

Working Paper No. 61

Financial Exclusion Status and Barriers to Financial Inclusion among Vulnerable Populations in Bangladesh

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Abstract

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 recognised 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.

Keywords: Financial inclusion, excluded group, financial products

Financial Exclusion Status and Barriers to Financial Inclusion among Vulnerable Populations in Bangladesh

Farhana Nargis* & Shah Md. Ahsan Habib**

1. Introduction

'Financial exclusion' means incapability of individuals, households, communities, or groups to access essential financial services in an appropriate form, and financial services are offered in formal and informal financial markets to address these aspects of financial exclusion. These financial services broadly include credit, savings, insurance, and payment services. Lack of access to these tools and services, or the inability to use them, is a serious obstacle to economic and social integration. It is possible to implement social policies more effectively if a financial market exists where all citizens have an equal right to access. Financial access remains a major concern in developing countries due to its unavailability and lack of awareness about its benefits. For developing countries, like Bangladesh, financial exclusion brings two major consequences; i.e., first, at the micro-level people do not get facilities to grow efficiently according to their potential; and second, at the macro level, the expansion of the overall economy is held back because of the underutilization of financially excluded people. The developed countries around the world may not have a significant portion of the population who are excluded but the story is not the same for the developing countries. Using data on the financial behaviour of adults (aged 15 years and above), Allen et al. (2012) find significant differences in ownership of accounts with formal financial institutions between developed countries (91 percent) and developing countries (41 percent).

Financial exclusion may occur for living in geographically vulnerable areas, which are remote and hard to reach. A study by InM (2012) on financial access and behaviour of people living in char and haor areas finds that Char and haor dwellers struggle to access services from formal banks. Most of them do not comply with the banks' requirements to avail agricultural loans from the formal sector banks. Not only formal banks, they also find it difficult to access financial services from MFIs. This is because MFIs expect the borrowers to start repaying his/her weekly or monthly instalments just after the loan is disbursed. In general, households living in the mainland, who have multiple earning sources, find it easier to repay the instalments, however, of the char/haor residents, a very few people have multiple income sources. From the supply side, because of higher vulnerability to covariate shocks, char/haor households are perceived by MFIs to be more likely to default on paying instalments.

Financially included individuals enjoy more benefit than financially excluded individuals in a sense that they have a plan in place to help cope with unexpected financial shocks, such as the loss of a job or death of earning family member. If a woman becomes financially included, she gains the power to use financial services to improve her life as well as her family. Policymakers have increasingly recognised that access to and use of formal financial services not only have a positive impact at the individual level but also have broader positive impact on national economic development by helping to lower transaction costs, manage risks, and even mitigate economic inequality (Karpowicz 2014; Dabla-Norris et al. 2015; Garcia-Herrero and Turegano 2015).

Financial inclusion is one of the focal points for policy makers since it is considered as an important development tool. Bangladesh Bank (2015) has identified newly banked four groups, who are

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previously unbanked and these groups are women, low income families, rural dwellers and members of marginalised groups, such as religious and ethnic minorities. Bangladesh Bank (BB) has taken several policy initiatives and financing support for these groups like, giving special importance to micro, small and women entrepreneurs, taking area based approach and cluster development policies, taking refinance lines for women and new entrepreneurs and capacity development. BB has also launched no-frill accounts (NFAs)² by instructing state-owned banks to open NFAs for farmers. The NFAs have also been made available to about fifteen other financially excluded groups. Additionally, school banking and banking for street children have been introduced for encouraging minors in savings and spreading financial literacy. To make financial services more accessible to the financially disadvantaged people living in rural areas, BB has directed the private commercial banks in 2011 to open branches in the same proportion (1:1) in rural and urban areas. According to this modification, the earlier ratio 2:1 of urban and rural branches has been replaced by 1:1 ratio.

In the Seventh Five-Year Plan, the government has taken access to finance as a pre-condition to promote economic activities and alleviate poverty by creating employment opportunities³. Mujeri (2015) suggests for expanding the availability and access of the digital payment system especially for the poor and for the people of the rural areas for achieving the development goals of the 7th Five Year Plan. For doing this, he suggests reducing the transaction costs and time required to do the financial transactions; increasing the capacity of the poor and finally; and creating macro-level efficiency by digitally connecting the poor with all financial intermediaries. By considering the importance of access to basic financial services, the policymakers of the country are focusing on expanding innovative ways to improve the poor's access to financial services and encouraging financial institutions to offer these services.

Despite considerable progress made by banks, MFIs and cooperatives over the last two decades, the majority of the poor still remain unserved by the formal financial institutions. In view of the compulsion of financial inclusion in achieving national development goals and the SDGs, the government aims at removing both financial and social exclusion within the shortest possible time. There is no doubt that for a well-functioning financial system, it is highly essential to expand convenient, cost-effective, secure financial products to the financially excluded people of the country. But the truth is, the diverse features of those excluded groups and their specific demands for financial products are still hidden and under-researched. Therefore, the perceived risks of extending financial products to these groups are still very high. Therefore, it is highly important to measure the quality of the existing financial services and the demand and affordability of the excluded people in terms of price and convenience of getting financial services. The main objective of this study is to identify the present scenario of vulnerable excluded groups in terms of their characteristics, needs, choices and constraints, which are not met by the current financial services as well as to understand the main reasons of exclusion from basic financial services provided by formal institutions. From policy perspectives, here is a need for co-ordinate action between the government and others to facilitate access to financial services among the financially excluded groups. Therefore, this study also attempts to suggest some policy guideline to accelerate financial services among the excluded groups.

²NFA is a basic savings account that requires no minimum balance.

³GOB (2015), *Seventh Five Year Plan FY2016-FY2020: Accelerating Growth, Empowering Citizens*, General Economic Division, Planning Commission, Government of Bangladesh.

2. Methodology

2.1 Financial Exclusion: Demand and Supply Side Issues

Among the excluded groups, the reason for low demand of financial products and services could be many-fold including their limited capacity to utilise credit (or desired financial products) in income generating/other intended activity resulting in potentially limited capacity to repay. This might discourage them to take initial loans/services. For capturing the entire range of causal factors, the analysis focused on: (i) understanding the main reasons of financial exclusion (whether self-exclusion or exclusion created by supply-side/institutional or other factors); (ii) illustrate the needs, choices and constraints of the current financial services and their suitability to specific excluded groups; and (iii) assess the nature and characteristics of demand for financial services among the excluded people.

With rapidly rising maturity of the financial market and growing demands from the real sector activities, the market potential of product modification and innovation is also rapidly rising. Under these circumstances, it is anticipated that the present analysis should cover: (a) characteristics of current financial products (e.g. savings, credit, insurance, mobile financial services) and services, and (b) how to develop appropriate, user-friendly and sustainable financial services for the excluded people. Therefore, from supply side perspective, two major activities have been involved:

i) Delivery channel: The delivery channel focused to: (a) understand the key constraints observed by the financial service providers (banks, MFS providers, MFIs, insurance companies) to expand financial services in the remote areas, (b) explore the cost effective and sustainable delivery channels to offer financial services in the remote rural areas, and (c) analyse how to include the safety net beneficiaries into the basic financial services and how to offer sustainable financial services to these groups.

ii) Policy and regulatory issues: The analysis covered: (a) review of existing policies and regulations that focus to address the needs and demands of the people who are excluded from basic financial services, and (b) identify the policy options and provide necessary recommendations about how to address the needs and demands of the excluded people through low cost and sustainable financial services.

2.2 Data Collection Techniques: FGDs and Consultation with Stakeholders

The published literature suggest that elderly people, low income group, geographical location, cultural barriers, women, migrant worker, disability, prisoners, transgender, ethnic minorities are excluded from access to financial services (Global Findex 2014, Islam and Mamum, 2011, Inter Media 2015, Centre for Financial Inclusion, 2016). Identification of appropriate target group is very essential to make the study more effective. For this 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.

Disadvantaged and vulnerable areas were selected in accordance to InM nationally representative survey of Access to Financial Services (AFS). InM conducted the household demand-side study to estimate the extent of financial inclusion in Bangladesh, covering all divisions with all districts except the hill district of Rangamati. This panel survey was conducted in 2010 and 2014. Both rural and urban areas were covered in the survey. The total sample size was 8,462 households of which 6,570 were in rural areas and 1,892 in urban areas. The excluded areas were selected based on AFS 2014 survey findings. The survey results showed that households in seven districts (e.g.

Netrokona, Lalmonirhat, Jamalpur, Sunamgonj, Moulvibazar, Kishoregonj and Bandarban) have least access to financial services; in these districts more than 50 percent households were excluded from the formal financial sector.

Table 1: Districts Covered in the Study		
District	Upazila	Locational characteristics
Netrokona	Mohanganj	Ethnic majority
Lalmonirhat	LalmonirhatSadar	Char area
Jamalpur	Dewanganj	Char area
Moulvibazar	Rajnagar	Tea garden
Kishoregonj	Itna	Haor area
Bandarban	Thanchi	Tribal
Sunamgonj	Jamalganj	Haor area

Source: InM, 2014

In order to capture the insights, FGDs were conducted and certain cases were studied representing major excluded groups. FGDs with different vulnerable groups like char residents, haor residents, tribal residents, tea garden workers, transgender, disabled group and women headed households were conducted and the participants of FGDs were selected purposively so that adequate and precise information can be generated from each of the respondents. The participants were women headed households, widows, people with low incomes, migrants, young people not in employment, old resident in the village, school teacher, representative from the villagers, and so on. The number of participants in each FGD was 12 to 15.

For identifying the key constraints faced by the financial service providers in remote/disadvantaged areas, a separate consultation meeting was arranged with banks, MFIs, digital and mobile service providers, and other non-bank financial institutions. Bangladesh Bank, MRA, PKSF, insurance companies were also separately consulted. The participants of each consultation meeting were 13-16. The meeting was organised basically to understand their views on the factors responsible for financial exclusion, the characteristics of current financial products (savings, credit, insurance, mobile financial services) and services, their limitations in reaching the target groups as seen by the providers, appropriate and user-friendly product development for excluded groups, and incentives needed to encourage the financial service providers in serving the excluded people.

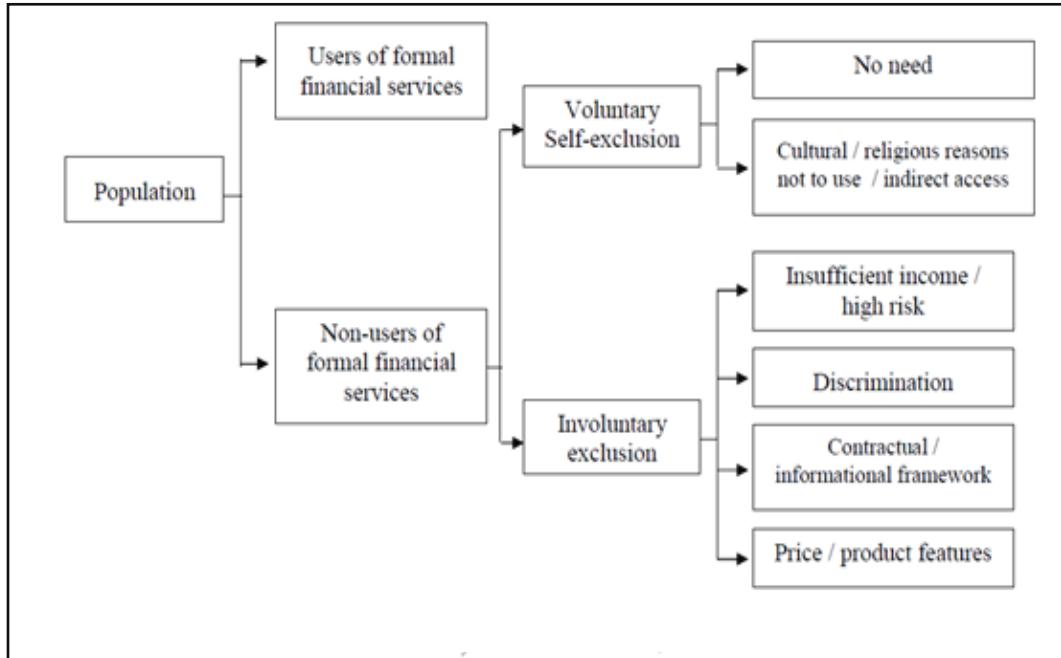
3. Findings of the Study

3.1 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 1.

Figure 1: Financial Exclusion of Disadvantaged Groups



Source: World Bank, 2008.

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.

3.2 Key Features of the Vulnerable Areas

Information on different aspects of financial exclusion/inclusion highlights the regional differences in different parts of Bangladesh.

Patterns and composition of the selected areas

In terms of access to electricity, the situation in the villages is quite deplorable. It varies from complete lack of access in three districts to about 7 percent households having access to electricity in the sample villages in Kishoreganj. Solar access has wide variation from about 5 percent in Moulvibazar to 84 percent in Netrokona thus it contrasts with access to electricity. Netrokona, Sunamgonj and Bandarban districts have less access to electricity. In recent years, solar energy is found to be a great source for solving the power crisis in rural Bangladesh. It has brought in positive changes in the livelihood of remote rural areas in Bangladesh by providing access to electricity through solar energy.

Local migration is common in many villages in Bangladesh. Rural people move from their own

villages to other villages or towns temporarily in search of jobs or better jobs which helps consumption smoothing. In majority of cases the proportion of migrant workers varies from 3 percent to 14 percent. Sunamganj seems to be an outlier with 62 percent migrant workers. It is known that migration may involve transfer of money and thus promote financial inclusion.

Major financial service providers in the villages

The study has identified three major financial service providers in each area. Each area is marked by presence of MFIs reflecting the extent of penetration of MFIs in rural areas. The proportion of households having access to different types of financial services such as agent banking, mobile banking, insurance services and cooperative services is in general low with few exceptions. However, a large proportion of households have access to MFIs with the exception of Bandarban, Jamalpur and Lalmonirhat. MFIs have not reach out to the poor and disadvantaged segments of the community in these districts in a major way.

Major income generating activities in sample districts

Two-thirds of the households are engaged in farming activities in Kishoreganj, Netrakona and Sunamganj districts. Other districts where more than 50 percent of households have farming activities are Bandarban, Jamalpur and Lalmonirhat. A larger proportion of households have non-farming services only in Moulvibazar.

Access to social safety net programmes (SSNPs) in the villages

Government operates a good number of social safety net programmes for the poor and distressed groups in the country. The spread of these programmes depends on the distribution of targeted beneficiaries in different areas though presence of some mis-targeting of programmes has been highlighted by researchers. All the villages have the social safety net programmes with exception of Moulvibazar in the case of Food for Work and Bandarban and Sunamganj in the case of Freedom Fighter Fund.

3.3 Factors behind Financial Exclusion

With a view to grasp the demand side (i.e. people living in vulnerable areas and socially excluded groups) perceptions 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:

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.

Table 2: Status of Formal and Informal Access

Excluded group	Main occupation	Formal access	Informal access
Tea gardeners	Work in the tea garden	<ul style="list-style-type: none"> -Mostly affiliated with different MFIs. - Only one of the participants had BDT. 10 bank account and others did not. 	<ul style="list-style-type: none"> -Maximum participants take informal loans -They basically do not want to take informal loans but at emergency crisis moment they have to depend on informal sources. -The interest rate in informal sources was too high.
Transgender	Transgender people 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.	-No formal access	<ul style="list-style-type: none"> -For each group in certain area they have one leader (<i>guru</i>). 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.
Disabled	They engaged in business, government and non-government organisations.	<ul style="list-style-type: none"> -Most of them have bank account. -Some of them have access to MFIs. 	-Most of them have access to informal sources like as friends and relatives

Excluded group	Main occupation	Formal access	Informal access
Haor area residents	Farming, especially fishing.	-Banks -MFIs	<ul style="list-style-type: none"> - Almost all the participants take informal loans though the interest rate is too high. - There is no processing charge for informal loans, hassle free and gets nearby. - But for larger amount, they have to give blank cheque of bank accounts. - Interest rate for informal loans is around 120 percent, this may be higher in case of special need.
Char area residents	<ul style="list-style-type: none"> - Farming - They remain unemployed from mid of August to mid of November 	-Banks -MFIs	<ul style="list-style-type: none"> - Maximum participants take informal loans though the interest rate was too high. - They get it when they demand or within 1 or 2 days maximum.
Tribal community	Farming	-MFIs -Banks	<ul style="list-style-type: none"> - There is no institutional procedure which makes it relaxed for local people.

Source: Field Survey 2017

Common trends of access to credit

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. This is not a constraint by demand side; it's the constraint from supply side. Some rules and regulation actually create the supply side constraint. 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 disabled. 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 disableds 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. That organisation not only provides loan but also assist how to open business and delivers continuous supports.

Table 3: Access to Credit and Major Barriers

Excluded group	Access to credit
Tea gardeners	<ul style="list-style-type: none"> -None takes loans from bank because of not having fixed asset or own land. -Usually they repay loans through weekly or monthly installments <p>Major barriers:</p> <ul style="list-style-type: none"> - All of them find that the interest rate is too high. - They think that this procedure should be reformed and demands for 12 month installment. - Complexity of opening a bank account - Banks are too far - Misconduct of bank officials as they are tea garden labourer.
Transgender	<ul style="list-style-type: none"> -No institution offer any financial product. <p>Major barriers:</p> <ul style="list-style-type: none"> -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.
Disabled	<ul style="list-style-type: none"> - None of them receives loan from banks as bank is not enthusiastic to provide loans to the disabled. They want loans to start their own business but no positivity from bank side. - During planning infrastructure to remove access barriers including physical access should be introduced. Like ramps may be built for disabled. <p>Major barriers:</p> <ul style="list-style-type: none"> -Cash withdrawal system of banks are not disable friendly. -Banks and financial institutions are not interested to open their account and harass them in providing services.
Haor area residents	<ul style="list-style-type: none"> -Some 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 waiver of loans if there is natural calamity. <p>Major barriers:</p> <ul style="list-style-type: none"> -Require various documents -They don't have fixed asset, don't get loan as they demand.
Char area residents	<ul style="list-style-type: none"> -MFIs -Banks <p>Major barriers:</p> <ul style="list-style-type: none"> - All of them find that the interest rate is too high and many MFIs fix interest rate at their determination. -The complexity of opening a bank account and high initial deposit. - Banks are too far and require high transportation cost, and misconduct of bank officials -Easy availability of mobile banking.

Excluded group	Access to credit
Tribal community	<ul style="list-style-type: none">- Few participants who received crop loan from banks, they were satisfied with the bank services.-They claim in banks interest rate is lower, there is less burden to repay the loan, face less problem if fails to repay and can renew the loan paying a portion. <p>Major Barriers:</p> <ul style="list-style-type: none">-Maximum do not go to banks for loan as they don't have fixed asset and own land.-Participants are from "Garo" tribal community and they basically live in government lands and that's why they do not have any access to banks.-Again some are afraid to lose their land if they fail to repay the loans.

Source: Field Survey 2017

Common trends of savings

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. According to a disable person "*I am not able to open bank account as no bank is willing to open my account. I usually save in my wife's bank account which creates a lot of problems regarding taxation, account payee cheque etc. Additionally, cash withdrawal system of banks is not disable friendly.*"

Table 4: Access to Savings and Major Barriers

Excluded group	Access to savings
Tea gardeners	<ul style="list-style-type: none">-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. <p>Major barriers:</p> <ul style="list-style-type: none">-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	<ul style="list-style-type: none">-They deposit almost all the money to their leader.
Disabled	<ul style="list-style-type: none">-Usually what they get that is saved in the bank accounts and mobile banking services. <p>Major barriers:</p> <p>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.</p>

Excluded group	Access to savings
Haor area residents	<ul style="list-style-type: none"> - Some of them save in the MFIs <p>Major barriers:</p> <ul style="list-style-type: none"> -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	<ul style="list-style-type: none"> -They usually save at home and when it is a handsome amount, they buy livestock. <p>Major barriers:</p> <ul style="list-style-type: none"> -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	<ul style="list-style-type: none"> - They usually save at home <p>Major barriers:</p> <ul style="list-style-type: none"> The banks are far and bank rules are complex -Do not have enough financial knowledge.

Source: Field Survey 2017

Common trends of insurance services

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.

Table 5: Access to Insurance and Major Barriers

Excluded group	Access to insurance
Tea gardeners	<ul style="list-style-type: none"> - 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. <p>Major barriers:</p> <ul style="list-style-type: none"> - They lack proper income that's why they are unable to have insurance services.
Transgender	-No institutions are offering them any financial products.
Disabled	<ul style="list-style-type: none"> - All of them are willing to have insurance <p>Major barriers:</p> <ul style="list-style-type: none"> -In maximum insurance company there is no provision for the disable persons.
Haor area residents	<ul style="list-style-type: none"> - They only know about life insurance <p>Major barriers:</p> <ul style="list-style-type: none"> -They have a negative thought on it having bitter experiences. -They demand improved management of the service providers and strong monitoring by the governments.

Excluded group	Access to insurance
Char area residents	<ul style="list-style-type: none">-They know about life insurance, loan insurance, health insurance and crop insurance-No idea about livestock insurance <p>Major barriers:</p> <ul style="list-style-type: none">- 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	<ul style="list-style-type: none">-The MFIs are providing loan insurances and they know about it. <p>Major barriers:</p> <ul style="list-style-type: none">- They demand improved management of the service providers.

Source: Field Survey 2017

Common trends of 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 transaction costs. They demands 0.5 percent transaction cost for them.

Bobita, representative from transgender group noted, 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 had changed a lot since she was registered as voter, and apparently she cannot submit such photo to open the bkash account. High transaction cost, difficulty in transaction, access to alternative means to money transfer, unsecured transaction, and need to fill up complicated form are responsible for not using this service by disadvantaged groups.

Table 6: Access to Mobile Banking and Agent Banking

Excluded group	Access to mobile banking and agent banking
Tea gardeners	<ul style="list-style-type: none">-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. <p>Major barriers:</p> <ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- 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.

Excluded group	Access to mobile banking and agent banking
Disabled	<ul style="list-style-type: none"> -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. <p>Major barriers:</p> <ul style="list-style-type: none"> -They find mobile banking expensive and demand to cut the transection cost to 0.5 percent.
Haor area residents	<ul style="list-style-type: none"> - 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. <p>Major barriers:</p> <ul style="list-style-type: none"> -High transaction cost in mobile banking - Agent banking was not in service there.
Char area residents	<ul style="list-style-type: none"> -They know mobile banking services and also aware about the negative sides of mobile banking like wrong transactions, high transaction charge etc. <p>Major barriers:</p> <ul style="list-style-type: none"> - Agent banking was not in service there.
Tribal community	<ul style="list-style-type: none"> -Many of them don't have mobile bank accounts but access through agents. <p>Major barriers:</p> <ul style="list-style-type: none"> -High transection cost -Less idea about it and lack of financial knowledge.

Source: Field Survey 2017

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.

4. Way Forward: Addressing Financial Exclusion Challenges

The results of the study reveal the trends and nature of financial exclusions and barriers to financial inclusion amongst the vulnerable sections in the country. It is important to address these sections of population with right products, channels, and market interventions.

Designing inclusive products targeting the vulnerable sections are essential for bringing the vast unbanked population under the umbrella of formal financial services. There are lot of scopes to develop products specifically targeting underprivileged in the broad areas of agricultural and rural financing; micro enterprise financing; mobile banking services; agent banking services; green financing; women entrepreneurship financing; self-employment based small credit; and disaster management. Most of these products are relevant for banks, NBFIs, and MFIs. Despite the existence of a large number of insurance companies in Bangladesh, the sector has marginal coverage of micro insurance activities for the poor; and though cooperative sector has significant potential, it does not have a notable presence in the financial market in the country.

As the mode of product facilitation, the development of communication technology is a blessing for financial inclusion. Availing the opportunity of modern technology, financial inclusion process may be expedited. Incorporation of technology, financial literacy initiatives and coordination and linkages have brought new dimension in the inclusion drives. Internet banking, online banking, mobile banking, agent banking etc. might play a very vibrant role for covering more people in the banking services. There are indications that banking sector has already build the ground for giving a big push using technology based inclusive products like mobile and agent banking. Mobile financial services has created an opportunity of fast and cost-effective transaction even to the remotest corner of the villages as well as it has given access to modern banking services to the rural poor including the social safety net beneficiaries.

Following policy and market interventions might be helpful to promote financial inclusion amongst vulnerable sections of the country:

Expanding the reach of financial services in rural areas: Financial inclusion in Bangladesh is mainly a rural phenomenon as the poor is the most excluded group in the economy and a high proportion of the poor lives in rural areas. Policies should be directed towards expanding the reach of financial services to unbanked and under-banked in the rural areas.

Improving the access of financial services to the marginalised and hard to reach groups: The vulnerable groups must be supported in different phases for graduation: starting with addressing health and social issues; then capacity and confidence building; and followed by creating demand for financing. Considering their ongoing operations and experiences, NGO-MFIs might play notable role in creating these linkages. Financial service providers should be offered with adequate training and awareness to treat vulnerable sections with empathy. Banks/NBFIs must also come forward to address blinds, disabled, transgender and other disadvantaged populations. Adequate infrastructure in bank/NBFI branches and ATMs must be ensured so that these sections may obtain

the required services.

Promoting technology driven services and products: While it is difficult to bring small farmers and producers to the door steps of banks high transaction costs pose a barrier to access to finance. In this context technology driven products could bring remarkable change in the inclusive finance market. Only providing existing loan and deposit products by the agents of banks may not help develop effective agent banking in the country; new targeted products should be developed with adequate flexibility in terms and conditions. For handling fraud issues, more awareness programmes are needed both for agents and clients; risk funds can be created for compensating victims.

Expanding the microfinance services: High cost of fund, higher monitoring cost, and integrated support services do not allow MFIs to offer credit facilities at the desired rate in many instances. The role of the government will be assist to the MFIs in improving their functioning at the retail level through building their institutional and technical capacities. This will enhance capacity of the MFIs to serve the poor and other marginalised groups in hard to reach and remote areas. MFIs should also be able to use digital technologies for improving coverage as well as quality of service.

Expanding the microinsurance sector: Microinsurance is a potential sector that has received almost no attention till today. Policy and regulatory support are required to develop the much needed microinsurance products/services. Insurance companies of the country may develop such products targeting low-income population of the country. However, MFIs/banks should also be allowed to offer certain micro insurance products to address the risk issues of their clients integrated with their core products/services.

Raising financial literacy and awareness: School banking programme which is already contributing to raising awareness needs more support and continuous nurturing. Besides, simple and less complicated loan application procedures, flexible terms and conditions for opening accounts, withdrawing mandatory reference letter, diminishing minimum balance for opening account for the poor and suitable location of branches may increase financial access of the excluded groups. Regular and relevant training and skill development programmes should be organised for the financial service providers on different aspects of financial inclusion.

Building trust among stakeholders: The levels of trust and satisfaction with financial services also vary across different products and services. A large proportion of households save in informal ways, rather than in financial institutions, due to different reasons (e.g. in gold providing better value). On the other hand, poor savers prefer community-based or informal mechanisms. The preference for local informal systems is mainly due to familiarity, ease of access, small amounts involved, and reasonable interest earned. Informal lenders have the advantage of proximity, minimum documentation requirements and flexibility with regard to loan repayment.

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