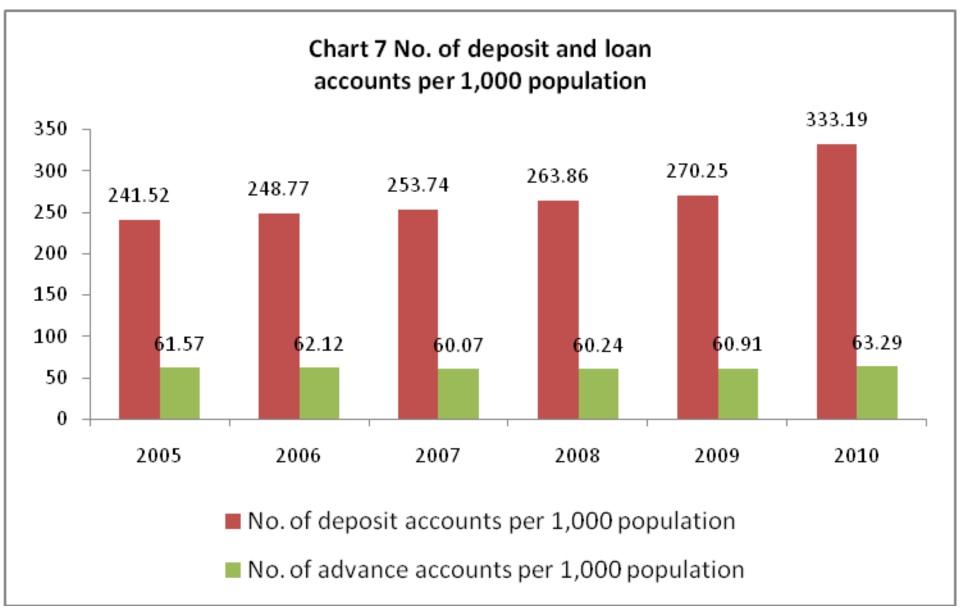


2.3 In the rural areas, number of deposit account per 1,000 persons was 126.45 in 2005 which grew to 189.17 in 2010, while number of loan account decreased from 52.77 in 2005 to 50.82 in 2010 (Chart 3 and 4).



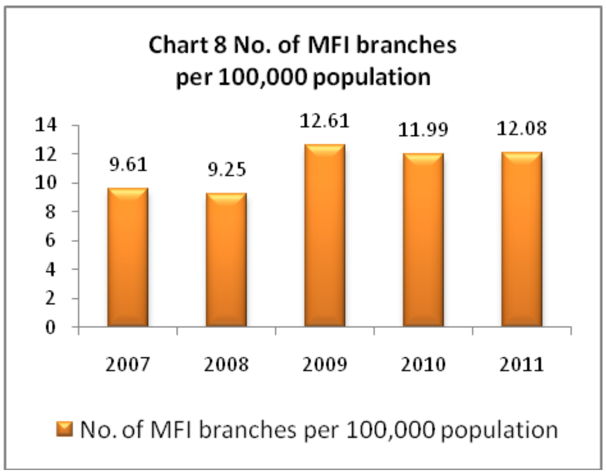


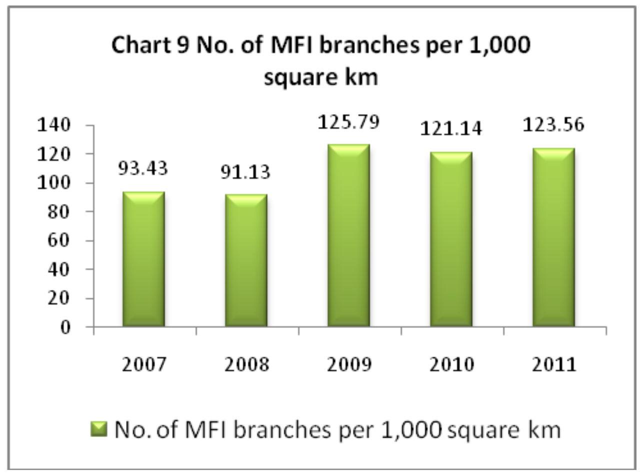
2.4 Number of deposit and loan account per 1000 population were 241.52 and 61.57 respectively in 2005 which increased to 333.19 and 63.29 respectively in 2010 (Chart 7). The ratio of deposit-GDP increased from 42 percent in 2005 to 53 percent in 2010 while loan-GDP ratio increased from 32 percent in 2005 to 43 percent in 2010 (Chart 5 and 6).



Outreach by Micro Finance Institutions

2.5 Access to finance by MFIs is remarkable in Bangladesh. Latest data provided by MRA indicate that 550 MFIs operated 17 863 branch throughout the country (mostly in rural area) in June 2011. In June 2011, MFIs have 25.81 million clients of whom 18.45 million clients are women. Total outstanding savings mobilized by MFIs went to Taka 62.86 billion at the end of June 2011 which was Taka 27.53 billion in June 2007. Total loan disbursement stood at Taka 174.91 billion at the end of June 2011 which was Taka 86.95 billion at the end of June 2007 (Chart 8).





2.6 Geographical penetration measured by branch per 1000 square kilometer stood at 123.56 branches at the end of June 2011 up from 93.43 at end June 2007. Population penetration indicates that 9.61 branches served per 100,000 populations in June 2007 which increased to 12.08 branches in June 2011 (Chart 9).

Overall Financial Inclusion

2.7 Rate of overall financial inclusion is increasing in modest pace. The overall financial rate is given in Table-1. It is observed that financial inclusion as percentage of total population increased from 39.76 percent in 2004 to 56.42 percent in 2010. In terms of adult population, it increased from 65.33 percent in 2004 to 87.23 percent in 2010 due to opening a significant number of 10 Taka account in the last two years.

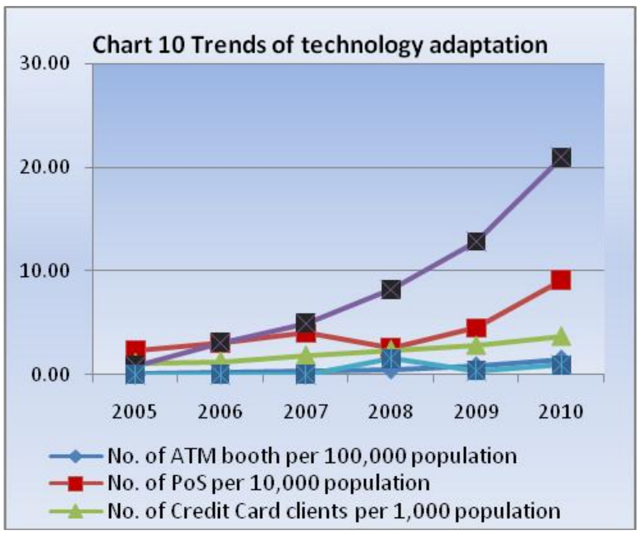
Table 1: Status of Financial Inclusion in Bangladesh

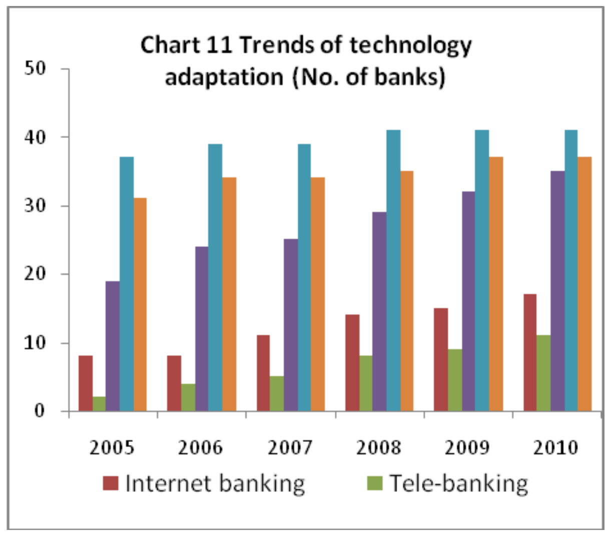
Year	Adult Population (millions)	Total population (millions)	Population per bank branch (in number)	Number of bank deposit A/Cs (millions)	Deposit A/Cs as % of adult population	Number of members in MFIs (millions)	MFI members as % of adult population	Number of members in cooperatives (millions)	Cooperative members as % of adult population	Financial inclusion as % of adult Population	Financial inclusion as % of total Population
1999	73.16	111.46	18669	27.30	37.32						
2000	75.16	111.46	18347	28.40	37.79						
2001	77.18	123.15	19886	30.10	39.00			7.65	9.91		
2002	79.59	129.25	20753	30.90	38.82			7.67	9.64		
2003	80.80	133.40	21406	31.30	38.73	14.63	18.11	7.57	9.37	66.21	40.10
2004	82.25	135.20	21443	31.60	38.42	14.40	17.51	7.76	9.43	65.36	39.76
2005	83.80	137.00	21420	33.10	39.50	18.82	22.46	7.92	9.45	71.41	43.68
2006	84.60	138.80	21171	34.50	40.78	22.89	26.95	8.03	9.45	77.33	47.13
2007	87.08	140.60	20320	35.70	42.02	20.83	24.52	8.22	9.68	74.36	46.05
2008	89.62	142.40	20566	37.60	43.83	23.53	24.36	8.44	9.84	77.63	48.86
2009	92.24	144.20	19681	38.97	42.25	24.90	26.99	8.64	9.37	78.61	50.28
2010	94.50	146.10	18947	48.68	51.51	24.94	26.39	8.81	9.32	87.23	56.42

Source: Rahman (2009b), Microcredit Regulatory Authority, Bangladesh Bureau of Statistics, and Scheduled Bank Statistics, Bangladesh Bank.

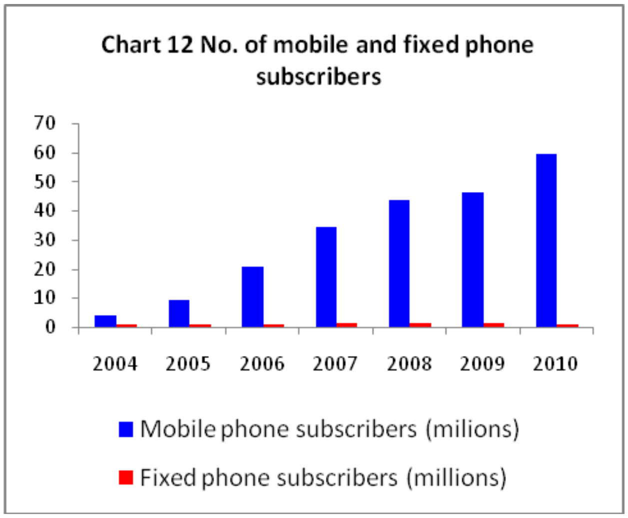
Trend in technology adoption in banking services

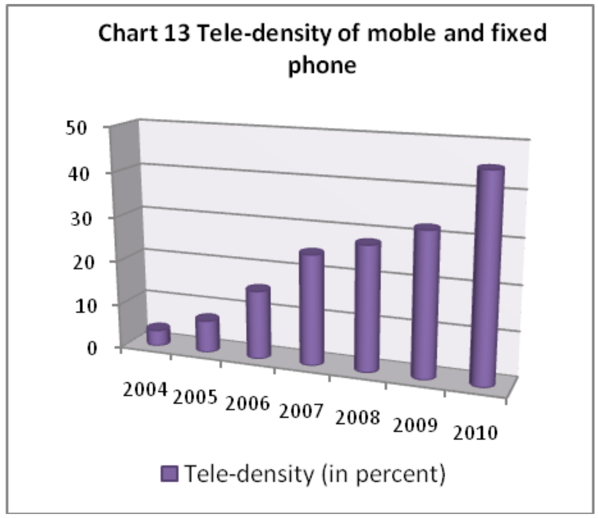
2.8 In order to provide banking service at lower cost and at shorter time to remote area, Banks have adopted various modern technology viz. installation of ATM, POS, introducing credit card and debit card, uses of mobile phone, internet banking, on line banking and tele-banking. It is observed that mobile banking is the potent instrument for increasing outreach and mobile phone is an ideal platform to increase of outreach of financial services to the rural population as their penetration is already large and growing (Mehrota, *et. al,* 2009). Recent survey data show that adoption of modern technology in banking services is impressive (Chart 10 and 11). Number of ATM booth increased from 118 in 2005 to 2855 at end June 2011. Number of POS also increased immensely from 3121 in 2005 to 17183 in June 2011. Number of debit and credit card clients increased from 0.11 million and 0.15 million in 2005 to 6.0 million and 0.61 million in June 2011 respectively. Number of mobile banking clients grew by about 62.0 percent to 0.21 million in June 2011. Out of 47 banks, 38 banks use modern facilities i.e., internet banking, online banking and tele-banking.





2.9 Recent trend of mobile banking indicates that financial inclusion is scaling up in Bangladesh especially in rural area where no bank branch is available. Recent data show that number of mobile phone subscribers and tele-density have been increasing substantially overtime creating an opportunity for banks and MFIs to use the mobile technology in the financial services and serve unbanked people with lower costs specially in the rural areas (Chart 12 and 13).





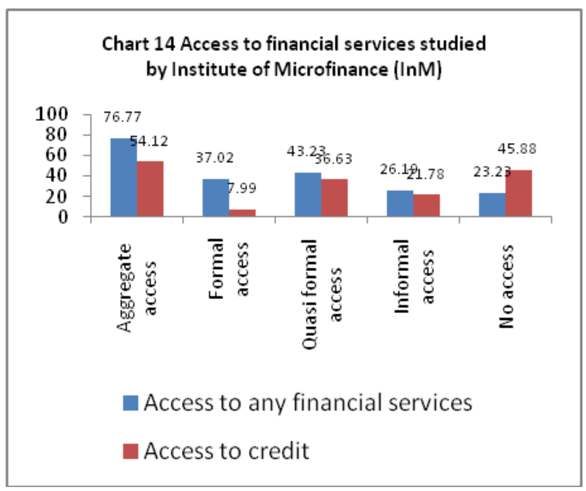
Recent survey findings

2.10 Institute of Microfinance (InM) conducted a survey on "Access to financial services in Bangladesh" in 2011 covering nearly 9000 households in 63 districts except Rangamati. The main findings of the survey are that the aggregate access to any financial services stood at 76.77 percent of which access to formal services is about 37 percent and access to quasi formal (MFIs and co-operatives) is about 43 percent (Chart 14). Another finding of the survey shows that there is a significant market overlapping both in formal and quasi formal market (Table 1).

Table 1: Market overlapping of financial services

Formal market only	20.07%
Quasi formal only	23.79%
Informal only	5.60%
Both formal and quasi formal	6.72%
Both formal and informal	6.87%
Quasi formal and informal	9.37%
All market	3.35%
Don't access	23.23%

Source: Khalily et. Al (2011). Access to financial services in Bangladesh. Institute of Microfinance (InM).



3. Barriers to financial inclusion

3.1 Identifying the barriers that prevent the lower income people in the country in accessing to the financial services provide hints as to which policies could be supportive in removing the barriers and broadening access. 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.

3.2 **Poor banking infrastructure:** Keeping in view the number of financially excluded people, in Bangladesh, about half of the adult population is unbanked (48.49 percent) in terms of deposit accounts in the banks. The major barrier is geographical or physical access measuring the average distance from household to bank branch; however, the branches per 1,000 square kilometers could be used as crude indicator for providing an initial idea to the barriers of 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. A large section of the population who do not have any physical access to the banking services are in rural and remote areas in the country.

3.3 **Lack of proper documentation:** Another barrier is lack of proper documentation including ID, proof of domicile and reference letter required to open a checking or savings account in Bangladesh, where many people do not have such documentation.

3.4 **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.

3.5 **High requirement of minimum balance:** Many institutions have a minimum account balance requirement or fee for opening checking or savings account;

consequently, many lower income people faces difficulty to maintain such balance enforcing to exclude themselves from the financial services. Though minimum amount to open a checking or savings account (2.28 and 0.89 percent of GDP per capita respectively) is lower in Bangladesh, it could be free for the poor people for broadening the extent of financial inclusion.

3.6 **Poor level of technological infrastructure:** As a competitive and cost effective strategy, major banks focuses on large scale of loans instead of providing services for small size of loan; as a result, rational business decisions prevent a major portion of people from accessing loan services including SME and agriculture loan. Promoting technological and institutional innovations as a means could expand the financial system access and usage; however, less than 4 people per 1,000 populations in the country are using credit cards indentifying the technological and infrastructural weaknesses.

3.7 **Low income:** 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 from any financial institutions.

3.8 **Lack of suitable product structure of banks and MFIs:** Appropriate financial products need to develop in reaching the unbanked population to the formal financial system.

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

3.10 **Absence of credit bureau and insurance of MFI borrowers:** Spreading of outreach by MFI 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 credit borrowers.

4. Role of Bangladesh Bank for enhancing financial inclusion

4.1 Bangladesh government has been pursuing inclusive socio economic growth aiming at well-being for all outlined in its five year and annual development plans. Supporting the government's inclusive growth strategy, Bangladesh Bank has been pursuing financial inclusion as a policy priority for accelerated economic growth while maintaining monetary and financial stability.

4.2 Banks and financial institutions have been advised to follow BB's financial inclusion initiatives by engaged themselves in increased lending to the under-served/un-served economic sectors and population segments, including micro and SME entrepreneurs, agricultural and other rural and urban farm and non-farm productive activities. Credit facility to farmers and small entrepreneurs, who have been a 'missing middle', are also a policy priority from BB's financial inclusion initiatives. For deepening and broadening financial inclusion, BB has also been motivating banks and financial institutions to extend their services to the physically and mentally disabled people; in other words, it conforms their CSR obligations and also creates new opportunities of viable business in new clients.

4.3 To cover about one-fifth of adult population who could not get any financial services from any regulated and supervised financial institutions, MFIs and cooperatives, BB's policy is to encourage financial institutions, MFIs for initiating cost saving innovative partnerships and for introducing technology based financial services.

5. Recent steps taken by BB for financial inclusion

5.1 BB pursues an impressive agricultural credit policy for stimulating financial inclusion, given priority to marginal farmers; 'area approach' method for farming; women are given priority. Agricultural credit policies and norms have been changed. The policy highlights for reaching out to relatively underdeveloped areas for timely &

hassle free delivery of adequate agricultural/rural credit to small farmers & share-croppers. A first ever Taka 5.00 billion refinancing line has been adopted against loans to landless sharecroppers in partnership with a recognized MFI. A comprehensive monitoring strategy for agricultural credit system is being devised by simultaneous monitoring of agricultural credit system at bank level and formation of 'Agricultural Credit Monitoring System' in Bangladesh Bank. In addition to maintaining existing policies for proper implementation of agricultural credit program, a good number of new pro-poor policies have been adopted. A 3-level (BB, Head office and branch office of concerned banks) monitoring system has been developed to watch credit disbursement and recovery process. Mobile phone number of each borrower is being collected for direct monitoring from the Central Bank.

5.2 A record amount of Taka has been targeted of agricultural credit disbursement in agricultural sector. Recent data show that impressive record of disbursement is achieved against the target. A record target of Taka 138.00 billion has been fixed for 2011-12, a 21.81% increase over 2010-11. An impressive record of Taka 121.84 billion had been disbursed in 2010-2011 which was around 97% of the total target in 2010-11. Nationalized Commercial banks and specialized banks disbursed of Taka 4.70 billion to 3.75 million share croppers in 2009-2010 and of Taka 7.44 billion to 4.27 million share croppers in 2010-2011 respectively. Up to 30 June 2011, BRAC disbursed of Taka 2.65 billion at 10 percent interest rate to 0.234 million sharecroppers in 171 *Upzilla* under 37 districts.

5.3 In order to cover un-served farmer by the commercial banks, BB has advised to commercial bank to open bank accounts for farmers at free of charge with initial deposits of only Taka 10; already opened around 9.5 million accounts. These accounts are being used to disburse government input subsidies to the farmers. Till to date, about Taka 7.22 billion of diesel subsidy has been disbursed to farmers by the Government through this account. These accounts will also facilitate small savings, revolving loans, remittances etc.

5.4 A Taka 2.0 billion refinance line has been introduced in FY10 against bank loans for environment friendly investments in solar energy, biogas plants and effluent treatment plants.

5.5 In issuing new branch licenses to banks, BB has been following a policy of requiring at least one in every five new branches to be in rural locations; with a view to pushing banking services physically closer to the rural population.

5.6 BB and the GoB have adopted several remedial and promotional measures to bridge the gaps in financial inclusion. In SME financing, BB has kept refinance lines available to banks against their loans to Small and Medium Enterprises (SMEs); multilateral development partners such as the IDA and ADB are supplementing BB's refinance lines with their co-finance. Besides, BB is allowing banks to open SME service booth in areas with no branches of the banks concerned.

5.7 In order to deepen financial inclusion, BB has formulated elaborate guidelines for SME credit. A separate department titled 'SME and Special Programs Department' has been launched to accelerate SME activities and also to enhance monitoring. BB has arranged refinance scheme of Taka 6.00 billion for small and medium enterprises; 15% of the refinance fund allocated for woman entrepreneurs. SME credit up to Taka 2.5 million can be disbursed against personal guarantee to woman entrepreneurs. In view of increasing awareness, an arrangement of SME fairs, exchange of Views session with bankers and entrepreneurs, seminars, road show have been taken throughout the country with cooperation from Banks, FIs, Chambers, Professional Bodies .

5.8 As of September 2011, about 0.24 million entrepreneurs (0.22 million male and 0.02 million woman) received loan. The cumulative SME loan disbursement stood at Taka 399.41 billion up to September 2011.

5.9 The BB has also been exhorting banks and financial institutions to embrace fostering financial inclusion as a Corporate Social Responsibility (CSR) obligation. As a longer term measure towards mitigating risks in agricultural production (and hence also in agricultural financing), crop insurance has been included in the Food Policy agenda announced by the GoB.

5.10 The ongoing DFID supported BB initiative for automation of the payments system in Bangladesh, the Remittance and Payments Partnership (RPP) project, is providing impetus to initiatives in designing faster and cheaper remittance and money transfer services; broadening and deepening financial inclusion particularly of rural recipients of remittances from family members working elsewhere within or outside the country. Partial grant support incentive from a Challenge Fund of the project has already spawned and introduced in use a number of new IT based remittance delivery processes that are superior to previous arrangements in speed and affordability for users. Online automated clearing and settlement of cheques and electronic fund transfers by the Bangladesh Automated Clearing House (BACH), under BB management has gone live. It is hopefully trigger innovation of further new service packages better tailored to specific needs of different customer segments, thereby widening or deepening their financial inclusion.

5.11 The GoB has been providing from annual national budgets lending resources to MFIs (through PKSF, the apex financing agency for MFIs) for rural on- and off-farm self-employment micro and SME credit, with some gender bias towards empowerment of women. Financing lines from government budget have been made available also against loans to rural poor for their construction of basic shelter housing; in a number of schemes titled Grihayan, Ashrayan, Returning Home, and One home-One farm.

5.12 The Post Office Department of the government has of late been more actively engaging with banks and other external and internal remittance intermediaries to offer faster remittance deliveries to recipients. Regardless of however much the private sector remittance and mail/parcels delivery services improve, role of the publicly owned postal services is likely to remain necessary in catering to the needs of the remoter, sparsely populated areas that will be seen by the private sector as expensive and unprofitable to reach out to.

5.13 To make the banking services beneficial and easily accessible for the physically incapable people of Bangladesh, all scheduled banks are requested to designate an official as 'Focal Point' at each branch of their banks.

5.14 Four state owned banks (Sonali/ Janata / Rupali/ Agrani Bank Ltd.) and two specialized banks (BKB/ RAKUB) are advised to disburse agricultural credit with priority among the physically handicapped people individually/ jointly as well as to follow the regulations approved by themselves for special microcredit in order to make them self- reliant and to bring them in the main stream of economic activities. The banks have to adopt the correct monitoring system so that the physically handicapped people are not hassled and the Compliant and Monitoring Cell of the banks will monitor this regularly.

5.15 Considering contribution of the farmers to the economic activities, specially in agricultural activities, it has been decided that a farmer can open deposit account at any state-owned commercial and specialized bank against national ID card/birth registration card and agricultural equipment assistance card issued by the Department of Agricultural Extension. There will be no bindings for maintaining minimum balance on the said account and banks shall not impose any charges/fees on these accounts.

5.16 Strategy and policy pronouncements of developing economies like Bangladesh can clearly articulate commitment to inclusive economic growth to open up blocked advancement opportunities for the disadvantaged population segments of the society. The longer term Perspective Plan and sixth Five Year Plan of GOB articulate this commitment.

6. Policy measures/recommendations for broadening the level of financial inclusion in the SAARC region

6.1 South Asia's population of more than 1.5 billion has a high concentration of poverty-ridden people including small farmers, micro and small entrepreneurs. Despite there being substantial expansion of microfinance and SME activities in different parts of the SAARC region, a number of people are still extremely poor. The central banks of the SAARC region can initiate policies targeting low income populations by introducing agriculture and rural programs under a comprehensive monitoring strategy. In this regard, loans to sharecroppers and small enterprises introduced by the BB has been contributing not only to achieving wider coverage of financial inclusion in Bangladesh but also to reducing the high dependence of small and marginal farmers on non-institutional sources. Moreover, the Microcredit Regulatory Authority (MRA), the regulatory and monitoring body for microfinance institutions in the country, has capped MFI interest rates.

6.2 Recent global financial crisis identifies the weaknesses of financial markets routed in institutional flaws like absence of good credit appraisal, risk management etc. An efficient and organized financial sector can contribute to economic growth through savings mobilization and capital formation. Governments and central banks have an important role to play to avoid pervasive market failures and financial inclusion could help overcome frictions in the market mechanism by expanding coverage to poor and underprivileged people. A comprehensive plan for the financial sector may be undertaken by the monetary authorities of SAARC countries to provide access to those who are excluded from formal financial systems.

6.3 Technology is now playing a key role in the banking services in terms of cost and time efficiency; moreover, outreach population and credit delivery in rural areas can be addressed easily through technology. The issue of technological innovation and its infrastructural development needs to be a priority for the countries in this region for reaching to the mass people within the inclusive financial system aiming at rapid reduction of poverty in terms of food security, human development etc.

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