

# Financial Inclusion: An Economic Growth Engine for Bangladesh

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## Abstract

Financial inclusion aims at drawing the “unbanked” population into the formal financial system so that they can get chances to make access in the financial services like savings, payments, remittance, insurance etc. Financial inclusion is a key element of social inclusion. Again, for sustainable economic development of a country, inclusiveness of financial system is a pre-requisite. People from the different segments of the society should have access in the financial institutions and knowledge to avail the various economic benefits given by the particular government of the country. Such an inclusive growth can boost up the local economic conditions that make better the national economy of a country. As a lower middle income country (LMIC), the government of Bangladesh and its private players has been instrumental to make the general mass financially literate in order to include them in the financial system. The present study aims to discuss the present status of the financial inclusion in Bangladesh and address the future actions about financial inclusion to bring the financially excluded people, especially the poor within the banking boundary. The study found that Central Bank of Bangladesh has been playing a great role in this regard. It has already made numerous regulations and a number of policies to engage the public, private banks and other semi formal financial institutions like co-operative banks, micro finance institutions to offer different financial services and arrange training programs for the financially excluded people. In addition, mobile banking has also become a popular intermediary in Bangladesh for making financial transaction. To transact money through mobile banking, people from the interior part of the village now can send and receive money, remittance, and other government benefits.

**Keywords:** Economic development, financial inclusion, Growth engine, Inclusive growth, Mobile banking

## 1. Introduction

Financial inclusion is the availability of banking, credit facilities and a whole gamut of financial services at an affordable cost to people of low income groups and other vulnerable strata of society in an equitable manner. Financial inclusion is a key element of social inclusion. For sustainable economic development of a country, inclusiveness of financial system is pre-requisite. In a survey on “Access to Finance” in 2011, Institute of Microfinance (InM) shows that about 77% of the households have access to any kind of financial services. But in the case of access to formal financial institution, they are only 37 per cent and in respect of savings, 57 per cent households have access. Financial inclusion is not only the process of ensuring and providing financial services to the financially excluded people but also should be cost-effective.

Over the last few decades, access to basic financial services has become a necessary precondition for participating in the economic activities and sustaining equitable growth. Easy access to financial services enhances the capacity of savings and expenses of the vulnerable section of society and ensures secured economic status in the society. It also helps the people face sudden income shocks and other financial troubles and ultimately equip them meet various emergencies such as death of earning members in the family, loss of employment etc. By getting access to formal financial services, the financially excluded people who were regular customers of the money lenders with high interest rate will get rid of from them. As the economic opportunities are strongly intertwined with financial access and bring changes in the economic condition, financial inclusion is prerequisite in bringing positive changes in the life style of the people especially poor those are not getting regular earnings.

## 2. Financial Inclusion: The Initiatives of the World

The objective of financial inclusion to provide necessary financial services to the general mass through different financial institutions has become a global issue in the last couple of years. From the financial access survey 2010, it is found that even many developed countries patronize the concept of financial inclusion and have made a provision to provide various financial services to weaker section of the society. In United States, a Reinvestment Act (1997) what requires banks to offer credit a facility to people is an exemplary initiative to promote financial inclusion. To monitor the development of financial inclusion, government of United Kingdom also constituted a financial inclusion task in 1998. In an attempt Reserve Bank of India has formed a commission to boost up the financial inclusion drive in 2004. To look after and monitor the financial stability, employment, social development, social equity, the parliament of Argentina has directed its central bank to frame policy and initiatives in 2012 (Higgins, 2013).

### 3. Financial Inclusion: The Initiatives of Bangladesh

The effort of financial inclusion is not new; both the government and Bangladesh Bank have been implementing a numerous policies and regulations over the last several decades by engaging state owned rural banks and cooperative societies in rural financing activities. As agriculture is the backbone of the nation, government had taken initiative and enforced Specialized Credit Program and established agricultural banks. In 1982, the government of Bangladesh established Bangladesh Rural Development Board (BRDB) to act as a reliable vehicle for poverty alleviation in rural economy. At the same time to add farmers in the financial system and improve their economic condition, BRDB and Bangladesh Krishi Bank (BKB) concentrated on agricultural sector. In another move to encourage the private sector in rural economy, government's decision to privatize the 'Pubali Bank' and 'Uttara Bank' in 1985 made available all the six state owned banks functioning as principal vehicles of poverty alleviation. Later, in an attempt to serve the weaker sections of the society, the Grameen Bank's action research on Jobra project by Muhammad Yunus which was funded by Bangladesh Bank got initial success.

### 4. Structure of Financial Market in Bangladesh

It is well known that well-functioning financial systems are prerequisite for economic development. Strong and efficient financial market plays an important role in mobilizing the money without obstacles. The imperfect financial market is not only liable for inequality but also responsible for slower growth. In contrast, well balanced financial market with strong surveillance under the central bank ensures equal and faster economic growth of a country.

In Bangladesh, financial markets comprise of three broad segments. They are formal market, services offered to financial institutions and banks, quasi-formal market, services offered to micro finance institutions and cooperatives and informal market, services offered to moneylenders, traders, friends and relatives. These three markets differ significantly in terms of their characteristics. The formal financial institutions such as commercial, development and agricultural banks mobilize deposits and lend to those who need credit with reasonable interest rates. The quasi-formal markets offer financial products mostly to the poor households and the informal market generally constitutes informal lenders and informal savings through informal organizations including informal cooperatives and clubs.

### 5. Banking sector

The banking industry in Bangladesh comprises of four types of banks: state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs), and foreign commercial banks (FCBs). These four types of formal institutions including agricultural banks play a significant role in the banking system of Bangladesh. They are the main players in the case of providing financial services with affordable cost to the all segments of people as part of their responsibility to connect people with Financial Institutions (FI) so that general mass can avail government subsidies and other benefits even though many branches of public banks incur loss due to the access cost of the branches exist in the rural areas. Instead of making recurring loss, Bangladesh bank permits the public banks to open branches especially in the remote areas for the upliftment of the underprivileged people to intensify the financial inclusion drive. Though there were 56 banks commercial banks with 9397 bank branches in 2015, the number of banks stood at 58 with 9453 branches up to end of the June 2016 (Table 1).

Table 1. Structure of the Banking System in Bangladesh

Type of Bank	Year 2014			Year 2015		
	No of Banks	No of Branches	Percent of Industry Asset	No of Banks	No of Branches	Percent of Industry Asset
SCBs	5	3553	27.5	6	3690	28.4
DFIs	3	1500	3.7	2	1406	2.9
PCBs	39	3917	63.3	39	4226	64.5
FCBs	9	70	5.5	9	75	4.3
Total	56	9040	100	56	9397	100

Source: Bangladesh Bank Annual Report 2015-16.

### 6. Mobile Banking Services

Mobile banking is another emerging sector that speeds up the process of financial inclusion. In recent years mobile banking has been playing a significant role for boosting the financial inclusion in Bangladesh. Due to the lower transaction cost, paperless financial transaction and easy money transfer without visiting any bank, mobile banking influence the people especially living in the villages to use mobile technologies for making financial transactions. As the communication system in Bangladesh is not good, a vast majority of the population are not properly getting scopes to avail the different schemes like zero banking account, savings a/c, seasonal loan,

marriage loan, small entrepreneurship loan provided by the public banks for the marginalized sector people due to the long distance of the existence of the financial institutions from the homestead existed in remote areas in villages.

The central regulatory bank The Bangladesh Bank (BB) has permitted 10 banks up to 2013 to engage themselves in the full range of mobile financial services. As a result, the mobile phone companies have adopted the technology and developed the networks that reach even the most remote parts of the country. At present, there are 18 players providing financial services and bKash Service and Dutch Bangla Mobile have emerged as having the largest customer bases and agent networks in the country. From Table 2 and 3, it is seen that every year number of registered mobile money accounts, active accounts, registered outlets, money transactions even the number of service providers have also been increased. It is also seen that transferring cash service (cash in and cash out) through agents or bank branches, and mobile Operator's outlets has the maximum market shares (86 per cent) out of the different services delivered by various mobile financial providers.

Table 2. Growth of Mobile Banking, 2015-2016

Particulars	Year 2015	Year 2016
No. of Agents (in thousands)	561.2	569.7
No. of registered customers (in millions)	31.8	33.1
No. of transaction (in millions)	114.8	118.8
Transaction amount (in billions)	161.2	167.5

Source: Bangladesh Bank Annual Report 2015-16.

Table 3. Market shares of different services in MFS

	Particulars	% of Market Share
1	Cash out using mobile account through agents/bank branches/ ATMs/mobile Operator's outlets.	38 %
2	Cash in using mobile account through agents/bank branches/ ATMs/mobile operator's outlets	44 %
3	Person to business payments e.g. utility bill payments, merchant payments	1 %
4	Business to person payments e.g. salary payment, dividend and refund warrant payments, vendor payments, etc.	2 %
5	Person to person payments (one registered mobile account to another registered mobile account).	13 %
6	Other payments like microfinance, overdrawn facility, insurance premium, DPS, etc.	2 %

Source: Payment Systems Department, Bangladesh Bank. 2015.

A study by the Boston Consulting Group (2011) on the Pakistan, Bangladesh, India, Serbia and Malaysia reveals that mobile banking has positive impact on financial services. It also found that impact of mobile banking services ranges from a 20 percentage point increase in financial inclusion in Pakistan (from 21% to 41%) to a 5 percentage point increase in Malaysia (from 90% to 95%). Mobile banking has been found positive impact on some important macroeconomic factors such as economic growth, inequality and stability of financial system (Masha, I. (2016).

### 7. Experience of Non Government Organizations (NGOs) and Micro Finance Institutions (MFIs) to Financial Inclusion (FI)

A study titled "Access to Financial Services in Bangladesh" conducted in 2010 and 2014 has been done by The Institute of Microfinance (InM) on household demand-side by covering all 7 divisions except Rangamati to measure financial inclusion in Bangladesh. From this study it is found that financial inclusion in Bangladesh has increased over years. Access to any financial services (which includes insurance) in any market is over 79 percent compared to 77 percent in 2010 survey.

After the independence of Bangladesh in 1971, Government had taken a number of the developmental initiatives to boost up the country's rural economy. The specialized developmental banks like Bangladesh Rural Development Bank, Bangladesh krishi Bank, Rajshahi Krishi Unnayan Bank, were involved in providing financial services to the rural poor people to eradicate the poverty and make the rural development initiative more vibrant. For that, a number of credit programs were launched by the then government. But, with no control of the loans disbursement system and loan collection from the beneficiaries made developmental initiatives unsuccessful. Political intervention in the developmental programs was another problem that made the development initiatives unachievable.

Afterwards, Grameen Bank first took the initiative to give small loan without any collateral to poor. The high repayment rates of the beneficiaries of the Grameen bank in poverty alleviation made the bank, a successful

“model” in the world. Later a number of NGOs had started same ventures as MFIs with the direct help of foreign aids to make the social development.

With the extraordinary performance to eradicate poverty and connect the people with financial institutions the NGO-MFIs movement has been instrumental in improving the living standard of the poor people and for that they increase their outstanding loan amounts and number of clients by expanding their working areas. From Table 4, it is noticed that the total outstanding loan of this sector (only licensed MFIs) has increased by near about 19 per cent from BDT 282.20 billion in 2014 to BDT 352.41 billion in 2015, disbursed among 20.35 million poor people, helping them to be self-employed and accelerating overall economic development process of the country. With the increase of outstanding loans, the total savings has also increased by 22 per cent from BDT 106.99 billion in 2014 to BDT 135.41 billion in 2015 among 26 million clients. As of June 2016, the outstanding loan amount and savings amount increased further to BDT 285 billion and BDT 171.19 billion respectively.

Table 4. Basic Statistics of NGO-MFIs in Bangladesh

Particulars	June, 2012	June, 2013	June, 2014	June, 2015
No. of licensed MFIs	590	649*	742	753
No. of Branches	17,977	14,674	14,730	15,609
No. of Employees	108,654	110,734	109,628	110,781
No. of clients (Million)	24.60	24.64	25.11	26.00
No. of Borrowers	19.31	19.27	19.42	20.35
loan Outstanding (Tk. Billion)	211.283	257.010	282.20	352.41
Amount of savings(Tk. Billion)	75.206	93.990	106.99	135.41

Source: MRA-MIS Database-2016.

Total Licensed NGO-MFIs was 698 but only 649 submitted MIS report.

### 8. Current Status of Financial Inclusion in Bangladesh

Though Bangladesh has made good development in some indicators in recent years, overall progress in achieving the 100 per cent financial Inclusion is still far away. From Table 5, it is seen that the percentage of people having debit, credit cards and using ATM for withdrawing money is very low in comparison with other countries in south Asia. But in the case of having mobile accounts the percentage of all adults is more than the south Asian countries.

Table 5. Overall State of Financial Inclusion in Bangladesh, 2015

Financial access indicators	(% age 15+)		
	Country data	South Asia	Low income
All adults	29.1	45.5	22.3
All adults, 2011	31.7	32.3	21.1
Mobile Account	2.7	2.6	10.
Has debit card	5.2	18.0	6.6
Has debit card, 2011	2.3	7.2	6.3
ATM is the main mode of withdrawal (% with an account)	7.5	31.1	20.2
ATM is the main mode of withdrawal, (2011)	2.8	16.9	19.7
Used an account to receive wages	1.6	3.5	3.2
Used an account to receive government transfers	0.4	3.1	1.0
Used a financial institution account to pay utility bills	0.7	2.7	0.9
Used a debit card to make payments	1.0	8.5	2.1
Used a credit card to make payments	0.2	2.6	0.6
Used the Internet to pay bills or make purchases	0.4	1.2	1.2

Source: The Little Data Book on Financial Inclusion 2015.

According to the Atiur Rahman, Governor, Bangladesh Bank, “Financial inclusion is a high policy priority in Bangladesh, for faster and more inclusive growth.” Banks are obliged to maintain 1:1 ratio in rural-urban areas for opening of new bank branches. Despite substantial bank branch expansion both in urban and rural areas and increase of membership of MFIs and other institutions such as co-operatives societies, NGOs, near about 25 per cent of adult population is still financially excluded. In terms of banking credit related indicators also, the state of financial inclusion is not encouraging. Their lack of knowledge about the financial products and services offered by the financial institutions, have made it difficult to avail various facilities. Though intensity of access to financial services is relatively high in the country, a large section of the people especially live in the rural areas is not equipped to avail those products and services.

From the following Table 6 it is observed that every year government has opened a number of brick and

mortar branches and ATM booths throughout the country to extend the coverage of the banks and a gradual increase has been observed throughout the year.

Table 6. Number of Bank Branches, ATMs and Demographic Penetration of Bank Services

Year	Number of Bank Branches and ATM		Demographic Penetration of Bank Services	
	Total number of all types of bank branches	No of ATMs per 100,000 adults	CBB per 100,000 adults (Commercial bank branches)	ATM per 100,000 adults
2008	6902	816	6.98	0.82
2009	7244	1267	7.19	1.25
2010	7641	2121	7.47	2.06
2011	8009	3797	7.67	3.62
2012	8378	5248	7.87	3.94
2013	8742	6797	8.04	4.83
2014	9040	7012	8.22	5.65
2015	9397	7801	8.37	6.79

Source: Financial Access Survey (2017), IMF.

## 9. Barriers and Policy Implications to increase Access to Financial Inclusion

### 9.1 Increase physical access

A large number of people are financially excluded due to the long distance of the bank branches from their household. There are only 7 branches or (ATM) for 100,000 population and 67 branches per 1,000 square KM. Again, the ability of providing financial services through bank branches or ATM varies across the different administrative divisions (Dhaka 10.1 and Barisal 3.4 as the highest and lowest branch density per 100 sq KM in 2013). The ratio of branch density per 100 sq KM is very less so that majority of the people especially living in the rural areas don't get access to financial institutions. Therefore government can add other semi formal FI with public sector banks along with opening new branches to reach to people of remote areas.

### 9.2 Low transaction cost

The transaction cost of borrowing now becomes a most considerable factor in the case of inclusion of mass people in the banking arena. The transaction cost includes both interest and non-interest cost. With low interest cost of loan from formal financial institutions requires more paper works and formalities for sanctioning loan taking more time that increases non –interest cost of loan. It sometimes de motivate the borrowers because of not getting the loan on time. But, semi formal institutions with their wide presence even in the extreme remote areas throughout the Bangladesh disburse required loan amount within the reasonable time period to their clients with little bit more interest rate than that of formal institutions. With compared to other formal financial institutions the micro finance and other NGOs are playing vital role to deliver various services with low cost. In addition, Government can entertain more non banking financial companies and other NGOs, co-operatives to come forward with their different need based products and services.

### 9.3 Financial Literacy

Financial literacy is also a matter to the people who even do not have knowledge of opening an account as it needs necessary ID, proof of domicile, reference letter etc. Low awareness level also creates obstacle to operate or make transactions while depositing and transferring money from one account to another account. Government has to launch various awareness raising programs through local administrations in rural schools, colleges so that the children of the farmers, fishermen, daily labourers, can learn about operating an account and teach their earning members in the family.

### 9.4 Digital Financial Services

As part of the government initiatives to promote digital services in all aspects especially in education, health sector, financial sector, government can direct all service providers to use digital forms in the case of making various payments like electricity bill, insurance, gas bill, salary, health insurance, pension, oldege fund, etc. For that a machine readable smart card containing 12 digit unique numbers can be issued in against of voter card to make all kinds of financial transactions including distribution of public welfare schemes services.

### 9.5 Developing an Unique product

A large number of people in Bangladesh are still unbanked, un-served or under- served due to the absence of either reliable financial institutions or lack of sufficient financial literacy. More than that there is no unique

product and services that can be easily affordable, reachable, reliable, easily transferable and can offer both credit and savings facilities to cover the unbanked people in order to fulfill the government's agenda of ensuring 100 per cent financial inclusions. In this case, semi formal institutions with their capability and efficiency and strong network throughout the country and formal banking institutions that have more resources can play a pivotal role to offer a unique product to their beneficiaries.

#### *9.6 Priority Sector lending*

Most of the financial institutions concentrate on large scale loans neglecting to fulfill the demand of the middle income people for their small scale loans and agriculture loans as priority sectors lending for their upliftments. The public sector banks with support of their other rural development banks and cooperative banks have been implementing different schemes for the rural people who are engaged in fishing, small scale business, farming, cottage industry, etc. To augment the growth of priority sector lending, government can direct all the nationwide MFIs and local NGOs to provide short term loan as per the requirements of the local people with flexible rules that will ensure access for the poor household to financial institutions.

#### *9.7 Initiatives of Bangladesh Bank for Inclusive Banking*

Bangladesh bank has already taken lot of initiatives for enhancing the approach of inclusive banking to widen the coverage of the banking areas. Government owned commercial banks and development banks have started opening accounts with 10 taka for the farmers. It mitigates the demand of financial product and farmers can be able to make payment or receive government benefits through this account. In another initiative, Bangladesh bank is stimulating the SME financing to encourage the small entrepreneurs what constitute more than 30 per cent of total loans and advances. Even banks are now equipped with separate desk for women encouraging them to become an entrepreneur. With this effort Bangladesh Bank has opened agricultural credit and financial inclusion department and CSR department to aggregate the green banking, mobile banking, online banking etc.

#### *9.8 Enhance MFIs Movement*

Micro finance movement in Bangladesh has become a successful model and established reliable vehicle from providing small scale loans to other non financial services and now considered a trustworthy vehicle for eradicating poverty. With the majority of people living in rural areas, MFIs and other NGOs are instrumental in delivering different tailor made small scale loans and other credit and deposit facilities especially to the poor people who live in remote areas where bank branches are not available. Government can make an integrated plan to add these semi formal institutions with main stream banking institutions so that micro finance beneficiaries can avail all services and government subsidies through their accounts.

#### *9.9 Promoting a Competitive Financial System*

For creating a competitive financial system, the central bank of a particular country has a significant importance to make a good link up among the different types of financial institutions so that the service providers can always update their product and services to fit them best within the financial system for attracting maximum customers that lead a competitive environment. Generally, the non interest cost of borrowing for public sector banks is higher than that of private sector banks. In addition, the performance of different public commercial, development and other agricultural banks are not well due to their poor recovery rate and faulty monitoring system. In contrast, the performances of other private players that don't have any government funding like the government institutions are far better than that of government concerns. It pollutes the overall competitive environment of a financial system. Thus, government should formulate policies to make a level playing field for all types of FI to ensure services at affordable cost.

### **10. Conclusion**

Financial inclusion has become a global and emergent issue of worldwide concern, equally significant in economies of the underdeveloped, developing and even developed nations. Building an inclusive financial sector to facilitate the financially excluded people and accommodate the large division of the citizens especially weaker section of the society is now a need for the well being of the economic development of a country. For making it fruitful, the Central Bank of Bangladesh has a great role to play. It has already made numerous regulations and a number of policies to engage the public, private banks and other semi formal financial institutions like cooperative banks, micro finance institutions to offer different financial services and arrange training programs for the financially excluded people. As a vast majority of the people live in the extreme part of the rural areas, capturing those and bringing them into the banking boundary is not only a difficult task but also expensive. But it's a matter of pleasure that the banking services of the country have started reaching to the low-income groups and to the remote Bangladesh.

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