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Financial Inclusion: Bank Based Initiatives and Achievements in Bangladesh

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Foreword

As part of the ongoing dissemination of BIBM research outputs, the present research monograph contains the findings of the research project: “Financial Inclusion: Bank Based Initiatives and Achievements in Bangladesh”. It is widely acclaimed that financial inclusion ensures the ease of access, availability and usage of the formal financial system for all stakeholders of an economy. An inclusive financial system plays a vital role in building a robust foundation of the financial infrastructure of a country. Financial inclusion has received considerable global attention as a policy priority for growth generation, job creation, poverty reduction, social uplifting and women’s economic empowerment. Immediately after independence, Bangladesh focused on financial inclusion through expansion of public sector banks and undertaking agriculture as well as micro and small enterprise credit programs. During the 1980s and afterwards, microfinance institutions have put significant efforts to reach poor with finance, using peer monitoring and group-based approaches. However, being a bank-based financial system; financial inclusion in Bangladesh would seldom be successful unless the banking sector participates vigorously in it. This study aims to assess the effectiveness of bank-based initiatives undertaken mostly by Bangladesh Bank in achieving financial inclusion objective in Bangladesh. The study examines the efficacy of these measures in financial inclusion of individuals, firms and farms, and its overall deepening.

It gives me immense pleasure, on behalf of BIBM, to offer this important resource of academic inputs to the practitioners of the banks and financial institutions, regulatory agencies as well as to the academics and common readers. I hope, this monograph will be a valuable resource for the policy makers, regulators, and banking professionals to understand the importance of financial inclusion, and take appropriate steps to harness the expected outcome of the initiatives of inclusive growth of the country.

We do encourage feedback from our esteemed readers on this issue which certainly would help us improve upon our research activities in the years to ahead.

Md. Akhtaruzzaman, *Ph.D.*
Director General

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List of Abbreviations

ADR	Advance-Deposit Ratio
AFI	Alliance for Financial Inclusion
ATM	Automated Teller Machine
BB	Bangladesh Bank
BACH	Bangladesh Automated Clearing House
BDBL	Bangladesh Development Bank Limited
BDT	Bangladeshi Taka
BRAC	Bangladesh Rural Advancement Committee
CAGR	Compound Annual Growth Rate
CMSMEs	Cottage, Micro, Small and Medium Enterprises
CV	Coefficient of Variation
FCB	Foreign Commercial Bank
FGD	Focus Group Discussion
GDRFI	Global Development Report on Financial Inclusion
HHI	Herfindahl-Hirschman Index
IFC	International Finance Corporation
MFI	Micro Finance Institutions
MFS	Mobile Financial Services
MIGA	Multilateral Investment Guarantee Agency
MOU	Memorandum of Understanding
MRA	Micro-Credit Regulatory Authority
MSMEs	Micro, Small and Medium Enterprises
NA	Not Available
NBFI	Non-Bank Financial Institution
NFA	No-Frill Accounts
NFIS	National Financial Inclusion Strategy
NGO	Non-Government Organizations
NFS	Non-Financial Services
NPL	Non-Performing Loan
PCB	Private Commercial Bank
PKSF	Palli Karma-Sahayak Foundation
PPO	Pension Payment Order
SB	Specialized Bank
SCB	State-owned Commercial Bank
SDGs	Sustainable Development Goals
SEA	South East Asian
SMEs	Small and Medium Enterprises
SSN	Social Safety Net
YOY	Year-on-Year

Executive Summary

Financial inclusion ensures the ease of access, availability and usage of the formal financial system for all members of an economy. An inclusive financial system plays a crucial role in building a strong foundation of the financial infrastructure of a country. Financial inclusion has gained considerable global attention as a policy priority for growth generation, job creation, poverty reduction, social uplifting and women's economic empowerment. Immediately after independence, Bangladesh focused on financial inclusion through expansion of public sector banks and undertaking agriculture as well as micro and small enterprise credit programmes. Since the 1980s the microfinance institutions pioneered by the Grameen Bank have given considerable efforts to reach poor with finance, using peer monitoring and group-based approaches. However, being a bank dominated financial system; financial inclusion in Bangladesh would seldom be successful unless the banking sector participates vigorously in it.

In this backdrop, the objective of the study is to assess the effectiveness of bank-based initiatives undertaken mostly by Bangladesh Bank in achieving financial inclusion objective in Bangladesh. The study examines the efficacy of these measures in financial inclusion of individuals, firms and farms, and its overall deepening. Primary data have been collected through conducting two Focus Group Discussions (FGDs) and sending one questionnaire to heads of Small and Medium Enterprise (SME) and Retail banking division. The secondary data spans from 2010 to 2019. Effectiveness of financial inclusion measures have been examined by three dimensions namely financial inclusion for firms/farms, individuals and financial deepening. The study found that no-frill account has been opened by all banks as of 2019 with Compound Annual Growth Rate (CAGR) of 7 percent which is encouraging where the contribution of State-own Commercial Banks (SCBs) and Specialized Banks (SBs) are significantly high. The high growth rate of 176.5 per cent and clients of 225.1 per cent indicated that how fast poor individuals are availing of banking services from burgeoning agent banking units. With respect to internet banking, a threefold increase between 2014 and 2020 indicates quick penetration of traditional branch-based banking activities with the virtual banking.

In Bangladesh, only 7 per cent enterprises are owned by female which is extremely low as compared to international average of share of female owned business which is over 30 per cent. PCBs have increased their share of rural financing from 4.1 per cent to only 5.9 per cent between 2010 and 2019. Further, female borrowing is substantially low as compared to household male borrowing. Bangladesh has made good progress as compared to her peer countries considering geographic and demographic penetration in deposit services. Bangladesh is faring closely with its neighbor India with respect to outstanding balances on active mobile money accounts, number of mobile money transactions and SME loans from commercial banks.

Based on the findings it can be suggested that fintech based financial services will drive the future financial inclusion initiatives. Invention of artificial and computational intelligence has given the opportunity to the financial sector to evaluate complex problems and provide solution in no time to anybody and anywhere of a country. Bangladesh Bank in consultation with other financial sector regulators may craft a national strategic roadmap to align the financial sector with current and

future emerging technologies suited to our society and people. Bangladesh Bank has several diversified initiatives to improve the access to finance for Cottage, Micro, Small and Medium Enterprises (CMSMEs). Considerable successes are also clear in terms of Year-on-Year (YOY) growth particularly for small enterprises. But these were not equally achieved in case of cottage and micro industries. Additionally, agriculture financing is very negligible as compared to total financing initiatives.

Medium scale enterprise financing by the banks seems to be running smoothly even with the lending rate ceiling of 9 per cent. But the banks are facing difficulty in giving loan to cottage, micro, and small sector as the cost of supervision of small amount of loan exceed the lending cap currently followed. Non-financial Services (NFSs) like training, innovative ways of conducting business, adoption of e-commerce are necessary to increase the number of entrepreneurs in the country. Banks may be encouraged to offer NFSs in against of tiny amount of fees as it seems that banks are not interested to offer NFSs unless they are permitted to charge fees. Private Commercial Banks (PCBs) show less interest to open rural branch as they feel opening rural branch at outside of upazila will not be profitable. BB may reconsider the current definition of urban areas at least excluding B class Pourashavas (Municipalities) so that PCBS can open more branches in upazila level for increasing access to finance of rural people living around the upazila. Credit guarantee scheme recently introduced by the Bangladesh Bank for small, cottage, and micro enterprises is not likely to bring the desired benefit of the guarantee scheme. Banks are advised to reschedule the loan first after it is classified and then to go for legal action under the Money Loan Court Act, 2003 before claiming funds from credit guarantee scheme. So, this condition certainly diminishes the prospective benefit of credit guarantee scheme and needs to be reconsidered.

Financial Inclusion: Bank Based Initiatives and Achievements in Bangladesh

1.1 Introduction

Financial inclusion is a process that assures the ease of access, availability and usage of the financial services for all sections of the society (Sarma & Pais, 2011). A financial system, inclusive in nature, is now well recognized worldwide as a key driver for comprehensive and sustainable economic development. This builds a strong financial infrastructure that promotes economic growth and development (Aportela, 1999; Ashraf et al., 2010; Karlan & Morduch, 2010). Financial inclusion is crucial for reducing economic susceptibility of households, reducing poverty and enhancing the living standards of the citizen and, hence, promoting economic growth (Christen et al., 2012). Furthermore, easy access to finance for the women is essential for achieving gender equality and their economic empowerment. Women with a high degree of control over their financial decisions get the opportunity to come out of poverty; can avoid the exploitative loan from the informal sector; and increase their participation in income generating economic activities (The National Strategy for Financial Inclusion 2019-2024, India). National development will be undermined if expanded financial services are not made available to the mass people. Access to finance for the underprivileged sections of the society is an important pre-condition for inclusive development (National Financial Inclusion Strategy-Bangladesh).

Financial exclusion[1] can be fatal for the growth of the economy because it tends to hamper its financial infrastructure, which is undoubtedly a key driver of economic growth (Beck et al., 2008, Angadi, 2003). Financial exclusion increases the dominance of informal sources of credit (such as money lenders) which in most cases is found to be exploitative (Sarma & Pais, 2011). Earlier studies indicate that even 'well- developed' financial systems such as the U.S and UK are not successful to be 'all –inclusive'. In the 50 states of the U.S and the DC (District of Columbia), there were nearly 9.6 million (7.7% of US households) unbanked people in 2013 and 20 percent of the U.S households remained underbanked in 2013 (Mustafa & Rahman, 2015).

Thus, financial inclusion has gained considerable global attention as a policy priority for growth generation, job creation, poverty reduction, bridging income-inequality, quality-of-

[1]Financial exclusion can be two types such as voluntary and involuntary. The World Bank (2014) defines voluntary exclusion as a condition where the segment of the population or firms chooses not to use financial services either because they have no need for them or due to cultural or religious reasons. In contrast, involuntary exclusion arises from insufficient income and high-risk profile or due to discrimination and market failures and imperfections (see, Cyn-Young & Rogelio, 2015).

life improvement, social uplifting and women's economic empowerment. Additionally, seven of the seventeen United Nations Sustainable Development Goals (SDGs) viewed financial inclusion as a key enabler for achieving sustainable development worldwide by improving the quality of lives of the poor and marginalized sections of the society.

The banking sector so far led the way in bringing the majority of the people under the coverage of financial services, even though Micro Finance Institutions (MFI) and Self-Help Groups made significant contribution. The German Bankers' Association launched a voluntary code in 1996 to ensure an 'everyman' current banking account facilitating basic banking transactions. A low-cost bank account named 'Mzansi', was introduced by the South African Banking Association for financially excluded people in 2004 (Sarma & Pais, 2011).

Immediately after independence, Bangladesh focused on financial inclusion through expansion of public sector banks and undertaking agriculture as well as micro and small enterprise credit programmes. Since the 1980s the microfinance institutions pioneered by the Grameen Bank have given considerable efforts to reach the poor with finance, using peer monitoring and group-based approaches. Government's initiatives like allocation from annual national budgets to MFIs through PKSF, financing to a number of schemes titled Grihayan, Ashrayan, Returning Home, and One Home-One farm and introducing a good number of safety net programme have given further impetus on this immensely important issue. Apart from these, a comprehensive public document called 'National Financial Inclusion Strategy (NFIS)- Bangladesh has been adopted to reach the ultimate goal of social cohesion and stability through ensuring the scope of access and usage of quality financial services for all.

Inherently Bangladesh is holding a bank dominated financial system. It is, therefore, clear that financial inclusion would not be successful unless the banking sector participates vigorously in it. In this perspective, since the early 2000's, bank based financial inclusion led by Bangladesh Bank got huge support through enacting legislative policies[2], undertaking necessary reforms[3] and doing product innovations[4] for financial inclusion of

[2]Legislative policies like BB's impressive agricultural credit policy; establishing refinancing against loans to landless sharecroppers, SMEs, solar energy and biogas plants ; allocating certain percentage of refinance fund to women entrepreneurs; setting and disbursing targeted amount of agricultural credit; advising banks to open no-frill account for the farmers and to use these accounts for disbursing government subsidies to the farmers, encouraging banks and financial institutions to consider financial inclusion as Corporate Social Responsibility are prominent for achieving financial inclusion.

[3]Reform measures like creation of a separate department called SME and Special Programs Department in BB; setting up a "Women Entrepreneurs' Dedicated Desk in Branch; issuing new branch licenses to banks following a policy of establishing one rural branch against each urban branch and strengthening SME Foundation have been undertaken for reducing unbanked people.

[4]New products like designing automated remittance transfer services like bKash, rocket, Nexus pay, UCash, Nagad, etc; introducing sharecropper financing; launching new promotional measures arrangement like SME campaign, sharing views with bankers and entrepreneurs through seminars and road show; online automated clearing and settlement of cheques and electronic fund transfers have been launched for going ahead with the vision of making available financial services to the door of all people.

individuals and firms along with its deepening. However, no research has been undertaken to examine how these measures have pushed ahead financial inclusion initiatives in Bangladesh.

1.2 Objectives

This study aims to assess the effectiveness of bank-based initiatives undertaken mostly by Bangladesh Bank in achieving financial inclusion objective in Bangladesh. To perform this assessment, after reviewing policy, reforms and product design initiatives relating to financial inclusion, the study examined the efficacy of these measures in financial inclusion of individuals, firms and farms, and its overall deepening. A comparative status of Bangladesh with South Asian as well as lower middle-income countries and the world average has also been seen with the objective to locate the position of Bangladesh vis-à-vis financial inclusion.

1.3 Methodology

The study examined the effectiveness of banks' initiatives in achieving financial inclusion. As it was a supply side-based study, the research was conducted depending mostly on secondary data relating to the banking sector's involvements and progresses in financial inclusion initiatives. Also, primary data were collected by conducting two Focus Group Discussions (FGDs) and sending one questionnaire to heads of SME and Retail banking division. The secondary data were collected mostly from different publications of Bangladesh Bank (BB) spanning from 2010 to 2019. However, as Global Findex data are available up to 2017, we used global data up to that period to have a relative picture of Bangladesh. The sources of secondary data are mainly BB publications namely Bangladesh Bank Quarterly, Monthly Economic Trends, Financial Access Survey, and Scheduled Bank Statistics and publications of Micro Credit Regulatory Authority. Two FGDs, one targeting SMEs heads of different banks and the other one targeting concerned heads of retail banking division/agent banking division, were arranged online. A total number of 45 executives participated in each FGDs.

The study followed the research approach used in the Global Development Report on Financial Inclusion (GDRFI) 2014 published by International Finance Corporation (IFC), Multinational Investment Guarantee Agency (MIGA) and The World Bank (GDRFI, 2014). In examining effectiveness of initiatives in reaching financial inclusion, three dimensions, namely, financial inclusion for firms/farms, individuals and financial deepening were taken into consideration. A total of twenty-four (24) indicators relating to no frill account, school banking, agent banking, FinTech, CMSME Financing, agriculture financing, branches, deposits and advances under aforesaid dimensions were considered. With a view to see the comparative position of Bangladesh in progression of financial inclusion, we carried out a comparative analysis of Bangladesh with one South Asian lower middle-income country, one upper middle-income country and one high income country depending on Global Financial Inclusion (Global Findex) data base 2017 published by World Bank Group. Techniques like Compound Annual Growth Rate (CAGR), Coefficients of Variation (CV), Coefficient of Correlations and Herfindahl-Hirschman Index (HHI) were applied.

A key-note paper was presented at a seminar held organized by BIBM where senior bank executives and a panel of discussants gave their valuable inputs and suggestions. The current report has been finalized by incorporating comments and opinions derived from the seminar proceedings.

1.4 Chapter Plan

The first section covers introduction, objectives, methodology, and chapter plan. Section two shows literature review. Section three reviews policy, reforms and product design initiatives undertaken for bank-based financial inclusion by Bangladesh Bank. Section four shows financial inclusion at individual and firm/ farm level, including its stage of deepening. Section five shows position of Bangladesh among selective peer countries. Section six summarizes the opinions of bankers received through FGDs and questionnaire survey. The report concludes with the findings of the study and suggestions.

2. Literature Review

A number of studies have been conducted regarding financial inclusion and economic development, financial inclusion initiatives and their effectiveness, benefits, measures and barriers. Recent literature in finance-growth nexus area identified that financial deepening through financial inclusion increases the growth potential in an economy. In effect, bank-based financial inclusion helps reduce transaction cost, mobilize deposits, encourage savings, facilitate easy exchange of goods and services (such as through mobile banking and agent banking services), and ultimately provides incentive for investment and consumption (Greenwood & Jovanovic, 1990; Bencivenga & Smith, 1991, Odeniran & Udeaja, 2010; Ajakaiye & Page, 2012; Bhaskar, 2013; Babajide et al., 2015). In their empirical study, Inoue and Hamori (2016) examined the effects of improved access to financial services on economic growth in Sub-Saharan Africa. The results of their study suggest that financial access (financial inclusion) significantly increases the economic growth in Sub-Saharan Africa. Fungáčová and Weill (2014) also found positive effects of financial inclusion on economic growth. In their study, they found that the extent of financial inclusion is greater due to larger utilization of formal deposit accounts and bank loans.

Potential benefits of financial inclusion, especially benefits derived from the use of digital financial services applications, have also been examined in a good number of studies. Financial services reduce poverty by improving health, education, and businesses condition. And they make it easier to manage financial emergencies – such as job loss or crop failure– that can push families into poverty (Better Than Cash Alliance, 2016; Demirgüç-Kunt et al., 2017; Klapper & Singer, 2017). Kim et al. (2018) undertook a study on 55-member countries of the Organization of Islamic Cooperation (OIC) and reported that financial inclusion has a positive impact on economic growth. Applying structural framework method, Dabla-Norris et al. (2015) conducted a study on six developing countries and revealed that financial inclusion enhances the growth of GDP through facilitating access to credit, credit depth and credit mediation efficiency among firms. Ibor et al. (2017) uttered that for ensuring inclusive and stable economic growth, access to finance is necessary. According to Park and Mercado (2016, 2018), per capita income, legal regulation, and demographic characteristics have positive correlation with financial inclusion. They have also found that financial inclusions have significant correlation with poverty reduction in both global samples and in developing Asian nations. Nguyen et al. (2020) led a study on Vietnam and documented that economic growth positively pays to poverty drop.

Allen et al. (2016) found that the probability of having an account at a financial institution is greater for richer, more educated, older, urban, employed, married or separated individuals. Fungácová and Weill (2014) found that richer, more educated, older men in China are more likely to be financially included. Demirgüc-Kunt et al. (2013b) concluded that a large gender gap exists in account ownership, formal saving, and access to credit. Aterido et al. (2013) examined nine African countries and found no significant gender discrimination. Efficient legal framework, strong contract enforcement and political stability bring about more financial inclusion (Allen et al. 2016). Cost of opening and maintaining bank accounts, long distance and disclosure requirements act as barriers to financial inclusion. As per World Bank policy Report (2008), inconvenient geographical access, lack of required identity documents for opening bank account by the poor people, minimum account balance requirements or high fees are the major factors preventing a large number of people from getting access to banking services in developing countries. Financial inclusion gets momentum by the deposit insurance scheme and tax incentive programmes. Demirgüc-Kunt et al. (2013a) examined the role of religion on financial inclusion by using a sample of 65,000 adults from 64 economies. They found that account ownership and borrowing are lower for the Muslims compared to non-Muslims in the formal financial system.

Mobile technology, as a means to provide financial service, experienced a significant growth since 2004 (Owens 2013). In a policy level study, Gadanecz and Tissot (2015) emphasized on digital financial inclusion and postulated that fixing a measure of the status of financial inclusion is crucial for policy purpose to formulate strategies and assess the effectiveness of their implementations. Some studies highlighted the benefits of shifting cash to digital payments leading to reduction of corruption and improving efficiency, especially for governments. The leakage of pension fundsin India dropped by 47 percentby making payments through biometric smart cards rather than being delivered in cash (Miller et al., 2014).

In the context of Bangladesh, Choudhury (2010) examined international experience and the status of Bangladesh relating to financial inclusion. Siddique et al. (2011) developed a range of indicators to measure the access to banking services and identified barriers to financial inclusion in Bangladesh. Ali and Islam (2013) noted the status of innovative steps of Bangladesh Bank, especially insofar as farmers account and sharecroppers financing are concerned. Mamun et al. (2015) reviewed measures taken by BB and the role of different stakeholders for providing funds light engineering sector in Bangladesh. In 2015, the Institute of Microfinance conducted a study to measures financial inclusion in divisional areas[5]. Former BB' Governor Dr. Atiur Rahman in his book titled "Inclusive Finance and Sustainable Development" stated that central banks act as development agent through its attention given to achieving inclusive and sustainable economic growth of a country.

3. Financial Inclusion for Firms, Farms and Individuals: Policy, Reforms and Product Design

The Government of Bangladesh and the Bangladesh Bank have taken several policies and reforms initiatives for financial inclusion of firms, farms and individuals. Some of the important initiatives are reviewed in this section.

3.1 Financial Inclusion for Firms: CMSME

Bringing Cottage, Micro, Small and Medium Enterprises (CMSMEs) under formal financing activities is needed for financial inclusion. BB has provided banks with guidelines and prudential regulation to facilitate finance in CMSMEs. Capacity building program is being undertaken for banks and NBFIs in order to enable them to serving the sectors more effectively. A credit guarantee scheme has been undertaken, which will enable MSMEs and women entrepreneurs to get access to finance. Bangladesh Bank has initiated a good number of policies and programs to promote SME financing that include fixing a SME loan disbursement target, formulating cluster development policy; prioritizing the cottage, micro and small women entrepreneurs, adopting separate strategies in financing SMEs and rapid loan approval and disbursement for SCMSMEs.

3.2 Financial Inclusion for Farms: Agricultural and Rural Credit

BB has undertaken Inclusive Agricultural & Rural Credit Policy for ensuring access to finance for those who are engaged in this sector. The major areas of core agricultural and rural credit sector which receive policy support of BB are crop, fisheries, livestock,

[5] The Daily Star, August 19, 2015

agricultural-equipment, irrigation equipment, and poverty alleviation and employment generation activities. Beside the core sector of agricultural credit, BB also encouraged salt cultivation, jute and betel leaf farming, production of mushroom, palm oil, cotton and like others. Initiatives for supporting agricultural activities, women and neglected section of the society and for other productive purposes are shown in Table-3.1.

Table 3.1: Important Initiatives for Bank Based Financing Agricultural Activities, Women Entrepreneurs and Neglected Section of the Society

Initiatives	Description
Effective Use of Bank-MFI Partnership	Banks are encouraged to undertake agricultural and rural credit operations in partnership with the Micro Finance Institutions approved by Micro Credit Regulatory Authority (MRA).
Credit Disbursement through Tk. 10 Farmer's Account	Banks are directed to open no-frill account to bring the farmers under the banking services. These accounts are utilized to receive subsidies, disbursement of credi, including remittances, and other banking services.
Special Credit Program for Women	Banks have been instructed to disburse credit towards women on priority basis for crop production, running agro-processing and agricultural related small business activities.
Credit for the Less Developed and Neglected Areas on Priority Basis	In the Agricultural and rural Credit policy, access to finance for people leaving in less developed and unserved areas has been emphasized. Banks have been advised to give priority to less developed and neglected areas like char, haor and coastal areas for extending agricultural and rural credit.
Climate Change Effect	Banks are recommended to design the credit disbursement and recovery schedule according to the local needs with a view to adapting the adverse of climate change. Side by side, credit should be facilitated for the entrepreneurship to cultivate salt prone crops in salty areas, water tolerating crops in flood prone areas, drought bearing crops in the areas affected by the drought.
Refinance	As a policy support where banks/ MFIs are instructed to disburse agricultural and rural credit at a concessional rate or forced to disburse a certain percentage of total loans as rural and agricultural credit, BB arranges refinance facilities for the participating financial institutions.
Special Refinance Scheme for Share-cropper	BB has arranged a special credit scheme in the FY 2009-10 to disburse credit in a timely, collateral-free manner at comparatively low interest rate through BRAC (MFI) to the sharecroppers. All the scheduled banks Under the 'Agricultural and Rural Credit Policy and Programs' of Bangladesh Bank, are directed to provide agri-credit to the sharecroppers.
Special Prudential Regulations and Monitoring of Agricultural Credit	BB has developed a three-tier monitoring system for ensuring end use, timely release and recovery of agricultural and rural credit. BB also carries out on-site inspection to branches and head offices of banks. BB coordinates with its branch offices and District Agricultural Credit Committee**.** BB also monitors at grass-root level end users using mobile phone. As part of review system, BB issues necessary instructions from time to time.

Source: Bangladesh Bank

3.2.1 Financial Inclusion of Individuals: Policy, Reforms and Product Design Initiatives

Initiatives for the financial inclusion of individual can be considered as very important ones because it is the beginning of full pledge financial inclusion environment. Important initiatives are reviewed in Table-3.2.

Table 3.2: Important Initiatives for Financial Inclusions of Individuals

Initiatives	Descriptions
No-frill Accounts (NFAs)	NFAs require a nominal opening balance. No minimum balance is required and banks do not charge any fees for maintaining these accounts.
Bank Account for Farmers	A bank account can be opened by the farmers with 10 taka at any state-owned commercial bank and specialized banks with minimum formalities.
Bank Accounts for Freedom Fighters	A bank account can be operated by freedom fighter with an initial balance of BDT 10 at any SCBs and SBs.
Bank Accounts for Beneficiaries under Social Safety Net (SSN)	Individuals under SSN can maintain bank account by depositing BDT 10 at SCBs and SBs.
Bank Account for the Garments Workers	Garment's workers can open bank account with 100 taka against national ID card/ ID card issued by respective employer. Banks can use voucher in case of shortage of cheque book. Payment and allowances of garments workers will be payable through this account. Banks have been instructed to report opening and operation of this account to BB in a prescribed form on a quarterly basis.
Ultra-poor Woman and Marginal Tenant Farmer under Food and Livelihoods Security Project of SSN	Beneficiaries of these groups under social safety net program can open bank account with an initial balance of BDT 10 at any SCBs and SBs against national ID card/birth certificate and FLS beneficiary card issued by Department of Woman Affairs. This account is used for disbursing allowance and money given out for purchasing income generating equipment.
School Banking	BB introduced opening of saving accounts for the school students in 2010 with minimum deposit of 100 Taka. As per BB's policy, students of ages between six to eighteen years can open this account.
Agent Banking	BB has introduced "agent banking" aimed at providing financial services to the people living in remote villages.
Financial Literacy	BB has taken steps to provide people with knowledge on various financial services, products and activities of central bank, commercial banks. In these activities, preference has been given to students, women, poor people of rural and city area and senior citizens. BB lunched Social Media Communication Gateway in Bangladesh Bank, which will enable mass people to see the activities of Bangladesh Bank through Facebook, YouTube, and Twitter.

Source: Bangladesh Bank

3.2.2 Financial Inclusion of Individuals: Fintech

Fintech saves more time and cost and creates new alternatives. The central bank plays a vital role in promoting the use of technology through following initiatives.

Table 3.3: Important Initiatives for Fintech

Initiatives	Descriptions
Mobile Financial Service (MFS)	BB has introduced bank-led mobile financial services for massive financial inclusion. At present, different banks are providing mobile financial services including 'bKash', 'Dutch Bangla Mobile Banking', 'mCash', 'MiCash' 'UCash', etc. Notably, BB has earned Alliance for Financial Inclusion (AFI) Policy Award for its successful regulation of mobile financial service.

Initiatives	Descriptions
Bangladesh Automated Clearing House (BACH)	Bangladesh Automated Clearing House (BACH) started automated cheque clearing from 2010 for settling bank cheaques instantly by replacing the manual clearing system. Meanwhile, banks have increased the number of cheque scanning points
Automated Teller Machine (ATM)	Automated Teller Machine (ATM) provides electronic access to customers not only for cash withdrawals but also for a number of other services outside of bank branch.
Internet Banking	Internet banking is being used for making the payment of utility bill, credit card bill, payment of loan installments. A rise in the number of smartphone users will encourage the use of internet banking.

Source: Bangladesh Bank

4. Bank Based Financial Inclusion Initiatives: Achievements in Financial Inclusion for Individuals, Firms and Overall Deepening

Bangladesh Bank, in line with the Government vision, has undertaken several policies; reforms and product design initiatives as mentioned above for attaining bank based financial inclusion. This section examines to what extent these initiatives are successful in achieving financial inclusion for individuals, firms, and finally, its deepening at all levels.

4.1 Financial Inclusion for Individuals

Having access to a transaction account of banks by an individual is a first step towards broader financial inclusion. As a bank account primarily allows people to save money, and send and receive payments, it serves as a gateway to other financial services. Depending on policy supports, reforms and product design of Bangladesh Bank, banks have implemented several initiatives to attain financial inclusion for individuals starting from No-Frill Accounts to technology-based delivery channels. This section examines the effectiveness of these measures in accomplishing financial inclusion for individuals.

4.1.1 Financial Inclusion for Individuals: No-Frill Accounts (NFAs)

4.1.1.1 Financial Inclusion for Individuals: Trend of NFAs

NFAs are playing a significant role in offering formal financial services to marginal individuals. Apart from receiving safety net allowances, these accounts are also being increasingly used for savings and loans (Bangladesh Bank, 2020). A total number of 20,520,100 NFAs have been opened by all banks as of 2019 with CAGR of 7 percent which is encouraging. Among various categories of No-Frill Accounts, Farmers' Accounts[6] remain the major category of NFAs over the years, contributing almost 50 percent in total NFAs accounts. The number of Social Safety Net (SSN) programme is the second highest NFAs which increased by 9.3 percent during 2015-2019. It implies that BB's initiatives in

[6] Bangladesh Bank (BB) has introduced Tk. 10 Farmers' Accounts in 2010 as one of the most significant financial inclusion initiatives to bring rural mass living on agriculture under the umbrella of formal financial services.

opening NFAs, a first step in attaining true financial inclusion, have been successfully contributing to the inclusion of illiterate and semi-literate people under banking services.

Table 4.1: Financial Inclusion for Individuals: Trend of No-Frill Accounts

(Number in Thousands)

Year	Social Safety Net (SSN) Programme	Employment Generation Program for the Poorest	Freedom Fighters	Farmer's Account	Others[7] 10, 50, 100 Taka Accounts	Total
2015	3,920.1	2,041.6	191.4	8,933.9	586.2	15,673.2
2016	4,249.7	2,202.6	216.8	9,043.6	758.2	16,470.9
2017	4,580.6	2,272.9	201.0	9,238.0	777.1	17,069.6
2018	5,062.2	2,579.2	206.1	9,686.8	944.0	18,478.4
2019	5,600.7	2,662.2	247.5	10,186.6	1,823.2	20,520.1
CAGR	9.3%	6.9%	6.6%	3.3%	32.8%	7.0%
CV	0.13	0.10	0.09	0.05	0.45	0.10

Source: Quarterly Report on Financial Inclusion, Bangladesh Bank

4.1.1.2. Financial Inclusion for Individuals: Bank-wise NFA (Excluding Farmers' Accounts)

At the end of 2019, SCBs and SBs together opened almost 1 crores NFAs for under privileged people (Table-4.2). Under this initiative, all SCBs and SBs, except Rupali Bank, BDBL and BASIC, expanded NFAs among unbanked people profoundly. The contribution of Sonali Bank Ltd. is significantly high with almost 37 per cent of total.

Table 4.2: NFAs (Excluding Farmers' Account) with SCBs and SBs-2019

Banks*	Beneficiaries under Social Safety Net Program (in Thousands)	Employment Generation Program for the Poorest (in Thousands)	Freedom Fighters (in Thousands)	Others 10, 50, 100 Taka Accounts (in Thousands)	Total (in Thousands)
SBL	2,626.6	642.1	228.7	352.1	3,849.5
ABL	895.4	498.1	9.0	429.7	1,832.2
JBL	794.5	339.2	1.6	62.2	1,197.4
RBL	2.9	205.5	2.4	17.9	228.7
BDBL	0.9	0.9	0.0	1.9	3.6
BASIC			0.1	5.9	6.0
BKB	833.1	583.1	2.7	57.5	1,476.4
RAKUB	375.3	368.0	0.1	59.5	803.0
Others	72.1	25.3	2.9	836.5	936.7
Total	**5,600.7**	**2,662.2**	**247.5**	**1,823.2**	**10,333.5**

Source: Quarterly Report on Financial Inclusion, Bangladesh Bank
Note: *Top banks in opening NFA are considered only.

4.1.2 Financial Inclusion for Individuals: School Banking

4.1.2.1 Financial Inclusion for Individuals: School Banking Accounts

School banking is an excellent idea for financial inclusion enabling students to learn about banking during their childhood and to build savings habit from an early age. This also

[7] Others include accounts for garments workers, cleaners of city corporations, handicapped people, etc.

provides sources of long terms funds to banks which can be used for long-term lending like housing finance. A superb growth of school banking proves its effectiveness in financial inclusion at individual levels (Table-4.3). PCBs' contribution is the highest in school banking expansion, followed by SCBs. A relatively high Coefficient of Variation (CV) indicates variability in covering students in school banking in different years.

Table 4.3.: Financial Inclusion for Individuals: School Banking

Year	Number (in Thousands)					Share (%)			
	SCBs	SBs	PCBs	FCBs	Total	SCBs	SBs	PCBs	FCBs
2011	0.4	0.6	27.8	0.3	29.1	1.2	2.2	95.7	0.9
2012	2.0	1.8	128.4	0.4	132.5	1.5	1.3	96.9	0.3
2013	27.2	33.0	235.2	0.5	295.8	9.2	11.2	79.5	0.2
2014	166.9	130.8	551.3	1.3	850.3	19.6	15.4	64.8	0.1
2015	303.1	122.7	607.6	1.6	1,035.0	29.3	11.9	58.7	0.2
2016	386.5	132.3	736.8	1.7	1,257.4	30.7	10.5	58.6	0.1
2017	424.3	138.7	889.0	2.0	1,453.9	29.2	9.5	61.1	0.1
2018	457.3	131.2	1,227.6	2.3	1,818.4	25.1	7.2	67.5	0.1
2019	495.6	135.3	1,359.4	2.7	1,992.9	24.9	6.8	68.2	0.1
CAGR	147.3%	95.4%	62.6%	33.9%	69.6%				
CV	0.77	0.62	0.69	0.58	0.69				

Source: Quarterly Report on School Banking, Bangladesh Bank

4.1.2.2 Financial Inclusion for Individuals: Rural and Urban School Banking Accounts

The share of school banking in rural areas was 37.1 percent in 2019, indicating that a substantial portion of students even in village areas is coming under financial inclusion initiatives side by side with urban students (Table-4.4). This is also supported by the higher growth rate of rural school banking compared to urban school banking. However, dominance of urban school banking with 62.9 per cent share demands that banks should give additional efforts to bring more rural students under financial services.

Table 4.4: Financial Inclusion for Individuals: Rural and Urban School Banking Accounts

Year	Number of Urban School Banking Account		Number of Rural School Banking Account		Share (%)	
	Number (in Thousands)	Growth (%)	Number (in Thousands)	Growth (%)	Urban	Rural
2014	542.5		307.8		63.8	36.2
2015	643.4	18.6	391.5	27.2	62.2	37.8
2016	783.6	21.8	473.8	21.0	62.3	37.7
2017	889.0	13.5	564.9	19.2	61.1	38.9
2018	1,144.2	28.7	674.2	19.3	62.9	37.1
2019	1,254.5	9.6	738.4	9.5	62.9	37.1
CAGR	18.3%		19.1%			
CV	0.29		0.29			

Source: *Quarterly Report on Financial Inclusion and School Banking*, Bangladesh Bank

4.1.2.3 Financial Inclusion for Individuals: Gender-wise School Banking Accounts

Insofar as gender wise school banking is concerned, the findings are highly encouraging. The share of female school banking is substantial among the total number of students under school banking (Table-4.5). Additionally, the growth rate of female student is higher than the male students. School banking is, therefore, increasingly deepening among female students also.

Table 4.5: Financial Inclusion for Individuals: Gender-wise School Banking Accounts

Year	Number of Male School Banking Account		Number of Female School Banking Account		Share (%)	
	Number (in Thousands)	Growth (%)	Number (in Thousands)	Growth (%)	Male	Female
2017	852.1		601.8		58.6	41.4
2018	1,064.5	24.9	753.9	25.3	58.5	41.5
2019	1,160.5	9.0	832.4	10.4	58.2	41.8
CAGR	16.7%		17.6%			
CV	0.13		0.13			

Source: *Quarterly Report on Financial Inclusion and School Banking,* Bangladesh Bank

4.1.3 Financial Inclusion for Individuals: Agent banking

Agent banking is one of the most useful channels for individual financial inclusion, when it comes to providing financial services to poor or extreme poor. Agent banking is offering cash deposits and withdrawals, transfer of fund, loan payments, payment of benefits and salaries, and collection of account and loan applications. This was introduced in Bangladesh aimed at providing formal banking services to population traditionally been more inaccessible to banking. Although the mind-set of the rural people in keeping trust and maintaining reliability on agent banking outlets is a barrier in spreading agent banking, this initiative is expanding quickly among individuals because of the availability and easy access to finance. The tremendous growth rates of the number of agents (176.5%) and clients (225%) indicate how fast poor individuals are availing of banking services from agent banking units (Table-4.6). This overwhelming bank based individual financial inclusion picture is also supported by the spiraling growth rates in the number and volume of banking transaction under agent banking unit.

Table 4.6: Financial Inclusion for Individual: Agents, Clients, Transactions and Volume

Year	Agent		Client		Number of Transactions		Volume of Transactions	
	Number	Growth (%)	Number (in Thousands)	Growth (%)	Number (in Million)	Growth (%)	Volume (in Billion BDT)	Growth (%)
2014	49		14.5		0.2		3.0	
2015	208	324.5	97.0	570.2	2.1	769.9	35.8	1089.7
2016	2,334	1,022.1	525.1	441.2	6.8	220.1	125.6	250.8
2017	2,577	10.4	1,214.6	131.3	15.4	127.6	350.9	179.5
2018	4,506	74.9	2,456.8	102.3	32.1	108.2	848.7	141.9
2019	7,914	75.6	5,257.8	114.0	66.2	106.3	1914.3	125.5
CAGR	176.5%		225.1%		206.9%		263.7%	
CV	0.92		1.15		1.13		1.24	

Source: *Monthly Economic Trends,* Bangladesh Bank

4.1.4 Financial Inclusion for Individuals: Fintech

Technology-based business model plays a key role in Bangladesh bank's policies to enhance financial inclusion. BB policies encourage banks to reach out to distant communities with fintech, and consequently, immense progress has been observed regarding use of fintech for individual financial inclusion. It lowers overhead costs; and allows banks to serve the customers who are not being fully covered by the traditional bank based financial services or are completely unbanked. As a result, both banks and customers are incentivized for offering and availing of agent banking services.

4.1.4.1 Financial Inclusion for Individual: Mobile Financial Service (MFS[8])

Mobile banking and payment technologies assist banks to provide basic financial services to previously unbanked clients and locations. Table-4.7 shows the enormous success of MFS in individual financial inclusion. It is noteworthy that share of rural MFS is almost double compared to urban MFS account, implying that fintech is very effective in rural financial inclusion. The transactions grew with CAGR of 219.6 from 2011 to 2019 which is simply phenomenal. In case of volume, CAGR during the same period (276.3%) exceeds even that of number of transactions. The clients' growth rate also supports this exceptionally upward trend in all years, except in 2018 and 2019 due to the requirement of mobile SIM registration.

Table 4.7: Financial Inclusion for Individual: MFS

Year	Transactions		Volume		MFS Client		Share of MFS Account	
	Number (in Millions)	Growth (%)	In Billion BDT	Growth (%)	Number Per 100,000 Population	Growth (%)	Urban	Rural
2011	0.2		0.5		83.8			
2012	9.9	4,231.5	63.8	13,305.9	696.1	730.3	NA	NA
2013	229.0	2,202.5	516.6	709.5	8,395.3	1,106.0	NA	NA
2014	547.6	139.2	1,030.9	99.6	15,537.6	85.1	NA	NA
2015	1,239.1	126.3	1,706.6	65.5	21,717.3	39.8	NA	NA
2016	1,471.3	18.7	2,343.4	37.3	25,670.5	18.2	NA	NA
2017	1,872.9	27.3	21,285.5	808.3	36,338.8	41.6	NA	NA
2018	2,270.0	21.2	81,817.6	284.4	41,490.4	14.2	34.8	65.2
2019	2,500.0	10.1	19,157.6	(76.6)	37,070.7	(10.7)	37.4	62.6
CAGR	219.6%		276.3%		114.1%		27.1%	13.1%
CV	0.81		1.77		0.73			

Source: Financial Access Survey, Bangladesh Bank.

4.1.4.2 Financial Inclusion for Individuals: Internet Banking

The development of internet banking encourages people to do virtual banking activities for account inquiry, funds transfer, electronic bill presentation and payment even from remote areas. In addition to urban people, individuals involved in agri-business and SME business

[8] Bangladesh Bank issued "Guidelines on Mobile Financial Services (MFS) for the Banks" on 22 September 2011 which was subsequently amended on 20 December 2011.

are gradually using internet banking. The soaring growth rates of number and volume of transactions increased almost threefold within 6 years, and show how effective it is in so far as financial inclusion is concerned; and it penetrates traditional branch-based banking activities (Table-4.8).

Table 4.8: Financial Inclusion for Individuals: Internet Banking

	Number of Transaction		Volume of Transaction	
Year	**Number in Million**	**Growth (%)**	**Volume in Billion BDT**	**Growth (%)**
2014-15	5.9		183.6	
2015-16	7.5	27.2	255.2	39.0
2016-17	7.1	-4.6	357.5	40.1
2017-18	8.4	18.4	328.4	-8.1
2018-19	11.7	39.1	476.2	45.0
2019-20	19.9	69.9	715.6	50.3
CAGR	27.7%		31.3%	
CV	0.47		0.45	

Source: *Monthly Economic Trends*, Bangladesh Bank

4.1.4.3 Financial Inclusion for Individuals: Debit and Credit Card

Electronic payment instruments such as credit and debit cards have gained wide popularity in banking transactions, substituting money-based transaction, indicating financial inclusion in Bangladesh (Table-4.9). However, this is mostly confined among urban individuals, as it is evident from the share of ATM in urban and rural areas. A significant growth rate of debit and credit card per 100,000 population indicates its extensive acceptability among individuals.

Table 4.9: Financial Inclusion for Individual: Debit Card and Credit Card

	Debit Card		Credit Card		Share of ATM	
Year	**Number Per 100,000 Population**	**Growth (%)**	**Number Per 100,000 Population**	**Growth (%)**	**Rural (%)**	**Urban (%)**
2014	5,005.6		401.6		NA	NA
2015	5,460.7	9.1	392.9	(2.2)	NA	NA
2016	7,997.8	46.5	592.0	50.7	NA	NA
2017	9,215.8	15.2	635.1	7.3	NA	NA
2018	10,061.8	9.2	742.8	17.0	71.6	28.4
2019	11,843.7	17.7	864.4	16.4	70.2	29.8
CAGR	18.8%		16.6%			
CV	0.31		0.30			

Source: Financial Access Survey, Bangladesh Bank

4.2 Financial Inclusion for Firms/ Farms

Financial inclusion for firms and farms refers to bringing Cottage, Micro, Small and Medium Enterprises (CMSMEs) and agriculture sector under formal sources of financing. Cottage, microenterprises and agriculture sector often need relatively small amount of loans that are managed by borrowing from Micro Finance Institutions (MFIs), family members, friends and other informal money lenders. On the other hand, SMEs need relatively larger amount of loans that they may take from banks and financial institutions. BB has taken a number of steps covering policy, reforms and funding initiatives[9] for financial inclusion for CMSME sand farms. This section examines the outcome of these initiatives in terms of growth of enterprises brought under SME financing, status of gender-wise SME entrepreneurs, sector wise share of CMSME credit and so on.

4.2.1 SME Credit by Banks: SME Financing to Enterprises

The results show that growth of new enterprise was remarkable in 2013. Afterwards, it maintained positive growth till 2016 but it recorded either a negative growth or a very tiny positive growth trend during 2017-2019. Supports given for financial inclusion for firms create a substantial number of new enterprises. Impressive CAGR also supports this statement (Table-4.10). However, after commencing business, exit rate is not small at all. Negative growth rates in 2017 and 2018 and moderately high CV document this finding. It implies that financial inclusion is not alone sufficient for the survival of enterprises. Infrastructure development, state-of-the art technology also matter for the growth of SME enterprises.

Table 4.10: SME Financing to Enterprises

Year	Number In Thousands	Growth (%)
2012	25.3	
2013	63.0	149.0
2014	79.6	26.3
2015	117.5	47.6
2016	133.4	13.6
2017	132.8	-0.5
2018	122.4	-7.8
2019	122.5	0.1
CAGR	**25.3%**	
CV	**0.37**	

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.2 SME Financing: Gender wise Entrepreneur

Globally, more than 30 percent of Small and Medium-sized Enterprises (SMEs) in emerging markets are owned by women (Al-Muti & Warren, 2017). In Bangladesh, only 7 percent enterprises are owned by females, extremely low compared to international average (Table-4.11). Additionally, there is a wide disparity in growth of SME entrepreneurs owned by both male and female. This signifies that irrespective of gender, SME entrepreneurs face difficulties in continuing their business. Key difficulties include

[9]BB notable initiatives relating to CMSME sector are credit disbursement target, sector-wise CMSME distribution, fixing maximum credit limits for various types of CMSMEs, excluding 'trading industry' from medium and cottage category, introducing one (01) year grace period for term loan, medium to long term loan , quarterly monitoring meeting with SME heads of banks , establishment of CMSME monitoring cell in BB branches, performing three stages SME monitoring by banks and NBFIs, launching new Entrepreneurs Refinance Scheme in CMSE sector and expediting cluster based financing to CMSMEs.

lack of overall knowledge about business opportunities, hesitation in getting loan from a commercial bank, high lending rate, complex formalities, and lack of understanding about the banking services. However, these barriers might be more pronounced in case of female entrepreneurs.

Table 4.11: SME Financing: Gender-wise Entrepreneurs

Year	Male		Female		Share (%)	
	Number (in Thousands)	Growth (%)	Number (in Thousands)	Growth (%)	Male	Female
2010	288.3		13.267		95.6	4.4
2011	294.8	2.24	16.05	20.97	94.8	5.2
2012	438.3	48.66	16.476	2.65	96.4	3.6
2013	695.4	58.66	40.821	147.76	94.5	5.5
2014	487.6	-29.88	41.018	0.48	92.2	7.8
2015	520.7	6.79	184.235	349.15	73.9	26.1
2016	575.3	10.46	31.436	-82.93	94.8	5.2
2017	669.8	16.42	42.228	34.33	94.1	5.9
2018	611.3	-8.73	49.512	17.24	92.5	7.5
2019	699.1	14.36	52.247	5.52	93.0	7.0
CAGR	10.3%		16.5%			
CV	0.16		0.86			

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.3 CMSME Credit by Banks: Sector-wise Financing

Banks, as per the directions of BB, have endeavored to increase funding to CMSMEs. Of total credit to CMSME sector, the share of financing to small enterprises is the highest. The amount of loan given to small enterprises has also increased significantly during 2010-2019, as evident from CAGR. But, the negative growth of finance to cottage industry goes against financial inclusion (Table-4.12). The ranges of CV from 0.23 to 0.45 in different sectors indicate inconsistency in banks' finances, which may create barriers toward progress of financial inclusion for firms.

Table 4.12: CMSME Credit by Banks: Sector-wise Share of Credit

Year	Amount (Billion BDT)				Share (%)			
	Cottage	Micro	Small	Medium	Cottage	Micro	Small	Medium
2010	NA	NA	222.0	296.5	NA	NA	42.8	57.2
2011	NA	NA	248.6	272.1	NA	NA	47.7	52.3
2012	NA	NA	368.5	314.1	NA	NA	54.0	46.0
2013	NA	NA	430.3	404.1	NA	NA	51.6	48.4
2014	NA	NA	507.1	473.2	NA	NA	51.7	48.3
2015	20.5	104.0	475.8	521.3	1.8	9.3	42.4	46.5
2016	22.0	150.3	561.2	628.3	1.6	11.0	41.2	46.1
2017	26.9	215.5	713.7	581.4	1.7	14.0	46.4	37.8
2018	18.4	179.0	889.6	436.5	1.2	11.7	58.4	28.7
2019	12.4	156.4	978.5	464.8	0.8	9.7	60.7	28.8
CAGR	-11.8%	10.8%	17.9%	5.1%				
CV	0.24	0.23	0.45	0.26				

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.4 SME Credit by Banks: Disbursed Amount of Credit and Growth

As easy access to finance is crucial for SMEs to survive and grow beyond their SME status, sufficient SME finance is considered as a vital indication of financial inclusion for firms. Bank credit to SME sector witnessed a CAGR of 13.4 percent (Table-4.13). Considering year to year growth, considerable growth was observed till 2016, afterwards an ordinary growth or even a negative growth rate was also noticed.

Table 4.13: SME Credit by Banks: Disbursed Amount of Credit and Growth

Year	Disbursement (Billion BDT)	Growth (%)
2010	518.5	
2011	520.7	0.4
2012	682.6	31.1
2013	834.4	22.2
2014	980.3	17.5
2015	1121.5	14.4
2016	1361.8	21.4
2017	1537.6	12.9
2018	1523.5	-0.9
2019	1612.2	5.8
CAGR	13.4%	
CV	0.38	

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.5 SME Credit by Banks: Disbursement as Percentage to Indicative Target

After the BB initiated target–based lending to CMSMEs in 2010, banks and NBFIs have been disbursing credit to CMSMEs as per the target set in the beginning of the calendar year. All banks, on average, disbursed loan more than their indicative target in all planned years. In terms of bank- group-wise, the picture was very encouraging in 2010. Afterwards, only PCBs reached above the target level, but the remaining groups of banks remained behind their target level in most of the years (Table-4.14). Therefore, banks need to first prepare a rational, achievable target, and subsequently they need to put all efforts to achieve this target.

Table 4.14: SME Credit by Banks: Actual Disbursement as Percentage to Indicative Target

Year	SCB (%)	SB (%)	PCB (%)	FCB (%)	All Banks (%)
2010	148.0	222.7	134.3	155.0	139.5
2011	54.2	76.2	104.3	103.7	95.5
2012	77.0	90.3	128.6	129.8	121.2
2013	88.5	66.3	124.5	87.5	116.4
2014	104.9	52.9	122.3	68.2	115.6
2015	88.0	44.9	115.3	133.7	111.1
2016	83.2	98.6	134.1	57.3	126.0
2017	77.8	95.3	127.8	126.3	121.4

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.6 SME Credit by Banks: SME Loan Outstanding to Total Loan Outstanding

The share of SME lending in the total outstanding loan of all banks ranges between 18.9 percent and 25.5 percent[10]. But, the SME lending has been showing decreasing trend in all groups of banks, except PCBs. This can be explained partly by the cap of advance-deposit ratio of SCBs, conservative approach of banks in lending, the state of financial sector infrastructure in rural and sub-urban areas and the lack of enabling environment. As per MOU, advance in current year cannot exceed more than 10 percent of the previous year. SCBs can lend up to the AD ratio fixed as per MOU with BB. Additionally, they prefer to follow conservative approach in lending because of few recent scams. FCBs city-based infrastructure and preference to give large loan confine them to a limited exposure in SME lending. Noteably, a lower share of the loan portfolio is still a sizable number of investments in SME because of relatively small size of loan to huge number of entrepreneurs. PCBs' relationship banking, strong monitoring approach and innovative products mostly contribute in providing substantial amount of SME lending.

Table 4.15: SME Loan Outstanding to Total Loan Outstanding

Year	SCB (%)	SB (%)	PCB (%)	FCB (%)	All Banks (%)
2010	31.8	20.6	19.1	10.2	21.5
2011	28.6	20.7	19.8	9.9	21.2
2012	18.2	26.4	25.3	8.9	22.9
2013	18.4	29.7	27.1	9.5	24.7
2014	20.0	29.1	27.6	7.8	25.5
2015	26.2	6.4	26.0	7.7	24.5
2016	24.1	3.6	26.4	8.5	24.6
2017	22.1	4.1	19.2	7.7	18.9
2018	17.5	5.1	20.8	5.8	19.2
2019	20.2	6.4	21.5	5.8	20.3

Source: *Quarterly Statement of SME Loan Disbursement*, Bangladesh Bank

4.2.7 Agriculture Credit by Banks: Agriculture Loan to Total Loan Outstanding

Agriculture financing is critical in increasing the financial penetration and inclusion. Despite BB's supports in the form of regulations, reforms and instruments, agriculture financing compared to total financing is quite negligible, ranging from 4.4 percent to 5.7 percent during 2010-2019.

Table 4.16: Agriculture Credit by Banks: Agriculture Loan to Total Loan Outstanding

Year	Share of Agriculture Financing to Total Financing
2010	5.7
2011	5.6
2012	4.9
2013	5.6
2014	5.1

[10] CMSME credit disbursement target has been revised to be increased to 25 per cent by 2021 with minimum 1 per cent increment in each year (*Annual Report 2018-2019*, Bangladesh Bank).

Year	Share of Agriculture Financing to Total Financing
2015	5.4
2016	5.1
2017	5.2
2018	4.6
2019	4.4

Source: *Scheduled Bank Statistics*, Bangladesh Bank

4.3 Financial Inclusion Deepening: Driver and Facts

4.3.1 Bank Branch: Urban, Rural, Fully Online Branch, Partially Online and Fully Offline

Bank branches density provides a rough proxy for financial inclusion (Global Financial Development Report, 2014). More branches in rural areas as opposed to urban areas apparently indicate financial inclusion in rural areas. Bank branches in rural areas declined from 57.4 percent in 2010 to 48.5 percent in 2019, despite the central bank's initiatives to ensure rural people's access to finance[11]. In contrast, the share of bank branches in urban areas increased by 8.9 percent between 2010 and 2019 (Table-4.17). More than half (51.5%) of the branches serve less than two-fifths (37.4%) of the population, whereas the remaining bank branches serve over three-fifths (62.6%) of the population in rural areas[12]. The share of online branch (88.4%) 2019 raises hope for quick expansion of bank based financial services for mass people across the country in future.

Table 4.17: Bank Branches: Urban, Rural, Fully Online, Partially Online and Fully Offline

Year	Share of Urban and Rural Based Branch (%)		Share of Online and Offline Branch (%)		
	Urban	Rural	Fully Online Branch	Partially Online Branch	Offline Branch
2010	42.6	57.4	NA	NA	NA
2011	42.8	57.2	NA	NA	NA
2012	42.8	57.2	NA	NA	NA
2013	42.9	57.1	NA	NA	NA
2014	43.0	57.0	NA	NA	NA
2015	43.2	56.8	NA	NA	NA
2016	43.4	56.6	NA	NA	NA
2017	43.5	56.5	NA	NA	NA
2018	51.5	48.5	82.4%	11.6%	6.0%
2019	**51.5**	**48.5**	**88.4%**	**7.1%**	**4.6%**

Source: *Scheduled Bank Statistics*, Bangladesh Bank

4.3.2 Deposits in Banks: Share of Urban and Rural by Types of Banks

Access to basic financial services can make a considerable difference in improving poor people's lives (Dupas & Robinson, 2009). The share of rural deposits has been steadily increasing, indicating that more rural people are now coming under formal financial

[11] To bring more rural people under banking services, Bangladesh Bank adopted a policy allowing PCBs to open branches 1:1 in urban and rural areas in place of 4:1 permitted in 2006 with a new definition of urban areas (city corporation, municipalities, the suburbs will be considered as urban areas).

[12] As per World Bank collection of development indicators, rural population (% of total population) in Bangladesh was reported at 62.6 % in 2019.

services at least for saving purpose. However, PCBs' contribution could have been more in increasing the share of rural deposits, as it is holding relatively less share of rural deposits.

Table 4.18: Deposits in Banks: Share of Urban and Rural by Types of Banks

Year	SCBs		SBs		PCBs		FCBs	All Banks	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Urban	Rural
2010	79.6	20.5	67.1	32.9	90.4	9.6	100.0	86.8	13.2
2011	80.3	19.7	69.4	30.6	89.3	10.7	100.0	86.8	13.2
2013	65.1	34.9	73.8	26.2	87.8	12.2	100.0	81.7	18.3
2014	65.0	35.0	70.5	29.5	86.9	13.1	100.0	80.9	19.1
2015	67.4	32.6	51.7	48.3	85.7	14.3	100.0	80.2	19.8
2016	66.0	34.0	51.2	48.8	85.3	14.7	100.0	79.5	20.5
2017	65.6	34.4	50.8	49.2	85.1	14.9	100.0	79.4	20.6
2018	66.1	33.9	50.6	49.4	84.4	15.6	100.0	79.4	20.6
2019	65.2	34.8	49.9	50.1	84.0	16.0	100.0	79.1	20.9

Source: *Scheduled Bank Statistics*, Bangladesh Bank

4.3.3 Household Deposit Volume: Male and Female Participation

Women are inherent savers. However, rural women often face barriers to access a safe place to save due to unavailability of bank branches in their nearest areas as well as low levels of their financial literacy. They are often forced to save at home in a drawer or under a mattress. The snowballing share and growth rate of female deposits clearly show that females increasingly prefer to save money in banks, a positive indicator for financial inclusion (Table-4.19). However, the number of total deposit accounts (59.9 + 29.4 = 89.3 million) is not inspiring in the perspective of financial inclusion as almost 50 percent of the total population does not have deposit accounts in banks which is worse in case of female depositors. Notably, if somebody considers multiple accounts for a single person, the total number of depositors may come down.

Table 4.19: Household Deposit Volume: Male and Female Participation

Year	Outstanding Household Deposit (in Billion BDT)				Share (%)		Number of Depositors (in Million)	
	Male	Growth (%)	Female	Growth (%)	Male	Female	Male	Female
2015	2,168.6		798.7		73.1	26.9	28.6	11.7
2016	2,285.3	5.4	977.8	22.4	70.0	30.0	29.7	13.5
2017	3,653.7	59.9	1,454.0	48.7	71.5	28.5	48.7	22.3
2018	4,040.7	10.6	1,519.6	4.5	72.7	27.3	53.3	27.2
2019	4,346.7	7.6	1,823.2	20.0	70.4	29.6	59.9	29.4
CAGR	19.0%		22.9%				20.3%	25.8%
CV	0.27		0.28				0.29	0.34

Source: *Financial Access Survey*, Bangladesh Bank

4.3.4 Division wise Distribution of Deposits

Deposit is heavily concentrated in Dhaka division, followed by Chittagong division. The remaining divisions have, on an average, from 16 percent to 17 percent share of total deposits during the 2010-2019 period, indicating that share in deposits of different divisions did not change with the passage of time (Table-4.20). The regional wide variations of the banking services are not in line with the deeper financial inclusion.

Table 4.20: Division-wise Distribution of Deposit

Year	Share of Total Deposit Among Divisions (%)							
	Dhaka	Chattogram	Rajshahi	Khulna	Barishal	Sylhet	Rangpur	Mymensingh
2010	64.8	19.2	3.9	4.2	1.6	4.6	1.8	NA
2011	64.5	19.4	3.9	4.1	1.7	4.6	1.8	NA
2012	64.4	19.6	3.8	4.1	1.7	4.6	1.9	NA
2013	64.4	19.7	3.8	4.1	1.8	4.5	1.8	NA
2014	63.5	20.0	4.0	4.3	1.8	4.5	1.8	NA
2015	62.0	20.2	3.9	4.3	1.8	4.4	1.9	1.4
2016	60.8	21.1	4.1	4.4	1.9	4.2	2.1	1.5
2017	60.8	21.6	4.0	4.3	1.9	4.0	1.9	1.4
2018	61.3	21.5	3.9	4.2	1.9	3.9	1.9	1.4
2019	61.3	21.4	4.0	4.3	1.9	3.8	1.9	1.5

Source: *Scheduled Bank Statistics*, Bangladesh Bank

4.3.5 Loans and Advances of Banks: Share of Urban and Rural by Types of Banks

The share of loan amount with banks in rural areas has been slowly increasing during 2010-2019. Also, the pace of availing loan facility in the rural areas is not as same as that of keeping deposits (Tables-4.19 and 4.21). Further, a wide dispersion has been observed among banks in financing structure of rural versus urban areas across the country. PCBs have increased their share of rural financing from 4.1 percent to only 5.9 percent between 2010 and 2019 which is lower than share of loans and advances in rural areas achieved by all groups of banks (Table-4.21). It is worthwhile to mention that PCBs' initiatives for financial inclusion are more important than other groups of banks as they hold 67 percent share of total banking industry assets in Bangladesh. But, it is not happening. Further, the contribution of FCBs in financial inclusion is almost nil.

Table 4.21: Loans and Advances of Banks: Share of Urban and Rural by Types of Banks

Year	SCBs		SBs		PCBs		FCBs	All Banks	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Urban	Rural
2010	90.4	9.6	56.1	43.9	95.9	4.1	100.0	92.2	7.8
2011	90.3	9.7	57.3	42.7	95.7	4.3	100.0	92.3	7.7
2012	43.8	56.2	63.4	36.6	95.3	4.7	100.0	77.1	22.9
2013	78.7	21.3	60.3	39.7	95.2	4.8	100.0	89.8	10.2
2014	79.8	20.2	58.0	42.0	94.9	5.1	100.0	89.8	10.2
2015	82.0	18.0	39.4	60.6	94.5	5.5	100.0	90.1	9.9
2016	81.3	18.7	37.3	62.7	94.0	6.0	100.0	89.8	10.2
2017	80.5	19.5	33.6	66.4	93.3	6.7	100.0	89.4	10.6
2018	78.0	22.0	33.7	66.3	94.1	5.9	100.0	89.6	10.4
2019	78.8	21.2	33.2	66.8	94.1	5.9	100.0	89.7	10.3

Source: *Scheduled Bank Statistics*, Bangladesh Bank.

4.3.6 Household Loan Volume: Male and Female Participation

The gains in financial inclusion are not being equally shared till now by males and females, particularly in case of taking loans. Male borrowers enjoy 85.5 percent of total outstanding household loan, whereas this is only 14.5 percent for female borrowers (Table-4.22). The same poor picture delineating gender gap has also depicted in case of number of household borrowers. Despite the compelling reasons for women generally taking loans in the name of male member(s) in a family, awareness is needed to ensure that this large segment of the society can be a substantial part of this ongoing financial inclusion initiatives.

Table 4.22: Household Loan Volume: Male and Female Participation

Year	Outstanding Household Loan (in Billion BDT)				Share (%)		Number of Household Borrower (in Million BDT)	
	Male	Growth (%)	Female	Growth (%)	Male	Female	Male	Female
2015	464.4		90.3		83.7	16.3	4.5	1.0
2016	601.1	29.4	85.6	-5.2	87.5	12.5	4.8	0.5
2017	940.7	56.5	157.4	83.9	85.7	14.3	6.8	0.8
2018	1,069.7	13.7	172.1	9.3	86.1	13.9	7.1	0.8
2019	1,104.7	3.3	187.1	8.7	85.5	14.5	7.1	0.8
CAGR	24.2%		20.0%				12.2%	-4.0%
CV	0.31		0.31				0.19	0.20

Source: *Financial Access Survey*, Bangladesh Bank

4.3.7 Division-wise Distribution of Loans and Advances

Advances are excessively concentrated as usual in Dhaka and Chittagong divisions. Surprisingly, the shares of division wise advances have remained almost the same over the years. For example, Rajshahi division had exactly the same share of total advances i.e. 3.7 percent of total advances in both 2010 and 2019 (Table-4.23). It may be noted that since most business owners stay in Dhaka and Chattogram divisions, loans taken by them for businesses situated in other divisions are also shown as loans taken from Dhaka and Chattogram. However, this figure is not large. Although a holistic approach for creating a conducive environment for business in all divisions is required to enhance the shares of advances, banks may also give strong drive to inject more money to the divisions which is lagging behind[13].

Table 4.23: Division-wise Distribution of Loans and Advances: Share of Each Division

Year	Share of Total Advance among Divisions (%)							
	Dhaka	Chattogram	Rajshahi	Khulna	Barishal	Sylhet	Rangpur	Mymensingh
2010	66.6	19.9	3.7	4.9	1.0	1.7	2.2	NA
2011	66.8	19.9	3.8	4.6	1.1	1.6	2.3	NA
2012	67.1	20.0	3.8	4.4	1.0	1.5	2.2	NA
2013	67.2	19.8	3.9	4.2	1.1	1.5	2.3	NA
2014	67.4	19.3	3.9	4.2	1.2	1.5	2.4	NA

[13] Our experience suggests an increasing demand with the availability of financing in remote areas.

Year	Share of Total Advance among Divisions (%)							
	Dhaka	Chattogram	Rajshahi	Khulna	Barishal	Sylhet	Rangpur	Mymensingh
2015	67.4	19.4	4.0	4.3	1.1	1.4	2.4	1.5
2016	66.2	19.0	4.0	4.2	1.1	1.4	2.5	1.5
2017	66.2	18.8	4.0	4.1	1.3	1.6	2.4	1.6
2018	67.6	18.6	3.8	4.0	1.1	1.2	2.3	1.4
2019	67.7	18.8	3.7	3.9	1.1	1.1	2.3	1.4

Source: *Scheduled Bank Statistics*, Bangladesh Bank

4.3.8 Deposits and Loan Accounts: Per 10, 00,000 Population and Concentration Ratio

People are availing of banking services considerably more for keeping deposit (almost 10 times higher) than for loan services (Table 4.24). Also, loan accounts have remained almost the same over the years, while deposits accounts almost doubled. In discourse of Herfindahl-Hirschman (HHI) index, practically same findings have come out. The calculated HHI for both deposits and advances was higher than 2500, indicating high concentration of both deposits and advances.

Table 4.24: Deposits and Loan Accounts: Per 10,00,000 Population and Concentration Ratio

Year	Number per 1000,000 Population				HHI	
	Deposit A/C	Growth (%)	Loan A/C	Growth (%)	Deposit	Advances
2010	33,391.0		6,255.7		4,628	4,874
2011	37,126.4	11.2	6,382.4	2.0	4,598	4,897
2012	39,707.3	7.0	6,421.2	0.6	4,588	4,938
2013	42,723.8	7.6	6,639.6	3.4	4,591	4,953
2014	44,934.7	5.2	6,206.4	-6.5	4,498	4,960
2015	48,945.8	8.9	6,261.7	0.9	4,316	4,966
2016	52,412.1	7.1	6,318.0	0.9	4,210	4,793
2017	55,878.7	6.6	6,556.8	3.8	4,229	4,779
2018	60,931.2	9.0	6,538.7	-0.3	4,272	4,961
2019	66,456.3	9.1	6,668.3	2.0	4,277	4,976
CAGR	7.9%		0.7%			
CV	0.21		0.02			

Source: *Financial Access Survey*, Bangladesh Bank and Researchers' Calculation

4.3.9 Geographic and Demographic Concentration: Bank Branches, ATM, MFI and MFS

The continuous growth of the number of delivery channels like bank branches, ATMs, MFI and Mobile Financial Services (MFSs) per 1000 square kilometer and per 100,000populationindicates growing financial inclusion. Among all delivery routes, an impressive growth has been observed in case of MFS, followed by ATM, in terms of both geographic and demographic penetration, indicating massive use of fintech in getting banking services. Even the number of bank branches has also been increasing. But, the number of Micro Finance Institutions (MFIs) is showing a very negligible change with a little positive or negative growth rate in different years (Table-4.25).

Table 4.25: Geographic and Demographic Concentration: Bank Branches, ATM, MFI and MFS

Year	Number per 1,000 Square Kilometer								Number per 100,000 Population							
	Bank Branch	Growth (%)	Bank ATM	Growth (%)	MFI Branch	Growth (%)	MFS Agent	Growth (%)	Bank Branch	Growth (%)	Bank ATM	Growth (%)	MFI Branch	Growth (%)	MFS Agent	Growth (%)
2010	51.8		14.4		116.9		NA		5.2		1.5		11.8		NA	
2011	54.3	4.8	25.7	79.0	122.4	4.7	38.3		5.4	2.3	2.5	74.7	12.1	2.2	3.8	
2012	56.8	4.7	28.6	11.1	121.8	-0.5	176.1	359.6	5.5	3.3	2.8	9.7	11.9	-1.7	17.1	353.9
2013	59.1	4.1	35.7	25.0	99.4	-18.4	1,384.8	686.4	5.7	2.7	3.4	23.3	9.5	-19.5	133.0	675.6
2014	61.7	4.4	42.4	18.7	99.8	0.4	3,690.2	166.5	5.8	3.0	4.0	17.1	9.5	-1.0	349.5	162.9
2015	64.1	3.8	53.1	25.2	105.8	6.0	3,888.7	5.4	6.0	2.4	5.0	23.6	9.9	4.6	363.4	4.0
2016	66.1	3.1	61.2	15.3	110.3	4.3	4,819.4	23.9	6.1	1.8	5.7	13.8	10.2	3.0	444.8	22.4
2017	68.1	3.2	64.9	6.0	116.0	5.1	5,337.0	10.7	6.2	1.9	5.9	4.8	10.6	3.9	486.8	9.4
2018	70.3	3.2	70.3	8.2	123.3	6.3	5,993.6	12.3	6.3	2.0	6.3	7.0	11.1	5.1	540.3	11.0
2019	72.0	2.4	75.5	7.5			5,670.4	-5.4	6.4	1.2	6.7	6.3			505.5	-6.4
CAGR	3.7%		20.2%		0.7%		86.8%		2.3%		18.6%		-0.8%		84.4%	
CV	0.10		0.42		0.08		0.64		0.07		0.39		0.09		0.63	

Source: *Financial Access Survey*, Bangladesh Bank; *Monthly Economic Trends*, Bangladesh Bank; *NGO-MFIs in Bangladesh*, Microcredit Regulatory Authority

4.3.10 Correlation among Agents, ATM, Bank Branch, Borrowers, Credit Card, Debit Card, Internet Banking and MFS Agent

The numbers of depositors are highly correlated with all delivery channels. However, number of ATM and branch maintains highest correlation among all. In contrast, number of branches and household loans are highly correlated, indicating that borrowers still need to approach branch for getting loans. Other channels are less active in providing loans. For example, correlation between agent banking and number of borrowers is relatively low.

Table 4.26: Correlation among Agents, ATM, Bank Branch, Borrowers, Credit Card, Debit Card, Internet Banking and MFS Agent

Indicators	NUMBER_OF AGENT	NUMBER_OF_ATM	NUMBER_OF_BANK_BRANCH	NUMBER_OF_BORROWER	NUMBER_OF_CREDIT_CARD	NUMBER_OF_DEBIT_CARD	NUMBER_OF_DEPOSITOR	NUMBER_OF_INTERNET_BANKI	NUMBER_OF_MFS_AGENT
NUMBER_OF_AGENT	1								
NUMBER_OF_ATM	0.9069	1							
NUMBER_OF_BANK_BRANCH	0.9382	0.9871	1						
NUMBER_OF_BORROWER	0.7796	0.9475	0.9231	1					
NUMBER_OF_CREDIT_CARD	0.9743	0.9505	0.9730	0.8169	1				
NUMBER_OF_DEBIT_CARD	0.9587	0.9694	0.9845	0.8579	0.9939	1			
NUMBER_OF_DEPOSITOR	0.9313	0.9928	0.9912	0.9506	0.9520	0.967	1		
NUMBER_OF_INTERNET_BANKI	0.9533	0.8000	0.8493	0.7222	0.8691	0.8516	0.8574	1	
NUMBER_OF_MFS_AGENT	0.8382	0.9425	0.9524	0.8500	0.9343	0.9448	0.9183	0.6754	1

Source: Authors' Calculations

5. Financial Inclusion Achievements: Position of Bangladesh Compared to Other Countries

This section looks into the progress of financial inclusion of Bangladesh as compared to one South Asian lower middle-income country, one upper middle-income country and one high income country. We will examine to see how Bangladesh is doing in terms of access to financial services for individuals. We will also look into the depth of the use of financial services by various segments.

5.1 Financial Inclusion for Individuals: Position of Bangladesh as Compared to India, Thailand and Japan

Table-5.1 showcases the level of financial inclusion of individuals. Bangladesh is lagging behind of its peers in terms of all indicators. Considering deposit accounts and number of depositors, position of India and Thailand is almost two-fold above Bangladesh and position of Japan is almost nine-time higher than Bangladesh. The loan account with commercial banks per 1000 adults shows almost the same picture; however, the status of Thailand is well above Bangladesh considering this parameter.

Table 5.1: Financial Inclusion for Individuals: Position of Bangladesh as Compared to India, Thailand and Japan in 2018

Indicators	Bangladesh	India	Thailand	Japan
Borrowers in banks per 1,000 adults	83.08	NA	363.48	NA
Bank Deposit accounts per 1,000 adults	855.51	1,937.29	1,679.44	7,224.30
Depositors in banks per 1,000 adults	792.01	NA	1,281.21	NA
Loan accounts in banks per 1,000 adults	92.65	199.63	440.87	210.25
Active mobile money accounts per 1,000 adults	319.9	NA	NA	NA

Source: *Financial Access Survey* Database of the IMF.

5.2 Financial Inclusion Deepening: Position of Bangladesh as Compared to India, Thailand and Japan

In the depth of financial inclusion, Bangladesh is faring closely with its neighbor India in a number of indicators. With respect to outstanding balances on active mobile money accounts, number of mobile money transactions and Small and Medium Enterprise (SME) loans from commercial banks, Bangladesh is doing better than its close neighbor India (Table-5.2). However, Bangladesh trails India with a moderately big margin in terms of active mobile money accounts, deposits with commercial banks, deposits of household sector with commercial banks and loans from commercial banks. Understandably, Bangladesh is trailing far behind Thailand and Japan in all the financial depth indicators.

Table 5.2: Financial Inclusion Deepening: Position of Bangladesh as Compared to India, Thailand and Japan in 2018

Indicators	Bangladesh	India	Thailand	Japan
ATMs per 100,000 adults	8.86	21.65	117.50	127.38
Bank branches per 100,000 adults	8.94	14.50	11.70	34.01
Outstanding balances on active mobile money accounts (% of GDP)	0.56	0.01	0.01	NA
Mobile money transactions per 1,000 adults	19,481.71	3,066.80	17,505.08	NA
Bank deposits (% of GDP)	47.84	60.27	73.08	147.99
Household bank deposits (% of GDP)	24.51	37.03	46.86	83.86
SME deposits withbanks (% of GDP)	5.26	NA	NA	NA
Bank loan (% of GDP)	43.45	46.21	71.53	101.50
SME loans in banks (% of GDP)	8.96	6.06	25.59	NA

Source: *Financial Access Survey,* Database of the IMF

It is evident from above analysis that although in many areas Bangladesh has made good progress in financial inclusion but there is ample scope of further progress in aspects of financial inclusion work.

6. Financial Inclusion: Growth, Effective Initiatives, Barriers and Way out Depending on Survey and FGD

6.1 Questionnaire Survey

A questionnaire was sent to the Head of SME division of the banks to get insights about the financial inclusion for the firms. Table-6.1 presents the status of growth pattern in SME financing by the respondents' banks, along with the reasons behind the observed pattern. As is seen, 87 percent banks experienced steady growth of SME financing during the last five (5) years.

Table 6.1: Growth Pattern of SME Financing during 2014-2019

Growth Pattern	%	Reasons
Steadily Increasing Pattern	86.6	• Increasing willingness to borrow resulting from higher disbursement by the banks • Diversification of credit portfolio • Formulation of effective strategy targeting niche market • Geographical penetration through branch and agent banking • Regulatory support through Re/Pre-finance • Expanding area of business
Steadily Decreasing Pattern	6.7	• Change in management • High employee turnover • Increased market competition and concentration from large enterprises
Uneven/No Definite Pattern	6.7	• Unfavorable movement in NPL

Source: Questionnaire Survey

A number of policies, reform measures and new product were instituted led by Bangladesh Bank to foster the pace of financial inclusion. The following table reports some remarkable changes that proved to be most effective in each of these categories.

Table 6.2: List of the Most Effective Policy, Reforms and Product Design Initiatives for Promoting CMSME and Agriculture Financing

Policy	Reforms	New Product
I. Refinancing Scheme II. Circulars for promoting agro-based industries III. Definition of CMSME	I. Previous tax rebate stimulus II. Lower provisioning requirement for CM category III. Segmentation within SME IV. Presence of grace period V. MFI linked agri-financing policy	I. Agent banking channel-based account opening II. Mobile financial service

Source: Questionnaire Survey

As is seen from the aggregate data, growth of women entrepreneur finance is yet to reach the expected level, despite having few regulatory initiatives. The reasons for this difference are shown with the ranking of the opinions in Table-6.3**.**

Table 6.3: Reasons for Lower than Expected Growth in the Number and Amount of Women Entrepreneurs Loan

Reasons	Ranking
• Risk of fund diversion to family matters	First
• Social stigma and glass ceiling	Second
• More focus on trading business (i.e. fashion house) rather than the manufacturing by the women entrepreneurs.	Third
• Lack of confidence on the capacity of women entrepreneurs	Fourth
• Difficulties in balancing family life and professional life • Lack of mortgage property & guaranty • Lack of family and institutional support	Fifth

Source: Questionnaire Survey

Financial inclusion is all about removing the barriers that prevent unbanked people from getting access to formal financial service. The barriers for financial inclusion that include interest rate ceiling, lack of financial literacy, collateral related problems among others, together with the possible remedies are listed in Table-6.4.

Table 6.4: Barriers for Financial Inclusion and the Way Out

Barriers	Way out
I. Difficulty for the unbanked people in meeting formalities II. Lending cap on SMEs III. Lack of financial literacy IV. Priority given by bank management on city-based banking distribution channel V. Mismatch between cost of operation and rate of return	I. Enacting more simplified process in providing credit II. Establishment of branch, sub-branch, agent banking outlet in rural areas III. Initiation of easy investment products IV. Arranging trainings for entrepreneurs using public-private partnership

Barriers	Way out
VI. Uncertainty due to natural calamity, price volatility, pest and disease and lack of mitigating measures VII. Lack of collateral and guarantor VIII. Informal nature of businesses with more cash-based transactions IX. Difficulty in determining debt position of the borrower considering informal sources & MFIs X. Low profit margin in SME financing	V. Adapting technology in borrower selection process VI. Increasing the collateral free lending limit for SMEs VII. Withdrawal of interest rate cap VIII. Better assessment of value chain when making financing decisions

Source: Questionnaire Survey

Experience and learning in dealing with financial inclusion initiatives create the opportunity to think for additional regulations or modifications of the existing norms. Table-6.5 presents some recommended change in the regulations as opined by the respondents.

Table 6.5: Expected Regulatory Initiatives/ Revision of Existing Initiatives to Expedite Bank-Based Financial Inclusion for Firms

Sl. No.	Particulars
I.	Better alignment of the interest rate to the nature of SME financing
II.	Launching special refinancing and credit guarantee with flexible terms and conditions
III.	Setting up specific target of bringing fresh borrowers under financial inclusion program and awarding top contributor
IV.	Allowing access to finance for unregistered (legitimate business without Trade License) micro enterprises
V.	Establishing crowd-funding platform to support financial inclusion
VI.	Developing effective process for recording actual business information of the borrowers and allowing banks to use that information

Source: Questionnaire Survey

6.2 Focus Group Discussions (FGDs) on Financial Inclusion for Firms/ Farms

The following observations have come out from the FGDs with 45 participants.

Lending Rate vs Capacity Building	Lending rate by the banks must cover the cost of fund and risk premium of the borrowers which is relatively high for cottage, micro and small enterprises. As, the present lending cap is not sufficient to ensure profitability, financial inclusion initiatives may not see success regardless of its long-term development appeal.
	The tendency of the practitioners to pinpoint the interest rate ceiling at 9 per cent does not seem fit well as the SME financing did not get momentum even when interest rate was near about 15% during the pre-ceiling period. In fact, the problem lies with the capacity of the banks in understanding the dynamics of CMSME financing.
	Many small-scale borrowers including the women entrepreneurs are running their business at least with quarterly 10 per cent profit margin that turns out to be 40 per cent on yearly basis. So, they can take loan easily even if the interest remains well above 10 per cent. What the women entrepreneurs really want is prompt decision, easy access to finance with simple terms and conditions.

System Digitalization	Digitalization of all types of financial services starting from account opening will bring significant change in dealing with micro and small borrowers. Cost of supervision and other lending operations may be reduced to a great extent through Nano banking technology using digital platform as is successfully done in some African countries.
SME Financing Data	SME financing data published in the report needs to be carefully interpreted considering the difference between disbursement amount in a year and the outstanding loan amount. A majority of SME loan is recycled several times in a year on revolving basis that is not reflected in the outstanding amount shown as of a particular date.
Credit Guarantee Scheme	Credit guarantee scheme recently introduced by the Bangladesh Bank for small, cottage, and micro enterprises is not likely to bring the desired benefit. In fact, banks are advised to reschedule the loan first after it is classified and then to go for legal action under the Money Loan Court Act, 2003 before claiming the fund from credit guarantee scheme. So, this condition certainly diminishes the prospective benefit of credit guarantee scheme.
Number of Women Entrepreneurs	The absolute number of women entrepreneurs is steadily increasing although the share of women entrepreneurs is surprisingly remaining almost at the same level of 7 per cent to 8 per cent during the last 10 years. Additionally, the opinion of women borrowers that they do not get loan from the banks is quite opposite to the banks' view. Bankers opine that they do not find creditworthy borrowers in sufficient numbers. Further, the amount of required loan by the women borrowers is too small for the banks to operate profitably.
Provision of Non-financial Services (NFS)	NFS like training, innovative ways of conducting business, adoption of e-commerce are necessary to increase the number of entrepreneurs in the country.

Source: FGDs

6.3 Focus Group Discussions (FGDs) on Financial Inclusion for Individuals

Profitability	Potential of financial inclusion of individuals is huge. But PCBs will not go without profitability. It is necessary to ensure the profitability with any scheme taken for financial inclusion.
Informal Sources of Finance, and Cost Benefit Analysis	Banks are to compete with informal sources of funds to unbanked people. So, cost-benefit analysis should be done properly for the formal banking sector and the rate of interest should have some flexibility in case of small loans or some rural loans. Another thing to consider is that no matter whether the loan amount is large or small, the formalities of approval and verification cannot be avoided. Appropriate policy may encourage banks to come forward for giving such loans to enhance financial inclusion.
Mobile and Agent Banking	Mobile and agent banking are done by a few banks. But without easy access, affordability and quality of services, unbaked portion of the population will not come under the formal banking system. On the other hand, these initiatives will be successful only if they can offer multiple services from the same units.
No-Frill Accounts (NFAs)	With the introduction of no-frill accounts, number of accounts increased, but it is important to notice the operation of the existing accounts. Just opening an account will not ensure the meaningful financial inclusion.
Forgeries and Theft in Agent Banking	Incidents of theft and forgeries in agent banking hampers the reputation of banks. It may create lack of confidence among the people to get involved in banking activities with such arrangements. So, in line with this thinking some products should be designed involving the insurance companies.

Source: FGDs

7. Summary Findings and Suggestions

7.1 Findings

7.1.1 Individuals having access to a transaction account of banks is a first step towards broader financial inclusion. In ensuring individual financial inclusion for marginal people, NFA is very effective. A total number of 20,520,100 NFAs have been opened by all banks as of 2019 with CAGR of 7 percent which is quite impressive where the contribution of SCBs and SBs are significantly high. Among various categories of No-Frill Accounts, farmers' Accounts remain the major category of NFAs over the years. Further, a superb growth phenomenon of school banking proves its effectiveness in financial inclusion at individual levels which enables students to learn about banking at their childhood and to build saving habit from the early age. This also provides additional sources of funds to banks which can be used for long-term lending like housing finance. PCBs' contribution is the highest in school banking expansion followed by SCBs. The share of school banking in rural areas of 37.1 per cent in 2019 indicates a substantial portion of students even in village areas is coming under financial inclusion initiatives. The share of female school banking is significant among total school banking initiatives which is encouraging for disseminating financial literacy among future female segment of the society. With fantastic growth rates of the number of agents of 176.5 per cent and clients of 225.1 per cent, it is indicated that how fast poor individuals are availing of banking services from burgeoning agent banking units. The enormous success of MFS in individual financial inclusion is documented with the ample share of rural MFS which is almost double as compared to urban MFS. With respect to internet banking, a threefold increase between 2014 and 2020 indicates quick penetration of traditional branch-based banking activities with the virtual banking. Electronic payment instruments such as credit and debit cards in banking transactions substituting money-based transaction have also gained wide attention in financial inclusion of individuals in Bangladesh particularly in the urban area.

7.1.2 In consideration of financial inclusion for firms/ farms, supports provided for financial inclusion for firms create a substantial number of new enterprises. But, after commencing business, many organizations have been forced to exit. Further, only 7 percent enterprises are owned by female which is extremely low compared to international average share of female owned business which is over 30 per cent. Of total credit to CMSME sector, the share of financing to small enterprises is the highest with the maximum CAGR. But the negative growth of finance to cottage industry goes against the financial inclusion concept. Banks and NBFIs have been disbursing credit to CMSMEs as per the target set in the beginning of the calendar year and on an average disbursed loan are always more than the indicative target.

7.1.3 In consideration of deepening of financial inclusion with distribution of branch network, it is found that 51.5 per cent branches serve 37.4 per cent urban population of the country whereas the remaining 48.5 per cent banks' branches work for 62.60 per cent population of the country who are staying in rural areas. The share of online branch, 88.4 per cent in 2019, rises hope for quick expansion of bank based financial services for mass people ignoring the location of branch. The anatomy of volume of total deposits reveals that the share of rural as well as female deposits has been increasing steadily although PCBs contribution in increasing the share of rural deposits is not substantial. Collection of deposits is overly Dhaka division centric followed by Chittagong division. The remaining divisions are recording on an average from 16 per cent to 17 per cent share of total deposits over the period 2010-2019 signifying that share in deposits of different divisions did not change over the period. The share of loan amount with banks in rural areas including female borrowing has been increasing slowly during 2010-2019. PCBs have increased their share of rural financing from 4.1 per cent to only 5.9 per cent between 2010 and 2019. Further, female borrowing is substantially low as compared to household male borrowing. The slices of division wise advances were almost the same over the years. Rajshahi division records exactly the same share of total advances i.e. 3.7 per cent of total advances in both 2010 and 2019. As expected, people are availing of banking services for keeping deposit almost 10 times higher than loan services. Along with, loan accounts almost remain the same over the years in contrast to nearly doubling of deposits accounts. Among all delivery routes, a fabulous growth has been observed in case of MFS followed by ATM in terms of both geographic and demographic penetration indicating massive use of fintech in getting banking services. These are also supported by HHI and coefficients of correlations.

7.1.4 Bangladesh has made good progress as compared to her peer countries in many areas of financial inclusion. Still, there is ample scope of further progress in different aspects of financial inclusion. Considering deposit accounts and number of depositors, position of India and Thailand is almost twofold higher than Bangladesh. But Bangladesh is faring closely with its neighbor India with respect to outstanding balances on active mobile money accounts, number of mobile money transactions and SME loans from commercial banks.

7.2 Suggestions

7.2.1 Fintech based financial services will drive the future financial inclusion initiatives. Meanwhile, Bangladesh tried to get maximum benefits from it. New technologies are evolving day by day. Invention of artificial and computational intelligence has given the opportunity to the financial sector to evaluate complex problems and provide solution in no time to anybody and anywhere of a country. We need to ensure multiple uses of one delivery channel to make it profitable. Bangladesh Bank, in consultation with other financial sector regulators, may craft a national strategic roadmap to align the financial sector with current and future emerging technologies suited to our society and people. Such a roadmap may align with broader national goals in the shorter, medium, and longer-term.

7.2.2 With the introduction of no-frill accounts, school banking and agent banking, number of accounts increased, but it is important to note that just opening an account will not ensure the true financial inclusion. In this case, multiple services from a single service center need to be offered. For example, in case of school banking both the students and teacher must have bank accounts. Teachers' salary and payment done by the students can be arranged through bank accounts. Even guardians can also be encouraged to do banking through the students.

7.2.3 Bangladesh Bank has several diversified initiatives to improve the access to finance for CMSMEs. Considerable successes are also evident in terms of Year-on-Year (YOY) growth, particularly for small enterprises. But, these were not equally achieved in case of cottage and micro industries. Additionally, agriculture financing is very negligible compared to total financing initiatives. It is important to assess the outcome of the initiatives. Hence, there is need for in-depth system diagnostic and process optimization of the ongoing initiatives and adoption of innovative technology-driven financial services.

7.2.4 Medium scale enterprise financing by the banks seems to be running smoothly even with the lending rate ceiling of 9 percent. But, the banks are facing difficulty in giving loan to cottage, micro, and small sector, as the cost of supervision of small amount of loan exceed the lending cap currently being followed. Further, banks still could not get out of a large amount of earlier long-term deposit contractually fixed at 7-8 percent making it difficult for banks to think about increasing especially cottage, and micro enterprise financing which contributes more to financial inclusion than small and medium enterprises.

7.2.5 Promoting financial capability through financial education is extremely important for financial inclusion. School banking is working effectively in educating the respective student as well as the members of the students' families. A standard classroom-based minimum financial education for students of all departments at graduation and post-graduation levels may help create financial literacy for future generation of the country. But for people with below average education and limited financial skills, banks' branches can arrange literacy programmes at regular intervals. Media and donor agencies may come forward in this respect too.

7.2.6 Non-financial Services (NFSs) like training, innovative ways of conducting business, and adoption of e-commerce are necessary to increase the number of entrepreneurs in the country. Demand for NFS may be taken care of by the banks in terms of assisting the borrowers in executing various documents, and providing mentoring and counseling services. Banks may be encouraged to offer NFSs for small fees, as it seems that banks are not interested to offer NFSs unless they are permitted to charge fees.

7.2.7 To bring more rural people under banking services, Bangladesh Bank adopted a policy allowing PCBs to open branches 1:1 in urban and rural areas by considering City Corporation, municipalities and the suburbs as urban areas. Under this regulation, PCBs show less interest to open rural branches, as they feel opening rural branches outside of upazila will not be profitable. As a result, the number of rural branch of PCBs is gradually decreasing. BB may reconsider the current definition of urban areas at least excluding B class Pourashavas (Municipalities), so that PCBS can open more branches at upazila level for increasing access to finance of rural people living around the upazila.

7.2.8 Banks' involvement are not uniform in driving financial inclusion initiatives. Bangladesh Bank may consider formulating policies that will reward banks with innovative financial inclusion initiatives, and incentivize their investment in the financial inclusion process through accounting, tax, and other non-financial benefits.

7.2.9 Credit guarantee scheme recently introduced by the Bangladesh Bank for small, cottage, and micro enterprises is not likely to bring the desired benefit of the guarantee scheme. Banks are advised to first reschedule the loan after it is classified and then go for legal action under the Money Loan Court Act, 2003 before claiming funds from credit guarantee scheme. So, this condition certainly diminishes the prospective benefit of credit guarantee scheme and needs to be reconsidered.

7.2.10 Bangladesh has made major strides around overall financial inclusion in the last decade; however, it is also a country with the largest gender gap in financial inclusion. A research can be undertaken to dig deeper into the reasons behind this gender gap with the help of an ethnographic study; and based on the research results, design human-centric innovative initiatives for bridging this gap.

Bangladesh is being generally referred globally for its achievement in financial inclusion. Bangladesh Bank is an influential member of the Alliance for Financial Inclusion (AFI). We can now upgrade our benchmark at par with central banks that usually top the global ranking lists in terms of financial inclusion in the three categories viz. financial inclusion for individuals and firms and the financial depth to take it to a new height. Hence, there is a need for an in-depth evaluation of various financial inclusion initiatives of Bangladesh Bank to identify their respective strengths and weaknesses to further strengthen those initiatives in terms of their reach, usage, and quality.

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