現代社会文化研究 No.63　2016 年 12 月

Overview of Financial Inclusion in Bangladesh

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要　　旨

金融包摂はバングラデシュのような発展途上国において重要な政策課題である。持続可能かつ安定した金融サービスへのアクセスは、より多くの人々および資金を公的金融システムに関与させ、経済発展を促進することができる。包摂的金融システムは金融発展の達するべき状態であり、SDGs（持続可能な開発目標）達成のために重要な目標である。本論文は、政策とその実践に焦点を当て、バングラデシュにおける金融包摂の動向を検討する。その結果、バングラデシュは過去 20 年間において、金融包摂の面で着実な進展を遂げていることが明らかになった。政府による政策の実行、革新的な金融サービスの導入の結果、金融包摂の急速な拡大へとつながった。公的金融に包摂されていない人々は多く、また、非公式金融への依存度は依然高い。より公的金融利用の促進に焦点をあてた政策を実行すべきである。

Keywords: Financial inclusion, financial service, financial access, financial inclusion indicators

1 Introduction

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).[1]

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.[2] 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%.[3] 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.

The objective of the study is to assess the status of financial inclusion 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.

This paper is organized as follows. Section 2 discusses the methodology of conducting the study. Section 3 provides a literature review. Section 4 provides some basic concept of FI, which includes definition, importance and measurement of FI. Section 5 provides an overview of access to financial services worldwide. Section 6, the main part of the paper highlights overall access to financial services, state of FI and importance of FI in Bangladesh. Section 7 concludes and offers some policy recommendations for widening financial inclusion.

2 Data and Methods

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.

3 Literature Review

There exists a growing evidence of beneficial impact of access to financial services on all aspects of social and economic outcomes at the household and firm level. Development theory provides important clues about the impact of FI on economic development. Many models in development economics illustrate how financial exclusion, and in particular, lack of access to finance can lead to poverty traps and inequality (Aghion and Bolton, 1997; Banerjee and Newman, 1993; Galor and Zeira, 1993).

Developing inclusive financial system is an important component for economic and social progress on the development agenda. The literature has found that providing individuals with access to savings instruments increases savings (Aportela, 1999), productive investment and consumption (Dupas and Robinson, 2009), and female empowerment (Ashraf et al., 2010). Hannig and Jansen (2010) argued that greater FI presents opportunities to enhance financial stability. Sarma and Pais (2011), attempted to examine the relationship between financial inclusion and development by empirically identified specific factors that are associated with the level of FI. It finds that levels of human development and FI in a country are interrelated with each other.

Some study concentrated on how greater FI improve the quality of financial services and benefit poor people. Study made by Allen, et al. (2012) found that greater FI is associated with a better enabling environment to access financial services. Some studies tried to find out the barriers to wider FI. Beck, et al. (2008) study developed new indicators of barriers to banking services around the world by collecting information from 209 banks in 62 countries. The study conducted by Demirgüç-Kunt and Klapper (2013) identified barriers to FI and argued that well-functioning financial systems serve a vital purpose, offering savings, payment, credit, and risk management products to people with a range of needs. More-inclusive financial systems allow broad access to appropriate financial services to benefit poor people and other disadvantaged groups.

There are also some comprehensive reports that provides basis for policy advice in the area of FI namely; World Bank (2008), Global Financial Development Report (2014) and Brookings Financial and Digital Inclusion Project (FDIP) Report (2015). Young Park, et al. (2015) extended the existing literature on FI by focusing on developing Asian economies. The study tested the impact of FI, along with other control variables, on poverty and income inequality and found significant positive results.

The focus on FI strategy in Bangladesh started right from 1972. The country has achieved significant progress in FI. Following are studies that analyze the overall financial inclusion situation in the country. A keynote address made by Rahman (2009) explained status of FI in Bangladesh. Islam and Mamun (2011) studied on the role of Bangladesh Bank (BB)[4] in FI. Khalily et al. (2011) conducted a survey on “Access to financial services in Bangladesh”. Mujeri, M.K. (2015) prepared a report on how to improve the access of poor to financial services in Bangladesh. Khalily, et al. (2014) is a comprehensive follow up survey on FI in the country, with an attempt to cover information on all financial services and sectors. Khalily, et al. (2015) study dealt with the need for financial literacy and education for FI in the country. The Bangladesh country paper by UNCTAD (2014) emphasized on the impact of access to financial services for financial development and poverty reduction. The paper discusses on various steps and initiative taken by BB and the GoB towards FI.

4 Concept of Financial Inclusion

4.1 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.[5] 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.[6]

4.2 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.

4.3 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.[7] 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.

5 Worldwide Access to Financial Services an Overview

The term "financial inclusion (FI)" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. It is an issue of growing importance to policymakers due to its potential to contribute to key development objectives such as economic growth and increased welfare. Because of mutual co-operation of international bodies to expand financial inclusion, great progress has been accomplished in expanding FI so far. However, there is a long way to go for further inclusion. We can observe the extent of FI all over the world under four main criteria:

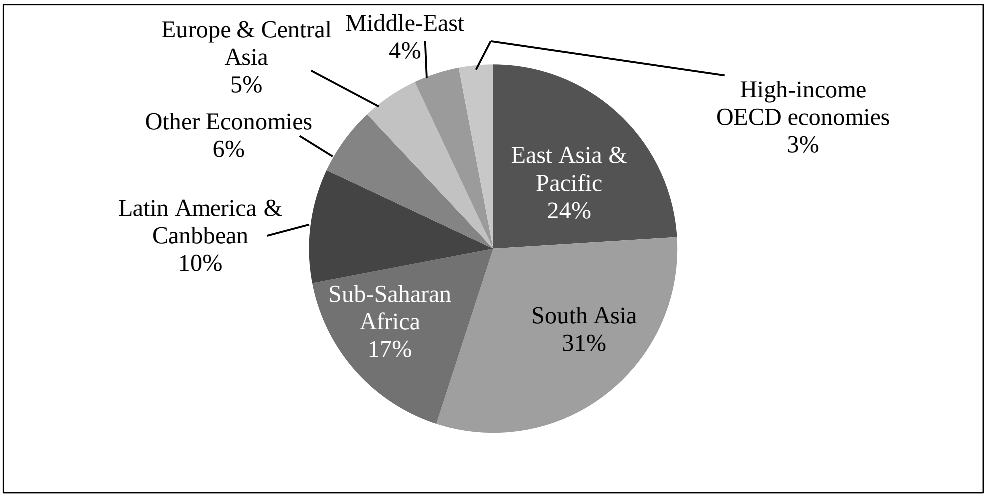
- Account penetration.

- Use and access of accounts (i.e., how people receipt and make payment?).
- Saving behavior (i.e., how do people save?).
- Sources of loan (i.e., how do people borrow?).

5.1 Account penetration

According to Global Findex 2014, globally, 62% of adults reported having an account which was 51% in 2011. This trend is driven by a 13-percentage-point rise in account ownership in developing countries as well as improved technology. In particular, mobile money accounts in developing countries are helping to rapidly expand and scale up access to financial services. Between 2011 and 2014, 700 million people became account holders at banks and other financial institutions or mobile money services providers. It has decreased the number of financially excluded individuals by 20% i.e., from 2.5 billion to 2 billion adults.

Figure 1. The World's Unbanked Adults by Region



Source: The Global Findex Database, 2014

The above figure shows unbanked adult population worldwide. Among all the regions, South Asia possesses the highest unbanked adult population. About 38% of adults in the world do not have access to basic financial services. Women make up 55% of the world's unbanked adults amounting to 1.1 billion. In addition, adults belonging to the poor households within economies make up half: 1 billion. Moreover, the gender gap in account ownership remained relatively unchanged. In 2011, 47% of women and 54% of men had an account; in 2014, 58% of women had an account, compared to 65% of men. Regionally, the gender gap is largest in South Asia, where 37% of women have an account compared to 55% of men.

5.2 Use and access of accounts

Among those adults who have an account, globally three quarters of accountholders (46% of adult population) reported using their account for receiving and making payments. Globally, 460 million adults have a dormant account and 380 million a low use account. These 840 million adults together make up a quarter of all adults with an account. In developing economies more than 1.3 billion adults with an account i.e., 58% of account holders pays their trash, water, and electric bills in cash. Over half a billion adults with an account in developing countries, pay school fees in cash. It suggests that there is much room to increase the use of accounts. Globally, 130 million adults receive government payment only in cash. While in developing counties by contrast, only 41% of wage recipients reported receiving their wage payments into an account.[8] Governments and the private sector can play a pivotal role in rapidly opening accounts and increasing financial inclusion, by paying private-sector wages and government wages and transfers digitally (as opposed to in cash).

5.3 Savings behavior

Globally 72.6% adult people do not save at a financial institution. Among 1.2 billion adults in developing countries, 56% reported that they do not save at a financial institution. Globally in 2014, a quarter of adults or almost half of savers reported having saved formally at a bank or another type of financial institution representing 52% in OECD (Organization for Economic Co-operation and Development) countries and 40% in developing economies.[9]

5.4 Sources of loan:

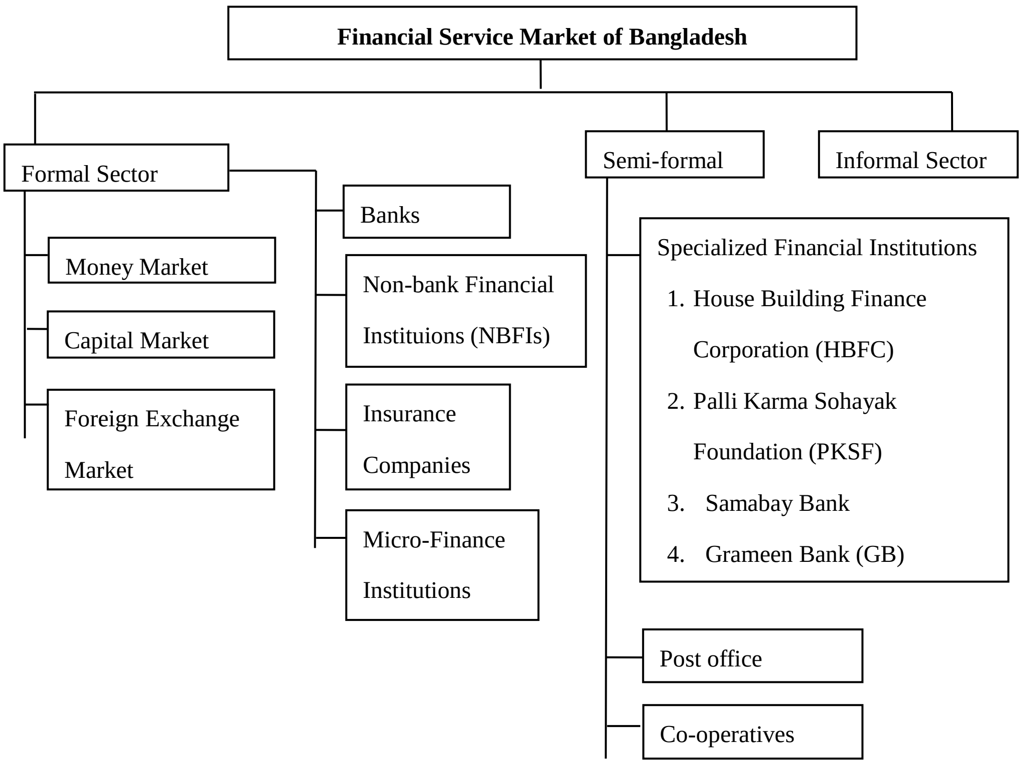
Globally in 2014, 42% of adults reported having borrowed money formally or informally (excluding using credit card). In OECD countries 18% of adults reported that they borrowed from a financial institution, while 14.9% borrowed from family and friends. Overall, in developing economies 29 percent of adults reported borrowing from family and friends, while only 9% reported borrowing from a financial institution.[10] Though the low-income countries have made progress in holding account in formal financial institutions and mobile account, they are far behind in case of access and use of those accounts.

6 Overview of Financial Inclusion in Bangladesh

6.1 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-2). 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 2. Financial Service Market of Bangladesh



Source: Drafted by author, based on the Financial Stability Report 2014, Bangladesh Bank.

6.1.1 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), 2 Specialized development banks (SDBs), 39 Private Commercial Banks (PCBs) and 9 Foreign Commercial Banks (FCBs). There are now four 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.[11] At the end of December 2015, the banking sector had a combined network of over 9,397 bank branches. The total asset of the banking sector stood at Tk.9693.8 billion[12] in 2015. Private commercial banks dominate the banking sector, with 63.3% of the total banking sector assets in 2015 (Table-1).

Table 1. Structure of the Banking System in Bangladesh

Bank Type	No. of banks	No. of Branches			Total Asset		Total Deposit		Total Advances	
		Urban	Rural	Total	Billion Tk.	Assets %	Billion Tk.	Deposit %	Billion Tk.	Advance %
SCBs	6	1366	2324	3690	2755.7	28.4	2245.6	28.3	1141.6	19.7
SDBs	2	110	1296	1406	289.4	2.9	231.4	2.9	226.0	3.9
PCBs	39	2512	1714	4226	6130.5	63.3	5116.5	64.4	4203.3	72.5
FCBs	9	75	-	75	518.2	5.4	346.3	4.4	227.7	3.9
Total	56	4063	5334	9397	9693.8	100	7939.8	100	5798.6	100

Source: Bangladesh Bank Annual Report 2014-2015 & Schedule Bank Statistics Oct-Dec, 2015

6.1.2 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.)		
2005	28	54	82.3	15.0	67.9
2009	29	88	193.8	80.8	116.7
2011	31	161	288.4	112.6	209.7

2013	31	176	436.3	198.3	273.6
2015	32	198	563.8	271.8	409.2

Source: Bangladesh Bank Schedule Bank Statistics Oct-Dec, 2015

There are currently 32 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. The central bank regulates NBFIs under the Financial Institutions Act, 1993. Out of 32 NBFIs, 3 are Government-owned, 10 are joint venture and the rest 19 are locally private-owned. 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.

6.1.3 Insurance Companies

Presently 77 insurance companies (31 life insurance and 46 non-life insurance companies including 2 government owned insurance companies) are providing insurance services to the nation. The regulatory body for insurance sector is the Insurance Development Regulatory Authority (IDRA). At the end of 2013, the Gross Premium Income was Tk.76.79 billion which contributes to 0.09% of GDP. Total asset of Life insurance companies stood at Tk.235.45 billion and the total asset of general insurance companies stood at Tk.77.08 billion. Despite having large number of insurance providers and rapid growth of the industry, there are few insurance services for low-income consumers.

6.1.4 Microfinance Institutions

Table 3. Basic Statistics of NGO-MFIs in Bangladesh

Particulars	2008	2010	2011	2012	2013	2014
No. of licensed NGO-MFIs	293	516	576	590	649	676*
No of branches	15,077	17252	18066	17977	14674	16991
No. of clients (Million)	23.45	25.28	26.08	24.64	24.60	25.17
Total borrowers (Million)	17.79	19.21	20.65	19.31	19.27	19.98
Loan outstanding (Tk. Billion)	134.68	145.02	173.80	211.28	257.01	278.02
Savings (Tk. Billion)	47.39	51.36	63.30	75.21	93.99	112.99
Premium received on micro-insurance (Tk. Billion)	-	2.12	2.56	2.61	2.68	1.54
Payment of insurance claim on	-	1.36	1.91	1.86	1.99	1.03

micro-insurance (Tk. Billion)						

Source: MRA-MIS Database-2011 and 2014

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 25 million clients. As of 2014, 697 NGO-MFIs had been licensed to provide microfinance services with about 17000 branches.[13] 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.

6.1.5 Co-operative Societies

Table 4. Progress in Co-operative Sectors in Bangladesh

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
No. of primary co-operatives	168184	175839	183363	185064	193512
No. of members in co-operatives	8674101	8954237	9194787	9349557	10297081
Total Savings (In Billion Tk.)	34.69	38.22	39.46	39.70	55.11
Loan Disbursement (In Billion Tk.)	8.28	14.83	16.39	11.60	15.23
Loan Recovery	10.84	14.77	10.78	18.27	11.54

Source: Department of Co-operatives, Annual Report 2013-2014

Co-operatives are a source of mutual co-operation and collective development for the poor and low earning groups of society. Co-operatives mainly mobilize savings and provide loans to its members for different purposes. Co-operatives form a significant part of the financial sector in Bangladesh. The Registrar of Co-operatives governs and supervises these co-operatives. The Department of Rural Development and

Co-operative under the Government regulates the co-operative societies. Primarily, the Co-operative Societies Ordinance, 1984, had regulated the sector. Later on, Co-operative Society Act, 2001(as amended in 2002 and 2013) was enacted for reforming this sector.[14] Since 1904, activities of co-operatives started in rural areas in Bangladesh. The co-operatives are formed in three levels; primary, central and national. Up to June, 2014, the total number of registered co-operatives are 194,662 (of which 193,512 primary, 1,128 central and 22 national). The total asset of co-operative societies stood at Tk.70.84 billion up to June 2014 (Table-4).

6.1.6 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. The Central Bank introduced guidelines for mobile financial services in 2011 as part of its financial inclusion drive and allowed 28 banks to offer MFS. 19 banks have already started to work on their MFS products in some capacity. Mobile financial services (MFS) are still at the early stages of development. The mobile financial services market now serves over 25 million unique subscribers, and this number is expected to grow significantly over time.[15]

6.1.7 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.[16]

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.

6.2 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-5) depicts the scenario of overall financial inclusion of people above 15 years of age in 2014. 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 5. The Overall State of Access, Use and Ownership of Accounts in Bangladesh

Financial Access Indicator	Value, (% of population age 15+)		
	Bangladesh	South Asia	Developing countries
Account ownership all adults	31.0	46.4	54.1
Account ownership women	26.5	37.4	49.6
Financial institution account	29.1	45.5	53.1
Mobile account	2.7	2.6	2.5
Used an account to receive wages	1.6	3.5	11.2
Use an account to receive government transfer	0.4	3.1	6.0
Used a financial institution account to pay utility bills	0.7	2.7	7.2
Has a debit card	5.2	18.0	31.2
ATM is the main mode of withdrawal (% with an account)	7.5	31.1	49.7
Used a debit card to make payments	1.0	8.5	13.6
Used a credit card to make payments	0.2	2.6	8.1
Used the internet to pay bills or make purchase	0.4	1.2	8.4

Saved at a Financial Institution past year	7.4	12.7	22.5
Saved at a saving club or person outside family past year	5.2	8.8	9.3
Borrowed from a financial institution past year	9.9	6.4	9.0
Loan from family or friends past year	25.2	31.4	29.0
Account used to receive remittance (% of Recipients)	8.6	15.8	25.7

Source: The Little Data Book on Financial Inclusion, World Bank 2015

6.2.1　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 6) 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 6. Trend in Branch, Deposit and Advances by Region, 2000-2015

Year	Number of Branch			Amount of Deposit (in Billion Tk.)		Amount of Advance (in Billion Tk.)		Advance-Deposit Ratio (%)	
	Rural	Urban	Total	Rural	Urban	Rural	Urban	Rural	Urban
2000	3659	2460	6119	160.6	549.2	100.1	493.5	62.3	89.9
2005	3764	2638	6402	218.3	1197.6	117.6	999.7	53.84	83.5
2010	4393	3265	7658	436.9	2942.3	206.9	2367.5	47.4	80.5
2012	4760	3562	8322	853.1	4011.0	405.6	3453.7	47.5	86
2014	5150	3890	9040	1326.0	5605.2	505.1	4571.2	38	81.6
2015	5334	4063	9397	1575.1	6364.7	571.3	5227.3	36.2	82.1

Source: Bangladesh Bank Annual Report 2014-2015

Table 7.　Financial Inclusion Indicator in Banks

Year	ATM per 1,000km^2	ATM per 100,000 adults	Branches per 1000km^2	Branches per 100,000	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

				adults					
2004	0.88	0.13	48.81	6.94	63.86	342.34	88.78	35.78	28.37
2006	2.54	0.35	50.8	6.92	66.61	362.95	91.92	39.18	32.02
2008	6.27	0.82	53.39	7.01	66.51	389.45	86.99	41.51	33.18
2010	16.29	2.06	59.06	7.47	66.73	474.07	88.81	46.89	39.10
2012	46.99	5.71	64.75	7.87	85.37	562.06	90.89	51.22	41.50
2014	79.31	9.27	70.47	8.23	81.62	628.87	86.72	51.46	37.30

Source: Financial Access Survey (FAS), IMF 2015

As per above table (Table-7), 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. Deposit to GDP Ratio has increased significantly compared to credit to GDP ratio.

6.2.2 Access to Micro Finance Institutions

Table 8. Access to Micro finance institutions

Year	Branches per 1,000 km^2	Branches per 100,000 adults	Borrower Per 1,000 adults	Deposit a/c per 1,000 adults	Loan a/c per 1,000 adults	Deposit & acquired fund to GDP Ratio	Outstanding Loan to GDP Ratio
2004	49.34	7.02	121.72	157.33	121.72	0.45	1.13
2006	95.81	13.05	179.78	239.54	179.78	0.57	1.56
2008	103.87	13.63	193.05	237.66	193.05	0.71	1.73
2010	140.33	17.75	201.40	256.43	201.40	0.67	1.86
2012	142.85	17.36	180.33	230.04	180.33	0.71	2.00
2014	118.51	13.85	174.35	225.44	174.35	0.80	2.10

Source: Financial Access Survey (FAS), IMF 2015

Table 9. Overall Picture of Micro-credit sector in fiscal year 2013-2014

Particulars	No. of Borrowers		Outstanding loans		Total Savings		Loan Disbursement	
	In Million	% of Total	In Billion	% of Total	In Billion	% of Total	In Billion	% of Total
MFIs licensed under MRA	19.42	63.5	282.20	67.1	106.99	25.4	462	65.8

Grameen Bank	8.62	28.2	87.73	20.9	87.73	20.1	150.97	21.5
Government Institutions	1.11	3.6	19.52	4.6	19.52	4.64	25.52	3.6
Bank	1.43	4.7	31.06	7.4	31.06	7.4	68.15	9.7
Total	30.58	100	420.51	100	420.51	100	702.64	100

Source: MRA-MIS 2013-2014

The access to financial services through the MFIs is remarkable in Bangladesh. MFIs play a significant role in deepening of financial inclusion. MFIs have been offering financial services to larger population, poor, non-poor, rural and urban. Access to microfinance includes savings, credit and micro-insurance to some extent. The benefit of loan of MFIs is that they provide loans to its clients on five categories (very small, small, medium, large and very large). The loan amount ranges from up to 1000 to 1 million and above. However, the above table (Table-8) shows access and use of services of MFIs in terms of financial inclusion. A comparison of this data with the access and use of banking services will make it clear that MFIs are ahead of banking sector on both access and use. The above table (Table 9) provides data on whole microcredit sector. This data also proves the priority of MFIs under MRA compared to other micro-finance institutions.

6.2.3 Access to Co-operatives

Table 10. 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
2004	1133.87	7.02	83.35	83.35	83.35	0.13	0.38
2006	1182.47	13.05	82.62	82.62	82.62	0.17	0.27
2008	1230.52	13.63	83.76	83.76	83.76	0.17	0.22
2010	1300.68	17.75	84.29	84.29	84.29	0.46	0.24
2012	1417.31	17.36	86.08	86.08	86.08	0.40	0.17
2014	1468.24	13.85	92.81	92.81	92.81	0.43	0.13

Source: Financial Access Survey (FAS), IMF 2015

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.

6.2.4 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 total number of policy holders increased from 2.62 million in 2004 to 17.10 million in 2014. 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.

6.2.5 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-11) shows the progress of MFSs within 4 years of commencement). 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 11. 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
2011	1.20	43.44	5.39	2.19	0.01
2012	9.85	199.65	24.027	92.85	0.60
2013	25.83	897.52	106.96	405.40	4.48
2014	78.59	3313.45	387.20	735.00	76.74

Source: Financial Access Survey (FAS), IMF 2015

6.2.6 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.

6.3 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.

6.3.1 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). In May 2016, actual credit disbursement target was fixed at Tk.164 billion while the actual disbursement of all banks stood at Tk.155.50 billion. The target attainment was 94.15% up to May 2016. NGOs/MFIs are also providing agricultural and non-farm rural credit to its members. The central bank pursues an impressive agricultural credit policy for stimulating financial inclusion, given priority to marginal farmers and women farmers.Tk.5.00 billion refinancing line with BRAC (Bangladesh Rural Advancement Committee) a renowned private sector MFI has been adopted for delivering adequate agricultural/rural credit to small farmers & sharecroppers. BRAC has already disbursed Tk.4.50 billion among 0.16 million sharecroppers until June 2015. The refinance scheme has been raised to Tk.6 billion since July 2015.[17]

6.3.2 SMEs (Small and Medium Enterprises) Credit

SMEs are the dominant form of business organization in all developing countries and recognized as engine of economic growth and employment generation for sustainable industrialization. As per Bangladesh Economic Review 2014, contribution of large and medium industries to GDP was 13.73% in 2011-12 while that of small industries alone was 5.23%. The central bank and the government have adopted several remedial and promotional measures to bridge the gaps in financial inclusion. In SMEs financing, refinance lines from central bank has been kept available to banks against their loans to SMEs; multilateral development partners such as the IDA (International Development Association) and ADB (Asian Development Bank) are supplementing central bank's refinance lines with their co-finance. By this time refinance scheme of Tk.6 billion has been arranged for small and medium enterprises; 15% of the refinance fund allocated for woman entrepreneurs. Up to 2015, total Tk.1,158.70 billion has been disbursed during the year and the outstanding amounted to Tk.1,487.39 billion in SMEs sector. The following table summarizes the SMEs credit data up to 2015.

Table 12. Summary of SMEs Credit in 2015

SMEs Category	Disbursement (in Billion Tk.)			Recovery (in Billion Tk.)			Outstanding (in Billion Tk.)		
	Banks	NBFIs	Total	Banks	NBFIs	Total	Banks	NBFIs	Total
Cottage	20.43	0.10	20.53	26.77	0.29	27.06	56.81	0.14	56.95
Micro	99.18	4.78	103.95	98.47	4.16	102.63	104.70	5.53	110.23
Small	458.85	16.91	475.77	418.62	26.72	445.33	568.79	24.14	5929.92
Medium	543.05	15.41	558.46	483.36	21.47	504.82	702.56	24.72	727.28
Woman*	50.12	4.25	42.27	65.42	4.96	44.84	50.12	5.65	55.77
Total SMEs**	1121.51	37.20	1158.70	1027.21	52.63	1079.84	1432.86	54.53	1487.39

Note: Woman* indicates SME included in Cottage, Micro, Small and Medium Enterprises.

Total SMEs** includes Cottage, Micro, Small, Medium Enterprise.

Source: SME database, Bangladesh Bank, 2016.

6.3.3 No-Frill Accounts (NFAs)

Formal banking services to less privileged people in urban and rural areas has been extended and banks were advised for opening NFAs (free of charge) with initial deposit of Tk.10/50/100. These accounts are facilitating small savings, revolving loans, remittances etc. In 2010, “Ten Taka account” for unbanked farmers has been introduced to enable farmers opening a deposit account in any government owned commercial or specialized banks. Primary deposit of this account is only Tk.10 and no requirement to maintain minimum balance and without any extra fees and charges. Up to 2015, all banks have been gradually issued instructions to for opening nine categories of NFAs other than farmer’s account. The following table shows total number of NFAs and outstanding balance for farmers and non-farmers as of end of June 2015.

Table 13.　Statement of NFAs

Beneficiaries	Total No. of NFAs	Total Outstanding Balance of NFAs (Million Tk.)
1. Farmers	8915451	1715.4
2. Beneficiaries under social safety net program	4000415	1727.5
3. Freedom fighters	201141	1074.9
4. Small life insurance policyholders(Taka 100 A/C)	66707	58.9
5. National Service Program	26144	60.2
6. Hardcore poor	2068528	1537.7
7. City corporation cleaning workers	9714	3.6
8. Distress rehabilitation	1214	0.2
9. Food and Livelihood security	64388	7.3
10. Physically Challenged persons	126182	148.1
11. RMG workers	294317	942.7
12. LSBPC-Shoe and Leather workers	3919	17.0
13. Others	309450	195.2
Total	16087570	7488.2

Source: Bangladesh Bank, Financial Inclusion Department, March 2016.

6.3.4 School Banking

In order to broaden and deepen the financial inclusion through including the students under the age of 18, the scheduled banks were advised to introduce school banking activities in 2010. Since then, banks have started to provide banking services to students through savings account and deposit scheme through parents or legal guardian by depositing a minimum of Tk.100. Total outstanding balance of school banking stood at Tk. 8.28 billion against 1.066,083 accounts (of which 402,704 accounts in rural areas and 663,379 accounts in urban areas) at the end of March, 2016.[18]

6.3.5 Banking for Working/Street Children

All scheduled banks were advised to bring street children under institutional financial support in 2014. These accounts are instructed to open through opening custodial account with NGOs by Tk.10 as minimum opening balance and no service charge for working/street children. These initiatives are helping street children to develop their savings habits and eventually help them towards better future. Until March 2016, 3,192 accounts have been opened (with balance of Tk.0.21 crore) at 15 banks in association with 11 NGOs.[19]

6.3.6 Agent Banking

To broaden the outreach of financial services to the rural, marginal population agent banking initiatives has been taken and agent-banking guidelines were issued in December 2013. Agent banking has opened doorway to provide banking services through an outlet by banks where branch establishment is extremely difficult or not feasible. Until June 2015, nine banks got approval for agent banking services and four banks started operation. Until June 2015, number of agents stood at 107 and number of outlets was 118.[20]

6.4 Overall Access to Financial Services

Table 14. Distribution of Access in Financial Market (In percentage)

Area	Any market		Formal market		Microfinance market		Informal market	
	2014	2010	2014	2010	2014	2010	2014	2010
National	79.25	76.77	42.57	37.02	46.91	43.23	21.10	26.2
Rural	78.35	75.52	40.49	32.8	47.34	46.39	22.79	21.7
Urban	82.34	81.68	49.76	55.53	45.43	30.88	14.68	27.4
Non-poor	82.66	79.39	49.79	44.42	45.72	39.67	22.01	27.4
Poor	70.98	70.57	24.19	19.43	50.57	51.7	19.27	23.6

Source: Household demand-side study survey by the Institute of Microfinance (InM) in 2014

Financial inclusion in Bangladesh has increased over years. Access to any financial services (including savings, credit and insurance) in any market is over 79% (Table-14) compared to 77% in 2010. From the Table it is also apparent that financial inclusion varies across regions and poverty status. The distribution of access to formal market (including savings, credit, insurance and mobile banking) reveals that more household can now access formal sector. More than 40% of households in rural region can access formal financial services, which represents an increase of around 8%.

Due to fees, collateral and lack of financial literacy, formal market is not easily accessible by the poor. This implies that formal sector does not and/or cannot serve marginalized groups of the country. On national level, access to microfinance sector is higher both in 2010 and in 2014. Therefore, microfinance has been ahead of formal sector in terms of financial deepening. Outreach of microfinance has expanded both in rural and urban areas. Access of non-poor to microfinance has increased more than access of poor. As the target of micro credit is poor population, more poor people should have brought under micro finance.

6.4.1 Access to Credit

Table-15 provides an analysis of credit services in Bangladesh. Access to microcredit is highest in among households. On the other hand, households resort to informal market more than formal sector in search of credit. This may be due to unavailability of banks in many places and due to formalities and paper work to get loans in banks. On the contrary, informal credit fell below 20%. It indicates an important finding that formal and microfinance sector is gradually stepping in on informal sector. However, percentage of households having no access to credit is 46%, which is quite high.

Table 15. Distribution of Access to Credit Services (In percentage)

Area	Any market		Micro credit		Bank credit		Informal credit		No access	
	2014	2010	2014	2010	2014	2010	2014	2010	2014	2010
National	53.96	54.12	40.1	36.64	8.95	7.99	19.55	21.78	46.04	45.88
Rural	55.47	52.08	40.31	32.94	11.88	9.06	21.24	22.59	44.53	47.92
Urban	48.76	58.97	39.40	45.42	9.34	5.44	13.26	19.86	51.24	41.03
Non-poor	54.46	56.17	39.39	39.10	7.62	7.59	20.31	23.05	45.54	43.83
Poor	53.34	46.10	42.63	27.00	10.72	9.56	18.13	16.83	46.66	53.90

Source: Household demand-side study survey of the Institute of Microfinance (InM) in 2014

6.4.2 Access to Insurance

Around 10% of households have access to life insurance. Over 3% of households access other type of insurance services. However, portion of households with no access to insurance is significantly high with

87%. The lack of access to insurance services could be attributed to low level of awareness. In rural region 12% of households have access to either life or other insurance. Among poor households, only 10% of households are covered by insurance compared to non-poor households with 13.6% access.

6.4.3 Access to Deposit Services

From the Table-16, it is found that almost 66% of households can access any of savings i.e. bank, MFI or informal. Among these households, access to MFI savings account is the highest with around 46% of households. Around 31.5% of households have access to bank savings account and only over 2% of households have access to savings in informal market.

Table 16. Distribution of Access to Deposit Services (Household level)

Area	Access to any Savings (%)		Access to bank Savings (%)		Access to microfinance savings(%)		Access to Bank & microfinance Savings(%)		Access to informal Savings(%)	
	2014	2010	2014	2010	2014	2010	2014	2010	2014	2010
National	65.76	56.53	31.5	27.55	45.83	29.32	65.13	54	2.39	6.6
Rural	64.13	53.92	29.18	22.72	46.19	31.6	63.49	51.30	2.50	6.68
Urban	71.39	66.74	39.50	46.52	44.58	20.36	70.81	54.56	1.89	6.32
Non-poor	69.18	60.54	38.52	34.89	44.56	26.33	68.60	57.91	2.55	7.47
Poor	57.37	47.01	13.52	10.13	49.65	36.40	56.58	44.71	2.02	4.77

Source: Household demand-side study survey of the Institute of Microfinance (InM) in 2014

6.4.4 Access to Innovative Financial Services

Table 17. Distribution of Access to Innovative Financial Services (In percentage)

Area	ATM/Debit Card		Credit Card		NFAs A/C savings	Mobile Banking
	2014	2010	2014	2010	2014	2014
National	3.16	0.46	0.27	1.09	5.84	26.87
Rural	1.82	0.24	0.17	0.51	7.09	24.63
Urban	7.77	1.32	0.63	3.36	1.53	34.90
Non-poor	4.14	0.17	0.37	0.22	-	30.36
Poor	0.61	0.6	0.04	1.49	-	18.40

Source: Household demand-side study survey of the Institute of Microfinance (InM) in 2014

The above table indicates that in 2014 more than 3% of households are using ATM/Debit card and there is variation on regional and poverty level. As expected, there are more households in urban areas using debit card than rural areas. More urban households than rural have access to credit cards, and less than 0.50% of non-poor households responded that they own credit card while users among poor households is negligible. Almost 6 percent of households have access to NFAs account. More non-poor households hold this account and thus involved with formal banking than poor. Even though this is a relatively new initiative, since its inception it has made a positive advancement by including farmers and other groups in formal financial sector. Analyses of the data shows that more than one-fourth of the households (26.87% households) and one-eighth of the adult population (13% individuals) are availing financial services through mobile banking by using either own account or other’s account. Moreover, higher percentage of non-poor households (33.36%) is using mobile banking than the poor households (18.40%). It appears that mobile banking is one of the most popular medium of transaction.

7　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.

End Notes

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