

Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges

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Published by



in Cooperation with



Roundtable Discussion Series-2024

Keynote Paper of Roundtable Discussion of BIBM

Volume No. 9, Issue No. 3

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Published in November, 2024

Published by Bangladesh Institute of Bank Management (BIBM)
Plot No.-4, Main Road-1 (South), Section-2
Mirpur, Dhaka-1216, Bangladesh.
E-mail: bibmresearch@bibm.org.bd
Website: www.bibm.org.bd

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As part of the ongoing dissemination of BIBM research outputs, the present research paper contains the findings of the research workshop titled “Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges”. The study was conducted in 2023 and the paper was presented in a roundtable discussion held in January 2024. The study was motivated to identify the issues and challenges of existing lending mechanism to Cottage, Micro and Small Enterprises (CMSEs) through agent banking in Bangladesh.

It gives me immense pleasure to publish and distribute this research output to the practitioners of the banks and financial institutions, regulatory agencies, academics and the common readers. I hope this research paper will be a valuable resource for professionals, especially for the banking community for fulfilling the financing need of the CMSEs in Bangladesh.

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

Acknowledgement

We would like to extend our gratitude to Dr. Md. Akhtaruzzaman, honorable Director General of BIBM for his valuable guidance and suggestions to complete the study comprehensively.

We would like to thank the respondents of our questionnaires and the learned discussants, who provided their valuable inputs for the successful finalization of the report. We are also thankful to all our colleagues for their cooperation and support.

Our honest indebtedness goes to research assistants, who have facilitated us to get very much useful information from different stakeholders across the country. Our sincere appreciation goes to Ms. Papon Tabassum, Officer; Mr. Sk. Md. Azizur Rahman, Junior Officer and Mr. Md. Awalad Hossain, Junior Officer of BIBM for their support.

Finally, we would like to thank all of those who, directly and indirectly, extended their cooperation in our research work.

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Executive Summary

There is no denying fact that Cottage, Micro and Small enterprises (CMSEs) are the key pillars for the economic growth of any country specially in the rural economy. To meet the financing need of the CMSEs, different ministries and central bank of Bangladesh have taken various policies and initiatives including accessible financial systems, enabling market environment, credit guarantee and refinancing schemes, and so forth. Although government, commercial banks and many other market players consider the sector as one of the utmost opportunities for investing and have come forward with different policies and initiatives, these are not enough to meet the greater financial and non-financial need of the sector.

In Bangladesh, due to the inadequacy of bank branch network in the rural areas, it become urgent to develop some other approaches or lending mechanism so that CMSEs can easily fulfill their financing need. To address the issue, central bank of Bangladesh has introduced agent banking in the country through issuing a guideline in 2013 and subsequently issued ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’. The ultimate objective is to deliver the banking services to the under-privileged, under-served people specially living in the geographically remote location through an alternative delivery channel of existing banking networks.

The main objective of the study is to find out the feasibility and challenges of lending CMSEs through agent banking operations of different banks in Bangladesh. Both primary and secondary sources are considered in order to achieve the study objectives. The study uses two units of analysis. One, the agent who are providing banking services specially located in the areas. The other unit of analysis is the higher officials working in the agent banking department of commercial banks in Bangladesh.

The contents of this report are organized into seven sections. Section -1 covers the introduction, background, objectives; Section-2 explains the data and methodology of the study; Section-3 discusses the financing scenario of CMSEs in urban and rural areas of Bangladesh; Section-4 reviews the overall activities and status of agent banking in Bangladesh; Section-5 highlights the policy and guidelines on agent banking; Section-6 represents the findings and analysis of the study; and finally, Section-7 concludes with the recommendations.

From the Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank it is evident that as of September 2023, the lending through agent banking rises to BDT 141,926.50 million. The volume of total loans has increased by 8.82% over the previous quarter, where rural customers have received BDT 89,786.93 million (63.26%) of the total loan disbursed through agent banking channel.

Male borrowers have received BDT 112,922.9 million (79.57%) of the total loan compared to female borrowers who have received only BDT 18,923.73 million (13.33%). The variation in male and female borrowers may be due to banks' lack of confidence in the female customers for various reasons while making lending decisions or female customers' limited participation in rural enterprises.

The survey findings on Agents revealed that out of the total sample (232), majority (187) of the agents started their business between 2015 to 2020 and 89.66% of total sampled agents has other sources of income. According to the survey findings, a lion portion of the agents (90.95%) opined that CMSE loan can be disbursed through the agent banking. However, the findings evident that at present only 24 % of the gents provide the loan through their agent outlets. It is important to note that sampled agent distributed 21% of loan against the deposit they have collected. Although many of the agents think that they are confident to provide loan by their outlet, but they cannot offer this service as banks are reluctant to distribute the loan through agents. The agents mentioned a number of problems associated with providing loan through agents.

A few of the banks are disbursing loan through their agent outlets. CMSE customers around the agent outlet must aware about the availability of loan in the agents. In this regard, majority of the agents (86.21%) stated that dedicated officials of banks marketing their CMSE loan near the agent outlet. Around 37% of the agents also claimed that they are marketing the CMSE loan in their areas. Although agents are not disbursing the loan directly, they play several roles for recovering the loan amount. From the questionnaire survey it is evident that only 6.03% of the respondents opined that they get some commission from the banks for providing and recovering the loan. According to their opinion 5.56 % of the loan are classified out of total loan providing from their agent outlets.

From the survey, it is evident that many actors are engaged in providing loan to different borrowers nearby agent locations. NGOs are the highest (76%) provider of loans to the borrowers followed by the cooperative society (57%), MFIs (32%),

multipurpose samities (26%), bank branch/sub-branch (23%), NBFIs (18%), money lenders (11%), and the agent banking (9%). Most of the banks are not disbursing CMSE loan through agent outlets. However, a few of the banks provide small loan through the agents' references and also utilize the agent outlets to recover the loan. As per the opinion of the majority of agents (82.33%), they are satisfied about the banks services while lending. Banks are offering lending services through agent banking in a limited scale. Therefore, most of the CMSEs are still trying to fulfill their financing need from many other sources. According to the opinion of the agents, CMSE customers are getting much more advantages from the other sources than banks while borrowing.

From the survey findings it is evident that bank's loan processing and approval time is higher through agent banking network. According to the opinion of the agents, most of the small loan take (41%) from 1 month to 2 months for getting approval from banks.

The responses received from the higher officials of banks working closely with the agent banking activities to identify the lending scenarios through agent banking. To reach the dispersed CMSEs located in the rural areas of Bangladesh, different banks have taken a number of initiatives. 90.91% banks have Alternative Delivery Channels (ADC) but only 18.18% use the ADC as mode of financing. Banks often face different challenges from its other competitors than bank and identified several reasons of underserved rural CMSEs by the banking sector in Bangladesh. Around 58% banks revealed that they face problems while financing in the rural areas (Figure 6.4) and 51.5% have problem in setting agent point/unit office in the rural areas. Over four-fifths (82.4%) of banks identified the requirements of rigorous supervision and monitoring of the agents, the lack of which may distort the overall credit discipline in the CMSE sector. The banks have to select an agent, based on the location of borrowers, agent's capacity and skill, and commercial viability.

Banks are facing several challenges while dealing with the agents such as Selection of agent through proper appraisal, prescribed low commission discourage people to get the agency, Network/Server problems and not to enter into server in closed day, difficulty to provide lending services through agent, Long time to issue cheque book, Time to time close monitoring is very difficult from branch, Longer time to get approval from branch for account opening/KYC and others, Low commission for remittance discourages the agent to serve, Customers cannot see the account balance without their finger print, Difficulties to arrange sufficient

training for agent owner, Providing marketing, decoration and other support services is difficult, Some fraudulent activities of few agents degrade the banking sector image, Cash collection from agents located in the remote areas is costly and difficult, and Customers do not open FDR or deposit for large amount for getting fear with agents.

Finally, based on the observations and findings, to overcome the challenges of agent banking operations in Bangladesh for lending to the CMSEs in Bangladesh, this paper proposed some recommendations.

Acronyms

ADC	Alternative Delivery Channels
AML	Anit-Money Laundering
ATMs	Automated Teller Machines
BB	Bangladesh Bank
BEFTN	Bangladesh Electronic Funds Transfer Network
BIBM	Bangladesh Institute of Bank Management
BSCIC	Bangladesh Small and Cottage Industries Corporation
CBS	Core Banking Solutions
CFT	Combating the Financing of Terrorism
CMSME	Cottage, Micro, Small and Medium Enterprise
CMSE	Cottage, Micro, and Small
DESA	Dhaka Electric Supply Authority
DESCO	Dhaka Electric Supply Company Limited
DPDC	Dhaka Power Distribution Company
EFT	Electronic Fund Transfers
FCB	Foreign Commercial Bank
GDP	Gross Domestic Production
IB	Islamic Bank
IFC	International Finance Corporation
IT	Information Technology
IVR	Interactive Voice Response
KII	Key Informant Interview
KYC	Know Your Customer
MFI	Microfinance Institute
MFS	Mobile Financial Services
RMG	Ready-Made Garment
MSME	Micro, Small and Medium Enterprise
NBFI	Non-bank Financial Institution
NBR	National Board of Revenue

NGO	Non-government organization
PCB	Private Commercial Bank
PIN	Personal Identification Number
POS	Point of Sales
POSTs	Point of Sales Terminals
REB	Rural Electric Board
RTGS	Real Time Gross Settlement
SB	Specialized Bank
SDG	Sustainable Development Goal
SE	Small Enterprise
SME	Small and Medium Enterprise
SMESPD	SME & Special Programs Department
SND	Special Notice Deposit
SOCBs	State-owned Commercial Banks
SOD	Secured Overdraft
TIN	Tax Identification Number
UDC	Union Digital Center
UISC	Union Information and Service Centre
WASA	Dhaka Water Supply and Sewerage Authority

Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges

1. Introduction and Background

There is no denying fact that Cottage, Micro and Small enterprises (CMSEs) are the key pillars for the economic growth of any country specially in the rural economy. This sector significantly foster GDP growth in one side and also contributes to building social network, ensuring life standard of poor people, reducing social unrest and inequalities, satisfying the raw materials needed for large firms and so on (Hossain & Ibrahim, 2020). According to World Bank (2018) statistics, SME represent about 90 percent of businesses and more than 50 percent of employment all over the world. Besides, over a long time this sector can offer economic constancy for owners, employees and also for their families by ensuring a steady source of income (Bianca, 2016). Despite huge potential, CMSEs face multidimensional barriers including access to finance into formal sector. According to the estimate of IFC, in developing countries 40 percent of formal MSMEs or about 65 million of firms have financing gap of \$5.2 trillion every year, which is equal to 1.4 times of the worldwide MSME lending (World Bank, 2018).

To meet the financing need of the CMSEs, different ministries and central bank have taken various policies and initiatives including accessible financial systems, enabling market environment, credit guarantee and refinancing schemes, and so forth. Unfortunately, due to the lack of capital market deepness, Bangladesh financial system become the bank-based financial system. Even the restricted access of CMSEs into the capital market crack them to largely depend on banking system. However, due to the lack of banking network into the rural areas and appropriate model or approaches, a lion portion of CMSEs are still untapped through the banking channel. Although government, commercial banks and many other market players consider the sector as one of the utmost opportunities for investing and have come forward with different policies and initiatives, these are not enough to meet the greater financial and non-financial need of the sector.

In general, CMSEs are heterogenous in nature and scattered throughout the country. In order to meet their financing need at lower cost, it is highly necessary to have banking network all over the country specially in the rural areas. The study of Hossain, Yoshino & Taghizadeh-Hesary (2018) showed that expansion of bank branch network can minimize the default risk through reducing asymmetry of information between the SME borrowers and banks and aids SMEs' access to credit at relatively lower costs. They also found that banks density has a significant positive impact on SMEs output, gross value addition and labor productivity. The results of their study confirmed that local level financial development matters for SMEs' access to credit and their growth. Through analyzing firm level data of 70 developing and emerging countries, Leon (2015) shows that bank level competition highly relieves credit constraints for SMEs. Besides, competition among financial institutions help to develop more diversified lending products that might help firms to grow. Moreover, local level financial development either formal banking channel or semi-formal agent or the presence of mobile banking, might influence the volume of loan as well as the price of credit (Chauvet and Jacolin, 2017).

However, due to the high administrative cost, in most of the cases it is not feasible for a bank to open branch or sub-branch in the rural areas. The existing banking network is not adequate enough to serve the financing requirements of CMSEs in the rural areas. Therefore, the excessive reliance of CMSEs on the informal sector increase their cost of doing business with lower margin and reduce their market competitiveness. Even, the presence of some other market players like Non-Bank Financial Institutions (NBFIs), Non-Government Organizations (NGOs), Micro Finance Institutes (MFIs), multipurpose cooperatives, informal money lenders, samities, etc. are not sufficient enough to meet their financing needs (Mamun et. al., 2022). Hence, due to the inadequacy of bank branch network in the rural areas, it become urgent to develop some other approaches or lending mechanism so that CMSEs can easily fulfill their financing need.

To address the issue, central bank of Bangladesh has introduced agent banking in the country through issuing a guideline in 2013 and subsequently issued ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’. The ultimate objective is to deliver the banking services to the under-privileged, under-served people specially living in the geographically remote location through an alternative delivery channel of existing banking networks. These guidelines prescribed that banks can provide a variety of services including savings, loans, remittances, and different payment services (like utility bills, taxes, government transfer benefits, etc.) to customers through their nominated agents. Commercial banks in Bangladesh have already taken some initiatives to reach the unbanked CMSEs through agent banking activities, in a limited scale. However, the big concern is that banks lack offering lending services in the rural areas by which CMSEs in the remote areas can have access into the formal financial sector to fulfill their financing needs. Based on these realities, the study attempted to explore how banks can ensure lending activities in the rural areas with their agent outlets.

1.1 Objectives

The main objective of the study is to find out the feasibility and challenges of lending CMSEs through agent banking operations of different banks in Bangladesh. Thus, the specific objectives of the paper are to:

- (i) discuss about the current status of CMSEs financing in urban and rural areas in Bangladesh;
- (ii) review the overall activities and status of agent banking in Bangladesh; and
- (iii) analyze the responses of agents who are providing banking services to the banks’ customers and banks regarding the lending services through their agent banking.

1.2 Organization of the Study

The contents of this report are organized into six sections. Section-1 covers the introduction, background, objectives; Section-2 explains the data and methodology of the study; Section-3 discusses the financing scenario of

CMSEs in urban and rural areas of Bangladesh; Section-4 reviews the overall activities and status of agent banking in Bangladesh; Section-5 highlights the policy and guidelines on agent banking; Section-6 represents the findings and analysis of the study; and finally, Section-7 raise the issues related to lending through agent banking for discussion.

2. Data & Methodology

Both primary and secondary sources are considered in order to achieve the study objectives. The study uses two units of analysis. One, the agent who are providing banking services specially located in the areas. The other unit of analysis is the higher officials working in the agent banking department of commercial banks in Bangladesh. The study follows survey method for collecting primary data from the agents. For this purpose, one questionnaire (Appendix-I) is developed for agents. For collecting the information from the agents, the study followed the purposive sampling method. In this process, the survey is carried out in 29 districts covering eight divisions of Bangladesh, based on the CMSEs' concentration and lack of adequate banking network. Although the term CMSMEs is commonly uses in different literatures and studies of Bangladesh, the present study focuses on CMSEs only. Therefore, throughout the report the term CMSEs has been used. The total number of 372 questionnaires has been distributed among 29 districts, out of which 236 questionnaires were received. Therefore, the response rate was 63.44%. From the received questionnaires, 4 questionnaires were rejected due to missing data and lack of needed information. Finally, 232 questionnaires were used for the analysis purposes.

For collecting data from the banks, Key Informant Interview (KII) is conducted among the CMSME departments of banks. A total of 17 higher officials are participated in the interview those have agent banking network and used for the analysis purposes. Secondary information is used to show the financing scenario of CMSEs' both in urban and rural areas including lending through agent banking. Moreover, published literature, research papers, different books are reviewed to complete the theoretical background and relevant websites are visited to collect secondary information.

4. Financing Scenarios of CMSMEs' in Urban and Rural Areas in Bangladesh

3.1 Share of Urban and Rural Deposits of Banks

Table 3.1 shows the percentage of deposits of different categories of banks in Bangladesh based on urban-rural concentration. Overall, for all banks, the deposit is concentrated mostly (79.5% to 78.8%) in urban branches starting from 2016 to 2022. For all banks, the contribution of rural areas has slightly increased during 2020 to 2022. It is evident from table that, SCBs and SBs have major concentration in rural area compared to PCBs. However, the FCBs do not have any rural branch.

Table 3.1: 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	Rural	Urban	Rural
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
2020	65.2	34.8	49.1	50.9	83.6	16.4	100	0	78.7	21.3
2021	65.4	34.6	49.4	50.6	83.4	16.6	100	0	78.5	21.5
2022	64.5	35.5	46.5	53.5	83.9	16.1	100	0	78.8	21.2

Source: Scheduled Bank Statistics, Bangladesh Bank; **including IBs.*

3.2 Loans and Advances of Banks by Division

Table-3.2 highlights the geographical distribution of loans and advances by different categories of banks. It shows that 89.74% loans and advances are concentrated in Dhaka, Chattragram and Khulna division loans and advances. The rest 10.26% loans and advances are distributed in remaining 5 divisions.

**Table 3.2 Loans and Advances by Geographical Distribution:
Share and Growth of Each Group of Banks (%)**

Sl. No.	Divisions	Dec-21					Dec-22				
		SOCBs	PCBs	SBs	FCBs	Total	SOCBs	PCBs	SBs	FCBs	Total
1	Chattogram Division	9.06	21.53	14.93	7.50	18.51	8.88	20.59	14.66	6.42	17.63
2	Dhaka Division	66.50	68.44	28.18	91.99	67.56	66.40	69.16	28.92	93.16	68.15
3	Khulna Division	8.04	2.59	13.91	0.10	3.91	7.73	2.68	14.27	0.09	3.96
4	Mymensingh Division	2.48	0.77	10.43	0.00	1.36	2.53	0.76	10.13	0.00	1.36
5	Rajshahi Division	5.23	3.42	9.42	0.08	3.85	5.26	3.60	9.29	0.06	4.00
6	Barisal Division	2.23	0.65	7.89	0.00	1.15	2.33	0.65	7.88	0.00	1.18
7	Sylhet Division	1.29	1.11	4.93	0.33	1.24	1.41	1.05	4.79	0.27	1.20
8	Rangpur Division	5.18	1.48	10.31	0.00	2.42	5.46	1.52	10.05	0.00	2.52
	Total	100	100	100	100	100	100	100	100	100	100

Source: Researchers' Calculation Based on Data from Scheduled Bank Statistics

3.3 Loans and Advances of Banks by Urban and Rural

Considering the urban-rural segmentation of loans and advances for all banks, Table-3.3 shows that, overall urban areas are seen heavy concentration than the rural segment. However, the SCBs and SBs have wider coverage in rural areas than the PCBs and FCBs in the rural areas of Bangladesh.

Table 3.3: Loans and Advances of Banks by Urban and Rural (%)

Year	SCBs		SBs		PCBs*		FCBs		All Banks	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
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
2020	77.8	22.2	32.5	67.5	93.9	6.1	100	0	89.2	10.8
2021	77.5	22.5	33.3	66.7	93.5	6.5	100	0	88.8	11.2
2022	74.9	25.1	33.7	66.3	93.6	6.4	100	0	88.3	11.7

Source: Scheduled Bank Statistics, Bangladesh Bank; **including IBs.*

3.4 Aggregate Financial Sector Exposure to CMSMEs by Urban and Rural

Table 3.4 shows that gradually the share of CMSEs' loan have been increasing from 59.10% in 2017 to 74.6% in 2022. Again, the aggregate exposure to rural CMSEs also increased to 21.8% in 2022 compared to 16.4% in 2017, which is a positive sign.

Table 3.4: Total CMSME Loan of Financial Sector by Urban and Rural (BDT in Crore)

Year	Total CMSMEs Disbursements	Share of CMSEs (%)	Share of Urban CMSEs (%)	Share of Rural CMSEs (%)
2017	161,777.3	59.1	83.6	16.4
2018	162,643.1	64.7	82.9	17.1
2019	167,970.7	71.2	81.7	18.3
2020	153,496.2	71.0	81.0	19.0
2021	185,428.5	73.2	81.8	18.2
2022	220,489.4	74.6	78.2	21.8

Source: SME & Special Programs Department, Bangladesh Bank

3.5 Aggregate CMSEs Exposure by Banks and NBFIs

Table-3.5 shows that the share of CMSE loans held by Banks increased to 96.3% in 2022 to compared to 2017. However, the share of CMSE loans held by the NBFIs decreased to 3.7% in 2022 compared to 2017.

Table 3.5: Total CMSEs Loan by Banks and NBFIs (BDT in Crore)

Year	Total CMSEs of Financial Sector	Share of Banks (%)	Share of NBFIs (%)
2017	95,616.1	94.3	5.7
2018	101,343.3	95.2	4.8
2019	119,379.3	96.1	3.9
2020	108,767.6	97.2	2.8
2021	135,776.7	95.1	4.9
2022	164,543.4	96.3	3.7

Source: SME & Special Programs Department, Bangladesh Bank

3.6 Exposure to CMSMEs by Different Group of Banks

Table-3.6 shows that the cumulative disbursement of CMSME loan increased in 2022 by 18.32% compared to 2021 by different groups of banks. Although having the largest network by the SCBs and SBs in Bangladesh their share of cumulative disbursements in rural CMSMEs were 14.8% in 2021 and 13.1%, respectively. The PCBs, IBs and FCBs are playing the major role in terms of covering the rural CMSMEs, although these bank group does not have wide ranges of bank branch in Bangladesh.

Table 3.6: CMSMEs Loan Disbursement by Group of Banks (%)

Group of Banks	2021		2022	
	Cumulative Disbursement	Share of Rural CMSMEs	Cumulative Disbursement	Share of Rural CMSMEs
FCBs	1.7	3.7	1.9	1.8
IBs	34.4	43.8	33.2	51.2
PCBs excluding IBs	53.9	37.7	52.7	33.9
SBs	1.9	6.6	2.0	5.7
SOCBs	8.1	8.2	10.2	7.4
Total of CMSMEs by Banks (BDT Crore)	178,760.9	37,229.9	211,527.0	54,373.8

Source: SME & Special Programs Department, Bangladesh Bank

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

Table 3.7 shows the composition of bank branches based on Urban, Rural, Fully Online, Partially Online and Fully Offline. Based on the Bangladesh Bank guidelines the gap between urban and rural branch network started to be minimized since 2010.

Table 3.7: 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
2020	51.4	48.6			
2021*	51.5	48.5			

Source: Scheduled Bank Statistics, Bangladesh Bank; *up to June 30, 2021

3.8 Particulars of Sub-branch Services in Rural and Industrial Areas

Bangladesh Bank has introduced sub-branches to bring banking services close to the common people which is helpful for low cost banking services, creating new customers, increasing the flow of deposits, investments and remittances. Table 3.8 shows the status of Sub-branch in banking sector of Bangladesh.

Table 3.8: Status of Sub-Branches of Banks (As of June 2021)

Sl. No.	Particulars	Number
1	Banks Opening Sub-Branches	36
2	Total No. of Sub-Branches	1672
3	IBBL Sub-Branches	196
4	NRBC Sub-Branches	147
5	Others	1329

3.9 Alternative Delivery Channels (ADCs) of Banking in Bangladesh

Table 3.9 shows the Alternative Delivery Channels (ADCs) in Bangladesh Banking sector. ADCs are means for providing banking services straight to the customers of banks. Using ADCs, customers can transact through ATM / POS / Multi-functional Kiosks, contact the bank's Call Centre, access the digital Interactive Voice Response (IVR), perform transactions through Internet Banking etc. By ADCs bank can directly reach their wide consumer-base across geographies. ADCs ensure the smooth flow of regular transactions and provide banks with higher profits with lower operational expenses and transaction costs while expanding their business.

Table 3.9: Status of Alternative Delivery Channels in Bangladesh (up to December, 2022)

Sl.	Particulars	Numbers
1.	Credit Card	2,115,861
2.	Debit Card	29,849,136
3.	Prepaid Card	3,383,951
4.	Total Card	35,348,948
5.	Internet Banking Account	6,252,634
6.	Mobile Banking Agents	1,554,637
7.	Mobile Banking Customers	191,063,573
8.	Agent Banking Agents	15,226
9.	Agent Banking Customers	17,478,884
10.	ATMs	13,434
11.	POSTs	103,055

Source: Monthly Economic Trend, Bangladesh Bank

3.10 Status of Total Loan, CMSME Loan and Lending through Agent by Banking Sector

Table-3.10 shows the Status Total Loan, CMSME Loan and Lending through Agent by Banking Sector. It shows that compared to Total loans and advances of the Banking sector, Lending to CMSMEs as well as to the Agents has slightly increased in 2022. Besides, percentage of Agent lending compared to total CMSME loans increased more than double to 4.87% in 2022 than 1.27% in 2020.

Table 3.10: Status Total Loan, CMSME Loan and Lending through Agent by Banking Sector (BDT in Crore)

Year	Total Loan & Advanced	Total CMSME Loan	CMSME % of Total Loan	Total Lending by Agent	Agent Lending % of Total Loan	Agent Lending % of Total CMSME Loan
2020	1175000	149203.6	13%	1893.1	0.16%	1.27
2021	1324410	178760.9	13%	5346.1	0.40%	2.99
2022	1502610	211527	14%	10306	0.68%	4.87

Source: Financial Stability Report 2022 and SMESPD, Bangladesh Bank

4. Policy and Guidelines of Agent Banking in Bangladesh

4.1 Introduction

Agent banking operation are conducting in Bangladesh according to Payment Systems Department through Agent Banking Guidelines 2013 (Circular No: 05, dated: 09 December 2013) for the Banks and Prudential Guidelines for Agent Banking Operation in Bangladesh-2017.

Agent banking operation will be conducted through Unit Agent. Each agent banking outlet will be monitored by adjacent branch of the respected bank. Unit agent has no ownership and has not considered as an employee of the bank but will operate banking activities on behalf of the bank. An account opened from agent banking outlet will be automatically incorporated with CBS and the account holder of agent banking outlet will be treated as account holder of the respective bank. Biometric finger print/PIN will be used for operating the account. Even going to the branch, agent outlet account holder will perform transaction. Each bank will ensure available facilities to conduct smooth operation of agent outlet customers. All the transaction from agent outlet will be done by prepaid basis. An agent will open a current account in the name of agent with the controlling branch. Each and every financial transaction by the agent outlet will be instantly reconciled with the current account. Cash withdrawal and cash deposit depends on the available balance with the current account. No agent shall relocate, transfer or close its agent banking outlet without the prior written consent of the bank.

4.2 Regulatory Issues

Without having approval from Bangladesh Bank no bank shall be allowed to undertake agent banking business. Bangladesh Bank may withhold, suspend or cancel approval for providing agent banking services if it is detrimental to the public interest. Usual business hours for agent banking outlets should be regular banking hours announced by Bangladesh Bank from time to time. Some other regulatory issues are as follows:

- To establish agent banking services outlet, banks shall give priority to areas where bank branches or other forms of formal banking services access points are not available.
- Banks shall give preference to such places for establishing new agent banking outlets where there is no bank branch or agent point within 1 (one) km radius (with an exception of agent on UDC).
- Banks shall give priority to remote rural areas, chars, islands and other geographical areas with limited accessibility.
- Banks should maintain a minimum ratio of 3:1 for rural and urban agent banking outlets.
- Banks shall put emphasis in its agent banking policies to prioritize low income households, cottage, micro and small businesses without access to formal banking services in the priority areas for opening new accounts.

4.3 Agent Banking Model

An agent can act as agent of more than one bank at a time but at the customer end an agent shall represent and offer banking services of only for a single bank. The bank shall assign one of its branches to be responsible for the agent operating in the designated area of the branch. In the customer end the transaction should be operating through ICT devices that are continuously and uninterruptedly integrated to the system developed by banks. The transaction should be executed on real time basis. The bank shall brand agent banking business in such a clear manner so that the customer can realize that the agent is providing services on behalf of the bank.

Usual business hours for agent banking outlets should be regular banking hours announced by Bangladesh Bank from time to time.

4.4 Who can be an Agent?

Proprietor, Partner, Pvt. limited company, Pharmacy, Post office, Pump owner, Chain shop, NGOs, Union Information and Service Centre (UISC).

4.5 Permissible Agent Banking Activities

A/C Opening, Cash deposit, Cash Withdraw, inward foreign remittance disbursement, Utility bill payment, Small value loan disbursement and recovery, facilitate social safety net program, Receiving of clearing cheque, RTGS, Fund transfer etc.

4.6 Prohibited Activities

- a. Giving final approval of opening of bank accounts and issuance of bank cards/ cheques,
- b. Dealing with loan/ financial appraisal
- c. Encashment of cheques and d. Dealing in Foreign currency

4.7 Charge for the Services

Agents are not allowed to charge customers directly any fee beyond banks prescribe fees. Bank shall pay reasonable fee/commission to their agents.

4.8 Anti-Money Laundering Compliance

Agent banking activities must comply with Anti-Money Laundering (AML)/ Combating the Financing of Terrorism (CFT) related issues by ensuring KYC, SAR/STR etc. tools.

4.9 Risk Mitigation

Banks must ensure a control environment to mitigate all kinds of risk. Banks should pay special attention to credit risk, operational risk, legal risk, liquidity risk, reputation risk, technical risk and compliance with rules for combating money laundering and financing of terrorism. An effective and proper training shall be arranged before and during the agent banking operation.

4.10 Internal Audit and Monitoring

The banks must formulate internal audit policy to monitor and control agents. They should visit the agent's outlets at a regular interval to ensure that the agents are working in accordance with the terms and conditions of the agreement and following the rules and regulations issued by regulators.

4.11 Dispute Resolution

The bank needs to ensure adequate measures for dispute resolution. The bank must run a call centre to receive and process dispute 24 hours a day via phone, SMS, IVR and mail. Each of the disputes must be resolved within 3 working days.

5. Overall Activities and Status of Agent Banking in Bangladesh

5.1 Introduction

Agent Banking is facilitating customers full-fledged banking services to their doorsteps, and making suitable channeling of remittance, depositing and withdrawal of cash and supporting small loans for cottage micro and small enterprises and also for agricultural farmers at low cost. Now people in many remote areas of the country are able to receive easy banking facilities with comfort. The government's social safety-net benefits, including elderly, widow and disabled allowances are being reached to disadvantaged segments in a timely and cost-effective manner. Salary payment and other financial services to Ready-Made Garment (RMG) workers have been started through this platform. Advantages of Agent Banking broaden smiles of the beneficiaries of a number government and non-government development programs. With the support from the government's Union Digital Center (UDC) and City Digital Center (CDC) expedites its specialized banking service to grassroots. Agent Banking is a business model heading through a journey taking along entrepreneurs, remittance partners, development partners, Government visioning the outcomes of new employment generation, business expansion of the CMSE enterprises, retail loans for individual, strengthen farmers and digitization of mattress money for a thriving economy like Bangladesh. Bank-wise number

of agents and outlets are shown in Table-5.1. In Bangladesh, 31 commercial banks are involved in Banking with the 15540 agents and 21448 outlets. Most of the agents (8.99%) and agent outlets (85.5%) are in the rural areas.

Table 5.1: Bank-wise Number of Agents and Outlets

Sl.	Bank Name	No. of Agents			No. of Outlets		
		Urban	Rural	Total	Urban	Rural	Total
1	AB Bank PLC	54	105	159	57	118	175
2	Agrani Bank PLC	36	530	566	36	530	566
3	Al-Arafah Islami Bank PLC	101	407	508	88	642	730
4	Bank Asia PLC	492	4527	5019	500	4616	5116
5	BRAC Bank PLC	210	743	953	223	821	1044
6	Dutch-Bangla Bank PLC	623	462	1085	1156	5015	6171
7	Eastern Bank PLC	33	39	72	22	58	80
8	Exim Bank PLC	4	6	10	4	8	12
9	First Security Islami Bank PLC	11	84	95	10	85	95
10	Global Islami Bank PLC	8	7	15	7	9	16
11	Islami Bank Bangladesh PLC	180	2521	2701	180	2521	2701
12	Jamuna Bank PLC	11	33	44	11	33	44
13	Meghna Bank PLC	9	16	25	13	13	26
14	Mercantile Bank PLC	34	148	182	34	148	182
15	Midland Bank PLC	20	67	87	19	89	108
16	Modhumoti Bank PLC	35	566	601	36	572	608
17	Mutual Trust Bank PLC	56	127	183	52	141	193
18	NRB Bank Limited	3	303	306	4	305	309
19	NRB Commercial Bank PLC	53	564	617	62	568	630
20	One Bank PLC	60	159	219	60	162	222
21	Padma Bank PLC	1	0	1	3	4	7
22	Prime Bank PLC	25	98	123	24	99	123
23	Shahjalal Islami Bank PLC	36	79	115	36	79	115
24	Social Islami Bank PLC	60	304	364	55	315	370
25	Sonali Bank PLC	10	217	227	10	217	227
26	SBAC PLC	4	20	24	4	20	24

		No. of Agents			No. of Outlets		
Sl.	Bank Name	Urban	Rural	Total	Urban	Rural	Total
27	South East Bank PLC	12	74	86	10	78	88
28	Standard Bank PLC	1	16	17	1	16	17
29	The City Bank PLC	143	405	548	151	409	560
30	The Premier Bank PLC	34	57	91	57	98	155
31	United Commercial Bank PLC	129	368	497	184	550	734
Grand Total		2488	13052	15540	3109	18339	21448
Percentage		16.01%	83.99%	100%	14.5%	85.5%	100%

Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

5.2 Products and Services of Agent Banking

Agent Banking provides almost all types of banking services except foreign exchange transactions. This service started eliminating difference of time and distance. Agent banking has reached the doorsteps of people and provided the following products and services according to the prescribed guidelines of Central Bank:

- i. **Cash deposit and cash withdrawal:** Customers can transact by opening different types of conventional and Islamic banking accounts i.e. savings A/c, current A/c, term deposit, SND, SME A/c, Tk 10 A/c and school banking A/c. However, there are restricted limits on cash deposits and cash withdrawals. In general, the maximum number and volume of transactions for client at agent banking outlet should not exceed the limits pacified in Table 5.2.

Table 5.2: Daily Number of Transactions and Amount (BDT in Lac) Limit

Nature of Accounts	Cash Deposit		Cash Withdrawal	
	No. of Transactions	Total Volume	No. of Transactions	Total Volume
Current Account	4	6.00	2	5.00
Savings Account	2	4.00	2	3.00
Special Notice Deposit (SND)	4	6.00	2	3.00

- ii. **Inward foreign remittance disbursement:** Inward foreign remittance can be sent from abroad to a secret number or directly disburse through the account.
- iii. **Disbursement and repayment of loans:** Some banks are giving small loans through agent banking including personal loan, agriculture and CMSEs. However, all types of loans can be disbursed and collected through agent banking.
- iv. **Collection of bills/ utility bills:** All types of utility bills can be paid through agent banking. At present REB, DPDC, DESCO, DESA, WASA, GAS bills are being deposited through various agent outlet.
- v. **Collection of insurance premium:** All types of insurance premium deposits are available through agent banking. BANCASSURANCE has now brought new opportunities for agent banking.
- vi. **Payment of retirement and social benefits:** Common people are getting government's social safety-net benefits, including elderly, widow and disabled allowances easily through agent banking.
- vii. **Payment of salaries:** Employee salaries can be easily paid through agent banking. Agent banking makes payment of salaries to garment workers easier and accounts are maintained at low cost for them.
- viii. **Transfer of funds:** Agent banking has made transactions in any bank easier from rural areas. Though small limits can be transacted but rural trading has become easier.

**Table 5.2: Daily Number of Transfer of Funds and Amount
(BDT in Lac) Limit**

Nature of Accounts	Transfer/BEFTN/RTGS/ Inter-bank/Intra-bank	
	No. of Transactions	Total Volume
Current Account	4	15.00
Savings Account	2	5.00
Special Notice Deposit (SND)	4	10.00

- ix. **Balance enquiry:** People who do not have banking literacy can easily know their balance through agent banking.
- x. **Generation and issuance of mini bank statements:** Customers get mini statement assistance from agent banking and can also receive complete bank statements if required.

- xi. Collection of documents in relation to accounts:** Agent can collect all documents related to banking deposits and loans in favor of the bank. The bank's head office or zonal/ regional office conducts operations based on the documents collected by the Agent outlet.
- xii. Collect account opening forms, loan application forms, credit and debit card applications:** Agent can collect documents related to debit card processing, credit card processing, loan application, check book issuance, check clearing, mobile apps, online buying and selling and all these services can be availed by agent banking customers.
- xiii. Monitoring and recovery of loans and advances sanctioned by the bank:** Banks can easily monitor and recover rural CMSE and Agri loans by involving agents.
- xiv. Any other activity as Bangladesh Bank may prescribe from time to time.**

5.3 Status of Agent Banking Operations in Bangladesh

5.3.1 Overview of Agent Banking Activities in Bangladesh

Table-2.3 focuses on the coverage, customer penetration, collection of deposit, ratio of male-owned and female-owned accounts, disbursement of loan and the inward remittances through agent banking.

Table 5.3: Overview of Agent Banking Activities in Bangladesh

Particulars	Sep '22	Sep'23	Growth %
No. of Banks with License	31	31	0.00
No. of Banks in Agent Banking	31	31	0.00
No. of Agents	14,663	15,540	6.00
No. of Outlets	20,177	21,448	6.30
No. of Accounts	16,780,576	20,684,537	23.26
No. of Female Accounts	8,195,790	10,287,881	25.50
Number of Rural Accounts	14,471,090	17,818,966	23.10
Amount of Deposits (BDT crore)	306,631.97	352,007.62	14.80
Amount of Loan Disbursed (BDT crore)	88,809.02	141,926.50	59.80
Amount of Inward Remittance (BDT crore)	1,066,287.97	1,364,732.63	28.00

Source: Quarterly Report on Agent Banking, July-Sep 2022 and July-Sep 2023, Bangladesh Bank

5.3.2 Scenarios of Deposit and Lending through Agent Banking

Table-5.4 shows the different aspects of deposit and lending through Agent Banking. At the end of September 2023, the total amount of deposit through agent banking reaches BDT 352,007.62 million. The major share of deposit (79.03%) has been collected from the rural areas where deposit in male customers' accounts (56.27%) is significantly higher than that of female customers (34.12%). In addition, that savings accounts comprise 44.37% of the total deposit while other categories of accounts including institutions and term deposit comprise 49.44% of the total deposit and current accounts comprise 6.19% of the total deposit.

Table 5.4: Deposit and Lending through Agent Banking

Item	Amount of Deposit (million)	% (Sep 2022)	Amount of Deposit (million)	% (Sep 2023)	Growth (%)	Amount of Lending (million)	% (sept 2022)	Amount of Lending (million)	% (sept 2023)	Growth
	Sep 2022	%	Sep 2023	%		sept 2022	%	sept 2023	%	
Urban	64534.58	21.05	73824.82	24.08	14.40	31365.38	35.32	32987.71	36.74	5.17
Rural	242097.40	78.95	278182.80	90.72	14.91	57443.64	64.68	56799.21	63.26	-1.12
Male	179387.46	58.50	198075.20	64.60	10.42	70097.89	78.93	71,605.07	79.75	2.15
Female	105080.87	34.27	120109.60	39.17	14.30	10179.35	11.46	11968.59	13.33	17.58
Others	22163.64	7.23	33822.76	11.03	52.60	8531.78	9.61	6374.87	7.10	-25.28
Current	18908.79	6.17	21778.45	7.10	15.18	N/A	N/A	N/A	N/A	N/A
Saving	145359.78	47.41	156198.50	50.94	7.46	N/A	N/A	N/A	N/A	N/A
Others	142363.40	46.43	174030.70	56.76	22.24	N/A	N/A	N/A	N/A	N/A
Total	306631.97	100.00	352007.62	114.80	14.80	88809.02	100.00	89786.93	100.00	1.10

Source: Quarterly Report on Agent Banking, July-Sep 2022 and July-Sep 2023, Bangladesh Bank

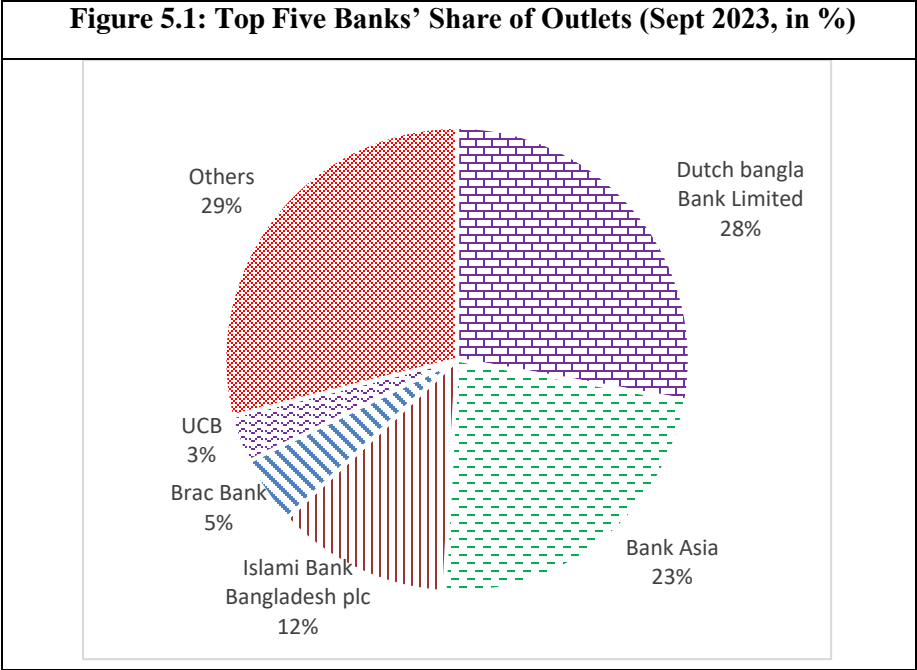
From the Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank it is evident that as of September 2023, the lending through agent banking rises to BDT 141,926.50 million. The volume of total loans has increased by 8.82% over the previous quarter, where rural customers have

received BDT 89,786.93 million (63.26%) of the total loan disbursed through agent banking channel.

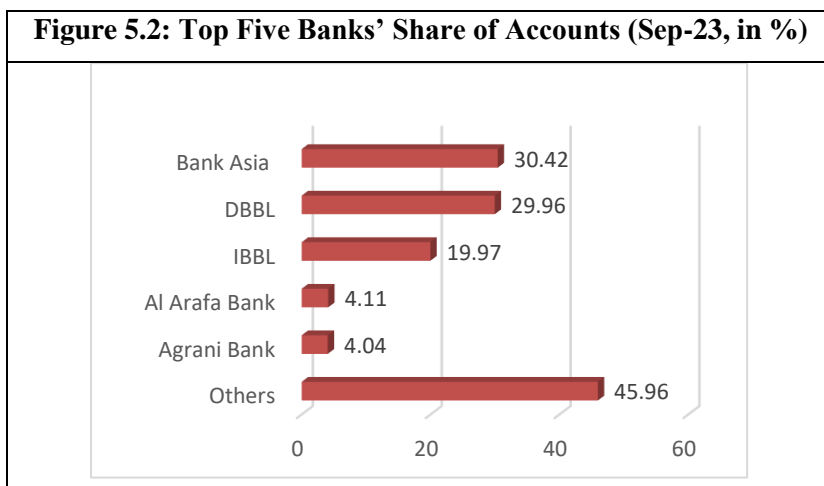
Male borrowers have received BDT 112,922.9 million (79.57%) of the total loan compared to female borrowers who have received only BDT 18,923.73 million (13.33%). The variation in male and female borrowers may be due to banks’ lack of confidence in the female customers for various reasons while making lending decisions or female customers’ limited participation in rural enterprises.

5.3.3 Top Five Banks’ Share of Outlets and Account

The Dutch-Bangla Bank PLC, Bank Asia PLC, Islami Bank Bangladesh PLC, BRAC Bank PLC and United Commercial Bank PLC are the top 5 banks in Bangladesh banking sector which are engaged in agent banking. As of June 2023, the top five banks have established 73.51% of the total agent outlets. Dutch-Bangla Bank Limited has ranked the top with 6,171 outlets, comprising 28.77% of the total outlets (Figure-5.1) under operation.



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

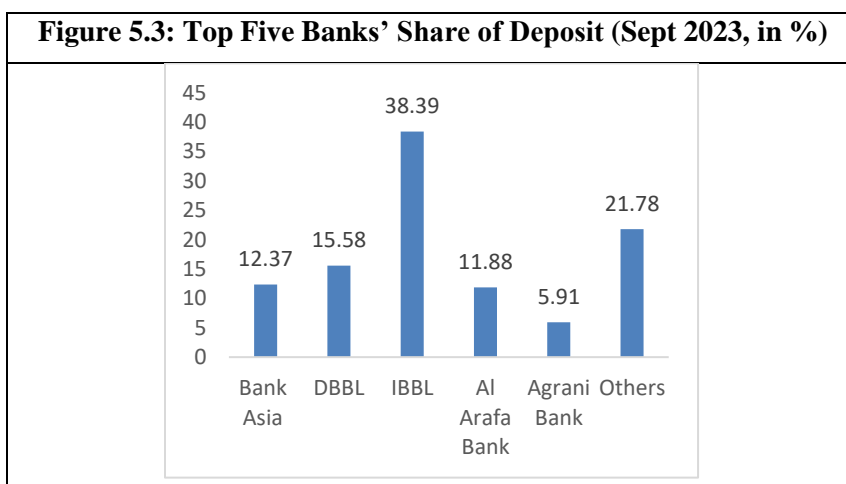


Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

Besides, these Banks have opened 88.48% of the total accounts opened through agent banking. Bank Asia Limited has opened the highest number of 6,291,411 accounts, comprising 30.42% of the total accounts (Figure 5.2). That bank has opened 152,297 new accounts in this quarter.

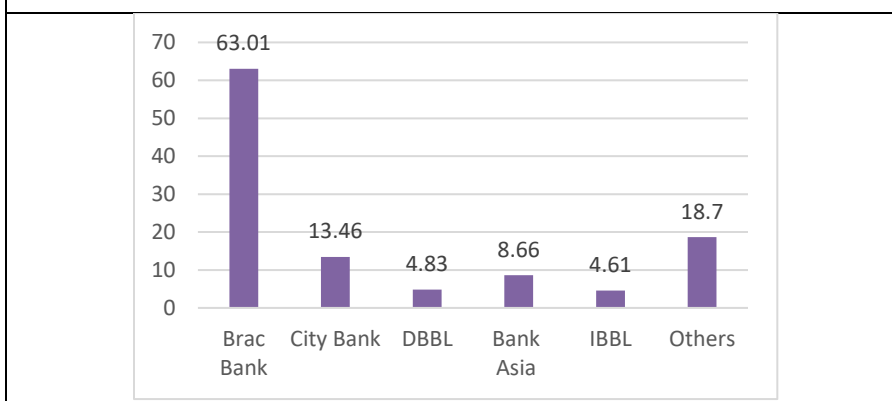
5.3.4 Top Five Banks' Share of Deposit and Lending

As of September 2023, the top five banks have secured 84.22% share of the total amount of deposit accumulated through agent banking. Islami Bank Bangladesh PLC has ranked top in this list, with 38.49% of the total deposit (Figure-5.3) amounting BDT 135,477.98 million followed by the Dutch-Bangla Bank PLC with 15.58% of the total deposit.



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

Figure 5.4: Top Four Banks' Share of Lending (Sep-23, in %)



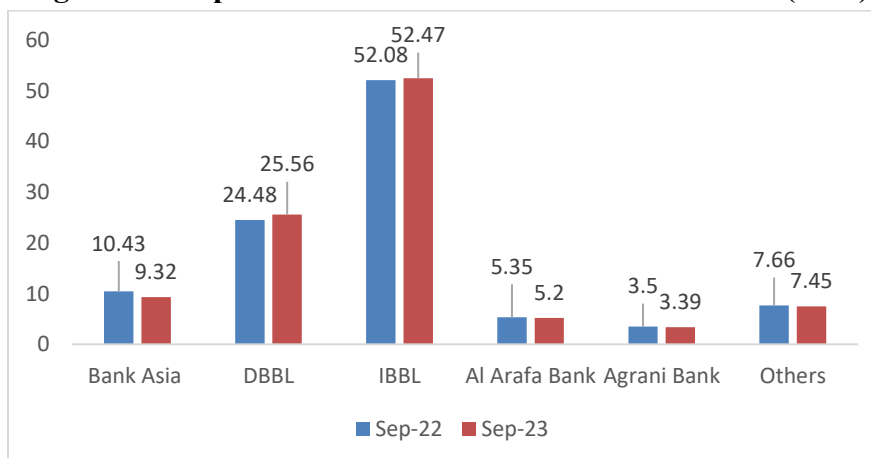
Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

The top five banks have carried out 94.57% of the total lending through agent banking till September 2023. BRAC Bank PLC has ranked the top with the largest volume of lending amounting to BDT 89,428.72 million, which is 63.01% of the total loans disbursed through agent banking (Figure 5.4).

5.3.5 Top Five Banks Share of Inward Remittance

The top five banks have 95.94% share of the total inward remittances distributed through agent banking as of June 2023. Islami Bank Bangladesh PLC ranks the top with BDT 716,111.25 million, which is 52.47% of the total inward remittances distributed through agent banking (Figure-5.5).

Figure 5.5: Top Five Banks' Share of Inward Remittance (in %)



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

6. Survey Findings and Observations

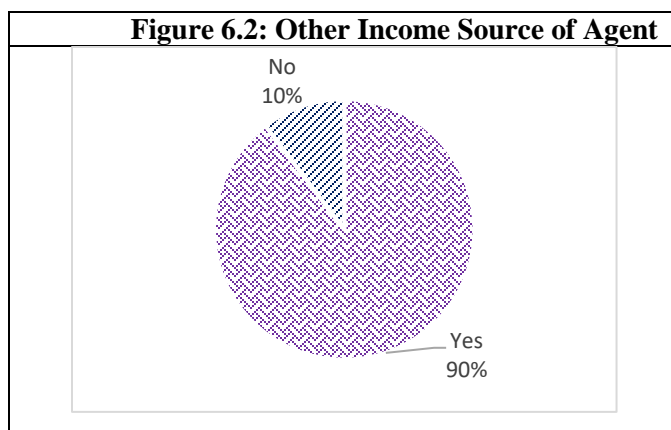
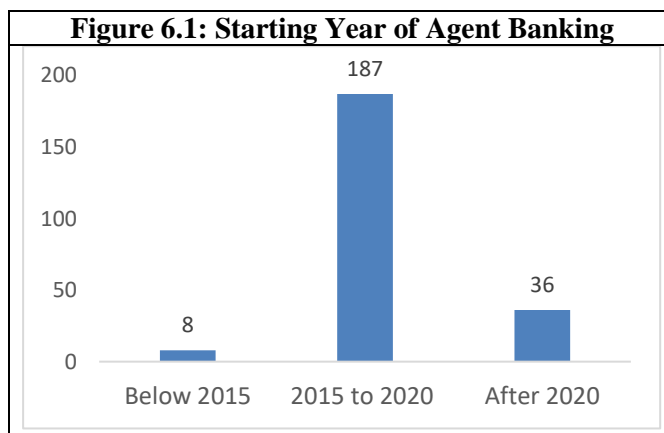
This section presents the study findings and analysis based on the survey results. The findings from agents are discussed and analysed in Section 6.1 and Section 6.2 presents the finding and analysis based on banks' responses.

6.1 Findings from Agents

The responses received from the agents to identify the actual activities and lending scenarios through agent banking are presented as follows.

6.1.1 Respondents' Profile: Starting Year of Agent Banking and Other Income Source of Agent

The survey results revealed that out of the total sample (232), majority (187) of the agents started their business between 2015 to 2020 (Figure-6.1) and 89.66% of total sampled agents has other sources of income (Figure-6.2).



6.1.2 Services Provided through Agent

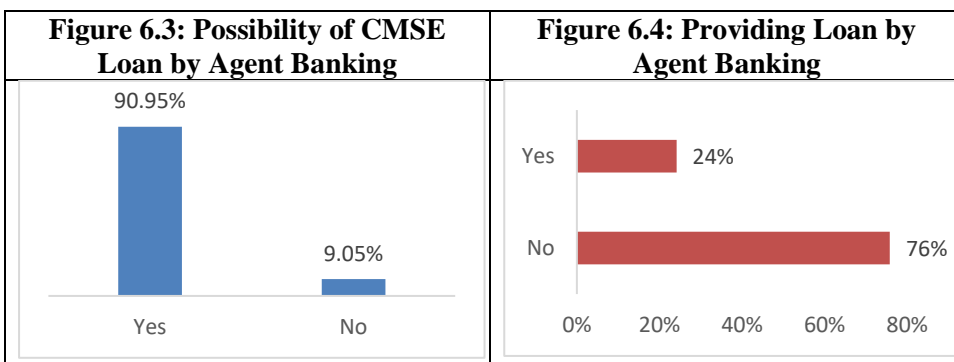
The agents are engaged in offering following services as mentioned in the Table-6.1.

Table 6.1: List of Services Provided by Agent

Sl.	Services
1	Account opening, deposit, and withdrawal services.
2	Issuance of checks, ATM cards, and electronic fund transfers (EFT).
3	Real-Time Gross Settlement (RTGS) services.
4	Fixed Deposit Receipts (FDR) and various types of loans, including personal, farming and special loans for women.
5	Mother and child support allowance.
6	Elderly support, widow's allowance, and disability support.
7	Insurance premium collections.
8	Payment of electricity bills.
9	Handling other utility bills.
10	Online fund transfers.
11	Provision of account statements.
12	Handling passport fees, visa statements, and MetLife services.
13	Progoti Sandhani and government allowances.

6.1.3 Possibility and Providing Loan by Agent Banking

According to the survey findings, a lion portion of the agents (90.95%) opined that CMSE loan can be disbursed through the agent banking (Figure-6.3). However, the findings evident that at present only 24 % (Figure-6.4) of the gents provide the loan through their agent outlets. It is important to note that sampled agent distributed 21% of loan against the deposit they have collected.



Although many of the agents think that they are confident to provide loan by their outlet, but they cannot offer this service as banks are reluctant to distribute the loan through agents. Agents cited several reasons for not providing loans by them which is mentioned in Table 6.2.

Table 6.2: Reasons not to Provide Loan by Agent

Sl.	Responses
1	Bank authorities have not taken necessary measures to provide CMSE loans
2	Documents verification problems
3	Only personal loan is disbursing no CMSE loan
4	Sometime we refer CMSE customer to the bank
5	We don't like to take the risk of loan recovery
6	Don't know how to select a loan customer
7	Non-approval for disbursing loans through agents
8	Non-cooperation of bank authorities
9	Authorities are reluctant to give loans to small businesses by agent
10	The bank lacks a policy to disburse loans via agent banking outlets
11	Challenges related to manpower, both in terms of quantity and support
12	Loan processes have not started from the bank
13	There is no contract with the bank during the agent's appointment

6.1.4 Problems Faced by Agent while Providing Loan

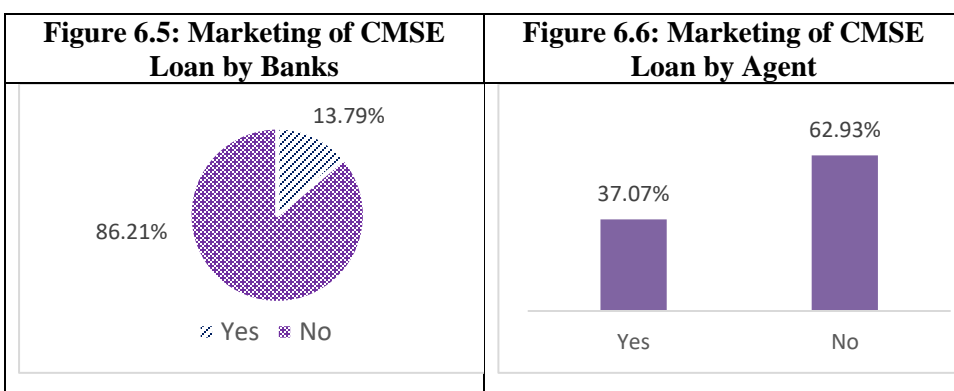
The agents mentioned the problems associated with providing loan as shown in Table-6.3.

Table 6.3: Problems Faced by Agent while Providing Loan

Sl.	Responses
1	The maximum loan limit is up to 5 lacs
2	Correct and appropriate documents are not readily available
3	Collateral is required but most of them do not have
4	There is a need to collect necessary documents, which takes a long time
5	Proper land documents are often not available for use as collateral
6	Lengthy loan approval times
7	Loans are restricted through agent banking outlets
8	Lack of cooperation from banks' authorities
9	Authorities reluctant to give loans to small businesses through agents
10	Customers lacking necessary documents, trade licenses, and savings preservation
11	Lack of belief from banks about the agent's ability to repay the loan
12	Lack of a policy to disburse loans via agent banking outlets
13	Lack of manpower for loan processing
14	Challenges in obtaining guarantor documents and TIN

6.1.5 Marketing of CMSE Loan by Banks and Agent

A few of the banks are disbursing loan through their agent outlets. CMSE customers around the agent outlet must aware about the availability of loan in the agents. In this regard, majority of the agents (86.21%) stated that dedicated officials of banks marketing their CMSE loan near the agent outlet (Figure-6.5). Around 37% of the agents also claimed that they are marketing the CMSE loan in their areas (Figure-6.6).



6.1.6 Role of Agent for Recovery of Loan

Although agents are not disbursing the loan directly, they play several roles for recovering the loan amount. The role of agents in recovering the disbursed loans are summarized in Table-6.4.

Table 6.4: Role of Agent for Loan Recovery

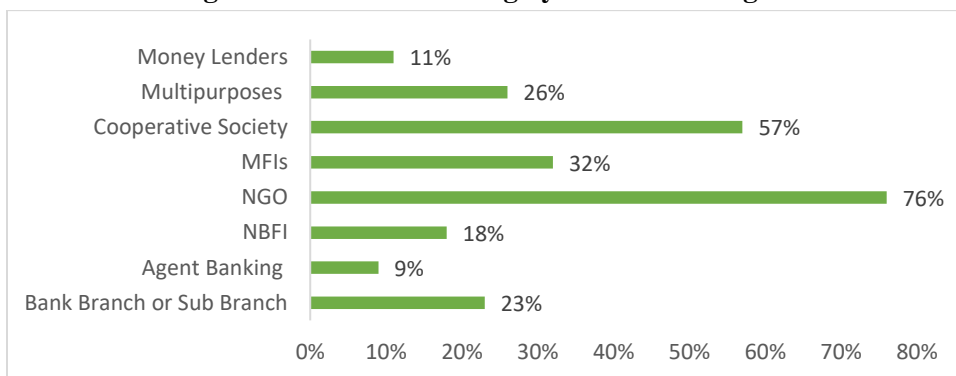
Sl.	Responses
1	Agents are associated with the team of bank to recover the loan
2	Sometime we communicate with the customers
3	Customers are informed by phone before the due date every month
4	Encouragement is given to customers to avoid fines
5	Customer visits are conducted to encourage instalment payments
6	Strong monitoring is conducted
7	Meetings are held with customers who are unable to provide instalments
8	Physical visits to customers are made to pressure them to pay instalments

From the questionnaire survey it is evident that only 6.03% of the respondents opined that they get some commission from the banks for providing and recovering the loan. According to their opinion 5.56 % of the loan are classified out of total loan providing from their agent outlets.

6.1.7 Loan Providing by Others near Agent

From Figure-6.7, it is evident that many actors are engaged in providing loan to different borrowers nearby agent locations. NGOs are the highest (76%) provider of loans to the borrowers followed by the cooperative society (57%), MFIs (32%), multipurpose samities (26%), bank branch/sub-branch (23%), NBFIs (18%), money lenders (11%), and the agent banking (9%).

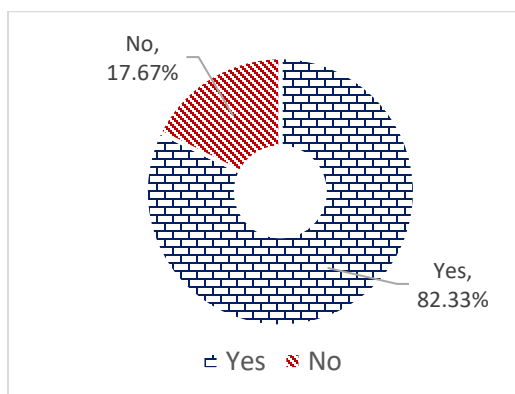
Figure 6.7: Loan Providing by Others near Agent



6.1.8 Satisfaction of Agent with the Banks' Services while Lending

Most of the banks are not disbursing CMSE loan through agent outlets. However, a few of the banks provide small loan through the agents' references and also utilize the agent outlets to recover the loan. As per the opinion of the majority of agents (82.33%), they are satisfied about the banks services while lending (Figure-6.7).

Figure 6.7: Satisfaction of Agent with the Banks' Services while Lending



Although a majority of the agents are satisfied with the banks services in case of lending, around 18% of them showed their dissatisfaction which are listed in Figure-6.5.

Table 6.5: Dissatisfaction of Agent while Lending

Sl.	Responses
1	Long processing time for loans
2	Borrowing from alternative sources is quicker and almost collateral-free
3	Despite high demand, loans are given to a fewer number of people
4	Document processing takes a considerable amount of time
5	Improvement needed in the quality of service
6	Lack of facility to disburse loans through agents

6.1.9 Advantage of Loan other than the Agents

Banks are offering lending services through agent banking in a limited scale. Therefore, most of the CMSEs are still trying to fulfill their financing need from many other sources. According to the opinion of the agents, CMSE customers are getting much more advantages from the other sources than banks while borrowing (Figure-6.8).

Figure 6.8: Advantages of Loan other than the Agents



6.1.10 Important Factors in Disbursing Loans through Agents

While disbursing loan through agents, banks need to consider the following aspects as mentioned in Table-6.6.

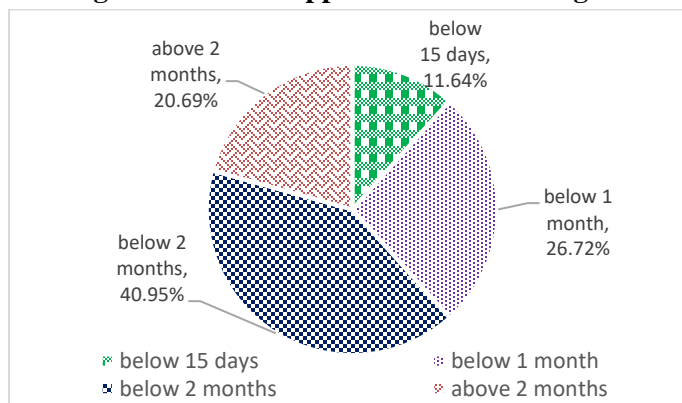
Table 6.6: Considerable Factors in Disbursing Loans through Agents

Sl.	Responses
1	Adoption of a fast loan disbursement system by the bank
2	Confirmation of the customer's required documents for loan disbursement
3	Desire of banks to give loans through agents for easier accessibility
5	Emphasis on choosing the right customers
6	Continuing communication with customers after the loan is disbursed
7	Local agents can monitor easily because of good familiarity with customers
8	Consideration of the customer's financial behavior and business status.
9	Banks officials should work closely with agents
10	Consideration of cashflow and guarantor rather than more collateral
11	Courtesy and cooperation from bank authorities.
12	Providing training to agents for CMSE loan disbursement
13	Simplify the loan disbursement process
14	Reducing documentation requirements
15	Providing services within a short period

6.1.11 Loan Approval Time from Agents

From the survey findings it is evident that bank's loan processing and approval time is higher through agent banking network. According to the opinion of the agents, most of the small loan take (41%) from 1 month to 2 months for getting approval from banks (Figure-6.9).

Figure 6.9: Loan Approval Time from Agents



6.1.12 Disruption of Agent Banking Activities Due to Banks Terms and Conditions

Agent banking activities may be disrupted due to certain terms and conditions imposed by banks as shown in Table-6.7.

Table 6.7: Disruption of Agent Banking Activities due to Banks Terms and Conditions

Sl.	Responses
1	Most of the agents are closely located
2	One bank to other bank money transfer is not possible
3	Communication issues between the Head Office (HO) and agents.
4	Lengthy loan processing time creates customer satisfaction
5	Delay of decisions due to the absence of banks' officials near agents
6	Fund limitations in vault affecting the ability to disburse loans
7	Banks are not permitting small business loan through agent
8	Challenges related to engagement of cheques and foreign currency exchange.
9	Problems with customers regarding loan limits.
10	Agent bank operations being disrupted as all services are not available as per contract
11	Discrimination of commissions among banks agents leading dissatisfaction among agents

6.1.13 Agents Expectation from Banks to Work More Effectively

To make agent banking more effective, the expectations of the agents from banks are summarized in Table-6.8.

Table 6.8: Agents' Opinions Regarding their Expectation from Banks

Sl.	Expectations from Banks
1	Providing logistic support to improve operational efficiency
2	Permitting different types of small loan disbursement
3	Ensuring better cooperation from bank officers
4	simplifying CMSE loan processing
5	Imparting IT training for skill enhancement
6	Including services, especially for schools and local institutions
7	Presence of a bank officer regularly at agent outlets
8	Adding 'SOD' facility against customers' account with agents
9	Allowing higher transaction limits
10	Simplifying the documentation for loan disbursement
11	Increasing service commissions for agents
12	Enhancing stronger internal and external supervision
13	Seeking help for server-related issues

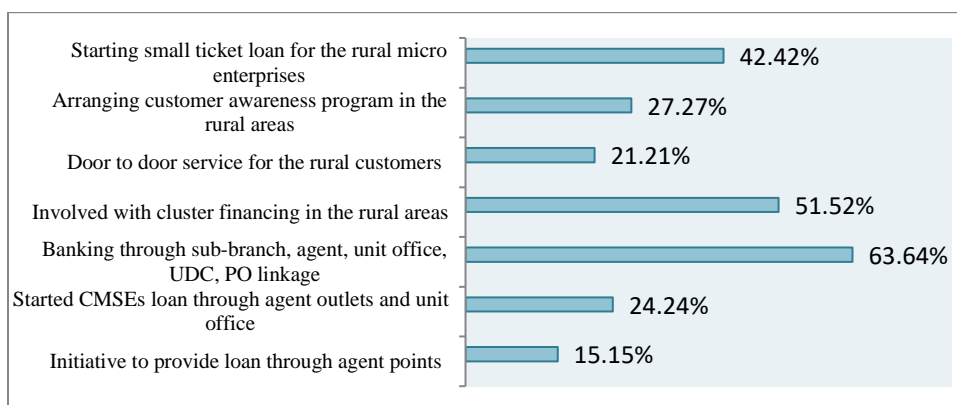
6.2 Findings from Banks

The responses received from the higher officials of banks working closely with the agent banking activities to identify the lending scenarios through agent banking are discussed below.

6.2.1 Current Initiatives of Banks to Serve Rural Areas

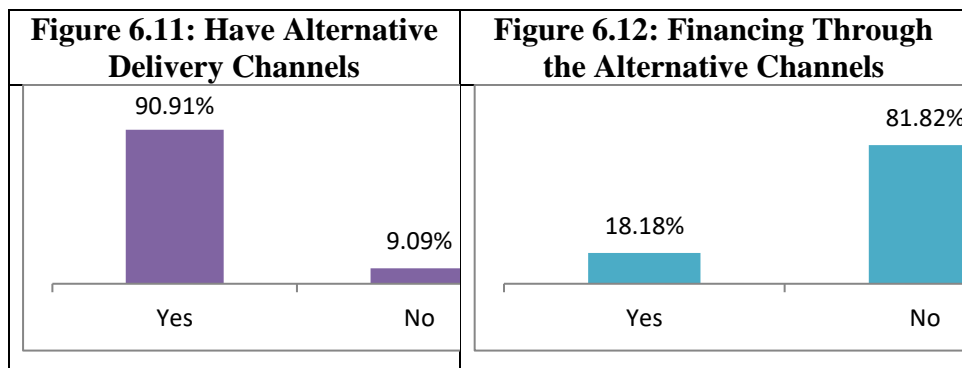
To reach the dispersed CMSEs located in the rural areas of Bangladesh, different banks have taken a number of initiatives as shown in Figure-6.10.

**Figure 6.10: Initiatives of Banks to Reach Rural CMSEs
Entrepreneurs**



6.2.2 Existing Alternative Delivery Channels (ADCs) and Financing through the ADCs

90.91% banks have alternative delivery channels (Figure 6.11) but only 18.18% use the ADC as mode of financing (Figure-6.12)

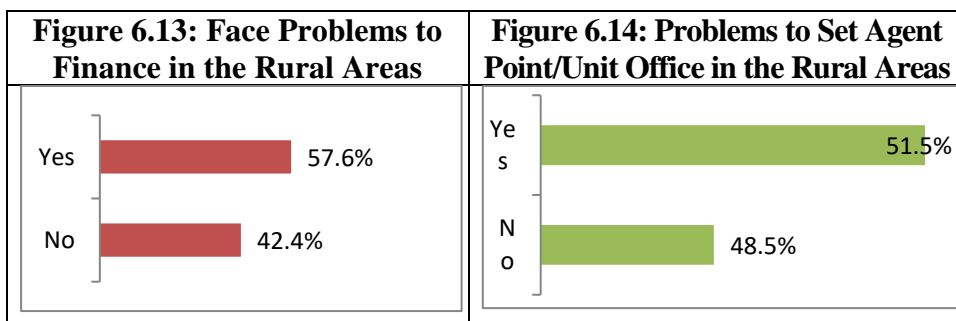


Banks often face different challenges from its other competitors than bank as shown in Box 6.1 and there are several reasons of underserved rural CMSEs by the banking sector as mentioned in the Box-6.2.

Box 6.1: Threats Banks are Facing from Competitors other than Banks	Box 6.2: Reasons of Underserved Rural CMSEs by Banking Sector
<ul style="list-style-type: none"> - Offered Collateral free loan - Flexible in documentary requirements - Less security requirement to provide loan. - Local competitors are well known to CSMEs - Customers do not like banking Process - Some of the competitors do not assess properly - Provide personal loan which CMSE use for the business - Offer very small ticket loan 	<ul style="list-style-type: none"> - Many CMSME clients in rural areas are still out of consideration due to security and collateral issues - Lack of innovation in banking services and products - Lack of start-up financing - Most of the banks are not capable to reach the rural areas CMSEs - Lack of efficient manpower to work in the rural areas - Many customers do not visit the banks and go elsewhere - Some customers are not the qualified loan customers - Most of the micro businesses do not have trade license

6.2.3 Problems of Banks to Finance in Rural Areas and Setting Agent Point/Unit Office

Around 58% banks revealed that they face problems while financing in the rural areas (Figure-6.13) and 51.5% have problem in setting agent point/unit office in the rural areas (Figure-6.14).



Some of the problems that the banks are facing in financing CMSEs in the rural areas are mentioned in Box-6.3.

Box 6.3: Reasons of Underserved Rural CMSEs by Banking Sector

- Opening branch or sub-branch is costly	- Clients are not fully prepared for getting loan
- The clients of rural area still prefer to take loan from NGO, Samiti, multipurpose or Moneylenders to avoid banking process	- Non-availability of security
- Regular Supervision and monitoring are difficult	- Hard to reach the clients located in the remote areas
- Lack of business plan & technology-based products	- Most of the business do not have trade license
- Lack of sector specific skilled manpower	- Repayment behavior differs from area to area
- The absence of SMEs support centers	- Lack of banking network & mind set of the Banks
	- Absence of technology-based products

Over four-fifths (82.4%) of banks identified the requirements of rigorous supervision and monitoring of the agents, the lack of which may distort the overall credit discipline in the CMSE sector. The banks have to select an agent, based on the location of borrowers, agent's capacity and skill, and commercial viability.

6.2.4 Problems to Set Agent Point/Unit Office in the Rural Areas

Banks cited a number of problems while setting agent point / unit office in the rural areas which are shown in Figure-6.15.

Figure 6.15: Problems to Set Agent Point / Unit Office in the Rural Areas (Multiple Responses)



6.2.5 Challenges of Banks Dealing with Existing Agents

Banks are facing several challenges while dealing with the agents as mentioned in Table-6.8.

Table 6.9: Challenges faced by Banks in Dealing with Agents

Sl.	Challenges
1	Selection of agent through proper appraisal
2	Prescribed low commission discourage people to get the agency
3	Network/Server problems and not to enter into server in closed day
5	Difficult to provide lending services through agent
6	Long time to issue cheque book
7	Time to time close monitoring is very difficult from branch
8	Longer time to get approval from branch for account opening/KYC and others
9	Low commission for remittance discourages the agent to serve
10	Customers cannot see the account balance without their finger print
11	Difficulties to arrange sufficient training for agent owner
12	Proving marketing, decoration and other support services is difficult
13	Some fraudulent activities of few agents degrade the banking sector image
14	Cash collection from agents located in the remote areas is costly and difficult
15	Customers do not open FDR or deposit for large amount for getting fear with agents

6.2.6 Reasons Cited by Banks not Lending Directly through Agents

Commercial banks now offering some loan services through agent banking directly. As per the opinion of the banks, lending directly through agents is very difficult for various reasons as stated in Table 6.10.

Table 6.10: Reasons for not Lending Directly through Agents

SL.	Responses
1	Agents do not have proper expertise to assess credit proposal
2	Lack of adequate banking knowledge
3	May select wrong customers and bias for someone
4	Agents are not interested to take default risk
5	Agents cannot sue against borrower and ultimate liability goes to the banks
6	Lack of monitoring and recovery expertise
7	Whimsical decision of agents will increase the default risk
8	Lack of knowledge regarding credit documentation
9	Huge manpower and logistics set-up are required
10	Document verification and mortgage procedures are difficult for agents

8. Recommendations

The study raises various issues in the seminar for discussion. Based on the observations and findings of the survey, secondary data analysis and accommodating the comments of seminar participants, the study recommends the following:

One, CMSEs are very heterogeneous and scattered throughout the country, therefore, it is absolutely impossible for banks to reach all the qualified customers through the branch. Since the existing market structure is not sufficient enough for rural CMSE financing banks may start thinking about extensive financing through agent banking along with the deposit mobilization. Banks may higher some contractual employees (to reduce the administrative cost) and tag them with the agent after providing adequate training on lending along with lending mechanism. The contractual credit officer then does the feasibility assessment of the loan request coming through agent and send them to the branch or head office for quick decision.

Two, Many banks claimed that they have competitors other than banks in rural areas for financing CMSEs and they are facing various threats from those competitors namely offering small ticket loan, loan without trade license, provide personal loan, and also because most businesses in rural areas are micro businesses. Banks may differentiate cottage and micro from CMSME and consider small ticket loan by agent through analyzing the transactions behavior of customers with agent. Agent will select the customers, assess primarily and then send the proposal to the branch for approval. The branch manager may have the authority to approve the loan up to a certain limit with proper responsibility. Finally, the agent monitors and recover the loan. In this case, banks may consider the business volume and the future prospects of CMEs rather than asking so many documents and collateral.

Three, Due to the distance of bank's branch and sub-branch, CMSEs face various problems (cost and time requirement, business operation disturbance, get instant service, fail to do transaction on time, communication interruption), banks may start app-based banking in rural areas utilizing the agent. Banks may provide the agent an app developed by banks. When any loan request received by the agent, they will collect necessary documents and a snapshot about the business and will do the KYC primarily. Agent then send them to the branch or head office using the prescribed app. After assessing the enterprise, the credit officer will take decision and can sanction credit to the quality customers within very short time. Subsequently, the local officers frequently monitor those businesses along with the agent, collect installments and deposit to the agent.

Four, Now-a-days, cluster-based financing is gaining popularity all over the world. In Bangladesh, there are also various clusters in different locations and most of them are in rural areas. Since opening bank branch or sub-branch everywhere is not feasible, banks may design some cluster-based schemes and establish agent near to the specific cluster to provide banking services including lending to those clusters. This will reduce the cost and can generate more business for banks. Agent will find out the potential borrower, collect necessary papers as prescribed by banks, send them to the nearest branch for approval and subsequently monitor and recover the funds. Selected bank officials will frequently supervise the agent's lending activities.

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Appendix I: Questionnaire for Agents

Questionnaire for the Agents (‘প্রশ্নপত্র’)

ব্যাংক এর নামঃ

উত্তরদাতার নামঃ

এজেন্টের ঠিকানা, মোবাইল নম্বর সহঃ

১. আপনি কোন সালে এজেন্ট ব্যাংকিং শুরু করেছেন?

২. আপনার এজেন্ট ব্যাংকিং ছাড়া অন্য কোন ব্যবসা/ আয়ের উৎস আছে কি? হ্যাঁ না

৩. ব্যাংকের কি কি সার্ভিস আপনার এজেন্টের মাধ্যমে দেয়া যায়?

..... যে ব্যাংকের এজেন্টশিপ পরিচালনা করেন সেই ব্যাংক কি এজেন্ট ব্যাংকিং এর মাধ্যমে এসএমই ঋণ/ বিনিয়োগ প্রদান করে থাকে? হ্যাঁ না

৪. আপনি কি মনে করেন আপনার এজেন্ট এর মাধ্যমে এসএমই ঋণ দেয়া সম্ভব? হ্যাঁ না

৫. আপনার এজেন্ট হতে এসএমই ঋণ/ বিনিয়োগ দেয়ার ব্যবস্থা আছে কি? হ্যাঁ না

হ্যাঁ হলে, আপনি কি এসএমই ঋণ দিয়েছেন? হ্যাঁ না । না হলে কারন কি?

৬. আপনার আদায়কৃত মোট আমানতের কতটুকু ঋণ বিতরণ করেছেন?%

৭. এসএমই ঋণ দিতে যেয়ে আপনি কি কি সমস্যার সম্মুখীন হয়েছেন?

.....

৮. এসএমই ঋণ মার্কেটিং করার জন্য আপনার ব্যাংকের কোন ডেভিকেটেড অফিসার আছে

কি? হ্যাঁ না

৯. আপনি নিজে কি এসএমই ঋণ মার্কেটিং করেন? হ্যাঁ না

১০. ঋণ আদায়ের ক্ষেত্রে আপনার কোন ভূমিকা আছে কি?

.....

১১. এজেন্টের মাধ্যমে এসএমই ঋণ বিতরণ/ আদায়ে আপনি কি কমিশন পেয়ে থাকেন?

হ্যাঁ না

১২. আপনার পার্শ্ববর্তী প্রতিযোগি প্রতিষ্ঠান কারা এসএমই ঋণ প্রদান করে থাকে?

ক্রমিক নং	প্রতিষ্ঠান	সংখ্যা
১	ব্যাংকের শাখা/ উপশাখা	
২	এজেন্ট ব্যাংকিং	
৩	আর্থিক প্রতিষ্ঠান (NBFIs)	
৪	এন জি ও	
৫	ক্ষুদ্র ঋণ দানকারী প্রতিষ্ঠান	
৬	মাল্টিপারপাস, সমিতি, মহাজন	

১৩. আপনার নিকটবর্তী অন্য ব্যাংকের শাখা/ উপশাখা থাকায় আপনার এসএমই ঋণ দিতে কি কোন সমস্যা হয়?

.....

১৪. আপনি কি এসএমই ঋণ প্রদানের ক্ষেত্রে ব্যাংকের প্রদানকৃত সেবায় সন্তুষ্ট? হ্যাঁ না ।

না হলে কেন নয়?

.....

১৫. এজেন্ট ব্যাংক ছাড়া অন্য উৎস হতে ঋণ নিলে গ্রাহক কি কি সুবিধা পায়?

.....

১৬. এজেন্ট এর মাধ্যমে ঋণ বিতরণের ক্ষেত্রে আপনার মতে কোন কোন বিষয় সমূহ গুরুত্বপূর্ণ?

.....

১৭. এজেন্ট হতে ঋণ অনুমোদনে গ্রাহকের কতদিন সময় লাগে?

ক) ১৫ দিনের কম খ) ১ মাসের কম গ) ২ মাসের কম ঘ) ২ মাসের বেশি

১৮. এজেন্ট ব্যাংকি হতে এসএমই ঋণ প্রদানে কি কোন সমস্যা হয়?

.....

১৯. আপনার এজেন্ট এর মাধ্যমে প্রদানকৃত ঋণের কতটুকু আদায় করা সম্ভব হয়নি?
.....%

২০. এজেন্ট ব্যাংকিং হতে এসএমই ঋণ আদায়ে কি কি সমস্যা হয়?

.....

২১. ব্যাংকের কোন শর্তের কারণে আপনার এজেন্ট ব্যাংকিং কার্যক্রম ব্যাহত হচ্ছে কি?

.....

২২. ব্যাংক থেকে কি ধরনের সুবিধা পাওয়া গেলে আপনি আরো ভালভাবে কাজ করতে পারবেন বলে মনে করেন?

.....

আপনার সহযোগীতার জন্য ধন্যবাদ।

As a values-based organization, BRAC Bank invests in building the nation with education and development initiatives that contribute to healthy, sustainable and harmonious economic growth.

It gives us immense pleasure to be affiliated with the Bangladesh Institute of Bank Management (BIBM) for publishing a keynote paper of its roundtable discussion. We believe that the new generation of bankers would get access to a pool of knowledge on key functional areas of the banking industry.

We believe that the book will not only empower the professionals with a better understanding of finance but will also broaden their capabilities and help them contribute more to the country's economic prospects.

Our best wishes to BIBM.



Selim R.F. Hussain
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Price: BDT 300.00
USD 8.00