Internship Report
on
Financial Inclusion in Bangladesh

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Semester: Spring: 2021

Submitted to:
Department of Business Administration
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of Bachelor of Business Administration

Sonargaon University (SU)

Dhaka- 1215

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Letter of Transmittal

May 5, 2021
Md. Shahbub Alam
Lecturer
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Internship report.

Dear Sir,

With humble honor and respect, I am submitting my internship report on "Financial Inclusion in Bangladesh". As per partial accomplishment of the requirements for the BBA degree, this internship has been carried out under the supervision of you.

This report is an integral part of our academic courses in completion of the BBA program which has given me the opportunity to have an insight into the core part of topic. I hope this report reflects on the contemporary issues on the finance area that are being practiced by organizations in our country.

In completing the report, I tried my best to blend all my knowledge and imparted every available detail and also attempted to avoid unnecessary amplification of the report.

I humbly request you to accept this report for your kind evaluation.

Sincerely,

Fatima Tuz Zahra
ID: BBA1801013022
Department of Business Administration
Sonargaon University (SU)

Student's Declaration

I, the undersigned, a student of Business Administration, Department of BBA program, Major in Finance of Sonargaon University (SU) do hereby declare that the internship report on "Financial Inclusion in Bangladesh" is the original one and has been prepared by myself and has not been submitted anywhere for any degree, diploma, title or recognition.

The report was prepared under the supervision of Md. Shahbub Alam, Lecturer, Department of Business Administration of Sonargaon University (SU).

Sincerely,

....

Fatima Tuz Zahra
ID: BBA1801013022
Department of Business Administration
Sonargaon University (SU)

Letter of Authorization

Certified that this project report titled **"Financial Inclusion in Bangladesh"** is the bona fide work of **Fatima Tuz Zahra**, who carried out the study under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which degree or award was conferred on an earlier occasion on this or any other candidate.

...

Md. Shahbub Alam
Lecturer
Department of Business Administration
Sonargaon University (SU)

Acknowledgement

At first I want to express my deep gratitude to the Almighty, the most merciful for His kindness to give me the ability to complete this report successfully. I extend my deep gratitude to my supervisor Md. Shahbub Alam, Lecturer, Department of Business Administration of Sonargaon University (SU) for his guidance, suggestions, and encouragement for the preparation of this report. Without his guidance I could not have finished this work on time. He provided me full support and ideas necessary in analyzing the industry and thus to accomplish my goal. To conclude, I am also grateful to all of the respected teachers of the Bachelor of Business Administration for their continuous inspiration, assistance throughout these years.

Executive Summary

Finance is one of the major stands of any organization and an essential ingredient to a successful business, is responsible for acquiring funds for the firm, managing funds within the organization and planning for the expenditure of funds on various assets. It is the part of an organization that assure efficient financial management and financial control necessary to support all business activities. The activities expected from a finance department cover a wide range from basic bookkeeping to providing information to assisting business leaders in making strategic decisions. What to expect from your finance department will depend largely on factors such as how much involvement the owner/manager has in the organization. At the base level, your bookkeeper will be responsible for all the daily transactional accounting for the business. This will include the tracking of all transactions and the management of any government reporting. In very small owner businesses, this role is often filled by a family member with accounting experience. An external accounting firm is usually used for annual financial statements and returns. In larger organizations this role will improve right through to preparing the financial statements with an external auditor engaged for assurance purposes. Bangladesh has made significant advances in economic and social development. Financial inclusion has increased from 31% in 2014 to 50% in 2017.

ACRONYMS

Financial Inclusion	FI
Sustainable Development Goals	SDGS
Bangladesh Bank	BB
Government Of Bangladesh	GoB
Financial Access Survey	FAS
Institute Of Microfinance	InM
Microcredit Regulatory Authority	MRA
Grameen Bank	GB
Micro Credit Regulatory Authority	MRA
Microfinance Institutions	MFIs
Non-Bank Financial Institutions	NBFIs
Non-Governmental Organizations	NGO
Bangladesh Rural Advancement Committee	BRAC

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Chapter: 01

Introduction

1.1. Background

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way (The World Bank). The importance of an inclusive financial system is widely recognized in the policy circle. An inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices. It facilitates a whole range of efficient financial services including credit, insurance and payment services. Inclusive financial system is a very relevant dimension of financial development, which is important for the achievements of SDGs (Sustainable Development Goals). Financial inclusion (FI) has become a significant issue in developing countries like Bangladesh where the large number of people are still far from the access to basic financial services and formal financial institutions. Here access to basic financial services remains a challenge for many, especially women, marginal farmers, informal sector enterprises and other socially excluded groups. Only 31% of the adult population have an account at formal financial institutions. Only 47% of the adult population in 2018 population have an account at formal financial institutions, a 10 percentage-point increase from 2017.

If semi-formal and informal financial services are taken into account, the proportion of adults with access to financial services rises significantly to 79.25%. However ensuring broad-based and inclusive economic growth continues to be a significant challenge for the Government of Bangladesh (GoB), as in the case of many developing countries.

In recent years, Bangladesh has made significant advances in economic and social development. Ensuring continued inclusive economic growth, however, remains a significant challenge. This is further compounded by the fact that close to 70 per cent of its population still live in rural areas. Despite successful case studies of NGO-led poverty alleviation and microfinance programs of BRAC and Grameen Bank, Bangladesh continues to lag behind in global financial inclusion indicators. According to the World Bank's Global Financial Inclusion Index (Global Findex), in 2017, 50 per cent of all adults in Bangladesh owned either a financial institution account or mobile money account. The use of ICTs and other digitally enabled tools to deliver financial services is also low. Among adults who have access to a bank account, only 6% have a debit card. In 2014, only 7.5 per cent used ATMs as the main mode of withdrawal in contrast to 78 percent who used bank teller as the main mode of withdrawal. Rural areas are also significantly under-banked. The Global Findex survey found that only 50 per cent adults living in rural areas have a bank account. Formal financial institutions continue to be concentrated in urban areas and available financial services are disproportionately skewed towards the middle and upper-middle class urban population. For example, rural populations have significantly less access to credit, compared to those living in urban areas.

1.2. Objective

The objective of the study is to assess the status of financial inclusion and exclusion in Bangladesh focusing on some of the initiatives put forth and takes stock of progress in financial inclusion to provide financial services to the excluded groups.

1.3. Methodology

The study used the descriptive research technique to analyze the status of FI. The study represents both quantitative and qualitative data based on observations. The study is based on secondary data from published sources like journals, working papers, books, reports and papers presented at international seminars etc. The demand-side statistics for FI has been taken from the World Bank's Global Financial Inclusion (Global Findex) database, while supply-side statistics has been collected from the IMF's Financial Access Survey (FAS). The overall FI data of Bangladesh has been extracted from recent household demand-side survey by the Institute of Microfinance (InM) of Bangladesh. Financial inclusion is measured as the percentage of adults (15+ years old) who report having at least one account in their name with an institution that offers a full suite of financial services, and comes under some form of government regulation. For the financial exclusion study, geographically disadvantaged areas (like as char areas, haor, tea garden, tribal areas, and ethnic majority areas) were selected for qualitative data collection and therefore, FGDs/case studies were conducted in April 2017 to capture different disadvantaged group characteristics.

1.4. Limitation

Individuals who own accounts with institutions that are not full service, such as credit-only microfinance institutions (MFIs), are not considered financially included. Individuals who do not have their own full-service account or use someone else's account are not considered financially included. Individuals who only use services such as money guards, savings collectors, and digital recharge cards that are not attached to a bank or MFI account are also considered financially excluded. Other challenges include low financial literacy, regulatory challenges, and issues of data collection at disaggregated levels. Financial literacy and awareness has been found to be positively correlated to usage of financial services, and in turn, financial inclusion. Data gaps and insufficient data collection could potentially compound the monitoring and evaluation of policy initiatives. Domestically, BB has never conducted a demographic survey of the financial sector. There are also gaps in data disaggregation by bank account holders' gender, age, and location in rural/urban areas.

Chapter: 02

Concept of Financial Inclusion

2.1. The Importance of Financial Inclusion

Many people around the world live outside the formal financial system. According to the 2014 World Bank Global Financial Inclusion (Global Findex) database, about 2 billion i.e., 38% of working-age adults do not have an account at formal financial institutions. Among the 62% of adults who reported having an account, account penetration also varies significantly between high-income and developing countries. Though account penetration is nearly 89% in high-income economies, it is only 41% in developing economies. People in developing economies must depend on informal mechanisms for loans, savings to protect themselves against risks of uneven cash flows, seasonal incomes and unexpected needs. The absence of FI can also contribute to slower economic growth and persistent income inequality. Allowing broad access to financial services, without price or non-price barriers to their use and offered in a responsible manner benefit poor people and other disadvantaged groups. FI also has many direct benefits to poor households that are using loans or savings to accelerate consumption, absorb shocks such as health issues, or make household investments in durable goods, home improvements or school fees (Collins, et al.2009). Other financial products, such as insurance, can also help the poor manage risks. Research shows that FI can result in women's economic empowerment. There is also macroeconomic evidence to show that economies with deeper financial intermediation tend to grow faster and reduce income inequality (Beck, et al. 2007). The main goal of FI is to improve the range, quality and availability of financial services and products to the un-served, under-served and financially excluded. FI efforts seek to ensure that all households and businesses have access to and can effectively use the appropriate financial services they need to improve their lives. Having greater access to financial services promotes entrepreneurship, lifts people out of poverty, and gives them greater hope for a brighter economic future. For the poor, access to basic financial services such as payments, savings and insurance holds out the potential to generate huge benefits. With improved financial access, families can smooth out consumption and increase investment, including in education and health. They can also insure against unfavorable events—and therefore avoid falling deeper into poverty, which is often the case with such incidents. For firms, especially small and new ones, access to finance can encourage investment in new and more productive technologies. It can also help them expand—hire more people and even mature to a larger scale. Giving due emphasis on the importance of FI, recently many developing countries have made commitments to expand financial services. As of May 2015, government leaders representing 54 institutions across 61 countries had signed the Maya Declaration on FI pledging to recognize the importance of it.

2.2. Definition of Financial Inclusion

Financial inclusion (or, alternatively, financial exclusion) has been defined in the literature in the context of a larger issue of social inclusion (or exclusion) in a society. One of the early definitions by Leyshon and Thrift (1995) defines financial exclusion as "Referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system". According to Sinclair (2001), "Financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about because of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions". According to Conroy (2005), "Financial exclusion is a process that prevents poor and disadvantaged social groups from gaining access to the formal financial systems of their countries". According to Mohan (2006), "Financial exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers". United Nations (2006) in its blue book titled "Building Inclusive Financial Sector for Development" defines FI as "The access to credit for all "bankable" people and firms, to insurance for all insurable people and firms and to savings and payment services for everyone". Kochhar (2009) defined financial Inclusion as "The process of ensuring access to financial services or making available timely and adequate credit when needed by vulnerable groups, such as weaker sections and low income groups, at an affordable cost, it must also be appropriate, fair and transparent. Enabling people to get credit from small institutions, moneylenders and the like is not FI. Access has to be through mainstream institutional players and only then such access will be fair, transparent and cost effective". Rangarajan Committee on FI (RBI, 2008) has defined FI as "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost. The various financial services include saving, loans, insurance, payments, remittance facilities and financial counseling/advisory services by the formal financial system". Cull, et al. (2014) argued, "FI means that all working age adults have effective access to credit, savings, payments and insurance from formal service providers. Effective access involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider with the result that financially excluded customers use formal financial services rather than existing informal options". Subbaro (2013) gives emphasis on financial literacy of the people. According to the author, "FI does not only mean providing financial services. It also includes "financial literacy", meaning financial awareness, knowledge about banks and banking channels, facilities provided by banks, advantages of using banking routes etc. Financial literacy is demand side phenomena and financial inclusion is supply side response." Recently, Cámara and Tuesta (2014), has defined an inclusive financial system as one that maximizes usage and access, while minimizing involuntary financial exclusion. Involuntary financial exclusion is measured by a set of barriers perceived by those individuals who do not participate in the formal financial system. Thus, most of the definitions emphasize financial exclusion to be a much broader issue of social exclusion of certain societal groups such as the poor and the disadvantaged. FI implies an absence of obstacles to the use of financial services, whether the obstacles are price or non-price barriers.

2.3. Measures and Indicators of Financial Inclusion

FI is a measure of inclusiveness of the financial sector of a country. This measurement is composed of a multidimensional index that captures information on various aspects of FI indicators such as banking penetration, availability of banking services and usage of the banking system. There is no standard method to measure financial inclusion. Existing studies offer varying measures of FI. Designing a set of indicators inherently involves making choices about which aspects of FI landscape to include and how performance is measured. How to measure financial inclusion is a topic of concern among researchers, governments and policy makers. Beck et al. (2007) did one of the first efforts at measuring financial inclusion across countries. According to the study, the financial inclusion indicator is a composite indicator of variables pertaining to its dimensions; outreach (geographic and demographic penetration) and usage (deposit and lending).The eight variables used are: number of bank branches per 1,000 square kilometers, number of ATMs per 1,000 square kilometers, number of bank branches per 100,000 people, number of ATMs per 100,000 people, number of loans per 1,000 people, number of deposits per 1,000 people, average size of loans to GDP per capita and average size of deposits to GDP per capita. To date, FI measurement has been mainly approached by the usage and access to the formal financial services by using supply-side aggregate data (e.g. Honohan (2007); Sarma (2008, 2012); and Amidžić et al. (2014)). Three dimensions of an inclusive financial system in Sarma (2008 and 2010) were banking penetration (number of bank accounts as proportion of total population); availability of banking services (number of bank branches per 1,000 population); usage dimension (bank credit and bank deposit as percentage of GDP). Some other works relied on demand-side data, at individual level and firm level, focusing on several access, usage and barriers-related indicators individually (e.g. Demirgüç-Kunt, et al. (2008); Demirgüç-Kunt and Klapper (2013); Cámara and Tuesta (2014)). GPFI (Global Partnership for Financial Inclusion) recommended the G20 Basic Set of financial inclusion at the G20 Los Cabos Summit in 2012. It is a more comprehensive and holistic set of financial inclusion indicators. They recommended measurement of financial inclusion in three dimensions including: (i) access to financial services; (ii) usage of financial services; and (iii) the quality of the products and the service delivery. Based on the above studies, we can summarize the most commonly used financial inclusion dimension and indicators as follows:

Dimension-1: Ownership of bank Account

- Account Penetration: Number of account as a proportion of the total population. A count of the number of bank account gives an idea of the percentage of people who are aware of banking and what percentage still needs to be included. The commonly used indicator is:
  1. The number of bank account (per 1,000 people).

Dimension-2: Outreach / Availability of Services

Financial inclusion does not end with opening of bank accounts. What matters ultimately is the availability of banking services to finance by the mass people.

- Demographic Penetration: It measures the average number of people served by each bank branch or ATM. Higher numbers imply that there are fewer clients per branch or ATM and also indicates easier access to banking services. The commonly used indicators are:
  1. Number of branches (per 1,000 population),
  2. Number of ATMs (per 1,000 population
- Geographic Penetration: It measures the distance of each bank branch or ATM from clients. Higher number indicates smaller distance to nearest physical bank outlets and easier geographical access. The commonly used indicators are:
  1. Number of branches (per 1,000 sq.km),
  2. Number of ATMs (per 1,000 sq.km)

Dimension-3: Usage of Services:

- Once the financial services are made available to customers ensuring easy access, it is important to measure the actual use of the services by the mass public to get benefit of financial inclusion. The commonly used indicators are:
  1. Volume of deposits as a percentage of GDP
  2. Volume of credit as a percentage of GDP
  3. Number of regulated deposit accounts per 1,000 adults
  4. Number of regulated loan accounts per 1,000 adults
  5. Number of household depositors per 1,000 adults
  6. Number of household borrowers per 1,000 adults

Dimension-4: Quality of Services

- Ease of transaction: Locations to open deposit account, locations to submit loan account, disclosure requirement and dispute resolution.
- Cost of usage: Annual fees of account, amount of fees for using ATM cards.

Some other proposed indicators for financial inclusion by different authors are:

- Outreach dimension: electronic/mobile money transactions; dimension of gender; dimension of access by less privileged people;
- Regional dimension: Rural urban population; access to finance to certain occupation;
- Quality dimension: Financial literacy etc.

Chapter: 03

Overview of Financial Inclusion in Bangladesh

3.1. Characteristics of the Financial Services Market in Bangladesh

The financial system of Bangladesh is comprised of three broad fragmented sectors, formal sector, semi-formal sector and the informal sector (Figure-1). The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (NBFIs), Insurance Companies, Capital Market Intermediaries and Micro Finance Institutions (MFIs). The semi-formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non-Governmental Organizations (NGOs and discrete government programs). The informal sector includes private intermediaries, which are completely unregulated.

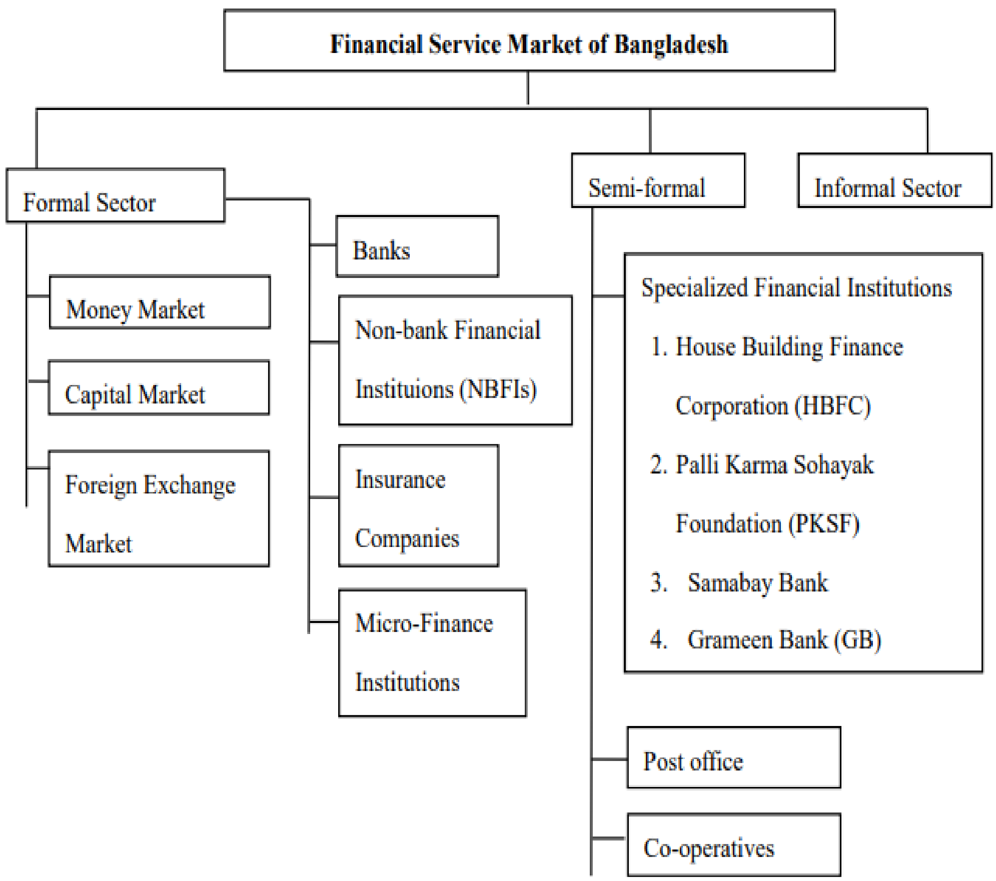


FIGURE 1: Financial Service Market of Bangladesh

3.1.1. The Banking Sector

The banking sector comprises of scheduled and non-scheduled banks. Scheduled banks are classified into four categories of banks: 6 State-owned Commercial Banks (SCBs), 3 specialized development banks (SDBs), 42 Private Commercial Banks (PCBs) and 9 Foreign Commercial Banks (FCBs). As of May 2021, there are 61 scheduled banks, (43 PCBs). There are now five non-scheduled banks called Development Financial Institutions (DFIs). Scheduled banks are operated under full control and supervision of central bank (Bangladesh Bank) under the Bank Company Act, 1991 (Amended 2013), and are able to perform all functions of a bank. Banks, which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as non-scheduled Banks. These banks cannot perform all functions of scheduled banks. As on 31 December 2019, total number of branches of the 59 scheduled banks were 10,578. Among these, 48.51 percent (5131) of the bank branches were in rural areas and the rest (5447 branches or 51.49 percent) were in urban areas. The SCBs had 2018 rural branches and 1755 urban branches. Specialized banks had 1205 rural branches and 278 urban branches. Private commercial banks had 1908 rural branches and 3349 urban branches. Foreign commercial banks had total 65 branches. At the end of December 2020, the banking sector had a combined network of over 10588 bank branches. The total asset of the banking sector stood at Tk. 17147.8 billion in 2020.

Table 1. Banking System Structure

Bank Type	No. of banks	Number of branches	Total assets (billion BDT)	Percent of industry assets	Deposits (billion BDT)	Percent of deposits
SCBs	6	3775	4222.7	24.6	3193.8	25.4
SDBs	3	1483	368.3	2.2	324.6	2.6
PCBs	42	5265	11562.2	67.4	8497.9	67.5
FCBs	9	65	994.6	5.8	569.0	4.5
Total	60	10588	17147.8	100.0	12585.3	100.0

Source: Bangladesh Bank Annual Report 2019-2020

3.1.2. Non-bank Financial Institutions

Table 2. Performance of NBFIs of Bangladesh

Year	No. of NBFIs	Total Branches	Total assets	Deposits	Loans/Lease
			(in billion Tk.)		
2014	31	195	520.1	238.5	372.8
2015	32	210	611.0	318.1	448.5
2016	33	224	713.9	382.4	530.7
2017	34	254	839.9	468.0	580.4
2018	34	262	851.6	466.2	641.9
2019	34	273	871.5	451.9	678.1
2020*	35	276	860.3	441.2	669.54

* As of 30 June 2020. Source: Annual Report 2019-2020 - Bangladesh Bank

There are currently 35 non-bank financial institutions providing long-term financing, savings and equity services. In comparison to the banking sector, non-bank financial institutions are small and relatively underdeveloped. Non-Bank Financial Institutions (FIs) are those types of financial institutions which are regulated under Financial Institution Act, 1993 and controlled by Bangladesh Bank. Now, 34 FIs are operating in Bangladesh while the maiden one was established in 1981. Out of the total, 2 is fully government owned, 1 is the subsidiary of a SOCB, 15 were initiated by private domestic initiative and 15 were initiated by joint venture initiative. NBFIs are investing in different sectors of the economy. NBFIs are also contributing to the SMEs sectors. The above table (Table-2) is showing the performance of NBFIs in the financial sector.

3.1.3. Insurance Companies

Presently 62 insurance companies (18 are Life Insurance Companies including 1 foreign company and 1 is state-owned company, and 44 General Insurance Companies including 1 state-owned company) are providing insurance services to the nation. The regulatory body for insurance sector is the Insurance Development Regulatory Authority (IDRA). In life insurance business, Bangladesh is ranked 53rd among the 88 countries, according to the data published by Swiss Re. Bangladesh's share in global life insurance market was 0.04 percent during 2017. At the end of 2017, the Gross Premium Income was Tk. 2981.43 crore. Total asset of Life insurance companies stood at Tk. 37052.36 crore and the total asset of general insurance companies stood at Tk. 2981.43 crore. Despite having large number of insurance providers and rapid growth of the industry, there are few insurance services for low-income consumers.

3.1.4. Microfinance Institutions

Table 3. Basic Statistics of NGO-MFIs in Bangladesh

Particulars	2014	2015	2016	2017	2018
No. of licensed NGO-MFIs	742 (Canceled 45)	753 (Canceled 56)	758 (Canceled 78)	783 (Canceled 84)	805 (Canceled 100)
No of branches	14,730	5,609	16,284	17,120	18,196
No. of clients (Million)	25.11	26.00	27.79	30.82	31.22
Total borrowers (Million)	19.42	20.35	23.28	24.94	25.40
Loan outstanding (Tk. Billion)	282.20	352.41	459.37	583.62	673.90
Savings (Tk. Billion)	106.99	135.41	171.19	216.71	262.96

Source: MRA-MIS Database-2014 and 2018

Microfinance services are provided by NGOs, Grameen Bank, state-owned commercial banks, private commercial banks, and specialized programs of GoB. In this sector, the MRA (Micro Credit Regulatory Authority) licensed NGO-MFIs has grown significantly over the last two decades, and serving over 31 million clients. As of 2018, 805 (Canceled 100) NGO-MFIs had been licensed to provide microfinance services with about 18000 branches. NGO-MFIs have become prominent players in the financial services market in Bangladesh. These institutions have reached such segments of the population and sectors of the economy that have little or no access to the commercial banks and other financial service providers. Concerning MFIs, the Microcredit Regulatory Authority (MRA) regulates micro finance institutions under the Microcredit Regulatory Authority (MRA) Act of 2006.Grameen Bank (GB) is an exception, however, as it continues to operate under the Grameen Bank Act 2013 (It replaces the previous Grameen Bank Ordinance 1983). Services provided by these institutions typically include general loans for small-scale self-employment activities, microenterprise loans, agricultural loans, as well as loans for disaster management. Some MFIs also provide voluntary savings and time deposits. These institutions also provide micro-insurance facilities for its clients. This micro-insurance schemes covers health, life, loans, livestock and disaster. The above table (Table-3) provides basic statistics of NGO-MFIs.

3.1.5. Co-operative Societies

Cooperative societies are autonomous groups of persons who voluntarily cooperate for their common economic interest, based on the values of self-help, self-responsibility, democracy and equality, equity and solidarity. Cooperatives in Bangladesh are organised under the Department of Cooperatives in the Ministry of Local Government and Rural Development of Bangladesh. According to the latest report, there are 190 360 cooperatives in Bangladesh, among which 22 are at the national level, whereas 1160 and 189 181 are in the form of central-level and primary-level cooperatives. The total enrollees of cooperatives are 10 333 310. Notably, this number includes only members, and not their spouses or dependents. Hence, it can be argued that much of the about 160 million Bangladeshi population is covered in some manner under the umbrella of these cooperative societies. Cooperative societies act as a risk management strategy for members, working on the basic principle of risk pooling during illness. This risk-pooling mechanism can mitigate the consequences of dependence on out-of-pocket payments to finance healthcare, thereby facilitating the move towards Universal Health Coverage.

The Healthcare Financing Strategy of Bangladesh proposed extending health coverage to the entire population, together with mechanisms for financing. Cooperative societies can provide a platform to engage a large number of people regarding healthcare financing. Cooperative societies act as a risk management strategy for members, working on the basic principle of risk-pooling during illness. It is possible for cooperatives to consult with public health facilities and other healthcare providers for affordable inpatient care. It is also possible that a public health authority could ensure health service for all members of particular cooperative with an agreed payment basis. This risk-pooling mechanism will mitigate the consequences of dependence on out-of-pocket payments and finance healthcare, moving towards universal coverage.

The government of Bangladesh is committed to spreading the cooperative movement across the country to ensure the socioeconomic and cultural emancipation of the people. In addition, the Department of Cooperatives is preparing a comprehensive marketing plan that will facilitate the production, storage, processing, transportation and marketing of products provided by the members of cooperatives. However, although cooperative societies represent a strong entry point, there remain some common problems, such as internal conflict among members, lack of democratic practice, lack of leadership, lack of professional management, political interference and lack of investment, which can hinder them from taking advantage of new opportunities. There is no shortcut to UHC. A high level of political commitment, a high societal value placed on health and an effective evidence-based process for policy development and implementation are essential to achieving UHC. Therefore, policymakers, including the Department of Cooperatives and the relevant ministry, might adopt initiatives to promote the concept of UHC. In addition, it is necessary to explore how to best create intersectoral policies to address health needs sustainably and thereby achieve the SDGs in Bangladesh, involving the cooperatives to ensure healthy lives and promote well-being for all, at all ages, by 2032.

3.1.6. Mobile Financial Services

Mobile devices have increasingly become tools that consumers use for banking, payments, and shopping. The use of mobile financial services among consumers has continued to increase and the range of services offered has continued to expand. Bangladesh Bank has introduced Mobile Financial Services (MFS) in 2011. Initially MFS was used as a mode of payment instrument, but later MFS is being used as a medium of deposit mobilization also. MFS has experienced a rapid growth since the mobile phone network is omnipresent all over in Bangladesh. Bangladesh Bank has also introduced a tiered KYC and electronic documentation for opening an MFS account which further accelerated financial inclusion.

At the early stage, MFS transactions were limited to Cash-in/Cash-out (CICO), but now all mode of transactions including Person to Person (P2P), Person to Business (P2B), Business to Person (B2P), Person to Government (P2G) and Government to Person (G2P) are allowed and popularly used.

MFS has grown exponentially since the inception and the growth continued in FY20. In a recent move, in line with the Government's decision, Bangladesh Bank has instructed all MFS companies to open accounts of the garment workers, receivers of government subsidies, stipend, scholarship, etc. and allow them withdrawal of their hard-earned money with subsidized cash-out fee. The number of registered and active MFS clients increased by 22.47 and 18.83 percent respectively during this fiscal year. The transaction number and volume were also increased by 28.35 and 41.38 percent respectively.

3.1.7. Postal Service

The Post Office Department plays an important role in the financial services market of Bangladesh. Post office offers savings services on behalf of the Directorate of National Savings (DNS) under the Ministry of Finance through its Post Office Savings Bank. The Bangladesh Post also offers Postal Insurance Schemes. From 2010, the Post Office launched a new mobile money order service known as "Electronic Money Transfer System". The Post office also launched a prepaid ATM card known as "The Postal Cash Card" in 2010, as well as a mobile banking service, "Post e-Pay", in 2012.

Overall, the financial services market in Bangladesh has made considerable progress towards financial inclusion. Not only are banks and other formal financial institutions beginning to address the needs of underserved markets, MFIs, the Post Office, and new branchless banking channels are now playing an important role in reaching the unbanked population. The Post Office Department of the government has of late been more actively engaging with banks and other external and internal remittance intermediaries to offer faster remittance deliveries to recipients. Regardless of however much the private sector remittance and mail/parcels delivery services improve, role of the publicly owned postal services is likely to remain necessary in catering to the needs of the remoter, sparsely populated areas that will be seen by the private sector as expensive and unprofitable to reach out to.

Chapter: 04

Analysis of the Study

4.1. Access to Financial Services in Bangladesh

Among South Asian countries, Bangladesh has been ensuring higher intensity of access of households to financial services. Enhancing the reach of formal financial services has become a priority for the government. This part will focus on overall state of financial inclusion status of the country. Financial inclusion activities started even before the independence of the country in 1971, with the establishment of the Bangladesh Academy for Rural Development (BARD), via the cooperative agricultural development model. After independence, the process of including the poor into different financial benefit programs continued under various government safety net programs of the government and under the activities of the BRAC (Bangladesh Rural Advancement Committee)-a leading NGO. The establishment of Grameen Bank in 1983 by government legislation further paved the way for increased robustness of the microfinance sector in the country. Bangladesh is a pioneer in empowering the poor by broadening the base of financial access through several types of financial institutions. Along with the formal banking sector, there are non-banking financial institutions, cooperatives, microfinance institutions and other government non-government financial institutions providing different financial services to the poor population. The following table (Table-4) depicts the scenario of overall financial inclusion of people above 15 years of age in 2018. The overall state of financial inclusion shows that, despite significant progress in the recent years, various indicators of financial inclusion still show poor values.

Table 4. The Overall State of Access, Use and Ownership of Accounts in Bangladesh

Financial Access Indicator	Value, (% of population age 15+)		
	Bangladesh	South Asia	Lower Middle Income
Account ownership all adults	50.0	69.6	57.8
Account ownership women	35.8	64.1	53.0
Financial institution account	41.0	68.4	56.1
Mobile account	21.2	4.2	5.3
Used an account to receive private sector wages	3.5	4.8	5.5
Used an account to receive government payments	…	7.1	8.3
Used an account to pay utility bills	10.0	7.1	7.5
Used a mobile phone or the internet to access an account	22.4	7.1	8.3
Used a debit or credit card to make a purchase	..	10.0	10.0
Used the internet to pay bills or to buy something online	3.5	4.5	6.8
Saved at a Financial Institution past year	9.9	17.2	15.9
Saved using a savings club or person outside the family	11.7	10.2	13.0
Borrowed from family or friends	21.4	31.3	30.4
Borrowed from a financial institution or used a credit card	9.2	7.8	9.8
Sent or received domestic remittances through an account	12.6	7.6	10.1
Sent or received domestic remittances through an OTC service	8.8	1.9	4.7

Source: The Little Data Book on Financial Inclusion, World Bank 2018

4.1.1. Access to Banks

The banking sector plays an important role in the economy of Bangladesh. Access to formal banking services consists of savings, credit, digital payment services and mobile bank account. From the following table (Table 5) we can observe that although the number of bank branches has increased substantially over the years, the ratio of rural branches with urban branches has declined over the years. The existing rural-urban distribution of bank branches suggests that banks are largely concentrated in the urban areas. Both bank advances and deposits have increased in urban and rural areas over the last two decades. The declining share of rural advances indicates that the banks tend to lend more in urban areas.

Table 5. Trend in Branch, Deposit and Advances by Region, 2015-2020

Year	Number of Branch			Amount of Deposit (in Billion Tk.)			Amount of Advance (in Billion Tk.)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
2015	5334	4063	9397	1575.1	6364.7	7939.8	571.3	5227.3	5798.6
2016	5466	4188	9654	1843.9	7150.3	8994.1	680.0	6006.6	6686.6
2017	5624	4331	9955	2028.7	7837.0	9865.7	839.8	7087.0	7926.8
2018	4985	5301	10286	2142.8	8223.6	10366.4	863.1	7607.1	8470.2
2019	5131	5447	10578	2543.2	9601.3	12144.5	1035.0	9000.5	10035.5
2020*	5136	5452	10588	2619.2	10022.5	12641.7	1084.5	9402.4	10486.9

* As of 30 June 2020.Source: Annual Report 2019-2020 - Bangladesh Bank

Table 6. Financial Inclusion Indicator in Commercial Banks

Year	ATM per 1,000km^2	ATM per 100,000 adults	Branches per 1000km^2	Branches per 100,000 adults	Borrower per 1000 adults	Deposit a/c per 1,000 adults	Loan a/c per 1000 adults	Deposit to GDP Ratio	Loan to GDP Ratio
2015	60.22	7.90	73.09	8.61	83.71	699.37	89.47	52.67	40.53
2016	69.42	8.03	75.32	8.71	81.35	744.62	89.76	52.15	40.37
2017	73.60	8.36	77.68	8.82	81.30	788.90	92.57	50.22	42.69
2018	79.37	8.8	80.15	8.94	81.33	855.07	91.76	48.39	42.79
2019	85.62	9.39	82.05	9.00	82.95	927.06	93.02	48.32	41.86

Source: Financial Access Survey (FAS), IMF 2019

As per above table (Table-6), the trends in geographical and demographic penetration indicates that the access to banking services is rising rapidly. The number of borrower, number of deposit account and number of loan account all has raised significantly over the years.

4.1.2. Access to Micro Finance Institutions

Microfinance Loans are well targeted in the sense that their ultimate objective is to gradually alleviate the poverty from the society. Of the total microcredit and microenterprise loan disbursed in 2017-18 was 1,201.91 billion BDT which was in excess 14.91% than the previous years. The number of borrower rose to 25.40 million and 93% of them are women. It covers 15.88% of the total population of Bangladesh. Other large microcredit programs in Bangladesh include Grameen Bank which disburses 207.85 billion BDT, BRDB 13.96 billion BDT and Jubo Unnayan Adhidoptor 1.44 billion BDT. This microcredit especially microenterprise directly affects people as a benefit for the source of working capital. There are different types of loan in this sector including general microcredit, ultra-poor loan, microenterprise loan, house loan etc. In 2013-14, all the MFIs totally disbursed BDT 462 billion which was BDT 634 billion in 2014-15 increasing by 37.23 percent. In 2015-16, total loan disbursement was BDT 787 billion which was increased in 2016-17 by 32.93 percent to BDT 1,046 billion. It was again increased in 2017-18 to BDT 1,201.91. In recent years, micro enterprise lending by MFIs have unique characteristics in terms of their development potentials. Fund injection from banking sector, presence of a higher surplus ability of MFIs as well as the increasing saving tendency of the clients contribute to create the MFIs' high disbursement capacity. In June, 2018 the average loan outstanding per borrower was BDT 26,531 which was BDT 23,400 in the preceding year and in 2017, average disbursement per borrower was BDT 41,940 which reached to BDT 47,319 in 2018 with an increase of 12.83 percent growth rate.

4.1.3. Access to Insurance

In Bangladesh, generally insurance companies both public and private provide life and other insurance. Over the period, the number of insurance companies has grown along with policyholders. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). The sector has reported decrease in insurance penetration from 0.9 percent in 2010 to 0.74 percent in 2014. Since then the level of penetration was declining and dropped to a level of 0.55 in 2017. The level of insurance density reached the maximum of USD 10.2 in the year 2016 from the level of USD 5.8 in 2010. However, it has shown a declining trend in 2017. During the year 2017, the level of life insurance density was USD 8.00 (USD 10.2 in 2016). (Source: Swiss Re, Sigma various issues). Insurance Penetration and density has been calculated from the data (audited) supplied by the insurers of Bangladesh As mentioned earlier, despite having large number of insurance providers and rapid growth of the industry, there are few insurance services for low-income consumers. The MFIs come forward with micro-insurance designed to protect to low income people against specific perils. Now Grameen Bank (GB) and other MFIs under MRA are providing micro-insurance services (covering risk of life, health, accident, property and natural disaster) to their members. The Post offices are also providing Postal Insurance Schemes at a lower cost for the unbanked people.

4.1.4. Access to Post Office Services

The Post Office provides financial services to the people with its wide network of post offices across the entire country. There are about 10,000 post offices providing different services, including letter and document delivery, postal life insurance, savings certificates, fixed deposits and money orders within the country. During 2011-12, deposits balance in the Post Office Savings Bank amounted to Tk.12.19 billion and the balance of postal life insurance savings was 861.3 million. The Postal Department has introduced electronic money transfer service (EMTS) and Postal Cash Card in 2010. Postal Cash Card users have access to all member banks' ATMs and merchant network all over the country. It enables people to remit money to any corner of the country within minutes through a Postal Cash Card.

4.1.5. Access to Mobile Financial Services

The initiation of mobile banking is one of net worthy advancements in banking sector. It is the most responsive inclusionary measure in the financial sector of our country. The main population target of mobile financial service providers has been the unbanked. Every year, a significant portion of unbanked population is coming into the arena of financial services using this facility (Table-7) shows the progress of MFSs within 4 years. It has been able to convey the financial services to those remote areas where people had faced much difficulty in the past. The countrywide coverage of mobile operators' networks and the rapid growth of mobile phone users have made their delivery channel an important tool-of-the-trade for extending banking services to the unbanked population.

Table 7. Indicators of financial inclusion in MFS

Year	No. of agent outlets registered Per 1000km^2	No. of agent outlets registered Per 100000 adults	No. of account registered per 1000 adults	No. of transactions per 1000 adults	Transactions value% of GDP
2016	5463.58	631.90	140.37	13072.29	1.65
2017	6047.62	686.90	183.96	16365.76	1.87
2018	6790.85	757.90	321.15	19490.15	1.43
2019	7468.34	819.18	294.42	21827.90	2.59

Source: Financial Access Survey (FAS), IMF 2016-2019

4.1.6. Access to Co-operatives

Table 8. Financial inclusion indicators for Co-operatives in Bangladesh

Year	Branches Per 1,000 km^2	Branches per 100,000 adults	Borrower Per 1000 adults	Deposit a/c per 1,000 adults	Loan a/c per 1000 adults	Deposit to GDP Ratio	Outstanding Loan to GDP Ratio
2016	1378.21	159.40	94.48	94.48	83.35	0.13	0.65
2017	1353.45	153.40	93.64	93.64	82.62	0.17	0.62
2018	1346.98	150.31	95.17	95.17	83.76	0.17	0.58
2019	-	-	95.96	95.96	84.29	0.46	0.56

Source: Financial Access Survey (FAS), IMF 2016-2019

The above table showing financial inclusion indicators of co-operatives proves the importance of co-operatives in expanding financial inclusion. There are some limitations on the activities of co-operatives. Co-operatives are unlikely to provide any significant capital to business or SMEs. As they are membership based, members are obliged to save before they can borrow. As a result, they are highly capital constrained. However, it is very useful for the poor people and small savers to mobilize savings and take loan in emergencies.

4.2. Financial Innovation and Financial Inclusion

To expand financial inclusion, it is essential to innovate and improvise financial products to make broaden the outreach of financial services offered by institutions. For providing financial services more efficiently at lower costs and at shorter time especially in remote areas, recent technological innovations in the ICT sector has been playing a significant role. Financial institutions especially the banks have rapidly adopted various modern technology such as installation of ATM, POS, introducing credit and debit cards, use of mobile phone, internet banking, on-line banking and tele-banking in providing banking and other financial services. In particular, recent trend in mobile banking indicates that financial inclusion is scaling up rapidly in the country especially in the rural areas and locations where no bank branches are now available. The central bank has undertaken a comprehensive financial inclusion campaign along with moral suasion, a number of policy measures covering opening of bank branches, deposit and credit products, some of which are very innovative for the banking system.

4.2.1. Agricultural Credit

The role of agricultural sector is very important for employment generation and poverty alleviation in Bangladesh. The central bank has taken a number of initiatives to increase flow of funds in rural areas through its intensive financial inclusion strategies. Since 1971, a remarkable amount of refinance facility to BKB (Bangladesh Krishi Bank) and RAKUB (Rajshahi Krishi Unnayan Bank) has been provided for increasing the scope of agriculture and rural credit. The participation of Private Commercial Banks (PCBs) in agricultural credit has also been made mandatory (at least 2.5% of their total loan to the agriculture sector). The policy also aims at reaching every corner to rejuvenate rural economy each year. In addition to financial inclusion, agricultural credit policy helps employment generation, increases agricultural production and ensures food safety for the country. Short-term agricultural credits are generally disbursed to the farmers for the production of crops and those are repayable within a calendar year. So, agricultural credit supply needs to be continued through policy initiatives to retain them in the financial systems. In FY20, a total of BDT 227.51 billion has been disbursed to 3.1 million borrowers of which 1.5 million were women. During FY20, BDT 227.49 billion (94.30 percent of target) has been disbursed as agricultural and rural credit against the target of BDT 241.24 billion through all scheduled (state-owned, commercial and specialized) banks. In recent years, agricultural and rural fi nance program seems to have boosted up as the Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) along with State-owned Commercial bank (SCBs) came forward to disburse agricultural credit in the country. The actual disbursement of BDT 227.49 billion in FY20 against the disbursement target of BDT 241.24 billion was 3.67 percent lower than the actual disbursement of BDT 236.16 billion in FY19. During FY20, recovery of agricultural credit decreased by 10.49 percent to BDT 212.45 billion from BDT 237.34 billion in FY19. Consequently, the rate of recovery as a percent of due for recovery of agricultural credit was 46.60 percent during FY20 which was lower than that of 55.23 percent in FY19.

4.2.2. Financing Cottage, Micro, Small and Medium Enterprises (CMSMEs) Credit

Cottage, Micro, Small and Medium Enterprises (CMSMEs) have been playing a significant role in employment generation, poverty reduction and overall economic growth of the country. BB has established a new department named "SME & Special Programmes Department" (SMESPD) in 31 December 2009 dedicated for CMSME development in Bangladesh. SMESPD started its journey towards the development of CMSMEs in Bangladesh by improving existing environment in the banking sector through regulatory and policy interventions. Banks and NBFIs have given much emphasis on financing to CMSMEs.

Moreover, BB has undertaken different refinance schemes to provide relatively low cost funding to encourage banks and NBFIs in CMSME financing. To develop CMSME sector, BB has continued its refinance facilities in FY20 for banks and NBFIs against their financing to CMSMEs. Currently, BB is providing refinance facilities to banks and NBFIs from refinancing scheme for agro-based product processing industry; small enterprise; new entrepreneurs in cottage, micro and small industry; Islamic shariah-based financing; JICA assisted financial sector project for the development of SME (FSPDSME) fund and JICA assisted urban Building Safety Project (UBSP). Banks and NBFIs have come forward for financing and development of CMSMEs under close monitoring and supervision of BB. In FY20, all banks and NBFIs have disbursed an amount of BDT 1538.13 billion against 6, 91,664 CMSMEs. On the other hand, 57,228 women led CMSME enterprises received financing of BDT 51.78 billion in FY20 from banks and NBFIs.

A target-based lending to CMSMEs has been initiated since 2010. Until 2019, lending target calculation process was disbursement based. From 2020, lending target is being determined using Net Outstanding method: based calculation process which is initiated by SMESPD Circular No. 02: Master Circular on CMSME Financing, dated September 05, 2019.

During the first half (January-June) of 2020, banks and NBFIs have disbursed BDT 658.3 billion as CMSME credit. The Net Outstanding of CMSME credit is 1902.9 billion, which is 87.3% of the annual CMSME Net Outstanding target (2178.7 billion) for 2020, set by banks and NBFIs. In addition to regular financing from their own fund, banks and NBFIs are also making short to long term financing to CMSMEs through refinance schemes of BB. SMESPD of BB, with the help of government and different development partners, is implementing a total of six pre-finance/refinance schemes for banks and NBFIs currently against their disbursed CMSME credit. All these funds are revolving in nature. In addition to those, three other refinance schemes have been successfully completed. A total amount of BDT 94.30 billion has been provided to different banks and NBFIs under different refinance/ pre-finance schemes up to June 2020 against 65,016 enterprises. Out of the total refinance, BDT 25.64 billion has been provided as working capital, BDT 43.30 billion as medium term loan, and BDT 25.36 billion as long term loan.

Bangladesh Bank introduced a refinancing scheme named Small Enterprise Fund (SEF) of BDT 1.0 billion out of its own fund for supporting the development of small enterprises in the country back in 2004. Later on, to meet up the increasing demand from end borrower especially from women entrepreneurs the fund size has been increased to BDT 15 billion. For accounting purpose, small enterprise refinance scheme maintains 2 different accounts. This is a revolving fund in nature. Hence, recovered amount against refinance is used for further refinance. Up to June 2020, BDT 44.44 billion has been refinanced under this fund among 39,549 enterprises.

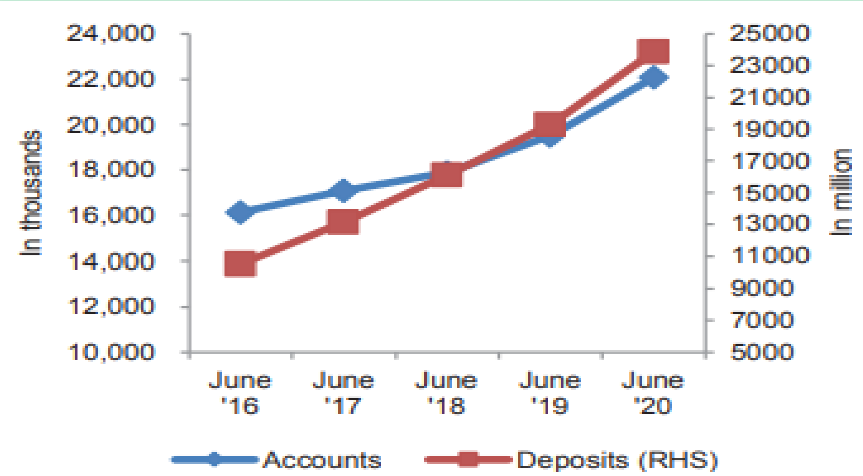
In order to provide start-up capital to new cottage, micro and small enterprises, BB has created a fund worth BDT 1.0 billion from its own source in 2014. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers have the opportunity to get up to BDT 2.5 million CMSE loan with collateral security and up to BDT 1.0 million CMSE loan without collateral security. Rate for such credit is limited at maximum 7.0 percent (3.0 percent for BB + maximum 4.0 percent spread). As of 30 June 2020, a total of 496 new entrepreneurs have been refinanced worth BDT 279.2 million from this scheme.

BB are taking some major initiatives for promoting credit flow to CMSME sector like CMSME credit disbursement target has been revised to be increased to 25 percent by 2021 with minimum 1.0 percent increment in each year. Banks and NBFIs are instructed to disburse 50.0 percent of the total CMSME loan to cottage, micro and small (CMSs) sector by 2021. Banks and NBFIs are instructed to provide three (03) months grace period for one (01) year term loan and three to six (03/06) months grace period for medium to long term loan based on banker-customer relationship. To overcome financial challenges due to outbreak of COVID-19 pandemic government announced stimulus packages of BDT 200.0 billion for the CMSME sector in the country. Under this package, the banks will provide working capital support to the CMSME sector at 9.0 percent interest rate, of which the entrepreneurs will pay 4.0 percent and the rest 5.0 percent will be reimbursed by the government to the banks and NBFIs as subsidy (SMESPD Circular No-01, Date: 13/04/2020 and SMESPD Circular Letter No.-02, Date-07/05/2020). SME & Special Programmes Department has started working on this package. In order to expedite the process of women entrepreneurship development, BB has opened a separate “Women Entrepreneurs Development Unit” in its head office and branch offices. All banks and NBFIs are also advised to open such unit. To ensure loan facility for CMSME women entrepreneurs, banks and NBFIs are instructed to disburse at least 15.0 percent of the total CMSME loan among women entrepreneurs.

4.2.3. No-Frill Accounts (NFAs)

The focus of financial inclusion in Bangladesh rests mainly on low-income groups. Since the financial service is regarded as an important prerequisite for poverty alleviation and improving living standard, Bangladesh Bank issued a set of directives to the commercial and specialized banks to onboard the poor, marginalized and special segment of population to the formal banking system and to retain them in the system through opening a special type of bank accounts with zero or nominal charges and free of unnecessary fees or frills. Those accounts are commonly known as No-Frill Accounts (NFA). NFAs require simplified Know-Your-Customer requirement and documentation. Bangladesh Bank guided commercial banks for opening NFAs for farmers, recipients of the social security programs, freedom fighters, small life insurance policyholders, garment workers, cleaning workers of the city corporations, footwear and leather goods makers, small-scale factory workers, physically-challenged persons, street urchins, dwellers of the former enclaves, flood affected marginal people, small businessmen, etc. In addition, Banks were instructed to offer higher interest rate against the deposits of those accounts. NFAs have been playing a pivotal role in respect to financial inclusion over the years. As of June 2020, a total number of 2,20,70,630 NFAs have been opened under the financial inclusion program. The number was 1,94, and 98,045 in June 2019 indicating an annual growth of 13.19 percent. The total amount of deposits in the NFAs reached BDT 23,867.4 million in June 2020 compared to BDT 19,301.9 million in June 2019 indicating 23.65 percent of annual growth during last year. Trends in NFAs are shown in Table 9.

Table 9. Trends in No-frill Accounts



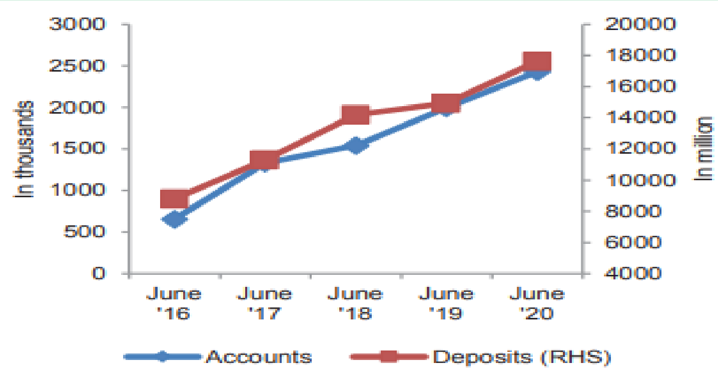
Source: FID, BB.

4.2.4. School Banking

One of the most significant milestones in the financial inclusion initiatives of Bangladesh Bank is the introduction of School Banking. To develop savings habit at a very early age, the program introduces banking services and modern banking technology to students of age less than 18 years. Bangladesh Bank issued directives for the banks to introduce school banking in November 2010, later framed a comprehensive policy in October 2013. These policies have preceded the directive to convert school banking accounts to general savings accounts once the students reach the age of 18 years (subject to the consent of the account holder).

In light of these policies, banks can open student accounts with a minimum deposit of BDT 100 and no service charges. Moreover, these accounts offer attractive interest rates, debit card facility and school-centric financial education programs. 55 banks out of 60 banks operating in Bangladesh have so far offered school banking. Total number of students accounts under school banking initiatives has increased to 24,31,602 in June 2020 with a total deposit of BDT 17,628.2 million. The number of accounts and amount of deposit have increased by 4,35,572 (or 21.82 percent) and BDT 2684.2 million (or 17.96 percent) respectively in June 2020 from June 2019. Table 10 shows the picture of school banking accounts in Bangladesh.

Table 10. Trends in School Banking Activities



Source: FID, BB.

4.2.5. Banking for Working/Street Children

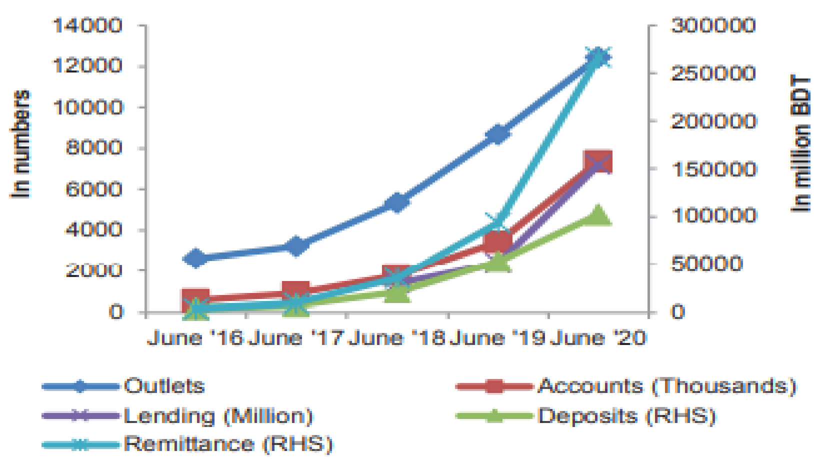
Bangladesh Bank has directed banks to provide financial services to street urchin and working children to secure their hard earned money and help them to grow a saving attitude. Children who do not have parents can open accounts in the banks with the help of the registered Non-Government Organizations (NGOs). The NGOs involved in this process are fully responsible for the account operation and for the welfare of the account holders. No fees are charged on these accounts.

Up to June 2020, 19 banks have opened 10,029 street urchin and working children accounts through the help of 23 NGOs. The total amount of deposits in these accounts is BDT 3.87million. The number of accounts for street urchin and working children has been increased by 4,882 in June 2020 compared to that of June 2019, indicating 94.85 percent increase over the last year.

4.2.6. Agent Banking

Bangladesh Bank allowed scheduled banks to extend banking services through agents in 2013. Agents of a bank can offer limited-scale banking and financial services under a valid agency agreement. Through this system banks can extend their services to the remote areas without setting up a branch or employing their own officials to the remote location. This new system is cost efficient for the banks as well as suitable for a local entrepreneur to act for a bank in their locality. As a result, Agent Banking is gaining much popularity in the remote areas. Financial inclusion has gained a pace through Agent Banking in the rural areas creating endless possibilities for both banks and their customers. Agent banking is helping banks in mobilizing deposits, disbursing credit and most importantly distributing inbound foreign remittances. Even in the time of spreading COVID-19, when every other business and banking activities saw a downturn, the Agent Banking has still made a significant progress. As of June 2020, 28 banks have been licensed for Agent Banking and 23 of them are actively engaged. A total of 8,764 agents have been engaged with 12,449 outlets, which is 45.75 and 43.57 percent higher than the previous fiscal year respectively. Total number of accounts up to 30 June 2020 is 7,358,190 and total balance of these accounts is BDT 102.20 billion. The distribution of foreign remittance through agent banking in the FY20 was Tk. 173.02 billion which was 196.52 percent higher than BDT58.35 billion in FY19. Trends in agent banking activities are shown in Table 11.

Table 11. Trends in Agent Banking Activities



Source: FID, BB.

Chapter: 05

Findings and Recommendations

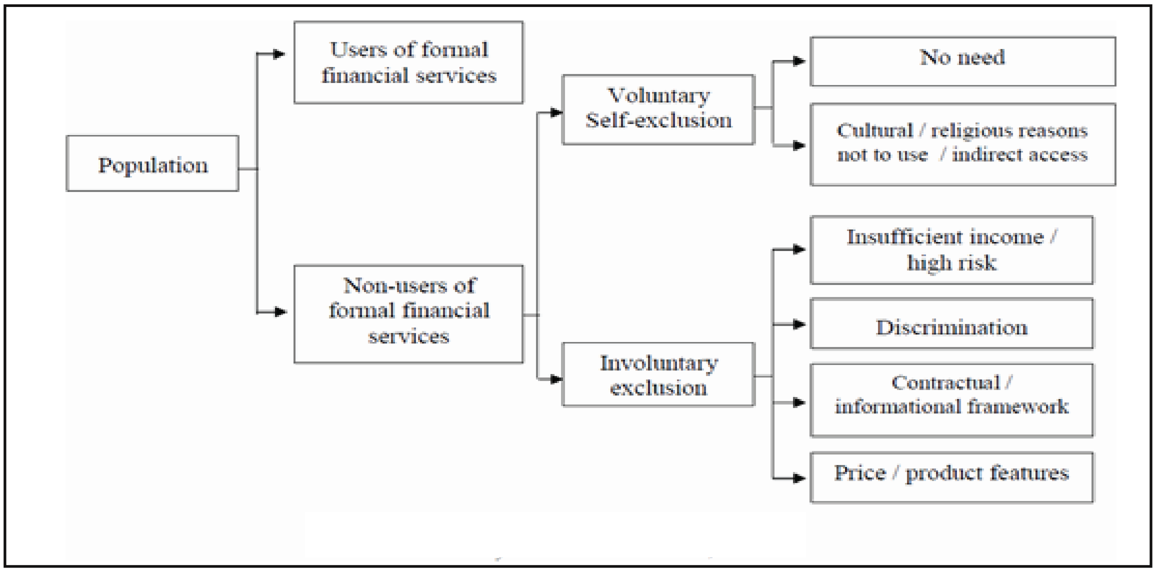
5.1. Findings of the Study

In spite of considerable progress in financial inclusion over the years, many low income population groups remain unserved by the formal financial institutions. It is recognized that for an inclusive and well-functioning financial system, it is essential to expand convenient, cost-effective, and secure financial products to all financially excluded people in the country. But the reality is that the diverse features of these vulnerable sections and their specific demands for financial products are yet to be addressed adequately. The study identifies the present financial inclusion scenario of vulnerable excluded groups in terms of their characteristics, needs, choices and constraints, which are not met by the current financial services. The analysis also identifies the key responsible factors for the exclusion and related barriers. Based on some primary information on specific groups of vulnerable sections of the population, and consultations with the market participants and regulatory agencies, the study puts forward certain generic policy and market intervention measures.

5.1.1. Nature of Financial Exclusion in Bangladesh

In Bangladesh the financial system is comprised of three broad fragmented sectors, namely, formal sector, semi-formal sector, and informal sector. The sectors are categorised in accordance with their degree of regulation. The formal sector includes all regulated institutions like banks, non-bank financial institutions (NBFIs), insurance companies, capital market intermediaries like brokerage houses, merchant banks etc.; micro finance institutions (MFIs), the semi-formal sector, include those institutions which are regulated otherwise but do not fall under the jurisdiction of central bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank, Non-Governmental Organisations (NGOs) and discrete government programmes. The informal sector includes private intermediaries which are completely unregulated. In this context financial exclusion in Bangladesh refers to exclusion from formal and semi-formal financial sector. The nature of financial exclusion can be understood from Figure 2.

Figure 2. Financial Exclusion of Disadvantaged Groups



The figure is self-explanatory but a few points may be highlighted for the purpose of the present study. Financial exclusion may be voluntary self-exclusion or involuntary exclusion of households and enterprises. Households may not use formal financial services because they do not need to use it or they have cultural or religious reasons (interest bearing account) for not using it. Involuntary exclusion may result from several factors acting independently or jointly to influence the outcome.

5.2. Factors behind Financial Exclusion

With a view to grasp perceptions of the people living in vulnerable areas and socially excluded groups regarding current status and potential of financial inclusion in vulnerable areas as well as identify the factors impeding financial inclusion in these areas, FGDs have been conducted in excluded areas. Findings of the FGDs are as follows:

5.2.1. Access to Formal and Informal Financial Services

Bangladesh Bank and other agencies such as Microcredit Regulatory Agency (MRA), Palli Karma-Sahayak Foundation (PKSF), Ektee Bari Ektee Khamar project, Rural Savings Bank, and other government projects/programmes have contributed, both directly and indirectly, to promote financial inclusion of the people who are excluded from basic financial services. Even with all these initiatives taken to increase financial inclusion in Bangladesh, some people still remain financially excluded. The first step of financial inclusion is being able to have access to a transaction account since this will allow people to save money, borrow money and send/receive payments. The qualitative data shows that most of the excluded groups are affiliated with different MFIs and Banks but they prefer informal financial services. The reason is that they get it when they demand, there is no institutional procedure, and gets nearby. Many factors are found to be responsible for not opening a formal account by households. Excessive paperwork seems to be the most important one for not opening formal account. Distance of bank from home, lack of need for bank loan, large deposit needed to open an account are also important factors hindering the process. High interest on loan, insufficient loan, inappropriate bank official behaviour, insufficient income and official denial to allow opening account are also responsible to a lesser degree for not opening formal account.

5.2.2. Access to Credit and Major Barriers

It has been found in the study that only few groups have bank access because of not having fixed asset or own land. Majority of the participants took formal loan from MFIs. But the case is different for transgender as they have no access to any kind of formal loan. Majority of them do not have national ID card, and even if some of them have one, they cannot properly use them to open an account. However, in case of disabled, none of them receives loan from banks as bank is not enthusiastic to provide loans to the disables. They want loans to start their own business but no positivity from bank side. They applied for at different MFIs but didn’t get it as they were disabled. But from 2015 they are getting IGA/Livelihood Improvement loan from YPSA, an organisation which is working for disables and providing IGAs loan for them and also assisting in business. They get up to Tk. 40000 at 5 percent interest rate and up to Tk. 50000 at 6 percent interest rate. If they demand higher amount then they have to pay interest rate which is applicable to others. YPSA not only provides loan but also assist how to open business and delivers continuous supports. Haor and Char area residents’ participants took loan from banks as they feel the interest rate is lower in banks than the other MFIs. Moreover, they get flexible time to repay loans, bank officials do not come at home to make caveats to repay and get full or partial waver of loans if there is natural calamity.

5.2.3. Access to Savings and Major Barriers

Most of the disadvantaged people have no savings account in any formal institutions. Generally they are motivated to save if find nearby any trustworthy organisations, less procedural hazards, better interest rate and easy depositing and withdrawing system. However, in case of tea garden worker, their income is very limited, however they are aware about the benefits of savings. They usually save at home and uses at the time of want. Being involved with NGOs, they also save there. They claimed that the savings interest rate is very low at NGOs. Usually the disabled persons saved in the bank accounts and mobile banking services.

Excluded group	Access to savings
Tea gardeners	-Their income is very limited but they are aware about the benefits of savings. - They usually save at home and uses at the time of want. -Being involved with NGOs, they also save there. **Major barriers:** -The savings interest rate is very low at NGOs. -They want to save formally if they find nearby trust worthy financial organisations and better interest rate.
Transgender	-They deposit almost all the money to their leader.
Disabled	-Usually what they get that is saved in the bank accounts and mobile banking services. **Major barriers:** One vision disable was not able to bank account as no bank was willing to open. He usually saves in his wife's bank account which creates a lot problems regarding taxation, account payee cheque etc.
Haor area residents	- Some of them save in the MFIs **Major barriers:** -If they find nearby financial organisations, less procedural hazards, better interest rate and easy depositing and withdrawing, they will motivate to save in banks.
Char area residents	-They usually save at home and when it is a handsome amount, they buy livestock. **Major barriers**: -The savings interest rate is very low at MFIs. -They will save formally if they find nearby financial organisations and better interest rate.
Tribal community	- They usually save at home **Major barriers:** The banks are far and bank rules are complex -Do not have enough financial knowledge.

5.2.4. Access to Insurance and Major Barriers

They have basic ideas only about life insurance but their earning is very limited that's why they are unable to have insurance services. In maximum insurance company there is no provision for the disable persons. All of them are willing to have insurance but cannot access it as providers are not accepting them. Findings also show that the tea garden workers have a demand on low premium micro insurances. They only know about life insurance and have no idea about others like livestock insurance or health insurance

Excluded group	Access to insurance
Tea gardeners	- They only know about life insurance and have no idea about others like livestock insurance or health insurance. -They have a positive motivation on insurance as they have experienced people get money from the insurance provider when they are affected. - They only know about life insurance and have no idea about others like livestock insurance or health insurance. **Major barriers:** - They lack proper income that's why they are unable to have insurance services.
Transgender	-No institutions are offering them any financial products.
Disabled	- All of them are willing to have insurance **Major barriers:** -In maximum insurance company there is no provision for the disable persons.
Haor area residents	- They only know about life insurance **Major barriers:** -They have a negative thought on it having bitter experiences. -They demand improved management of the service providers and strong monitoring by the governments.
Char area residents	-They know about life insurance, loan insurance, health insurance and crop insurance -No idea about livestock insurance **Major barriers:** - Several of them take insurances negatively. - In many cases the insurance company agents go out of reach after taking seven or eight installments
Tribal community	-The MFIs are providing loan insurances and they know about it. **Major barriers:** - They demand improved management of the service providers.

5.2.5. Access to Mobile Banking and Agent Banking

The tea garden workers know about mobile banking but none of them have opened any mobile bank accounts because they can't operate mobile well and they can easily access banking through mobile banking agents. They think that transaction cost in mobile banking is too high. Agent banking was not in service there and they do not have any idea about it. Since the launch of mobile bank accounts in Bangladesh, it has been popular throughout the country. But from the FGDs it was found that marginalized people like them cannot access these services because of high transection costs. They demands 0.5 percent transaction cost for them.

Excluded group	Access to mobile banking and agent banking
Tea gardeners	-They know about mobile banking but none of them have opened any mobile bank accounts. - They don't have mobile bank accounts because they can't operate mobile well and they can easily access banking through mobile banking agents. **Major barriers:** - They think that transaction cost in mobile banking is too high. -Agent banking was not in service there and they do not have any idea about it.
Transgender	- One of the participants was saying that, she was trying to open a bkash account and the bkash agent wanted a photo of her similar to the photo in her national ID card. Her face and appearance have changed a lot since she was registered as voter, and apparently she cannot submit such photo to open the bkash account.
Disabled	-They all know about mobile banking -Majority of them have mobile bank accounts. -They usually use mobile bank accounts for recharging their phone and sending or receiving money. **Major barriers:** -They find mobile banking expensive and demand to cut the transection cost to 0.5 percent.
Haor area residents	- Participants had adequate knowledge about mobile banking. - They do not have any idea about agent banking. - Mobile banking system is easy and can access whenever they want. - Around 60 percent goes to mobile bank agents for receiving and sending money. **Major barriers:** -High transaction cost in mobile banking - Agent banking was not in service there.
Char area residents	-They know mobile banking services and also aware about the negative sides of mobile banking like wrong transactions, high transaction charge etc. **Major barriers:** - Agent banking was not in service there.
Tribal community	-Many of them don't have mobile bank accounts but access through agents. **Major barriers:** -High transection cost -Less idea about it and lack of financial knowledge.

From above discussion it can be said that income is an important determinant of demand for financial services; low income prevents persons from opening an account in formal financial institutions and save or borrow. Similarly, irregular income discourages people to commit to any financial transaction which is regular in nature such as borrowing requiring regular payment of instalments. Lack of financial literacy also constitutes an important factor for financial exclusion. Now the country has nearly 359,080 tea gardeners of which over 75 percent are women. Poor housing conditions, lack of educational facilities, restriction of free movement deprived the workers and their families from basic needs. Their children don't have any alternatives without becoming a tea worker-as this is a circle. They are generally isolated from the local community as seems living in the island. Unfortunately they continue to remain socially excluded, deprived and disconnected from local people, as a result for the time being they are losing their dignity.

The main challenge for the Transgender in Bangladesh is that majority of them cannot live without the group because outside the group, they do not feel safe. For each group in certain area they have one leader (guru). Whatever money they earn in a day, they deposit almost all the money to their leader. The leader arrange for all their food, accommodation, treatment and other expenses. This is one of the reasons why transgender people do not have the demand to access any bank account or other financial services.

Along with this, limited economic activities actually limit their demand to access formal financial services. They usually collect money/commodity from local shops, road, or go into someone's marriage ceremony or where a new baby born and they usually dance and sing and demand money in return. Most of them get used to earn their money in this way. This is not like they do not have other skills. Some of them have good skill along with proper training in cooking, embroidery, operating computer, beautification at parlour etc. However, they cannot use this skill because other people living in society do not accept such services from transgender people. Considering current economic and social scenario, offering certain financial product will not be affective for the financial inclusion of transgender people in Bangladesh. Rather, creating appropriate economic opportunities for them and make them participate in those economic activities should be the utmost priority. Finally, they will need the social acceptance; without this, no policy or initiatives will work for their betterment. Similar picture was found for other disadvantaged groups

Chapter: 06
Conclusion

Conclusion

Financial inclusion is not only the process of ensuring access to financial services, it must also be appropriate. Access has to be fair, transparent and cost effective and through mainstream institutional players. Only higher access to deposit accounts, higher number of branches and greater number of ATMs cannot ensure greater access to finance. For attaining true objectives, supply-side initiatives must complement financial literacy or awareness along with the demand side phenomena. The experience of Bangladesh shows that the government and the central bank have continued efforts to create a conducive and enabling environment for expanding financial services to marginal farmers, SMEs unbanked/underserved people, women and lower income groups by banks and non-bank financial institutions, co-operatives, MFIs and other financial institutions. Despite a large number of initiatives, in Bangladesh around 25% of the country's adult population remains financially excluded. The overall state of financial inclusion shows that, although households still have more access to microfinance market than informal one, resort to informal finance is still high in Bangladesh (access to informal finance is 21.1%, with 2.3% and 19.5% having access to savings and credit respectively).

Therefore, policies should continue to focus on further promoting the use of formal finance. Strengthening financial literacy programs and conducting surveys to understand the needs of the underserved and unbanked people considering their constraints and costs when using formal channels would also help in this regard. In order to formulate effective policies for further financial inclusion, it is important to examine the significance of different economic factors (such as: per capita income, age dependency ratio, literacy rates, poverty rates and income equality etc.) that significantly increase or decrease financial inclusion in developing countries like Bangladesh.

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