

Reshaping Rural Finance in Bangladesh

Key to Building Prosperous, Equitable and Inclusive Rural Society



Bangladesh Bank

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BANGLADESH BANK

JULY 2025

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Comprehensive Rural Finance Study (CRFS) Analytical and Survey Report No. 1

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Acronyms

4IR	Fourth Industrial Revolution
ADB	Asian Development Bank
AML	Anti-Money Laundering
ASA	Association for Social Advancement
ATM	Automated Teller Machine
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDS	Business Development Services
BFWE	Bangladesh Federation of Women Entrepreneurs
BKB	Bangladesh Krishi Bank
BMMDP	Bangladesh Microinsurance Market Development Project
BPO	Bangladesh Post Office
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSCIC	Bangladesh Small & Cottage Industries Corporation
BSEC	Bangladesh Securities and Exchange Commission
BITAC	Bangladesh Industrial Technical Assistance Centre
BTRC	Bangladesh Telecommunication Regulatory Commission
BWCCI	Bangladesh Women Chamber of Commerce and Industry
CDF	Credit and Development Forum
CFC	Common Facilitation Center
CFM	Cluster Finance Model
CFT	Combating the Financing of Terrorism
CGS	Credit Guarantee Scheme
CIB	Credit Information Bureau
CMEs	Cottage and Micro Enterprises
CMSEs	Cottage, Micro and Small Enterprises
CMSMEs	Cottage, Micro, Small, and Medium Enterprises
CRFS	Comprehensive Rural Finance Study
CRSP	Credit Reporting Service Provider
CSOs	Civil Society Organisations

CSR	Corporate Social Responsibility
CWS	Credit Wholesaling
CZM	Center for Zakat Management
DBBL	Dutch Bangla Bank limited
DFS	Digital Financial Services
e-KYB	Electronic Know Your Business
FCBs	Foreign Commercial Banks
FCM	Formal Credit Market
FGDs	Focus Group Discussions
FID	Financial Inclusion Department
Fintechs	Financial Technology
FIs	Financial Institutions
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GSMA	Global System for Mobile Communications Association
GVCs	Global Value Chains
HIES	Household Income and Expenditure Survey
HSC	Higher Secondary Certificate
IBFI	Index-Based Flood Insurance
IBM	Inclusive Business Model
ICM	Informal Credit Market
ICT	Information and Communications Technology
IDA	Individual Development Account
IDRA	Insurance Development and Regulatory Authority (Bangladesh)
IGAs	Income Generating Activities
InM	Institute for Inclusive Finance and Development
IoT	Internet of Things
KYC	Know Your Customer
LDC	Least Developed Country
M&E	Monitoring and Evaluation
MCM	Microcredit Market
MFIs	Micro Finance Institutions

MFS	Mobile Financial Services
MRA	Microcredit Regulatory Authority
MSMEs	Micro, Small and Medium Enterprises
NBFI	Nonbank Financial Institution
NFIS	National Financial Inclusion Strategy
NGO	Non-Government Organisation
NID	National Identity Card
NPLs	Non-Performing Loans
NWDP	National Women Development Policy
NWEDP	National Women Entrepreneurs Development Policy
OTP	One Time Password
P2P	Peer-to-Peer
PCBs	Private Commercial Banks
PCG	Partial Credit Guarantee
PFI	Participating Financial Institutions
PIN	Personal Identification Number
PSD	Payment Services Department
PSP	Public Service Programme
RAKUB	Rajshahi Krishi Unnayan Bank
RFM	Rural Finance Market
RFS	Rural Financial System
RMGs	Ready Made Garments
RNF	Rural Non-Farm
SAFE	Suitable, Accessible, Fair and Equitable
SBs	Specialised Banks
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprises
SMEF	Small & Medium Enterprise Foundation
SMESPD	SME and Special Programmes Department
SMI	Survey of Manufacturing Industries
SOCBs	State Owned Commercial Banks
SPV	Special Purpose Vehicle

TDD	Test-Driven Development
TFP	Total Factor Productivity
TSCs	Technical School and Colleges
TSS	Total Suspended Solids
TTCs	Technical Training Centres
TVET	Technical and Vocational Education and Training
WASH	Water, Sanitation and Hygiene
WEAB	Women Entrepreneur Association of Bangladesh
WEDU	Women Entrepreneur Development Unit

Executive Summary

The Comprehensive Rural Finance Study (CRFS) aims to provide credible research support for designing and/or restructuring rural finance policies and implement institutional reorganisation (as necessary) by the Bangladesh Bank and other stakeholders to support the rural transformation agenda of Bangladesh. For the purpose, the study undertook a comprehensive analysis of the access to and use of various financial products and services by rural households and CMSMEs to capture their financial behaviour in order to understand the current status of availability and usage of different financial products/services in rural Bangladesh. In the process, the study also quantified the penetration of various financial products and services (both traditional and digital), and identified obstacles/limitations hindering specific population groups/enterprises in accessing these services.

The results helped to identify the key challenges that the excluded populations and enterprises face in the way of accessing financial services. Based on the findings and other available evidence from secondary sources, recommendations have been drawn on how to develop suitable financial products/services for the excluded populations/enterprises considering their common as well as specific demand side characteristics. This also involved explicit consideration of geographic characteristics vis-a-vis affordable and sustainable financial products and services and alternative delivery channels.

This analytical study completion report provides selected key aspects of the study along with some major recommendations. First, the report discusses in brief the evolving dynamics of the rural economy including the features of past rural transformation and pattern of rural growth particularly covering changes in the structures of agriculture and the rural nonfarm economy. It also identifies future challenges and the likely implications of commercialisation and globalisation on the rural economy of Bangladesh.

Second, it provides a short overview of the changing face of rural finance in Bangladesh since independence in 1971. It also identifies major challenges of the country's rural financial system and summarises the lessons from past rural finance reform policies. It further highlights the supply of rural finance in terms of growth of formal financial market and the present status of informal financial system. Third, the report provides the major findings of the Rural Finance Survey 2023 conducted under the present study.

Fourth, it discusses the present access to finance by different groups of rural households (e.g. farm and nonfarm households) as well as by households of selected marginalised communities. It also examines existing regional variation in financial access and identifies major challenges and provides policy recommendations. Fifth, it provides an analysis on access to and uses of finance by rural enterprises as well as by rural women entrepreneurs and cluster based enterprises. The challenges and policy recommendations are also summarised.

Sixth, the report covers the analysis on access to digital financial services and related innovations including mobile financial and agent banking services. The implications of new technologies on rural-urban resource transfer are also analysed including the scope and prospects of technological innovations in rural finance. It also deals with challenges and major recommendations. Seventh, the report discusses the supply side policy issues and regulatory framework covering future perspectives. The relevant challenges are identified and recommendations are made. Finally, the report provides the highlights of major findings and recommendations of the study.

Summary of Major Recommendations of CRFS

	Recommendations	Responsible institution (s)	Time frame*
Rural Finance System			
1. Reform rural credit system for individual farmers and borrowers			
1.1	Design tailored policies/measures that would enable the banks/NBFIs to ensure access to and use of financial services by the underserved/excluded population groups/disadvantaged communities.	BB/MRA/IDRA/BTRC	ST
1.2	For effectively building and developing the rural finance infrastructure, promote variety and competition rather than replicate any single model at all rural locations depending on specific situations.	BB	ST
1.3	Look into the issues of regional concentration of loans and advances.	BB	NT
1.4	Leverage good practices to design and manage credit guarantee schemes (CGSs).	BB	NT
1.5	Diversify the rural financial infrastructure to cater to the varying financial needs of the diverse groups of rural populations and enterprises.	BB	MT
1.6	Support and improve tools like agro-climatic zoning as a basis for helping develop the rural finance market.	BB/MoA	NT
2. Ensure access to and use of financial services by rural CMSMEs			
2.1	Design and implement a programme for the banks/NBFIs to facilitate financing of rural women CMSME entrepreneurs.	BB	NT
2.2	Explore the feasibility and urge banks/NBFIs to adopt cluster finance model (CFM) for lending to rural CMSMEs in industry based clusters.	BB	NT
2.3	Consider the adoption of a holistic approach towards financing rural CMSME start-ups by banks/NBFIs.	BB	NT
2.4	Develop a mechanism to ensure integrated development of CMSMEs and sustainably meet their financing needs.	BB	NT
2.5	Put special focus on CMSME entrepreneurship for rural youth.	BB	NT
2.6	Work together towards ensuring secured lending for rural CMSMEs.	BB/BSEC/MRA/BTRC/concerned ministries	NT
2.7	Introduce policy incentives for banks and NBFIs to emerge as specialists in CMSME financing, especially in financing rural women-owned and cluster-based CMSE entrepreneurs	BB	MT
2.8	Adopt a more coordinated approach to CMSME lending to enhance policy coherence.	BB	NT
2.9	Examine whether in terms of priority, a strong case does exist for linking policy support to an enterprise's growth orientation and performance and giving high priority to growth oriented rural enterprises that are seeking either to break into foreign markets or increase their foreign sales.	BB	MT
3. Adopt technology-driven products/services and delivery channels			
3.1	Adopt specific measures for further promotion of technology-driven services and agent banking.	BB/BTRC	NT
3.2	Explore the possibility for the banks/NBFIs and other formal institutions, inclusion of data from MFIs, energy utilities and telecoms in the consumer credit reports that can significantly increase the opening of new credit accounts by 'thin-file' borrowers like rural population and CMSMEs—that is, borrowers with few, if any, credit accounts but whose credit reports include these data	BB	NT
3.3	Assess the possibility of imposing mandatory lending quotas for banks/NBFIs to lend to the rural sector as a component of rural finance policy.	BB	NT
3.4	Work within a coordinated framework towards promoting innovations in rural finance delivery mechanisms/channels.	BB/MRA/IDRA/BTRC	NT
3.5	Facilitate innovations in new methodologies/approaches for promotion by the financial institutions/fintechs.	BB/MRA/IDRA/BTRC	NT
3.6	Target product innovations for effectively meeting rural finance needs of the consumers and CMSMEs.	BB/MRA/IDRA/BTRC	NT
4. Reform risk management and strengthen risk financing instruments			
4.1	Exploit the huge potentials for designing and offering credit and insurance products targeting the agriculture sector as a significant portion of the population still directly	BB/IDRA	NT

	Recommendations	Responsible institution (s)	Time frame*
	depends on agriculture.		
4.2	Explicitly approach inclusive insurance for the farmers and nonfarm populations at the bottom of the pyramid in the rural areas.	IDRA/insurance companies	NT
4.3	Adopt a plan to develop targeted insurance products/services for CMSMEs especially keeping in view the characteristics of rural CMSMEs.	IDRA/insurance companies	NT
4.4	Adopt a time bound plan towards developing the policy framework for microinsurance keeping provision of using MFI linkage to reaching the rural beneficiaries.	IDRA	ST
4.5	Implement measures to introduce bancassurance to diversify service opportunities especially to the rural consumers.	BB/IDRA	ST
4.6	Undertake measures to introduce innovative insurance products/services e.g. health, disaster, crop, livestock, fisheries and other production losses, and in other areas as per needs of various groups of low income and marginal rural people and leverage digital solutions to reach poor and underprivileged rural populations with insurance products/services.	IDRA	MT
5. Develop key components of rural financial sector			
5.1	Take appropriate steps for promoting capital and bond markets, insurance sector and MFIs for balanced financial development.	BB/BSEC/IDRA/MRA/BTRC	MT
5.2	Compile regular statistics and conduct applied research on the state and health of the CMSME sector for designing effective financing solutions	BB/SMEF	NT
5.3	Undertake initiatives to develop functioning business development services (BDS) markets for ensuring effective rural CMSME financing.	BB/SMEF	MT
5.4	Explore the possibility of introducing warehouse receipts and futures markets for selected agricultural commodities.	BB/MoA	MT
5.5	Focus on designing a comprehensive coordination and monitoring mechanisms for rural finance market in the country.	BB	NT
5.6	Undertake required policies/measures to exploit the full potential of Islamic finance.	BB/MoF	NT
6. Enhance accessibility to financial services			
6.1	Expand rural bank branches: Provide directives/incentives to banks to open more branches or sub-branches in underserved rural areas. Consider shared banking infrastructure and other innovative options among multiple banks to reduce costs. Study results indicate that the number of rural bank branches per 1,000 square kilometers in Bandarban is only 4.69, significantly below the national average. Conversely, the number of rural bank branches per 100,000 adults is 10.4, which exceeds the national average. Despite higher branch density relative to population, access to financial services through banks remains low, indicating that banks are not effective in reaching local population due to lack of geographic proximity. Since access to financial services through MFIs is also limited in Bandarban, expanding banking activities by establishing additional branches would help improve financial access in the district.	BB	ST
6.2	Rural banking incentives: Provide incentives for banks to establish branches and service points in specific remote rural areas indicated by BB. This could take various forms e.g. tax breaks, fixed cost funding for service points from CSR funds or similar other options.	BB	ST
6.3	Promote agent banking: Expand the agent banking network, employing women agents as well, in remote rural locations to offer basic banking services like deposits, withdrawals, and transfers.	BB	NT
6.4	ATM and Digital Kiosk Deployment: Deploy ATMs and digital financial service kiosks in potential rural markets and community centres, providing easier access to banking services.	BB	NT
6.5	Promote proactive approach by banks: The traditional approach of banks and financial institutions, under which clients come to these institutions rather than the institutions reaching out to households and enterprises, needs to be reversed. Banks would have to proactively expand access to financial services in these locations. For example, the BB's initiative requiring commercial banks to open Tk. 10 accounts has increased financial access, but many of these accounts remain dormant. Efforts could be given to activate these accounts, especially to facilitate regular transactions.	BB	NT

	Recommendations	Responsible institution (s)	Time frame*
7. Promote digital financial inclusion			
7.1	Expand MFS: Encourage the use of mobile banking by reducing transaction fees, increasing the number of agents, and promoting mobile literacy among rural populations. This can be supported by public-private partnerships.	BB	NT
7.2	Low-Cost Mobile Devices and Data Plans: Collaborate with telecom companies to provide affordable mobile devices and data plans specifically for rural areas, ensuring that residents can access mobile banking services.	BB	NT
8. Promote tailored financial products and expand agricultural finance			
8.1	Agricultural Loans and Insurance: Focusing on agriculture and small enterprises is crucial for achieving success in inclusive interventions. Collateral requirements and lengthy processing times are major challenges, where the informal sector has proven more proficient. To attract borrowers from the informal sector, agricultural and small/micro enterprise loans should be made collateral-free, the documentation process simplified, and processing times significantly reduced.	BB	NT
8.2	Value Chain Financing: Promote value chain financing models that integrate credit, input supply, and market access, ensuring that farmers have the resources they need throughout the production cycle. Policy makers should develop financial products specifically designed for rural communities, such as low-interest agricultural loans, crop insurance, and livestock insurance, which can help farmers manage risks and invest in productivity.	BB	MT
8.3	Micro-Savings Programmes: Promote micro-savings programmes that allow rural residents to save small amounts regularly, which can be done through MFIs, cooperatives, or mobile banking platforms.	BB	NT
9. Simplify regulatory requirements			
9.1	Relaxed KYC Norms: Introduce simplified Know-Your-Customer (KYC) regulations for low-value accounts in rural areas, allowing people without formal identification to access basic banking services through alternative verification methods like local community endorsements.	BB	NT
9.2	Tiered Banking Products: Develop tiered banking products with minimal regulatory requirements for entry-level accounts, gradually increasing options and benefits as customers build a history of transactions.	BB	NT
10. Develop women-centric financial products			
10.1	Support Female Entrepreneurs: Create financial products specifically for rural women, such as microloans for women-led businesses, savings accounts with lower minimum balances, and insurance products that address women's health and family welfare.	BB	NT
10.2	Women's Cooperatives: Encourage the formation of women's savings and credit cooperatives, offering a collective platform for savings, credit, and financial education.	BB	NT
11. Regulatory support and consumer protection			
11.1	Simplified KYC Processes: Implement simplified Know-Your-Customer (KYC) processes for rural populations, allowing easier access to financial services while ensuring security and compliance.	BB	MT
11.2	Consumer Protection in Rural Areas: Strengthen consumer protection laws specifically for rural customers, ensuring transparency in financial products and safeguarding against fraud and predatory practices.	BB	NT
12. Public-private partnerships (PPP)			
12.1	Collaborative Financial Inclusion Initiatives: Foster mutual partnerships between the government, private sector actors, and NGO-MFIs to develop and implement financial inclusion initiatives especially targeting remote rural areas.	BB	MT
12.2	Popularise low-cost financial products: Offer low cost financial products and financial incentives (e.g. bonus, cash back guarantees etc.) for first time users of products such as low-interest loans, savings products etc. to make them more accessible and attractive to rural populations,	BB	MT
13. Leverage Technology and Data			
13.1	Digital Identity and Credit Scoring: Utilise digital identity systems (like biometric ID cards) to facilitate access to financial services, and develop alternative credit scoring	BB	MT

	Recommendations	Responsible institution (s)	Time frame*
	methods that consider informal income sources typical in rural areas.		
13.2	Remote Financial Services: Explore the use of technology, such as Blockchain or AI, to provide remote financial services and reduce the need for physical infrastructure in isolated areas.	BB	MT
14. Integration with social safety nets			
14.1	Link Social Benefits to Financial Accounts: Ensure that social welfare benefits, such as cash transfers, pensions, and subsidies, are disbursed through bank accounts or mobile wallets, encouraging the use of financial services and increasing financial inclusion.	BB/MoSW	NT
14.2	Rural Financial Inclusion Index: Develop a rural financial inclusion index to monitor progress and identify gaps in service delivery. This index should track access to and usage of financial services in rural areas, providing data to inform policy adjustments.	BB	MT
14.3	Community Feedback Mechanisms: Establish mechanisms for regular feedback from rural communities to understand their needs and challenges, ensuring that financial inclusion policies are responsive and effective.	BB/MoLGRD&C	MT
15. Boost financial literacy and awareness			
15.1	Community-Based Financial Education: Implement community-driven financial literacy programmes, using local leaders and NGOs to educate rural populations on financial management, savings, and the benefits of formal financial services.	BB	NT
15.2	School Programmes: Introduce financial education in rural schools to build financial literacy from a young age, ensuring future generations are better equipped to engage with financial systems.	BB	NT
15.3	Training for Women and Youth: Target women and youth with specific financial education programmes, as these groups are often more excluded. Empowering them with knowledge about financial products and services can have a broad impact on community development.	BB	ST
16. Specific measures for Microcredit Regulatory Authority (MRA)			
16.1	Recognising the role of MFIs: In Bangladesh, 731 MRA-licensed MFIs have been serving 40.86 million members, including 31.53 million borrowers; making a significant contribution to financial inclusion. Their role needs to be well acknowledged, as proper recognition and appreciation can motivate management and staff in further deepening their efforts.	MRA	ST
16.2	Credit for rural entrepreneurs: Support MFIs in providing microenterprise loans and other financial products tailored to the specific needs of rural entrepreneurs, particularly women entrepreneurs and those involved in agricultural activities and cottage and micro enterprises.	MRA	NT
16.3	Flexible repayment structures: Introduce flexible loan repayment options that align with agricultural cycles and seasonal income patterns of rural enterprises, easing the burden on borrowers.	MRA	MT
16.4	Disaster risk management: Disasters and uncertainties can disrupt the operations of NGO-MFIs and can have serious consequences for vulnerable populations in remote areas. In case of such disasters, measures are needed to protect NGO-MFIs to overcome financial and other consequences of such events, given their critical role in promoting inclusive growth.	MRA	NT
16.5	Microinsurance potential: Microinsurance holds significant potential, with some NGO-MFIs offering these services to borrowers, including limited health microinsurance. However, existing Insurance Development and Regulatory Authority (IDRA) rules prohibit the use of the term 'insurance' when such services are provided by NGO-MFIs. Since, banks are now allowed to provide insurance services in collaboration with insurance companies, similar arrangements may be explored for NGO-MFIs such that microinsurance could emerge as a vital component for the effective delivery of microfinance and other support services to vulnerable rural populations.	MRA	NT
16.6	Support for vulnerable groups: Although some NGO-MFIs address the needs of blind, disabled, and transgender individuals, these groups most often lack access to financial services and rarely seek funding for economic activities. The NGO-MFIs could work to create demand for finance by helping these groups build confidence and capacity. Addressing their needs could be addressed in phases, starting with health and social	IDRA	NT

	Recommendations	Responsible institution (s)	Time frame*
	support, followed by capacity-building and eventually providing credit facilities.		
17. Suggested measures for Insurance Development and Regulatory Authority (IDRA)			
17.1	Crop Insurance and Credit: Develop specialised financial products such as crop insurance and agricultural credit that cater to the unique risks faced especially by marginal and small farmers. Ensure these products are affordable and accessible.	IDRA/insurance companies	MT
17.2	Microinsurance: Microinsurance is a highly potential product that so far has received very limited attention. Policy and regulatory support are required to develop much needed microinsurance products/services. Insurance companies may develop such products targeting low-income rural populations; and partnerships especially with NGO-MFIs would be critical to successfully offer microinsurance products to address the risks of the clients when integrated with their core products/services. An arrangement similar to the bancassurance, under which registered MFIs can partner with insurance companies, can be developed to offer microinsurance products to the rural populations. Research into potential delivery mechanisms could be conducted, and appropriate methods can be implemented.	IDRA/insurance companies	NT
Supply Side Issues for Financial Institutions			
1.1	Conduct an expert review, using ground realities in the rural areas, for adopting realistic definitions and scope of rural CMSMEs.	SMEF/BB	NT
1.2	Adopt measures for further simplification of the financing and loan processes especially relating to documentation and collateral requirements	BB/banks/NBFIs	NT
1.3	Adopt location specific development strategies using local information with focus on technology and market access	MoLGRD&C/BB	MT
1.4	Create strategic rural branch networks and deploy requisite skilled staff in rural branches	MoLGRD&C/BB	MT
1.5	Review loan product portfolio and design customised products for specific rural clients	MoLGRD&C/BB	MT
1.6	Adopt specific and targeted cluster development and cluster-based financing approach	BB/banks/NBFIs/MFIs	NT
1.7	Promote and expand digital financial services and nano loans	BB/banks/MFIs/Fintechs	NT
1.8	Undertake customised digital literacy initiatives and expand related infrastructure	BB/Banks/MFIs	NT
1.9	Adopt specific support measures for women-led CMSEs	BB/banks/MFIs	NT
1.10	Promote financial education and awareness especially among rural women CMSEs	BB/banks/MFIs	NT
1.11	Review policy and operational approaches for enhancing efficiency through financial access and management of rural CMSEs	BB/banks/MFIs	MT
1.12	Undertake institutional capacity building and consolidation of rural banking system	BB/banks/NBFIs	MT
1.13	Popularise microinsurance among rural farmers/CMSEs	BB/IDRA/insurance companies	MT
1.14	Facilitate the development of MFI-bank-insurance linkages/partnerships	BB/IDRA/insurance companies	MT
1.15	Consolidate courier/postal services for serving rural farmers/enterprises	BB/MoPT	MT
1.16	Strengthen the role of Zakat institutions for rural CMSMEs	BB/MoRA	MT
2.1	Simplify the process of obtaining trade license and other verification needed for accessing credit by rural CMSMEs	BB/MoC/MoLGRD&C	ST
2.2	Simplify personal retail accounts (PRAs) loan eligibility by providing access to CIB	BB/banks/NBFIs	ST
2.3	Simplify eKYC for rural entrepreneurship	BB/banks	ST
2.4	Explore the possibility of providing incentives for cashless transactions for rural people/enterprises	BB/banks/Fintechs	NT
2.5	Relax unnecessary data security requirements for rural enterprises	BB/banks	ST
2.6	Adopt simplified guidelines to serve rural CMSMEs through Fintechs	BB/BTRC/Fintechs	ST
2.7	Simplify return submission for rural CMSEs (Income Tax Act)	BB/MoF/NBR	NT
2.8	Explore adaptation of ESRM guidelines for rural enterprises	BB/MoF	ST
2.9	Explore the possibilities of top-up for term loans for rural CMSMEs	BB/banks/NBFIs	ST
2.10	Explore the pros and cons of adopting digital signature	BB/BTRC	ST

	Recommendations	Responsible institution (s)	Time frame*
Rural Entrepreneurs			
1.1	Improving finance for rural entrepreneurs	BB/banks/NBFIs/MFIs	NT
1.2	Focus on CMSME entrepreneurship for rural youth	BB/banks/NBFIs/MFIs	ST
1.3	Alternative credit scoring for rural youth entrepreneurship financing	BB/banks/NBFIs/MFIs	NT
1.4	Rural youth-focused mobile wallets and digital banking	BB/MFS	ST
1.5	Expansion of business funding platforms	BB/banks/NBFIs/MFIs	NT
1.6	Promoting digital financial literacy and capability among rural young entrepreneurs	BB/banks/NBFIs/MFIs	NT
1.7	Offering client-centric products and financial services that respond to the needs of rural youth	BB/banks/NBFIs/MFIs	NT
1.8	Encouraging banks/NBFIs to leverage technology for facilitating lending to youth entrepreneurs in rural areas	BB/banks/NBFIs/MFIs	NT
1.9	Improving credit reporting for CMSMEs	BB/MRA	NT
1.10	Exploring alternative financing options e.g. Small cap equity market, Venture capital, Angel investors, Crowd-funding, Impact Investing, etc.	BB/BSEC/MRA/BTRC	MT
1.11	Ensuring secured lending for CMSMEs	BB/MRA/banks/MFIs	NT
1.12	Factoring and CMSME finance	BB/BSEC/MRA	MT
1.13	Improving access to finance through insolvency practices	BB/MoF	MT
1.14	Conducive Environment for Rural Entrepreneurship	BB/MRA/BTRC	NT
1.15	Leveraging Good Practices to Design and Manage CGSs	BB/banks/NBFIs	NT
1.16	Need to Exploit Full Potential of Islamic Finance	BB/MoRA	NT
1.17	Adopt a more coordinated approach to CMSME lending to enhance policy coherence	BB	ST
1.18	Incentivise the digital integration of rural CMSMEs as an in-built mechanism for financing	BB/MRA/Fintechs	NT
1.19	Encourage banks/NBFIs to design and provide tailored support to rural CMSMEs especially to rural women and CMSEs entrepreneurs	BB	NT
1.20	Introduce policy incentives for banks and NBFIs to emerge as specialists in CMSME financing, especially for financing rural women and CMSE entrepreneurs	BB	ST
1.21	Develop agencies with effective and efficient capacity in providing tailored business development services (BDS) to rural women and CMSME entrepreneurs	BB/MRA/banks/MFIs	NT
1.22	Encourage alternative financing options for rural CMSMEs	BB	ST
Rural Women Entrepreneurs			
1.1	Adopt informed and strategic targeting to reach and provide financial access to rural women entrepreneurs.	BB/banks/NBFIs/MFIs	NT
1.2	Create the mechanism and implement the proposed measures (as detailed in the study) to collect relevant data by design.	BB/banks/NBFIs	NT
1.3	Adopt a pilot programme on bundling of services e.g. skills training, insurance, mentoring, messaging and marketing, business enabling environment, simplify registration, collect gender-disaggregated data, data synergies and leveraging etc. to proceed accordingly.	BB/banks/NBFIs	NT
1.4	Promote gender diversity and gender inclusion in banks/NBFIs.	BB	ST
1.5	Require banks/NBFIs to collect gender-disaggregated data at enterprise and portfolio levels (as indicated in the study) to successfully address financial inclusion issues of rural women entrepreneurs.	BB	ST
1.6	Address information gaps related to financial needs and related issues of rural women entrepreneurs.	BB	ST
1.7	Promote lending to rural women entrepreneurs as hedge to protect loan portfolio deterioration	BB	ST
1.8	Improve credit guarantee schemes and advisory services to work more effectively for rural women-owned CMSMEs	BB	ST
1.9	Build knowledge and expertise for banks/NBFIs to focus on rural women	BB	NT

	Recommendations	Responsible institution (s)	Time frame*
	entrepreneurs		
1.10	Use fintechs as rapid transformer of rural finance landscape for rural women entrepreneurs	BB	NT
1.11	Develop tracking mechanism (as detailed out in the study) for gender-disaggregated data at enterprise and portfolio level.	BB/banks/NBFIs	NT
1.12	Adopt a dedicated strategy for rural women entrepreneurs	BB/banks/NBFIs	NT
1.13	Develop products and services tailored for specific groups of rural women entrepreneurs.	BB/banks/NBFIs	NT
Entrepreneurs in rural industry based clusters			
1.1	Adopt comprehensive cluster development and financing strategies	BB/banks/NBFIs/MFIs	NT
1.2	Explore adoption of cluster finance models (CFM)	BB/banks/NBFIs/MFIs	NT
1.3	Arrange policy support for developing industry based clusters including Lay the foundation, Adopt policies which support and encourage, not prevent and discourage, the scale up and modernisation of clusters, Collaborate in developing networks, communication channels, re-organise service delivery structures; and information delivery services, Promote development of cluster skill-centres and stimulate innovation and entrepreneurship, Create enabling financing vehicles, Invest in cluster-based R&D, Use clusters as promotional tools and support the development of export networks, Focus on building brand for specific clusters, Move fast into action by looking for 'low-hanging' fruits.	BB/SMEF	MT
1.4	Adopt specific measures (as indicated in the study) for cluster development and catering to financing needs using cluster finance model principles and practices.	BB/SMEF	MT
1.5	Revisit current policy initiatives as indicated.	BB	NT
1.6	Strengthen capital markets	BB/BSEC	MT
1.7	Align capital market ecosystems for CMSMEs in industry based clusters	BB/BSEC	MT
1.8	Develop ecosystems to exploit the enormous possibilities of emergence of fintechs.	BB/BTRC	MT
Farming and Non-farming Households			
1.Financial literacy			
1.1	It is necessary to provide financial literacy training programme as well as to organise community workshops where financial awareness knowledge will be disseminated.	BB, MRA, IDRA,PKSF, SMEF	ST
1.2	In our study findings, in Barishal division, households have low financial literacy score and their access to credit from bank is very poor. Therefore, locational consideration during literacy programme should be considered.	BB, MRA, IDRA,PKSF, SME foundation	ST
2.Climate change and WASH product financing			
2.1	BB should especially focus on climate change and WASH financing products.	BB	ST
2.2	Bangladesh Bank's financial policies should integrate climate risks and opportunities.	BB	ST
3.Expand post-office services			
3.1	Need to reformulate practical strategies to strengthen postal banking services.	GoB, BPO, MoF	ST
4.Targeted programme for female specific communities/group			
4.1	Agricultural credit policies and norms have been appropriately adjusted and re formulated. The policy aims at reaching out to relatively underdeveloped areas for timely and hassle free delivery of adequate agricultural/rural credit to the small farmers and the share-croppers.	BB, MRA	ST
4.2	BB should develop a policy targeted towards these groups and banks should be advised to develop a package of financial services for the women and the female headed farming and non-households.	BB, MRA	ST
5. Specialised rural (agricultural) development banks (Policy for farming HHs)			
5.1	Need to develop agricultural development banks in rural areas.	BB	ST
6. Locational consideration			
6.1	Banks need to expand financial services in unbanked areas as well as to deepen the volume of services.	BB	ST
6.2	The banks are required to designate a bank official as the 'Focal Point' at each rural	BB	ST

	Recommendations	Responsible institution (s)	Time frame*
	branch of a bank.		
6.3	Rural bank branches should be directly encouraged use MFI branches for expanding credit facilities to both MEs and other economic activities in the areas where banks cannot provide financial services directly.	BB	ST
7. Appropriate product design and services			
7.1	Considering client demand, innovative products and technologies can be developed.	BB, MRA	NT
7.2	Formal financial institutions can provide non-credit services to the farmers through banking system, transaction through mobile banking and so on.	BB, MRA	NT
7.3	Expand the scope and practice of 'Cluster' and 'Value Chain' financing	BB, MRA	MT
8. Popularising insurance products			
8.1	Need to take appropriate measures in popularising insurance and making it available to the poor households at affordable cost.	IDRA	NT
Regional dimensions in financial access			
1. Enhance Accessibility to Financial Services			
1.1	More branches/sub-branches of banks are needed in rural areas: Banks are needed to open branches/sub-branches especially in un- and underserved rural locations. As indicated earlier, BB can implement multiple actions to incentivise the banks to provide access to these excluded populations.	BB	ST
1.2	For the banks, incentive mechanisms may be introduced by BB to open branches/sub-branches in remote and unserved rural locations (see above for details).	BB	ST
1.3	Alternative banking channels like agent banking could also be expanded (see above).	BB	NT
1.4	Proactive approach by the banks is needed to expand access to financial services. The banks need to take active initiatives for reaching rural excluded and underserved populations.	BB	NT
2. Promote Digital Financial Inclusion			
2.1	Expand MFS: Encourage the use of mobile banking by reducing transaction fees, increasing the number of agents, and promoting mobile financial literacy among rural populations. This could be supported by public-private partnerships.	BB	NT
2.2	Low-Cost Mobile Devices and Data Plans: Collaborate with telecom companies to provide affordable mobile devices and data plans specifically for rural areas, ensuring that residents can access mobile banking services.	BB	MT
3. Tailored Financial Products and Enhanced Agricultural Finance			
3.1	Agricultural loans and insurance: Focus on agriculture and CMSEs is crucial for achieving success in inclusive rural interventions. Collateral requirements and lengthy processing times are major challenges, where the informal sector has proven more attractive. To attract borrowers from the informal sector, agricultural and small/micro enterprise loans could be made asset-based collateral free, documentation process can be more simplified, and processing time can be significantly reduced.	BB	MT
3.2	Value Chain Financing: Promote value chain financing models that integrate credit, input supply, and market access together to ensure that farmers have the resources they need throughout the production cycle. Policy makers could develop financial products specifically designed for rural communities, such as low-interest agricultural loans, crop insurance, and livestock insurance, which would help farmers manage risks and invest in productivity.	BB	NT
3.3	Micro-Saving Programmes: Promote micro-saving programmes that allow rural residents to save small amounts regularly, which can be done through MFIs, cooperatives, or mobile banking platforms.	BB	NT
4. Simplify Regulatory Requirements			
4.1	Relaxed KYC Norms: Introduce simplified Know-Your-Customer (KYC) regulations for low-value accounts in rural areas, allowing people without formal identification to access basic banking services through alternative verification methods like local community endorsements.	BB	NT
4.2	Tiered Banking Products: Develop tiered banking products with minimal regulatory requirements for entry-level accounts, gradually increasing options and benefits as customers build a history of transactions.	BB	NT

	Recommendations	Responsible institution (s)	Time frame*
5. Develop Women-Centric Financial Products			
5.1	Support Female Entrepreneurs: Create financial products specifically for rural women, such as microloans for women-led businesses, savings accounts with lower minimum balances, and insurance products that address women's health and family welfare.	BB/SMEF	MT
5.2	Women's Cooperatives: Encourage the formation of women's savings and credit cooperatives, offering a collective platform for savings, credit, and financial education.	BB/SMEF	NT
6. Regulatory Support and Consumer Protection			
6.1	Simplified KYC Processes: Implement simplified Know-Your-Customer (KYC) processes for rural populations, allowing easier access to financial services while ensuring security and compliance.	BB	MT
6.2	Consumer Protection in Rural Areas: Strengthen consumer protection laws specifically for rural customers, ensuring transparency in financial products and safeguarding against fraud and predatory practices.	BB	NT
7. Public-Private Partnerships (PPP)			
7.1	Collaborative Financial Inclusion Initiatives: Partnerships are needed between the government, private sector entities, and NGO-MFIs to develop and implement financial inclusion initiatives in rural areas.	BB	MT
7.2	Low-Cost Financial Products: Develop low-cost financial products targeting specific groups of rural clients for which banks may be allowed to use CSR funds for designing and testing.	BB	MT
8. Leverage Technology and Data			
8.1	Digital Identity and Credit Scoring: Utilise digital identity systems (like biometric ID cards) to facilitate access to financial services, and develop alternative credit scoring methods that consider informal income sources typical in rural areas.	BB	MT
8.2	Remote Financial Services: Explore the use of technology, such as Blockchain or AI, to provide remote financial services and reduce the need for physical infrastructure in isolated areas.	BB	MT
9. Integration with Social Safety Nets			
9.1	Link Social Benefits to Financial Accounts: Ensure that social welfare benefits, such as cash transfers, pensions, and subsidies, are disbursed through bank accounts or mobile wallets, encouraging the use of financial services and increasing financial inclusion.	BB	ST
9.2	Rural Financial Inclusion Index: Develop a rural financial inclusion index to monitor progress and identify gaps in service delivery. This index should track access to and usage of financial services in rural areas, providing data to inform policy adjustments.	BB	MT
9.3	Community Feedback Mechanisms: Establish mechanisms for regular feedback from rural communities to understand their needs and challenges, ensuring that financial inclusion policies are responsive and effective.	BB/MoLGRD&C	MT
10. Boost Financial Literacy and Awareness			
10.1	Community-Based Financial Education: Implement community-driven financial literacy programmes, using local leaders and NGOs to educate rural populations on financial management, savings, and the benefits of formal financial services.	BB	MT
10.2	School Programmes: Introduce financial education in rural schools to build financial literacy from a young age, ensuring future generations are better equipped to engage with financial systems.	BB	MT
10.3	Training for Women and Youth: Target women and youth with specific financial education programmes, as these groups are often more excluded. Empowering them with knowledge about financial products and services can have a broad impact on community development.	BB/MoEF	ST
11. Suggested Specific Measures for Microcredit Regulatory Authority (MRA)			
11.1	Recognise the Role of MFIs in Rural Finance: In Bangladesh, MFIs have been serving more than 4 crore members with microfinance and other support services promoting financial inclusion and improving their living standards. Their role needs to be further strengthened and recognised through efforts to transform them into smart organisations to serve the financial and other needs of poor and left behind populations in rural areas.	MRA	ST

	Recommendations	Responsible institution (s)	Time frame*
11.2	Microfinance for Rural Entrepreneurs: The aim would be to transform MFIs as the major source of providing tailored financial services to meet the specific needs of rural (including women and startups) entrepreneurs, particularly in agriculture and cottage, micro and lower segment of small enterprises.	MRA	NT
11.3	Flexible Repayment Structures: For the MFI borrowers, a major innovation would be to introduce flexible loan repayment options for all specific borrower groups at disaggregated level that would align with agricultural production cycles and seasonal income patterns, easing the repayment burden on the borrowers and ensuring timely repayments.	MRA	NT
11.4	Adopt MFI Focused Response to Disaster Risk Management: The MFI-target groups, poor and low income vulnerable populations and rural CMSEs, need financial products and services that can support them in managing and responding effectively to disasters in specific contexts using key impact pathways e.g. resilience, adaptation, and transition. The compulsion is to recognise that supporting poor and low-income vulnerable populations with financial services and addressing natural disasters cannot be approached in isolation.	MRA	MT
11.5	Microinsurance Potential: The potential of microinsurance still remains largely unexplored. Appropriate steps are needed to popularise microinsurance in all aspects of risk mitigation e.g. crop, livestock, health, disaster losses, etc.	MRA	MT
11.6	Support for Vulnerable Groups: Specific financial support programmes are needed to be designed for specific vulnerable groups including physically challenged populations. The NGO-MFIs could work as a conduit to create demand for credit through building confidence and capacity, followed by providing access to financial and other support services.	MRA	NT
12. Suggested Specific Measures for Insurance Development and Regulatory Authority (IDRA)			
12.1	Crop Insurance and Credit: Provide support to develop specialised, affordable and accessible financial products such as crop insurance and agricultural credit that cater to the unique risks faced by marginal and small farmers.		
12.2	Microinsurance: Design policy and regulatory support programmes for development of different micro insurance products/services in collaboration with insurance companies targeting low-income rural populations and involve MFIs/banks in offering these products/services to target groups using arrangement similar to bancassurance.		
* ST (short term) = within one year; NT (near term) = 1–2 years; MT (medium term) = 3–5 years. Some of these measures require legislative actions while others require regulatory actions alone.			

Selected marginalised communities			
1. Policy interventions by the state and Bangladesh Bank			
1.1	Adopt new laws and policies as necessary to protect the rights of each specific marginalised community keeping its specific disadvantages and exclusionary practices in view.	GoB/BB	ST
1.2	Create space for inclusion of specific interests of each marginalised community in the policy framework. Ensure access to education, health, nutrition and other basic services through adopting administrative measures; adopt special measures for specifically recognising the rights/interests of these marginalised communities (e.g. inter-ministerial committee, separate ministry/division etc.); adopt specific and comprehensive life cycle based social protection/safety net programmes specific to each of these communities.	GoB/BB	ST
2. Restructuring markets			
2.1	Adopt measures to create access of these communities to required education, employable skills, and capacity development.	BB	NT
2.2	Create scope for banks, MFIs and other financial institutions for ensuring financial inclusion of these community members and design special credit and financial products and services schemes specific to the needs of these communities.	BB	

2.3	Enhance market linkages and adopt measures for linking entrepreneurs of these marginalised communities to supply chains for procuring modern inputs, management services and technologies, and marketing outputs in domestic and external markets.	BB	
2.4	Adopt measures for accessing labour market information, skill requirements and job opportunities by these communities.	BB	MT
3. Exploring ways to improve financial health			
3.1	Introduce appropriate literacy and skill development programmes for relevant staff of banks and financial institutions to acquire the capacity to assess the pros and cons of different financial products/services targeted to different groups of rural populations and enterprises.	BB	ST
3.2	Encourage banks and financial institutions to initiate special small savings/deposit account programmes with flexible deposit/withdrawal rules to encourage regular savings in small amounts.	BB	NT
3.3	Encourage banks/financial institutions to initiate special programmes for savings/investment appropriate for rural customers for old age/retirement benefits.	BB	NT
4. Enabling to earn good returns			
4.1	Promote economic empowerment of marginalised communities, particularly women farmers and entrepreneurs, through tailored financial products, responsible inclusion strategies, financial education, and multi-stakeholder partnerships to ensure sustainable access to finance and economic inclusion	GoB, BB, NBFIs, fintechs, MFIs, development agencies	NT
5. Introducing innovative insurance products/services			
5.1	Facilitate financial inclusion and social equity by promoting innovative, scalable, and SAFE insurance products tailored for marginalised rural communities, leveraging digital solutions, enhancing financial literacy, and fostering private-public partnerships to overcome distribution and accessibility challenges.	BB/IDRA	MT
6. Adopting marginality-sensitive social and financial policy			
6.1	Facilitate knowledge sharing on social diversity and social acceptance of marginalised communities as equal members of society as well as on building social harmony, integrations and social inclusion for all.	BB/GoB/LGIs	NT
6.2	Engage LGIs and the media to promote public opinion against social discrimination and use NGOs and civil society to promote an inclusive society.	BB/LGIs	NT
7. Implementing special mechanisms for flow of funds/benefits			
7.1	Adopt innovative strategies and effective mechanisms to ensure flow of funds/benefits for these communities. For the purpose, earmarking of funds for the development of these communities from the general development sectors may be introduced.	BB/GoB	NT
7.2	Adopt an integrated, inclusive development framework focused on reducing socio-economic inequalities, addressing gaps in health, education, and nutrition, promoting gender and social equity, and implementing targeted actions for marginalised communities and lagging regions in all national policies and programmes.	BB/GoB	NT
7.3	Adopt a comprehensive, community-specific financial empowerment strategy that includes targeted financial inclusion programmes, customised financial products, microfinance, financial literacy, and tailored services to address the diverse needs of marginalised and vulnerable populations.	BB/GoB	NT
7.4	Implement legal protections, social mobilisation initiatives, and financial empowerment programmes to eliminate discrimination based on race and identity, ensuring equal opportunities and societal inclusion for marginalised communities.	BB/GoB	NT
MFS for rural households/enterprises			
1	Expansion of agent networks in rural areas	MFS providers	NT
2	Reducing transaction complexity to its simplest straightforward version is necessary	BB, BPO	ST
3	Think about gender disparities more clearly	MFS providers	NT

4	Recruiting more female agents	BB, MFS providers, BPO	ST
5	Financial literacy programme in rural areas	BB, MFS providers, BPO	ST
6	Explore partnerships with NGO-MFIs, and insurance companies	BB, MRA, IDRA, BPO, BTRC, MFS providers, MFIs, NGOs, Insurance companies	MT
7	Partner with cross border remittance provider for cross border payment	BB, BTRC, Commercial Banks, mobile companies, GoB, BPO	NT
8	Diminishing the monopoly market	BB, MFS providers	ST
9	The overall security framework should be ensured	BB, BTRC, MRA, IDRA, MFS providers, BPO	ST
10	Transaction cost should be revised	BB, MFS providers, BPO	ST
11	Introduce reward options for both users and agents.	BB, BPO	ST
12	Develop customised financial products	MFS providers	MT
13	Additional assessments and research should be conducted to better understand user behavior	BB, MFS providers, BPO	ST
14	MFS clients in Bangladesh need to be made aware that "MFS are not only limited to money transfers."	BB, MFS providers, BPO	ST
Agent banking services for rural households/enterprises			
1	Recruiting more female agents	BB	NT
2	Banks can individually assess the costs and benefits prior to tailoring the products	BB, Commercial Banks	NT
3	Banks should ensure adequate security measures in agent banking operations	BB, Commercial Banks,	NT
4	Central bank should be encouraged particular banks to establish agent networks	BB	NT
5	More banking products should be given to agent banking clients	BB, Commercial Banks	ST

Note: BB= Bangladesh Bank; MRA= Microcredit Regulatory Authority; IDRA= Insurance Development and Regulatory Authority; BTRC= Bangladesh Telecommunications Regulatory Commission; MoA= Ministry of Agriculture; BSEC= Bangladesh Security Exchange Commission; SMEF= SME Foundation; MoF= Ministry of Finance; MoSW= Ministry of Social Welfare; MoLGRD&C= Ministry of Local Government Rural Development and Cooperatives; NBFIs= Non-Bank Financial Institutions; MFIs= Micro Finance Institutions; Fintechs= Financial Technology; MoRA= Ministry of Religious Affairs; MoPT= Ministry of Posts and Telecommunications; MoC= Ministry of Commerce; NBR= National Board of Revenue; MFS= Mobile Financial Services; PKSf= Palli Karma-Sahayak Foundation; BPO= Bangladesh Post Office; MoEF= Ministry of Environment and Forests; GoB= Government of Bangladesh; LGIs= Local Government Institutions; NGOs= Non-government Organisations. ST= Short term (less than one year); NT= Near Term (1-2 years); MT= Medium Term (2-3 years).

Chapter 1

Introduction

1.1 Rationale

In the present era of Fourth Industrial Revolution (4IR), Bangladesh's longer term goal is to build a prosperous, equitable, sustainable and inclusive society within a 'Smart' development framework having four pillars – Smart Citizens, Smart Society, Smart Government, and Smart Economy – such that no one is left behind. The above requires a fundamental reshaping of the way in which the Bangladesh economy and society has undergone structural transformation over the past more than five decades since independence in 1971.

In fact, the desired future development has to build new pathways of social, human and economic transformations adapting the extraordinary technological advances that are merging the physical, digital and biological worlds in ways that create both huge promises and potential perils. Further, these transformations are not technology-driven alone. The process also involves the government, institutions, economy, society and, above all, the people at large to harness the converging technologies in order to create a prosperous, inclusive and human-centric future for the country.

For moving towards such a smart and prosperous Bangladesh, the government will have to employ innovative technologies to effectively respond to the people's needs in an inclusive manner--improving their social and economic prospects such that all sub-segments of the population benefit. This citizen-centric approach will be the key to policy making and implementing programmes and actions in 'Smart' Bangladesh.

In doing so, the policy makers will have to deal with diverse groups of socioeconomic actors and issues, which imply the need for developing partnerships with individuals, enterprises, businesses and other stakeholders which are essential to nurturing a collaborative ecosystem. Thus, the Smart Bangladesh vision is not only about information and communication technology (ICT), but also the people's desire to become more technologically savvy and the key would be to not only accommodate this demand, but also to nurture it.

To initiate and deepen these new generation of transformations, designing and implementing 'Smart' rural initiatives in key domains and identifying how to ensure that such strategic thrusts can benefit the rural communities especially the poor and low income households are a key prerequisite for Bangladesh.

Within the above framework, the rationale of the present study emanates from the fact that the government institutions and other stakeholders at all levels are needed to put in place a wide range of strategies to improve the rural economy; including efforts towards developing farm and nonfarm activities as well as all types of infrastructure and enterprises. An important prerequisite in this respect is to prioritise specific efforts for increasing digital usage and enhancing digital skills in ICT and financial sector, expanding financial inclusion, and promoting cottage, micro, small and medium enterprises (CMSMEs) in the rural areas. However, to optimise the benefits, these initiatives need to engage with and prioritise the needs and concerns of the rural communities, enterprises and other concerned stakeholders themselves.

For moving forward along these directions, the critical issue is to overcome the gaps in access to and use of financial services by the rural households and CMSMEs recognising the vastly different

starting points of the heterogeneous groups of households and CMSMEs in the rural areas and co-designing development pathways from the bottom-up; while simultaneously building ‘bridges’ with the essential top-down strategies of the financial service providers.

The long-term aim of these strategies is not just to catch up with the urban areas and bridge the urban-rural divide, but also to build partnerships with the urban dwellers and rural communities along with efforts to ensure that rural products with potentials can enter into the export market.

In order to realise the potentials, the challenge is to make access to and use of finance as the key entry point to ensure productive and climate-smart transformation of commercial agriculture; adoption of biotechnology and genetic engineering, robotics and artificial intelligence (AI), and nano-technology; attract investments for the development of rural CMSMEs; and adopt effective strategies to deal with the adverse impact of globalisation on the rural economy. Particular emphasis is needed to the modernisation of agriculture, technological innovation, and expansion of agricultural research and extension facilities consistent with climate change implications.

1.2 Context and Scope

The nexus between a sound financial system and economic development shows positive interactions especially in developing economies (see, for example, Beck et al 2000; Mujeri and Mujeri, 2020). The relationships are even deeper in the rural economy. The rural people needs access to financial services for a wide range of productive (such as, undertaking agricultural activities, asset building, meeting working capital needs and others) and protective (mitigating risks/disasters and market instability including meeting health and other emergencies) purposes, to purchase equipment and agricultural inputs, to maintain production infrastructure and to meet other household needs. Similarly, rural enterprises need finance to meet start-ups and capital for horizontal and vertical expansion.

Financial development, to be effective, has to include both financial deepening and financial widening. The growth of financial institutions and the expansion of financial services are referred to as financial widening, whereas the ratio of financial assets to income, the number of financial services per capita, or improved access to a variety of financial institutions are all considered financial deepening. Empowerment, job creation, economic progress, poverty alleviation, and social cohesiveness are all dependent on it.

In recent decades, conventional financial institutions—such as commercial banks and agricultural development banks—have mostly failed to provide financial services and satisfy the rapidly increasing demand for a range of financial goods and services in Bangladesh's rural areas. As a result, rural communities are mostly unable to realise their full development potential because of this exclusion. In actuality, financial institutions in rural areas encounter a number of obstacles, including:

- Legal system that does not ensure marketable property rights contribute to weak collateral and contract enforcement mechanisms that further limit access to finance. As a consequence, products such as long-term financing hardly reach rural areas.
- Relatively low population density, a lack of infrastructure (transport, electricity, communications, etc.), and tiny average transaction amounts all contributing to high transaction costs, particularly in rural locations. Because of this, providing financial services is costly. Additionally, prohibitive transaction costs deter rural residents from saving money, which denies them the chance to accumulate assets.

- In rural areas, financial literacy is low. This inhibits families and businesses from developing efficient risk management plans and, for example, from comprehending how insurance operates and why premiums must be paid on a regular basis without a pay-out schedule.

Due to these limitations, alternative providers such as traders, input suppliers, and informal money lenders, as well as informal or semi-formal financial providers, have historically become significant participants in the delivery of financial services in rural areas. However, these unregulated suppliers typically offer a limited range of financial services and lack institutional and administrative competence. Furthermore, the majority of these suppliers charge exorbitant and perhaps even usurious interest rates as a result of their isolation from the financial system.

Furthermore, Bangladesh's rural economy is being negatively impacted by climate change. Without emergency loans or insurance to deal with these sudden shocks, or long-term funding for adaptations like moving into less risky livelihoods, rural communities are unable to cope with and adapt to the increasing occurrences of climate change impacts like droughts, floods, or cyclones.

To guarantee uninterrupted availability, all financial products and services in the rural economy must also be provided in a sustainable manner. Non-financial services like financial education, entrepreneurship development, and agricultural extension services, or connections to local organisations and value chains, must also be provided alongside financial products and services in order to enable rural residents to take advantage of financial access. Lack of empowerment in these rural communities can result in over-indebtedness, interruptions of livelihoods, and increased hazards for the most vulnerable rural populations.

To unlock the significant economic potential in the rural areas and benefit the rural population, it is crucial to support the development of financial knowledge and innovation in the delivery of financial services in rural areas, boost the managerial and technical capacity of financial service providers to serve rural and remote areas, and create an enabling environment. The goal of a competitive rural financial market with numerous participants that offer suitable and demand-driven financial products and services to rural households and CMSMEs must serve as the basis for the selection of policy alternatives.

Bangladesh's quickly expanding economy has been a major force for financial inclusion over the past more than five decades. Over the years, Bangladesh has seen fluctuating but relatively consistent growth, with its GDP expanding at an average annual rate of about 6 per cent starting from the 1990s. Gains have also been distributed more widely; additionally, a relatively even pattern of rural growth has been achieved through the rapid modernisation of the rural economy and the migration of rural workers abroad. Development has been supported by the opening of opportunities in export-oriented industries such as ready-made garments (RMGs) and international remittances from the growing Bangladeshi diaspora.

In recent years, mobile phone and internet adoption is changing the nature of financial engagement, introducing rapidly expanding opportunities for e-commerce. According to the Global System for Mobile Communications Association (GSMA) Report, 62 per cent of mobile phone users in Bangladesh will have smartphones by 2025. As internet penetration grows, many aspects of financial service provision are moving online, reducing the reliance on face-to-face interactions. This is not just a result of smartphone ownership, but also the rising impact of ownership of personal computers that create demand for internet banking and hasten progress towards the global standard of widespread digital payments and online commerce. In Bangladesh, the rural economy is also rapidly experiencing these digital transformations.

The financial sector landscape of Bangladesh is currently dominated by new generations of private banks and financial institutions, despite the fact that the country's financial architecture began to grow in the public sphere following independence. With regard to microfinance institutions (MFIs), Bangladesh has also been the world leader over the years. Specialised banks, insurance providers, and other nonbank financial institutions (NBFIs) are all significant players in the rural financial market, in addition to state-owned and private commercial banks. The development of alternative financial channels by the banks includes MFS, ATMs, agent banking and various multi-bank switches for example Q-Cash, Cash Link, and Omnibus. In this context, agent banking and MFS have created effective opportunities to build alternative banking channels and make transaction points more widely available in the rural areas.

A key component of inclusive growth in Bangladesh is ensuring that the poor and vulnerable populations have access to financial products and services, particularly in order to move the country towards its intended development trajectory. For those who are poor and vulnerable, having access to finance is essential to their livelihoods because it allows them to increase their asset base, boost income-generating activities, improve their ability to handle crises, and broaden their livelihood options.

On the other hand, poverty and uncertainty of livelihoods affect the eligibility for and affordability of financial products and services for the poor. The poor who have uncertain ability for repayment also have little incentive to approach the formal financial system. Therefore, in order to build a sustainable rural financial ecosystem, it is important to gain a greater insight into all relevant aspects of the rural economy and draw policy implications for ensuring sustainable access to and use of financial products and services by the rural populations and CMSMEs.

Although access to financial services has emerged as an issue of national priority in recent years especially for rapid transformation of rural Bangladesh, there exists a lack of nationally representative data and studies that capture the rural financial landscape adequately in order to draw comprehensive and transformative policy conclusions. There does not exist any large sample surveys in this space, and only some limited and small survey results are available as a part of specific research of various academic and research institutions which cover limited aspects -- either livelihood related or finance related issues, but not both together to explore the linkages.

In view of the importance of the rural financial system in shaping the rural transformation pathways for a lower middle income Bangladesh to transit to higher income levels, InM has undertaken a research, in collaboration with the Bangladesh Bank, under which a set of related surveys have been conducted with the aim to provide a comprehensive overview of the financial status of rural population in terms of their sources of livelihoods, economic status of households including income, consumption expenditure, household assets, risks and crisis coping capacities and other livelihood and financial dimensions. The coverage of the surveys spans across various financial products and services ranging from credit, savings, investments, payments services, remittances and microinsurance. The surveys also capture relevant aspects of financial behaviour to offer insights into the socioeconomic dimensions that limit the access to and use of financial products/services, quantify the penetration of various financial products and services (both traditional and digital), and explore the implications of the households using these services.

Further, the surveys explored the extent of usage and constraints to accessing and using different financial products and services offered by formal financial institutions and informal providers (e.g. by farming and non-farming households, selected marginalised communities and enterprises such as rural entrepreneurs, rural women entrepreneurs, cluster based enterprises). In addition, the study examined the changing face of rural finance in Bangladesh over time to examine the broad trends in rural

finance and changes in policy regimes along with their outcomes and impacts on the rural finance landscape.

Based on the survey findings and available evidence from secondary and other sources, InM has prepared a number of policy documents — including policy papers, policy briefs, background reports and other policy outputs — as well as the Report on Bangladesh Rural Finance Survey 2023 covering a nationally representative sample of households to provide evidence based inputs for designing effective policies on rural finance by the Bangladesh Bank and other stakeholders.

One important contrast of the present study vis-a-vis the previous studies available in Bangladesh is its comprehensive nature under which demand and supply side issues have been explored within a general framework to address both the perspectives simultaneously. This is in sharp contrast to the usual practice in which the demand side issues receive inadequate attention. This often undermines the challenges and policy recommendation on the demand side, which are critical in ensuring productive usage of rural financial products and services.

1.3 Methodology and data used

This Comprehensive Rural Finance Study (CRFS) aims to provide credible research support for designing and/or restructuring rural finance policies and implement institutional reorganisation (as necessary) by the Bangladesh Bank and other stakeholders to support the rural transformation agenda of Bangladesh. For the purpose, the study undertook a comprehensive analysis of the access to and use of various financial products and services by rural households and enterprises to capture their financial behaviour in order to understand the current status of availability and usage of different financial products/services in rural Bangladesh. In the process, the study also quantified the penetration of various financial products and services (both traditional and digital), and identified obstacles/limitations hindering specific population groups/enterprises in accessing these services. The results helped to identify the key challenges that the excluded population groups and enterprises face in the way of accessing financial services. Based on the findings and other available evidence from secondary sources, recommendations have been drawn on how to develop suitable financial products/services for the excluded groups considering their common as well as specific demand side characteristics. This also involved explicit consideration of geographic characteristics vis-a-vis affordable and sustainable financial products and services and alternative delivery channels.

The broad methodology of the study, in addition to drawing the full advantage of available secondary information, involved two major components:

- i. A thorough nationwide household-level primary survey on the rural economy's rural finance system (RFS) to gather quantitative and qualitative sample data on the demand for and supply of financial products and services as well as other aspects from formal and informal sources required to meet the study's goals;
- ii. Research and analyses based on both primary and secondary data/information on demand and supply side issues to accomplish the tasks and objectives of the study.

For collecting primary data/information, the surveys conducted under the Study aimed to understand the extent, nature and other aspects of penetration/access of different financial products and services by various household groups/enterprises in the rural areas of Bangladesh. More specifically, the surveys had assessed the extent of access and use pattern of different financial products/services such as savings, credit, payments, insurance, microfinance, etc. (both traditional and digital) adopting quantitative and qualitative perspectives from both formal and informal sources in the rural economy.

Besides covering economic indicators like sources of livelihood and income, expenditure, savings, asset ownership, indebtedness, investment, composition and pattern of consumption and other aspects, important behavioural characteristics were also captured, such as borrowing and repayment habits, financial literacy/knowledge, socioeconomic attitude and change behaviour, access to and nature/extent of use of digital/mobile technologies, experience with MFIs and informal money lenders, livelihood risks and risk-coping behaviour (such as, crop/business failure, floods and droughts, health and other household shocks), insurance/microinsurance and other risk coping measures adopted to withstand crises. The surveys covered both demand and supply side perspectives.

For the nationally representative Rural Finance Survey (RFS), the sampling design was stratified in nature. The samples were selected at several stages using the sampling frame (developed by BBS) from the community series based on the Population and Housing Census 2022. The Survey covered all eight administrative divisions of the country. The rural households were randomly selected using systematic random sampling technique from purposively selected upazilas. During the field survey, the households were distributed among different upazilas of eight divisions based on poverty groups. The upazila-level Poverty Map 2016 of BBS was followed for upazila distribution that ensured representativeness across all eight divisions of the country. According to the 2022 Census Report, the total number of households in the rural areas of Bangladesh was 27.82 million, of which 6 per cent was located in Barishal division, 18 per cent in Chattogram division, 22 per cent in Dhaka division, 12 per cent in Khulna division, 9 per cent in Mymensingh division, 15 per cent in Rajshahi division, 13 per cent in Rangpur division and 6 per cent in Sylhet division. In the RFS, the same proportions were maintained in sample selection. The survey adopted a broader definition of the ‘rural areas’ which is consistent with surveys conducted by the BBS.¹ It covered both agricultural and non-agricultural households living in the rural areas. In order to be nationally representative, the total number of surveyed households was set at 2,643 which were proportionately distributed across eight divisions following the population distribution of the 2022 Population Census.

The national level RFS was supplemented by several focused quantitative and qualitative surveys. For the purpose, sector-wise, region-wise, occupation-wise, and cluster-based surveys were conducted on financial aspects of rural enterprises/households. In this context, a blend of qualitative and quantitative approach was adopted to assess the nature of rural finance. Some broad features of these focused surveys were as follows:

i. Primary data/information for region-wise analysis: The region-wise analysis combined quantitative household surveys with qualitative focus group discussions (FGDs) to examine rural households and their interactions with financial markets. The quantitative survey covered a sample of 100 households from each of seven disadvantaged areas: (a) Netrokona (ethnic majority area), (b) Lalmonirhat (char area), (c) Jamalpur (char area), (d) Moulvibazar (tea garden area), (e) Kishoreganj (haor area), (f) Bandarban (tribal area), and (g) Sunamganj (haor area). The qualitative component focused on specific extreme poor and marginalised population groups, with data collected through 24 well-structured and representative FGDs across various vulnerable regions: (a) North western region (Kurigram, Lalmonirhat, Gaibandha and Panchagarh) 7 FGDs; (b) Southern coastal region (Satkhira, Bhola, Barishal) 6 FGDs; (c) Haor basin (Kishoreganj, Sunamganj) 4 FGDs; and (d) Hilly region (Bandarban, Brahmanbaria, Cumilla, Feni and Lakshmipur) 7 FGDs.

ii. Primary data/information for selected marginalised communities: This analysis focused on identifying the financial needs of marginalised and vulnerable (left-behind) communities. For this purpose, 15 targeted FGDs were conducted among selected groups, including: (a) Ethnic minority of

¹ The area outside those under the City Corporations, Pourashavas and Upazila Headquarters in the country constitutes the rural area. The Economic Census 2013 used this definition for the rural areas.

hilly areas and plain lands (7 FGDs); (b) Tea garden workers (2 FGDs); (c) Cleaners/sweepers/Dalits (2 FGDs); (d) Transgender community (2 FGDs); and (e) Commercial sex workers (2 FGDs).

iii. Primary data/information for sector-wise analysis: For rural CMSMEs, four sectors were covered through 1,476 enterprise level surveys and 12 FGDs: (a) agro-processing/agro-business/plantation (301 enterprises for quantitative survey); (b) light engineering and metal working (441 enterprises for quantitative survey); (c) knitwear and readymade garments (320 enterprises for quantitative survey); and (d) handicrafts and miscellaneous sector (414 enterprises for quantitative survey). For covering rural women entrepreneurs, a total of 18 FGDs and quantitative sample survey on 470 women-owned rural enterprises conducted covering the following sectors: (a) fashion-wear sector and consumer goods (177 women entrepreneurs for quantitative survey); (b) agro-processing/agri-business and related (78 women entrepreneurs for quantitative survey); (c) knitwear and ready-made garments (68 women entrepreneurs for quantitative survey); (d) grocery business (55 women entrepreneurs for quantitative survey); (e) pharmaceuticals/cosmetics/toiletries (10 women entrepreneurs for quantitative survey); (f) Handicrafts and miscellaneous sector (73 women entrepreneurs for quantitative survey); and (g) others (9 women entrepreneurs for quantitative survey).

iv. Primary data/information for occupation-wise analysis: The farming household survey comprised of a sample of 768 farming households for quantitative survey from fourteen purposively selected districts (Bhola, Barishal, Brahmanbaria, Cumilla, Tangail, Kishoregonj, Khulna, Satkhira, Mymensingh, Netrokona, Bogura, Sirajganj, Gaibandha and Sunamgonj). This was supplemented by 32 FGDs covering households of each of the following subsectors: crop and horticulture, animal farming, fisheries and forestry. The non-farming household level survey covered a total of 482 households for quantitative survey along with and 15 FGDs.

v. Primary data/information for MFS/agent banking users and cluster based enterprise analysis: Quantitative and qualitative surveys were conducted separately with each of the following user groups/clusters: (i) Agent banking users (502 sample for quantitative survey and 12 FGDs); (ii) MFS users (8 FGDs for qualitative survey); (iii) Industry based clusters (28 FGDs for qualitative survey).

vi. Primary information for institution level analysis: A series of consultation meetings with different stakeholders were undertaken as a continuous activity which was structured in nature. A summary of the qualitative surveys (FGDs/case studies) and quantitative surveys conducted under the CRFS is given in Table 1.1.

Table 1.1: Summary of Quantitative and Qualitative Surveys under CRFS

Household Level Survey				
	No. of divisions covered	No. of districts covered	No. of households/enterprises/samples	No. of FGDs/case studies
Rural Finance Survey 2023	8	33	2,643	NA
Regional Variation in Access to Finance	6	7	700	24
Access to Finance of Farming Households	8	14	768	32
Access to Finance of Non-farming Households	8	32	482	15
Access to finance by selected marginalised communities	7	7	NA	15
Survey on MFS user households	5	8	NA	8
Survey on agent banking user households	8	9	502	12
Enterprise Level Survey				
Survey in rural Entrepreneurs	6	13	1,476	12
Survey on rural women entrepreneurs	7	14	470	18
Survey on industry based clusters	3	3	NA	28

Note: NA means not applicable.

Source: InM, Methodology and Sampling Design, Comprehensive Rural Finance Study 2025

1.4 Structure of the report

This overview report is structured in nine chapters. Following this introductory chapter, Chapter 2 discusses in brief the evolving dynamics of the rural economy including the features of past rural transformation and pattern of rural growth particularly covering changes in the structures of agriculture and the rural nonfarm economy. The chapter also identifies future challenges and the likely implications of commercialisation and globalisation on the rural economy of Bangladesh.

Chapter 3 provides a brief overview of the changing face of rural finance in Bangladesh since independence in 1971. It also identifies major challenges of the country's rural financial system and summarises the lessons from past rural finance reform policies. It further highlights the supply of rural finance in terms of growth of formal financial market and the present status of informal financial system. Chapter 4 provides the major findings of the Rural Finance Survey 2023 conducted under the study.

Chapter 5 discusses the present access to finance by different groups of rural households e.g. farm and nonfarm households as well as by households of selected marginalised communities. The chapter also examines existing regional variation in financial access and identifies major challenges and provides policy recommendations. Chapter 6 provides an analysis on access to and uses of finance by rural enterprises as well as by rural women entrepreneurs and cluster based enterprises. The challenges and policy recommendations are also summarised.

Chapter 7 covers the analysis on access to digital financial services and related innovations including mobile financial and agent banking services. The implications of new technologies on rural-urban

resource transfer are also analysed including the scope and prospects of technological innovations in rural finance. Finally, the chapter deals with challenges and major recommendations. Chapter 8 discusses the supply side policy issues and regulatory framework covering future perspectives. The relevant challenges are identified and recommendations are made. Finally, Chapter 9 provides the highlights of major findings and recommendations of the study followed by the concluding remarks.

Chapter 2

Bangladesh's Rural Economy: Structural Transformation and Ongoing Dynamics

2.1 Introduction

Although Bangladesh has made significant progress in the fifty-four years since its independence, there are still significant disparities in living standards between rural and urban areas. Nevertheless, rural Bangladesh has seen tremendous changes despite under investment and the continued 'urban bias' in development. Bangladesh's rural economy now is very different from that of the 1970s due to the modernisation of agricultural activities and the emergence of new and diverse nonfarm enterprises.

At present, rural areas require concentrated attention to catch up and stay on course for rapid transformation and growth, since balanced and inclusive development is the key to Bangladesh's development success. In this regard, increasing the productivity of the rural economy and generating a variety of job opportunities are crucial.

Further, with limited and rapidly declining availability of land for crop cultivation, technological innovation and new technologies will have to play the key role in raising crop production. Similarly, along with non-crop agricultural activities (e.g. fisheries, poultry, livestock, forestry), the rural nonfarm sector (e.g. CMSMEs and rural transport and other activities) will have to play an increasing role in both productive job creation and raising household incomes in the rural areas. In all these efforts, ensuring the access to and use of required financial services are necessary pre-conditions to adopt technological, managerial and other transformations to unleash the entrepreneurial capabilities of the rural population.

2.2 Changing Context of Rural Economy

Between the 1970s and the 1980s, agriculture's share in the overall GDP decreased from around half to one-third, then to 20 per cent in 2010 and 16 per cent in 2015 (Table 2.1). The majority of the rural economy is still based on agriculture, even with these decreases. Over 40 per cent of the labour force of the country is employed in this sector. Additionally, agriculture has a significant impact on women's employment, food security, and poverty incidence in the country and offers vital linkages to the growth and transformation of the rest of the economy.

Table 2.1: Sub-sectoral shares of agriculture in GDP and composition of agricultural value added

	1981	1990	2000	2010	2015	2022	2025 (P)
	Share in GDP %						
Crop and horticulture	21.1	18.0	14.0	11.4	9.0	5.46	5.67
Animal farming	4.2	3.6	2.9	2.6	1.7	1.91	1.69
Forestry and related activities	2.2	2.0	1.8	1.7	1.7	1.72	1.64
Fishing	4.7	4.2	5.9	4.5	3.6	2.53	2.62
Total	32.2	28.6	24.6	20.2	16.0	11.62	11.62
	Share in total agricultural value added %						
Crop and horticulture	65.6	65.5	57.1	56.3	55.3	47.03	48.77
Animal farming	13.0	12.6	11.8	13.1	10.8	16.45	14.52
Forestry and related activities	6.8	7.1	7.3	8.5	10.7	14.81	14.13
Fishing	14.6	14.8	23.8	22.1	23.0	21.79	22.58
Total	100	100	100	100	100	100	100

Note: P is Provisional

Source BBS, Statistical Year Books, Different Years; Provisional Estimates of GDP 2024-25.

In terms of employment, agriculture absorbed about 65 per cent of the employed labour in 1991, which came down to around 39 per cent in 2017; but rose slightly to 41 per cent in 2022; that is, about two of every five employed persons still work in agriculture. Thus, despite decline in relative importance in terms of value added to GDP, agriculture continues to play a critical role in the Bangladesh economy, especially in terms of job creation and food security, and the promotion of sustainable agriculture is vital for the country's future development.

Crop and horticulture dominates agriculture; in the 1980s, it held a 66 per cent share, but in more recent years, it has fallen to less than 55 per cent. The proportion of non-crop agriculture, which includes fishing, forestry and allied activities, and animal husbandry, has grown over time and now makes up over 45 per cent of the total, up from 34 per cent in 1981. Forestry and related activities saw a little increase in share, while animal farming saw a decline. On the other hand, fishing's percentage share in total agricultural value added rose dramatically in recent years. It may be underlined that animal farming accounts for over 90 per cent of all animal protein. This fast-growing, labour-intensive sub-sector makes a substantial contribution to rural income growth and poverty alleviation.

2.2.1 Agribusiness development in rural transformation

Since a sizable portion of Bangladesh's rural population works in agriculture on dispersed landholdings, agribusiness development is a priority in order to open up new development opportunities for the sector. As Bangladesh's economy expands and urbanisation picks up speed, there is a growing tendency towards the consumption of food that is easier to prepare, of higher quality, and has a longer shelf life—all of which call for sophisticated agro-industrial systems. A sophisticated agri-food distribution network, comprising supermarkets and stop-and-shop locations, is already beginning to take shape in the urban areas and have started making inroads in peri-urban and rural locations as well. The rapidly expanding middle class's purchase patterns are rapidly shifting, indicating increased competition from imported goods. Rural growth prospects are still only partially achieved, and the rural-urban linkages of the evolving agricultural system are evolving to take new shapes (Mujeri and Mujeri, 2021).

Private sector agriculture has expanded rapidly over the past 20 years in areas such as seed development, agro-processing, poultry and cattle development, export of fresh and frozen fruits, vegetables, cut flowers, and ornamental plants. Additionally, advancements have been made in a number of sectors, including dairy business, poultry and feed industry, fisheries industry, seed supply, and condiment and spice industries. Bangladesh's agriculture needs to produce and process more and varied value added goods for urban and peri-urban consumers as it becomes more commercialised. The market linkages and modern value chain development are crucial in this scenario because these offer a means of transferring the produce from the farm gate to the customer's plate.

2.2.2 Marketing linkages in agriculture

As market development is increasingly being characterised by value chains, the key actors of the agri-food system, such as producers, processors, distributors, and traders are becoming important participants of the value chains. A major challenge for Bangladesh is to ensure that the small farmers and poor participants are integrated with the value chains to improve their livelihoods.

Although linkages between the farmers, traders and processors along the marketing chains are extensive, especially in terms of the number of participants in the value chains, in Bangladesh, these are mostly inefficient and not competitive; which enables the stronger participants to manipulate the value chains in their favour to earn large margins at the cost of the farmers and final consumers. Furthermore, because of ineffective information flows and the lack of a formalised contract framework to guarantee effective market operations, transaction costs are high and typically opaque. Agricultural commodities are handled and packaged in inadequately developed ways. Except for prawns and exportable agricultural items, there are very few quality control and standards accessible for agricultural products. The majority of agricultural marketing investments go towards building actual marketplaces. Approximately 16,500 markets exist in Bangladesh at present, of which 2,050 are classified as 'growth centres' and 400 are 'notified' markets. Effective market operations are, however, hampered by problems with traffic and poor infrastructure in marketplaces.

Because tiny farms with few marketable surpluses predominate, Bangladesh's agricultural product marketing is fragmented. In and around the production areas, most of the produce is consumed. In general, there are three different kinds of marketplaces: (i) village hats or rural primary markets; (ii) assembly and secondary markets; and (iii) terminal markets. There are not many facilities for processing and storing fruits, vegetables and other perishable products. Only a small number of businesses engage in industrial production of processed fruits and vegetables. Only roughly 320 cold storage facilities for potatoes and seed potatoes are located across the country. Horticultural product processing is generally very limited and mostly consists of sorting, grading, and packing fresh fruits and vegetables for export. Fresh fruits and vegetables are not processed much for the local market. Fresh fruits and vegetables lack post-harvest and storage facilities, and depending on the product, post-harvest losses might range from 10 per cent to a high of 30 per cent.

Overall, the agricultural markets operate under several constraints including a lack of basic infrastructure, essential services (such as, potable water and drainage), ancillary services (such as, cold rooms, banking facilities), conflicting management structures, inconsistent and opaque revenue collection services, and congestion. As such, significant improvements in efficiency can be made if the constraints are addressed.

2.2.3 Value chain development

Bangladesh needs to establish a value chain management system that strengthens ties between stakeholders, advances processing technologies, creates shared marketing platforms, and enhances

quality control and assurance procedures in order to meet the challenges of agricultural transformation in the ensuing decades. Developing a demand-driven system to encourage agribusiness linkages among the stakeholders would be crucial. Examples of such systems include the supermarket supply chain model, enterprise-market linkage model, large private enterprise model, farmer-market linkage model, and farmer-enterprise contract model, which are based on the suitability and characteristics of the product and market. Commercial agriculture is the result of better value chain management.

Currently, government interventions are widespread in most developing countries, including Bangladesh, due to the complexity of the agriculture sector. A key constraint in this respect is that too few policy instruments are available to pursue multiple objectives, such as growth and efficiency, distributional equity, food self-sufficiency and food security; macroeconomic balances; and ensuring sustainable use of resources.

2.2.4 Commercialisation of agriculture

Bangladesh's agriculture has become increasingly commercialised and market-oriented over the years, and agricultural reforms are an essential component of the country's larger structural transformation process. The level of commercialisation can be evaluated using a number of criteria. A move towards high-value crop production, a rise in the marketed share of production, increased use of purchased inputs and services, diversified agricultural exports, and other comparable indicators are pertinent for determining the degree of commercialisation.

Bangladesh's composition of agricultural output has been changing over time, moving away from conventional food grains and towards high-value products. Growing consumer demand for non-cereal crops, including fruits and vegetables, livestock and fisheries products, processed foods and beverages, and horticulture items, is driving agricultural transformation. Because of this, the proportion of high-value items (fruits and vegetables, animal products, fisheries, and horticultural products. Etc.) in total agricultural output has increased from about one-third in the 1980s to over 45 per cent in recent years. Additionally, the mix of the export trade is shifting away from traditional goods like tea and jute towards newer products like processed items, fishery and livestock products, and horticultural products. The changes in the cropping pattern are further influenced by the diversification of the domestic food consumption basket and the rising costs of fruits, vegetables, milk, eggs, meat, fish, and processed foods. Additionally, farmers' marketed share of agricultural output has been increasing, currently standing at over 70 per cent. It goes without saying that the commercial crops have a larger percentage than the subsistence crops.

Additionally, the basket of foods consumed has become more varied. Cereal spending as a percentage of overall food expenditure decreased from 39 per cent in 2005 to 25.9 per cent in 2016. Between 2005 and 2016, the expenditure share of fish rose from 12.2 per cent to 17.3 per cent, that of meat and eggs from 8.5 per cent to 13.1 per cent, and that of fruits and vegetables from 11.6 per cent to 13.1 per cent, according to the HIES 2016 data. Compared with the rural areas, metropolitan areas have far higher increases.

Additionally, agriculture has grown more commercialised and focused on the market. The government's procurement policies are largely responsible for the rising marketed surplus ratio for the principal commodity (rice), while the private sector has primarily caused for commercial crops like maize, vegetables, and oilseeds. Due to small farmers' overwhelming dominance, marketable surplus generation is correlated with farmers' market involvement. However, between 80 and 95 per cent of the cash crops are marketed, whereas the majority of the staple crops (such as rice) are grown for domestic use, with only about a third being marketed (Ahmed et al., 2021, Mujeri and Mujeri, 2021).

Small farmers are becoming more focused on the market as a result of a number of causal factors, including increased land productivity from new technologies, enhanced communication network that facilitates the sharing of market information, and a decline in the average household size. However, medium-sized and larger landowner households are primarily responsible for marketing of paddy.

2.2.5 Agricultural diversification

The agricultural industry has become increasingly diversified, focusing on high-value commercial crops as well as fish and animal products that are high in protein content. The contribution of poultry to animal farming has grown rapidly. Despite the technological, institutional, and infrastructure limitations that still dominate Bangladesh's agriculture, these patterns show that even small farmers respond to market signals rather fast and diversify into high-value agriculture. In a similar vein, Bangladesh's agricultural exports have also shifted towards higher-value goods, with a growing proportion of high-value exports (such as fish, prawns, vegetables, etc.) in overall agricultural export basket.

Accelerating the expansion and diversity of agricultural production requires the creation of an effective marketing structure. While the private sector handles marketing for the majority of minor crops, the government directly intervenes for major items like wheat and rice. Poor market infrastructure dominates the country's agricultural commodity marketing, which necessitates large investments in institutions, technology, infrastructure, and management. These must prioritise building storage facilities, expanding the availability and reliability of information services, enhancing effective market laws and regulations, and facilitating access to institutional financing services.

2.3 Rural Non-Farm Sector

In Bangladesh, the rural non-farm (RNF) sector is incredibly diverse and includes a wide range of activities. The incentives that are available and the ability of rural households to engage in nonfarm activities impact the nature and characteristics of the activities. Although there is a dearth of comprehensive data on the RNF sector's growth at the macro level, the evidence that is currently available indicates that the sector has been growing quite rapidly in Bangladesh. The RNF operations made up 42 per cent of rural incomes in the late 1980s, and by 2008, that share has risen to 57 per cent (Mujeri and Mujeri, 2022). Manual labour-based, human capital-based, and physical and human capital-intensive are the three main categories into which RNF operations are frequently divided.

Approximately 25 per cent of the labour force is employed in agriculture as a primary or secondary occupation, according to the occupational distribution among rural households from 2010 to 2012 (Table 2.2). However, between 56 and 58 per cent of all rural workers are involved in noneconomic activities.

Table 2.2: Pattern of rural employment by source and activity status

	Primary occupation, %			Primary or secondary occupation, %		
	2010	2011	2012	2010	2011	2012
Agriculture	18.66	18.34	17.28	31.23	30.01	27.71
Farming	16.05	15.87	14.52	23.10	22.18	20.91
Agri-labour	1.97	1.84	1.99	4.41	5.20	4.86
Other agriculture work	0.64	0.63	0.77	3.72	2.63	1.94
Non-agriculture	26.79	26.76	27.10	30.84	30.90	31.51
Business	3.77	3.84	3.63	5.36	5.36	4.81
Cottage industry	0.48	0.37	0.36	0.69	0.79	0.67
Service outside village	4.52	4.41	4.35	4.52	4.41	4.35
Household help	0.11	0.21	0.15	0.11	0.21	0.15
Mechanics	1.22	1.42	1.48	1.33	1.68	1.79
Rickshaw/van pulling	1.33	0.95	0.92	1.38	1.06	0.97
Other transport	0.80	0.89	1.28	0.91	0.94	1.54
Service	11.37	11.61	11.71	11.70	11.82	12.07
Shop keeping	0.80	0.74	0.82	1.12	1.11	1.23
Non-farm labour	1.06	1.16	1.33	1.12	1.26	1.89
Other non-farm work	1.33	1.16	1.07	2.60	2.26	2.04
Non-remunerative activity	54.58	54.91	55.63	56.69	57.12	58.39
Homemaker	35.18	36.52	37.73	36.70	38.10	39.47
Student	12.01	12.77	13.45	12.60	13.40	14.47
Unemployed	7.39	5.62	4.45	7.39	5.62	4.45
Total	100	100	100	119	118	118

Source Pramanik et al. 2014

According to the educational attainment of the rural labour population, workers with higher education levels (graduate and above) are primarily employed in the services sector (76 per cent), with business coming in second (11 per cent). Conversely, 52 per cent of workers without a formal education work in farming, with services coming in second at 12 per cent and business at 10 per cent. Higher secondary and secondary educated workers are primarily employed in the services sector (57 per cent), agriculture (23 per cent), and business (15 per cent).

Expanding non-farm activity is significantly influenced by the length of employment available in the RNF sector. Additionally, since non-agricultural self-employment is a significant way to lessen household income fluctuations, full-time or part-time engagement in the expansion process is also problematic. Services, business, transport vehicle driving, and other non-farm jobs are comparatively full-time jobs in the RNF sector. Nonfarm and agricultural labour, on the other hand, are typically part-time jobs. Comparing the finding of 2010 and 2012 reveals that employment duration has increased, particularly for business, transportation driving, and services, while it has decreased for agricultural and other nonfarm labour.

However, one of the key factors influencing the growth of the nonfarm economy in rural areas is labour productivity. Push factors would tend to increase nonfarm activities if the productivity (and hence earnings) of rural nonfarm labour exceeds agriculture earnings. Compared with other non-agricultural activities, agricultural labour productivity is often low, according to labour productivity trends. Transportation driving has the highest productivity, followed by nonfarm labour enterprises, and in services (Mujeri and Mujeri, 2022).

The manual labour-based RNF sector components in rural Bangladesh, such as transportation, construction, cottage industry, and wage labour, are crucial because they allow the most vulnerable and impoverished labourers to readily engage in these activities in response to shifting rural dynamics. The availability of village infrastructure and the number of people in households that are of working age are often positively correlated with nonagricultural labour activity participation. The

infrastructure is crucial because it makes nonfarm employment activities like building construction, transportation, and cottage industries more accessible. Conversely, factors like years of schooling and asset ownership have a negative impact on engagement in nonfarm labour activities. Additionally, nonfarm income is becoming a larger portion of rural households' overall income in Bangladesh (Table 2.3). In just two years, the average percentage of non-farm income increased from 46 per cent in 2010 to 56 per cent in 2012. Remittances from overseas workers were the largest source of non-farm income, followed by enterprises and services.

Table 2.3: Average household income by agricultural and nonagricultural sources

	Annual income, current USD		Share of income, per cent	
	2010	2012	2010	2012
Farm income	1,050	981	53.9	43.8
Crop	620	479	31.8	21.4
Livestock rearing	272	319	14.0	14.2
Fishing	84	121	4.3	5.4
Farm labour	75	63	3.8	2.8
Non-farm income	899	1,260	46.1	56.2
Business	229	218	11.8	9.7
Service	157	152	8.0	6.8
Remittances	330	568	17.0	25.4
Other occupations	11	11	0.6	0.5
Interest income	20	96	1.0	4.3
Other sources	151	215	7.7	9.6
Total	1,949	2,240	100	100
Income per capita	361	420	...	...

Source Pramanik et al. 2014

On average, the RNF sector employs about 30 per cent of the rural labour force and contributes roughly 55 per cent of household income in the country's rural areas (BBS, 2022). Compared with female household members, male household members participate in more nonfarm activities. Participation in RNF activities is positively correlated with average years of schooling, village infrastructure, and credit availability, but negatively correlated with land ownership, household size, and dependency ratio.

2.3.1 Emerging trends in RNF sector

The RNF sector's economic contribution to rural Bangladesh has been steadily increasing over time. Currently, the RNF sector contributes half of all household income and over 40 per cent of rural employment (BBS, 2022). Additionally, the sector has demonstrated remarkable vitality, with employment and income growing at a faster rate (4.2 per cent and 2.7 per cent, respectively) than agricultural income and employment (0.3 per cent and 1 per cent, respectively). Although some of these are 'residual-type' businesses that augment agricultural income and employment, the majority of RNF activities are also more productive than agricultural employment (Mujeri and Mujeri, 2021). Specifically, RNF occupations yield larger returns than daily wage labour in agriculture (even when individual/location variables and educational disparities are taken into account). Physical and human capital-intensive activities have the highest labour productivity in the RNF sector, with human capital-intensive activities coming in second. Even self-employment in RNF activities is not usually a part-time job or a last resort. Additionally, the majority of RNF businesses create steady jobs all year long (Senetal, 2021).

The RNF sector in Bangladesh is undergoing structural change in addition to dynamism, which is making the productive segments more noticeable. The CMSMEs with permanent establishments are becoming more and more numerous, and their workforces are also generally more productive. On the

other hand, the number of home-based businesses that are less productive has increased more quickly than their employment level. However, the manufacturing sector's home-based enterprises have actually seen a drop in both employment and worker productivity.

According to recent developments in Bangladesh's rural economy, if proper policies are implemented, the RNF sector is set to embark on a new phase of faster growth. In agriculture, the RNF sector is expected to grow more quickly due to notable increases in crop yields and faster growth in all non-crop subsectors. Furthermore, the demand for high-value agricultural products, processed foods, and RNF services—all of which have high income elasticity—is being stimulated by the rapid growth in rural per capita income. Furthermore, there is still a lot of untapped potential for both fresh and processed food exports. Moreover, since there is significant intra-sector variability in labour productivity, there is also a great deal of potential for overall productivity increase in RNF operations. The RNF sector's rapid growth also necessitates the availability of skilled labour, enterprise development and entrepreneurial expertise, and access to additional funding.

The country's RNF sector spans a broad geographic area, including peri-urban areas, rural towns, and villages. Additionally, the RNF operations create various linkages by involving producers and consumers in each of these tiers as well as across them. Input-producing enterprises, agriculture-related and agro-processing industries, marketing and distribution of agricultural and RNF products, product specific value chains, specialised peri-urban manufacturing products and services, and many other activities are all parts of the RNF economy. Integrated agro-food supply chains, pro-poor RNF growth, policies to boost the economies of rural towns, smaller cities, and peri-urban areas, and a supportive rural investment climate are some of the key areas that require attention in order to unleash the growth of RNF activities.

The rural financial market in Bangladesh is still unable to satisfy the need of the vast majority of RNF activities for financial services, even with the rapid growth of the microfinance sector in the rural regions. According to the present study, the NGO-MFIs' increased microenterprise lending capacity can only partially satisfy the credit needs of CMSMEs in rural regions. A sizable portion of the enterprises, especially in the cottage, micro and lower segment of small enterprise categories, remains un- and unserved by the rural finance system (referred to as the 'missing middle') because microfinance programmes primarily target the poor and a small segment of microenterprises (mostly due to inadequate funding capacity) while relatively larger businesses have easier access to bank loans.

Furthermore, effective and decentralised mechanisms are needed to provide the necessary financial and other services to rural entrepreneurs due to the variability and large spatial dispersion of RNF activities. Since many microentrepreneurs in the RNF sector are dispersed around the country in vast geographic areas, supply-driven and top-down strategies are unlikely to adequately meet their demands. The NGO-MFIs have been emerging as one of Bangladesh's major suppliers of financial, business and technical services to rural nonfarm entrepreneurs in recent years.

The BRAC has made investments in horticultural crop agro-processing and continues to cultivate these crops under contract with smaller farmers. Other organisations that offer financial services and technical support to the CMSMEs include BRAC, Grameen Bank, and ASA. Furthermore, effective decentralisation needs to be used to enhance the capacities of the local government institutions, as many of the services needed by RNF enterprises fall under the category of public goods. The efficiency and efficacy of service delivery to rural entrepreneurs can be greatly increased by fostering collaborations between the private sector, NGO-MFIs, and the local government institutions.

To put it briefly, a two-pronged approach is required to promote the RNF sector: (i) enhance the investment climate in rural areas; and (ii) provide an institutional framework for the effective provision of all services required by the RNF sector. Removing the anti-rural bias in trade and macroeconomic policies, enhancing the physical and financial infrastructure, and establishing an efficient regulatory framework for the growth of agri-food supply chains are the main areas for improving the investment climate. To strengthen financial intermediation in rural areas, more focus needs to be placed on accumulation of rural savings, lowering transaction costs, and expanding microenterprise initiatives.

The modernisation of agri-food systems requires intentional and purposeful government interventions to promote institutional and technological modifications. Training and extension, business development and counseling, marketing and information, business planning and management, technology development and diffusion, innovation and business linkages through subcontracting, franchising, and business clusters, and other demand-driven areas need to be covered under business development services. In short, to achieve the intended structural transformation in Bangladesh's rural economy, an integrated strategy is required to establish a positive feedback loop of farm and RNF growth.

2.4 Rural Transformation: Future Challenges

Due to low and rapidly declining land availability, area-driven expansion is unlikely to support agriculture in Bangladesh in the future. The goal must be to increase cropping intensity while preserving the quality of natural resources and ecosystems, particularly water and land. Furthermore, Bangladesh's agriculture is currently at a turning point. There is increasing competition for capital, labour, land, and water in agricultural operations from RNF activities. The ability of agriculture to compete as a low-cost producer of farm products is being hampered by rising labour costs coupled with extremely intensive production that uses high doses of inputs and natural resources. Additionally, these negatively affect farmer profitability and the environment. Reliable and quick distribution of food and associated products, together with assurances from farmers and businesses regarding quality, safety, and sustainability, are essential to Bangladesh's future competitiveness in both domestic and international markets.

The framework under which Bangladesh's agriculture needs to evolve will be significantly altered during the next 20 years and beyond by important demographic, social, environmental, and other issues. The population of the middle class will grow significantly, and urbanisation will accelerate. As the consumption of non-cereal, protein-rich, and processed foods increases and the consumption of rice and other staples declines, the dietary pattern and food expenditure will also shift. Along with climatic shocks and calamities, climate change will also result in increasingly unpredictable weather patterns. Even if primary agriculture's GDP share is likely to continue to drop, agribusiness, agro-based industries, food distribution, logistics, and other services will all experience large contributions to increases in GDP. Thus, although the significance of seasonal and full-time employment in agriculture will differ significantly across the country, the agro-food sector—rather than primary agriculture per se—will play a significant role in employment and livelihoods, particularly in rural and peri-urban areas.

The arrangement of production and value chains, as well as the use of agricultural land, may also undergo substantial changes. It is probable that sizable tracts of land currently used for rice production will be converted to other uses or ecological services. Aquaculture may be developed on cropland impacted by saline intrusion, while high value vegetables or decorative plant cultivation may be practiced on land in peri-urban regions. Land in environmentally vulnerable areas may serve several

purposes, such as promoting ecotourism and maintaining biodiversity. Growth in total factor productivity (TFP) will inevitably accelerate agricultural transformation and growth. To bridge the gap between the labour-intensive RNF sector and the agriculture sector, agricultural labour productivity will also need to rise. Additionally, agriculture will be crucial to ensuring national food security, meeting the safety and quality requirements for a varied and healthy diet, and satisfying the nation's increasingly varied food demands.

Policies must address a number of issues in order to ensure sustainable agricultural productivity and transformation. These include helping small farmers take advantage of economies of scale, promoting diversification to meet new food demands and enhance income and job opportunities, encouraging broad-based innovations in the food and agriculture sectors, managing climate risks, creating inclusive and competitive value chains, enhancing public and private sector capacities to ensure and deliver safe food, and resolving the agriculture sector's long-term sustainability and competitiveness issues.

Crop diversification in favour of high-value crops and technical advancements would be the keys to increasing agricultural growth. This calls for sufficient funding for agricultural research and initiatives to increase its effectiveness, institutional changes to fortify the connections between research and extension, and investments in agri-infrastructure to capitalise on the possible returns on agricultural research funding. Given the enormous potential and the low yield advances to date, horticulture crop research deserves particular attention.

Future agricultural diversification will be fuelled more and more by a rapidly expanding urban population and a steady increase in per capita income. Investments in infrastructure to lower transaction and transportation costs, policies to draw private investment in agro-processing, cold storage, refrigerated transportation, and retail chains, steps to guarantee farmers' access to technology, credit, inputs, information, and extension services, and policies that support institutional arrangements like contract farming and price risk mitigation are all crucial for maximising the growth potential.

2.5 Emerging Policy Priorities

As can be seen, Bangladesh's agriculture is relatively more labour-intensive and contributes to growth by supplying labour, surplus income in the form of savings, industrial raw materials, relatively inexpensive food products, and demand for non-agricultural commodities. Both in terms of 'Lewis transformation' and removing social barriers to development in traditional rural cultures, agricultural transformation is crucial in the current phase of development in Bangladesh (Bairagi and Kamal, 2019, Mujeri and Mujeri, 2020). Furthermore, because of large externalities, agricultural benefits have the strongest linkages to growth in other sectors and overall growth of the economy. One of the main factors reducing poverty, particularly at the country's present level of development, is agricultural productivity. Specifically, public spending on agriculture, particularly in extension and research, yields significant returns and is essential to agricultural expansion (Ahmed et al., 2021, Mujeri and Mujeri, 2021).

In reality, a significant share of the advantages of agricultural growth is external to the sector and offers benefit to the non-agricultural sector, such as lower food costs or the availability of cheap labour in rural areas. Nevertheless, the neoclassical development model as popularised in the present development discourse exhibits strong biases against agriculture in standard trade and industrial policy. In fact, the implicit tax brought on by inflated exchange rates is one of the primary reasons why prices discriminate against farmers (Mujeri and Mujeri, 2021; Sen, et al. 2021).

Agriculture continues to be essential to the economy of Bangladesh in order to successfully spark rapid growth and pursue intended structural transformation. Any prejudice against agriculture will therefore be expensive in social terms, particularly given the many market failures in Bangladesh's agriculture and the crucial role that the government plays in fostering agricultural development. Other types of biases (such as those in government spending and trade regimes) also exist, despite the fact that many anti-agriculture biases in price regimes and policies have been eliminated by reforms since the 1990s.

Undoubtedly, the unique development model that arose following the so-called 'Washington Consensus' places more emphasis on institutional significance, market failures, and the need for production and social sector interventions (Mujeri and Mujeri, 2022). This new paradigm, though, runs the risk of placing an excessive focus on government initiatives to promote industry as the primary driver of Bangladesh's economic expansion. Undervaluing the role of agriculture in reducing poverty in Bangladesh and underestimating the multiplier benefits of agriculture on the overall economy could result from an exclusive reliance on the 'neo-industrialisation' paradigm. Bangladesh's task is to reduce absolute poverty, and agriculture is the sustainable answer to this problem. Targeted investments in agriculture and its inclusive transformation are essential for this to happen.

Obviously, while the above biases in the overall policy framework against inclusive rural and agricultural transformation are important to remove for creating a competitive and vibrant rural economy, the critical policy agenda remains – urgent need to address the lack of access to and use of required financial services by the disadvantaged farming households and the RNF sector including the CMSME entrepreneurs.

2.6 Concluding Remarks

Fostering rapid growth in agriculture and the RNF sector remains a major concern in Bangladesh. However, the value chains for most high-value food commodities are still at their initial stages of development with weak post-harvest infrastructures and poor institutional arrangements to effectively link the small farmers to the markets. The climate change also poses a significant threat to the development of sustainable agriculture and agriculture-based livelihoods in the country. Effective policies are required to address these issues and guarantee faster, more sustainable, and efficient expansion of agriculture, which is a necessary condition for quickening Bangladesh's inclusive structural transformation. Given the lack of financial and technological means to address the new challenges, the country is mostly dependent on agriculture to drive rapid rural development in the desired directions.

Technological advancement and crop diversification towards high-value crops, combined with increased fishing and animal husbandry (particularly poultry) production, are the only ways to support structural transformation and rural growth in the country. For the majority of Bangladesh's crops, technology still makes a small contribution to output increase. This is definitely a cause for concern. Bangladesh's investment in agricultural research is far from sufficient, and it has to rise quickly in order to lower production costs and expand yield frontiers for sustainable agricultural growth. Furthermore, diversification is required to maintain agricultural growth, which gives small farmers the chance to raise their incomes and lift themselves out of poverty. For supporting such a transformation process, rapid development of the RNF sector (including CMSMEs) will be critical to ensure sustainability and growth of the rural economy.

Bangladesh is currently experiencing fast social transformation, which is causing rural-urban migration to increase and making it extremely difficult to give the great majority of young people in rural areas alternatives for productive livelihoods. Policies for rural transformation need therefore to take into account the shifting aspirations and goals of the rural populace, how they react to reforms, and how these reactions produce both winners and losers. In this second-best world, the strategy for rural structural transformation needs therefore to be aware of the dangers of piecemeal reforms. When developing the policy guidelines for inclusive rural transformation of the Bangladesh economy, it is important to take into account the micro-meso-macro consequences and the intricacies within the general equilibrium framework in addition to immediate political imperatives.

Chapter 3

Rural Finance: Brief Overview and Challenges

3.1 Introduction

Despite rapid urbanisation over the last more than five decades after independence, rural areas still constitute the key sector of Bangladesh's economy and the country's future structural transformation will significantly be shaped by the performance of the rural economy. The agriculture and rural nonfarm (RNF) sector has made major contributions to the expansion of the Bangladesh economy over the past decades, as Bangladesh has become one of the largest producers of major agricultural products (e.g. rice, vegetables, fish, poultry, meat and dairy products, etc.) in the region along with a rapidly rising rural non-farm economy.

Overall, 53 million jobs—roughly three-fourths of all hired labour in the country—are provided by the rural sector, which contributes more than one-fifth of GDP. The industry is broad, and regional differences in farm characteristics and productivity are significant. A disproportionately high number of small and marginal farms dominate agricultural output. The country's primary source of deforestation and greenhouse gas emissions is the agriculture sector. It is anticipated that climate change will drastically alter Bangladesh agriculture's dynamics and raise the country's vulnerability to natural disasters. Apart from agriculture, connection and closeness to cities are major growth factors in the rural nonfarm economy. Although the majority of nonfarm activities in rural areas are related to agriculture and consistent with the transformation process—processing, trading, food preparation, etc.—they are still focused on producing low-quality, traditional products rather than more sophisticated ones, making it difficult for them to compete with higher-quality, mass-produced, urban, and imported goods.

3.2 Changing Structure of Rural Economy: Implications for Rural Finance

Over the past fifty four years, key elements of the dynamism of the rural economy of Bangladesh include several structural transformations including diversification of the rural economy along with rapid emergence of a growing rural non-farm sector; rapid transformation of the agricultural sector along with spread of modern technologies and mechanisation in the small farmer dominated farming systems, crop diversification and rapid spread of value added crops, contract farming and other methods; large scale adoption of capture fisheries and modern fish cultivation techniques; spread of commercial livestock and dairy farming; commercial poultry farming; commercial forestry production; and other innovations to transform the rural economy away from subsistence orientation towards modernisation and dynamism. Such transformations have taken place despite continuing high vulnerability of the small and marginal farmers and low income non-farm households in the rural economy under the changing profile of the rural sector. With the ongoing transformations, the share of agriculture in total GDP has rapidly declined; the RNF sector is providing increasing shares to rural GDP, rural land ownership pattern is changing slowly but steadily due to generational fragmentation and other factors towards smaller farm sizes, whereas rural per capita income is growing in spite of the decline in agricultural value added in GDP.

The main characteristic of Bangladesh's agricultural transformation is the movement of labour from rural areas—such as agriculture—to areas with better productivity, employment in non-farm businesses. Although Bangladesh's small holder dominated agriculture is largely subsistence-oriented, real wages are rising as workers move to higher productive rural nonfarm sector or leave the rural areas, which in turn encourages the adoption of new machinery and technology aimed at boosting agricultural productivity.

The main characteristic of Bangladesh's agricultural transformation is the migration of workers from rural (agricultural) to nonfarm, higher-productivity jobs. Since Bangladesh's agriculture is primarily subsistence-oriented, real wages are rising as workforce leaves the rural areas, which incentivises the adoption of new machinery and technology to boost agricultural productivity. And throughout the last few decades, Bangladesh's agricultural development has undergone this kind of change. Movements of labour and other resources were also influenced by policies to favour preferred activity or flow in particular directions. Over the past 54 years, there have been numerous changes in Bangladesh agriculture.

Technology and infrastructure have undoubtedly been crucial in accelerating change in rural regions, which has resulted in social and economic revolution. For instance, rural road infrastructure has opened up new jobs and income-earning options for both men and women in a number of ways. Road construction and maintenance can employ impoverished and landless individuals, especially impoverished women. Better roads have shortened travel time and made work outside of rural areas more accessible. Rural markets and value chains connecting agricultural inputs and outputs as well as rural nonfarm products have grown as a result of improved infrastructure. Rural land ownership has also been changing slowly but steadily towards smaller land holdings due to generational fragmentation and other factors. The concentration of landless households is nearly 8 per cent in 2019 (BBS, Agricultural Census, 2019).

The rural non-farm (RNF) sector has historically been defined by a large informal economy and a preponderance of small-scale production units, such as cottage, micro, and small enterprises (CMSEs). Smaller businesses are more susceptible to the issues of bad governance, inadequate regulations, and weak institutions due to their scale. They are also more negatively impacted by high bureaucratic costs and corruptions than larger businesses. Additionally, working in the informal sector severely limits an organisation's ability to expand by limiting access to public services, financial and other inputs, and the types of contracts and investments that can be made.

Three key components need to be present in employment generating programmes for rural CMSEs that serve the extremely poor: (i) Training must be available to employees. Along with a supply of individuals who can be trained, there must be a demand for the skills; (ii) Semi- and low-skilled workers must have access to markets where they can sell their expertise. Additionally, access to information, transportation, and telecommunications is linked to market access; (iii) Financial services, including microfinance, must be expanded, and current national financial institutions acting as intermediaries must be outfitted with sufficient funding and suitable risk-sharing schemes for the rural CMSEs.

Nevertheless, for promoting the rural entrepreneurial class, the role of rural CMSEs in entrepreneurial transformation is important, for which it may be useful to make a distinction between 'entrepreneurship' (a person's commitment to capital accumulation and business growth) and

‘proprietorship’, which refers to the ownership of enterprises and other assets that can be utilised to generate additional income but are not usually utilised for reinvestment or longer-term capital accumulation activities. In reality, majority of Bangladesh’s rural CMSE ‘proprietors’ are more likely to spend the additional incomes for household expenses rather than to put it back into their enterprises for scaling-up. Since they primarily work to protect themselves by producing cash flows that may be used to raise general living standards rather than for business expansion, it is likely that ‘proprietors’ rather than ‘entrepreneurs’ dominate the rural CMSEs that have been flourishing in Bangladesh.

Over the years, government support for the rural economy has covered a wide range of activities, including targeted credit for agriculture and rural CMSMEs. Over the last five decades, the government has played a pro-active role in boosting the rural economy with a wide variety of interventions. In retrospect, it may be noted that the most important drivers of rural growth—facilitated by policy reforms since the 1980s and strategic investments in key physical and human capital — includes adoption of modern technologies (e.g. high-yielding varieties of crops), irrigation expansion, better road connectivity, more efficient markets, increased mechanisation and supportive measures for the RNF sector including directed lending programmes to support agriculture and rural CMSMEs.

In the midst of ongoing rapid rural transformation of Bangladesh economy, managing risks and leveraging investments in the rural economy are major challenges for the policy agenda. There are many risks affecting the vast majority of the small farmers that discourage adequate investments in agriculture. Formal financial institutions are hesitant to lend money to small farmers and agribusinesses because they frequently view small-farmer dominated agriculture as being too risky. Sometimes, small farmers' inability to manage risks like livestock diseases and climate-related shocks makes them hesitant to borrow money for agricultural production. In the rural nonfarm economy, CMSMEs are constrained by access to finance, technology, business development services, access to urban and external value chains and marketing linkages to increase their scale economies and productivity. All these require effective agricultural and rural risk management within a holistic approach to protect and strengthen the rural economy and food production systems, especially through leveraging rural financing and investments in small farms and the CMSMEs. Furthermore, in order to assure climate-smart agriculture and structurally transitional agriculture towards more sustainable practices, more financial resources are needed for low-carbon agriculture.

Access to formal financial services, particularly financing for CMSMEs and the agricultural sector, is restricted despite these efforts and exhibits size and regional concentrations. Farmers, particularly small farmers, still have limited access to credit, despite a steady increase in rural loans over the past few decades. According to InM's 2023 Rural Finance Survey, only 8.4 per cent of farmers overall and 7.3 per cent of small farmers reported that they have access to formal finance. Furthermore, access differs greatly between regions, with the central and northern regions continuing to be the most underserved. Additionally, the density of bank branches and service locations is lowest in these regions. While the great majority of small farms and minor crops continue to be credit hungry, credit is concentrated in a few major crop items and a limited number of large farms. While cottage and micro enterprises (CMEs) and lower segments of small enterprises continue to face credit constraints, the majority of formal credit for rural CMSMEs is distributed to higher segments of small enterprises and medium enterprises.

3.3 Changing Face of Rural Finance in Bangladesh

The early post-independence (covering the 1970s and 1980s) approach to developing the rural finance market may be summarised in several trends:

- A major expansion in rural banking outlets;
- Rapid increases in agricultural loan disbursements;
- Different institutions providing loans often without collateral and some making long-term loans;
- Special food production programmes introduced providing subsidised credit and inputs to the farmers; and
- Encouraged/mandated approach for the financial institutions to increase agricultural lending through imposing credit quotas, creating credit guarantees, and requiring rural bank branches to be opened in exchange for the authorisation to open urban branches.

However, the policies created several problems as well:

1. Loan recovery emerged as a serious problem.
2. Interest rates charged to the farmers were usually low and did not reflect the cost of lending. This often encouraged the large farmers to preempt the scarce supplies.
3. Availability of medium- and long-term loans was limited, and the volume of agricultural credit often declined relative to funds allocated to manufacturing.

Table 3.1: Major agricultural and rural credit policies

Policies	Major goals	Implementing ministry
National Agriculture Policy 2018	To achieve safe, profitable agriculture and sustainable food and nutrition security.	Ministry of Agriculture
National Agriculture Policy (NAP), 1999	Food security, profitable and sustainable production, land productivity and income gains, IPM, smooth input supplies, fair output prices, improving credit, marketing and agro-based industries, protecting small farmers' interest	Ministry of Agriculture
Agricultural Extension Policy Manual 2020	To achieve safe, sustainable, diverse and profitable agriculture	Ministry of Agriculture
Agricultural Extension Policy Manual 1999	Annual crop planning, seasonal extension monitoring, participatory technology development and rural approval partnership, technical audit, attitude and practice surveys.	Ministry of Agriculture
National Rural Development Policy 2001	Improving income and employment of rural people, ensuring participation of rural people in development process, improvement of rural infrastructure and marketing facilities, local level planning, training of youths and women and development of disadvantaged small minority communities and Hill Tract regions.	Ministry of Rural Development and Cooperatives

Agriculture and rural development , PRSP 2005	Creation of enabling environment and playing supportive roles for intensification of major crops i.e.(cereals), diversification to high value non-cereal crops,(i.e. fruits & vegetables) development of non-crop enterprises (i.e. livestock, fishery, poultry) and promotion of rural non-farm economy and outlining a policy on future.	Planning Commission, Ministry of Planning
Seed Policy 1993	Breeding of crop varieties suitable for high-input and high-output agriculture ,multiplication of quality seeds, balanced development of public and private sector seed enterprises, simplification of seed important for research & commercial purposes, provision of training and technical supports in seed production, processing & storage, monitor, control and regulate quality and quantity of seeds.	Ministry of Agriculture
Seed Rules 1997	Delineation of rules and regulations regarding changing functions of national seed board, registration of seed dealers, seed certification, marking truthful labels and modalities of seed inspection.	Ministry of Agriculture
SME Policy 2019	By 2024, the contribution of SME sector in GDP to be increased from 25 per cent to 32 per cent in order to implement the development projections of the government.	Ministry of Industries
National SME Policy 2022	The SME Policy 2022 is a comprehensive framework aimed at fostering the growth and development of SMEs. It outlines strategic goals and action plans to be implemented by the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the SME Foundation, with collaboration from various government and private sector entities. The policy aims to increase SME contribution to the GDP and focuses on key areas like access to finance, technology, market, education, and business support services.	Ministry of Industries

Source: Ministry of Agriculture, Agriculture, A Synthesis of Agricultural Policies in Bangladesh, Social Security Policy Support (SSPS) Programme, Dhaka. <https://socialprotection.gov.bd/uploads/2017/06>, Ministry of Industries

According to the 2019 CMSME Policy of Bangladesh Bank, the share of net credit or advances for CMSMEs should be at least 25 per cent of the total credit or advances by 2024 and the share should increase by 1 per cent every year. Of the CMSME credit and advances, 15 per cent should be for

women entrepreneurs. The policy emphasises on ‘area approach’ and ‘cluster development’ methods to flourish the CMSME sectors. The ‘area approach’ applies to CMSME sectors like agricultural credit. Women and small entrepreneurs get priority in the credit policy. Small business owners need to get at least 40 per cent of the CMSME credit's total planned distribution, with medium-sized business owners receiving the remaining portion. Under Bangladesh Bank's refinance strategy, the industry and service sectors are given priority over the business sector; all claims in these sectors are being refinanced to the fullest extent possible. In order to guarantee greater institutional financial facilities for women entrepreneurs in the CMSME sector, Bangladesh Bank has taken some actions and has enacted guidelines for banks and financial institutions. Women entrepreneurs have been given at least 15 per cent of the entire Bangladesh Bank refinance fund for the CMSMEs. Interest rates for women business owners are also not to exceed 10 per cent annually.

Box 3.1: Bangladesh Bank SME Policy 2022

The Bangladesh Bank SME Policy 2022 aims to support the growth of cottage, micro, small, and medium enterprises (CMSMEs) through increased access to finance and streamlined procedures. It includes measures like a 3-year refinancing scheme of TK.25,000 crore, digital financing initiatives, and recognising informal enterprises. The policy also focuses on women entrepreneurs, with specific guidelines for loan applications and dedicated support desks in banks. The key features of the Policy cover:

Refinancing Scheme: Establishment of a 3-year TK.25,000 crore refinancing scheme to provide concessional financing to CMSMEs.

Digital Financing and AI: Emphasis on digital financing and use of artificial intelligence (AI) in SME lending.

Informal Sector Inclusion: Formal recognition of informal enterprises for the first time in the Policy.

Expansion of Loan Limits: Enhancement of investment and credit limits, particularly for services and trading sectors.

Revised Definitions: Adoption of redefinition of service industries in line with the National Industrial Policy 2022 and the Bangladesh Bank's CIB Batch Contribution User Guide.

Women Entrepreneur Support: Utilisation of specific guidelines to prioritise women entrepreneurs, including dedicated support desks in banks and simplified loan application forms.

Cluster Development: Encouragement for the development of SME clusters, particularly those run by women entrepreneurs.

Credit Guarantee: Adoption of supportive legislation like the provision of credit guarantees by the Credit Guarantee Department (CGD) for collateral-free or partially collateralised loans to CMSMEs.

Skill Development: Emphasis on skill development programmes for CMSME entrepreneurs through initiatives like the Skills for Employment Investment Program (SEIP).

The Policy identifies the following Focus Areas:

Increased Access to Finance: The policy aims to address the financing gap faced by SMEs in Bangladesh.

Simplified Procedures: Streamlining loan application processes and reducing documentation requirements.

Capacity Building: Providing training and support to enhance the skills and knowledge of SME entrepreneurs.

Overall, the Bangladesh Bank SME Policy 2022 seeks to create a more supportive and inclusive environment for the growth of the CMSME sector, which is vital for Bangladesh's economic development.

Source: SME and Special Programs Department (SMESPD), Bangladesh Bank.

Despite the revealed weaknesses of the rural finance system and inadequate capacities of most institutions to channel ‘good’ loans and ensure timely recovery, subsidising borrowers continued to remain the primary objective of rural credit and sustainability of financial institutions remained a secondary goal after the 1980s as well.

Over the years, high transaction costs and risks of providing financial services in rural areas underscored some of the problems encountered by the rural financial institutions. In retrospect, the huge credit subsidies proved burdensome and unsustainable because of large fiscal implications. In turn, over the years, the rural financial institutions started to adopt a more open approach towards the benefits of market orientation.

The government also started to design policies and regulatory frameworks, especially since the 1990s that would enhance and not distort the rural finance market. Thus a distinct shift towards more rural-

friendly policies and a market approach to financial market development can be observed since the 1990s. However, the key challenge in this context is the fragility of the rural financial system characterised by limited outreach and low sustainability which, among others, was contributed by past negative policies and interventions.

Notwithstanding the challenges, the government and Bangladesh Bank started to work since the 1990s on establishing a sound financial infrastructure including policy and regulatory frameworks covering pro-rural policies and better supervision of financial institutions to enable the rural finance sector to meet policy targets and endure the domestic and external shocks and crisis.

Furthermore, as the microfinance industry matured and it became clear that lending money to low-income borrowers was feasible and viable, the government began concentrating on developing the necessary regulations and policies to support a healthy rural finance market that included the microfinance industry as well. In order to improve the regulatory and supervisory frameworks, the MRA was established in 2006. This, among other things, forced all microfinance institutions (MFIs) to improve their risk and liquidity management. Since the 1990s, financial sector reform initiatives have also been put in place, which are necessary for a market economy to function. Although financial institutions are now able to charge market-based interest rates thanks to partially deregulated financial regulations, the government still offers subsidised loans to specific targeted industries (such as CMSMEs and agriculture).

Table 3.2: Recent developments and major shortcomings of rural finance in Bangladesh

Area	Recent developments	Major shortcomings
Policy environment	Macroeconomic stability; financial sector deregulation; ease of setting up banks or branches; digital/mobile banking and technological innovations in financial sector; bringing MFIs under regulation; government emphasis on financial inclusion and adoption of National Financial Inclusion Strategy (NFIS).	Inadequate policy, regulatory and legal environments; Slow implementation of deregulation; inadequate property rights and slow judicial procedures.
Specialised rural (agricultural) development banks	Reforms towards more autonomy, viability and self-reliance without privatisation.	Administrative/external interference in performance of activities; lack of financial viability; inadequacy and absence of effective mechanisms in meeting the demands for credit and other financial services especially to the low income segments and CMSMEs.
Rural and agricultural finance	Gradual replacement of borrowings from money lenders by self-financing from profits and savings as well as commercial credit from banks and MFIs.	Inadequate availability of self-financing and commercial credit to meet the demand for short and long-term finance; own savings mobilisation is insufficient.
Microfinance institutions (MFIs)	Regulatory/legal framework available for commercially-operating MFIs; privately financed start-ups; availability of a number of self-sustaining 'large' MFIs.	Inadequate availability of funds for microfinance/microenterprise operations; bottlenecks in adopting new technologies to reduce operational costs; danger of 'mission drift' and potential conflict between social mission and financial sustainability.

Non-formal financial institutions	Framework available for upgrading to formal levels and for financial market integration	Upgrading potential of informal financial institutions remains largely untapped
Nongovernment organisations (NGOs)	Innovative approaches available for social development and poverty alleviating lending in rural environments especially for left behind communities; possibility of successful conversions to formal intermediaries exists.	High dependence on donor support and external financing limit autonomy and sustainability, low focus on mobilising domestic resources and in striving for self-reliance.
Access of the poor and left behind communities to financial services	Outreach of MFIs (including banks) to the poor rising along with innovative programmes	Vast majority of the poor people, women, and youth including members of left behind communities particularly in marginal areas lack access to savings, credit and other financial services.

Source: Authors' compilation

Bangladesh Bank has become increasingly conscious of the significance of prioritising more robust bank supervision that is based on risk exposure management and the decrease of non-performing loans (NPLs), in tandem with the financial sector's deregulation and related reforms. In order to strengthen local capacity for effective financial intermediation, there has also been a greater focus on institutional reconstruction and reorganisation. In the case of microfinance, the MRA has acknowledged the unique characteristics and quirks of the industry, has established regulations that are suitable, and has implemented supervisory procedures that are sensitive to the demands of the delivery of microfinance services and products.

Bangladesh Bank has grown increasingly conscious of the significance of financial sector deregulation and related changes including developing local capacity for efficient financial intermediation and placing more focus on stricter bank oversight that is based on controlling risk exposures and lowering non-performing loans (NPLs). In order to strengthen local capacity for effective financial intermediation, there has also been a greater emphasis on institutional streamlining and reorganisation.

As per the mandate of the country's central bank, Bangladesh Bank has been formulating and implementing specific guidelines for the banks and relevant financial institutions and taking a variety of specific measures to achieve the overall goals and objectives of the agricultural and rural credit policies since independence.

Overall, the rapidly changing policy and regulatory frameworks in rural finance sector have helped to provide an enabling environment for rural financial institutions including banks, specialised banks and other financial institutions, MFIs, cooperatives, finance companies and other types of rural organisations to respond to the market opportunities offered by a permissive but prudential regulatory environment. Although the government has been implementing market-friendly reforms in rural finance, but it also continues to intervene in the rural finance market through subsidised credits, loan quotas, and regulated interest rates and other measures.

In comparison with 2016, the demand for bank services grew in both rural and urban areas, according to the Household Income and Expenditure Survey (HIES) 2022 (Table 3.3). The demand for deposit services exhibits a comparable trend. In 2022, around 37 per cent of all households obtained credit

services from both formal and informal sources, compared with roughly 30 per cent in 2016. Both urban and rural areas saw a surge in demand for credit services.

Table 3.3: Percentage of households with access to financial services

Financial services	2016			2022		
	National	Rural	Urban	National	Rural	Urban
Opening a new bank account	7.50	7.60	7.30	14.12	13.39	15.65
Deposited money in any microfinance or financial institutions	15.09	17.30	12.20	21.30	21.04	21.85
Deposited money for saving in any informal financial institutions	5.30	5.10	5.70	6.91	7.08	6.56
Received loans from financial institutions, friends, etc.	29.70	32.70	22.10	37.03	39.35	32.11

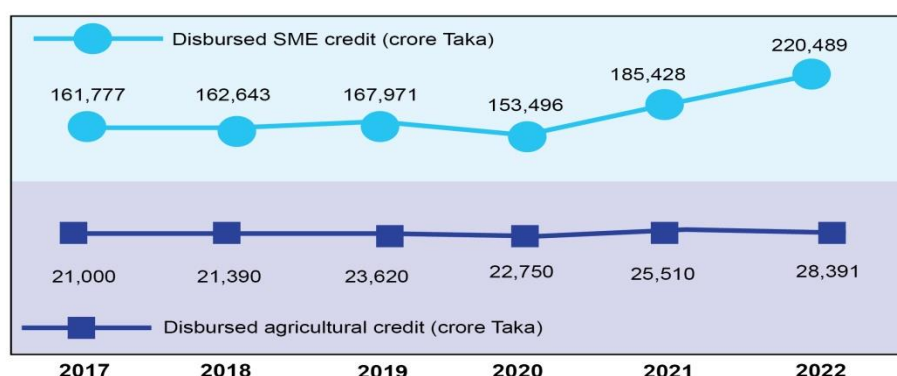
Source: BBS, HIES 2022

Access to financial services varies substantially across regions. The overall figures conceal significant regional variations. According to the 2023 RFS under the present study, while 11.1 per cent and 10.9 per cent of all farmers in Chattogram and Dhaka divisions respectively have access to bank credit, only 2.8 per cent of farmers in Barishal division and 4.5 per cent in Rajshahi division do have access. The distribution of bank branches and access points throughout the country reflects the regional variations in loan availability. Out of the eight administrative divisions of the country, Mymensingh and Rangpur divisions have by far the lowest density of bank branches (4.5 and 5.0 per million rural adult populations respectively) closely followed by 5.6 in Rajshahi and 6.6 in Barishal divisions in 2023 while Chattogram and Dhaka divisions had 9.5 and 9.0 respectively.² Moreover, these regional differences are not mitigated through MFIs, cooperatives and other formal institutions. The ratio of total service points per rural population is low in these divisions compared with other divisions as well.

Agricultural credit is concentrated in small farms and a few products but the average loan size is relatively small. The 2023 RFS shows that nearly 95 per cent of all farming households who received credit from banks and NBFIs belong to small farm category and they received 86 per cent of the total disbursed amount of credit having an average loan size of Tk. 9,235. On the other hand, medium farmers who constituted only about 5 per cent of the total number of borrowers, received 13 per cent of the total volume of rural credit, with an average loan size of Tk. 26,307. In contrast, the share of large farms in total number of borrowers is only 0.3 per cent, and their average loan per borrower is only Tk. 8,333. The product financed the most with rural credit is rice, followed by poultry, fisheries and livestock.

² For the small farmers, the share of access to formal (banks/NBFIs) credit by divisions is as follows: Barishal (2.8 per cent), Rajshahi (3.7 per cent), Mymensingh (6.8 per cent), Khulna (7.0 per cent), Rangpur (8.1 per cent), Sylhet (8.1 per cent), Chattogram (8.4 per cent), and Dhaka (10.1 per cent).

Figure 3.1: Total agricultural and SME credit disbursement by banks and NBFIs



Source: Bangladesh Bank, Agricultural Credit Department and SME & Special Programs Department, Dhaka.

Rural credit is mostly short-term for working capital financing although longer-term investment loans are increasingly needed for sustainable agriculture. According to the Rural Finance Survey 2023, conducted under the present study, more than three-quarters of the rural credit extended during the year were utilised for meeting working capital needs having an average maturity of one year, and only a small share was for longer-term investment loans. However, sustainable agricultural practices such as technologies like, zero tillage crop production, commercial livestock and poultry production, integrated production (crops, fisheries, livestock and forestry) and commercial forestry require capital investments and long-term financing.³

Agricultural credit is primarily distributed by specialised banks (SBs), state owned commercial banks (SOCBs) and private commercial banks (PCBs). In 2022, nearly 31 per cent of the total agricultural credit distributed by banks was financed by SBs, less than 10 per cent by SOCBs and 56 per cent by PCBs while FCBs financed a little more than 3 per cent.⁴ The microfinance institutions (MFIs) distributed a total of Tk. 2,490 billion as microcredit and microenterprise loans in the rural areas in 2023 (CDF, 2024). The volume of rural credit distributed by the NBFIs, cooperatives and other government and private departments and agencies are relatively low.

Although most formal agricultural lending focuses on small and medium farmers but the loan size is very small especially for the small farmers to create significant impact on productivity and output, while nonfarm rural credit mostly goes to upper segment of rural small enterprises and medium enterprises. In the process, cottage and microenterprises (CMEs), marginal farmers and lower segment of the small enterprises remain relatively deprived from formal credit: The banks and NBFIs mostly target the small/marginal farmers and upper segments of rural enterprises who receive disproportionate shares of their rural lending portfolio. The microenterprise loans of MFIs are largely targeted to the microenterprise sector.

³ Zero tillage is a farming system in which the seeds are directly deposited into untilled soil which has retained the previous crop residues as much. It is not a simple technology and requires in-depth knowledge as well as capital. Commercial livestock and poultry production requires in-depth planning including decisions on the production system through carrying out a thorough diagnostic of the climate and value and supply chains on both input and output markets. Integrated production technology consists in the diversification and integration of various production systems, agriculture, fisheries, livestock and poultry, and forestry within the same area through intercropping, in succession or rotation so that there are benefits for all activities. Commercial forestry is a simple technology that requires, at least at the outset, substantial capital and labour for planting. The first harvest is normally after 3 years. For the small farmers, the share of access to formal (banks/NBFIs) credit by divisions is as follows: Barishal (2.8 per cent), Rajshahi (3.7 per cent), Mymensingh (6.8 per cent), Khulna (7.0 per cent), Rangpur (8.1 per cent), Sylhet (8.1 per cent), Chattogram (8.4 per cent), and Dhaka (10.1 per cent).

⁴ See, 'Changing Face of Rural Finance in Bangladesh: Achievements and Future Challenges', Background Report No. 2025-01, Comprehensive Rural Finance Study, Institute for Inclusive Finance and Development (InM), Dhaka.

A large majority of rural institutional borrowers have multiple sources of borrowing including borrowings from non-institutional sources: The 2023 RFS shows that rural borrowers often have multiple sources of borrowing. The survey shows that 47 per cent of the farming households have more than one institutional sources of borrowing and 32 per cent of them also borrow from the informal sources. Farmers of all farm size classes take recourse to multiple borrowing from institutional sources (including MFIs and cooperatives). For the small farmers, the share is 47 per cent, while similar shares are 49 per cent and 33 per cent for medium and large farmers respectively. The shares of small, medium and large farmers who borrow from informal sources are 32 per cent, 33 per cent and 67 per cent respectively.

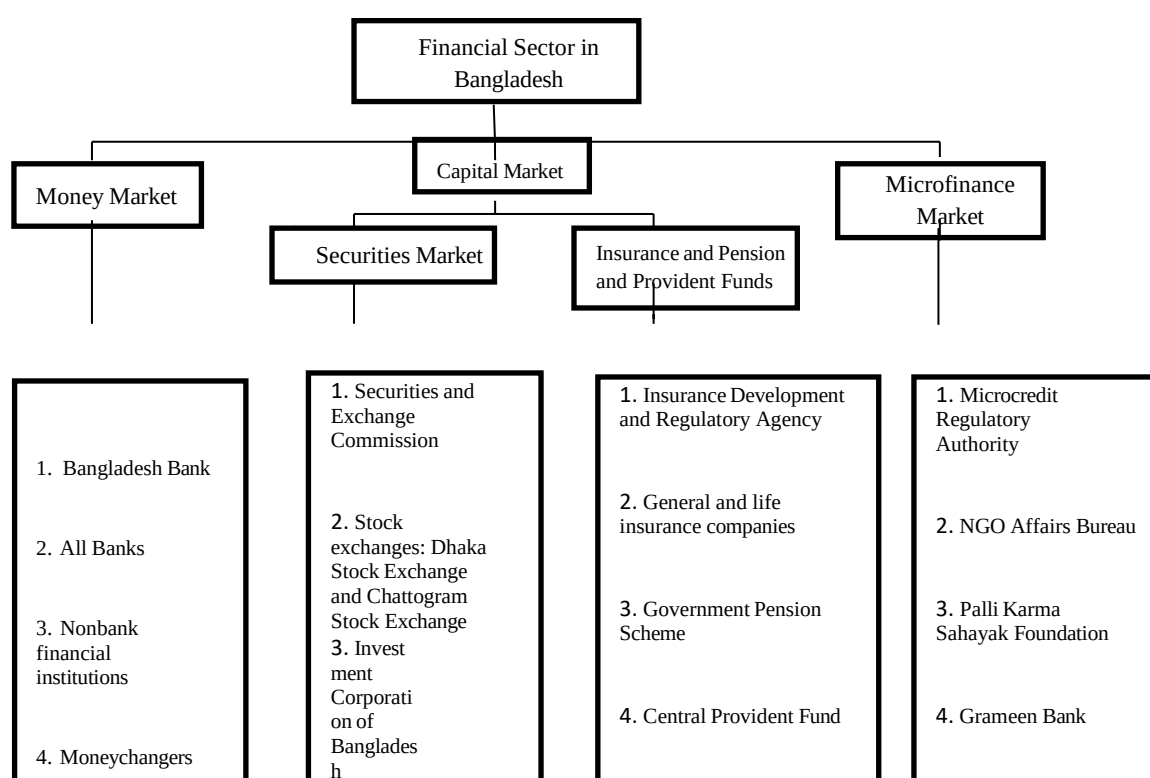
The survey shows that 47 per cent of the farming households have more than one institutional sources of borrowing and 32 per cent of them also borrow from the informal sources. Farmers of all farm size classes take recourse to multiple borrowing from institutional sources (including MFIs and cooperatives).

In the case of rural CMSMEs, 19 per cent receiving loans from a public bank, also have outstanding credit contracts with private commercial banks and/or private financial institutions, 46 per cent with NGO-MFIs and 30 per cent have borrowing from informal sources. It is observed that most individual borrowers (e.g. farming households) in the rural sector who have an established credit relationship with a bank do not usually borrow from other banks. It is also seen that around 30 per cent of all farm households have access to informal credit which is 29 per cent for small farmers, 27 per cent for medium farmers and 33 per cent for large farmers. On the other hand, 14 per cent of the farmers have borrowing only from the informal sector (the share is 15 per cent for small farmers, 11 per cent for medium farmers and 11 per cent for large farmers). The evidence highlights two contrasting facts about rural lending: while enterprises in the rural sector have multiple sources of financing through relations with several banks, individual farmers seem to have more limited alternatives to access formal credit and they have to rely more on informal credit.

3.4 Overview of Rural Finance Landscape

With decades of consistent high growth in financial resources, deposit liabilities, and loans, Bangladesh's financial sector is still relatively sound and stable. Even though Bangladesh's financial architecture began to take shape in the public sphere following independence, the financial industry is currently dominated by new generations of private banks and financial institutions. In addition to state-owned commercial banks (SOCBs), private commercial banks (PCBs), specialised banks (SBs), insurance companies, and other NBFIs, Bangladesh has become the world leader in microfinance institutions (MFIs) over the years. The development of alternative banking channels by the banks includes ATMs, agent banking and various multibank switches. In this context, MFS have emerged as an effective opportunity to build alternative banking channel and make transaction points more widely available. Figure 3 depicts the existing broad structure of the financial sector in Bangladesh.

Figure 3.2: Financial sector of Bangladesh



Source: Chief Economist's Unit, Bangladesh Bank

Bangladesh has seen a flourishing banking sector with strong infrastructure in recent years. Regarding the number of providers, 62 banks, 731 MRA-registered MFIs, Grameen Bank, 35 NBFIs, 36 life and 46 non-life insurance companies, 192,020 registered cooperatives, Bangladesh Post Office, savings groups, credit unions, a variety of up-and-coming DFS providers, and digital banks serve both individuals and enterprises in the country.

According to a Bangladesh Bank report titled "Survey on Impact Analysis of Access to Finance in Bangladesh Banks," there were 6,119 bank branches overall in 2000, with 2,460 branches—or 40.2 per cent of the total—located in urban areas and 3,659 branches—or 59.8 per cent of the total—located in rural areas. However, the share of bank branches in the urban areas increased to 51.7 per cent, with the share of branches in the rural areas declining to 48.3 per cent as of June 2018 for which the upgradation of rural areas into urban areas is a major reason. But the total number of branches increased by 65.3 per cent to 10,114 in 18 years — with 3,944 branches in the urban areas and 4,890 in the rural areas.

Rural areas are also deprived in terms of getting advances or loans as banks disburse around 10 per cent of their advances to the rural areas although these entities collect about 20 per cent of deposits from these areas. According to the above study, banks received Tk 214,280 crore out of Tk 1036,640 crore of deposits from the rural areas whereas they disbursed Tk 86,310 crore out of Tk 847,020 crore of advances in the rural areas.⁵

Furthermore, people who live in rural and isolated places can now access financial services and deposit their savings in the banking system thanks to alternative transaction channels like agent

⁵ See, 'Survey on Impact Analysis of Access to Finance in Bangladesh', Bangladesh Bank, July 2019. In June 2023, Bangladesh had a total of 11,212 bank branches, with 5,856 located in urban areas and 5,356 in rural areas.

banking and mobile banking. In November 2023, there were more than 220 million registered users of mobile banking services, surpassing the country's current population of about 176 million. Additionally, almost half of these customers come from rural regions.

Large deposits from rural regions have also been made into agent banking, the other rapidly expanding alternative banking channel. Rural areas accounted for 77 per cent of the Tk 301.6 billion in total deposits made through agent banking as of December 2022. Rural deposits' percentage of total bank deposits rose from 20 per cent to 21.6 per cent during the period due to an increase in deposits by this client segment as a result of urban residents' growing incomes.

Access to financial services is hampered from the customer's perspective by social exclusion, low income or assets, lack of understanding, and financial illiteracy. From a structural perspective, common grounds for exclusion include staff attitudes, inconvenient products, lengthy paperwork and other procedures, branch timing, and distance from the bank branch. On the other hand, even though informal credit is more expensive than other forms of credit, its availability, flexibility, and other alluring qualities still keep it popular.

3.5 Status of Microfinance

With a total of around Tk 1,717.07 billion in outstanding loans and a savings portfolio of approximately Tk 833 billion, the MFIs in Bangladesh offer credit, savings, and other financial and human development services to over 50 million low-income members and microenterprises (Table 3.4). Six categories include the credit services provided by the microfinance sector: (i) general microcredit for small-scale self-employment-based activities; (ii) microenterprise loans; (iii) loans for the ultra-poor; (iv) agricultural loans; (v) seasonal loans; and (vi) disaster management loans. Generally speaking, loans up to Tk 50,000 are classified as microcredit, while those over that amount are classified as microenterprise loans.

Table 3.4: Features of microfinance sector in Bangladesh

	2023-24	2015-16
Reporting MFIs, number	505	530
No. of members/clients, million	50.61	37.66
No. of outstanding borrowers, million	38.45	30.61
Of which:		
Microcredit borrowers, million	30.80	27.36
Microenterprise borrowers, million	6.53	3.25
Others, million	1.12	...
Loan disbursement during the year, billion Tk	2,800.42	955.77
Of which:		
Microenterprise loan, billion Tk	1,058.87	277.88
Outstanding portfolio, billion Tk	1,717.07	611.62
Volume of member savings, billion Tk	832.68	294.11

Note: In 2023-24, out of a total credit disbursement of Tk 2,800.42 billion by the MFIs, Tk 1,676.19 billion (59.85%) was microcredit, Tk 1,058.87 billion (37.81%) was microenterprise loan while the remaining Tk 65.36 billion (2.33%) was credit for other activities, such as sufalan, moushumi, ultra-poor, disaster, social development and other purposes.

Source: CDF, 2024

Additionally, around 65 per cent of microfinance operations occur in rural regions, and roughly 91 per cent of microfinance members are women. The total number of MFIs with licenses as of June 2024 (by the regulatory authority, MRA) is 719 with 26,071 branches and 223,459 employees. The concentration ratio of the microfinance sector is relatively high in Bangladesh with the two largest

MFIs (BRAC and ASA) contributing around 50 per cent of total loan outstanding and savings of the microfinance sector. Over four million microfinance borrowers are served by each of them. The two biggest MFIs control more than half of the clients and total financial portfolios, while the top 20 MFIs own about three-quarters of the market share overall.

In order to produce broad and long-lasting development effects, the microfinance industry in Bangladesh has undergone tremendous change over the years, moving from group-based, small-scale microcredit operations to individual microenterprise operations. Over the years, microcredit has evolved from its primary function of assisting the impoverished with their basic necessities to fostering a wider range of agricultural and nonfarm endeavours as well as the microbusinesses of the microentrepreneurs and graduating microcredit borrowers. The MFIs have a unique opportunity to emerge as significant development partners in Bangladesh, especially during challenging times like the Covid-19 pandemic, thanks to their focus on ‘appropriate’ finance, which includes scaling up credit to meet threshold level of activities for generating sustainable livelihoods, targeting remote areas and extreme poverty groups, mobilising the poor to promote social development, raising awareness on health, education, women's empowerment, and other social issues, and providing access to technologies and opportunities for earning a decent living.

Over the years, microfinance has evolved from its primary function of assisting the impoverished with their basic necessities to fostering a wider range of agricultural and nonfarm endeavours as well as the microbusinesses of the microentrepreneurs and graduating microcredit borrowers.

In the rural economy, MFIs form a major source of rural finance especially in disbursing credit to small (especially cottage and microenterprises, CMEs), informal rural enterprises and farm households. As Table 3.4 shows, the reporting MFIs (505 in number) disbursed a total of Tk. 2,800.42 billion in 2023-24 to 38.45 million borrowers in the country. Out of the total amount, 38 per cent was distributed as microenterprise loan. During the year, total savings of the members was Tk. 832.68 billion.

The broad sectoral pattern of loan disbursement shows that nearly 49 per cent of the loan was distributed to agriculture (32 per cent in crops including agricultural equipment, irrigation and nursery; 12 per cent in livestock including dairy, poultry and beef fattening; and 5 per cent in fish cultivation and processing), nearly 3 per cent to small and cottage industries including cold storage and welding; and around 4 per cent in transport and communications (CDF, 2024). Of the remaining amount, 21 per cent have gone to trade and business, 3 per cent to housing and house repairing, and the rest 20 per cent to other activities that include healthcare, education, social purpose, food, computer, parlour, solar, Internet, Photostat shop etc. It is also seen that of the total amount of loan disbursed during the year, about 6.4 per cent have gone to remote areas (2.1 per cent in char areas, 1.3 per cent in haor areas, 0.8 per cent in hilly areas, and 2.2 per cent in coastal areas).

3.6 Options of Rural Households and Enterprises for Accessing Financial Services

The above shows that rural households and CMSMEs can access three different segments of the rural credit market – formal bank credit, microfinance and informal credit. These three segments of the market are different in nature and characteristics. Generally, bank credit is offered from bank branches. As such, transaction cost (non-interest cost) of accessing bank's financial services, other things remaining the same, is relatively high. Bank credit usually requires collateral as security, and hence the banks are more inclined to provide services to enterprises and/or households with higher

ability to provide collateral. Further, being profit maximisers, banks are more inclined to provide loan of relatively large size. As such, rural poor or low income households and rural CMEs remain mostly excluded from the formal bank credit market.

Thus rural people who cannot access formal services generally belong to low levels of income, as they are also extremely vulnerable to various idiosyncratic and covariate shocks. In addition, lack of collateral and inability to save limits the poor to go to the formal banking system. Rural households and enterprises often do not use financial services from formal banks because the services are relatively more expensive and sometimes even unsuitable to serve their needs and demands. Many small borrowers do not apply for loan because of high transaction cost and incidence of high rejection rates. These costs can be considered as non-interest cost of borrowing. Due to high non-interest cost of borrowing, the low income groups are less keen to access credit from formal banks. Instead, they prefer to access informal and/or microfinance segments of the rural finance market (RFM).

Along with accessing the bank and microfinance components of the RFM, individuals and enterprises also access the informal credit market as and when required. Although aggregate and precise information on informal credit market in Bangladesh is not readily available, the anecdotal and sketchy evidence on informal credit mostly based on micro studies indicates the important role of informal finance that it plays in RFM. These studies suggest that informal credit market continues to exist despite wide expansion of the formal and microfinance market network in rural areas. Some unique features and diverse products are the reasons behind its wide existence and popularity. Conventionally, informal finance has usually been looked from the perspective of exploitation, but its positive role in development and expanding financial services remains unrecognised.

Informal credit is generally segmented by localised levels of operation. Lenders include friends, relatives, neighbours, shopkeepers, professional moneylenders and suppliers of trade credit. Transaction cost of both lending and borrowing is relatively low because of minimum problem of asymmetric information and close monitoring. Long-term relationship forms the basis of informal credit. Lending interest rate is not necessarily always very high; but usually it is quite high. Most importantly, loan products are diversified covering both economic and non-economic purposes. There is no rigid loan agreement; loan contracts are flexible in nature and it reflects individual status. Customer groups include both rural poor and non-poor.

Given the resource constraint of the informal lenders, loan size is reasonably low but the lending is based on the intensity of risk. Informal market is flexible not only in terms of loan terms and conditions, but also in terms of providing credit for both economic and non-economic purposes such as consumption, social ceremony, migration etc. Formal market does not usually provide loans for these purposes. As majority of low income people in rural areas are very prone to any kind of shocks, they quite often need credit for non-productive purposes. However, the informal market often fails to meet the credit demand of the rural poor to some extent. The formal money lenders (mahajans) of the informal market often provide small loans and charge high interest rate. These loans are very costly and often lead the rural poor to fall in the debt trap.

Microfinance institutions (MFIs) aim to address the failures of both formal and informal markets, and the microfinance market has emerged as the alternative market for the poor and low income households. The MFIs offer services to the poor or low income households with some distinct group-based, by and large, production technology featured by self-selection and joint liability. Consequently, the higher risk of lender-MFIs is reasonably low because of availability of more information and strict monitoring by both field level staff and joint monitoring by members of the group. Unlike the formal market, collateral is not required to receive loan from this market. Household level services make loan costly – high lending interest rate covers high transaction cost. But non-interest cost of borrowing for

the borrowers is negligible. A close monitoring of field level staff reduces problem of moral hazard. However, the loan size is generally small.

In terms of non-interest cost, on an average, cost of informal loans, in most cases, is lower than bank credit and microfinance. On the other hand, the interest cost of bank credit is generally lower than microfinance, but the poor are excluded. Therefore, on the assumption of everybody having access to all segments of the rural credit market, potential rural borrowers will decide on access to different market segments based on the terms and conditions and non-interest cost of borrowing. However, the rural poor and low income households have limited choice as they can access only microfinance and informal credit markets.

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Given the above characteristics of existing credit market segments, the important question is: what choices do the potential borrowers have? A number of variables influence the choice of credit market, including transaction costs, interest rates, contract flexibility, and the availability of a large variety of loan products. A panel data analysis by InM shows that rural households have higher access to microfinance – it increased from 3.8 per cent in 1998 to 34.1 per cent in 2008. At the same time, the percentage of households borrowing from informal sources (such as friends and family members) decreased from 16.9 per cent in 1998 to 4.9 per cent in 2008. However, the informal market accounted for the largest portion of the overall loan supply. It is argued that the necessity for noneconomic loans, such as those for consumption, education, medical care, social ceremonies, home repair after natural catastrophes, and similar uses, is what drives the informal credit market's dominant position. Conversely, they typically take out loans from institutional sources and use the money for profitable endeavours like non-agricultural and agricultural projects. As a result, one of the key factors influencing the decision to access various credit markets is the availability of a broad range of loan products (such as those for both production and livelihood purposes).

It is also true that not all low-income households that borrow money are able to satisfy their entire credit needs through microfinance or informal lending. Borrowers typically continue to be partially credit rationed in both RFM segments due to the intrinsic limitations of both markets, such as the informal credit market's cap on the size of individual loan funds and the microfinance market's loan size maximum. In light of the likelihood of credit rationing, terms and conditions are important when applying for loan. Nonetheless, it is nonetheless true that a significant portion of rural impoverished households' funding comes from the informal credit market.

3.7 Summary of Major Findings

Formal finance reaches a small share of rural population; while larger farmers with long-standing bank relations benefit the most, it increases access to and reduces costs of loans for small farmers as well. While formal earmarked credit and special programmes appear to generate direct benefits to the farmers and CMSMEs, there is little evidence that the presence of such earmarked lending has improved access to non-earmarked credit in the rural sector. The findings of the study shows that earmarked funds by the banks and NBFIs under the directives of Bangladesh Bank and funds allocated under different government/Bangladesh Bank programmes including funding by the SBs and MFIs are the primary source of institutional rural finance in Bangladesh, although reaching only a relatively small share of farmers and rural CMSMEs.

According to the 2019 Agricultural Census, there are 16.05 million rural farming households (of which 92 per cent are small farmers) in the country. The 2022 Household Income and Expenditure Survey (HIES) shows that 39.4 per cent of the rural households received loans from different sources (both formal and informal) during the last year of the survey. Of these households, 13.4 per cent received agricultural credit – 98.1 per cent from institutional sources (including MFIs) and 1.9 per cent from non-institutional sources. This shows that formal agricultural credit reached about 2.1 million farmers or 13.2 per cent of all farmers. Of these farmers, only about a half of the farmers had the loan through the formal institutions and government programmes while the rest came from the MFIs. The most important formal source are the specialised banks (BKB and RAKUB) having a share of 0.7 per cent followed by SOCBs and PCBs having a share of 0.15 per cent and 0.12 per cent respectively. It is also seen that the provision of financial services to small farmers continues to be almost fully dependent on formal financial sources.

It is found that farmers with established bank relationships, particularly those in the wealthier segments, gain the most from designated loans. All forms of financial intermediaries can benefit from this discovery, but banks, other formal institutions, and MFIs are especially noteworthy. Therefore, it would seem that borrowers who have established credit relationships with banks and other formal organisations receive a significant portion of the government's and Bangladesh Bank's efforts to develop rural finance.

According to the report, government initiatives and Bangladesh Bank's work have improved small farmers' and rural businesses' access to and affordability of loans. According to the report, the nation's rural lending policies have also assisted in reducing the financial burden on small farmers and rural CMSMEs. Furthermore, there is a greater chance that small farmers may receive credit when allocated credit is made available, particularly through SBs. In comparison with other options available to small farmers, it also lowers the interest rate.

The study suggests that the efforts of Bangladesh Bank and government programmes increase access to and reduce costs of loans for small farmers and rural enterprises. The analysis also indicates that the rural credit policies of the country have helped to ease financial constraints for small farmers and rural CMSMEs.

There is little evidence that the existence of designated lending has enhanced access to non-earmarked credit in the rural sector, despite the fact that the government's ongoing initiatives and programs seem to have directly benefited rural borrowers. Since access to earmarked credit can assist loan recipients in establishing credit histories, the presence of banks and earmarked lending in rural finance is likely to improve the availability of non-earmarked credit to rural borrowers through information spillovers, thereby reducing information asymmetries with lenders. Financial institutions may then grant rural borrowers who are establishing credit connections through earmarked lending access to non-earmarked loans. However, there is no actual evidence to support any such change. Rather, the analysis demonstrates that targeted lending is still in place: rural borrowers receiving earmarked loans continue to receive repeated financing through earmarked credit. This shows that rather than 'graduating' from earmarked agricultural and rural credit and transitioning into the general credit domain, rural farmers and CMSMEs systematically rely on earmarked loans, even after maintaining a successful credit history with earmarked loans.

The volume of rural credit disbursed by banks and NBFIs has increased both in nominal and real terms, along with the number of borrowers over the last decade. The MFIs have also expanded loan portfolio significantly in the rural areas. While the nominal amount of disbursed rural credit by banks and NBFIs has increased from Tk. 1,668 billion in 2014 to Tk. 7,226 billion in 2023 showing a rising trend with an average yearly growth rate of around 37 per cent in nominal terms during recent years, it has also increased by a robust rate of around 19 per cent since 2014 in real terms. On the other hand, the MFIs, other significant lending institutions in the rural areas, disbursed a total of Tk. 2,490 billion in loans during 2023 compared with Tk. 647 billion in 2014 showing an average growth rate of about 32 per cent in nominal terms. The total number of MFI borrowers has also increased from about 25 million to nearly 35 million between 2014 and 2023.

One noticeable feature of disbursed rural credit during the period is the increase in the average volume of loan per borrower and relative decline in the number of small size loans while increase in the number of relatively large size loans. A part of these changes may be explained by demand side factors such as inflationary adjustments for rising price levels and need for larger size loans for technological and other improvements in production and related operations by the borrowers. In addition, one can identify several factors on the supply side that may explain this relative decline in small size loans. The issue of profitability in small size lending by the lending institutions could be a relevant reason. Probably the driving factor for the declining trend in the number of small loans is the fact that the lending institutions, especially the banks/NBFIs, find it very challenging to use the margin from the loan to pay for the administrative expenses that must be incurred in order to properly handle these loans, regardless of the size of the loan. It is worthwhile to investigate the matter further by evaluating the expenses and revenue produced by small rural loans in order to ascertain their viability for various financial institution types.

A partial credit guarantee (PCG) scheme might greatly help banks and non-bank financial institutions (NBFIs) that serve small farmers who are unable to pledge their land as collateral and farmers in areas with insufficient land titling when it comes to lending to small farmers. Although the goal of partial credit guarantee programmes is to protect lenders from loan losses, final borrowers are not protected in the event that production or agricultural markets are adversely affected. Insurance coverage and PCGs work in tandem with one another. . If end-borrowers are insured against pertinent risks that impact their ability to make payments, premiums for PCG services can be lowered in recognition of this complementarity. However, the scheme's design is a critical factor in PCG systems' success. The legal and regulatory framework, corporate governance and risk management, operational framework, and PCG monitoring and evaluation should all receive special attention.

Rural CMSMEs face greater financing obstacles than the larger enterprises—they enjoy less access to external finance and face higher transactions costs and higher risk premiums: One-fifth of rural CMSMEs are underfinanced, and nearly three-fourths do not use external financing from banks or NBFIs. Furthermore, as business size increases, the likelihood of being credit limited reduces, and CMEs are more likely to face major financing challenges. It should come as no surprise that one of the biggest obstacles to the expansion of rural CMSMEs in Bangladesh is access to financing. On the other side, entrepreneurial metrics like the number of startups and firm dynamism and innovation are positively correlated with the availability of financing.

For the rural CMSMEs, three stages of enterprise financing are most crucial since these enterprises find it very difficult to overcome the hurdles that occur during these phases: For the rural CMSME entrepreneurship financing, several stages may be identified: (i) estimation of requirement of initial investment; (ii) exploring banks, NBFIs, MFIs and other formal and informal sources of finance; (iii) raising working capital for day to day operational activities up to profit

realisation (gestation lag) or completion of operating cycle; (iv) raising funds for enterprise expansion, marketing and promotional activities; (v) technology adoption and modernisation; (vi) export/import finance (pre-shipment and post-shipment finance, insurance coverage during transit etc.); and (vii) contingency fund for meeting emergencies/unexpected events and for financing rehabilitation which is one of the prominent features of CMSMEs. For the rural CMSMEs, stages (i), (ii), and (vii) are the most crucial since these enterprises find it very difficult to overcome the hurdles that occur during these phases. The important issue for rural entrepreneurs is, of course, access to the sources of finance. In reality, access to finance becomes complex due to the existence of several interlinked issues. There exists a wide and rapidly diverging gap between the demand for and supply of credit to these rural enterprises. Moreover, despite efforts by the government, Bangladesh Bank and other agencies, several vexing issues still remain to be resolved for the rural CMSMEs such as, hassle free and easy access to credit, general lack of entrepreneurial skills (e.g. management, science and technology, marketing, administration etc.), weak mechanisms for providing support services, scattered and unorganised existence of most rural CMSMEs, for being in the informal sector and unregistered, and others.

Bangladesh Bank needs to design tailored policies/measures that would enable the banks/NBFI to ensure access to and use of financial services by the underserved/excluded population groups/disadvantaged communities:. Numerous underserved/excluded population groups and underprivileged communities are financially excluded for a number of causes, both in the supply and demand sides. On the other hand, even though informal credit is more expensive than other forms of credit, its flexibility, accessibility, and other alluring qualities help it become and remain popular over time. In addition to conventional methods, a crucial component should focus on increasing the digital payment systems' reach among the target populations in rural regions and the variety of appropriate products and services that are offered in the digital systems for these populations. Three interrelated goals should be included in the overall strategy: (i) lessen the time and money spent on financial transactions; (ii) improve the individuals' ability to withstand financial shocks and take advantage of opportunities to earn income; and (iii) create macro-level efficiency by digitally connecting these individuals, financial institutions, government service providers, businesses, the private sector, and other stakeholders. There is still a lack of knowledge on the unique traits of various rural household groups and their needs for financial services. Because of the inherent hazards of agricultural activities, lending to these groups is seen as risky. It has also been extremely challenging to channel remittances, gather savings, develop money transfer systems, and provide individual micro-insurance products due to the small amount of the majority of their transactions. On the other hand, there are plenty of chances to increase access to financial services through a variety of financial service providers, products, and delivery methods. Financial inclusion in Bangladeshi society requires the development of a wider choice of high-quality, transparent, and reasonably priced financial services that are based on the well-informed requirements of various impoverished groups.

Bangladesh Bank could design and implement a programme for the banks/NBFIs to facilitate financing of rural women CMSME entrepreneurs: The proposed programme needs to be designed to address the following gender specific constraints for rural women CMSME entrepreneurs: (i) develop tracking mechanism for gender-disaggregated data at enterprise and portfolio level; (ii) adopt a dedicated strategy for rural women CMSME entrepreneurs; (iii) develop products and services tailored for rural women CMSME entrepreneurs; (iv) any other measure(s) to promote the rural women CMSME financing.

Bangladesh Bank may explore the feasibility and urge banks/NBFIs to adopt cluster finance model (CFM) for lending to rural CMSMEs in industry based clusters: The critical policy agenda for the development of industry based clusters is to adopt a stand-alone comprehensive strategy for industry based cluster financing and development in the country. To establish performing clusters, sufficient funding and support services must be allocated. Along with funding, support services including marketing assistance, training, research, and innovations involving both public and private entities are essential. Further, the clusters that persist at various stages of their development journey along with different sizes of enterprises (e.g. CMSMEs), types of activities, capabilities of entrepreneurs, and other differential characteristics, would be required to draw financial resources from both banks/NBFIs and alternative funding sources like venture capital, crowd funding, membership fees, funding by associations, NGO-MFIs, donors and external sources, and others. Cross-country experiences suggest that cluster finance model (CFM) is attractive for banks/NBFIs because its large scale can justify the banks' transaction costs. At present, individual CMSMEs in clusters faces the issue of limited access to finance because they do not have sufficient collateral for bank lending. Further, the banks and financial institutions usually do not extend cash flow based lending to individual CMSMEs because of its relatively large transaction costs and limited capacity to manage risks of CMSME loans by these institutions. To overcome this challenge, the CMSMEs can utilise the CFM, whereby a collection of CMSMEs creates a special purpose vehicle (SPV) to borrow money from banks under a single contract. The microfinance model is not the same as the CFM. According to the microfinance model, a collection of microbusinesses approach the bank to apply for loans on an individual basis, offering each other personal guarantees. Loan contracts are created for individual microenterprises, even if they bargain with financial institutions collectively. Because each CMSME's liability is capped at their ownership stake in the SPV, the CFM is also appealing to CMSMEs. If diverse risks are fairly allocated to different stakeholders and risk mitigation tools, such credit guarantees, are reasonably priced, the CFM can function as intended.

Bangladesh Bank may consider to adopt a holistic approach towards financing rural CMSME start-ups by banks/NBFIs: The rural CMSME start-ups, especially the women-owned and those conceived by the rural youth, face the daunting challenges to arrange the start-up capital and financing during the initial years. To start and initially operate their businesses, they rely on funding from friends and family or internal capital. Enhancing CMSMEs' access to startup funding and coming up with creative ways to open up new funding sources are important tasks for banks and NBFIs. In order to boost the economic contribution that CMSMEs, including under-represented groups like women-owned and youth-initiated CMSMEs, can make, Bangladesh Bank needs to take a comprehensive approach, integrating financing and consulting services for clients. Diagnostics, implementation support, lobbying, and the exchange of best practices are the primary components of advisory and policy help for CMSME start-up financing needs.

For effectively building and developing the rural finance infrastructure, Bangladesh Bank needs to promote variety and competition rather than replicate any single model at all rural locations depending on specific situations: In reality, rural areas need different types of financial institutions and strategies. Moreover, institutions must be tailored to the potential of the location, cultural environment and specific requirements of the clients. There are marginal and depressed locations (e.g. haor regions, char areas, coastal belts etc.) with predominance of home-based agriculture and low-return activities. In these locations, small cooperatives or informal groups, which are savings-oriented and operate at nominal costs, may be the most suitable entry points. In the high potential locations with high-return agriculture and profitable rural CMSME activities, credit-oriented MFIs/banks along with required professional business development/management services and technical support can

facilitate growth where large financial cooperatives and commercial bank branches with individual or group technologies would be more suitable (which could be privately or community-owned).

Bangladesh Bank needs to promote variety and competition through working for a variety of rural finance infrastructure that may include: (i) local financial institutions (e.g. local cooperatives/informal groups) including financial grassroots organisations; (ii) mainstreaming savings and credit cooperatives; (iii) supporting networking and apexing among MFIs; (iv) establishing formal cooperatives and their apex organisations; (v) transforming credit programmes into user-owned institutions; (vi) linking banks with MFIs and cooperative groups; (vii) promoting government sponsored/commercially-operated apex organisations for refinancing MFIs along with performing additional functions e.g. exchange of liquidity, credit rating, credit guarantees, and reinsurance; (viii) assisting traders, processors, and suppliers with their credit and facilitating their access to refinancing institutions; (ix) encouraging institutional innovations, including (micro) leasing firms; and (x) bolstering MRA's supervisory and monitoring capabilities in microfinance. Social intermediation through training, institution and capacity building, and action research to test novel ideas and share the findings may be necessary for a number of reasons, including: modernising and mainstreaming regional financial institutions; establishing apex services and networking among MFIs; connecting banks and NBFIs with local financial institutions like MFIs and local cooperatives/informal groups; and employing micro-entrepreneurs as a new market segment strategy to reach the unbanked and impoverished in both high-potential and marginal areas at a reasonable cost. It is possible to develop linkage banking, which calls for local MFIs or informal groupings with sustainable operations as well as banks with an efficient rural distribution network. In order to share successful linking lessons, bridge resource gaps for refinancing, and increase the ability of all linkage partners, linkage programmes may be formed.

There is a need to exploit the full potential of Islamic finance: Financing investments in multi-sectoral and multi-social rural activities to support integrated and sustainable rural economic development is a major challenge in rural finance. Islamic finance can be a significant source of infrastructure funding to support such large-scale investments. It can also help institutional and high-net-worth investors diversify their portfolios and provide an alternate source of funding for rural communities that favour financial services that adhere to Sharia law. For example, sukuk can be used to fund infrastructure development projects.⁶ Islamic finance can also increase access to financial services of the rural populations since many Muslim households abstain from opening conventional bank accounts because of their interest-generating feature. Financial transactions are dominated by the conventional modalities of the Islamic trading system, which can be broadly categorised as equity-based (partnership and joint venture relationship), rental-based (lessor-lessee connection), and trade-based (buyer-seller relationship and co-ownership). These options are also organised as Islamic insurance (Takaful) and Islamic bonds (Sukuk).

The potential of Islamic finance in Bangladesh has not yet been fully realised in terms of advancing the rural finance agenda, including improved livelihoods for marginal and small farmers, financial inclusion of the excluded, equitable wealth distribution, the growth of productive rural CMSMEs, and other facets of inclusive rural development. When it comes to advancing the Islamic finance agenda, the strengths and opportunities are probably going to outweigh the vulnerabilities and threats, according to a SWOT analysis, a tool for assessing the positive and negative internal and external

⁶ A sukuk is an investment instrument (traded like a conventional bond) that provides the investor with undivided ownership of an underlying asset. The volume of annual sukuk issuances reached \$75 billion in 2016, bringing the volume of outstanding sukuk close to \$320 billion in Asia. See, Islamic Financial Services Board. 2017. Islamic Financial Services Industry Stability Report. Kuala Lumpur.

elements (Table 3.5). Furthermore, Bangladesh Bank and other authorities can solve the shortcomings by implementing suitable rules and taking appropriate action.

Table 3.4: A SWOT analysis of Islamic finance in Bangladesh

External factors	Internal factors
Strengths	Opportunities
Vast majority. of Muslim population (about 90 per cent)	Additional benefit of increased investments from the Middle East and other Muslim majority countries
Rising demand for niche products	Financial inclusion of the excluded rural population especially due to religious reasons
	Improvements in livelihood and living conditions of the marginalised social groups and informal enterprises promoting rural development
	Potential to bridge inequalities and exclusion
Weaknesses	Threats
Inadequate awareness	Opposition of socio-political forces and mainstream financing institutions.
Lack of practical expertise and knowledge on Islamic finance	
Absence of supportive laws and regulations	

Source: Authors' compilation.

In view of its advantages, Islamic finance has the potential to emerge as a significant element in the rural finance system in Bangladesh. In the Bangladesh context, Islamic finance especially can take care of the needs of the disadvantaged and marginalised population groups without denying the legitimate claims of other groups, which will ensure justice and equality. To move forward, it is also important to remove the misconceptions and misunderstandings on Islamic finance that persist in society.

3.8 Major Recommendations

Bangladesh Bank may adopt specific measures for further promotion of technology-driven services and agent banking: The country's rural finance market and related development initiatives have already seen a significant transition thanks to mobile banking and technology-driven products and services offered by banks and NBFIs. Banks and NBFIs need to embrace innovation and contemporary technologies to be competitive and meet upcoming challenges. Specifically, the new and creative banking channels—mobile banking and agent banking—are successful in providing banks with efficient and economical service delivery in both urban and rural areas. By guaranteeing larger deposits and providing access to additional financial services for the low-income rural population, this is already strengthening the country's financial inclusion initiatives. Such innovative banking is a crucial issue that comes with challenging rules for both mobile and agent banking. Choosing and keeping an eye on the appropriate agents is essential to guaranteeing efficacy and safeguarding against money launderers abusing the platforms. When it comes to assessing and keeping an eye on agents using mobile and agent banking channels, Bangladesh Bank needs to implement a thorough and suitable AML/CFT (fighting the funding of terrorism) regulatory framework. Data and drives should be divided into three categories: credit access, deposit inclusion, and payment inclusion in order to guarantee the transparency and caliber of financial inclusion initiatives.

Bangladesh Bank needs to exploit the huge potentials for designing and offering credit and insurance products targeting the agriculture sector as a significant portion of the population still directly depends on agriculture: To ensure sustainable financial inclusion and adequate finance flows to the agriculture sector, introducing warehouse receipt system is a priority, which is at the

initial state of development at present. It is necessary to take the initiative and implement advocacy efforts in order to establish a regulatory body that will oversee the development of warehouse receipt systems and commodity exchange agreements for the country's agricultural marketing system. Currently, Bangladesh's agricultural commodity markets are only supported by a few dispersed and fragmented initiatives. A national agricultural commodity exchange agreement needs to be established, government warehouses need to be built up and/or private warehouses need to be licensed, local service points need to be established with the current telecom networks, and an efficient warehouse receipt system needs to be designed. When all of these activities are combined, the country may develop a sophisticated commodity market for efficient financing of agriculture. IDRA and Bangladesh Bank may work together to provide customised insurance solutions for micro, small, and agricultural businesses. To close the gender gap, women entrepreneurs and depositors could be given extra encouragement.

Financial sector regulators need to take appropriate steps for promoting capital and bond markets, insurance sector and MFIs for balanced financial development: Bangladesh's financial system needs work to lessen its excessive reliance on the banking industry. For the country's banks to operate sustainably, the growth of other financial institution segments is important. Banks and NBFIs only use a small number of deposit products because the bond and capital markets are still in their infancy. In reality, a major flaw in the liability portfolios of both banks and NBFIs is their excessive reliance on deposits alone. For the bond market to grow, the government needs to assist the financial sector in preserving a competitive interest rate structure that is focused on the market. Policy and regulatory support is necessary for venture capital financing and funds to encourage innovative businesses. A financial market's strength is, in fact, the interdependence and relationships among its reliable participants. The banking industry can help advance all other areas, but not at the expense of depositors' dangers. Banks and other institutional investors ought to be drawn to the capital market as well. Already, bank-insurance products are available aimed at the country's sizable untapped insurance market; similarly banks, NBFIs and insurance companies can develop an efficient cooperative strategy with MFIs for credit and insurance linkages in specific areas. To build trust among the general public, insurance operations require stricter regulatory oversight and controls. More financial literacy related to capital market and insurance services has to be provided by the government and regulators.

Bangladesh Bank needs to look into the issues of regional concentration of loans and advances: In Bangladesh, a significant regional concentration of loans and advances by banks can be observed. For example, loans and advances of all types of banks are highly concentrated in favour of two administrative divisions (Dhaka and Chattogram) of the country: these two divisions received 86 per cent of the total loans and advances by all types of banks in 2021 and 2022 while the rest of the six divisions got only 14 per cent. Particular strategies are needed to enhance financial development in the underperforming divisions due to the prevalence of severe inequities. This calls for distinct strategies for banks in the public (SOCBs and SBs) and private (PCBs and IBs) sectors. Given that the FCBs are subject to stricter controls regarding branch expansion and that the majority of their products are targeted at high-net-worth households and formal sector businesses, it is likely that it will be challenging to compel them to expand their operations in lagging divisions. They may, however, develop novel products to fill the need for a more effective and less bureaucratic banking option. As expected, private banks seem to be more risk averse than public banks, which means they have a bigger need to support rural and underdeveloped areas. This implies that public banks will likewise have to bear the primary burden of providing banking services in the lagging divisions, even though they are heavily represented in the more developed divisions.

Recent statistics indicate that rural businesses have received only around 10 per cent of the total loan disbursement by all banks while the rest has gone to their urban counterparts. Targeted finance for rural businesses by the banks/NBFIs can help small rural businesses access the resources they need to start and grow their businesses, such as capital, equipment, or inventory. In addition, comprehensive efforts may be adopted to support small rural businesses by providing technical assistance and training. This can include providing access to business coaching, marketing support, or technical training on topics such as financial management or product development. Such support can help small rural businesses build their capacity, increase their competitiveness, and ultimately grow their businesses. Sustainable expansion of small rural businesses also requires promotion of social responsibility and ethical business practices. This can include, for example, working with small businesses to adopt sustainable business practices, such as reducing waste or using renewable energy sources. It can also mean promoting fair labour practices, and social security schemes, and ensuring that small businesses pay fair wages and provide safe working conditions for their employees.

Develop a mechanism to ensure integrated development of CMSMEs and sustainably meet their financing needs: A central coordinating body may be created to promote the integrated development of CMSMEs including the industry based clusters and sustainably meet their financing needs. For the purpose, the responsibilities of two key agencies (SMESPD of Bangladesh Bank and SMEF of the Ministry of Industries) need to be clearly defined. For instance, the SMEF could focus on research, overall development policy and M&E, and on promoting formalisation of CMSMEs, adjusting policies for informal CMSMEs to grow and developing institutional frameworks for providing business development services to CMSMEs. On the other hand, all finance related policies and their implementation issues could be under the SMESPD of Bangladesh Bank. A coordinating committee could be formed involving other relevant ministries/agencies and Planning Commission under the supervision of the Ministry of Finance.

Bangladesh Bank may put special focus on CMSME entrepreneurship for rural youth: Studies that are currently available indicate that adults and young people in rural areas are equally enthusiastic about launching new businesses; yet, the number of young people engaging in entrepreneurial activities is rather low. Rural adolescents are discouraged from engaging in entrepreneurial activities by a number of factors, including lack of perceived skill and experience, lack of financial literacy and awareness, fear of failure, and—above all— lack of access to financing. For young people with less education, obtaining formal financing is much more challenging. Significant economic and entrepreneurship prospects in Bangladesh can be unlocked by removing obstacles to rural youth financial inclusion. Digital financial services (DFS) are probably the first time that most young people in rural areas interact with the banking industry. The emergence of financial technology, or fintechs, is giving rise to new business models that have the potential to boost young entrepreneurship and financial inclusion in the country. Bangladesh Bank may look into a number of options, such as alternative credit scoring for financing rural youth entrepreneurship; digital banking and mobile wallets targeted at rural youth; expanding business funding platforms; encouraging banks and NBFIs to use technology to facilitate lending to youth entrepreneurs in rural areas; providing client-centric products and financial services that address the needs of rural youth; etc. Bangladesh Bank may also run initiatives like Individual Development Accounts (IDAs), which give rural youth financial literacy instruction and business training while also assisting them in saving for asset development or income-generating ventures. It may be necessary for IDA holders to take part in a programme for a defined period of time in order to save money for a particular objective. Either a private or public donor may match each Taka saved in an IDA. At the conclusion of the programme, the youth can use the savings for a range of income-generating and asset-building activities, including technical education and training.

Attempts could be made to more thoroughly investigate funding options, such as the small-cap stock market, venture capital, angel investors, crowdsourcing, impact investing, etc. Despite the fact that many of these are not new in Bangladesh, there is still much work to be done before the necessary momentum is generated to provide the required resources to support a rural CMSME finance culture.

Concerned stakeholders may work towards ensuring secured lending for rural CMSMEs:

Access to fixed assets, such as a building or piece of land, is less common among CMSMEs, especially those in rural areas. Therefore, the primary form of collateral that CMSMEs can provide in order to obtain finance is transportable assets. The interests of creditors in secured lending can be safeguarded by a collateral register, which keeps track of any possible security interest in movable goods/assets. By alerting parties to the presence of a security interest and ensuring the priority of creditors over third parties, efficient collateral registries can lower the expenses associated with credit monitoring. Collateral registries are databases of asset ownership or interest that are open to the public. Through the establishment of priority based on the date of registration and the facilitation of awareness of their presence, this institutional and infrastructure mechanism supports the legislative framework of security rights in movable goods. Increased lending to CMSMEs can be supported by legal frameworks that permit movable property to be included in collateral registries. Easy, rapid, and affordable registration encourages parties to disclose transactions they might have otherwise kept hidden.

It is also possible to investigate CMSME finance and factoring. Businesses (sellers) sell their creditworthy accounts receivable at a discount (usually equal to interest plus service costs) in order to obtain instant cash from a specialised institution (factor) under the idea of factoring, a kind of supplier financing. Three key characteristics of factoring are as follows: (i) it only involves financing accounts receivable; (ii) the underlying asset is sold to the factor at a discount instead of being collateralised; and (iii) it consists of a combination of three financial services: financing, credit, and collections. Because cash is generated instantly rather than waiting for buyers to submit their payments, CMSMEs usually choose to factor their receivable assets for a favourable cash flow condition. This is especially helpful because two of the largest obstacles that the CMSMEs encounter when running their businesses are funding and steady cash flow.

Financial leases are an additional choice. For the CMSMEs to launch and run their enterprises, they require funding sources other than bank loans. One of these approaches, known as financial leasing, is a three-way contract in which the lessor purchases the asset from the supplier at the lessee's request and leases it to the lessee for a defined amount of time in return for leasing payments. The cost of the leased asset may or may not be amortised by the leasing payments. As a result, financial leasing gives a company access to medium- and long-term financing for the acquisition of the equipment and other assets required to run the business. In exchange for regular payments, the lessor—a bank, leasing business, or non-bank financial institution—buys the equipment the lessee requires from a supplier and grants the lessee use of it. The asset is still owned by the lessor, who may either give the lessee ownership of the leased asset at the conclusion of the lease or the parties may decide that the item should be restored to the lessor. Using insolvency procedures to increase access to financing is an additional option. The shortcomings of conventional insolvency legislation can be addressed by creating a number of CMSME-friendly insolvency procedures. For instance, out-of-court settlements are quicker and less formal than official insolvency processes, and they may involve little or no judicial involvement. Similar to this, financial difficulty can be addressed prior to insolvency through pre-insolvency procedures. Last but not the least, debtors with few creditors and little money might benefit from specialised bankruptcy procedures, which frequently have accelerated deadlines, streamlined regulations, and reduced costs.

Bangladesh Bank may leverage good practices to design and manage CGSs: Banks and NBFIs can progressively gain experience and specialise in lending to the rural CMSME sector after initially being drawn to credit guarantee schemes (CGSs). In order to access more CMSMEs, banks and NBFIs may be incentivised to open more branches in rural regions by collaborating on a guarantee plan. Because of the leverage effect, which permits granting more credit than capital available due to the reduced risk, a CGS also helps banks and NBFIs to grow their portfolio. The scheme's objective, targeting, funding (including private entity involvement), pricing, risk management, regulation, and governance are the six essential components of a successful CGS. All parties involved in the programme must agree on the mission and set specific goals which emphasise that the CGS must: (i) assist CMSMEs with required credit and, to the greatest extent feasible, refrain from lending to businesses that would have been granted credit even in the absence of a guarantee; (ii) concentrate on the economic sectors that require the most assistance; and (iii) be financially sustainable over the long term. Since it offers the last evidence of the scheme's effectiveness, measuring the actual benefits of a CGS is essential. The most crucial factor is financial additionality, which measures how much the programme has actually increased lending to rural CMSMEs. However, programmes can also be assessed based on their financial sustainability and broader economic additionality.

Bangladesh Bank may introduce policy incentives for banks and NBFIs to emerge as specialists in CMSME financing, especially in financing rural women-owned and cluster-based CMSE entrepreneurs: Bangladesh Bank, with support from relevant government agencies, may introduce a programme to encourage the specialisation of banks and NBFIs to serve the CMSME market with special focus on rural women and CMSE entrepreneurs. This will encourage some banks/NBFIs to serve this specific market segment on a commercial and sustained basis. Further, this will serve the aims of the SME Policy 2019 and NFIS (2021-2026) to develop tailored products and services for CMSMEs. In order to ensure that rural entrepreneurs, especially the women and CMSE entrepreneurs, do not remain underserved, Bangladesh Bank may provide incentives to those banks/NBFIs that specialise in lending to or target rural women and CMSE entrepreneurs. Similarly, SOCBs, SBs and non-scheduled banks have significant rural and suburban presence and sector-specific mandates and these institutions could possibly have an advantage in serving the rural CMSME market. Bangladesh Bank and other regulators can facilitate and incentivise financing specialisation of banks, NBFIs and MFIs in line with their interest, vision and capabilities, instead of requiring all banks and NBFIs to fund CMSMEs. Similarly, MRA could support selected MFIs to emerge as champion of CMSE lending. The regulators may also design targeted incentive regimes to support those banks/NBFIs serving CMSEs including women-led CMSEs. Further, to ease the problem of access, Bangladesh Bank may explore the possibility of using the entrepreneurs' national identity card (smart NID) as a temporary trade license (e.g. for an initial three years to access a loan), which would significantly facilitate women entrepreneurs' access to loans from banks and NBFIs.

Bangladesh Bank may adopt a more coordinated approach to CMSME lending to enhance policy coherence: For the purpose, Bangladesh Bank may consider the following steps: (i) SMESPD may employ dedicated staff and financial resources to coordinate with other government agencies (e.g. SMEF) and private sector entities with responsibilities and mandates for CMSME financing and development. The aim will be to improve inter-agency efforts to co-implement a collective CMSME entrepreneurship financing, development and competitiveness agenda. Specifically, this may involve developing a shared CMSME national strategic vision in line with relevant national policies; (ii) may actively incentivise the rural CMSMEs to become digitally integrated and digitalise their financial transactions. Digital transformation will bring operational efficiency to financial service providers, thereby reduce cost of funds for rural CMSMEs, enable Bangladesh Bank and other regulators to undertake real-time data monitoring of its programmes and adopt data-driven evidence-based policy

decisions, and improve transparency and good governance of CMSMEs; (iii) may adopt a programme to build a business case for serving the rural CMSME market and encourage banks and NBFIs to serve the market, in particular rural women, youth and CMSE entrepreneurs. The initial focus may be given on banks/NBFIs that have the willingness and potential to become specialists in CMSME financing. The strategic thrust would be to facilitate the uptake of new tailored products for rural women, youth and CMSE entrepreneurs. Bangladesh Bank may share good practices from across developing countries to build the business case for banks/NBFIs to specialise in serving rural women, youth and CMSE entrepreneurs; (iv) with support from relevant government agencies, may introduce a programme to encourage the specialisation of banks and NBFIs to serve the CMSME market with special focus on rural women, youth and CMSE entrepreneurs. This will encourage some banks/NBFIs to serve this specific market segment on a commercial and sustained basis. Bangladesh Bank may provide incentives to those banks/NBFIs that specialise in lending to or target rural women, youth and CMSE entrepreneurs. Similarly, SOCBs, SBs and non-scheduled banks have significant rural and suburban presence and sector-specific mandates and these institutions could possibly have an advantage in serving the rural CMSME market; (v) for rural CMSMEs in general and more specifically for rural women and CMSEs, most entrepreneurs are not ‘finance-ready’ for banks/NBFIs and require BDS on business registration, taxation, trade licenses, financial record keeping, business plan development as well as on awareness raising on equity investments and other financing options. Along with technical knowledge, they need mentoring on different aspects of business model such as revenue management, product distribution, legal matters (e.g. handling non-payments, contract breaches) and sales and marketing. As such, they need support on financial literacy of entrepreneurs. There is scope to build IT enabled incubation service provision in different geographic regions in Bangladesh in support of providing financial literacy to rural CMSME entrepreneurs and address rural women and CMSE entrepreneurs’ gender and business sector specific needs and constraints to CMSE financing and BDS. Incubation or acceleration support can be tailored to specific economic sectors as well.

For the banks/NBFIs and other formal institutions, inclusion of data from MFIs, energy utilities and telecoms in the consumer credit reports can significantly increase the opening of new credit accounts by ‘thin-file’ borrowers like rural population and CMSMEs—that is, borrowers with few, if any, credit accounts but whose credit reports include these data: By offering small loans to rural residents and CMSME owners, particularly CMEs, the MFIs contribute to closing the credit gap. These microcredit and microenterprise loans can grow over time depending on good repayment habits and include collateral substitutes (such trust and group guarantees). Low-income groups and CMEs, which are usually small, labour-intensive and expanding, benefit from microfinance. The MFIs encourage women and the impoverished to engage in productive self-employment by offering loans for the acquisition of capital inputs. More precisely, loan programmes offered by women's microfinance initiatives enable women to establish profitable businesses that raise living standards of household members. In a similar vein, utility companies, who demand that their clients sign a contract and then bill them based on their service usage at the end of each month, could conceivably provide entrepreneurs limitless credit. Entrepreneurs from rural CMSMEs, particularly those from CMEs, face a disadvantage when trying to build credit histories with traditional lenders (banks and NBFIs, for example). Specifically, the telecom industry is typical where young people (ages 20 to 35) and rural women first access the credit market. Banks and NBFIs find it easier to offer loans when they get information from MFIs, utility and mobile companies.

The possibility of imposing mandatory lending quotas for banks/NBFIs to lend to the rural sector may be explored as a component of rural finance policy: As a part of rural finance policy, Bangladesh Bank may devise a policy under which mandatory lending quotas will be imposed on

banks/NBFIs to channel resources to the rural finance sector. For example, two-thirds of demand deposits might go to MFIs, whereas a specific percentage (for example, 60–70 per cent) of rural saving deposits and 30–40 per cent of overall demand deposits might go to rural lending. Financial compensation/penalties may be imposed on banks and NBFIs that fail to reach their rural lending quotas.

Box 3.2: International experience on mandatory lending quotas and interest rate caps

Mandatory lending quotas and interest rate ceilings have produced varying results in other countries. Although mandatory credit quotas have been shown to be successful in directing credit into particular industries, they may not help the poorest groups (for example, by failing to target them) and may make credit more expensive. In 2009, just 14 per cent of India's marginal farmers had access to institutional financing, with the majority of them depending on moneylenders. Similar to this, research done in Bolivia reveals that in order to reach the allocation target to productive sectors three years after the credit quota law was approved, banking institutions have expanded larger-size loans rather than micro and SMEs loans.

Mandatory quotas may raise the cost of loan access for both targeted and non-targeted groups, in addition to the targeting challenge. Financial institutions may incur costs as a direct result of mandatory lending (having to target a less profitable market than others) or indirectly (having to penalise noncompliant financial institutions). These extra expenses could be passed on to the clients in the shape of higher fees or interest rates.

Additionally, worldwide history shows that banks have frequently seen worsening asset quality in priority industries as they rapidly increased loans to meet quotas, despite good policy objectives. This is especially true when lenders are inexperienced and unable to evaluate risks in priority industries.

Although the idea behind interest rate caps is to give underserved areas more access to borrowing at reasonable rates, these caps frequently make funding less available to the targeted segments. Interest rate limitations may in fact encourage lenders to increase their inefficiency, particularly in countries with little financial institution competition. Experience from around the world shows that lowering interest rate caps is typically linked to more credit being extended to higher-cost customers, including farmers, micro and small businesses, and marginal customers.

In terms of priority, a strong case exists for linking policy support to an enterprise's growth orientation and performance and giving high priority to growth oriented rural enterprises that are seeking either to break into foreign markets or increase their foreign sales: The consumer markets will become more fragmented and differentiated in the coming years due to rising earnings and the rapid growth of the middle class, which will be reflected in shifting consumer demand patterns. This will create new economic prospects for micro, small, and cottage businesses in rural areas (CMSEs). Since most rural CMSEs develop in the first few years after starting up and subsequently stabilise, it is generally believed that younger businesses tend to produce more jobs than older ones. In a similar vein, the smallest new businesses typically expand more quickly than the others. Therefore, concentrating on businesses with the biggest development potential is the best strategy to create jobs in rural areas over the long run. The education levels of CMSE owners are a plus; around 86 per cent of enterprise heads have received higher education in Bangladesh. Education tends to impact management behaviour, including a stronger propensity to employ technology in managing and developing the organisation, even while it is not a guarantee of economic success. They are better able to pinpoint management weaknesses, especially in sales and management, and improve the enterprise's managerial capabilities.

The competitiveness of rural CMSEs in the country may undoubtedly be raised by having access to an efficient system of management training and business support. In this context, the relative importance of policies aimed at promoting and supporting the growth of existing businesses and increasing the rate of new business start-up and survival of young enterprises is likely to vary, first based on the overall policy objectives and second, due to regional differences in the strengths and weaknesses of local economies. However, at the national level, a targeted strategy would be justified due to resource scarcity and the disparities in the proportional development contributions of rural CMSEs. There is

compelling evidence to link policy support to an organisation's growth orientation and performance, given the high correlation between employment growth and sales growth. Furthermore, there is a compelling argument for giving growth-oriented rural businesses who aim to expand their international sales or break into overseas markets top priority.

Diversification of the rural financial infrastructure is needed to cater to the varying financial needs of the diverse groups of rural populations and enterprises: Different kinds of financial institutions and specialized approaches are required in rural areas. Institutions must also be customized to meet the unique needs of their clientele as well as the possibilities of the area and cultural milieu. Home-based agriculture and low-return enterprises are more common in marginal and depressed areas (such as coastal belts, char areas, and haor regions). Small cooperatives or unofficial organizations that prioritize savings and run at low costs might be the best entrance points in these areas. Large financial cooperatives and commercial bank branches with individual or group technologies may be more suitable in high-potential areas with high-return agriculture, lucrative rural microenterprise activities, and credit-oriented MFIs/banks along with the necessary professional business development/management services and technical support facilities (which may be privately or community-owned).

Thus Bangladesh Bank needs to promote variety and competition rather than replicate any single model at all rural locations depending on specific situations. This may include: (i) local financial institutions (e.g. local cooperatives/informal/self-help groups) including financial grassroots organisations; (ii) mainstreaming savings and credit cooperatives; (iii) supporting networking and apexing among MFIs; (iv) establishing formal cooperatives and their apex organisations; (v) transforming credit programmes into user-owned institutions; (vi) linking banks with MFIs and cooperative groups; (vii) promoting government sponsored/commercially-operated apex organisations for refinancing MFIs along with performing additional functions e.g. liquidity exchange, credit rating, credit guarantees and reinsurance; (viii) supporting traders, processors and suppliers' credit and promoting their access to refinancing institutions ; (ix) promoting institutional innovations, such as (micro-) leasing companies; and (x) strengthening microfinance supervisory and monitoring capacity of MRA.

For the purpose, grant support may be required for social intermediation through training, capacity- and institution building, and for action research to test innovative approaches and disseminate the results. Several such areas at the rural grassroots level may be identified such as upgrading and mainstreaming local financial institutions; networking among MFIs and establishing apex services; linking banks with local financial institutions such as MFIs and local cooperatives/self-help groups; and promoting microentrepreneurs as a newly emerging market segment.

Regulators need to work within a coordinated framework towards promoting innovations in rural finance delivery mechanisms/channels: Financial services can be made accessible even in remote locations with lower transaction costs and less risk by implementing innovations in delivery methods or channels. Among the innovations are: (a) programmes that connect formal and informal financial intermediaries, or the use of grassroots organisations as a direct line of communication with the impoverished; (b) large banks' wholesale lending strategy; and (c) the use of information and communications technology (ICT), such as digital and MFS.

Linking formal financial intermediaries with informal institutions enables banks to increase their outreach at a lower cost. While the banks provide the funds for lending, the informal organisations are responsible for organising the rural borrowers/clients, monitoring their progress, disciplining the members especially on the use of credit and loan repayment and in promoting savings and other non-credit financial services of the bank; providing training and technical assistance on business or

enterprise development; and linking the borrowers/clients to viable markets in the supply chain. The replication of good examples such as banks linking with MFIs to serve rural individuals and microenterprises can enable to reach larger numbers of poor clients.

By offering wholesale loans to MFIs or other organisations, banks serve the retail segment of the credit markets, which entails lending directly to consumers or businesses. In this instance, wholesaling encompasses not just the supply of capital but also additional support services meant to assist retail organisations, such as cooperatives, in becoming sustainable financial intermediaries. In addition to managing and lending money, support services provide possibilities for capacity growth that let retail financial institutions mobilise deposits. The benefit of the wholesale-retail lending approach is that the banks that route the loan money through qualified retail conduits or channels do not provide the end-borrowers with their loans directly. The drawback is that the extra layer this lending structure creates—that is, retail lending to end-borrowers following a wholesale loan—may result in interest rates for end-borrowers that are higher than what would have been charged if there had only been one lender.

Banks and MFIs are using information and communication technology (ICT) more intensively to improve their business processes (such as loan monitoring and evaluation) and to connect with customers. For instance, mobile and agent banking has emerged as a way to more effectively and economically serve a huge number of potentially bankable but unbanked consumers, particularly those in remote and difficult-to-reach places. Serving all income levels, including those with low incomes, the mobile phone business offers tremendous opportunity for the integration of mobile technology, electronic money, and conventional brick and mortar networks, as well as for the development of strategic alliances between banks and non-banks. To assess the risks of lending to low-income, independent contractors, computerised credit-scoring algorithms are being tried. Rapid financial inclusion of the underserved and excluded rural communities and businesses would be facilitated by broader replication of these and other contemporary technologies.

Innovations in new methodologies/approaches are needed to be targeted for promotion by the regulators: Value chain financing may prove to be a successful strategy for risk mitigation, lowering lending costs to the agricultural industry, and eventually attracting institutional funding. The term ‘value chain’ refers to a sequence of actions that enhance a final product, starting with production and continuing through processing or further development, and concluding with marketing and sale to the customer or end-user. Value chain finance, which may or may not involve assistance from formal financial institutions, is the term used to describe the flow of credit or other financial services through participants along these chains. By guaranteeing a market for the produce, the value chain lowers commercial risk and makes it simpler for chain participants to secure bank and other formal funding. Since it may help small- to medium-sized farmers, merchants, and processors along the chain maximise financial investment, resource allocation, and capacity expansion, effective value chain financing is essential to the agricultural industry. Trade finance, contract farming and out-grower schemes, and warehouse receipts are the three most popular value chain financing solutions. Buyers and sellers of inputs and goods exchange short-term or seasonal loans (or advances) as part of trade finance, which is usually offered in commodity value chains. Typically, loans are given based on personal connections that have been made. Loans for out-grower programmes and contract farming are linked to purchase agreements. The buyer and sellers have a more official or captive relationship, with the buyer committing to supply additional services such as technical support and technology. On the other hand, non-perishable commodity depositors receive warehouse receipts for keeping their goods in safe, secure warehouses, which enables banks to use the deposited inventory as collateral. Farmers and dealers who deposit their grain supply can obtain warehouse receipts from reputable warehouse operators, who can then apply for loans from the bank.

Regulators need to target product innovations for effectively meeting rural finance needs of the consumers and CMSMEs: Bangladesh's rural financial institutions, especially microfinance ones, have experimented with and adopted a number of novel products in recent years. These consist of microinsurance products, housing microfinance loans, and micro-agricultural loans. Loans for small or marginal farming households' agricultural endeavours are known as micro-agriculture loans. The MFIs often permit a one-time payment in addition to smaller, recurring installments from revenue earned from non-farm sources. Small and marginal farmers may not need collateral and only need to complete basic paperwork. Micro-loans for agriculture are not the same as conventional and standard bank loans for agriculture, which need collateral (generally agricultural land) and payments are typically made after harvest. Existing microfinance clients as well as additional low-income and impoverished households who are unable to obtain traditional housing finance for home building, renovation, or acquisition are given credit through housing microfinance loans. This innovative loan product is thought to be a means of improving the living conditions of low-income households and the impoverished, which in turn improves their quality of life, productivity, and health status. The justification is that low-income clients have a high demand for small loans for incremental housing repair, but this demand has not been met because banks typically offer loans for the purchase of an existing housing unit or for the purchase of a residential plot and the construction of a house.

Many MFIs have expanded their portfolios to include microinsurance due to the perceived need for social safety among low-income households. Every time a disaster strikes, such as the death of the primary provider, floods or droughts, crippling illnesses that prevent family members from earning a living, and other calamities, rural households are all too frequently thrust into a crisis and further into debt and poverty. The majority of MFIs include two microinsurance products in their microcredit packages: (a) health insurance, which helps the impoverished deal with crippling illnesses, improves health in low-income households, and lowers mortality; and (b) life insurance, which lessens the financial shock caused by the death of a household's primary provider. Repayment of outstanding debts becomes a challenge for households when the primary breadwinner passes away or suffers from a crippling illness. The range of rural financial products could be enhanced by these and related developments to better serve the diverse demands of rural businesses and residents.

Ensuring access to risk management and insurance services is a priority in rural finance: The lives of farmers are fraught with dangers, particularly in Bangladesh's vastly predominately small and marginal farms. However, in the past, risk management has only been a small part of pertinent policies, and there have been few attempts to create a procedure for managing agricultural risks that would identify the main hazards and their effects on Bangladeshi farmers' lives. Five broad categories can be used to group the risks that farmers face: production, financial, marketing, institutional, and human. All of these hazards have long-lasting, detrimental effects on farmers' lives. With regard to production risk management tools like insurance and income compensation plans, Bangladesh's smallholder farming system's production risks in particular merit careful consideration.

IDRA/insurance sector needs to explicitly approach inclusive insurance for the farmers and nonfarm populations at the bottom of the pyramid in the rural areas: The farmers in Bangladesh including small and marginal farmers lack access to affordable, quality insurance; and their farms are often too small and too remote for insurance companies to visit fields and economically verify damages. Therefore, alternative insurance options that do not require insurance companies to visit customers in person to check damage can offer potentially effective solutions for which technology can be used. For example, without depending on in-person inspections by insurance agents, damage at the plot level can be identified and loss verification costs can be reduced by using observable crop features shown in farmers' smartphone photos of their crops. In a similar vein, index-based flood insurance (IBFI) can compute flood losses and validate claims by combining satellite imagery,

mathematical modeling, and field water-level data. This eliminates the need for expensive field visits and keeps premiums reasonable.

For many farmers, weather index insurance products as they currently exist seem to carry significant risk, and they do not seem to be very interested in them. If weather index insurance is to be successful, better indexes are required; rainfall indexes seem to have correlations with farm yields of less than 50 per cent, while indexes with less than (say) 90 per cent correlation with crop yields are unlikely to reliably deliver indemnities commensurate with farmers' crop losses. Furthermore, very low cost delivery methods must be created (maybe by bundling the insurance with other services) or expenses must be subsidised by an organisation (such as the government), even if indexes are strongly connected with crop losses. Furthermore, more incentives would need to be offered to encourage greater involvement. Making the purchase of weather index products (or any other type of agricultural insurance) mandatory could be another way for an agricultural insurance scheme to address the scalability issue. It must be determined whether the advantages can balance the disadvantages for the vast majority of farmers in order to guarantee long-term sustainability.

The important thing is to understand that crop insurance is a component of 'social safety nets', which are designed to address social exclusion, vulnerability, and dangers. They assist vulnerable households in preventing harmful coping mechanisms and asset depletion, maintaining an appropriate level of food consumption, enhancing food security, and safeguarding themselves against livelihood threats. Additionally, they can increase demand for farm products, ease the financial burden on small farmers, encourage innovative and revenue-generating practices, and have a multiplier effect on the rural sector as a whole. Bangladesh's inclusive insurance strategy needs to integrate the ideas of social safety nets and insurance, taking into consideration both the general significance of insurance for development and the restricted availability of insurance products for low-income households and farmers. Therefore, inclusive insurance must use a variety of strategies to provide suitable and reasonably priced insurance products to rural communities that are unserved, underserved, vulnerable, having low-incomes.

IDRA/insurance sector could adopt a plan to develop targeted insurance products/services for CMSMEs especially keeping in view the characteristics of rural CMSMEs: Due to their ability to create jobs, innovate, play a significant role in the supply chains of larger businesses, and contribute significantly to GDP, rural CMSMEs are an essential part of Bangladesh's rural economy. Although rural CMSMEs require insurance coverage, which necessitates insurance products that are unlikely to be provided under the country's existing insurance regulations, there has not been any notable progress achieved in this area thus far. Access to insurance will be crucial for rural CMSME enterprises to reduce risks by managing risks related to irregular and unpredictable revenue, accumulating assets, smoothing consumption, and absorbing shocks. However, small entrepreneurs are largely unable to access traditional insurance services. Along with promoting proper risk management which will reduce the likelihood that risks will materialise and, if it does, insurance will reduce or eliminate the financial impact. Insurance can make CMSMEs resilient to shocks, making them more financially sound. The key will be to enact tailor-made regulation on insurance products that specifically target CMSMEs that will contribute to increased uptake. For successful uptake of CMSME insurance, products offered should add value and be affordable to targeted CMSMEs. The creation of a dedicated fund to offer financial support for uninsurable risks may increase the value of insurance and improve the resilience of the CMSME sector, as rural CMSMEs are naturally exposed to a wide range of risks, many of which are commercially uninsurable.

A time bound plan may be adopted by IDRA towards developing the policy framework for microinsurance keeping provision of using MFI linkage to reaching the rural beneficiaries:

Microinsurance has been designed especially in recent years to safeguard low-income individuals by providing them with reasonably priced insurance solutions to assist them deal with and recover from financial losses. The MFIs typically engage in microinsurance for a number of reasons, such as providing insurance to the impoverished and to guarantee that informal economy workers and their families have access to a suitable range of reasonably priced social protection, risk mitigation, and coping strategies. One important component of the successful and efficient delivery of microinsurance services is a well-designed regulatory environment. Regulation can be crucial in encouraging more comprehensive and smart microinsurance services. The development of a framework that would delineate the government's policy thrusts and direction for the establishment of a regulatory environment and policy that will promote, enhance, and facilitate the safe and sound provision of microinsurance products and services by the relevant institutions is necessary in order to operationalise the provision of microinsurance. Additionally, it ought to establish and advocate for a system that will safeguard the rights and benefits of individuals covered by insurance. Enhancing confidence in the insurance sector and other institutions that offer microinsurance and related products would be necessary.

IDRA/concerned stakeholders need to implement measures to introduce bancassurance to diversify service opportunities especially to the rural consumers: The "bancassurance" arrangement, which permits a bank to sell its products to the bank's clientele, is one practical arrangement. Both parties may benefit from this collaboration structure. Selling insurance products helps banks make more money, and insurance companies grow their clientele without hiring more sales people. The convenience of purchasing insurance at the bank is one benefit of bancassurance from the perspective of the customer, particularly in rural areas where there are few insurance brokers. By allowing banks to offer insurance products, this innovation has the potential to drastically alter the financial services industry and usher in a new era in which the traditional lines separating banking and insurance services are blurred, opening the door for a more customer-focused and integrated approach to financial transactions.

The approval of Bancassurance by Bangladeshi regulators has enabled banks to provide insurance products by utilising their existing infrastructure and clientele. It can also help with important issues facing the insurance industry, such as increasing financial literacy, fostering consumer trust, and making insurance more affordable. Bancassurance may greatly increase insurance penetration in the country by utilising the credibility and reach of banks, particularly in neglected and rural areas. More specialised insurance products will probably be released to supplement current banking services since bancassurance has already been implemented. A greater range of client needs may be met by more comprehensive financial solutions as a result of this collaboration. By bringing more people into the purview of formal financial services, bancassurance may play a major role in promoting financial inclusion. In addition to helping people; this inclusivity is essential for Bangladesh's overall economic development. A similar collaborative model between insurance companies and MFIs may also be explored.

IDRA may undertake measures to introduce innovative insurance products/services e.g. health, disaster, crop, livestock, fisheries and other production losses, and in other areas as per needs of various groups of low income and marginal rural people and leverage digital solutions to reach poor and underprivileged rural populations with insurance products/services: Insurance companies can access new markets and customer segments that will yield substantial benefits for the insurance industry by offering suitable, accessible, fair, and equitable (SAFE) insurance products and services to low-income and marginalised individuals and families, particularly in rural areas.

Nevertheless, there are difficulties in putting an inclusive insurance plan into practice. Insurance companies must attain substantial size in order to turn a profit from these low-margin products. Moreover, there are problems with inadequate connectivity, high cost of digital devices and data, and the distribution of insurance solutions. Higher financial literacy is also required for this group. In order to overcome these obstacles, insurers must form private-public partnerships, introduce innovative SAFE insurance products and services tailored to this market, and take comparable actions. Insurance companies can take advantage of the specific opportunity to advance social justice and financial inclusion while simultaneously expanding the insurance market by providing insurance products and services that cater to the requirements of low-income and marginalised communities, particularly in rural areas.

Digital solutions can be leveraged to reach poor low income rural populations and rural enterprises with insurance products. One major constraint in this context arises from the significant digital divide that exists between urban and rural areas. Rural populations often face challenges such as limited physical access to insurance products/services, lack of awareness about available products, and lower financial literacy. Digital solutions, including mobile applications and online platforms, present an opportunity to bridge these gaps and extend insurance services to remote areas. However, effective integration of digital solutions into the insurance landscape requires an understanding of the rural context. Issues such as limited internet connectivity, low digital literacy, and the need for user-friendly interfaces need to be addressed. The need is to explore innovative ways in which technology can be harnessed to overcome these challenges, making insurance services more accessible, affordable, and user-friendly for rural populations. By understanding the potential role of digital solutions, policymakers and insurers can develop strategies that align with the specific needs and capabilities of these rural communities, ultimately fostering greater financial inclusion.

However, the growing significance of risks associated with climate change necessitates promoting the availability of well-designed insurance and risk management tools in Bangladesh. The spread of commercial agriculture insurance may be encouraged by the provision of insurance premium subsidies; however, the distribution of the subsidies, pricing and payout policies, and resource predictability are all severely constrained. Furthermore, the design of policies that manage agricultural risks—particularly production risk—can be severely constrained by the state of the market. As a result, risk management programmes will need to overcome significant obstacles that could prevent the adoption of an all-encompassing risk management and economical risk financing strategy. Measures to reduce risks, like investments in drainage and irrigation, logistical infrastructure, diversification, and the promotion of the availability of well-designed risk transfer instruments (such as agricultural insurance products) and other risk financing instruments that can give access to finance required to cover the losses brought on by a disaster, also require more attention.

For designing effective financing solutions, concerned agencies (e.g. SME Foundation) need to compile regular statistics and conduct applied research on the state and health of the CMSME sector: Working with the national statistical organisation (Bangladesh Bureau of Statistics, or BBS) to regularly gather statistics on the health and condition of the CMSME sector is one crucial component. Additionally, applied research on important CMSME issues would need to be conducted or commissioned. coordinate and monitor regulatory reforms affecting CMSME competitiveness and implement ‘good regulation’ principles, develop guidelines on CMSME promotion programme design, implementation and monitoring for national stakeholders, including those at the local level, facilitate CMSME support programmes by providing financial and technical assistance to local stakeholders including business membership organisations, coordinate CMSME related interventions of the line ministries and regulatory agencies, execute and oversee national and local programmes to

serve as a repository for information about CMSME initiatives and national policy developments, as well as to organise support from development partners. In the public sector, these roles are clearly those of a ‘CMSME advocate’ for an enabling environment and a ‘facilitator’ for CMSME promotion (e.g., membership organisation capacity building programme, technology upgrading programme, etc.).

For ensuring effective rural CMSME financing, initiatives are needed to develop functioning BDS markets: To benefit from trade and investment opportunities and the global trading system, CMSMEs will need to be able to react to market signals fast and effectively. BDS, among other things, assist CMSMEs in putting competitive business practices and plans into action. Training, consulting and advising services, marketing support, information technology creation and transfer, and business linkage promotion are just a few of the many services that are included in the BDS. Given the shortcomings of public BDS provision, a market-based approach might be the best course of action. Traditional programmes have been supply-driven, have pushed out potential private sector BDS providers with free or subsidised services, have had limited outreach, and have been of low quality because of institutional limitations. The long-term goal for BDS must be a thriving market with a wide range of excellent services that reasonably address the demands of rural CMSMEs. The public sector need not be completely excluded from its duties; instead, the strategy would focus on limiting its interventions to the development of private sector BDS markets as ‘financiers’ of BDS suppliers (which could be either public or private) and BDS facilitators (which can be either private or public as well). Sub-sector and BDS market studies, which evaluate the needs of rural CMSMEs, future demand for specific BDS, and the current state of the BDS market, are among the primary operational characteristics of the BDS market-development method. As such, the strategy needs to create commercial BDS that are more pertinent, effective, and of the required quality and relevance. When necessary, the strategy would incorporate both supply-side and demand-side measures. Local BDS market development may be spearheaded by the SME Foundation.

Medium term issues

Important drawbacks of the medium-term interest rate subsidisation in agriculture include the following: (i) it only benefits farmers who borrow from participating institutions; (ii) it gives larger volume of subsidies to large farms; and (iii) it only addresses the cost of borrowing and ignores other barriers that marginal and small farmers must overcome in order to boost their income and productivity. Assigning a portion of the funds allotted for loan subsidies to technical support and small grants for investments that spur higher incomes is one method to address these problems. Similar to this, it may explore the feasibility of developing matching grant programmes that make it easier for small farmers to acquire small investment grants that can be scaled up as well as technical help through market processes. Furthermore, such tools could be designed to support the transition to non-agricultural activities as well as to increase agricultural productivity, since the commercialisation and diversification of agriculture may cause many marginal or small farmers to leave agricultural activities due to the unfeasibility of small-scale operations.

Medium term focus needs to be on creating an enabling policy and regulatory environment and providing necessary support services to the rural areas in order to attract productive investments in rural economy: These need to include infrastructure such as farm to market roads, refrigerated transport facilities, irrigation, storage and post-harvest facilities; research and development; training and extension; as well as supply chain and marketing linkages. These will lower transaction costs, mitigate risks, facilitate the flow of finance along the supply chain and ultimately, increase value-added.

In addition to developing more suitable regulatory and supervisory approaches for financial institutions and MFIs, such as risk-based supervision and corporate governance, Bangladesh Bank and other regulators need to move to construct the essential financial infrastructure, such as credit bureaus and liquidity facilities.

Simultaneously, it is necessary for policymakers to shift their attention from merely granting credit to offering more comprehensive and sustainable financial services to MFIs and banks/NBFIs that provide rural financial services. A stronger focus on achieving a sustainable capital base, enhancing cost recovery, and offering effective and responsive financial services might be made. The MFIs and financial institutions need to be encouraged to create financial services and solutions that cater to the needs and preferences of their customers while always staying within the prudential bounds set by regulators. Building a solid database of rural families and businesses that are underserved or excluded from the formal financial system is one particular task that will need help. This is a crucial first step in creating client-responsive financial services and products.

Long-term market distortion results from the existing policies that encourage lending to medium- and large-scale farmers, who benefit from targeted and subsidised lending quotas as well as interest rate subsidies. In the medium run, these distortions can appear more and more illogical as these farms have access to alternative funding sources. Therefore, it would be more reasonable to decrease public assistance for this group and allocate the extra funds that are available to small and marginal farmers as well as the funding of initiatives that blatantly aid in the acquisition of public goods (such as low carbon agriculture).

Warehouse receipts and futures markets: When carrying out agricultural activities, Bangladeshi farmers—small farmers in particular—face a variety of uncontrollable pressures. Uncertainties in the weather, such as droughts and floods, reduce their expected output, while shifts in the price of products or inputs either raise or lower their expected income. To control such risks, these farmers typically employ on-farm actions like commodity diversification. Farmers who have been impacted by disasters frequently turn to government aid to help them partially recover from their losses. In the future, efforts are needed to provide farmers with access to market mechanisms including marketing contracts to guard against price swings and agricultural derivatives, such as future and options contracts. Before harvest, these instruments can assist in ensuring that producers receive a predetermined price. Farmers use these contracts and derivatives as part of a larger risk management plan. Risk management techniques can differ in several important areas, such as upfront expenses, contract terms' flexibility, the possibility of another party defaulting, and the simplicity of contract termination. Future contracts are one mechanism that producers can employ to control price risk. An agreement to purchase or sell an asset or commodity at a fixed price on a given future date is known as a future contract. Future contracts are standardised by quantity, delivery date, and location and are exchanged on organised markets. Major agricultural commodities are frequently the subject of organised future trading, where traders can choose to employ future trading as a means of protecting themselves against commodity price risks.

The future market is a crucial institution for Bangladesh's market-driven economy in the current globalised world, particularly for agriculture, as trade liberalisation has caused domestic agricultural commodity prices to become more in line with international prices, which in turn has increased the volatility of these commodities' prices in domestic markets. In these circumstances, farmers must consider future prices when allocating their resources rather than past ones. Because it promotes price discovery and lowers price volatility, this emphasises the significance of future markets. The spot market for agricultural commodities is strengthened and information flow between future and spot markets is facilitated by the future market's smooth operation. Future trading in agricultural

commodities plays a significant role in risk management in addition to the information flow from future to the spot market.

Hedging is a risk management tool, and its future appeal is contingent upon the commodity's base risk. Price risk is the volatility of the commodity's spot prices, whereas basis risk is the variance of the observed difference between the commodity's spot and future prices. If the basis risk is lower than the price risk, hedging can be a useful tool for risk management (by those who own physical inventories of the commodity). Though the potential of hedging differs per commodity, the future market is generally a useful instrument to assist farmers in managing price risk through hedging.

Future trading in agricultural commodities is sometimes prohibited in countries like Bangladesh due to concerns about speculation, which could impact the development of the future market for these goods. Another significant factor contributing to the low involvement of farmers and other stakeholders in these markets is the unpredictability of the future market. In agriculture, the future market may be launched initially for a small number of commodities in order to lessen this uncertainty. Over time, the future market may become a crucial tool for price discovery. Without any help from the government, farmers and other stakeholders might use the price in the future market as a signal for how much land to allocate.

Future market performance is probably going to be better for agricultural commodities that are significant for external commerce, have less government intervention, and provide as raw materials for additional processing. To become a significant instrument for Bangladesh's future price policy, the market for certain agricultural commodities must be developed.

In-depth studies on evaluating future agricultural commodity trade based on high-quality data are necessary to strengthen future agricultural commodity trade. Future pricing transparency is crucial to its dependability. By informing farmers about the various advantages of the future market, farmers' involvement in it can be increased. The development of favourable institutional frameworks that would connect spot markets and, eventually, future commodity markets, as well as the construction of infrastructural facilities such as warehouses and storage facilities, may boost future participation.

In the future markets, a warehouse receipt is a form of documentation that ensures the quantity and quality of a certain commodity stored in an authorised facility. Because they provide evidence that the item is at the warehouse and that the appropriate paperwork has been checked, warehouse receipts are crucial. Additionally, warehouse receipts are used to confirm the quality of pledged or collateralised merchandise during the warehouse financing process. To be traded as a future contract, commodities must fulfill certain quality standards, and warehouse receipts help to confirm that these requirements have been fulfilled.

Therefore, the operational business processing associated with future contracts for physical delivery includes warehouse receipts. A future contract, as previously mentioned, is an agreement to purchase or sell a good or asset at a fixed price on a future date. Because their value is based on the price of the underlying security or commodity, futures are considered derivatives. Because future contracts are standardised, they have a predetermined quantity and are due on specific dates all year round. However, warehouse receipts are important to the inventory and delivery process of the contract's underlying commodity, and futures also have quality requirements that must be fulfilled. There must be a warehouse receipt for the items in order for them to be delivered and fulfill a future contract. Future contracts can occasionally be settled using warehouse receipts rather than the actual delivery of the commodities supporting the contract.

Buyers and sellers utilise futures exchanges to hedge against, or safeguard themselves against, the volatility of commodity prices. The future market can occasionally be used by traders to engage in

speculation and take advantage of arbitrage opportunities. However, commercial traders who want to purchase or sell commodities for physical delivery make up the majority of trades on future exchanges.

Commodity producers are required to adhere to certain crucial protocols that are provided by the tracking of physical inventory. Commodity producers need to be licensed and registered with the relevant authorities before they may write contracts on their commodity inventory. In order to obtain a certificated stock approval, commodity manufacturers must additionally certify their physical inventory through a certification process that includes authentication and inspection. Contracts on inventories in the future market can then be written using certificated stock.

The physical product is kept in a secure location at facilities that have been approved by the exchange. In addition, the warehouse manages the future exchange's inventory and makes sure that all goods sent to it adhere to stringent requirements, such as possessing the required certifications. When a physical commodity is used as collateral for a future contract, warehouse receipts are an operational step that is taken. A warehouse receipt gives the exchange proof that the authorised products are available and prepared for delivery to a customer.

Bangladesh Bank may focus on designing comprehensive coordination and monitoring mechanisms for rural finance: The establishment of an institutional structure with the power to create reform ideas and organise and supervise the necessary measures to carry out the plan is necessary for Bangladesh's rural finance policies and programmes to be redesigned. Strengthening coordination amongst the key agencies involved is crucial for this purpose, including Bangladesh Bank, Ministry of Finance, Ministry of Agriculture, Ministry of Food, Ministry of Fisheries and Livestock, Ministry of Forestry and Environment, Ministry of Local Government Rural Development and Cooperatives, and Ministry of Water Resources. In order to: (i) update the goals of the rural finance policies; (ii) reform the interventions and programmes of the public financial sector; and (iii) create an action plan and communications strategy for the reforms, the coordination team may finalise a proposal in a consultative way. Representatives from public and private financial institutions, farmers' associations, CMSMEs and their associations, NGO-MFIs, fintechs, and other stakeholders—particularly those who would be involved in the implementation of various policies—should be consulted during the preparation of the reforms.

The fact that rural finance occurs at the nexus of financial sector development policies and rural policies must be taken into account when updating the goals of rural finance policies. Financial sector policies seek to ensure the stability and efficiency of the financial sector and its expansion to provide appropriate and efficient services to the poorer and more marginalised segments of the rural population, whereas rural policies primarily seek to increase production and productivity and improve the welfare of farmers and rural CMSME entrepreneurs. Strengthening the private sector's provision of these services is also crucial, particularly in light of the country's rural finance market's current state of growth and the government's financial constraints.

As a key component of the reform programme's planning and execution, Bangladesh Bank may include a long-term system to track the effects of rural finance policies, setting clear, measurable goals that can be met with various tools. These procedures, which are frequently a part of the National Financial Inclusion Strategy (NFIS), would enable programme modifications that would support the implementation of reforms and, more importantly, enable corrective measures to be implemented when programmes require midterm adjustments. Data that backs up rural finance policies also needs to be enhanced. The development of the rural finance market may be aided by the support and improvement of instruments such as agro-climatic zoning.

3.9 Concluding Remarks

No doubt, significant structural transformation has taken place in the rural finance market in Bangladesh since independence in 1971. In recent years, traditional banking and financial services have witnessed significant transformation and technological innovations including digital and MFS, agent banking and other alternatives which have significantly penetrated in the rural areas as well. Other than commercial banks, specialised banks, cooperatives, MFIs and other financial institutions are also active in the rural finance market. In contrast to the earlier years, presently credit from institutional sources is catering to the lion's share of the total credit demand in the rural areas. In this respect, rural Bangladesh now remains largely included in the domain of institutional finance.

But a simplistic view shows the problems of rural finance from the surface alone. In the rural areas, access to finance by the poor, small/marginal farmers and micro/small nonfarm entrepreneurs appears to have largely been treated from a welfare perspective more like a social responsibility, rather than from the perspective of viable business models. Similarly, the motive behind institutional credit has been perceived for production purpose alone, rather than covering a holistic livelihood approach.

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For the future, the key to sustainable development of the rural finance market in Bangladesh is to adopt viable business models of institutional finance in which poverty should be taken as an opportunity to enlarge the boundary of the rural finance market. Product diversification, product/process innovations, capacity-building of both financial institutions and the clients are important areas to be addressed within the purview of rural financial development in the country. The issue of scarcity of capital has to be seen within a broader perspective along with adopting innovative approaches such as private equity capital, foreign capital and other unexplored sources. Within the above framework, transparent and efficient institution-borrower relationships including functioning regulations will bring revolutionary changes in the rural finance sector covering all financial institutions including the MFIs.

Chapter 4

Major Findings of the Rural Finance Survey 2023

4.1 Introduction

Within the framework of the Comprehensive Rural Finance Study (CRFS), a household level Rural Finance Survey (RFS) has been conducted to collect representative primary survey data on the country's rural financial system covering the rural economy of Bangladesh. The collected data covered both financial products and services and other financial dimensions from both formal and informal sources needed for accomplishing the objectives of the study. The primary aim of the survey has been to understand the extent, nature and other aspects of penetration/access of different financial products and services by different household groups in the rural areas of Bangladesh. More specifically, the survey has assessed the extent of access and use pattern of different financial products/services such as savings, credit, payments, insurance, microfinance etc. (both traditional and digital) adopting both quantitative and qualitative perspectives from both formal and informal sectors in the rural economy.

Besides covering economic indicators like sources of livelihood and income, expenditure, savings, asset ownership, indebtedness, investment, and composition and pattern of consumption, including important behavioural dimensions, such as borrowing behaviour, financial literacy/knowledge and socioeconomic attitude/behaviour, access to and nature/extent of use of digital/mobile technologies, experience with MFIs, risks and risk-coping behaviour (such as, crop/business failure, floods and droughts, health and other household shocks etc.), insurance/microinsurance coverage and other risk coping behaviour have been captured in the survey.

The nationwide RFS has collected rural household financial data. For incorporating disaggregated information, the households have further been classified using the intensity of poverty from the BBS Poverty Maps of Bangladesh 2016, where the households have been classified in terms of both poverty statuses (such as extreme poor, moderate poor and non-poor) and locational characteristics of the poverty map (upazilas according to the level of poverty based on the upper poverty line).⁷ The field level data were collected during July-October 2023.

4.2 Access to Financial Services

In Bangladesh, access to financial services for rural households is increasingly being recognised as a vital element towards ensuring socioeconomic empowerment, poverty alleviation, and sustainable and inclusive development. As one of the most densely populated countries of the world with most (68 per cent of the total population of about 170 million according to the population census 2023) of the population living in the rural areas, Bangladesh faces a unique challenge in providing access to finance to the rural population. Financial inclusion—the availability of affordable and accessible financial services such as savings, credit, payments, insurance, mobile banking, and agent banking—holds the potential to transform the lives of the rural households, helping them manage financial risks, invest in their futures, and improve their socioeconomic stability. However, achieving comprehensive financial inclusion in rural Bangladesh is a multifaceted challenge that demands innovative

⁷ For details see BANGLADESH: Report of the Rural Finance Survey 2023, Comprehensive Rural Finance Study, InM, 2025.

approaches and collaboration between the government, financial institutions, and development organisations and, above all, the rural households themselves.

For rural households in Bangladesh, financial inclusion is essential to mitigate the challenges, among others, of seasonality in incomes, vulnerability to natural disasters, and limited economic opportunities in the rural areas. The rural economy in Bangladesh is primarily agrarian, with a significant portion of households depending on small-scale farming and informal income sources. This dependence on agriculture makes rural populations particularly susceptible to economic volatility, climate risks, and income fluctuations. Traditional financial systems have often struggled to provide services to these populations due to geographic isolation, high costs of service delivery, and lack of collateral among rural households. As a result, many rural households remain unbanked or underbanked, relying on informal financial mechanisms that are costly, insecure, and insufficient to meet their needs.

Recent developments, however, indicate a positive trend towards enhanced financial inclusion for rural households in Bangladesh. The introduction and growth of digital and mobile banking, agent banking, and microfinance institutions (MFIs) have begun to reshape the financial landscape, making it more accessible and affordable for rural communities. Supported by initiatives from the government and regulatory bodies such as Bangladesh Bank, these financial services aim to bridge the gap between rural populations and formal financial institutions. This drive for financial inclusion aligns with the Sustainable Development Goals (SDGs), which seek to reduce poverty, promote inclusive economic growth, and enhance financial resilience for all citizens, including those in rural areas.

The key components of financial services include savings, credit, insurance, and payment services. Traditionally, savings, credit, and insurance were viewed as the primary indicators for assessing overall financial inclusion. However, mobile banking and agent banking have now emerged as popular methods for conducting financial transactions. Since mobile banking and agent banking accounts are directly linked to banks, they are considered part of the formal financial sector. As a result, both are included under formal financial services, while mobile banking in its entirety is also counted towards aggregate access to financial services.

4.2.1 Access to Savings/Deposits

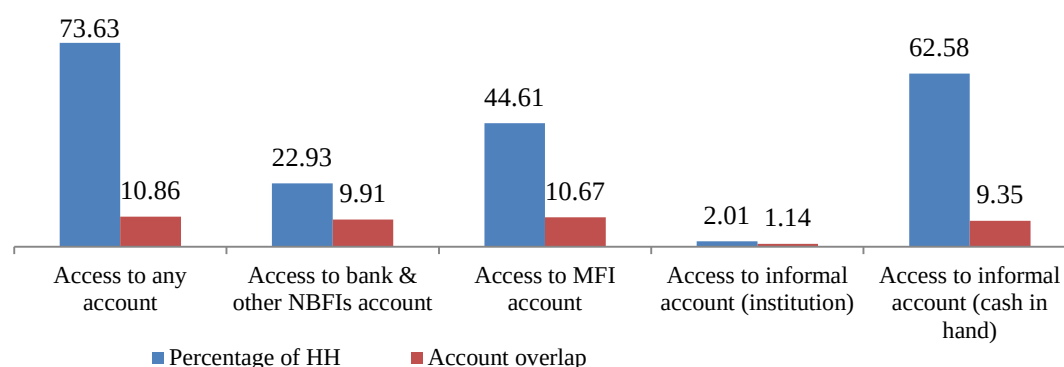
Access to savings is a vital element in promoting economic resilience, stability, and growth among rural households in Bangladesh. For the majority of these households, saving is not merely a financial choice but is a critical means of coping with crisis and uncertainties, planning for the future needs, and striving for upward mobility.

In Bangladesh, rural areas are largely underserved by formal financial institutions, which results in many rural households relying on informal saving methods. These methods, such as saving through informal community groups or investing in physical assets like livestock or gold, though culturally rooted, lack the security and growth potential associated with formal financial systems. Additionally, limited access to banks, formal cooperatives and MFIs constrains the ability of rural households to build a secure financial foundation, hindering long-term economic advancement and poverty reduction efforts.

The need to improve access to savings for rural households is essential for economic development, as it directly impacts financial inclusion, household welfare, and rural economic stability. Access to savings can empower households to manage risks, invest in income-generating activities, and enhance social security.

Access to savings or deposit has been defined in terms of at least one member of the households having deposit account with banks, cooperatives, MFIs or informal savings associations. From the survey (cross-sectional) it is found that majority (73.63 per cent) of the households have access to at least one type of savings account, with 10.86 per cent holding multiple accounts (Figure 4.1). Formal savings through banks and Non-Banking Financial Institutions (NBFIs) are accessed by 22.93 per cent of households, with a 9.91 per cent overlap. Microfinance Institutions (MFIs) provide access to 44.61 per cent of households, with a 10.67 per cent overlap. Savings in informal institutions is minimal (2.01 per cent) with a slight overlap of 1.14 per cent, while informal cash-based savings are notably high at 62.58 per cent, with a 9.35 per cent overlap. The figure underscores the predominance of informal savings (especially cash in hand) and highlights that multiple account ownership is common among rural households.

Figure 4.1: Percentage of households having access to savings



Source: CRFS Rural Finance Survey, 2023

Table 4.1 provides the percentages of rural households across various divisions in Bangladesh with access to different savings markets, including banks, NBFIs, MFIs, informal savings, and cash on hand. Savings held in informal institutions are relatively low, averaging 2.01 per cent, except in Barishal (13.75 per cent). Access to formal bank and NBFIs savings is limited, with a national average of 22.93 per cent, highest in Dhaka (34.4 per cent) and Sylhet (31.87 per cent). MFI access is substantial, averaging 44.61 per cent, and most notable in Barishal (53.75 per cent) and Khulna (53.44 per cent). The proportion of households with only cash on hand is significant, with the highest being in Barishal (86.88 per cent) and Mymensingh (83.75 per cent). Notably, 26.64 per cent of households have no access to any savings mechanisms, with the highest lack of access observed in Rangpur (45.94 per cent) and Sylhet (39.38 per cent). This data highlights significant regional disparities and a strong reliance on informal and cash-based savings methods among rural households in Bangladesh.

Table 4.1: Access to different savings markets by divisions (%)

Division	Access to Any Savings	Access to Savings in Banks and NBFIs	Access to Savings in MFIs	Access to Informal Savings		No Access to Any Savings
				Informal institutions	Cash in hand	
Barishal	89.38	15.63	53.75	13.75	86.88	10.63
Chattogram	69.38	29.79	40.42	0.42	47.71	30.63
Dhaka	73.08	34.4	43.32	1.6	64.53	26.92
Khulna	78.44	19.69	53.44	1.88	57.5	21.56
Mymensingh	86.67	11.67	36.67	3.75	83.75	13.33
Rajshahi	80.6	18.66	50.5	1	74.13	19.4
Rangpur	54.06	8.75	41.56	0.31	47.19	45.94
Sylhet	60.62	31.87	38.13	0	56.25	39.38
Total	73.36	22.93	44.61	2.01	62.58	26.64

Source: CRFS Rural Finance Survey, 2023

It is observed that rural households tend to have greater access to savings in MFIs than in traditional banks, with savings in informal institutions remaining at minimal levels. However, access to various savings markets is influenced by several household characteristics, including occupation, education, and income.

- **Occupation:** Households headed by service or professional workers have the highest access to savings overall (81.97 per cent) and particularly to formal savings (31.97 per cent), while wage earners have the lowest access to formal savings (12.53 per cent) but moderately high access to microfinance savings (51.84 per cent) and informal savings (61.34 per cent).
- **Education:** Access to savings generally increases with the level of education of the household head. Households with heads educated above Higher Secondary Certificate (HSC) level show the highest access to formal savings (53.66 per cent). In contrast, illiterate household heads have the lowest access to savings in formal institutions (16.78 per cent).
- **Income:** Higher-income households show greater access to all types of savings. Households in the highest income quintile have substantial access to formal savings (48.11 per cent) and informal savings (75 per cent), while those in the lowest income quintile have limited access, with only 10.07 per cent accessing formal savings and 48.17 per cent relying on informal savings.
- In summary, access to different types of savings in Bangladesh is influenced by the household head's occupation, education, and income level, with higher education and income levels correlating with better access to formal and diversified savings options.

4.2.2 Reasons for Opening Deposit Account

Primary reasons for motivating rural households to open bank accounts include securing a safe place for savings (31 per cent), which reflects a need for financial security, and facilitating the receipt of wages, pensions, or other welfare payments, showing the role of accounts in efficient funds management. Additionally, many open accounts to access loans or credit (15 per cent), indicating that formal banking is a gateway to financial resources. Other notable reasons include transaction convenience (24 per cent), close to home (27 per cent), and for opening FDR (18 per cent),

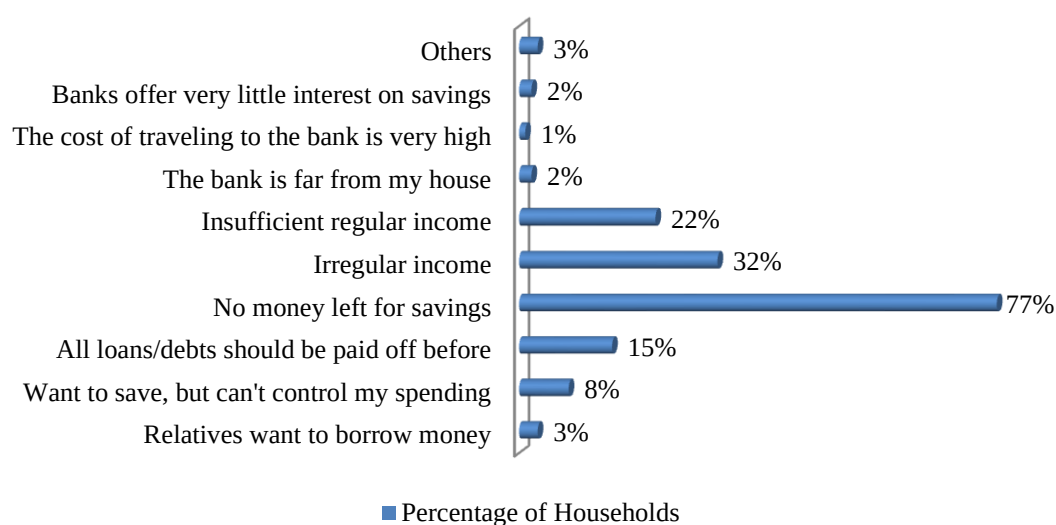
underscoring practical and mandatory factors influencing bank account ownership among rural populations.

4.2.3 Barriers to Save in a Formal Financial Institution

Despite the well-documented benefits of savings, rural households in Bangladesh often face significant barriers in accessing formal savings mechanisms. Factors such as geographical isolation, low literacy rates, limited financial literacy, irregular income patterns, and a strong reliance on informal saving practices contribute to these challenges.

Figure 4.2 shows various barriers that prevent rural households in Bangladesh from saving in formal financial institutions, in terms of percentage of households affected by each barrier. The most significant obstacle, reported by 77 per cent of rural households, is simply having no money left for savings after covering expenses. Irregular income (32 per cent) and insufficient regular income (22 per cent) are also substantial barriers, reflecting the financial instability that many households face. Other common reasons include prioritising debt repayment (15 per cent) and lack of control over personal spending (8 per cent). Additional, less frequently mentioned barriers include family members requiring borrowing money (3 per cent), long distances to banks (2 per cent), low interest rates offered by banks (2 per cent), and high travel costs to reach the bank (1 per cent). Overall, the primary issues are insufficient income, financial instability, and prioritisation of other financial obligations over formal savings.

Figure 4.2: Barriers to save in a formal financial institution (%)



Source: CRFS Rural Finance Survey, 2023

4.3 Access to Credit

Borrower's choice of credit market is influenced by various factors, including transaction costs, interest rates, contract flexibility, and the range of loan products available. One primary factor is the transaction cost of borrowing, which includes both interest and non-interest expenses. A rational borrower typically aims to minimise these costs. Research indicates that in Bangladesh, interest rates tend to be highest in the informal credit market and lowest in the formal market, with microcredit interest rates falling between the two. The borrower's specific loan requirements and level of demand significantly shape their decision regarding which market to access.

In this report, access to credit services is defined based on households' transaction histories over the past three years. We assess the extent of access to different credit markets by examining the percentage of households engaging with each market type. For analytical clarity, we categorise credit markets into four segments: the formal credit market (comprising banks and non-bank financial institutions), the microcredit market, other credit markets (such as Palli Sanchay Bank and formal cooperatives), and the informal credit market (ICM). Instances of households accessing multiple credit sources are documented to illustrate overlapping market use.

Table 4.2 presents data on household access to various types of credit markets in different divisions of Bangladesh. It details the percentage of households that use specific types of credit sources, including formal financial institutions (FIs), banks, microfinance institutions (MFIs), other formal credit sources, and informal credit markets. Additionally, the table shows the percentage of households without access to any formal credit source.

Overall, 54.22 per cent of households across rural Bangladesh access credit from any formal FIs, including banks, MFIs, and cooperatives. Among them, an average of 5.37 per cent of households access credit from banks or non-bank FIs for various purposes, while on average, 48.51 per cent of households across rural Bangladesh access credit from MFIs, highlighting the important role of microfinance. Nationally, 3.03 per cent of households access credit from PSB, cooperatives, or other formal FIs, marking them as a minor yet notable source of credit. Interestingly, along with microfinance market, informal credit still dominates. Overall, 29.47 per cent of households across divisions rely on informal credit, underscoring the continued significance of informal borrowing in certain regions. Key findings are as follows:

Limited access to formal credit for rural households: Rural households in Bangladesh face considerable challenges in accessing formal credit, with only around 5.37 per cent having access to banks or non-bank financial institutions. Despite the traditional urban focus of formal financial institutions and their preference for wealthier clients, the rate of formal credit access among rural households is consistently low across all divisions. Chattogram, Dhaka, and Mymensingh are exceptions, showing slightly higher access rates at 7.71 per cent, 7.13 per cent, and 5 per cent respectively. Barishal and Sylhet follow with 4.38 per cent each, while Rajshahi and Rangpur have access rates of 4.23 per cent and 4.06 per cent. Nationally, the level of formal credit access for rural households remains low, reflecting limited outreach of formal financial services in rural areas.

Dominance of microcredit: In rural areas, microfinance institutions (MFIs) are the primary source of credit, accounting for over 48.51 per cent of total access by households. This dominance is evident across divisions, with Rajshahi (56.72 per cent), Barishal (55.63 per cent), Rangpur (52.19 per cent), Mymensingh (48.33 per cent), and Khulna (47.5 per cent) showing particularly high levels of microfinance use. Even in divisions with moderate microfinance access, such as Chattogram (44.79 per cent), Dhaka (43.85 per cent), and Sylhet (43.13 per cent), usage remains substantial. These findings highlight the critical role of quasi-formal finance through MFIs, which provide an important alternative for households unable to access formal credit.

Prevalence of informal credit: Despite efforts to expand formal and quasi-formal financial networks, informal credit remains widely used, with around 30 per cent of households relying on it. Although informal credit is often criticised for its high interest rates and exploitative nature, it continues to be a vital resource due to its accessibility and flexibility. Barishal has the highest reliance on informal credit, with 45.63 per cent of households using such sources, followed by Chattogram (44.38 per cent) and Dhaka (37.43 per cent). Other divisions, such as Khulna, Mymensingh, and Sylhet, show lower usage, while Rajshahi and Rangpur have the lowest access rates at 16.92 per cent and 15 per cent,

respectively. The average access to informal credit across divisions stands at 29.47 per cent, underscoring its continued importance as a financial option for rural households across Bangladesh.

Table 4.2: Access to credit of households from different markets (%)

Division	Access to credit from any formal FIs	Access to credit (agri& non-agri) from Bank or non-bank FIs	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from microfinance institutions	Access to credit from other FIs (PSB/ Cooperatives etc.)	Access to informal credit	No access to any formal market
Barishal	57.5	4.38	2.5	1.88	55.63	0	45.63	42.5
Chattogram	51.04	7.71	3.75	4.17	44.79	2.29	44.38	48.96
Dhaka	51.87	7.13	4.81	2.5	43.85	4.99	37.43	48.13
Khulna	51.88	2.81	1.88	0.94	47.5	3.44	21.25	48.13
Mymensingh	56.25	5	2.08	3.33	48.33	5	25.83	43.75
Rajshahi	60.2	4.23	3.23	1.24	56.72	0.75	16.92	39.8
Rangpur	58.44	4.06	2.5	1.88	52.19	4.38	15	41.56
Sylhet	46.88	4.38	2.5	1.88	43.13	0.63	23.13	53.13
Total	54.22	5.37	3.22	2.35	48.51	3.03	29.47	45.78

Source: CRFS Rural Finance Survey, 2023

4.3.1 Transaction Costs of Borrowing

The transaction cost of borrowing in Bangladesh varies significantly between formal and informal credit markets as well as among different formal institutions, impacting borrowers' choices and access to affordable credit. Transaction costs encompass not only the interest rates charged on loans but also additional expenses such as conveyance costs, service charges, and other fees required to secure a loan. In the formal market, these costs are generally more structured and often lower in terms of interest costs, though administrative and other non-interest charges still apply. Conversely, informal lenders offer more flexible access to funds but often at higher interest rates and varying additional costs, increasing the overall expense for borrowers. Understanding the transaction costs in both formal and informal markets is crucial for assessing the financial burden on borrowers, particularly in rural and underserved communities where access to formal credit is limited.

Table 4.3 provides the borrowing costs associated with different financial markets in Bangladesh in 2022, specifically for the bank credit market, microfinance institutions (MFIs) credit market, other financial institutions (FIs) credit market, and the informal credit market. The costs are broken down into several components: conveyance cost, service charge, other costs, along with interest costs. This breakdown sheds light on the total financial burden borne by borrowers across different market segments.

Table 4.3: Transaction cost of borrowing from different markets, 2022

	Borrowing cost (in BDT) for loan amount of BDT 100			
	Bank credit market	MFIs credit market	Other FIs credit market (e.g. Cooperatives)	Informal credit market
Conveyance cost	0.32	0.24	0.34	0.45
Service charge	0.92	1.08	1.23	...
Other costs	2.74	0.55	0.65	1.13
Interest cost	8.48	23.00*	16.33	19.99

Note: * Refers to the average announced interest rate for MFI loan products. This interest rate of 23% derived from the survey for MFI loan products (excluding minor amounts of very low or zero interest special loan products provided for specific purposes) is the average of regular and mainstream loan products offered by different MFIs and adopts the declining balance rate method. In practice, the maximum interest rate charged by MFIs in the field is 24%. Source: InM, CRFS Rural Finance Survey, 2023.

4.3.2 Utilisation of Credit

Access to credit is a pivotal factor in enhancing quality of livelihoods, particularly for households in rural areas where financial resources are often limited. In Bangladesh, credit is sourced mostly from formal institutions, informal lenders, and MFIs, with microcredit representing a significant share. While these financial tools offer critical support for agricultural activities, small businesses, and consumption stability, the actual utilisation of credit varies, influencing its effectiveness in improving quality of household activities. This section examines the usage patterns of credit among rural households in Bangladesh, exploring the economic role of diverse credit sources and their impact on livelihoods, income generation, and resilience.

Utilisation of formal loan: Households that reported taking loans during the specified period were further asked about the purpose of each loan. For formal loan use, we assess credit utilisation by focusing on two key issues: first, whether households apply loans towards economic activities; and second, to what extent they allocate funds for substantial expenses and consumption needs (such as basic consumption, marriage expenses, dowries, bribes, education costs, healthcare, litigation, and ceremonial costs) or for repaying previous loans. This study categorises credit use by the specific purposes for which loan amounts are applied. The distribution of loans by their intended purpose is shown in Table 4.4.

Table 4.4 reveals that the majority of formal loans are allocated to income-generating activities, especially in Rajshahi (80 per cent) and Rangpur (71 per cent), with average loan sizes of TK. 87,385 and TK. 42,385, respectively, reflecting a strong focus on economic productivity in these regions. Dhaka and Khulna also show substantial allocations to income-generating purposes, at 59 per cent and 56 per cent, respectively. Conversely, Mymensingh and Sylhet have significant portions directed towards non-food consumption, accounting for 50 per cent and 38 per cent of loan usage, with respective average amounts of TK.47,496 and TK.28,258. Loan repayment is a notable usage category in Barishal (28 per cent) and Khulna (14 per cent), indicating a cycle of debt in these divisions. Financial asset creation receives minimal allocation across all divisions, with only small percentages seen in Dhaka (1 per cent). Food consumption is generally low across all divisions, with each averaging less than 7 per cent, reflecting a stronger preference for productive and essential non-food needs over immediate consumption. Overall, the aggregate data show that 60 per cent of formal loans are directed towards income-generating activities, followed by 24 per cent for non-food consumption, highlighting the primary economic focus of rural households in Bangladesh in their use of formal credit.

Table 4.4: Distribution of formal loan use by category and divisions

Division	Utilisation of credit											
	Income generating activities (IGAs)		Food consumption		Non-food consumption		Financial Asset creation		Loan repayment		Others	
	%	Average loan use	%	Average loan use	%	Average loan use	%	Average loan use	%	Average loan use	%	Average loan use
Barishal	28	16403	7	4274	25	14323	0	0	28	16081	12	6774
Chattogram	53	61441	1	1515	30	34288	0	175	10	12009	5	6000
Dhaka	59	67556	1	1100	21	23656	1	1704	9	10730	9	10537
Khulna	56	33618	3	1796	23	13994	0	191	14	8541	3	2032
Mymensingh	41	39293	1	1382	50	47496	0	0	2	2276	6	5285
Rajshahi	80	87385	1	668	12	13226	0	221	6	6416	2	1770
Rangpur	71	42385	1	500	16	9672	0	0	2	1322	10	5661
Sylhet	53	39803	3	2045	38	28258	0	0	5	3939	1	1061
Aggregate	60	55998	1	1327	24	22726	0	444	8	7808	6	5404

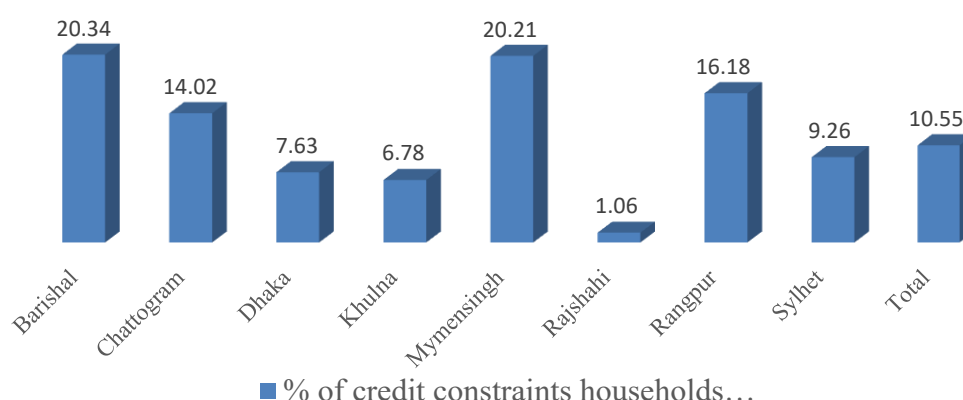
Source: CRFS Rural Finance Survey, 2023

Utilisation of informal loan: In the case of informal loan usage across various categories and divisions, overall, 38.9 per cent of informal loans are used for non-food consumption, with Rangpur allocating the highest share (64.2 per cent), reflecting a tendency to prioritise essential expenditures. Expenses on food consumption is relatively low across divisions, averaging only 2.3 per cent, while Barishal and Mymensingh exhibit the highest averages for food-related spending at TK.2,904 and TK.855, respectively. Loan repayment is also a notable category, particularly in Chattogram (32.1 per cent) and Khulna (24.1 per cent), indicating the ongoing challenges of managing debt. Local and international migration receives minimal funding, with only 1.6 per cent of loans used for the purpose in Chattogram. Income-generating activities accounts for 23.6 per cent, with Rajshahi showing the highest percentage at 34.8 per cent and a significant average loan size of TK.24,938.

4.3.3 Credit Rationing

The expansion of informal credit markets, despite the presence of formal financial institutions and microfinance services, highlights significant credit constraints faced by households in rural Bangladesh. Credit rationing, a practice where lenders limit loan availability even to willing borrowers, often arises from information asymmetry and risk concerns, disproportionately affecting low-income and small-scale borrowers. This results in unmet demand for credit, driving households to rely on informal sources. Around 10.55 per cent of the borrowing households under the study reported being credit-constrained, with the highest prevalence in Barishal (20.34 per cent), Mymensingh (20.21 per cent), and Rangpur (16.18 per cent), while Rajshahi recorded negligible constraints (1.06 per cent). Understanding these dynamics is crucial for addressing gaps in credit provision and improving access to financial resources, particularly for productive investments and household welfare.

Figure 4.3: Percentage of borrowing households that are credit constrained



Source: CRFS Rural Finance Survey, 2023

To assess the extent of credit rationing, it is essential to examine households' access to both single and multiple credit markets. Evidence shows that households are increasingly drawing on multiple credit sources, indicating that they may be seeking additional options due to constraints within the microcredit market or other supply and demand side limitations. Table 4.5 illustrates the percentage of rural borrowing households facing credit constraints across various credit sources and access patterns in 2022, measured by the ratio of total loan supply (TSS) to total loan demand (TDD). Overall, 10.55 per cent of households are credit-constrained in the aggregate credit market. The intensity of credit rationing in the case of bank loans is higher for households with access to multiple credit markets compared with those with access to a single market. This indicates that some households with access to only a single market were also credit rationed, possibly because borrowing from other markets was not feasible. For bank loans, single-access households experienced a 20 per cent constraint rate and multiple-access households faced a slightly higher rate of 22.22 per cent. Households accessing microcredit from a single source experienced a constraint rate of 8.79 per cent, while those with multiple microcredit sources faced a higher constraint rate at 16.80 per cent. Among cooperative societies, households with single access faced an 11.76 per cent constraint rate, whereas those with multiple access showed no constraints, indicating that cooperative societies may offer more flexible credit options to multiple-access borrowers. It is also important to recognise that the extent of credit rationing may be underestimated, as borrowers in the microcredit market are often aware of borrowing limits and adjust their loan requests accordingly, which may not truly represent their actual financial needs.

Table 4.5: Percentage of borrowing households under credit constraint

Types of CR	CR	2022
1. Credit Rationing (CR=TSS/TDD) (Aggregate)	CR<1	10.55
2. Credit Rationing (CR=MF/TDD) (MCM Single Access)	CR<1	8.79
3. Credit Rationing (CR=TSS/TDD) (MCM Multiple Access)	CR<1	16.80
4. Credit Rationing (CR=TSS/TDD) (Bank Single Access)	CR<1	20
5. Credit Rationing (CR=TSS/TDD) (Bank Multiple Access)	CR<1	22.22
6. Credit Rationing (CR=TSS/TDD) (Cooperative society Single Access)	CR<1	11.76
7. Credit Rationing (CR=TSS/TDD) (Cooperative society Multiple Access)	CR<1	0

Source: CRFS Rural Finance Survey, 2023

Understanding partial credit rationing is essential for shaping effective policies. A comparative overview of socioeconomic characteristics between credit-constrained and noncredit-constrained

borrowing households is given in Table 4.6. Credit-constrained households tend to have slightly younger household heads, lower education levels, and fewer primary occupations outside of wage-earnings than noncredit-constrained households. While the former households report lower average incomes (TK. 261,674 vs. TK. 295,573), they typically own more land (51.53 decimals vs. 32.16 decimals) and have more earning members on average (1.81 vs. 1.68 per household). Both groups enjoy nearly universal access to electricity, although noncredit-constrained households have better access to sanitary latrines (92.48 per cent vs. 79.31 per cent) and show a slightly lower proportion of households with multiple income sources. Both groups maintain high access to safe drinking water.

Table 4.6: Characteristics of credit constrained and not constrained households

Sl. no.	Socio economic status (Avg. values)	Credit constrained borrowing HH	Not Credit constrained borrowing HH
1	Age of Household Head	44.39	45.07
2	Maximum Education of HH member	8.32	8.75
3	Household Size	4.49	4.58
4	Average annual income earned by the household	261674	295573
5	Average land owned by the household (decimal)	51.53	32.16
6	Annual average food expenditure	111793	111778
7	Average earning member of the household	1.81	1.68
8	% of HH head have multiple earning source	39.66	35.87
9	% of HH head's primary occupation is wage earning	17.24	19.51
10	% of HH have electricity access	100	99.80
11	% of HH use sanitary latrine	79.31	92.48
12	% of HH have safe drinking water access	98.28	95.33

Source: CRFS Rural Finance Survey, 2023

4.3.4 Determinants of access to credit

In this section, the results of the probit⁸ regression analysis highlight several socioeconomic and demographic factors which influence household access to credit from different sources, such as formal, microfinance institutions (MFIs), and informal (Table 4.7).

Firstly, the age of the household head (HH) has a positive and significant effect on access to credit, but its squared term is negative, suggesting a non-linear relationship where access to credit initially increases with age but declines after a certain threshold level. Gender also plays a critical role, with male-headed households significantly more likely to access all forms of credit, especially from formal and MFI sources. This indicates the persistence of gender disparities in access to credit.

In addition, the borrowers are not homogenous in terms of education level and literacy rate. Education appears to have a dual effect: while higher years of schooling increase access to formal credit, they reduce the likelihood of obtaining MFI or informal credit. This could imply that more educated individuals prefer or qualify for formal financial services while less educated individuals rely more on microfinance or informal lenders.

The analysis also focused on different occupational groups as one of the determinants. Based on the occupational structure of the HH head, three occupation-related variables are included – wage labour, self-employment and services. It is seen that type of occupation matters—self-employed and service-

⁸ Probit regression analysis is a type of regression model used to estimate binary or categorical dependent variables. It applies a cumulative normal distribution function to predict the probability of an outcome based on independent variables. Probit models are commonly used in econometrics to analyze decision-making processes, such as access to credit, labor market participation, or adoption of technology, where the dependent variable takes values like 0 or 1.

sector workers have higher access to credit, particularly from formal and MFI sources, compared with wage labourers.

Infrastructure and asset ownership also influence credit access. Households with electricity and transport assets have greater access to formal and micro credit, reflecting the role of physical capital in financial inclusion. However, livestock ownership reduces access to informal credit, possibly because households with such assets are considered less credit-constrained. Mobile phone ownership negatively impacts formal credit access, which may suggest that reliance on mobile banking is not yet a strong substitute for traditional banking in the study region.

Geographical factors also play a role. Greater distance from financial institutions (banks and MFIs) significantly reduces access to credit, particularly from MFIs. This emphasises the importance of physical proximity to financial services. Interestingly, migration status negatively affects overall and micro credit access, potentially due to instability or lack of collateral among migrant households.

In short, the findings suggest that access to credit by the rural households is shaped by a combination of household and personal attributes, economic activities, asset ownership, and geographical factors. As such, policies aimed at improving financial inclusion need to focus on reducing gender disparities, expanding financial services in remote areas, and supporting asset-building initiatives that enhance creditworthiness of potential borrowers.

Table 4.7: Probit estimates of the determinants of access to credit

	Access to credit	Access to formal credit	Access to MFI credit	Access to informal credit
	Coefficient.	Coefficient.	Coefficient.	Coefficient.
Age of household head (HH)	0.0295931**	0.0637752**	0.0273417*	0.0158555
Square of HH head's age	-0.0004343***	-0.0004775*	-0.0004542***	-0.0002148
Gender of head : Male=1, Female=0	0.4350922***	0.7342953**	0.3657031***	0.1575343
Years of schooling of the HH head	-0.0352398***	0.0464528***	-0.0480421***	-0.0217335***
Occupation of HH Head: day labour/wage earner=1	0.394755***	0.4245868	0.3521299***	-0.0375941
Occupation of HH Head: self-employment=1	0.4074513***	0.6926113***	0.3519101***	0.0719307
Occupation of HH Head: Service=1	0.4222136***	0.5985899**	0.3420097**	-0.117065
Access to electricity: Yes=1, No=0	0.9442365**	0	0.7674961**	0.0133511
HH has livestock: Yes=1, No=0	0.0409358	-0.0529941	0.0258453	-0.1578486***
HH has transport: Yes=1, No=0	0.1530174***	0.1105241	0.1354922**	-0.1464967**
Have mobile phone: Yes=1, No=0	-0.0729863	-0.5823053*	0.079537	-0.2355762
Dependency ratio	0.0005186	0.0010181	0.0002999	0.0002966
Number of educated member	0.0562976**	0.1175972***	0.0281481	-0.0098505
HH head is migrated member: Yes=1, No=0	-0.1353373**	0.0734067	-0.1380783**	0.0824662
Distance from nearby bank branch	-0.0215558**	0.0299566	-0.0299254**	-0.0016862
Distance from nearby MFI branch	-0.0325465**	0.0420256**	-0.0574715***	0.0324138**
Distance from nearby paved road	0.0133519	0.0148252	0.0103748	-0.0070413
Constant	-1.797011***	-5.175711***	-1.397924***	-0.580147

Note : .01 - ***; .05 - **; .1 - *

4.4 Access to Insurance Services

Access to insurance products and services is vital for financial resilience, particularly for rural populations in Bangladesh who rely on agriculture and informal sectors and face vulnerabilities from natural disasters, market uncertainties, health emergencies, and crop failures. Among the surveyed households, only 4.58 per cent of rural households currently have life insurance coverage. Since no other types of insurance have been reported, more than 95 per cent of households remain without any insurance coverage. At present, microfinance institutions (MFIs) in Bangladesh attach microinsurance schemes—commonly referred to as গ্রাহক কল্যাণ তহবিল (Grahok Kollan Tohobil) (approved by MRA)—to their loan products. Under these schemes, insurance premiums are deducted at the time of loan disbursement, typically ranging from Tk. 0.70 to Tk. 1.00 per Tk. 100 of loan amount. In the event of the death of the borrower or the principal income earner of the household, the outstanding loan balance is waived. As these arrangements do not constitute formal insurance products, they are excluded from the analysis presented in this table. National-level reports indicate that insurance penetration in Bangladesh remains extremely low, estimated at approximately 0.5 per cent of GDP as of 2022, with only about 11 per cent of the population having any form of insurance coverage. This suggests that the vast majority of rural households remain uninsured. These findings underline the limited insurance access in rural areas, with significant regional disparities and a clear need for broader insurance outreach and tailored products to meet rural needs.

Table 4.8: Access to insurance services among rural households in 2022 across division (% of households)

Division	Access to Life Insurance (present)	No Access to Any Insurance
Barishal	3.75	96.25
Chattogram	6.88	93.13
Dhaka	4.99	95.01
Khulna	5.31	94.69
Mymensingh	3.75	96.25
Rajshahi	2.24	97.76
Rangpur	3.75	96.25
Sylhet	4.38	95.63
Total	4.58	95.42

Source: CRFS Rural Finance Survey, 2023

Evidence from the study shows that life insurance has the highest awareness (64.21 per cent), indicating a broader understanding of its importance, while awareness on loan insurance is moderate (22.59 per cent). However, awareness on other types, including health (14.91 per cent), accident (10.56 per cent), and business insurance (12.15 per cent), is relatively low. Categories such as asset, crop, livestock, poultry, and fisheries insurance have extremely limited awareness, all fewer than 5.5 per cent. This reflects a critical need for educational campaigns and targeted outreach to improve knowledge of diverse insurance options, particularly those relevant to rural livelihoods.

4.5 Access to Mobile Banking

Access to mobile banking services in Bangladesh has transformed the financial landscape, making financial services more accessible to people across both urban and rural areas. With rapid advancements in mobile technology and widespread smartphone penetration, mobile banking

platforms like bKash, Rocket, and Nagad have become popular, providing essential services such as money transfers, bill payments, and loan disbursements. For rural populations, where traditional bank branches are limited, mobile banking offers a convenient, cost-effective solution that reduces travel time and brings financial transactions within easy reach. The growth of mobile banking aligns with Bangladesh's broader financial inclusion goals, as it bridges gaps in the formal financial sector and empowers millions of previously unbanked individuals with greater control over their financial resources.

Table 4.9 illustrates the intensity of mobile banking access across various divisions in Bangladesh, showing the percentage of households and individuals aged 18 and above who use mobile banking services. Nationally, 86.72 per cent of households have access to mobile banking, with 82.03 per cent of individuals having their own accounts, although only 43.03 per cent are active users. Divisions like Khulna (91.25 per cent) and Rajshahi (90.8 per cent) show the highest access levels, while Rangpur has the highest rate of active users (50.88 per cent). The table also highlights communal usage patterns, with many individuals using mobile banking through others' accounts. Sylhet and Mymensingh, for instance, have high percentages of individuals without their own accounts who rely on others' accounts (63.13 per cent and 61.67 per cent, respectively).

Findings illustrate that while access to mobile banking is widespread in Bangladesh, there is considerable variation in how it is used, with regional differences in active engagement and account ownership. The data suggest that some regions may benefit from further initiatives to boost active usage, especially in areas like Barishal and Dhaka, where active engagement with mobile banking is relatively low. Additionally, high communal usage of accounts in places like Mymensingh and Sylhet points to the need for policies that encourage individual ownership, improve digital literacy, and reduce barriers to account opening.

Overall, the data highlight mobile banking's essential role in promoting financial inclusion, although active engagement and individual ownership are areas for potential growth. Expanding digital education, improving access to account-opening facilities, and addressing any cultural or practical barriers to individual account ownership (especially for women) could enhance the intensity of mobile banking use across Bangladesh, further integrating underserved populations into the formal financial system.

Table 4.9: Extent of access to mobile banking (%)

	Access to mobile banking services	Possess own mobile banking account		Own active mobile banking account	Use other's mobile banking account although possess own account	Use other's mobile account since do not have own account	Use mobile banking services through others account
		HH level	Individuals (Age ≥18)				
Total	86.72	82.03	43.03	79.76	48.92	6.36	55.28
Division							
Barishal	80.63	76.25	36.42	75.63	35	4.38	39.38
Chattogram	82.92	78.33	46.09	74.38	53.54	8.13	61.67
Dhaka	87.52	80.39	37.6	78.97	50.45	8.02	58.47
Khulna	91.25	86.25	45.69	85.63	56.88	5.31	62.19
Mymensingh	82.92	79.17	38.04	70.83	61.67	8.75	70.42
Rajshahi	90.8	87.56	46.67	87.31	49	3.48	52.49
Rangpur	88.44	85.31	50.88	83.13	21.56	5	26.56
Sylhet	84.38	80	38.09	78.75	63.13	5.63	68.75

Source: CRFS Rural Finance Survey, 2023

Table 4.10 presents individual-level access to mobile banking in various divisions of Bangladesh, focusing on the percentage of individuals aged 18 and above who have a mobile banking account. The aggregate data shows that 43.03 per cent of individuals possess mobile banking accounts, with a total of 29.09 per cent indicating overall access. Rangpur leads with the highest percentage of individuals having mobile banking accounts at 50.88 per cent, followed closely by Rajshahi at 46.67 per cent and Chattogram at 46.09 per cent. Khulna also shows strong access with 45.69 per cent, while Barishal (36.42 per cent) and Dhaka (37.60 per cent) report lower percentages. Mymensingh and Sylhet have similar access levels at 38.04 per cent and 38.09 per cent, respectively. These figures highlight regional disparities in mobile banking account ownership, suggesting that while mobile banking is gaining traction overall, certain divisions demonstrate significantly higher access rates.

Table 4.10: Individual access to mobile banking (%)

Division	Individuals have mobile banking account	
	(Age ≥ 18)	Total
Barishal	36.42	24.03
Chattogram	46.09	30.17
Dhaka	37.60	26.24
Khulna	45.69	32.66
Mymensingh	38.04	24.72
Rajshahi	46.67	32.44
Rangpur	50.88	32.51
Sylhet	38.09	25.83
Total	43.03	29.09

Source: CRFS Rural Finance Survey, 2023

4.5.1 Purpose of Using Mobile Financial Services

Rural individuals in Bangladesh open mobile banking accounts for various reasons. The predominant motivation for opening a mobile bank account is to receive money from or send money to family

members, accounting for 57 per cent of respondents. Additionally, 11 per cent cite sending money specifically for family needs (Table 4.11), emphasising the importance of remittances and financial support within households. Bill payments represent a minimal share of 2 per cent, while saving money is even less common, with only 1 per cent of respondents indicating this as a reason. Mobile recharges account for 6 per cent, and business transactions comprise 3 per cent. Notably, no respondent reported using mobile bank accounts for shopping, suggesting that while mobile banking serves essential functions for money transfer and basic transactions, its role in consumer purchasing is currently limited in rural areas. These insights reveal that mobile banking in rural Bangladesh is primarily utilised for familial financial support and basic transactional purposes rather than for broader commercial activities.

Table 4.11: Reasons for opening mobile bank account

Reason	%
Sending money for family	11
Get money for yourself or family	57
To receive money from someone else or sending money	57
To pay the bill	2
To save money	1
For mobile recharge	6
To do business transactions	3
For shopping	0

Source: CRFS Rural Finance Survey, 2023

4.5.2 Transactions through Mobile Banking

This section provides an analysis of average mobile banking transaction flows per household across various divisions in Bangladesh, differentiating between urban and rural areas. It highlights the number of transactions, average inflow and outflow amounts, and the resulting net flow for each division.

Overall, the findings illustrate that while urban areas demonstrate higher transaction volumes and inflow amounts, rural areas benefit from a healthier net flow due to lower outflows, emphasising the critical role mobile banking plays in financial inclusivity and family support in rural Bangladesh. The trends suggest that mobile banking is particularly effective in facilitating remittances and financial support in rural areas, making it as an essential tool for economic stability. Divisions like Dhaka and Chattogram are pivotal for high transaction activity, but the rural areas, especially in Chattogram and Sylhet, show that mobile banking is a vital source of income support, potentially aiding poverty alleviation and financial resilience.

In urban areas, the total number of transactions is 1,410, with an average inflow of TK.22,094 and an average outflow of TK.8,721, leading to an aggregate net inflow of TK.13,373. Dhaka stands out significantly with the highest average inflow at TK.33,554 and a substantial net inflow of TK.22,992. This indicates that the urban populace, particularly in the capital city, is engaging heavily with mobile banking, utilising it as a primary means for net money inflow from rural areas. Conversely, while Chattogram shows a strong inflow of TK.20,272, its outflow of TK.10,832 results in a lower net inflow of TK.9,439, suggesting that while the area is also a hub for mobile banking, there are higher expenditures associated with it.

Other divisions like Khulna, Rajshahi, and Rangpur show mixed patterns. Khulna's average inflow of TK.11,499.50 and outflow of TK.2,580 yield a moderate net inflow of TK.8,919.50, which is

indicative of a positive financial balance in mobile transactions. Rajshahi presents a more balanced picture with a higher outflow (TK.13,545) relative to its inflow (TK.19,454), resulting in a modest net inflow of TK.5,908. Rangpur, with TK.25,698 inflow and TK.6,965 outflow, has a net inflow of TK.10,320, reflecting a relatively high usage of mobile banking net transfer in urban settings.

In rural areas, the total number of transactions is 1,531, with an average inflow of TK.17,252 and a significantly lower average outflow of TK.6,277, resulting in an impressive net inflow of TK.10,974. This higher net inflow compared with urban areas suggests that rural users might be utilising mobile banking primarily for receiving money rather than spending it, highlighting the system's role in supporting household incomes and financial stability.

Rural Chattogram stands out in transactions with an average inflow of TK.34,761, and an outflow of TK.3,573, resulting in an average net inflow of TK.31,188. This indicates that rural Chattogram has a significant channel for financial inflow, likely from remittances or support from family members. Sylhet also shows a strong performance in rural transactions, with an average inflow of TK.21,739 and a net inflow of TK.17,592, suggesting robust financial support mechanisms within the community.

Table 4.12: Flow of mobile banking transactions across urban and rural areas and divisions

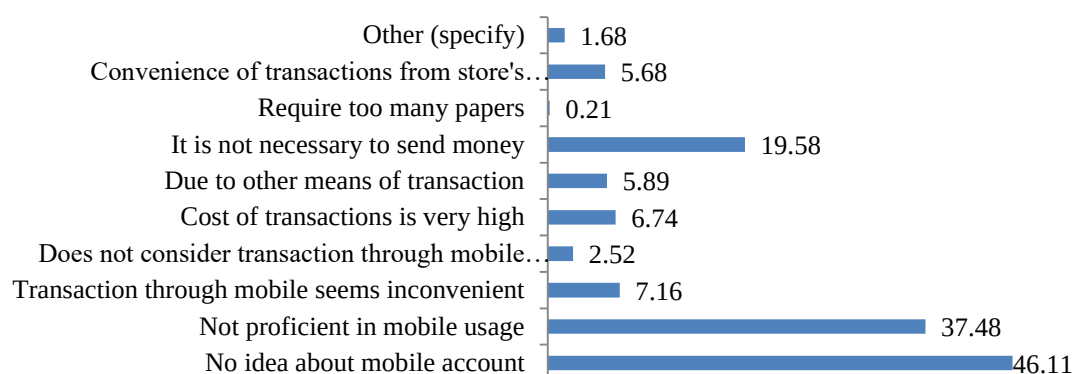
Division	Urban area				Rural area			
	n	Average inflow	Average outflow	Average net flow (inflow-outflow)	n	Average inflow	Average outflow	Average net flow (inflow-outflow)
Barishal	93	17947.3	3004.3	14943.0	95	14146.8	4571.6	9575.3
Chattogram	134	20271.6	10832.2	9439.4	334	34761.2	3573.4	31187.9
Dhaka	324	33553.7	10561.3	22992.4	309	12556.5	11744.2	812.3
Khulna	164	11499.5	2580.0	8919.5	147	6389.9	2282.3	4107.6
Mymensingh	107	19651.4	10981.4	8670.0	144	12668.9	4993.1	7675.8
Rajshahi	238	19453.8	13545.4	5908.4	289	12869.2	7228.5	5640.7
Rangpur	256	17284.7	6964.9	10319.7	140	10775.5	6483.8	4291.8
Sylhet	94	30343.6	5732.2	24611.4	73	21738.6	4146.6	17592.0
Total	1410	22094.1	8721.0	13373.2	1531	17251.8	6277.4	10974.4

Source: CRFS Rural Finance Survey, 2023

4.5.3 Barriers to Accessing Financial Services through Mobile Banking

Although a large percentage of the sampled households use mobile banking services, 13 per cent still do not utilise the service. The most prevalent reason for not using mobile banking, as indicated by 46.11 per cent of the respondents, is a lack of knowledge about mobile banking. The next most common reason, cited by 37.48 per cent, is the absence of proficiency in using mobile devices, indicating a potential barrier related to digital literacy. Additionally, 19.58 per cent of individuals do not feel the need to send money, suggesting that they do not have such transaction needs. Some cite other barriers, such as inconvenience of mobile transactions (7.16 per cent), high transaction costs (6.74 per cent), and preference for other transaction methods (5.89 per cent). Security concerns were noted by 2.52 per cent, while 0.21 per cent reported the process to be paperwork-intensive. Figure 4.4 highlights that lack of awareness and digital proficiency are the primary barriers to using mobile banking services more widely.

Figure 4.4: Reasons for not opening mobile bank account (%)



Source: CRFS Rural Finance Survey, 2023

4.6 Access to Agent Banking

In rural Bangladesh, access to formal banking services remains limited for many, especially within low-income communities. Traditional banking infrastructure is more common in urban and peri-urban areas leaving many rural households with minimal options for securing formal savings, credit, and other essential financial services. This lack of access to formal banking inhibits growth, contributes to financial exclusion, and often perpetuates cycles of poverty in rural regions.

Agent banking has emerged as a promising solution to bridge this financial gap. By leveraging local agents or intermediaries who operate in rural and underserved areas, agent banking brings financial services directly to communities, bypassing the need for conventional bank branches. These agents—who may be local shopkeepers or business owners—provide banking services such as cash deposits, withdrawals, remittances, and bill payments through digital platforms, making it easier for rural households to access and manage their finances.

In Bangladesh, where digital transformation has gained significant momentum in recent years, agent banking has emerged as a crucial tool for fostering financial inclusion. This service model not only enhances convenience and reduces travel costs but also promotes financial literacy among rural populations. For women, small-scale farmers, and entrepreneurs in these communities, agent banking opens new opportunities for securing formal savings facilities, credit access, and other formal financial engagements.

In Bangladesh, Bank Asia PLC was the pioneer in introducing agent banking services, and Dutch Bangla Bank PLC now dominates the market. At present, agent banking services are available in most districts across the country, with a broad network of agents appointed by multiple banks. These services provide full banking facilities right at the doorstep of previously unbanked individuals, greatly enhancing accessibility in rural areas.

In the study, data on access to and knowledge of agent banking services show that only 6.24 per cent of households across the divisions have an agent banking account, reflecting limited access to these services, particularly in rural areas. Chattogram has the highest account ownership at 17.71 per cent, while Mymensingh has the lowest at 1.25 per cent. Knowledge about agent banking is also limited, with 17.37 per cent of the people aware of these services nationwide. Dhaka and Chattogram have relatively higher awareness levels at 25.13 per cent and 23.54 per cent, respectively, whereas Khulna and Rangpur show the lowest awareness rates at 8.44 per cent and 8.75 per cent. These figures

highlight both the uneven access to agent banking services and the considerable knowledge gaps across different regions, underscoring the need for targeted financial awareness and inclusion efforts.

Table 4.13: Access to and familiarity about agent banking services (%)

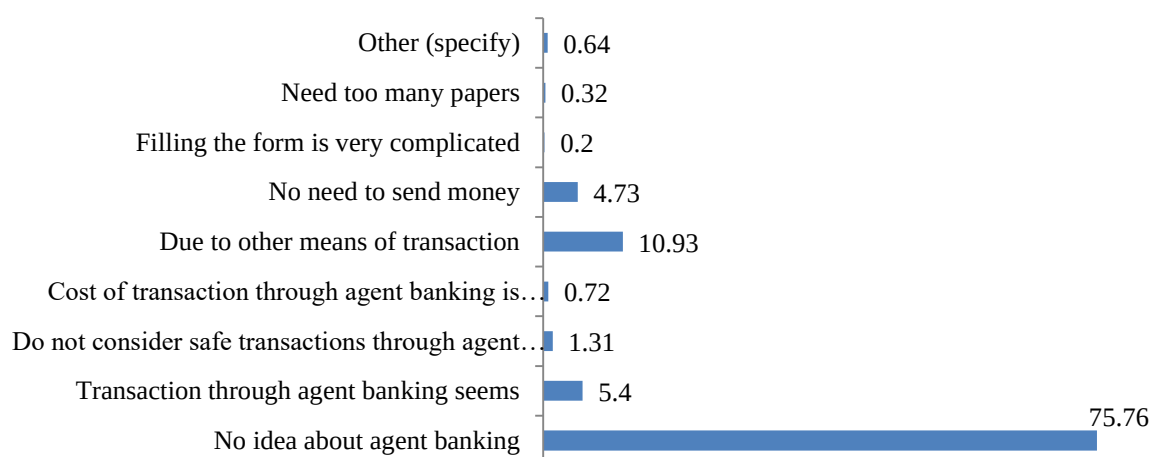
Division	Possess agent banking account	Familiarity with agent banking accounts
Barishal	1.88	13.75
Chattogram	17.71	23.54
Dhaka	6.42	25.13
Khulna	2.5	8.44
Mymensingh	1.25	17.5
Rajshahi	3.48	14.18
Rangpur	2.5	8.75
Sylhet	5	18.13
Total	6.24	17.37

Source: CRFS Rural Finance Survey, 2023

4.6.1 Barriers to Accessing Financial Services through Agent Banking

Figure 4.5 illustrates the primary reasons for which households have not opened agent banking accounts in rural Bangladesh. Key barriers include a lack of awareness or knowledge about agent banking services, which is the most cited reason, suggesting that many potential users are unfamiliar with the benefits or existence of these accounts. Other significant factors include mistrust in banking agents and concerns over security, indicating a lack of confidence on providers of these services among some individuals. Additionally, some respondents feel that they do not need such an account or have preference for other financial service providers. Limited availability of banking service agents in certain areas is also a contributing factor, highlighting geographical challenges in access. The above emphasises the need for enhanced awareness, trust-building, and expanded agent banking network to cover more rural areas having no banking facilities to increase adoption of agent banking services.

Figure 4.5: Reasons for not opening agent bank account (%)



Source: CRFS Rural Finance Survey, 2023

4.7 Access to Financial Services

Access to financial services has been defined based on households' transaction histories over the past three years. Some households may not have used financial services in the survey year but might have done so in prior years. Thus, measuring access intensity based only on the current year could result in an underestimation.

Table 4.14 provides a detailed breakdown of access to financial services across various divisions in Bangladesh, highlighting both formal and informal financial mechanisms. By examining multiple dimensions of financial service access, the table reveals how households engage with diverse financial institutions, from traditional banks and microfinance institutions (MFIs) to mobile banking platforms and informal financial sources. These findings illuminate the uneven distribution of financial access across the country's divisions, underscoring the significant role of both formal banking services and informal systems, which many households continue to rely on.

Access to Formal Banking Services: Access to formal banking services, measured by the percentage of households with bank accounts, varies widely by division. Chattogram and Dhaka have relatively high levels of bank-based financial access, at 35 per cent and 33 per cent, respectively. This is likely due to the urbanised nature of these divisions and the availability of physical banking infrastructure. In contrast, divisions like Rangpur (10 per cent) and Mymensingh (13 per cent) have significantly lower levels of formal bank access, indicating a potential gap in the availability or accessibility of traditional banking services in these more rural regions. This disparity underscores the need for alternative forms of financial access, such as MFIs and mobile banking, to support underserved rural communities.

Role of Microfinance Institutions (MFIs): Microfinance institutions (MFIs) play a crucial role in providing financial services to rural households, with an overall access rate of 55.01 per cent. Rajshahi, Barishal, and Khulna have the highest access to MFI services at 63 per cent, 61 per cent, and 58 per cent, respectively. These high levels suggest that MFIs are a primary source of credit and other financial services in these divisions, compensating for the limited reach of formal banks. Mymensingh and Sylhet show lower access to MFIs, at 52 per cent and 47 per cent respectively, though they still benefit from these services to some extent. This distribution reflects the effectiveness of MFIs in reaching rural populations, particularly in areas where traditional banks are less accessible.

Access to Mobile Banking: Mobile banking services are widely used across all divisions, with an aggregate access rate of 86.72 per cent. This high rate of mobile banking access demonstrates the critical role of mobile financial services in facilitating financial transactions, particularly in rural and underserved areas. Divisions such as Khulna (91 per cent), Rajshahi (91 per cent), and Dhaka (88 per cent) show exceptionally high mobile banking usage, indicating that residents are increasingly relying on mobile platforms for financial transactions. In contrast, Mymensingh and Barishal, though still showing strong access rates (83 per cent and 81 per cent, respectively), have slightly lower mobile banking usage, which could be due to lower smartphone penetration or digital literacy in these areas. Mobile banking has proven to be an effective means of expanding financial inclusion, especially in regions with limited banking infrastructure.

Access to Informal Finance: Despite the availability of formal and digital financial services, a significant portion of households in each division still rely on informal finance. Informal financial access across divisions averages 75.33 per cent, with Barishal having the highest rate at 95 per cent. This reliance on informal finance suggests that formal financial services, though increasingly accessible, are not fully meeting the needs of all rural households. Factors such as trust in informal networks, ease of access, and the flexibility of informal lending arrangements likely contribute to the

persistence of informal finance. Even in divisions like Dhaka and Khulna, where formal banking access is higher, informal finance remains a key component of households' financial strategies, possibly due to convenience, familiarity, or a lack of alternatives that meet immediate needs.

Insights: The data indicates a strong but varied landscape of financial access across Bangladesh's divisions, with MFS and MFIs serving as crucial pillars in achieving widespread financial inclusion. Divisions with limited formal bank access, like Rangpur and Mymensingh, rely heavily on mobile banking and MFIs, which compensate for gaps in traditional financial infrastructure. The high levels of informal finance across divisions, even where formal access is robust, point to a continued need for accessible, flexible, and trustworthy financial solutions tailored to rural communities' needs. This information suggests a pathway forward for financial inclusion efforts in Bangladesh, emphasising the need for a multi-faceted approach that strengthens formal banking infrastructure while supporting the continued growth of mobile banking, MFIs, and insurance products. Addressing barriers to formal banking and expanding mobile financial literacy could also help transition more households from informal to formal financial systems, promoting a more inclusive and resilient financial ecosystem.

Table 4.14: Access to various types of financial services (%) across divisions

Division	Access to any financial services in banks	Access to finance in MFIs	Access to finance in other FIs (registered cooperatives)	Access to mobile banking services (through own account/other's account)	Access to active own mobile bank account	Access to Informal Finance
Barishal	16	61	7	81	75.63	95
Chattogram	35	50	13	83	74.38	76
Dhaka	33	54	17	88	78.97	78
Khulna	18	58	10	91	85.63	66
Mymensingh	13	52	8	83	70.83	87
Rajshahi	19	63	5	91	87.31	82
Rangpur	10	55	8	88	83.13	55
Sylhet	32	47	8	84	78.75	70
Total	23.69	55.01	10.63	86.72	79.76	75.33

Source: CRFS Rural Finance Survey, 2023

4.8 Access to Financial Services: Key Household Characteristics

The survey indicates that approximately 95 per cent of households have access to some type of financial services in formal markets, and around 75 per cent access services through informal channels. However, if MFS and insurance services are excluded, the percentage of households with access to formal financial services declines to 70 per cent. In particular, 24 per cent of households obtain financial services through banks, while 55 per cent rely on MFIs.

To better understand who has access to financial services and who does not, we analysed the households in terms of four key factors: occupation, education, income and distance from bank, MFIs and road. Table 4.15 presents the summary findings, offering valuable insights into the characteristics of households that are either excluded from financial markets or have differing levels of access to formal and informal financial services.

Occupation: Service holders have the highest access to bank and non-bank financial institutions (34.43 per cent) and MFS (91.39 per cent). In contrast, day labourers show significantly lower access across all categories, particularly in bank financing (12.74 per cent) and MFIs (34.43 per cent). Access to informal finance remains high for all occupational categories, particularly for service holders (77.46 per cent) and self-employed (75.61 per cent).

Education: Access to financial services tends to increase with educational attainment. For instance, households with higher secondary education (HSC) show the highest access to bank financing (53.33 per cent) and MFS (96.00 per cent). Illiterate households have the lowest access to bank finance (15.94 per cent) but still engage with microfinance (52.87 per cent).

Income quintile: There is a clear correlation between income levels and access to finance. The highest income quintile has the largest access to formal financial services, with 50.38 per cent having access to bank financing. Conversely, the lowest income quintile has the least access, with only 9.34 per cent able to access bank services.

Distance from financial institutions: The average distance to the nearest road and a financial institution is relatively low, with access to banks averaging about 3.87 kilometers. Households who generally live closer to the nearest road compared with banks and MFIs, may facilitate access but does not necessarily guarantee it.

The analysis reveals notable disparities in household access to financial services, with access largely shaped by factors like occupation, education, income, and location. MFS and informal financial options are more readily available, whereas access to formal financial services remains limited, particularly for less advantaged and geographically remote households. Overall, the analysis clearly shows that formal credit markets and microfinance serve distinct groups. Households with higher levels of education tend to access formal credit markets more easily, while those with stable incomes are less inclined to use microcredit services. Moreover, vulnerable groups, including households led by labourers, are less likely to have access to either type of credit market.

Table 4.15: Characteristics of households having access to any financial services (%)

Characteristics	Access to finance in Bank or non-bank FIs	Access to finance in microfinance institutions	Access to finance in other FIs (PSB/ Cooperatives etc.)	Access to finance in MFS	Access to informal finance	No access to finance in any formal market
Occupation:						
Service holder	34.43	52.05	12.30	91.39	77.46	1.64
Self-employed	23.66	55.73	10.50	86.56	75.61	1.86
Day laborer	12.74	34.43	9.50	85.96	73.87	3.02
Education:						
Illiterate	15.94	52.87	9.23	80.70	67.55	4.20
Up to class 5	18.34	61.52	9.97	86.94	77.97	2.19
Up to class 9	28.43	54.35	11.99	89.75	77.18	1.16
S.SC	37.85	44.62	12.75	91.63	77.69	0.40
HSC	53.33	53.33	17.33	96.00	82.67	0
Above HSC	56.10	31.71	9.76	93.90	85.37	0
Income quintile						
Lowest	9.34	48.17	6.96	79.12	65.57	4.21
Second	13.28	56.05	8.01	86.33	72.85	2.54
Third	18.71	63.14	12.67	87.90	79.77	1.32
Fourth	26.89	59.66	10.42	90.15	74.81	2.08
Highest	50.38	48.30	15.15	90.34	83.90	0.95
Distance(km) from:						
Nearest road	0.57	0.57	0.32	0.70	0.69	0.49
Nearest bank	3.87	3.45	3.51	3.74	3.73	3.59
Nearest MFI	3.14	2.55	2.94	2.82	2.85	2.86

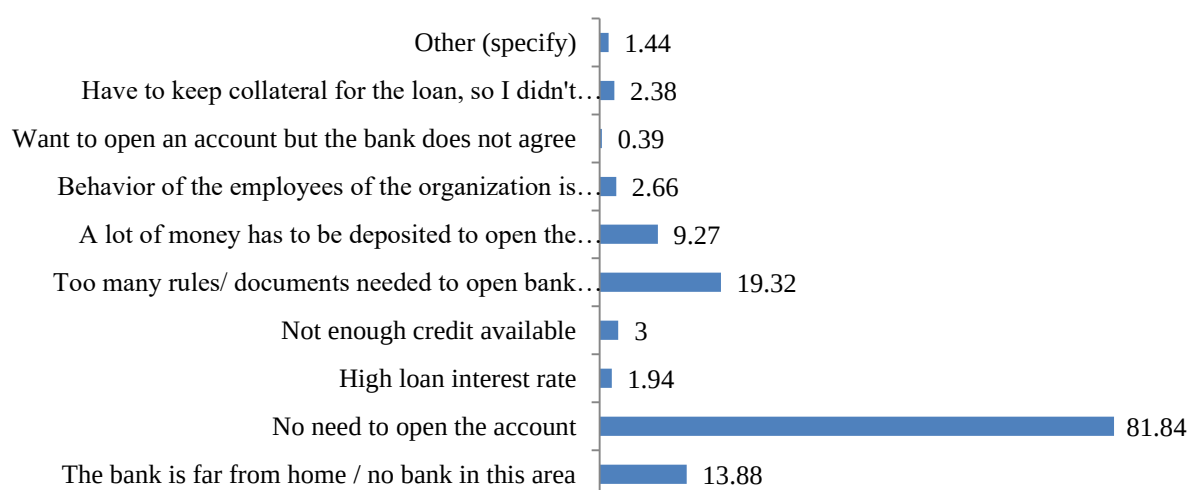
Source: CRFS Rural Finance Survey, 2023

4.9 Barriers to Accessing Financial Services from Banks

Despite considerable progress, several challenges still hinder aggregate access to financial services for rural households in Bangladesh. Limited digital literacy, particularly among older populations and women, affects the effective utilisation of mobile banking and digital services. Additionally, there is still a need for customised financial products that address the unique needs of different rural communities, especially in regions most vulnerable to climate change. Regulatory support and partnerships among the government, financial institutions, and non-governmental organisations will be crucial in addressing these gaps and ensuring that financial services reach the most remote and marginalised communities.

Figure 4.6 outlines the primary barriers preventing individuals from opening bank accounts. Common reasons include a lack of sufficient funds, which can make maintaining an account seem unnecessary or burdensome, and limited awareness or understanding of banking services, suggesting financial literacy as a key issue. Other barriers include high transaction fees, physical distance from banking facilities, lack of required documentation, and a general mistrust of formal institutions. This figure highlights the challenges that rural or low-income populations face in accessing formal financial services, pointing to economic, educational, and logistical factors that discourage bank account ownership.

Figure 4.6: Reasons for not opening any bank account (%)



Source: CRFS Rural Finance Survey, 2023

Table 4.16 gives the primary reasons for not opening bank accounts across various divisions in Bangladesh. The reasons vary significantly by region, illustrating diverse barriers to financial inclusion. "No need to open the account" is the most cited reason, especially in Dhaka (95.2 per cent) and Chattogram (89.2 per cent), suggesting that many households does not perceive a benefit in holding an account. Physical distance to the nearest bank is a notable barrier, particularly in Chattogram (23.2 per cent) and Mymensingh (19.9 per cent), where limited accessibility impacts usage. Complex documentation requirements are another common obstacle, reported by 36.5 per cent in Barishal and over 27 per cent in Rajshahi and Rangpur divisions. High minimum deposits and unsatisfactory staff behaviour also affect account ownership, especially in Sylhet and Mymensingh. Additional barriers include high loan interest rates, insufficient availability of credit and collateral requirements for loans, albeit to a lesser extent across most divisions. This underscores the varied regional challenges to opening bank accounts, influenced by both practical and perceptual factors.

Table 4.16: Reasons for not opening bank account by divisions

Type of barrier	% of households								
	Barishal	Chattogram	Dhaka	Khulna	Mymensingh	Rajshahi	Rangpur	Sylhet	Total
The bank is far from home /no bank in this area	11.9	23.2	10.5	7.2	19.9	15.5	12.3	1.1	13.9
No need to open the account	77.0	89.2	95.2	90.4	57.9	81.8	71.2	76.4	81.8
High loan interest rate	7.9	1.3	1.0	1.4	3.5	2.4	0.7	0	1.9
Not enough credit available	19.1	2.3	1.0	1.0	0	3.4	2.8	0	3.0
Too many rules/ documents needed to open bank account	36.5	18.6	1.0	17.7	22.2	27.9	27.0	7.5	19.3
A lot of money has to be deposited to open the account	3.2	4.9	5.4	11.0	17.0	2.0	17.6	24.7	9.3
Behavior of the employees of the organisation is not good	0	0	0	0	17.5	0.7	5.6	0	2.7
Want to open an account but the bank does not agree	0.8	0.3	0	0	1.8	0	0.7	0	0.4
Have to keep collateral for the loan, so I didn't open account	4.0	2.0	0.6	1.4	3.5	5.7	1.4	0	2.4
Other (specify)	0.8	2.3	1.6	1.4	0	0	0	10.8	1.4

Source: CRFS Rural Finance Survey, 2023

4.10 Financial Knowledge and Literacy

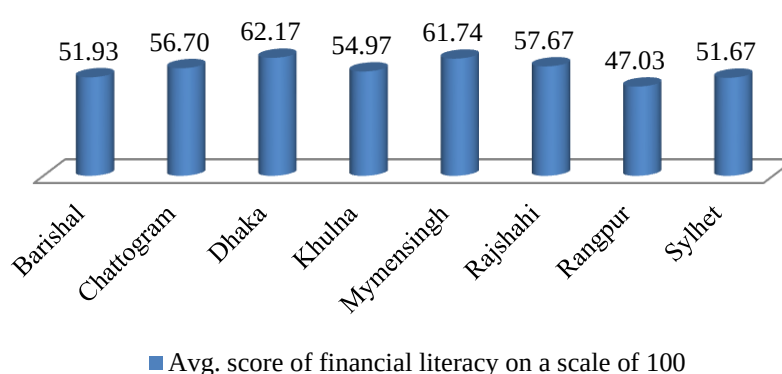
4.10.1 Score of financial literacy by division

To evaluate overall financial literacy, respondents were asked 12 questions addressing their knowledge of financial products, usage, and accessibility (see Box 4.1). Each of these twelve indicators was designed as a scaled variable, reflecting specific actions or items. Respondents who scored positively within the defined scale for an indicator were classified as “empowered” in that category and received a score of one. By summing these individual scores, we determined an overall financial literacy score for each respondent. The total financial literacy score on a scale of 0 to 100 has been calculated by using the formula: $\text{Score normalised} = (\text{Score}/12) \times 100$.

Box 4.1: Indicators for measuring financial literacy

Sl. no.	Questions	Passing criteria
1	Do you know where to get loan from?	If the respondent answer is yes and s/he can mention at least 2 source
2	Do you know what is saving account?	If the respondent answer is yes and s/he can mention at least 2 documents required for opening saving account
3	Do you know what a current account is?	If the respondent answer is yes and s/he can mention at least 2 functions of bank
4	Do you know what an MFI is? What are the functions of it?	If the respondent answer is yes and s/he can mention at least 2 functions of MFI
5	Do you know how to get an ATM card?	If the respondent's answer is Yes
6	Do you know the facilities that you will get if you have saving account with bank?	If the respondent can mention at least 2 benefits of having saving account
7	Do you know what mobile banking is?	If the respondent's answer is Yes
8	Do you know what a cheque book is?	If the respondent's answer is Yes
9	Do you know what interest is?	If the respondent's answer is Yes
10	Do you know what loan collateral is?	If the respondent's answer is Yes
11	Do you know what internet banking is?	If the respondent's answer is Yes
12	Do you know what agent banking is?	If the respondent's answer is Yes

Figure 4.7 presents the average financial literacy scores across different divisions, highlighting regional variations in financial understanding and empowerment. Divisions such as Dhaka and Mymensingh show relatively higher average scores, indicating a better grasp of financial products, usage, and accessibility among respondents in these areas. In contrast, divisions like Rangpur and Sylhet have lower average scores, suggesting more limited financial literacy in these regions. These differences may reflect disparities in access to financial education, availability of financial services, or socioeconomic conditions across divisions. The findings underscore the need for targeted financial literacy initiatives in lower-scoring regions to promote more equitable financial empowerment across the country.

Figure 4.7: Average score of financial literacy by division

Source: InM , CRFS Rural Finance Survey, 2023

4.10.2 Extent of Financial Literacy

Respondents were asked about their familiarity and understanding of different types of financial products and services. Table 4.17 gives the percentage of households across various divisions that are knowledgeable about different aspects of financial literacy. Generally, there is high awareness of where to obtain loans, with most divisions scoring above 90 per cent, indicating a widespread

familiarity with loan sources across regions. Knowledge of savings accounts is more variable, with Dhaka showing the highest awareness at 77.9 per cent, while divisions like Rangpur (37.81 per cent) and Barishal (30.63 per cent) have significantly lower awareness. Current account knowledge is notably low overall, with an average of 21.57 per cent, and only Mymensingh surpassing this with a 45.42 per cent awareness rate, pointing to limited understanding of this banking option.

Familiarity with ATM or debit cards and internet banking is also low, averaging between 16.69 per cent and 3.75 per cent, respectively, indicating restricted access to or limited knowledge of digital banking services, especially in rural areas. However, knowledge of mobile banking is relatively high, averaging 87.51 per cent, with Chattogram and Dhaka showing the highest awareness at over 92 per cent, which suggests mobile banking is more accessible and well-known compared with internet or agent banking.

Understanding of MFIs is also high across most divisions, especially in Mymensingh (98.33 per cent) and Rangpur (97.19 per cent), reflecting the importance of microfinance in rural finance. Knowledge about loan collateral and interest rates is more mixed; Mymensingh demonstrates strong knowledge in these areas, particularly regarding collateral (90.42 per cent). In contrast, divisions like Rangpur and Sylhet have lower understanding of loan collateral.

Overall, the findings show strong familiarity with basic loan and microfinance concepts, moderate awareness of savings and bank account functionalities, and limited knowledge of more advanced banking services such as internet banking, agent banking, and collateral requirements. These gaps highlight the need for targeted financial education to improve understanding of digital and formal banking services, especially in divisions with lower awareness.

Table 4.17: Percentage distribution of households by financial literacy and divisions

Type of financial literacy	Barishal	Chattogram	Dhaka	Khulna	Mymensing	Rajshahi	Rangpur	Sylhet	Total
Know about where to get loan	90.63	96.46	98.04	99.38	96.25	98.51	99.06	90.63	97.05
Know about Savings account	30.63	57.5	77.9	44.38	56.67	57.21	37.81	53.75	55.88
Know about Current account	15.63	17.29	22.64	16.56	45.42	20.15	19.06	19.38	21.57
Know about what can be done through bank account	51.88	45.42	61.68	53.13	54.17	56.47	32.19	61.25	52.02
Know about ATM/ Debit card	15.63	14.17	24.6	12.5	20	16.67	8.44	17.5	16.69
Know about Mobile banking	81.25	93.75	92.87	93.44	90.83	92.79	70.31	60.62	87.51
Know about Internet banking	0	1.67	3.57	2.19	8.33	9.7	1.25	0.63	3.75
Know about Agent banking	13.75	23.54	25.13	8.44	17.5	14.18	8.75	18.13	17.37
Know about MFI's	90.63	96.04	92.16	93.44	98.33	96.27	97.19	87.5	94.44
Know about Cheque book	78.13	67.71	80.75	85.94	64.58	70.4	60.31	78.75	73.21
Know about Loan collateral	57.5	68.96	69.16	51.25	90.42	61.19	36.88	35.63	61.03
Know about Interest	97.5	97.92	97.5	99.06	98.33	98.51	93.13	96.25	97.39

Source: CRFS Rural Finance Survey, 2023

Chapter 5

Access to Finance by Rural Households

5.1 Introduction

In Bangladesh, while the rural communities need financial services the most for improving their livelihoods and overall quality of life, they continue to remain the largest un- and under-served market for financial services in the country. Ensuring their access to and use of required financial services can unlock the considerable socioeconomic potential of the country's rural areas, and benefit the rural poor and low income farm and nonfarm households as well as disadvantaged and marginalised communities by increasing household incomes and decent work in both farm and rural nonfarm sector. As the country's central bank, Bangladesh Bank can contribute greatly to this effort through its regulatory and technical capacities in promoting financial inclusion and through helping banks and other financial institutions to integrate access to finance strategies for rural households in their work that reaches out to the rural economy, and leveraging the effects of this with all relevant stakeholders.

This chapter discusses the summary findings on access to and use of financial services of the present CRFS based on both focused primary household surveys and secondary materials for three major groups of rural households: (i) farm and nonfarm households; (ii) regional variation in access to finance by rural households; and (iii) access to finance by five selected disadvantaged and marginalised communities. The chapter also highlights major issues and challenges along with some major recommendations for wider rural financial inclusion in the country.

5.2 Financing Status of Farm and Nonfarm Households

Bangladesh's agriculture sector is currently at a crossroads. Nonfarm activities are becoming increasingly competitive with agriculture due, among others, to rising labour costs, highly intensive input- and natural resource-based production and other complexities of rural transformation. A number of risks also threaten the small farmer based (nearly 90 per cent of farm households are small farmers having land ownership of between 0.5 to 2.49 acres) farm production, discouraging adequate agricultural investments. Formal financial institutions typically consider small farmer-dominated agriculture as too risky and are reluctant to lend money to small farmers and agribusiness activities.

In the rural nonfarm economy, the CMSMEs are constrained by access to finance, technology, business development services, access to urban and external value chains and marketing linkages to increase their scale economies and productivity.

The total credit disbursement to the agriculture sector in FY 23 was TK.328.3 billion, compared with a target of TK.308.1 billion, and was 13.85 per cent higher than the actual disbursement of TK.288.3 billion in FY 22 (Bangladesh Bank, Annual Report, July 2022-June 2023). In the rural economy, MFIs form a major source of rural finance especially in disbursing credit especially to agriculture and CMEs. According to Credit and Development Forum (CDF), a network of MFIs in Bangladesh, the reporting MFIs (502 in number) disbursed a total of TK.1,618.85 billion in 2020-21 to 33.14 million borrowers in the country; out of which the share of microcredit is 54 per cent, 33 per cent are microenterprise loans and 12 per cent are loans under special programmes (e.g. sufalan, moushumi, ultra poor, disaster, social development etc.).

5.2.1 Access to and use of financial services by farming households: Glimpses from primary survey

Some basic characteristics of the surveyed households are given in Table 5.1.

Table 5.1: Some basic characteristics of surveyed households

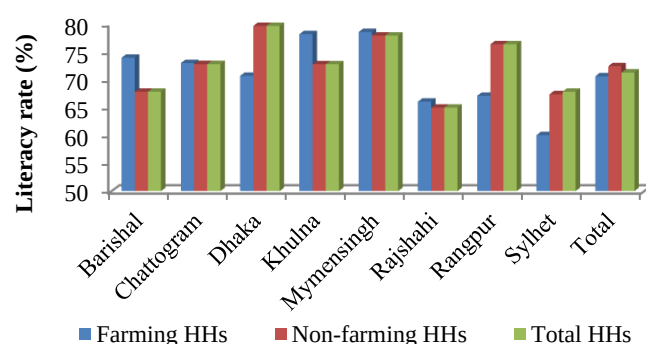
Division	Farming HHs			Non-farming HHs			Total HHs		
	Average HH Size (number)	Female headed HH (%)	Migrat ed HH (%)	Average HH size (number)	Female headed HH (%)	Migrat ed HH (%)	Average HH Size (number)	Female headed HH (%)	Migrat ed HH (%)
Barishal	4.68	4.17	19.79	4.30	8.33	25	4.53	5.77	21.79
Chattogram	5.45	1.04	45.83	4.52	1.67	35	5.09	1.28	41.67
Dhaka	4.75	4.17	30.21	4.82	6.67	45	4.78	5.13	35.90
Khulna	4.14	0	13.54	4.30	13.33	20	4.20	5.13	16.03
Mymensingh	4.28	5.21	19.79	4.17	8.33	20	4.24	6.41	19.87
Rajshahi	4.52	1.04	4.17	4.21	3.23	3.23	4.40	1.90	3.80
Rangpur	4.59	3.13	30.21	4.55	8.33	20	4.58	5.13	26.28
Sylhet	5.60	6.25	20.83	4.98	20	31.67	5.37	11.54	25
Total	4.75	3.13	23.05	4.48	8.71	24.90	4.65	5.28	23.76

Source: CRFS Farm and Nonfarm Household Survey, 2023

Note: For details breakdown, see background report no. 2025-08

The average age of the household head is 47.92 years. The average literacy rate is found 71.33 per cent in surveyed areas (Figure 5.1).

Figure 5.1: Literacy rate of household head by division

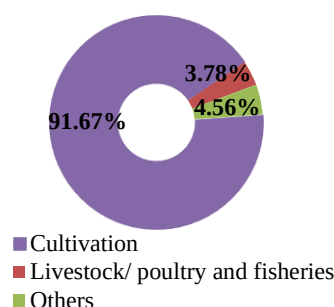


Source: CRFS Farm and Nonfarm Household Survey, 2023

Note: For details breakdown, see background report no. 2025-08

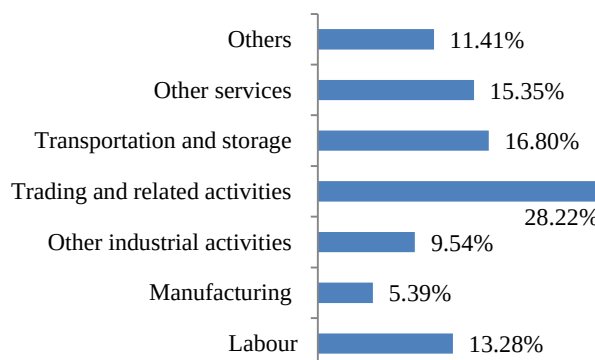
Almost 92 per cent of the farming household head are primarily engaged in cultivation activities (Figure 5.2). On the other hand, non-farming household head are mostly engaged in trading activities (Figure 5.3).

Figure 5.2: Primary occupation of farming household head



Source: CRFS Farm and Nonfarm Household Survey, 2023

Figure 5.3: Primary occupation of non-farming household head



Information on occupational pattern and average household income shows that around 58 per cent of the farming households have multiple earning members while only 48.76 per cent of the non-farming households have multiple earning members. As expected, farming household head have greater multiple earning sources (63.41 per cent) compared with the non-farming household head (23.65 per cent). For all households, average yearly income is TK.282.33 thousand; for non-farming households this is TK.291.28 thousand as compared with TK.284.45 thousand for farming ones. The average household consumption expenditure by divisions is shown in Table 5.2.

Table 5.2: Average annual household consumption expenditure (in thousand Tk) by division

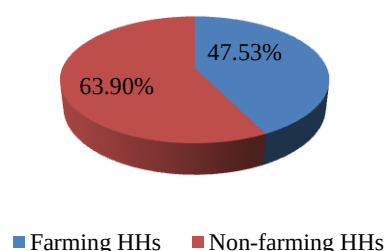
Division	Farming HHs			Non-farming HHs			Total HHs		
	Food	Non-food	Total	Food	Non-food	Total	Food	Non-food	Total
Barishal	94.08	101.28	195.36	89.08	87.27	176.35	92.15	95.89	188.05
Chattogram	142.15	98.76	240.91	106.80	83.55	190.35	128.55	92.91	221.46
Dhaka	142.33	76.88	219.21	128.00	98.05	226.05	136.82	85.02	221.84
Khulna	88.78	62.61	151.38	108.54	70.26	178.80	96.38	65.55	161.93
Mymensingh	107.01	80.06	187.07	126.80	76.56	203.36	114.62	78.71	193.34
Rajshahi	105.84	94.82	200.66	110.07	121.09	231.16	107.50	105.13	212.63
Rangpur	89.34	57.91	147.26	122.70	59.81	182.51	102.17	58.64	160.82
Sylhet	121.75	62.77	184.52	109.46	56.82	166.28	117.02	60.48	177.51
Total	111.41	79.39	190.80	112.67	81.84	194.51	111.90	80.33	192.23

Source: CRFS Farm and Nonfarm Household Survey, 2023

5.2.2 Savings behaviour of households

People save money to invest or spend in some future events or to cope with certain shocks. Savings is an important insurance mechanism for the people who live in a geographically remote area and most likely to be very vulnerable. Around 48 per cent of the farming households have access to formal saving account whereas around 64 per cent of non-farming households have reported to have savings account in any formal financial institution (Figure 5.4).

Figure 5.4: Access to saving account



Source: CRFS Farm and Nonfarm Household Survey, 2023

There has been a notable difference between the extents of access to formal savings across divisions (Table 5.3). Khulna leads other divisions in terms of access: about 62.50 per cent of the farming HHs in Khulna division has access to formal saving account services. The finding shows that almost 30 per cent of farming households do not have savings of any form. Alternatively, 20.33 per cent of non-farming households do not have savings of any form. Most of the households save money in the form of cash in hand. Other form of informal savings is savings in informal cooperatives in the villages.

Table 5.3: Access to different savings markets by division (%)

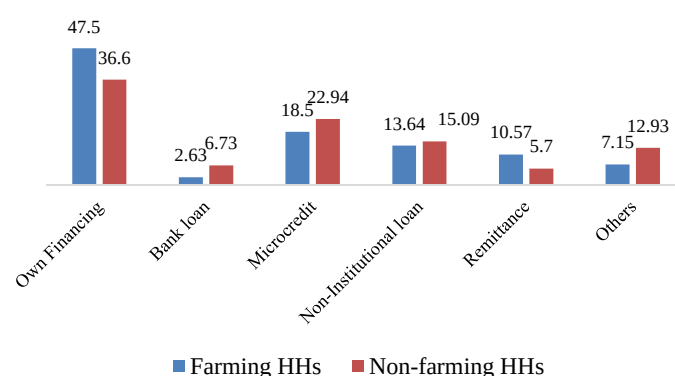
Division	Farming HHs				Non-farming HHs				Total HHs			
	Access to savings (%)				Access to savings (%)				Access to savings (%)			
	Any formal market	Bank & NBFIs	MFI's	Informal market	Any formal market	Bank & NBFIs	MFI's	Informal market	Any formal market	Bank & NBFIs	MFI's	Informal market
Barishal	59.63	12.5	55.21	85.42	65	11.67	58.33	81.67	61.54	12.18	56.41	83.97
Chattogram	46.88	21.88	30.21	39.58	63.33	35	40	56.67	53.21	26.92	33.97	46.15
Dhaka	60.42	38.54	39.58	68.75	75	56.67	45	80	66.03	45.51	41.67	73.08
Khulna	62.50	36.46	37.5	61.46	81.67	36.67	70	91.67	69.87	36.54	50	73.08
Mymensingh	33.33	9.38	25	81.25	46.67	16.67	33.33	88.33	38.46	12.18	28.21	83.97
Rajshahi	38.54	12.5	29.17	57.29	56.45	22.58	45.16	62.9	45.57	16.46	35.44	59.49
Rangpur	37.50	21.88	27.08	46.88	66.67	15	61.67	70	48.72	19.23	40.38	55.77
Sylhet	41.67	19.79	23.96	48.96	56.67	26.67	48.33	58.33	47.44	22.44	33.33	52.56
Total	47.53	21.61	33.46	61.2	63.90	27.59	50.21	73.65	53.84	23.92	39.92	66

Source: CRFS Farm and Nonfarm Household Survey, 2023

Investment behaviour and sources of investable fund

When compared by type of assets that households invest in, physical assets were clearly most preferred and around 24 per cent of farming households reporting that they are investing money for purchasing land while around 32 per cent of the non-farming households are reporting that they are invested their money for house construction. The households reported that sources of fund for investment are own funds, funds from institutional sources like banks or MFIs higher dependence on own funds, and MFIs.

Figure 5.5: Sources of fund for investment (in percentage)



Source: CRFS Farm and Nonfarm Household Survey, 2023

5.2.3 Borrowing behaviour of households

Transaction costs, interest rates, contract flexibility, the availability of a large variety of loan products, and other factors all influence the choice of credit market. The transaction cost of borrowing, which is the total of interest and non-interest costs, is one of the factors. A prudent borrower would always want to keep transaction costs as low as possible. According to existing research, the informal market in Bangladesh has the highest average lending interest rate of any market, whereas the formal market has the lowest. Approximately 50 per cent of families obtain loans from banks, MFIs, cooperatives, or other formal markets. 43.44 per cent of families have access to microcredit, whereas just 5.44 per cent of households get bank credit. It is interesting to note that 30.64 per cent of credit is still informal (Table 5.4).

The informal credit market is similarly prevalent in other developing countries as it is in Bangladesh. Approximately 44 per cent of Chinese households take out loans via the unofficial credit market. The terms and circumstances of the informal credit market are more flexible than those of the formal markets. Not every household that borrows can satisfy its needs by taking out loans from the microcredit or informal credit markets.

Table 5.4: Households accessing credit from different markets (%)

Division	Access to credit from any formal FIs	Access to credit from bank or non-bank FIs	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from MFIs	Access to informal credit
Farming HHs	44.66	5.60	4.04	1.69	38.67	31.51
Non-farming HHs	57.88	5.19	1.87	3.53	51.04	29.25
Total HHs	49.76	5.44	3.20	2.40	43.44	30.64

Source: CRFS Farm and Nonfarm Household Survey, 2023

In Barishal division, none of the sampled households has any access to Bank or NBFIs credit market. The coverage of poor households is expanded through microfinance (43.44 per cent); but the access to bank is very poor in rural areas and it is 5.4 per cent for all households (Table 5.5). The highest expansion of microcredit market is in Barishal division where around 61 per cent of the households take credit from MFIs. However, the borrowing scenario is different from farming and non-farming households; around 39 per cent of farming households take loan from MFIs while 51.04 per cent of the non-farming households take loan from MFIs. Farming households are taking much agricultural loan from bank (4.04 per cent) rather than non-farming households (1.87 per cent). Access to credit

from banks and NBFIs is highest in Dhaka (10.9 per cent) but the overall picture is poor in rural areas of Bangladesh.

Table 5.5: Access to credit from bank or NBFIs

Division	Farming HHs			Non-farming HHs			Total HHs		
	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from bank or non-bank FIs	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from bank or non-bank FIs	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from bank or non-bank FIs
Barishal	0	0	0	0	0	0	0	0	0
Chattogram	3.13	3.13	6.25	0	8.33	8.33	1.92	5.13	7.05
Dhaka	6.25	3.13	9.38	5	8.33	13.33	5.77	5.13	10.9
Khulna	3.13	1.04	4.17	1.67	1.67	1.67	2.56	1.28	3.21
Mymensingh	3.13	3.13	6.25	5	5	10	3.85	3.85	7.69
Rajshahi	2.08	2.08	3.13	1.61	1.61	3.23	1.9	1.9	3.16
Rangpur	5.21	1.04	6.25	1.67	1.67	3.33	3.85	1.28	5.13
Sylhet	9.38	0	9.38	0	1.67	1.67	5.77	0.64	6.41
Total	4.04	1.69	5.6	1.87	3.53	5.19	3.2	2.4	5.44

Note: Locational characteristics of the sampled households in Barishal division have contributed to very low (with percentages approximated to zero) access to bank credit. The results from Rural Finance Survey 2023 as shown in Chapter 4, show a share of more than 4 per cent.

Source: CRFS Farm and Nonfarm Household Survey, 2023

Market share by loan size

We have analysed the intensity of access to credit services by the share of households. The distribution of credit market share in last one year is considered. This shows that, based on cash credit, 44 per cent of the households have access to informal credit market suggesting possible overlapping (Table 5.6). But the informal credit market has a dominant share in total supply of cash credit too. During 2022, farming household's highest loan come from informal market (49 per cent) than from MFIs (42 per cent). Similar pattern is also observed for non-farming household (Table 5.6).

Table 5.6: Market share in total credit and average loan size in 2022

Types of financial institutions	Farming HHs		Non-farming HHs		Total HHs	
	% in total supply of credit	Average loan size (Tk.) per HH	% in total supply of credit	Average loan size (Tk.) per HH	% in total supply of credit	Average loan size (Tk.) per HH
Microcredit market	42	70674	47	78986	45	74383
Informal market (cash credit)	49	91446	39	101048	44	94981
Banks and NBFIs	7	84974	12	260647	9	139273
Others	2	52000	2	66545	2	58154

Source: CRFS Farm and Nonfarm Household Survey, 2023

Multiple borrowing

Households do have multiple borrowing. We focus on the household level multiple borrowing based on access to different formal credit markets. Around 4 per cent of the households had access to multiple formal credit markets. The access to credit is disaggregated by access to single and multiple credit markets (Table 5.7).

Table 5.7: Intensity of multiple accesses of the households to formal credit market in 2022

Division	Household accessing formal credit (%)					
	Farming HHs		Non-farming HHs		Total HHs	
	Access to formal credit from single source	Access to formal credit from multiple source	Access to formal credit from single source	Access to formal credit from multiple source	Access to formal credit from single source	Access to formal credit from multiple source
Barishal	45.83	3.13	41.67	3.33	44.23	3.21
Chattogram	28.13	5.21	35	6.67	30.77	5.77
Dhaka	30.21	2.08	36.67	8.33	32.69	4.49
Khulna	20.83	1.04	36.67	10	26.92	4.49
Mymensingh	22.92	2.08	40	3.33	29.49	2.56
Rajshahi	15.63	0	38.71	4.84	24.68	1.9
Rangpur	22.92	4.17	46.67	5	32.05	4.49
Sylhet	22.92	0	45	8.33	31.41	3.21
Total	26.17	2.21	40.04	6.22	31.52	3.76

Source: CRFS Farm and Nonfarm Household Survey, 2023

Utilisation of credit

Effectiveness of credit largely depends on its use. As in the present study, microcredit has the largest share in total formal credit and the share of bank credit is very low, the analysis on utilisation of formal credit would mostly reflect the utilisation of microcredit. Proper utilisation of credit can also smooth consumption. In a study, Khalily and Faridi (2011) presented that around 60 per cent of the accumulated loans are used for productive and income generating activities. Remaining 40 per cent of the loan amount is used for meeting lumpy expenditures. Their study concludes that overlapping borrowing do not lead to growing indebtedness; in fact, it contributes to growing assets.

Use of formal loan: We evaluate the use of credit based on two critical questions. First, do the households use loans for economic activities? Second, to what extent do they use credit for lumpy expenditures and consumption (e.g., consumption, marriage expense, dowry, bribe, education expense, treatment cost, litigation expense and ritual cost) and repayment of previous loans? We demonstrate the uses of credit by purpose of using loan amount. We find that the households use formal credit more in IGAs and building assets. Around 77 per cent of the formal credit has been used for income generating purposes for farming households (Table 5.8). A significant amount of formal credit (almost 15 per cent) is used for lumpy expenditures, i.e., food and non-food consumption. However, the lumpy expenditure (21 per cent) is high in non-farming household (Table 5.9).

Use of informal loan: Around 29 per cent of the informal credit has been used for lumpy expenditures (food and non-food expenditure) for farming households. The most interesting result is 30.6 per cent informal loans are used for sending family members to abroad or local areas. Around 30 per cent of non-farming households are using informal loan for lumpy expenditures.

Table 5.8: Use of formal credit in different activities of farming household by category and division

Division	Utilisation of credit											
	Income generating activities		Food consumption		Non-food consumption		Financial asset creation		Loan repayment		Others	
	%	Average loan use (Tk.)	%	Average loan use	%	Average loan use (Tk.)	%	Average loan use (Tk.)	%	Average loan use (Tk.)	%	Average loan use (Tk.)
Barishal	72.2	47292	8.3	5458	10.1	6604	0	0	9.4	6167	0	0
Chattogram	85.4	129163	0.9	1395	8.9	13488	0	0	3.2	4884	1.5	2326
Dhaka	73.6	56375	1.6	1250	11.9	9125	0	0	6.4	4875	6.5	5000
Khulna	65.6	41719	2.2	1375	22.6	14375	0.2	156	8.4	5313	1.0	625
Mymensingh	66.1	39043	0	0	21.3	12553	0	0	3.6	2128	9.0	5319
Rajshahi	79.2	62552	0	0	14.2	11207	0	0	6.6	5172	0	0
Rangpur	77.3	34739	1.5	652	10.9	4891	0	0	9.7	4348	0.7	326
Sylhet	85.7	34067	4.6	1833	3.8	1500	0	0	5.9	2333	0	0
Total	76.6	56137	2.2	1590	12.6	9229	0.02	16	6.0	4416	2.5	1857

Source: CRFS Farm and Nonfarm Household Survey, 2023

Table 5.9: Distribution of formal loan use of non-farming household by category and division

Division	Utilisation of credit											
	Income generating activities		Food consumption		Non-food consumption		Financial asset creation		Loan repayment		Others	
	%	Average loan use (Tk.)	%	Average loan use	%	Average loan use (Tk.)	%	Average loan use (Tk.)	%	Average loan use (Tk.)	%	Average loan use (Tk.)
Barishal	51.8	35000	7.7	5185	18.9	12778	0	0	18.3	12370	3.3	2222
Chattogram	77.6	83000	1.9	2000	14.6	15600	0	0	6.0	6400	0.0	0
Dhaka	59.5	67667	0.6	667	32.4	36833	0	0	3.5	4000	4.0	4500
Khulna	71.8	46306	2.3	1500	15.8	10167	0	0	3.2	2056	6.9	4444
Mymensingh	71.6	58548	0	0	21.7	17742	0	0	5.1	4194	1.6	1290
Rajshahi	80.6	120900	0.1	167	5.9	8833	0	0	1.2	1833	12.2	18333
Rangpur	71.2	55600	0.7	571	17.1	13343	5.5	4286	0.0	0	5.5	4286
Sylhet	56.4	46515	2.1	1727	31.6	26061	0	0	2.9	2364	7.0	5758
Total	68.8	63320	1.5	1401	19.1	17603	0.7	607	4.2	3850	5.7	5202

Source: CRFS Farm and Nonfarm Household Survey, 2023

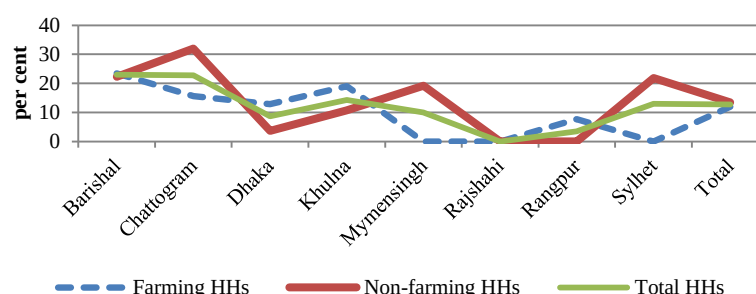
Credit constraints and rationing

Despite access to credit, households may still be credit constrained. A household may be credit constrained or unconstrained. Credit constrained may be supply-side constrained or demand side constrained. Such constraint is mutually exclusive; either a household may be credit constrained or unconstrained; a household may be supply side constrained or a demand-side constrained.

The supply side constraints arise when an applicant is either rejected or partly rationed out by the lender. The demand side constraints arise when a potential borrower fails to apply for several reasons

including price, transaction cost and perceived risk. For the sake of this analysis, we have divided the credit market into three categories: formal credit market (FCM), microcredit market (MCM), and informal credit market (ICM). Specifications for entry to several credit markets indicate overlap. When someone believes that their loan application will be denied, they are demand side constrained; conversely, if they receive the loan, they are said to be unconstrained.

Figure 5.6: Percentage of borrowing households that are credit constrained by division



Source: CRFS Farm and Nonfarm Household Survey, 2023

Among those who applied for loan, almost 87 per cent received loan amount equal to their requested amount (Figure 5.6). The portion of applicants who have had their loan amount rationed, i.e. received less loan amount than applied for, is poised close to 13 per cent. As such, the question arises to why these applicants were either fully or partially rationed out? Identification of reasons will have policy implications for the lenders. Table 5.10 describes the credit constraint status of the households. In case of bank services, the result shows that 33.33 per cent of single borrowing non-farming households are credit constraint.

Table 5.10: Percentage of borrowing households under constraint in 2022

Credit Rationing<1	Borrowing household under constraint (%)		
	Farming HHs	Non-farming HHs	Total HHs
1. Credit Rationing (CR=TSS/TDD) (Aggregate)	11.93	13.45	12.70
2. Credit Rationing (CR=MF/TDD) (MCM Single Access)	10.33	12.43	11.36
3. Credit Rationing (CR=TSS/TDD) (MCM Multiple Access)	23.53	14.29	17.78
4. Credit Rationing (CR=TSS/TDD) (Bank Single Access)	18.75	33.33	24
5. Credit Rationing (CR=TSS/TDD) (Bank Multiple Access)	25	100	40
6. Credit Rationing (CR=TSS/TDD) (Cooperative society Single Access)	0	0	0
7. Credit Rationing (CR=TSS/TDD) (Cooperative society Multiple Access)	.	0	0

Source: CRFS Farm and Nonfarm Household Survey, 2023

Inadequate income and land size are also a major reasons cited for full and partial credit rationing. However, quite a high portion of applications were either rejected or received less loan amount for apparently no reason.

Table 5.11: Characteristics of households (credit rationing<1)

Sl. no.	Socio economic status (Avg. values)	Credit constrained borrowing HH			Not credit constrained borrowing HH		
		Farming HHs	Non-farming HHs	Total HHs	Farming HHs	Non-farming HHs	Total HHs
1	Age of household head	50.00	41.33	45.36	48.43	44.36	46.39
2	Maximum education of HH member	8.54	8.43	8.48	9.04	8.77	8.90
3	Household size	4.92	4.70	4.80	4.91	4.42	4.67
4	Average annual income earned by the household	284133	249861	265773	284423	293885	289166
5	Average land owned by the household (decimal)	38.54	20.17	28.70	59.05	28.06	43.51
6	Annual average food expenditure	111646	111980	111825	116894	120286	118595
7	% of HH head have multiple earning source	57.69	13.33	33.93	65.10	28.50	46.75
8	% of HH have electricity access	100	100	100	100	100	100
9	% of HH use sanitary latrine	88.46	83.33	85.71	90.63	95.34	92.99
10	% of HH have safe drinking water access	96.15	100	98.21	95.31	96.89	96.10

Source: CRFS Farm and Nonfarm Household Survey, 2023

Demand for credit

Rural households and firms often do not use financial services from formal banks because the services are very expensive and sometimes even unsuitable. Many small borrowers do not apply for loan because of high transaction cost. These costs can be considered as non-interest cost of borrowing. Due to the high non-interest cost of borrowing, the low income group is less keen to access credit from the formal bank credit market. They can access informal credit markets. Despite having access to formal markets, households still may have a preference of taking credit from the informal market. It is observed that around 80 per cent of farming households have demand for credit from MFIs in the survey year whereas this figure is around 67.19 per cent of non-farming households.

Now the question is: why do they have preferences of one institution over another? Our analysis suggests that MFIs are popular among rural households due to easy availability of loan, less complex procedure and proximity from home (Table 5.12). Around 69 per cent of farming households report that they prefer to take loan from MFIs because the loan is easily available and 59 per cent mention that can get quickly while 74.42 per cent non-farming households mentioned that can get easily loan from MFIs. Moreover, proximity is also an important consideration. As MFIs are widespread in rural and geographically vulnerable areas, it is obvious that households living in these areas would want to take loan from MFIs. It is found that around 22 per cent of households prefer MFI loans because the institution is near to their home. Our analysis shows that households prefer to take loan from banks for completely different reasons. The data show that about 61 per cent of households that demand bank loan report that their demand can only be met by banks as the interest rate is low.

Table 5.12: Reasons for choosing banks/MFIs (% of households) for taking future loan

Reasons for choosing banks/MFIs for taking loan	MFIs			Banks		
	Farming	Non-farming	Total HHs	Farming	Non-farming	Total HHs
Institution is near to residence	28	15.12	22.04	21.05	20.00	20.37
Absence of other institutions	3	.	1.61	.	.	.
Can get loan easily	69	74.42	72.04	10.53	17.14	14.81
Can get loan quickly	59	45.35	52.69	10.53	5.71	7.41
Can get higher/bigger loan	3	15.12	8.60	26.32	45.71	38.89

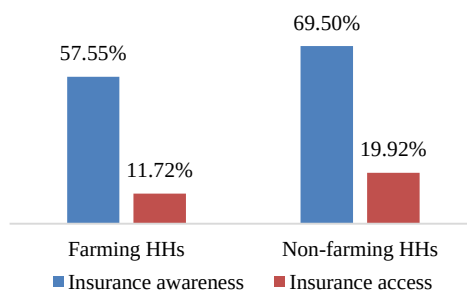
Interest rate is low	1	15.12	7.53	52.63	65.71	61.11
Not much documents required for membership/loan	14	4.65	9.68	.	2.86	1.85
Reasonable fee for getting loan	5	3.49	4.30	.	8.57	5.56
Easy to save money	2	5.81	3.76	.	5.71	3.70
Good interest rate on savings	.	1.16	0.54	.	.	.
Donations are available	.	.	.	.	2.86	1.85
The organisation works for the development of the area	.	1.16	0.54	5.26	.	1.85
Well behaved employees	.	2.33	1.08	.	2.86	1.85
Can get interest free loan	.	.	.	5.26	.	1.85

Source: CRFS Farm and Nonfarm Household Survey, 2023

5.2.4 Availability and penetration of insurance services

One of the fundamental elements of the formal financial market that can assist a person, family, or business in mitigating risks is insurance. Insurance is a useful tool that the financial market offers to help people deal with and recover from damages. In Bangladesh, life and other insurance are typically offered by insurance companies. Additionally, banks have started providing various insurance products (in collaboration with insurance companies) that are occasionally linked to their other offerings, such as credit cards and savings plans. New insurance products have recently been created with the goal of reducing the risk of natural disasters for the underprivileged. While 57.55 per cent of farming households have knowledge of insurance, just 11.72 per cent of them have at least one valid insurance. Similarly, over 70 per cent of non-farming households are aware of insurance services, but only about 20 per cent of households have insurance (Figure 5.7).

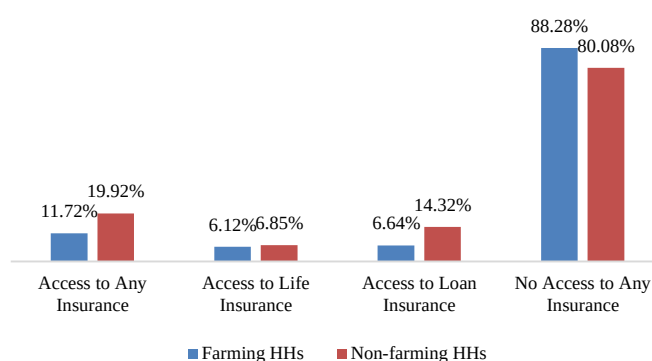
Figure 5.7: Access and awareness of insurance



Source: CRFS Farm and Nonfarm Household Survey, 2023

Insurance is divided into two broad categories (e.g. life insurance and general insurance). Among the poor households, the rate of life insurance is the highest. It is followed by a very low percentage of group insurance, private and government health insurances and others. In our survey, households have only life insurance (6.4 per cent) and loan insurance (9.6 per cent). The portion of households with no access to insurance is significantly very high for farming households (88.28 per cent). The lack of access to insurance services could be attributed to low level of awareness.

Figure 5.8: Farming and non-farming households insurance access



Source: CRFS Farm and Nonfarm Household Survey, 2023

Demand for insurance services

Purpose of insurance is to minimise the risk associated with various types of shocks. For the poor vulnerable people, it is very difficult to recover from the loss associated with shocks. In many cases, poor vulnerable people cannot recover at all from the loss because of fund crisis, while some people try to recover the loss through their own savings (particularly if loss amount is small) or by selling their assets. If the household have access to credit institutions, they try to get loans to finance the recovery. If they do not have access to formal credit, they look for informal credit or grants from their relative/neighbours/friends.

Most of the households, who are willing to buy insurance, choose life insurance (14.48 per cent). However, the majority percentage of the households is not willing to buy insurance. While we asked the respondents why they are not intending to buy insurance? Around 51 per cent of them mentioned that there is no benefit. Around 9.44 per cent of the respondents mentioned that insurance is safe, therefore, they are taking insurance services.

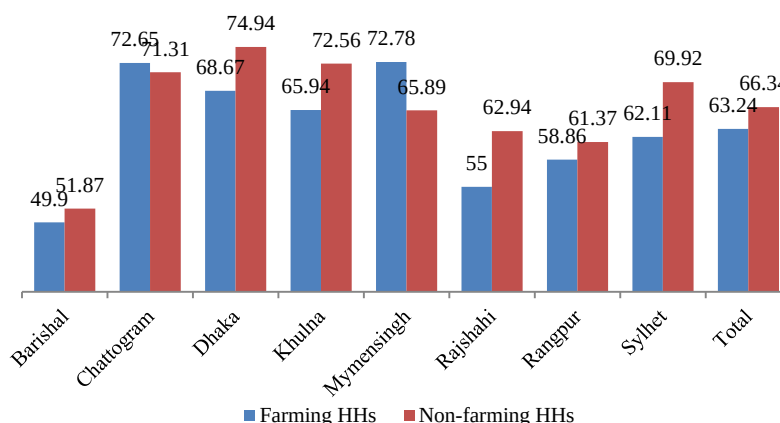
5.2.5 Financial knowledge and financial literacy

Examining the financial practices of agricultural and non-farming households is one of the study's main goals. Analysing how these rural agricultural and non-farming households use their earnings is crucial. Do they spend their entire earnings or do they save some of it? Where are they spending even if they do? Do they spend a greater percentage of their incomes on necessities or are they squandering it on other endeavours? Which would they prefer—banks or informal savings—if they were to set aside a percentage of their income? What are the driving forces behind their saving? When individuals experience unexpected shocks like illness, natural disasters, robbery, etc., do they borrow money to help them withstand shocks? If so, where do they obtain the loan? The financial behaviour of these households is determined by all of these factors. As a result, we must investigate these households' financial behaviour using a variety of behavioural patterns, including: (i) familiarity with financial institutions; (ii) familiarity with the usage of financial products and services; and (iii) familiarity with financial awareness.

In an era where a greater variety of financial products are readily accessible to a larger segment of the population, financial literacy is particularly crucial. We also find that financial management habits are significantly influenced by financial awareness. Without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing, and more (Klapper et al. 2015). Given the many ways financial literacy affects

financial behavior, it is important to understand the extent of people's understanding of basic financial concepts as well as the degree to which financial skills fall short among groups like farming and the non-farming households. We have generated literacy score based on 18 questions. For detailed methodology, see background report no.2025-08. The results of the analysis have been shown in Figure 5.9.

Figure 5.9: Average score of financial literacy by division



Source: CRFS Farm and Nonfarm Household Survey, 2023

For farming and non-farming households, the difference is more prominent in the case of knowledge about MFIs, awareness about insurance benefits and MFS transactions. On the other hand, around 25 per cent of the respondents' have knowledge about ATM card. Regarding literacy score, we find that both farming and non-farming household respondents have relatively better knowledge on financial awareness. For the farming households, the average score on financial awareness is 81.15 out of 100 against 84.65 in the case of non-farming household's respondent. It is also important to note that both the farming and non-farming household members have very limited knowledge on financial products. On an average, farming household score is 47.34 whereas the non-farming households' average score is 50.25.

When we observe total literacy score, we find that non-farming household respondents have highest (around 66) and farming households have the lowest average score 63.24 out of 100. The literacy score varies from division to division. The worst picture is found in Barishal division where the average score is only around 51 and the highest literacy score is around 72 in Chattogram division.

When we categorised the literacy score, Table 5.13 shows that around 39 per cent of the farming household's respondent score fall under 51-75 level of score. However, in case of non-farming households, around 42 per cent of the respondent average score is under 51-75 (Table 5.14). At the same time, we analysed the financial knowledge by gender dimension. As expected, male respondents have higher literacy score (66.33) than female respondent (61.94).

Table 5.13: Percentage distribution of farming household by score of financial literacy and division

Score of financial literacy	Barishal	Chatto gram	Dhaka	Khuln a	Mymen singh	Rajsh ahi	Rangp ur	Sylhet	Total
0-24	5.21	0	0	0	0	8.33	2.08	4.17	2.47
25-50	51.04	6.25	26.04	25	19.79	25	40.63	20.83	26.82
51-75	33.33	50	30.21	44.79	27.08	51.04	31.25	42.71	38.8
76-100	10.42	43.75	43.75	30.21	53.13	15.63	26.04	32.29	31.9
Total	100	100	100	100	100	100	100	100	100

Source: CRFS Farm and Nonfarm Household Survey, 2023

Table 5.14: Percentage distribution of non-farming household by score of financial literacy and division

Score of financial literacy	Barishal	Chatto gram	Dhaka	Khulna	Mymen singh	Rajsh ahi	Rangp ur	Sylhet	Total
0-24	6.67	0	0	0	3.33	1.61	0	0	1.45
25-50	45	10	6.67	5	26.67	20.97	26.67	15	19.5
51-75	36.67	40	43.33	51.67	28.33	48.39	46.67	43.33	42.32
76-100	11.67	50	50	43.33	41.67	29.03	26.67	41.67	36.72
Total	100	100	100	100	100	100	100	100	100

Source: CRFS Farm and Nonfarm Household Survey, 2023

5.2.6 Accessibility to any financial market

We present at first intensity of access to different financial services offered in different financial markets. Considering all markets and all types of products, we estimated aggregate intensity of access to financial services to different financial market.

Figure 5.10: Access to finance (Aggregate HHs)

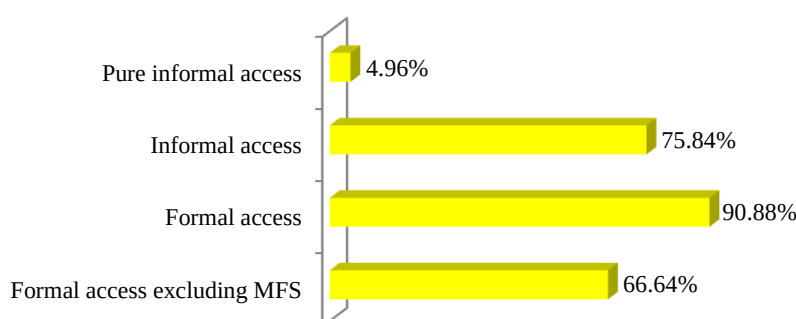


Figure 5.11: Access to finance (Farming HHs)

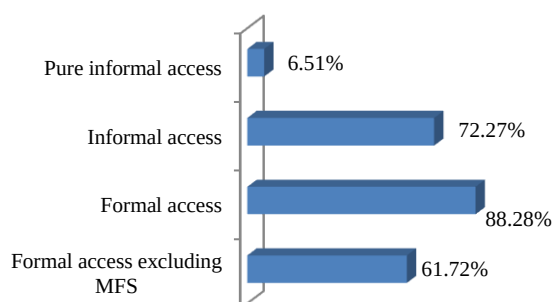
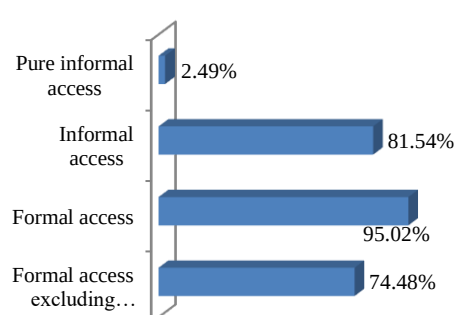


Figure 5.12: Access to finance (Non-farming HHs)



Source: CRFS Farm and Nonfarm Household Survey, 2023

Formal access includes any access to formal financial institutions and services such as savings, credit, insurance, and payments. But with the rise of mobile banking, the definition of the formal market has expanded to encompass households having a mobile banking account or access to MFS through an agent. The overall distribution of formal and informal market access to financing is displayed in Figure 5.10.

5.2.7 Access to mobile financial services

The majority of the impoverished in Bangladesh lack access to formal financial services, which limits their ability to move money and obtain other financial services. The impoverished find formal

financial services unappealing due to inappropriate product designs, a lack of branches and ATMs in rural places, and excessive operational expenses relative to their financial situation. Mobile banking services, which do not require a bank location, are a better option for them in this situation. Moreover, the service is available to both wealthy and impoverished people.

Clearly, mobile banking service is an access of financial and banking services through mobile phone, where ‘agents’ are selected by banks and execute banking activities as an alternative of banks. Those services include, account opening, cash withdrawal, making payments, small credit handling etc. Withdrawing cash through mobile banking usually requires telecommunication device and PIN number. The other services of mobile banking are fund transfer from person to person, bill payment or business payment from person to business, commission or salary payment from business to person, distribution of government allowances from government to person etc. Analyses of the data shows that 47.12 per cent of the households are availing financial services through mobile banking by using either own account or other’s account. Around 77 per cent households have own mobile bank account. Moreover, access to mobile banking scenario across various divisions of Bangladesh is different (Table 5.15). The lowest rate of mobile banking use is in Barishal division. Non-farming households have more access to mobile banking services (86.31 per cent) than farming households (80.34). Only 3.65 per cent of farming households and 5.81 per cent of non-farming households have own agent banking account Since the country's rural areas already have a respectable level of connectivity, efforts should be made to expand the use of digital payment systems there and persuade the underprivileged to use them by providing them with a digital interface.

**Table 5.15: Intensity of access to mobile banking services
(Aggregate HHs %)**

Division	Access to mobile banking services	Have own mobile banking account		Active mobile banking account	Using mobile banking through others account with having own account	Using mobile banking through others account without having own account	Using mobile banking through others account
		HH level	Individuals (Age ≥18)				
Barishal	69.87	58.33	24.25	58.33	26.28	11.54	37.82
Chattogram	84.62	82.69	42.42	77.56	37.18	7.05	44.23
Dhaka	84.62	81.41	40.31	80.13	58.33	3.85	62.18
Khulna	88.46	82.69	44.53	79.49	70.51	6.41	76.92
Mymensingh	78.85	68.59	33.48	62.18	49.36	14.74	64.1
Rajshahi	84.81	82.91	41.3	81.01	45.57	3.16	48.73
Rangpur	88.46	83.97	46.33	83.33	32.69	5.13	37.82
Sylhet	81.41	76.92	31.89	75.64	57.05	5.13	62.18
Total	82.64	77.2	38.19	74.72	47.12	7.12	54.24

Source: CRFS Farm and Nonfarm Household Survey, 2023

5.2.8 Issues and challenges

Using government and specialised banks to reach target clientele has remained a key component of the strategy for providing finance to the agriculture sector, especially smallholder agriculture and SMEs. Along with implementing market-friendly laws and regulations, Bangladesh is also taking a number of steps to establish a regulatory structure and policy climate that support rural finance and microfinance. However, the following are the main issues that needs to be resolved to guarantee

sufficient and long-lasting financial services delivery in rural areas, particularly to low-income farmers and non-farming households:

- Flooding, drought, and other natural disasters are becoming more common as a result of climate change and environmental degradation.
- A growing trend of over-indebtedness among millions of microfinance customers may contribute to high credit risk as a major threat to the rural finance sector and MFIs.
- The majority of rural financial institutions are neither well-designed nor prepared to cope with large systemic risks, which can result in client deaths, deterioration of clients' income earning and loan repayment capacities, and loss of local economy dynamism. Since excessive interest rates are seen as unethical, this problem may encourage lenders to conceal fees and interest rates, making the actual cost of borrowing for customers unclear or opaque.
- The majority of rural areas lack adequate communication and transportation facilities, making it prohibitively costly for rural and MFIs to offer financial services to impoverished individuals and businesses in isolated and distant locations. In order to draw in productive investments, the government needs concentrate on establishing enabling policies and regulations as well as offering rural communities the support services they require, such as infrastructure like farm-to-market roads, irrigation, storage, and post-harvest facilities; research and development; training and extension; and marketing. These will reduce transaction costs, reduce risks, make it easier for money to move through the supply chain, and eventually boost value-added.
- The country's rural financial sector and related development initiatives have already seen a significant transition thanks to mobile banking and technology-driven products and services offered by banks and NBFIs. Banks and NBFIs need to embrace innovation and contemporary technologies to be competitive and meet upcoming challenges. Specifically, MFS and agent banking are new and creative banking channels that work well for banks to provide efficient and economical services in both urban and rural areas. Such banking is a crucial issue that comes with challenging rules for both mobile and agent banking. Choosing and keeping an eye on the appropriate agents is essential to guaranteeing efficacy and safeguarding against money launderers abusing the platforms. Enforcing a thorough and suitable AML/CFT (fighting the financing of terrorism) regulatory framework is crucial when it comes to assessing and keeping an eye on agents using mobile and agent banking channels. Data and drives could be divided into three categories: credit access, deposit inclusion, and payment inclusion in order to guarantee the transparency and quality of financial inclusion initiatives.
- Since a sizable section of the population still relies directly on agriculture, there are enormous opportunities to develop and market credit and insurance products specifically aimed at the agricultural industry. The implementation of a warehouse receipt system, which is currently in its early stages of development, is a priority in order to guarantee sustainable financial inclusion and sufficient financing flows to the farm sector. It is necessary to take the initiative and implement advocacy efforts in order to establish a regulatory body that will oversee the development of warehouse receipt systems and commodity exchange agreements for the country's agricultural marketing. Currently, Bangladesh's agricultural commodity markets are only supported by a few dispersed and fragmented outlets. A national agricultural commodity exchange agreement needs to be established, government warehouses could be built up and/or private warehouses could be licensed, local service points could be established with the current telecom networks, and an efficient warehouse receipt system could be designed.

When all of these activities are combined, the country may develop a sophisticated commodity market for efficient financing of agriculture.

- Within a prudential regulatory framework, financial institutions, such as MFIs and rural financial institutions, could be allowed the freedom to pursue sound banking and financial practices. Despite its good intentions, political meddling—such as interest rate caps and loan forgiveness—can seriously harm financial firms and lead to unhealthy expectations among their customers.
- To have a robust buffer against financial strains and access additional domestic funding sources, rural financial institutions and MFIs should acquire enough capital.
- As a financing approach, banks/NBFIs in Bangladesh typically do not distinguish between individual SME financing and SME financing in a cluster. The experience of the global financial crisis has demonstrated that local equity capital and a robust domestic deposit base can provide the necessary funds for lending and help shield domestic financial institutions from currency volatility and reversal of capital flows. Generally speaking, banks and NBFIs do not finance SMEs using a cluster method. Regarding agriculture and green finance, the renewable energy sector has a number of promising initiatives. To encourage innovation, improve resource management, and assist in addressing social and environmental issues, cooperative and sustainable cluster development may be sought.
- While credit is crucial for engaging in relatively high return enterprises, savings are crucial for impoverished rural households to finance their own sustenance and low-return endeavours.
- In high-potential areas with high-return agriculture and profitable rural microenterprise activities, credit-oriented MFIs/banks along with the necessary professional business development/management services and technical support facilities (which may be privately or community-owned), large financial cooperatives, and commercial bank branches with individual or group technologies may be more appropriate. In the future, it would be important to accelerate the savings and credit cycle by enhancing savings or credit as the first entry point as appropriate and starting the construction of sustainable rural financial institutions.

5.2.9 Summary and recommendations

Summary findings

Highlights of the survey

- The aspects of financial inclusion for rural agricultural and non-farming households are the main focus of this section. Credit, savings, insurance, and payment are different aspects of financial inclusion. Additionally, the family member who typically conducts financial transactions is evaluated for financial knowledge, attitude, and behaviour.
- A total of 1250 households have been interviewed and among them 768 are farming households respondent and 482 are from non-farming households.
- For qualitative data collection, we have conducted 32 FGDs on rural farming households which covered crop and horticulture, animal farming, fisheries and forestry. We have also conducted 15 FGDs on rural non-farming households.

Household characteristics

- The survey area's average household size is 4.65 people, with farming families having a bigger family size (4.75) than non-agricultural households (4.48).

- The percentage of female headed households is higher in non-farming households (8.71 per cent) than farming households (3.13 per cent).
- The majority of the sampled households (around 95 per cent) use tube well, rain water, mineral/filter water as a source of drinking water.
- Around 30 per cent of households have access to social safety net programme and it varies across divisions.
- Around 36 per cent of the rural households use slab toilet (plastic) followed by paved toilet (31.84 per cent), slab toilet (ceramic) 22.16 per cent, and 0.64 per cent households do not have any toilet facility, who use open space or no designated toilet to serve the purpose.

Household head socio-economic characteristics

- The average age of the household head is 47.92 years. The dependency ratio is 47 per cent which are higher in non-farming households compared to farming households.
- The average literacy rate is found 71.33 per cent in surveyed areas which is very close to the national level literacy rate i.e, 70.3 per cent in rural areas (HIES 2022). The highest literacy rate is found in Mymensingh district (77.93 per cent) and the lowest rate is found in Rajshahi (65.07 per cent) division.
- Almost 92 per cent of the farming household head are primarily engaged in cultivation activities. On the other hand, non-farming household head are mostly engaged in trading activities.

Asset ownership

- The potential and production of farming for farming households are significantly influenced by the size of the land. Of farming households, almost 51 per cent own less than 0.50 acres of land. About 21 per cent of farming households reported land sizes between 1.00 and 2.49 acres, 22.92 per cent of agricultural households reported land sizes between 0.50 and 0.99 acres, and the remaining 2 per cent reported land sizes beyond 2.50 acres.
- 25 per cent of the farming households in Dhaka and Khulna divisions have land sizes ranging from 1.00 to 2.49 acre.

Household income and expenditure

- Around 58 per cent of the farming households have multiple earning members while only 48.76 per cent of the non-farming households have multiple earning members.
- The average yearly income is 282.33 thousand taka, with that being higher for non-farming households (291.28 thousand taka) as compared to farming ones (284.45 thousand taka).
- The findings shows that around 56.40 per cent of farming households income comes from agriculture and 15.87 per cent of farming households also dependent on remittance for annual income. Besides, 43.88 per cent of non-farming households' income sources are from non-farming activities and 16.20 per cent of the households also dependent on remittances.
- The yearly average expenditure for the sample households is Tk. 190.80 thousand taka for farming households and 194.51 thousand taka for non-farming household.

Major crisis and crisis coping strategies

- About 37 per cent of the farming households report that flood/heavy rainfall are the most crisis in their daily life. About 15.43 per cent of the households are mentioned that crop diseases are their major crisis. At the same time, they identified storm/cyclone, death of earning member in family, death of livestock etc. are the major crisis of the farming households.

- The major shocks that affected most of the non-farming households are diseases of family members, flood/ heavy rain, business loss etc. About 26.39 per cent of the sample households faced sudden business loss and 26.39 per cent of the households report illness of family members of the households.
- About 32 per cent of the shock affected households have tried to mitigate shocks by drawing down previous savings. Taking a new loan from relatives is the second major coping scheme adopted by households. Since land is a vital productive resource, a household would be less inclined to sell the land

Penetration of insurance services

- While 57.55 per cent of farming households know about insurance, only 11.72 per cent have at least one valid insurance. Similarly, around 70 per cent of the non-farming households know about the insurance services but only around 20 per cent of the households have insurance.
- Most of the households, who are willing to buy insurance, choose life insurance (14.48 per cent). However, the majority percentage of the households is not willing to buy insurance. While we asked the respondents why they are not intending to buy insurance? Around 51 per cent of them mentioned that there is no benefit.

Savings behaviour of households

- Around 48 per cent of the total farming households has access to formal saving account whereas around 64 per cent of non-farming households have reported to have savings account in any formal financial institution.
- The finding shows that almost 30 per cent of farming households do not have any savings of any form. And 20.33 per cent of non-farming households do not have any savings of any form. Most of the households save money in the form of cash in hand.
- Majority of the people which is 68.40 per cent informed that having not enough money is the principal reason of no bank account. Around 43 per cent people reflect that they have no regular income to save. Other reasons say, location not suitable, low bank interest rate etc. play the role not having a bank account.
- If bank located far away from house then people have fewer tendencies to open account. In our study we notice that MFI are close to their houses compared to Bank.
- The respondent households are willing to save in bank or MFIs. Around 29 per cent of them want to save in Bank.

Investment behaviour

- Around 24 per cent of farming households reporting that they are investing money for purchasing land while around 32 per cent of the non-farming households are reporting that they are invested their money for house construction.
- The sources of investment funds indicated by the households include personal funds, institutional funds from banks or microfinance organizations, and non-institutional funds from friends, family, and other sources. The results indicate that households are more reliant on their own resources and microfinance organizations.

Financial knowledge and level of financial literacy

- For the farming households, the average score on financial awareness is 81.15 out of 100 against 84.65 in the case of non-farming household's respondent. It is also important to note that both the farming and non-farming household members have very limited knowledge on financial products. On an average, farming household score is 47.34 whereas the non-farming households average score is 50.25.

- Non-farming household respondents have highest (around 66) and farming households have the lowest literacy score 63.24 out of 100. The literacy score varies from division to division. The worst picture is found in Barishal division where the average score is only around 51 and the highest literacy score is around 72 in Chattogram division.
- We also analysed the financial knowledge by gender dimension. As expected, male respondents have higher literacy score (66.33) than female respondent (61.94).

Borrowing behaviour of households

- Around 50 per cent of the households take credit from any formal market, i.e., from banks, MFIs and cooperatives. The coverage of poor households is expanded through microfinance (43.44 per cent); but the access to bank is very poor in rural areas and it is 5.4 per cent for all households.
- Interestingly, informal credit is still dominant (30.64 per cent). Informal borrowing is very popular in Barishal division (50 per cent).
- In Barishal division, none of the households has any access to Bank or NBFIs credit market.
- Around 29 per cent of the informal credit has been used for lumpy expenditures (food and non-food expenditure) for farming households. The most interesting result is 30.6 per cent informal loan is used for sending family members to abroad or local areas. Around 30 per cent of non-farming households are using informal loan for lumpy expenditures.
- Among those who applied for loan, almost 87 per cent received loan amount equal to their requested amount. The portion of applicants who have had their loan amount rationed, i.e. received less loan amount than applied for, is poised close to 13 per cent. In case of bank services, the result shows that 33.33 per cent of single borrowing non-farming households are credit constraint.
- It is observed that around 80 per cent of farming households have demand for credit from MFIs in the survey year whereas this figure is around 67.19 per cent of non-farming households.
- As our sample consists of farming and non-farming rural households, and they are vulnerable in many ways, therefore, when they encounter any shock they need urgent financial assistance to cope with it. Around 38.34 per cent of the households need loan on an urgent basis within seven days after they have applied for loan. Moreover, 42.31 per cent of the households prefer to receive the loan even less than seven days.

Future recommendations

This section findings show that banks have limited scope for financing farmers and non-farming households because of their profit maximisation objective and loan product approach. r. They are more likely to lend money to large and medium-sized businesses, and when they do, it is usually for working capital. Even when banks lend money to MEs, they are essentially helping the higher echelons of MEs that are closer to becoming small businesses. Furthermore, they can only operate in cities. Bank financing of rural MEs becomes rather challenging in such a scenario. With their unique portfolio, specialized agricultural development banks are more involved in funding the agricultural industry. Some of the strategies that could be effective are as follows:

1. Targeted programme for female headed and low-income farming and non-farming households

With a focus on women and marginal farmers and area based approach to farming, the country's agricultural credit policy offers an impressive foundation for promoting financial inclusion. Policies and standards pertaining to agricultural financing have been suitably modified and reformulated for this objective. The goal of the program is to provide small farmers and sharecroppers in

comparatively underdeveloped areas with timely and hassle-free access to sufficient agricultural and rural loans.

The formal banking industry has the lowest representation of low-income, female-headed farming and non-farming households. They have limited access to savings and formal credit. Bangladesh Bank ought to create a financial services package specifically for women and households headed by women.

2. *Expand financial services in unbanked areas*

Accessing financial services for consumers and businesses depends on the location of financial institutions. Therefore, banks need to deepen the amount of services and extend financial services in underbanked areas in order to have a greater impact on economic growth. Bangladesh Bank could explore the possibility of establishing rural banks if banks are unwilling to deepen financial services, especially in rural areas, and expand financial services in unbanked areas.

3. *Design of products and services*

Two goals need to be taken into account when financial organisations design certain products and services. The first is anticipated customer demand, taking into account conflicting formal and informal sources. The second is the capacity to earning revenues while covering expenses, either through one transaction or several ones throughout the course of the customer relationship. Financial institutions can successfully develop products and technology for short-term working capital loans without official security, but they may not be able to effectively compete with the informal sector in providing extremely modest, emergency loans. The organisations can test and modify their products to meet customer needs through pilot projects, test marketing, and market research.

4. *Expanding quality services to farmers*

Increasing the number of farmers who can access the best banking services is one of Bangladesh Bank's major initiatives. A programme has been implemented to bring underserved farmers into the commercial bank network. With the help of their NID/Birth Registration Certificate and Agriculture Inputs Assistance Card, which are issued by the Agriculture Extension Department, farmers can open bank accounts with just Tk. 10 as an initial deposit and banks are not required to complete the Know Your Customer (KYC) form. The BB has mandated that all commercial banks, including PCBs and FCBs, participate in the agricultural and rural credit programme. According to the regulations, each bank must notify the BB of the amount of rural credit it plans to provide and set aside a specific portion of its whole loan portfolio for disbursements in the agricultural sector at the start of each fiscal year. The banks' goal in this area ought to be reasonable, achievable, and subject to frequent bank monitoring. Banks without rural branches will use a linkage scheme with NGOs and MFIs to provide agricultural credit.

5. *Develop partnership between formal and microfinance institutions*

Although formal cooperation between banks and MFIs has already been argued for, it is important to note that this is a separate strategy because formal banks' production technology and cultural orientation simply make it impossible for them to provide financial services to unbanked areas and underserved or unserved firms or individuals. MFIs have a favourable position. Microfinance institutions are more capable and efficient, while formal institutions have more resources. To reach underserved areas, businesses, and individuals, formal banks and MFIs might form partnerships.

In partnership with MRA, Bangladesh Bank may explore about enabling MFIs to offer loan services and mobilise public deposits. It is a matter of policy that requires discussion among related stakeholders including Bangladesh Bank. However, the growing importance of MFIs in rural areas will increase the intensity of families' and businesses' access to financial services.

There are currently several refinancing programmes in place, some of which are run by the BB itself, to guarantee a steady and growing supply of credit towards the priority sectors. An ‘Agricultural Credit Monitoring System’ has been established at BB to track the credit disbursement and recovery process, and a thorough monitoring plan for the agricultural credit system has been developed for bank-level monitoring. Bangladesh Bank preserves each borrower's cell phone number for direct monitoring.

6. *Promoting entry of and competition among non-financial institutions*

Telecom businesses and other non-financial institutions might be drawn to a more competitive financial sector. The use of mobile banking for financial transactions is becoming more and more common. Although banking institutions like UCB (Ucash) and BRAC (bKash) are the main providers of transaction means, telecommunications firms also play a role. Their involvement in the money-transfer service is what allows millions of mobile phone users to access the financial network. Policies that encourage non-banks to enter the consumer banking market could lower transaction costs and increase the number of customers.

7. *Staff incentive systems*

The majority of successful organisations use performance-based incentive programmes for both management and employees. Bonuses can be given based on an employee's efficiency or the overall performance of the institution. Because their pay is higher than that of some comparable positions in the public or private sectors, employees want to stay with their current employer. Loan officers are encouraged by incentives to handle a sizable portfolio and serve a lot of clients. Social commitment and teamwork can be leveraged to improve employee performance. Bank employees who work in rural locations require special attention, and their pay needs to be adjusted.

8. *Branch expansion with dedicated desk*

In order to bring banking services closer to the rural population, BB mandates that at least one out of every two new branches be established in rural areas when granting branch licenses to banks. To close the gaps in financial inclusion, BB and the government have implemented a number of corrective and promotional initiatives. Regarding the financing of SMEs, BB has made refinance lines available to banks against the loans they make to SMEs that are co-financed by multilateral development partners like ADB and IDA. Additionally, banks are permitted to set up SME service booths in locations where they do not currently have any branches.

9. *Focus on natural calamities and disasters*

BB has responded to natural disasters and calamities that have a substantial impact on the agriculture industry and small farmers by easing loan repayment terms (such as extending the loan period), providing new loan options to farmers, and taking other comparable actions. BB has implemented a three-year term revolving crop credit limit mechanism to guarantee a seamless and uninterrupted flow of agricultural credit to farmers. The technique allows farmers who produce multiple crops to obtain credit without having to re-document. Additionally, the Branch Manager in question has been given the authority to approve credit, and the documentation process has been simplified as much as possible.

10. *Expand post-office services*

The postal banking system was quite helpful in rural areas not too long ago. However, its function has been more constrained over time. However, the postal banking infrastructure can be improved in order to be a competitive alternative source of financial services in rural regions. To improve postal banking services, the Ministry of Finance may adopt workable plans. In order to provide recipients

with speedier remittance delivery, the Post Office has also been implementing new initiatives in recent years in collaboration with banks and other internal and external remittance intermediaries. The postal service plays a crucial role in meeting the needs of isolated, sparsely inhabited areas that the private sector finds costly and unprofitable to service. In addition to helping to achieve greater access to financial services, innovative programmes like the BB's credit to small businesses and sharecroppers also help to lessen the high reliance of small and marginal farmers on non-institutional sources, which are typically highly exploitative. Policies could also acknowledge the shortcomings of financial markets, which are mostly caused by institutional deficiencies such as poor credit evaluation and ineffective risk management, as demonstrated by recent global financial crisis, in order to guarantee better access to financial services. In order to prevent widespread market failures, the government and BB could play their proper roles in fostering economic growth through an effective and well-organised financial sector. By providing more financial coverage to the impoverished and disadvantaged, increased financial inclusion and access to necessary financial services can aid in resolving frictions in market mechanism. Technology plays a crucial part in this process by facilitating access to timely and reasonably priced financial services.

11. Insurance sector needs to be strengthened

In Bangladesh, there are more than 70 insurance companies. Although people are more aware of insurance now than they were in 2010, their services are still very limited. The market has enormous potential. What matters, though, is keeping an eye on how insurance companies are operating. Policies for the methodical growth of the insurance industry could be developed by the IDRA.

12. Strengthen digital financial services

Increasing access to financial services solely by physically growing the banking network is not always feasible. Mobile banking has become a more popular way to conduct financial transactions in recent years. Such banking seems to be in high demand. Services like Ucash and bKash are becoming more and more well-liked. To ensure that risk is extremely low for both present and future mobile banking users, it is necessary to create suitable policies, further define the scale and scope of mobile banking, and create an effective governance structure.

13. Financial literacy should be improved

Even if there is a comparatively high level of access to financial services, this does not necessarily mean that every household is fully informed. They typically do not know about all the services that are provided. Raising awareness and supporting private-sector initiatives are two essential roles that the government can play. Financial literacy can assist shield customers against exploitation and allow them to utilise accessible financial services, but it is insufficient to compensate for a lack of regulation and consumer protection. Training programmes in financial literacy could be offered, and community workshops could be organised to spread knowledge about financial awareness.

5.3 Regional Variation in Financial Access

Examining regional variation in access to finance for rural households in Bangladesh is crucial for several reasons. Different regions within the country often experience varying levels of economic development, infrastructure, and availability of financial services. By understanding these regional disparities, policymakers and development agencies can identify specific areas where access to finance is limited and tailor interventions to address these gaps.

Access to finance is essential for rural households as it enables them to invest in agriculture, small businesses, education, and healthcare, leading to improved livelihoods and economic growth. However, if certain regions are underserved, it can exacerbate existing inequalities and hinder overall national development. Therefore, analysing regional differences helps ensure that financial inclusion efforts are more targeted and effective, ultimately contributing to more equitable economic progress across the country.

Against this background, within the framework of the Rural Finance study, an additional household survey was undertaken to assess financial inclusion in disadvantaged areas. This survey encompassed seven districts in Bangladesh. As there is no list of vulnerable groups in terms of geographical location; therefore, InM has taken advantage of its nationally representative surveys on Access to Financial Services (ATF 2014) studies. The study identified seven districts—Netrokona, Lalmonirhat, Jamalpur, Sunamganj, Moulvibazar, Kishoreganj, and Bandarban—where around 50 per cent of households lack access to formal financial services. Additionally, supply-side analysis in terms of the density of rural bank branches per 1,000 square kilometers and rural bank branch availability per 100,000 adults, also revealed below-average rural bank branch density in these districts. This prompted the selection of these regions, for further study on regional financial access disparities.

Conducted as a cross-sectional study in May-June 2023, it aimed to gauge the level of financial inclusion in regions facing various challenges such as geographical remoteness, ethnic minority presence, and distinctive socio-economic characteristics.

5.3.1 Regional Variation in Access -- Major Findings

Formal financial services through banks have a 21 per cent access rate (considering access to any financial services, such as, savings, credit, payment etc.), while microfinance institutions (MFIs) cover 43 per cent of households. Rural areas show higher reliance on microfinance and informal financial services, with informal markets serving about 76 per cent of households. Access to MFS is widespread, with 92 per cent of households utilising it.

District-wise, Netrokona, Moulvibazar, and Lalmonirhat have strong microfinance presence, whereas Kishoreganj and Moulvibazar show higher formal finance access. Despite the expansion of formal finance, informal finance remains significant, particularly in Kishoreganj, Jamalpur, Netrokona, and Moulvibazar, where over 80 per cent of households rely on it. Bandarban district has the lowest access to microfinance, at only 10 per cent.

Access to credit: The report analyses access to credit in Bangladesh, revealing significant variations across different credit markets and locations (Table 5.16). Key findings include:

Limited formal credit access: Only about 5.86 per cent of households access credit from formal markets (banks and non-bank financial institutions). Districts like Lalmonirhat, Jamalpur, and Kishoreganj show slightly higher access rates, but formal credit is notably scarce in rural areas, with Netrokona district having the lowest access (2 per cent).

Dominance of microcredit: Microfinance institutions dominate the credit landscape, especially in rural areas, with over 40 per cent of households accessing microcredit. The highest access is seen in Netrokona (66 per cent), Moulvibazar (57 per cent), and Lalmonirhat (51 per cent). However, access is much lower in Bandarban (8 per cent).

Prevalence of informal credit: Despite efforts to expand formal and microcredit services, informal credit remains widespread. Around 36 per cent of households use informal credit, particularly in Netrokona (69 per cent), Sunamganj (43 per cent), and Bandarban (38 per cent).

Geographical variations: Credit access varies significantly by location. For instance, Bandarban has the lowest overall credit access, with only 19 per cent of households borrowing from any market. In contrast, districts like Netrokona have much higher credit access.

High exclusion rates: A significant proportion of households, especially in Bandarban (81 per cent), have no access to any formal credit markets. Other districts with high exclusion rates include Sunamganj, Kishoreganj, Jamalpur, and Lalmonirhat.

These findings highlight the challenges and disparities in accessing credit in Bangladesh, with formal credit being particularly limited, while microcredit and informal credit play crucial roles, especially in rural areas.

Table 5.16: Households accessing credit from different markets

District	Access to credit from any formal FIs	Access to credit (agri& non-agri) from Bank or non-bank FIs	Access to agricultural credit from Bank or non-bank FIs	Access to non-agricultural credit from Bank or non-bank FIs	Access to credit from MFIs	Access to credit from other FIs (PSB/ Cooperatives etc.)	Access to informal credit	No access to credit from any formal market
Bandarban	19	5	3	2	8	6	38	81
Kishoreganj	43	6	6	0	38	1	28	57
Jamalpur	49	7	2	5	24	32	22	51
Netrokona	68	2	1	2	66	0	69	32
Lalmonirhat	58	11	9	3	51	1	26	42
Moulvibazar	61	5	2	3	57	3	25	39
Sunamganj	42	5	5	0	39	0	43	58
Total	48.57	5.86	4	2.14	40.43	6.14	35.86	51.43

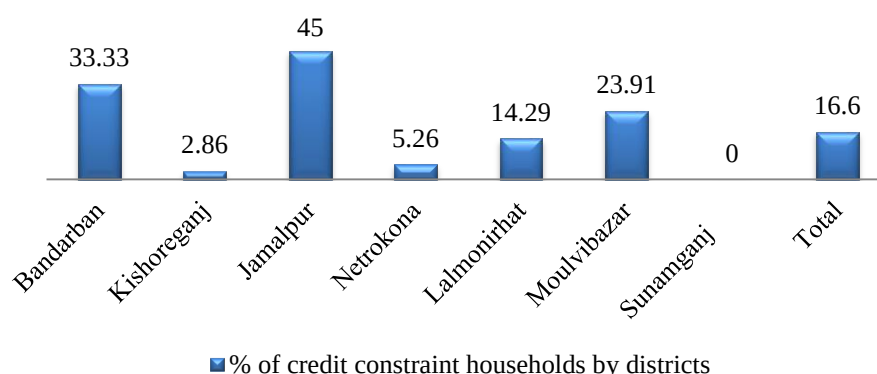
Source: CRFS regional financial access survey, 2023

Utilisation of credit: The formal financial system plays a crucial role in protecting people from the exploitation often found in informal markets. Households tend to use formal credit predominantly for income-generating activities (IGAs) and asset building, with approximately 62 per cent of such credit directed towards these purposes. Additionally, a notable portion (about 26 per cent) of formal credit is used for substantial expenditures, including both food and non-food consumption. The use of formal credit for repaying previous loans is minimal, with only around 8 per cent allocated for this purpose.

Credit rationing: The study has also assessed credit rationing among households, revealing that 17 per cent of borrowing households face unmet credit demand, with the highest rates in Jamalpur (45 per cent) and Bandarban (33 per cent) districts. Households increasingly rely on multiple credit sources due to credit constraints. Those accessing multiple markets face higher credit rationing (33 per cent) compared to those with single-market access (11 per cent). Credit rationing may be

underestimated as borrowers often adjust their loan requests to fit known limits. Households not constrained by credit tend to be better off economically, with higher income, better food expenditure, more land, and improved access to water and sanitation, likely due to multiple income sources.

Figure 5.13: Percentage of borrowing households that are credit constrained by district

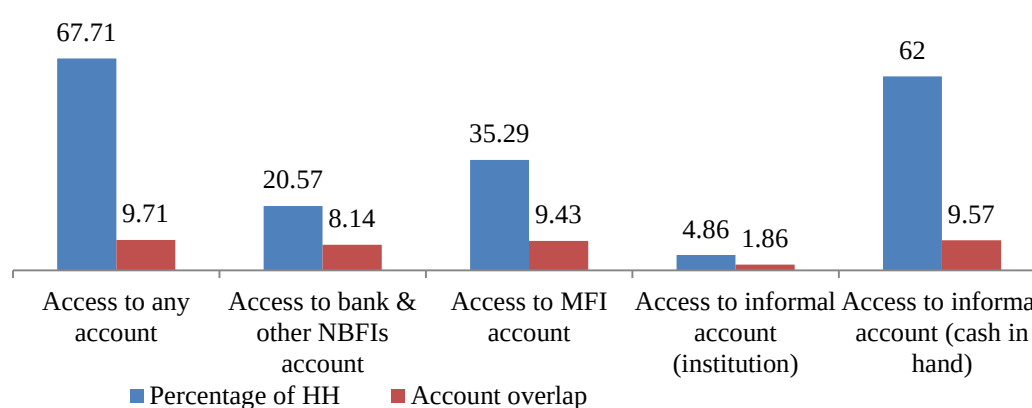


Source: InM, CRFS regional financial access survey, 2023

Access to savings: In terms of savings/deposit accounts, the study reveals that 68 per cent of households had access to some form of savings in 2022, including banks, MFIs, or informal savings associations. Bank or NBFI savings accounts were accessed by 21 per cent of households, with 8 per cent holding multiple accounts. Microfinance institutions (MFIs) led in savings access, with 35 per cent of households participating. Informal savings options, like savings groups and rotating savings and credit associations, were less common, with only 5 per cent of households participating.

Regionally, savings access was highest in Netrokona, Jamalpur, Kishoreganj, and Moulvibazar districts, while savings in informal institutions were mostly absent in Lalmonirhat, Moulvibazar, and Sunamganj. Access to savings significantly decreases as the distance from financial institutions increases, particularly in rural areas, where distance from banks negatively impacts the likelihood of opening and maintaining savings accounts.

Figure 5.13: Percentage of households have access to savings in 2022



Source: CRFS Regional Financial Access Survey, 2023

The study shows that access to savings varies significantly based on household characteristics such as occupation, education, and income. Households headed by day laborers have limited access to bank savings (9 per cent) but rely more on MFIs for savings (27 per cent). Self-employed households have

better access to formal savings, with 21 per cent using banks and 38 per cent using MFIs, and also use informal savings to manage business risks. Households led by professionals have the highest access to savings, with 84 per cent saving in some market, including 49 per cent in banks.

Education plays a crucial role, as access to bank savings increases with the household head's education level, from 15 per cent for illiterate heads to over 53 per cent for those with higher education. MFI savings are most common among less educated households. Income also influences savings behavior, with overall access to savings rising from 36 per cent in the lowest income quintile to 82 per cent in the highest. However, while access to bank savings increases with income, MFI savings are more common in lower-income households and decline after the third income quintile.

Access to insurance: The study highlights the limited access to formal insurance in Bangladesh. According to the present study, overall, access to life insurance is extremely limited across the selected districts, with only 1.57% of respondents reporting any access, while an overwhelming 98.43% remain uninsured, often due to low awareness. Poor households typically rely on informal methods like borrowing or selling assets to cope with shocks, which can harm their food security and economic well-being. MFIs generally do not offer traditional insurance but do provide microinsurance tagged with microcredit, which forgives loans in the event of a borrower's death. Awareness of insurance is growing, with 65 per cent of households aware of life insurance and 24 per cent aware of health insurance.

Access to MFS: In recent years, Bangladesh has experienced remarkable growth in digitalisation and the use of MFS. As of June 2024, there are 232.42 million registered mobile money accounts (including Merchants). MFS is widely used for fund transfers, remittances, and security, with rural areas primarily using it for receiving remittances and urban areas for payments. The study finds that 92 per cent of households have access to MFS, either through their own accounts or others'. Access to MFS varies by district, with higher usage in areas like Moulvibazar and lower in districts like Sunamganj.

Access to agent banking: Agent banking in Bangladesh, pioneered by Bank Asia Limited and now largely led by Dutch Bangla Bank Limited, has the potential to improve financial inclusion by bringing banking services to underserved areas through local agents. Despite this potential, only about 1 per cent of households use agent banking services, though 15 per cent are aware of them. Challenges include customer awareness, security concerns, and the need for specially tailored financial products. Addressing issues like customer illiteracy, inadequate training, and insufficient marketing is crucial for the successful expansion and effectiveness of agent banking.

Access to Ten taka account: The Ten Taka account initiative, launched by Bangladesh Bank in 2010, aims to provide low-cost, no-frills banking access to unbanked farmers and extremely poor individuals. It allows account opening with a minimal deposit of TK.10 and minimal documentation. The account's primary goal is to facilitate direct subsidy deposits and reduce administrative costs. Despite its potential, only 1 per cent of households have access to these accounts, with the highest adoption in Lalmonirhat at 6 per cent. The low coverage suggests challenges in reaching and effectively informing the target beneficiaries. The programme needs improved awareness and outreach to enhance its impact and broader adoption.

Barriers to access financial services: Several factors create barriers to the use of formal and semi-formal financial services by households and enterprises in Bangladesh. On the demand side, key obstacles include low household income, irregular earnings, lack of financial literacy, and a lack of confidence in financial institutions.

The most significant reasons for not opening a bank account include a perceived lack of need, the requirement of a large initial deposit, and excessive paperwork. Other notable barriers are the distance of the bank from one's home and unhelpful behavior from bank officials. Although less impactful, high loan interest rates and the need for collateral also discourage people from opening bank accounts.

When it comes to saving in formal institutions, about 78 per cent of rural households reported insufficient income as a barrier, and 37 per cent cited irregular income as a challenge. Other obstacles to saving include the requirement to repay all loans before saving and the distance of financial institutions from their homes.

Reasons for not using agent banking include the fact that approximately 71 per cent of households were unaware of it, while around 18 per cent preferred other transaction methods. Other reasons cited for not using agent banking include a lack of need for transactions, inconvenience, and concerns about security.

Demand for financial products/services: Four essential financial services—credit, savings, insurance, and mobile banking—are in high demand among marginalised and excluded populations, and each has unique, appealing qualities. The most popular of them are credit and savings options. However, only about 5.86 per cent of individuals have access to credit through banks and non-bank financial institutions (NBFIs), while around 40.43 per cent rely on microcredit. Additionally, 68 per cent of the sampled households regularly save, whether in formal or informal markets. The decision to borrow from a particular institution—be it a bank, a MFI, or an informal lender—depends heavily on the procedural complexity of obtaining a loan. Proximity to the financial institution is another crucial factor influencing this choice, with households tending to prefer institutions that are close to their homes. Similar preferences are observed for savings products.

In Bangladesh, the government, Bangladesh Bank, and other agencies have introduced a range of financial products and services to enhance access for the vulnerable segments of the population. These initiatives include special accounts for the underprivileged, agricultural and rural financing, microenterprise financing, mobile banking, agent banking, green financing, women entrepreneurship financing, financial literacy programmes, self-employment-based small loans, ultra-poor loans, and disaster management loans, among others. These products are predominantly offered by banks, NBFIs, and MFIs. Despite the presence of numerous insurance companies in Bangladesh, microinsurance activities for the poor remain marginal. Additionally, while the cooperative sector has significant potential, it currently lacks a notable presence in the country's financial market.

Financial inclusion efforts by financial institutions have shown an improving trend, with increased access to finance and broader geographical reach of services offered by banks and NBFIs. However, evidence suggests that there is still considerable room for improvement. Notably, a portion of the vulnerable population remains underserved by the existing financial products and services.

5.3.2 Major Policy Implications

To enhance financial inclusion in rural Bangladesh, specific policies should be tailored to address the unique challenges faced by financially excluded communities. Here are key policy suggestions:

a) Suggested specific measures for Bangladesh Bank

1. Enhance accessibility to financial services

Expand rural bank branches: Provide incentives for banks to open branches or mini-branches in underserved rural areas. Consider shared banking infrastructure among multiple banks to reduce costs.

For example, the results show that the number of rural bank branches per 1,000 square kilometers in Bandarban is only 4.69, significantly below the national average. However, the number of rural bank branches per 100,000 adults is 10.4, which exceeds the national average. Despite this higher branch density relative to population, access to financial services through banks remains low, suggesting that banks are not effectively reaching the local population. Since access to financial services through MFIs is also limited in Bandarban, expanding banking activities by establishing additional MFI branches would help improve financial access in the district.

Rural banking incentives: Provide financial incentives for banks to establish branches and service points in remote rural areas. This could include tax breaks, subsidies, or public funding for infrastructure.

Promote Agent Banking: Expand the network of agent banking, where local businesses or individuals act as banking agents, offering basic banking services like deposits, withdrawals, and transfers in rural communities.

ATM and digital kiosk/booth deployment: Deploy ATMs and digital financial service kiosks in rural markets and community centers, providing easier access to banking services.

Proactive approach by banks: The traditional approach of formal banks and financial institutions, where clients come to the institutions rather than the institutions reaching out to households and firms, needs to be reversed. Banks should proactively expand access to financial services. For example, the BB's initiative requiring commercial banks to open Tk. 10 accounts has increased financial access, but many of these accounts remain dormant. Efforts are needed to activate these accounts, especially to facilitate government subsidies. Dormant accounts do not contribute to meaningful financial inclusion for the poor.

2. Promote digital financial inclusion

Expand mobile financial services: Encourage the use of mobile banking by reducing transaction fees, increasing the number of agents, and promoting mobile literacy among rural populations. This can be supported by public-private partnerships.

Low-cost mobile devices and data plans: Collaborate with telecom companies to provide affordable mobile devices and data plans specifically for rural areas, ensuring that residents can access mobile banking services.

3. Tailored financial products and enhance agricultural finance

Agricultural loans and insurance: Focusing on agriculture and small enterprises is crucial for achieving success in inclusive interventions. Collateral requirements and lengthy processing times are major challenges, where the informal sector has proven more proficient. To attract borrowers from the informal sector, agricultural and small/micro enterprise loans should be made collateral-free, the documentation process simplified, and processing times significantly reduced.

Value chain financing: Promote value chain financing models that integrate credit, input supply, and market access, ensuring that farmers have the resources they need throughout the production cycle.

Policy makers should develop financial products specifically designed for rural communities, such as low-interest agricultural loans, crop insurance, and livestock insurance, which can help farmers manage risks and invest in productivity.

Micro-savings programmes: Promote micro-savings programmes that allow rural residents to save small amounts regularly, which can be done through MFIs, cooperatives, or mobile banking platforms.

4. Simplify regulatory requirements

Relaxed KYC norms: Introduce simplified Know-Your-Customer (KYC) regulations for low-value accounts in rural areas, allowing people without formal identification to access basic banking services through alternative verification methods like local community endorsements.

Tiered banking products: Develop tiered banking products with minimal regulatory requirements for entry-level accounts, gradually increasing options and benefits as customers build a history of transactions.

5. Develop women-centric financial products

Support female entrepreneurs: Create financial products specifically for rural women, such as microloans for women-led businesses, savings accounts with lower minimum balances, and insurance products that address women's health and family welfare.

Women's cooperatives: Encourage the formation of women's savings and credit cooperatives, offering a collective platform for savings, credit, and financial education.

6. Regulatory support and consumer protection

Simplified KYC processes: Implement simplified Know-Your-Customer (KYC) processes for rural populations, allowing easier access to financial services while ensuring security and compliance.

Consumer protection in rural areas: Strengthen consumer protection laws specifically for rural customers, ensuring transparency in financial products and safeguarding against fraud and predatory practices.

7. Public-Private Partnerships (PPP)

Collaborative financial inclusion initiatives: Foster partnerships between the government, private sector, and non-governmental organisations to develop and implement financial inclusion projects targeting rural areas.

Subsidised financial products: Offer subsidies or financial incentives for products aimed at rural populations, such as low-interest loans, to make them more accessible and attractive.

8. Leverage technology and data

Digital identity and credit scoring: Utilise digital identity systems (like biometric ID cards) to facilitate access to financial services, and develop alternative credit scoring methods that consider informal income sources typical in rural areas.

Remote financial services: Explore the use of technology, such as Blockchain or AI, to provide remote financial services and reduce the need for physical infrastructure in isolated areas.

9. Integration with social safety nets

Link social benefits to financial accounts: Ensure that social welfare benefits, such as cash transfers, pensions, and subsidies, are disbursed through bank accounts or mobile wallets, encouraging the use of financial services and increasing financial inclusion.

Rural financial inclusion index: Develop a rural financial inclusion index to monitor progress and identify gaps in service delivery. This index should track access to and usage of financial services in rural areas, providing data to inform policy adjustments.

Community feedback mechanisms: Establish mechanisms for regular feedback from rural communities to understand their needs and challenges, ensuring that financial inclusion policies are responsive and effective.

4. Boost financial literacy and awareness

Community-based financial education: Implement community-driven financial literacy programmes, using local leaders and NGOs to educate rural populations on financial management, savings, and the benefits of formal financial services.

School programmes: Introduce financial education in rural schools to build financial literacy from a young age, ensuring future generations are better equipped to engage with financial systems.

Training for women and youth: Target women and youth with specific financial education programmes, as these groups are often more excluded. Empowering them with knowledge about financial products and services can have a broad impact on community development.

b) Suggested Specific Measures for Microcredit Regulatory Authority (MRA)

1. *Recognising the role of MFIs:* In Bangladesh, 731 licensed MFIs has been serving 40.86 million members, including 31.53 million borrowers; making a significant contribution to financial inclusion. Their role should be well acknowledged, as proper recognition and appreciation can motivate management and staff in their efforts.
2. *Microcredit for Rural Entrepreneurs:* Support MFIs in providing microcredit and other financial products tailored to the specific needs of rural entrepreneurs, particularly in agriculture and small-scale industries.
3. *Flexible repayment structures:* Introduce flexible loan repayment options that align with agricultural cycles and seasonal income patterns, easing the burden on borrowers.
4. *Disaster risk management:* Disasters and uncertainties can disrupt the operations of MFIs/NGOs and have serious consequences for vulnerable populations in remote areas. The government should implement measures to protect MFIs/NGOs during such events, given their critical role in promoting inclusive growth.
5. *Microinsurance potential:* Microinsurance holds significant potential, with some NGOs already offering these services to borrowers, including limited health microinsurance. However, the term "insurance" is not accepted by the IDRA when provided by MFIs/NGOs. Despite this, microinsurance could be a vital component for the effective delivery of microcredit and other support services to vulnerable populations.
6. *Support for vulnerable groups:* Although some NGOs address the needs of blind, disabled, and transgender individuals, these groups often lack access to financial services and rarely seek funding for economic activities. MFIs/NGOs should first work to create demand for credit by helping these groups build confidence and capacity. Addressing their needs should be done in phases, starting with health and social support, followed by capacity-building and eventually providing credit facilities.

c) Suggested Specific Measures for Insurance Development and Regulatory Authority (IDRA)

1. *Crop insurance and credit*: Develop specialised financial products such as crop insurance and agricultural credit that cater to the unique risks faced by farmers. Ensure these products are affordable and accessible.
2. *Microinsurance*: Microinsurance is a promising industry that has not as yet received the required attention. Supports from policies and regulations are necessary to provide much-needed microinsurance products and services to the intended beneficiaries. The country's insurance companies may create such products aimed at low-income rural populations; at the same time, the scope of permitting banks and MFIs to provide specific microinsurance products to meet their clients' risk concerns in conjunction with their main offerings may also be explored. An arrangement similar to Bancassurance, where registered microfinance institutions (MFIs) partner with an insurance company, can be established to offer insurance products to the MFI's clients. Research into potential delivery mechanisms should be conducted, and appropriate methods can then be implemented.

d) Actionable Strategies for improving financial literacy

Financial inclusion remains a critical development priority in rural Bangladesh, where large segments of the population remain unbanked or underbanked. While mobile banking and microfinance have made strides, limited financial literacy continues to hinder the adoption and effective use of financial services. Enhancing financial literacy—defined as the ability to understand and use financial concepts and tools—is essential for empowering rural populations to make informed financial decisions, save for the future, and access credit responsibly.

Despite national progress, many rural regions—particularly in the districts of Bandarban, Kishoreganj, Jamalpur, Netrokona, Lalmonirhat, Moulvibazar, and Sunamganj—continue to face challenges in accessing formal financial services. These districts are characterised by high poverty rates, low education levels, remote geography, and limited financial infrastructure. A key barrier to inclusion is financial illiteracy, which prevents individuals from understanding, trusting, and effectively using financial products and services. To address this gap, it is essential to implement rapid, context-specific, and scalable financial literacy strategies tailored to the realities of these underserved communities. Several actionable strategies are discussed as follows.

1. Localised financial literacy campaigns through community institutions

Deploying financial literacy training through local institutions such as NGOs, cooperatives, and village development committees can yield immediate impact. These workshops should focus on practical skills such as managing household budgets, savings planning, understanding loans and interest rates, and using mobile banking platforms. In rural areas like Netrokona or Lalmonirhat, where trusted social institutions such as village councils, mosques, and schools are strong, community-based workshops are highly effective.

- Partner with local NGOs, cooperatives, and microfinance institutions (e.g., BRAC, ASA).
- Conduct workshops in local languages and dialects, using real-life examples from agriculture, small trade, or remittances.
- Use visual aids, posters, and leaflets to communicate budgeting, saving, and loan repayment principles.

2. Mobile and voice-based financial education

Mobile technology provides a cost-effective and scalable channel for delivering financial education. Since mobile phone penetration in rural Bangladesh is relatively high, even among low-income populations, SMS-based learning or voice-based education (IVR) systems can ensure wide outreach. In remote districts like Bandarban and Sunamganj, mobile penetration is higher than access to physical banks.

- Leveraging mobile phones can offer rapid scalability.
- Implement SMS- and IVR-based education programmes in Bengali and ethnic languages.
- Send weekly tips on financial practices, budgeting, and digital wallet usage.
- Partner with mobile financial service providers such as bKash, Rocket, and Nagad to integrate learning with user behaviour.

3. Train local youth and women as financial literacy facilitators

Empowering trusted community members as financial literacy ambassadors is a sustainable and locally-driven strategy. Teachers, community health workers, religious leaders, and youth volunteers can serve as peer educators. Many rural women in Moulvibazar or Kishoreganj are excluded from formal finance due to social barriers. Engaging them as community financial ambassadors can break the cycle of exclusion.

- Provide short-term training to women leaders, youth volunteers, and school teachers.
- Use a peer-to-peer education model to facilitate informal learning.
- Conduct door-to-door awareness drives, especially in tea garden communities (e.g., in Moulvibazar) and char lands (in Jamalpur).

4. Radio and folk media for mass awareness

Mass media can quickly raise awareness and normalise financial practices in a community. Radio programmes and folk media like street theatre and puppet shows are especially effective in rural areas with limited literacy. In flood-prone or hard-to-reach areas like Sunamganj or Lalmonirhat, radio and folk media are cost-effective and widely accessible.

- Launch community radio shows on topics such as household money management, mobile money safety, and agricultural finance.
- Use drama, folk songs, and storytelling to simplify financial concepts for low-literacy populations.
- Broadcast in regional dialects at peak times when farmers and rural workers are listening.

5. School-based financial literacy programmes

Integrating financial literacy into school curricula can create long-term behavior change starting from a young age. Even in rural primary and secondary schools, basic financial concepts can be introduced in engaging and accessible ways. Investing in youth education in districts like Kishoreganj and Netrokona, where dropout rates are high, can foster a financially aware future generation.

- Introduce basic financial education in secondary school curricula.
- Conduct school clubs or competitions on saving habits, entrepreneurship, or digital banking.
- Provide teacher training and resource materials aligned with national education standards.

6. Financial literacy integrated with Social Safety Net programmes

Districts like Jamalpur and Bandarban have high reliance on government cash transfers and safety nets. Financial education can be embedded into these programmes.

- Deliver financial literacy sessions at the time of payment disbursement (e.g., old-age allowance, widow pension).
- Train Union Parishad officials and social workers to share simple financial tips during programme registration.
- Help beneficiaries understand digital payments, savings options, and how to avoid fraud.

7. Digital literacy boot-camps for youth and migrant families

Combining digital literacy with financial training is essential in a rapidly digitising economy. Short-term boot-camps can be conducted for youth and women to teach them how to navigate smartphones, use digital wallets, and access government services. In regions with high rates of youth unemployment and overseas migration—like Netrokona and Kishoreganj—digital literacy paired with financial training is crucial.

- Organise bootcamps in rural ICT centers or schools to teach smartphone use, mobile wallets, and remittance management.
- Target returnee migrants and families receiving remittances, teaching them how to save and invest.
- Use audio-visual tutorials and interactive exercises to reinforce learning.

8. Monitoring, feedback, and adaptive learning

Any financial literacy initiative should be responsive and data-driven. Rural communities differ by language, livelihood, and infrastructure.

- Collect baseline data on financial behaviours in each district.
- Use simple feedback tools—paper surveys, mobile polls, or focus groups—to assess progress.
- Adjust content and delivery methods based on community feedback and usage metrics.

Improving financial literacy in rural Bangladesh, especially in under-resourced districts such as Bandarban, Kishoreganj, Jamalpur, Netrokona, Lalmonirhat, Moulvibazar, and Sunamganj, requires a localised, inclusive, and adaptive approach. By combining traditional communication channels with digital tools, and by engaging community leaders and institutions, it is possible to rapidly enhance financial knowledge and foster behavior change. These strategies not only support financial inclusion but also empower rural households to make informed financial decisions, build resilience, and contribute to sustainable development.

To improve access to financial services, the public sector can do much to increase savings and the use of formal financial services among poor households. A key role for the public sector is to work closely with the private sector to encourage and incentivise financial institutions to serve poor and lower-income populations. Financial education for these households should be a priority. The government and the BB can also play an important regulatory role, ensuring that financial providers offer a range of poor-friendly financial services and implement better protections for low-income service users. These policy suggestions aim to create an inclusive financial ecosystem in rural Bangladesh, where access to and use of financial services are extended to all segments of the population, fostering economic growth and resilience.

5.4 Financial Access of Selected Marginalised Communities

5.4.1 Introduction

Access to financial services is a crucial life skill especially for the marginalised, vulnerable and ‘left-behind’ communities towards achieving greater economic independence, building financial security,

breaking the poverty cycle, and eliminating socioeconomic exclusion. As such, access to financial services for marginalised and vulnerable communities is a pre-condition for their empowerment and inclusion which is not only a matter of social justice but also a pathway towards achieving sustainable and inclusive development and shared prosperity.

In Bangladesh, like in most other countries, some communities do exist that confront socioeconomic, cultural, legal and other barriers that force them to remain marginalised, vulnerable and left-behind relative to the mainstream society. These disadvantages can be based on gender, age, location, occupation, race, ethnicity, religion, citizenship status, disability, sexual orientation and gender identity, among other factors. In reality, the pervasive exclusions prevent individuals and households belonging to these communities to lead a normal and secured life in society, and deny access to social and economic opportunities to ensure a dignified life. It is important therefore to address the root causes of structural exclusion and discrimination of these communities to help them integrate into the mainstream of development.

For exploring these exclusion issues and identify the role of access to finance in their inclusion process, five vastly different marginalised and vulnerable communities of Bangladesh were selected under the study: (i) ethnic minorities of hilly areas and plain lands; (ii) tea garden workers; (iii) cleaners/sweepers/Dalits; (iv) third gender community members; and (v) commercial sex workers. For each community, in-depth studies were conducted using both primary and secondary data and information to capture the testimonies, reflections and ‘stories’ of individuals from these selected ‘left behind’ and excluded communities experiencing poverty and deprivations. In the process, the participants ‘wrote’ their own life stories; the biggest value added of which has been the insights into the ‘making of poverty and deprivation’ in their specific communities. They also explored how financial inclusion can emerge as an ‘entry point’ for their emancipation from deprivations and dis-empowerments. The recommendations for empowerment, social and financial inclusion and the design of policies and measures for their wellbeing and socioeconomic inclusion have been distilled through these processes.

5.4.2 Summary of Major Findings

The study's main conclusions show that, rather than experiencing extreme poverty, Bangladesh's marginalised and vulnerable communities suffer more from social exclusion and ‘cruel’ social attitudes and interactions as a result of prevailing sociocultural norms. They are extremely vulnerable, prone to life cycle poverty, particularly in their later years, and suffer from financial exclusion as a result of their numerous deprivations. They are also denied access to basic education, healthcare, and employment prospects. These people have incomplete and low educational attainments mostly due to their socioeconomic exclusion as well as poverty and harassment and thus they end up with very low level of employment and income earning opportunities.

Most of the members of these communities do not live in abject poverty. In fact, some earn reasonable amounts. However, their access to education, healthcare, social and financial services is extremely limited as they usually face hardships in accessing these services even if they have the affordability because of hostile social attitudes and exclusions. They mostly avail low quality services from the informal sector. Moreover, these people--being members of marginalised communities--have little voice and participation in local and social decision making. They sometimes participate in local elections for campaigning in support of other candidates (in return of money) and none of them have ever participated in local and general elections as they think that their marginal identity is an impediment to participate in social decision making.

5.4.3 Access to and Use of Financial Services

The major features of access to and use of financial products/services by individuals of selected disadvantaged and vulnerable communities are summarised in Table 5.17.

Table 5.17: Access to and use of financial products/services by marginalised communities

Marginalised/ vulnerable community	Major socioeconomic characteristics and occupation	Access to and use of	
		Formal financial products/services	Informal financial products/services
Plain land ethnic minority	These communities suffer from social exclusion that makes them extremely vulnerable. The plain land ethnic minorities also have diverse categories, cultural identities, races, livelihood patterns, social customs, and ethnicities. Income vulnerability and institutional deprivations are high among these groups while social and cultural threats make their livelihoods vulnerable and volatile. Their access to traditional livelihood activities is dwindling, while they do not get access to new livelihoods due to discrimination and their lack of access to education and needed skills. Their employment opportunities are extremely limited, existing livelihoods are highly fragile, and social status and identity is low and unrecognised. In terms of accessing basic government services and benefits, plain land ethnic communities face two key exclusions: remote location of most ethnic communities and discrimination. Ethnic communities have access to the government health care system but poor services at health facilities with inadequate medicine and qualified doctors. Further, there prevails discrimination in the provision of health services based on ethnicity and class. Allowances for vulnerable groups including the elderly, mothers and widows are often out of reach for ethnic people because of excessive illegal payments, remote location of government offices, or discrimination. Most women and children in these groups face additional marginalisation, rights violation, and have fewer opportunities to access education, health, economic opportunities, protection and justice.	Almost no access to formal financial services; some has access to MFS; many have access to MFI services.	Many members avail informal services (loans) at relatively high interest rates especially to meet emergencies/ consumption and nonproduction requirements as easy to get loan within 1-2 days and without formalities.
Ethnic minority living in hilly areas	They face severe discrimination in terms of lack of legal recognition, physical violence, access to land and resources, political underrepresentation, access to health care etc. These communities are most vulnerable in terms of income and employment opportunities, poverty, housing, health, water, sanitation, education and intercommunity confidence. The majority of the ethnic minority people are engaged in agricultural activities. However, due to burning of the trees (jhum cultivation), the hill area faces huge environmental damages. Moreover, land becomes incapable of producing crops after jhum cultivation has been performed a few times. The status of entrepreneurship among the ethnic minority people is poor in the hilly areas. Though there are many industries that are contributing to the economy of hilly areas, the control of these industries is completely in the hands of the Bangalis. The situation of education is also vulnerable. As these ethnic minority people mainly live in relatively remote areas, they lack the basic infrastructure needed and, in many cases, they are neglected from the mainstream development activities. The ethnic minorities of hilly areas are also severely deprived of health facilities. The Health and Demographic Survey (2018) shows that the highest rate of infant and under 5 mortality prevails in Bandarban; one of the largest inhabitants of ethnic minorities of the hilly region. According to the Preliminary Report of 2022 Population Census, there are about 0.99 million ethnic people in the CHT region out of a total of 1.65 million ethnic population in Bangladesh.	A few have access to formal financial services; some has access to MFS; many have access to MFI services.	Most members rely on informal loan services, which typically charge high interest rates, particularly for emergencies, consumption, or non-productive needs, as these loans are easily accessible and require minimal formalities.

Tea garden workers	Tea garden workers are socially and economically excluded, and thus have negligible opportunities to find alternative work. Socially, they live and work in the tea gardens and have hardly any interaction with the mainstream population, who also look down on them because they are typically low caste people. The payment system for the tea leaf workers is extremely harsh. The workers have to reach daily targets (typically 23 kg) to meet their daily wage (as low as Tk 85) and have their wages cut if they fall short – many thus work longer hours or rope in family members (e.g. children) to ensure they meet the target. Lack of education and employment opportunities further confine them to the tea gardens. Levels of literacy are very low among tea garden workers. The FGDs indicate that only 35 per cent of respondents are literate. Without education and skills, there are few alternative employment opportunities for them. Most tea leaf pickers are women, who face further constraints with regard to mobility and the need to care for their children.	Almost no access to formal financial services; some has access to MFS; many have access to MFI services.	Many people turn to informal loan services, often at relatively high interest rates, primarily to address emergencies, consumption needs, or non-productive expenses. These loans are popular because they are easy to obtain and require little to no formalities.
Cleaners/ Sweepers/ Dalits	Cleaners/sweepers/Dalits are generally excluded in public places such as restaurants and shops. They are severely marginalised in terms of education and access to land. The FGDs suggests that among the cleaners/sweepers/Dalits, almost half never attended school. They have been historically oppressed by dominant groups in society and the majority is underprivileged and struggle for job opportunities. Like other caste affected communities, cleaner/sweeper/Dalits in Bangladesh are often forced to undertake specific types of labour as a consequence of their assigned caste status and are most commonly associated with the profession of 'jat sweepers' or 'horijons'. As a result of their limited access to employment, cleaner/sweeper/Dalits almost exclusively work in the 'service sector' performing unclean jobs in urban areas such as street sweeping, manual scavenging and burying dead bodies. Many cleaners/sweepers are stigmatised as a result of their profession and experience isolation and social exclusion within the Hindu community, Cleaner/sweeper/Dalit population remains especially marginalised and subject to discrimination not only by the majority population but also by more affluent, higher-caste Hindus who may, for example, exclude them from certain rituals and from shared spaces such as temples, restaurants and markets. The majority of cleaners/sweepers/Dalits are landless and their houses are often located in abandoned fields, on khas (government owned) land near roads or pasture. Cleaners/sweepers/Dalits face widespread poverty and food insecurity and are subjected to land grabbing, violence and forced conversion. The cleaners/sweepers have been mostly living on railway land for generations. Available estimates suggest that the total number of cleaners/sweepers/dalits would be around 3.5 to 5.5 million.	Almost no access to formal financial services; some has access to MFS; many have access to MFI services.	Many members avail Informal services (loans) at relatively high interest rates especially to meet emergencies/ consumption and nonproduction requirements as easy to get loan and without formalities.
Third gender community	Members of the Third gender community face bullying at schools, barriers to employment, difficulty in accessing health care, as well as harassment and verbal abuse in both public and private spaces including fear for their safety. Third gender people face bullying and harassment from fellow students and school officials creating hostile school environment that makes it difficult for these students to concentrate on school education. Some policies reinforce stereotypical gender roles and the Third gender young are unable to pursue educational opportunities and fall victim of drop out, mostly from school. With low level of education and skills, the policy gap is one of the main obstacles for Third gender employment rights. There is no determined policy regarding their employment and no clarification by the state on how they will contribute to society. Educational status is very low and lack of education is a major factor for not having access to the formal job sector. Policies are needed for guaranteeing education of Third gender people and legal provisions are needed to remove discrimination and exploitation of Third gender people in the workplace. The Third gender people routinely face extreme discrimination in every	Hardly any access to formal financial services, some has access to MFI services	Several members have access to informal (credit) services.

	aspect of their lives, from accessing healthcare to applying for a job. Society has yet to understand and recognise the multidimensional aspects of gender-identity discrimination and the physical and emotional effects of stereotypical perceptions experienced by Third gender people. Ongoing programmes and initiatives designed to reduce extreme poverty should prioritise the inclusion of these people. This will allow for redesigning policies in education, health and employment, which is necessary to promote social integration and reduce stigma and discrimination. There persist low and restricted opportunities for accessing education, skills and employment; deprivation from inherited property and financial exclusion hindering self-employment activities; no decent job offer and discrimination in blue collar jobs; and harassment and humiliation in workplace.		
Commercial sex workers	The main concerns of this community are: housing (constant fear of eviction), inaccessibility in law and social practice, health care, alternative employment opportunity and sex trafficking. The sex workers find it extremely difficult to access their human and fundamental rights. The structural violence further aggravates discrimination in their lives. It creates a fertile ground for social exclusion and denial of rights. As a result of their inaccessibility in law and social practices, sex workers face difficulties accessing health care, housing, and supplementary employment opportunities. Available estimates indicate that there are about 200,000 commercial sex workers in Bangladesh. There are 14 official brothels in Bangladesh; concentrated in Dhaka, Khulna, Faridpur, Tangail, Rajbari, Jessore, Kandipara, Mymensingh, and Sylhet.	Hardly any access to formal financial services, some has access to MFS and MFI services.	Several members have access to informal (credit) services.

Source: CRFS FGDs/discussion meetings on marginalised communities, 2023

5.4.4 Policy Implications and Recommendations

Obviously, pervasive poverty in its multidimensional form, lack of productive and decent employment opportunities, and access to basic services such as health, nutrition, housing, education, improved water supply sanitation and hygiene (WASH) services, and fulfillment of other key survival needs are the major developmental issues across all marginalised, disadvantaged, left-behind and small ethnic minority communities in Bangladesh.

The analysis highlights that access to and use of financial services is an enabler for financial wellbeing of these marginalised communities including the SDGs' pledge to ensure that "no one is left behind". Their objective conditions suggest that access to financial services is a critical enabler of improving these people's lives through a number of channels. This can be an important element of providing financial security (e.g. through accessing credit) such as the ability to meet current and ongoing short-term financial commitments, such as the basic needs and essential expenses such as food and health care. It can also give them financial resilience in terms of ability to cope with unexpected or adverse events, such as natural disasters, sudden loss of livelihood activities, death of earning member of the family or sudden health emergencies. This includes both the ability to respond to and recover from small emergencies and large shocks.

In addition, financial access gives them financial control that refers to being confident in one's finances with no or limited financial distress, now and in the future. Financial control, however, is a subjective indicator because "being in control" is unique to each individual and how they are feeling about their finances. Someone in financial control will feel like they can improve their financial health. Finally, this also leads to financial freedom in terms of the ability to meet long-term financial goals and desires such as children's education, starting better livelihoods and improving wellbeing. Ultimately, the access to and use of required financial services would allow the members of these marginalised and excluded communities to rely on their family members, friends and relatives as well as their communities to provide support to each other during periods of financial distress. In addition,

they would be able to contribute to society and to greater growth by supporting clean energy, reducing food waste, and becoming climate change champions (e.g. planting trees, contributing to land, water and natural conservation, etc.) and through various other local interventions.

Banks and other financial institutions, especially MFIs, could create financial products and services that are specifically tailored to these individuals' needs and demands, but focused financial inclusion programmes are also required to address their unique constraints. Further steps are required to expedite their empowerment process and incorporate them into the mainstream development efforts, even though the government and Bangladesh Bank have taken a number of initiatives and are putting a number of development interventions for the wellbeing of these communities into action.

Policy interventions for the state and Bangladesh Bank

- Political commitment is imperative to install an equitable development process. Several actions by the state may be considered:
 - i. Adopt new laws and policies as necessary to protect the rights of each specific marginalised community keeping its specific disadvantages and exclusionary practices in view.
 - ii. Create space for inclusion of specific interests of each marginalised community in the policy framework. Ensure access to education, health, nutrition and other basic services through adopting administrative measures; adopt special measures for specifically recognising the rights/interests of these marginalised communities (e.g. inter-ministerial committee, separate ministry/division etc.); adopt specific and comprehensive life cycle based social protection/safety net programmes specific to each of these communities.

Restructuring markets

Adopt policies to make all markets (e.g. labour, credit and finance, input, output etc.) responsive to the interests of the disadvantaged and the marginalised communities through ensuring their access to efficient marketing services and providing products/services suited to their specific needs and demands.

- i. Adopt measures to create access of these communities to required education, employable skills, and capacity development.
- ii. Create scope for banks, MFIs and other financial institutions for ensuring financial inclusion of these community members and design special credit and financial products and services schemes specific to the needs of these communities.
- iii. Enhance market linkages and adopt measures for linking entrepreneurs of these marginalised communities to supply chains for procuring modern inputs, management services and technologies, and marketing outputs in domestic and external markets.
- iv. Adopt measures for accessing labour market information, skill requirements and job opportunities by these communities.

Exploring ways to improve financial health

Specific efforts are needed to improve the financial health of these communities. There are various ways such as balancing income and expenses; building and maintaining savings; managing existing debts and having access to potential resources; planning and prioritising; managing and recovering from financial shocks; and using an effective range of financial tools to improve the overall financial health of the households. The need is to explore the potential entry point for interventions for specific communities or groups of households. In addition, other key factors which significantly influence financial health include an individual's income level, their income and expenses, their social network

and their status within a household (e.g. dependent, contributor or key financial decision maker). Some of the ways in which these households can improve their financial health include:

- i. Having the financial literacy to understand the pros and cons of different financial products,
- ii. Having a savings or a deposit account, for ensuring regular savings even if in small amounts,
- iii. Gradually moving towards investing in their future and retirement.

The improvement in financial health will play a key role and impacts every part of their lives – improving livelihoods, realising better living conditions, investing in education, health and nutrition for future mobility, family welfare, social networking. It is therefore important to understand the enablers to encourage financial inclusion, and promote financial literacy and capabilities. This will lead to sustainable change to assist these people in reaching optimal financial wellbeing and meeting longer term financial and social goals.

Enabling to earn good returns

Good returns earned from the outputs of marginal farmers and small self-owned/home-based cottage enterprises of the entrepreneurs belonging to these communities through responsible financial inclusion and capability development can enable these poor households to achieve economic empowerment. This requires access to finance (e.g. credit) for the farmers and cottage enterprises, with a focus on women farmers/entrepreneurs. Financial education is also needed to help these people manage their money and production activities more efficiently. For the purpose, banks/MFIs will have to work to make their products/services tailored to the specific needs and demands of specific communities to make these more inclusive and responsible so they can serve the people from these communities. In this context, partnerships between Bangladesh Bank, banks/NBFIs, fintechs, MFIs, government agencies, and other development agencies can advance economic inclusion and help create systems for long-lasting solution for financial inclusion of these marginalised communities.

Introducing innovative insurance products/services

IDRA and the insurance companies may like to undertake measures to introduce innovative insurance products/services e.g. health, disaster, crop, livestock and other production losses, and in other areas as per needs of various groups of low income and marginalised/excluded rural communities and leverage digital solutions to reach these poor and underprivileged rural communities with insurance products/services. Insurance companies can access new markets and customer segments that will yield substantial benefits for the insurance industry by offering suitable, accessible, fair, and equitable (SAFE) insurance products and services to low-income and marginalised individuals and families, particularly in rural areas. Nevertheless, there are difficulties in putting such an extensive insurance plan into practice. Insurance companies must attain substantial size in order to earn a profit from these low-margin products. Moreover, there are problems with inadequate connectivity, high cost of digital devices and data, and the distribution of insurance solutions. Higher financial literacy is also required for this group. In order to overcome these obstacles, insurers could form private-public partnerships, introduce new SAFE insurance products and services to cater to this market, and other comparable actions. Insurance companies can take advantage of the specific opportunity and social responsibility to advance equality and justice and financial inclusion while simultaneously expanding the insurance market by providing insurance products and services that cater to the requirements of underserved and marginalised groups, particularly in rural areas.

Adopting marginality-sensitive social and financial policy

- i. Facilitate knowledge sharing on social diversity and social acceptance of marginalised communities as equal members of society as well as on building social harmony, integrations and social inclusion for all.

- ii. Engage LGIs and the media to promote public opinion against social discrimination and use NGOs and civil society to promote an inclusive society.

Implementing special mechanisms for flow of funds/benefits

- i. Adopt innovative strategies and effective mechanisms to ensure flow of funds/benefits for these communities. For the purpose, earmarking of funds for the development of these communities from the general development sectors may be introduced.

Four pillars could be the focus of Bangladesh's policy framework in order to move towards more inclusive development: (i) reducing socioeconomic disparities; (ii) closing gaps in health, nutrition, and education; (iii) eliminating discrimination and social and gender exclusion; and (iv) implementing specific development programmes for marginalised, excluded, and left-behind communities as well as lagging regions. Additionally, action programmes could use an integrated approach to create a national database and strategic and designated funding mechanisms for marginalised communities; create and implement strategic actions in communities and regions to combat marginalities; create targeted action plans to raise the income levels and access to productive resources by these communities; prioritise addressing the limited access to health, nutrition, and education services in marginalised communities and lagging regions; increase socio-political participation of marginalised communities through integrated approaches; and make sure that all national development plans and strategies give special attention to lagging behind regions and communities.

5.4.5 Concluding Remarks

For effective empowerment of the marginalised and vulnerable communities through accessing financial services, the critical pathway would be to adopt a packaged approach covering different programmes designed according to expressed priorities and specific needs and demands of each community.

Depending on specific locational, socioeconomic and cultural characteristics of these communities, the package may have to include a number of well-designed programmes, such as targeted financial inclusion programme; adoption of customised financial products and services; sustained implementation of microfinance initiatives; financial literacy and education programme; creating awareness on MFS and agent banking programme; community and social mobilisation on financial empowerment programme; affordable credit programme for housing, water and sanitation; credit programme for education, health and meeting unforeseen emergencies; community-based financial cooperatives development programme; skill development and employment support programme; entrepreneurship development programme along with business development services and access to finance; ensuring access to rural credit for agriculture and CMEs programme; developing crisis resilience fund for marginalised and vulnerable communities; financial services for persons with disabilities programme; special credit programme for women's financial inclusion and alternative livelihood development; digital literacy programme especially for women; adoption of alternative credit scoring models; social entrepreneurship development programme; and the like for these marginalised communities.

The government needs to ensure that these individuals are not discriminated against on the basis of their race and identity. To ensure this, if necessary, legal measures may be enacted along with social mobilisation and financial empowerment of these communities. Such measures can create the enabling conditions for protecting these people against all forms of discrimination and give them equal status in society. What is important is to create a platform for these marginalised individuals and give them hope and respect as humans. They should be allowed to be educated and enlightened. They

will be as creative as any other citizen in society; and with opportunities and compassion, these marginalised and disadvantaged communities will become equal partners in Bangladesh's future development.

5.5 Summary and Conclusions

Research has long shown a beneficial correlation between socioeconomic growth and development and a healthy financial system. This is also true for Bangladesh's rural economic development. However, the study finds that formal financial services are severely constrained for most rural populations. The majority of adult rural residents lack access to traditional and MFS that may significantly improve their life, including an account with a traditional financial institution. Further, there is a notable disparity between men and women in rural areas. The degree of financial inclusion varies significantly by geographic region, with the lagging regions exhibiting the lowest levels of access to and utilisation of financial services. Additionally, adults in rural and urban areas have significantly different access to financial services.

For a variety of productive (asset building, working capital) and protective (reducing risk exposure, including health issues) reasons, people in rural areas require access to financial services. These include buying stocks, equipment, and agricultural inputs; maintaining infrastructure; hiring labour for planting and harvesting; transporting products to markets; making and receiving payments; managing peak season incomes to cover expenses in the off-season; investing in education, shelter, and health; or handling emergencies.

Banks, NBFIs, and other formal financial institutions have historically shunned or failed to provide sustainable services in rural areas. As such, rural areas are unable to realise their full potential because of this exclusion.

- Transaction costs in rural areas, especially in remote areas, are high due to low population density, lack of infrastructure (communications, electricity, transport) and small average transaction amounts. This makes financial services expensive. Prohibitive transaction costs also discourage people from depositing savings, thereby depriving households of an opportunity to build financial assets.
- Weak collateral and contract enforcement mechanisms are two other ways that legal systems fail to guarantee marketable property rights to restrict access to financing. As a result, rural communities rarely receive items like long-term loans.
- In rural areas, financial literacy is frequently low. This hinders both households and businesses from developing efficient risk management plans, such as comprehending how insurance operates and why premiums must be paid on a monthly basis without a pay-out schedule. As a result, alternative providers like dealers or input suppliers, as well as delivery methods like mobile phone firms, have emerged as significant actors in the financial services industry, along with informal or semi-formal financial institutions.
- However, these unregulated suppliers typically offer a limited range of financial services and lack institutional and administrative competence. Furthermore, some of these suppliers have been able to charge exorbitant and perhaps even usurious interest rates since they operate independently of the formal financial system.
- The rural economy is most affected by climate change. Without access to insurance, emergency loans, or long-term financing for starting less risky businesses, rural communities are unable to handle and adapt to the increasing frequency of droughts, floods, or storms.

Numerous changes have occurred in the rural regions of the country as a result of these transformations, creating new challenges and opportunities for the provision of financial services that

assist a broad range of economic endeavours and households with different income levels. It encompasses all financial services associated with agriculture and rural economy, including those provided by processors, distributors, and exporters, who may operate in rural, urban, or peri-urban settings, as well as those that support non-agricultural and agricultural industries. Savings, insurance, loans (consumption, emergency, and productive), leasing products, money transfer services, and guarantees are just a few of the small-scale financial services that rural finance needs to offer.

In order to unlock the significant economic potential of rural areas and benefit rural populations, the recommendations focus on fostering knowledge creation and innovation in the delivery of rural financial services, enhancing the managerial and technical capacity of financial service providers to serve rural and remote areas, and creating an enabling environment. These recommendations are based on the gaps in rural finance that have been identified. The goal of a competitive financial market with numerous competitors offering suitable and demand-driven products and services will have to serve as the basis for the selection of policy alternatives.

Chapter 6

Access to and Uses of Finance by Rural Enterprises

6.1 Introduction

In Bangladesh, the rural areas are destined to play a central role in availing the opportunities and meeting the challenges of the coming decades. This includes innovations in food production for meeting the nutrition needs of the growing population, development of the rural nonfarm sector (including CMSMEs) for raising incomes and creating decent job opportunities, developing renewable energy sources that meet our climate challenges, and conserving ecology and environment that will enable the transformation of Bangladesh into a smart, inclusive and high income country.

In Bangladesh's rural areas, entrepreneurship is essential for fostering innovation, preserving and growing rural communities, creating jobs, and regulating the interplay between farming, land use, resource allocation, rural growth patterns, and social and community development.

In the rural areas, the entrepreneurial ecosystem characterises the fact that entrepreneurial opportunities exist at the confluence of markets, households and technologies. The rural ecosystem also takes into consideration that growth opportunities are not static and that changing environmental conditions can create and alter the value chains due to geographical distance, isolation and many other factors such that the challenges faced by the rural entrepreneurs cover a number of dimensions, such as knowledge gap, limited access to finance and technology, lack of skills and human resources, inability to adopt modern management practices, marketing problems and lack of standardisation and difficulty for survival from competition from larger enterprises. The capacity of the government to effectively address these challenges and opportunities will undoubtedly impact not only the rural economy but also future national cohesion and prosperity.

6.2 Structure of Rural Enterprises

A large informal economy and small-scale production units (also known as cottage, micro, and small enterprises, or CMSEs) have historically dominated Bangladesh's rural areas. Smaller businesses are more susceptible to the issues of bad governance, inadequate regulations, and weak institutions due to their scale. They are also more negatively impacted by high bureaucratic costs than larger businesses. Additionally, working in the informal sector severely limits an organisation's ability to expand by limiting its access to financial and other resources, ability to use public services, and the kind of contracts and investments it may make.

According to the 2013 BBS Economic Census, Bangladesh's total number of economic units has grown from 2.17 million in 1986 to 7.82 million in 2013, virtually quadrupling in just 27 years. Of them, 72 per cent were permanent establishments in 1986; however, by 2013, that percentage had dropped to 58 per cent. The above shows two emerging trends: first, since temporary establishments and household economic units mostly involve informal activities, their rising share suggests that the informal sector has been expanding quite rapidly providing supplementary sources of household incomes and employment especially for the rural and urban poor; and second, the consistent increase in the number of permanent establishments is expanding the nonfarm (and varied) economic base starting a process of formalisation of economic activities. Additionally, there is a definite positive correlation between formal employment and educational achievement; those with higher levels of education are more likely to work in the formal sector.

The number and type of economic enterprises and employed labour in Bangladesh can be seen in Table 6.1. It shows that out of a total of 7.82 million enterprises in 2013, more than 71 per cent (5.59 million) are rural enterprises while the rest 29 per cent are located in the urban areas. Of the total enterprises, nearly 89 per cent (6.95 million) are CMEs while about 11 per cent (0.87 million) belong to small and medium enterprises (SMEs). The number of large enterprises is only about six thousand. In the rural areas, nearly 93 per cent of all enterprises are CMEs and about 7 per cent are SMEs with only about two thousand large enterprises. Similarly, in the rural areas, the employment structure is also skewed with CMEs accounting for 66 per cent and SMEs for 26 per cent of total persons employed. The remaining 8 per cent are employed in large enterprises. Thus, it is evident that Bangladesh's rural entrepreneurs are characterised by extreme dualism with significant imbalances in the overall size structure of enterprises. This indicates the need for adopting a dualistic approach to resolving the constraints facing the rural entrepreneurs, including their access to and use of financial services, deciding on technology choices, upgrading technologies, and adopting business development and marketing strategies.

Table 6.1: Number and types of enterprises and employed labour in Bangladesh, 2013

Enterprises/persons employed	Rural	Urban	Total
Type of enterprises			
	Number in million		
Cottage	5.11	1.73	6.84
Micro	0.07	0.04	0.11
Total CMEs	5.18	1.77	6.95
Small	0.41	0.45	0.86
Medium	0.003	0.004	0.007
Total SMEs	0.413	0.454	0.867
Large	0.002	0.004	0.006
All enterprises	5.585 (71.4 per cent)	2.228 (28.6 per cent)	7.823 (100 per cent)
Persons employed			
	Number in million		
Cottage	9.56	3.61	13.17
Micro	0.34	0.22	0.56
Total CMEs	9.90	3.83	13.73
Small	3.53	3.07	6.60
Medium	0.37	0.34	0.71
Total SMEs	3.90	3.41	7.31
Large	1.20	2.26	3.46
All enterprises	15.00	9.50	24.50

Source: Economic Census 2013, BBS 2015

Several aspects of the nation's enterprise sector are highlighted by the 2013 Economic Census results:

- There are roughly 0.87 million manufacturing businesses, or 11 per cent of all businesses; the other businesses are service-oriented. However, the employment share of manufacturing is about 29 per cent of the total employment in all enterprises.
- The dominance of rural areas in nonfarm enterprises is evident with nearly 72 per cent of all economic enterprises and 76 per cent of manufacturing enterprises located in rural areas.
- About 88 per cent of all economic companies are cottage businesses, whereas just 12 per cent are micro, small, and medium-sized businesses (MSMEs), and the proportion of major businesses is very modest.

- However, cottage businesses are less common in the manufacturing sector, making for only 28.8 per cent of manufacturing employment as opposed to 83.8 per cent for all businesses. Manufacturing MSMEs, on the other hand, make up 30.6 per cent of manufacturing jobs and 15.9 per cent of total businesses.
- In terms of employment, cottage businesses are much less prevalent. Cottage businesses make up 53.7 per cent of the total, followed by MSMEs (32.1 per cent) and large businesses (14.1 per cent).

The size category "<10 workers" accounts for approximately 98% of all nonfarm businesses, which is another significant characteristic. Additionally, according to the 2013 Census, nearly 95 per cent of Bangladesh's manufacturing businesses employ fewer than ten people. As per the preliminary report of the 2019 Survey of Manufacturing Industries (SMI) of BBS, estimated value addition of manufacturing MSMEs is Tk. 1,228.96 billion, which is about 26 per cent of total manufacturing value added in the year. The share of manufacturing MSMEs in the country's GDP for the fiscal year 2018-19 is thus around 4.9 per cent.

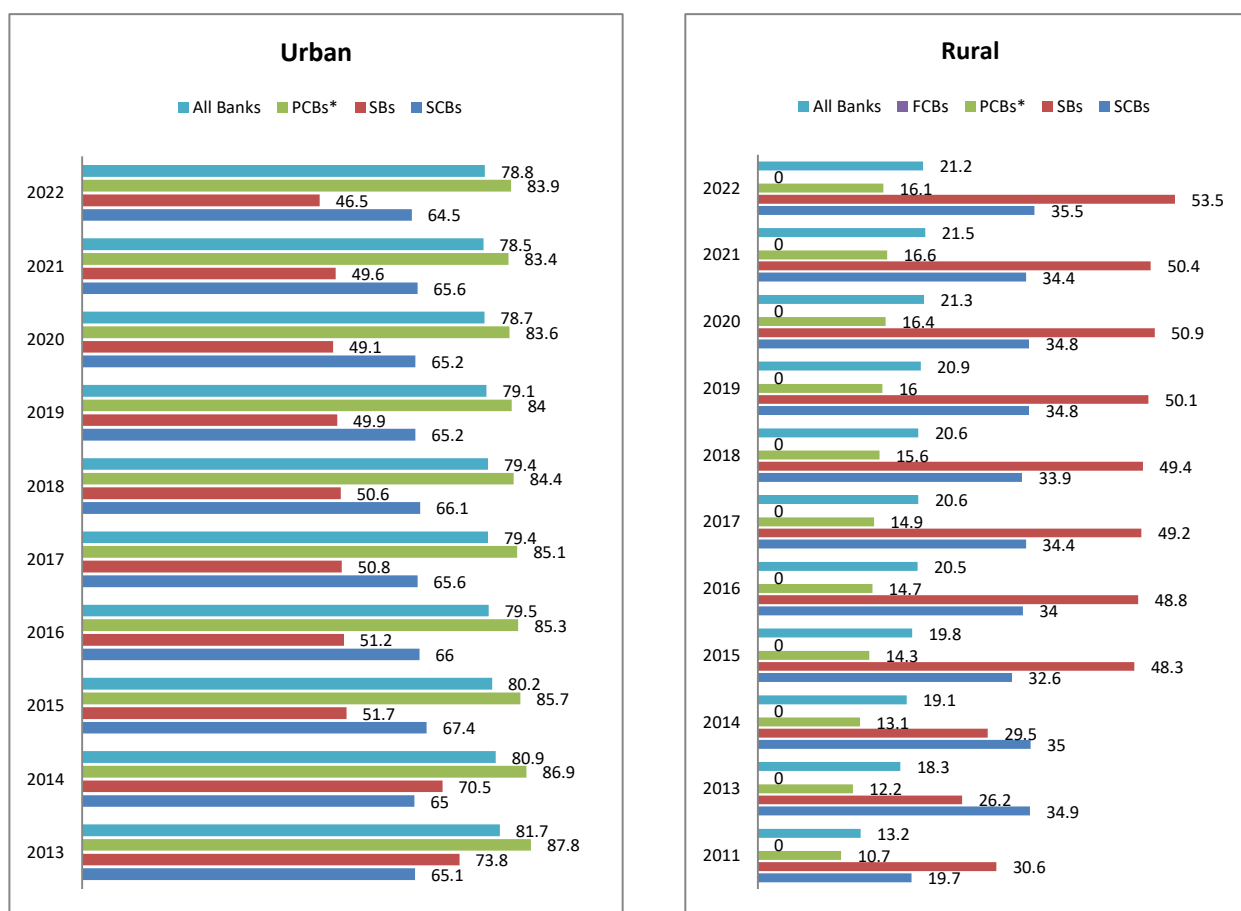
All things considered, Bangladesh's CMSMEs serve as an illustration of businesses that are centred around entrepreneurship and are typically constructed using 'tried-and-true', creative, and practical methods. Because of this, these may endure and even thrive in the most difficult economic conditions. The models that CMSMEs typically use are profitable, market-responsive, and require little capital. They have the potential to become 'silent transformers' of the Bangladesh economy because of their sheer numbers and comparatively straightforward business models that align with the labour force and resource endowments of the country. As a result, even though they are small, CMSMEs contribute significantly to the country's employment, output, and earnings.

The above analysis shows that the cut-off lines separating the CMEs from the SMEs are important for Bangladesh as the former typically operates in the informal sector without registering their status and whether or not these enterprises are included can significantly affect the size structure of enterprises, associated challenges, and the policy implications.

6.3 Availability of Finance for Rural Enterprises

Deposit mobilisation efforts in Bangladesh, as in most developing countries, have traditionally been confined to the urban areas, primarily because of the perception that rural people have low incomes and hence do not have much surplus to save. Still, despite some increases in recent years, the share of rural areas in total deposits of all types of banks is around 20 per cent while the rest 80 per cent comes from the urban areas (Figure 6.1).

Figure 6.1: Share of urban and rural areas in deposits by types of banks



Note: *including IBs

Source: Bangladesh Bank, Scheduled Bank Statistics, various issues.

On spatial and geographical inequalities, it is observed that ‘spatial inequality is a dimension of overall inequality, but it has added significance for rural entrepreneurs. Even a geographically small country like Bangladesh can have significant regional inequalities where a clear East- West divergence is visible. Such disparities can concentrate poverty in certain regions, skew intra-national migration patterns, create the grounds for resource-based and inequality-based tensions and pose threats to achieving the SDGs and promoting inclusive development priorities.

The remainder of the economy is significantly impacted by an unequal financial sector (for example, in terms of loan and advance distribution), and inclusive financial development may increase opportunities and lessen regional disparities. Better household access to financial services and products also encourages financial development, boosts economic expansion, lowers poverty and income inequality, and raises household earnings. In Bangladesh, a significant regional concentration of loans and advances by banks can be observed. For example, loans and advances of all types of banks are highly concentrated in favour of two administrative divisions (Dhaka and Chattogram) of the country: these two divisions received 86 per cent of the total loans and advances by all types of banks in 2021 and 2022 while the rest of the six divisions got only 14 per cent.

Microfinance institutions (MFIs) have been playing a major role in broadening and deepening financial access for the poor since independence, especially for women entrepreneurs operating informal micro enterprises. Although MFIs registered under MRA, along with the Grameen Bank, are the major players of the microfinance sector, there also exist other government agencies and non-government MFIs. According to the CDF, total volume of microcredit and microenterprise loans

disbursed was TK.2,091.56 billion (microcredit loan of TK.1,349.68 billion including other programmes and microenterprise loan of TK.741.88 billion) in 2021-22 to 35.73 million borrowers of whom 5.35 million are microenterprise borrowers.

Furthermore, women make up 91 per cent of these microcredit and microenterprise borrowers. The MFIs used to rely solely on grants and foreign investment to operate, but now a days, the industry has diversified its funding sources and aims for sustainability. Its primary funding sources are bank loans (26 per cent), member savings (42 per cent), and accumulated surplus (29 per cent). Government support (through PKSf) and donor and other funds have also drastically decreased in recent years.

In summary, because of the quick changes in the legislative environment, the financial support provided to CMSMEs has increased and improved during the past ten years. The total amount of loans that banks and NBFIs have disbursed to CMSMEs has grown by more than five times since 2010, rising from approximately TK.535 billion to more than TK.2,829 billion in 2022. Furthermore, a larger percentage of all loans are currently given to CMSEs. An examination of CMSME loan distribution trends reveals that, in the early years, a comparatively higher percentage of loans were given to medium-sized businesses since banks and NBFIs viewed this market sector as less hazardous. However, things have drastically changed in subsequent years.

In the primary survey conducted under the present study, the status in terms of access to credit is depicted in Table 6.2. Overall, the access to credit for the rural entrepreneurs is reasonably high (nearly 65 per cent) in formal credit sources (including banks/NBFIs, Grameen Bank, cooperatives and MFIs). As a matter of fact, many rural entrepreneurs (32 per cent) borrow from multiple sources mostly comprising of banks (both public and private) and, to a lesser extent, from specialised banks and cooperative societies. The incidence of multiple borrowing is higher for small enterprises (50 per cent) while it is around 30 per cent for CMEs. Further, more than 19 per cent of rural enterprises take recourse to informal borrowings (with a high of more than 20 per cent for cottage enterprises and a low of 5 per cent for small enterprises) for ease of convenience and meeting emergencies.

Table 6.2: Share of rural enterprises accessing credit from different sources

Source	Cottage	Micro	Small	Total
	per cent of enterprises accessing credit			
Banks/NBFIs	13.16	45.51	41.18	16.87
Grameen Bank	6.16	1.92	...	5.65
Cooperatives	0.91	2.56	...	1.08
MFIs	43.80	19.87	35.29	41.20
Informal market	20.30	13.46	5.88	19.42

Note: ... indicates nil.

Source: CRFS quantitative survey on rural entrepreneurs, 2023

In general, the financing pattern of rural CMSMEs is similar to the pattern of financing of other enterprises; the difference, however, lies particularly in the adequate and timely access to credit, knowledge and information system; provisional backups; institutional support; financing mechanisms; regulatory and legal framework; monitoring and evaluation on the part of governing systems; and lack of skills, training and awareness on the part of credit demanding entities. In short, several stages in the rural CMSME entrepreneurship financing can be identified in countries like Bangladesh:

- (i) Estimation of requirement of initial investment.
- (ii) Exploring banks, NBFIs, and other formal and informal sources of finance.
- (iii) Raising working capital for day-to-day operational activities up to profit realisation (gestation lag) or completion of operating cycle.

- (iv) Raising funds for enterprise expansion, marketing and promotional activities.
- (v) Modernisation.
- (vi) Export/import finance (pre-shipment and post-shipment finance, insurance coverage during transit etc.).
- (vii) Contingency fund for meeting emergencies/unexpected events and for financing rehabilitation which is one of the prominent features of CMSMEs.

The findings indicate that, for the rural CMSMEs, stages (i), (ii), and (vii) are the most crucial since these enterprises find it very difficult to overcome the hurdles that occur during these phases. The important issue for rural entrepreneurs is, of course, access to the sources of finance. In reality, access to finance becomes complex due to the existence of several interlinked issues. There exists a wide and rapidly diverging gap between the demand for and supply of credit to these rural enterprises. Moreover, despite efforts by the government and other agencies several vexing issues still remain to be resolved for the rural CMSMEs such as, hassle free and easy access to credit, general lack of entrepreneurial skills (e.g. management, science and technology, marketing, administration etc.), weak mechanisms for providing support services, scattered and unorganised existence of most rural CMSMEs for being in the informal sector and remaining unregistered, and such other reasons.

The spirit of rural entrepreneurship in Bangladesh refers to a type of independent work that seeks for opportunities and establishes new businesses that are essential to the expansion and structural change of the rural economy. Rural business owners and entrepreneurs play important roles in the development process as they foster innovative and profitable concepts that boost growth. At various phases of the country's rural economic growth, rural entrepreneurs can play particular roles.

1. **Factor-driven stage:** which is characterised by a dominant primary (agriculture) sector and unskilled labour force;
2. **Rural nonfarm growth stage:** in which rural entrepreneurship starts to grow and CMSEs begin to flourish mostly in the informal sector; and
3. **Efficiency and innovation-driven stage:** in which the rural CMSMEs become more important with modernisation and urban/export market linkages and the startup of new enterprises producing sophisticated products increases.

The use of accumulated human capital as well as incentives for future human capital accumulation will be impacted, regardless of the self-employment modalities, if prospective entrepreneurs are unable to identify opportunities with high returns to skills and innovation.

6.4 Improving Finance for Rural Entrepreneurs

Lack of credit information is a factor that contributes to the constraints faced by rural CMSMEs as assessing their creditworthiness represents a unique challenge. The CMSMEs mainly rely on movable assets to access finance. Finding alternatives to traditional collateral-based lending and using collateral registries to promote adequate legal and institutional protections, therefore, enable CMSMEs to access the resources they need to launch and operate their enterprises.

Focus on CMSME entrepreneurship for rural youth: With more and more young people reaching working age, youth unemployment is still high and the great majority of the rural working age population are employed in precarious, low-paying jobs. Giving young people the opportunity to innovate and adapt to societal demands through a rise in youth entrepreneurship is one method to create decent work and inclusive growth.

Alternative credit scoring for rural youth entrepreneurship financing: Fintechs can create alternative credit scoring models that demand less collateral by conducting surveys and analysing social media, mobile phone, and transaction data. Instead of focusing on their limited credit history and/or assets, this Big Data can be used to create responsible financial products for young entrepreneurs in rural areas based on their education and skills.

Rural youth-focused mobile wallets and digital banking: Even while young people in rural areas are typically financially excluded, they are still highly engaged in the digital economy; therefore it is possible that they will have their first financial interaction with the bank online. To offer financial products to unbanked rural youth entrepreneurs, financial service providers (FSPs) may create and deploy digital mobile-based banking solutions.

Expansion of business funding platforms: In addition to established financial institutions and/or locally obtained informal credit, crowd funding, peer-to-peer (P2P) lending, and venture capital financiers provide a new source of funding for young entrepreneurs. Fintechs can be crucial in enabling this change.

Promoting digital financial literacy and capability among rural young entrepreneurs: Fintech companies are increasingly integrating learning and best practices into their products to help their consumers become more financially literate and capable.

Offering client-centric products and financial services that respond to the needs of rural youth: For financial inclusion of the rural youth, FSPs and other stakeholders may work towards piloting and rolling out programmes for providing sustainable financial and non-financial services tailored to the rural young people.

Encouraging banks/NBFIs to leverage technology for facilitating lending to youth entrepreneurs in rural areas: Fintechs can help financial institutions transition from asset-based lending to cash-flow-based financing by providing solutions, such as the use of geotagging farms for remote monitoring and evaluation and determining farmers' profitability based on input and output expenses. Programmes like Individual Development Accounts (IDA), which Bangladesh Bank offers, can assist young people in rural areas in saving money for assets or revenue-generating ventures.

Improving credit reporting for CMSMEs: When borrowers are more informed than lenders about their financial status and investment prospects, information asymmetries occur. The lending market becomes inefficient as a result. Credit reporting service providers (CRSPs), which include credit bureaus and credit registries, contribute to lessening the information asymmetry between lenders and borrowers by exchanging credit information.

Exploring alternative financing options: These may include: small cap equity market; venture capital; Angel investors; crowd-funding; impact Investing; financial leases; improving access to finance through insolvency practices; and other innovative options.

The key, however, is to ensure secured lending for rural CMSMEs. Effective collateral registries can reduce the costs of credit monitoring by notifying parties about the existence of a security interest and establishing priority of creditors against third parties.

Factoring for rural CMSME financing also has great potential for which several obstacles need to be addressed, such as existence of incomplete credit information bureaus where information on rural CMSMEs are unavailable; high incidence of fraud in financial markets and others.

To support factoring, a collateral registry is necessary, wherein factors can register receivables (whether assigned or transferred) and perfect their right in these kinds of assets. In addition to

individual or group entrepreneurial endeavors, an enabling environment that supports these initiatives is crucial for assuring the success of rural entrepreneurship development.

It is typically challenging to locate the resources needed for the entrepreneurial process in rural locations, including capital, management, technology, facilities, communications and transportation infrastructure, distribution channels, and skilled labour. In rural locations, it is also difficult to find professional counsel. Therefore, in rural places where it is most needed, i.e., when 'these other inputs' are most scarce, entrepreneurial behaviour, or the capacity to see market opportunities, is most missing. These factors make rural entrepreneurship more likely to thrive in places where a well-thought-out regional/local strategy may be paired with the growth of local entrepreneurial capabilities. In these situations, societal and individual entrepreneurship can be very beneficial to the economic, social, and community growth of rural areas.

Leveraging Good Practices to Design and Manage CGSs: Credit guarantee schemes (CGSs) are a common tool used by policymakers to help CMSME's obtain financing. Groups of borrowers who are creditworthy but would not normally be granted a loan because of inadequate collateral or credit history data can benefit from the CGSs. However, CGSs' effectiveness frequently hinges on how well their mechanism is designed and tailored to the requirements and goals of the local community. The CGS must: (i) assist rural CMSMEs with credit and, to the maximum extent feasible, refrain from lending to businesses that would have been granted credit even in the absence of a guarantee; (ii) concentrate on the economic sectors that require the most assistance; and (iii) maintain long-term financial viability.

Need to Exploit Full Potential of Islamic Finance: Islamic finance can be an important source of financing rural CMSMEs and can facilitate portfolio diversification for institutional and high net-worth investors and serve as an alternative source of financing for rural populations and CMSMEs. For example, sukuk can be used to fund development projects as well as rural CMSMEs.⁹ Financial transactions are dominated by the conventional modes of the Islamic trading system, which can be broadly categorised as equity-based (partnership and joint venture relationship), rental-based (lessor-lessee relationship), and trade-based (buyer-seller relationship and co-ownership). These options are also organized as Islamic insurance (Takaful) and Islamic bonds (Sukuk).

In light of the growing potential for digitalisation, the improvement of infrastructure, and the increased availability of data to create more specialised financial services for rural CMSME entrepreneurs, Bangladesh Bank and policymakers may prioritise a number of measures to increase the availability and utilization of high-quality financial services by rural CMSME entrepreneurs. To improve policy coherence, this entails: (i) taking a more coordinated approach to CMSME lending; (ii) incentivise the digital integration of rural CMSMEs as an in-built mechanism for financing; (iii) encourage banks/NBFIs to design and provide tailored support to rural CMSMEs especially to rural women and CMSEs entrepreneurs; (iv) introduce policy incentives for banks and NBFIs to emerge as specialists in CMSME financing, especially for financing rural women and CMSE entrepreneurs; (v) develop agencies with effective and efficient capacity in providing tailored BDS to rural women and CMSME entrepreneurs; and (vi) encourage alternative financing options for rural CMSMEs.

According to the BBS Population Census 2023, 68 per cent of Bangladesh's population resides in rural regions, and improving the standard of living for these people as well as the general growth of

⁹ A sukuk is an investment instrument (traded like a conventional bond) that provides the investor with undivided ownership of an underlying asset. The volume of annual sukuk issuances reached \$75 billion in 2016, bringing the volume of outstanding sukuk close to \$320 billion in Asia. See, Islamic Financial Services Board. 2017. Islamic Financial Services Industry Stability Report. Kuala Lumpur.

the rural economy are crucial to the country's development. If funding is made available, CMSMEs—and rural CMSMEs in particular—can contribute more to growth than larger businesses because they are disproportionately hampered by a lack of funding. The current study demonstrates that rural CMSMEs are more negatively impacted by financing barriers in addition to reporting higher financing challenges. This may be partially because it prevents rural CMSMEs from utilizing economies of scale, and partially because there aren't enough other funding options. It is argued that production technologies follow a step-function, and that credit might be needed for CMSMEs to make the jump to the next step e.g. a move from manual to improved technologies.¹⁰

6.5 Uses of Finance by Rural Women Entrepreneurs

Because they typically reinvest their earnings in the education, health, and nutrition of their children, economically empowered women are important development catalysts. Improving women's position and reducing gender disparity in access to resources are therefore key components of creating a 'smart Bangladesh'. There is growing evidence that women who are economically active have more negotiating leverage at home. In addition to benefiting women, increased bargaining power for women leads to increased spending in children's health and education, fostering the next generation's human capital and enhancing economic growth prospects. Given that women have limited access to resources like jobs and land and other assets, outside funding—and specifically business loans—is particularly important for their new endeavours.

Women still make up a very small percentage of entrepreneurs, despite the enormous transformational benefits that have occurred, particularly in recent years. Of the over 8 million businesses in Bangladesh, with the exception of roughly 6,000 large businesses, the remainder is CMSMEs, according to the 2013 Economic Census of BBS. Women hold just 7.2 per cent of these businesses. Even among business owners, women are underrepresented in the majority of industries, especially manufacturing and wholesale and retail commerce (apart from textiles). A 2018 UNCDF Review found that women make up just 94,800 of Bangladesh's over 1.3 million retail micro-merchants. This illustrates the low level of economic participation among women: according to BBS, women's labour force participation in 2022 was only 43 per cent, while men's was 80 per cent.

To put it briefly, according to the dominant beliefs in rural society, (i) social norms are closely linked to the barriers and challenges faced by rural women entrepreneurs, influencing many aspects of their daily lives and preventing some types of behaviour while promoting others; (ii) the barriers and constraints faced by rural women entrepreneurs exhibit an interlocking phenomenon that makes it more difficult for them to start businesses; and (iii) gender inequality is a legacy of social and cultural clusters that still exist in rural society. This demonstrates that researching how the cultural background affects rural women entrepreneurs is an interesting line of inquiry that can greatly advance existing knowledge on the causes of the barriers faced by these businesswomen nationwide.

Women in rural areas are generally underrepresented in businesses and in positions of leadership. As a result, they struggle to run their businesses without necessary education and expertise. Additionally, they struggle to establish networks of professional support. Maintaining control over male employees and making sure that the business runs smoothly become difficult for the CEO of an enterprise in this situation, and it can be a big turnoff for young female entrepreneurs starting their own businesses.

Lack of capital is one of the largest obstacles to launching and operating their businesses, according to ecosystem research on women entrepreneurs and the obstacles they encounter. However, new loan

¹⁰ See, Banerjee, A.V. and E. Duflo, 2011, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, Population and Development Review, <https://doi.org/10.1111/j.1728-4457.2011.00462.x>

programmes, training programmes, and other opportunities for capacity development have steadily increased in recent years, both generally and specifically for women entrepreneurs. For two main reasons, rural women entrepreneurs are largely unable to take advantage of these opportunities: first, they live in a more traditional, patriarchal, and class-biased society where many social norms and expectations act as invisible barriers, making it difficult for them to access non-financial resources like technology, business development, and other support services, as well as financial resources like loans; and second, these programmes are not designed or implemented with pro-women elements.

Access to finance: A key barrier

Despite the remarkable potential, obstacles including restricted financial resources hinder the expansion and advancement of rural women entrepreneurs' businesses. In reality, the biggest obstacle to launching and growing their businesses, according to rural women entrepreneurs, is access to financing. Women confront challenges with their rights and voice, and they typically have less access to other resources than men, in addition to financial ones. These disparities cause distortion and frequently lead to a scenario where the economic activities of rural women are undercapitalised and under-resourced, which lowers output and impedes progress.

Bangladesh Bank, including the SME & Special Programs Department (SMESPD) at the Head Office in Dhaka, established a Women Entrepreneur Development Unit (WEDU) in 2014. The Unit provides business-friendly services to female entrepreneurs, handles complaints and resolves them, conducts marketing campaigns to support the growth of female entrepreneurs, and keeps an eye on and assesses bank and NBFIs development programmes for women entrepreneurs. The WEDU offers low-cost funding through its Small Enterprises Refinance Scheme to encourage women entrepreneurs to take the initiative or start their own businesses. Additionally, the WEDU has been charged with the duties of encouraging and assisting female entrepreneurs.

Despite these efforts, the percentage of women entrepreneurs who receive CMSME loans has stayed below 4 per cent since 2010, when the national policy set a goal to increase the loan disbursement rate to women-run CMSMEs from financial institutions to 15 per cent by 2024.

Although there has been a slight improvement over the past ten years, it still seems that women CMSMEs acquire fewer loans. They receive a relatively low share of the total loan disbursement by banks and NBFIs in the context where women entrepreneurs face greater vulnerability to constraints in credit access compared with men in addition to gender-specific credit constraints.

The survey conducted under the present Comprehensive Rural Finance study shows that, the access to credit from formal sources (excluding NGO-MFIs) for rural women entrepreneurs is extremely low (14 per cent). On the other hand, 58 per cent of rural women entrepreneurs have access to credit from NGO-MFIs and nearly 4 per cent from Grameen Bank.

Further, 29 per cent of rural women entrepreneurs are seen to borrow from informal sources. As a matter of fact, many rural women entrepreneurs (49 per cent) borrow from multiple sources mostly comprising of banks, MFIs and informal sources. The incidence of multiple borrowing is higher for rural women owned cottage enterprises (50 per cent) while it is around 14 per cent for micro enterprises. It is seen that only about 62 per cent of the rural women entrepreneurs could receive the requested full amount of loan while 11 per cent were granted half the requested amount and 3 per cent only 25 per cent of the requested amount of loan. According to the entrepreneurs, this forces them to recourse to multiple borrowing especially from informal sources.

The extent of access to MFS among rural women entrepreneurs shows that, on average, 90 per cent of the rural women entrepreneurs have reasonable knowledge about MFS and its application while 77

per cent of the entrepreneurs have their own MFS account. The most widely used financial activities include: withdrawing/sending money (96 per cent), recharging mobile phone (58 per cent), savings in MFS wallet (22 per cent), payment of utility bills (17 per cent), receiving sale proceeds after selling produced items (13 per cent), and purchase of raw materials for enterprises (16 per cent).

The findings highlight the fact that rural women entrepreneurs face greater financing obstacles than the rural men-owned enterprises—they enjoy less access to external finance and face higher transaction costs and higher risk premiums. Almost 61 per cent of the rural women-owned CMEs are dependent on own finance for startup capital while 21 per cent received finance from MFIs, but none in the sample received startup capital from banks (Table 2). Thus, most rural women-owned CMEs basically remain underfinanced and nearly 17 per cent had to borrow from informal sources to start an enterprise.

Generally, from the beginning of their business to its expansion and maturity, rural women entrepreneurs encounter a number of financial obstacles. Lack of financial resources, minimal formalisation, and high financing costs, along with low-quality collateral, insufficient documentation, and no business plans, are the main demand-side barriers. On the supply side, banks and other financial institutions are very risk averse, there are not enough products and services that are acceptable for rural women entrepreneurs in particular, and there are not enough infrastructure and credit policies in place.

In Bangladesh, rural women entrepreneurs communicate demands and preferences that are different from those of men. Being gender-neutral is insufficient to address the demands of rural women entrepreneurs. Due to time restrictions, a general lack of collateral, and generally lower levels of business expertise compared with males, rural women entrepreneurs are generally at a disadvantage, even if banks' and NBFIs' lending practices currently seem to be more gender-neutral.

Targeting rural women entrepreneurs as a monolithic group is also insufficient. The majority of loans in Bangladesh that is especially intended for rural women entrepreneurs are currently primarily concerned with reducing poverty. Growth-oriented MSMEs run by rural women entrepreneurs who have the drive and capacity to grow their companies cannot effectively use such loans. Understanding and actively addressing the needs and preferences of rural women entrepreneurs is essential to meeting the need for financing with financial products tailored to their needs. From design to marketing to delivery and beyond, gendered customisation is required.

Beyond Finance: Non-financial and invisible barriers

More often than not, rural women businesses require service bundling. They list requirements for their businesses' success that go beyond funding. Training in financial management, business skills, industry-specific technical support, networking, mentorship, and many other things are required by them to run and expand their enterprises.

Limited access to markets

Gaining access to new markets necessitates experience, relationships, and knowledge. Women entrepreneurs in rural areas frequently lack access to market participation training and expertise, which makes it difficult for them to strategically sell goods and services. Furthermore, they frequently lack exposure to the global marketing chains, thus they are ignorant of what is considered appropriate on a global scale. For many rural women entrepreneurs, especially those who own rural firms, the high expense of establishing new business contacts and ties in a new country or market is a major disincentive and barrier. In addition, rural women could be afraid of or experience discrimination or sexual harassment, and their travel options may be limited.

Access to training

In Bangladesh, rural women entrepreneurs have limited access to technical and vocational training. In actuality, it must be understood that only a solid foundation of fundamental elementary and secondary education can foster the development of technical and vocational abilities. Bangladesh is known for its low educational standards and high percentages of rural women dropping out of school. In order to create a skilled workforce for the demand-driven domestic and global markets, the government Technical School and Colleges (TSCs), Technical Training Centres (TTCs), Bangladesh Industrial Technical Assistance Centre (BTAC), skill development projects, non-governmental organisations (NGOs), private Technical and Vocational Education and Training (TVET) institutions, and international NGOs are all involved in the TVET sector. But these need to be rural women entrepreneur friendly such that these entrepreneurs can have access to the services without hassle.

Statistical invisibility

Most of the time, pertinent data regarding the gender distribution of rural enterprise owners or operators is not gathered. Since many businesses have several owners and operators, some of whom may be males and some may be women, it is true that gathering such information is frequently methodologically challenging. However, policymakers and other stakeholders often assume that all firms are owned and/or operated by males, or, to a similar effect, that businesses owned and operated by women are no different from those operated by men, in the absence of relevant data base. However, businesses that are owned or run by women and those that are owned or operated by males differ significantly. These disparities point to various needs and demonstrate the importance of highlighting rural women's enterprises in terms of their numbers, market share, and unique features in order to create effective policies.

Access to networks

Rural women enterprises' growth is further constrained by the fact that rural women entrepreneurs have less business contacts, less bargaining power, and less understanding of how to navigate the bureaucracy of the government. Due to their small-scale operations and lack of membership in professional organisations or other networks, rural women entrepreneurs frequently struggle to obtain information. Rural women entrepreneurs are also deprived of awareness and exposure to positive role models due to a lack of networks. Women-owned businesses in rural areas are underrepresented in trade, business, and industry associations.

To close this gap, numerous women's business organisations have been founded in Bangladesh, including the Women Entrepreneur Association of Bangladesh (WEAB), the Bangladesh Federation of Women Entrepreneurs (BFWE), and the Bangladesh Women Chamber of Commerce and Industry (BWCCI). But generally speaking, these organisations' very presence does not guarantee visibility or a voice, particularly for rural women entrepreneurs. In addition to being effective and constructive in the policy arena, the organisations are required to offer need-based services in accordance with the demands of rural women entrepreneurs. These organisations need to acknowledge the diversity of rural women entrepreneurs and ensure that their multiple perspectives are heard.

Access to policymakers

The majority of women entrepreneurs in rural areas lack representation on policymaking bodies and have limited access to politicians. Large businesses, typically run by men, have easy access to legislators and the ability to influence policy. Rural women are less likely to be members of and advance to leadership roles in mainstream business organisations, which restrict their ability to agitate

for changes to policy. The inability of rural women to obtain information also restricts their ability to contribute intelligently to policymaking.

Constraints in legal environment

The secret to empowering rural women entrepreneurs to launch and run their enterprises is supportive regulation. Approximately 95 per cent of economic activity in rural areas occurs in the unorganised sector. Excessive regulations and bureaucracy discourage businesses from entering the formal sector. Aspiring rural women entrepreneurs find it simpler to operate under the rule of law and make use of the possibilities and safeguards that the law offers when regulations are clear, effective, and applied fairly and efficiently.

Cultural constraints and invisible barriers

The opportunities available to rural women entrepreneurs are also limited by cultural norms. Due to the gender division of labour, rural women entrepreneurs face additional obstacles related to custom, have less time available, or have a worse intra-household negotiating position, which results in less control over their earnings. Such limitations may lessen the incentive for rural women entrepreneurs to expand their businesses and, consequently, their access to financial services, which is crucial for them to scale up and advance their enterprises.

There also exist invisible barriers such as perceived threat on male authority in the household over women's financial independence resulting in discouragement and lack of support for rural women towards becoming entrepreneurs, negative impact of gender stereotypes and devaluation of women's identity on decision-making ability and agency and in risk-aversion behaviour of rural women entrepreneurs, social expectations regarding household chore and care giving responsibilities creating a dilemma for rural women entrepreneurs to proactively seek business advisory services or pursue growth opportunities, and others. This shows that, in addition to visible ones, women entrepreneurs especially in the rural society in Bangladesh face many invisible barriers as well.

Limited availability of time for entrepreneurial activities

The greater time demand on rural women for household and child care activities affects their market time allocation, duration and type of experience, learning and, consequently, the sector and choice of activity. Overall greater demand on time has the effect of limiting rural women's labour mobility and burdening them with disproportionately higher household responsibilities. This suggests that household obligations could restrict location, size, and industry choices for rural women entrepreneurs leading to performance differences. Consequently, flexibility in self-employment is often a big motivating factor for rural women with families to become self-employed entrepreneurs. One important factor contributing to rural women's informal entrepreneurship is the gender disparity in domestic and unpaid time demands, which also has an impact on the length and nature of their entrepreneurship experience.

Infrastructural deficiencies

The capacity of rural women entrepreneurs to expand their enterprises is impacted by inadequate infrastructure. The ability of rural women to physically access institutions, especially financial institutions, can be enhanced by improved infrastructure. For rural women without such access, branchless banking, mobile technology, information and communication technology (ICT)-led solutions, and agent banking that operates outside of physical branches collectively represent a path ahead.

For financial institutions that cater to rural women-owned CMSMEs, unreliable or subpar infrastructure can also be a crippling limitation. Inadequate infrastructure can significantly affect a financial institution's outreach. Therefore, the lack of electricity, which rural women entrepreneurs see as a major obstacle, also affects the accessibility of financial institutions and, in turn, the availability of financing. For instance, the requirement for generators can make physical outreach more expensive for banks.

Governance constraints

Women-owned businesses in rural areas suffer from poor governance. For rural women entrepreneurs, illegal or 'get things done' payments can constitute fixed costs that are correspondingly higher. These businesses are especially vulnerable and typically do not comply with requirements. Often corruption and harassment from the law enforcing agencies are two areas where rural women entrepreneurs face greater constraints.

In reality, the study supports a few stylised general tendencies about the difficulties faced by Bangladeshi rural women entrepreneurs.

- **Time Constraints:** When it comes to managing a business, rural women entrepreneurs typically have more demands on their time than males. Compared with males, women are more likely to have childcare and domestic responsibilities, which reduce the amount of time they can devote to operating their businesses.
- **Discrimination:** There is evidence that discrimination against rural women entrepreneurs affects their capacity to run and expand their businesses in a variety of ways. Although the lending standards of banks and NBFIs are purportedly gender-blind, prejudice nonetheless occurs. Financial institutions do not always discriminate, despite the fact that it is still quite common.
- **Business and Financial Skills Training:** It seems that specialised training in business management skills is required. The necessity for training in general business administration, financial management, general operations, ICT, marketing and social media use, human resources, and organisational growth is acknowledged by rural women entrepreneurs. Generally speaking, they ask for these services, which could be combined with financial services.
- **Networking and Mentoring:** Rural women entrepreneurs around Bangladesh frequently express a need for camaraderie and connections with one another. Compared with men, rural women entrepreneurs typically have less networking possibilities. Rural women may not have access to, or awareness of, associations of women entrepreneurs where they may share skills, find mentorship from other women, and encourage one another. On both the supply and demand sides, it may be noted that rural women entrepreneurs are less confident in their abilities than men. They are also more reluctant to speak up and share their thoughts when in mixed company; they are far more likely to engage when in a women-only setting.
- **Formalisation and Certifications:** The majority of rural women entrepreneurs list time constraints, complicated (and time-consuming) procedures, and registration costs as barriers to formalising or registering their businesses. Likewise, there are numerous qualifications that are pertinent to their businesses. For a variety of certifications, organic, fair trade, and other sustainability or quality assurance requirements are costly, hard to understand, and challenging to achieve. Additionally, these certificates differ by country if the enterprise

wants to export its products. Another useful service that could be bundled with suitable finance is certification support, if applicable.

- **Insurance:** Nearly all of Bangladesh's rural women entrepreneurs lack insurance of any kind. Examples include property insurance, life insurance, and insurance for enterprise disruptions like maternity, which are not necessary for male entrepreneurs. As a result, these business owners are at risk of having to spend their money on emergency response instead of making profitable investments in their businesses, like expanding their enterprise space, employing new skilled employees, or improving their technology. Another instance of bundling opportunity is reforms in these areas. In addition to funding, collaborating with insurance companies to customise insurance coverage to the requirements of rural women business owners could be beneficial.

Policy Implications and Way Forward

A three-pronged action plan could be implemented to guarantee that the financing needs of rural women entrepreneurs receive the attention they deserve within the larger CMSME finance agenda:

- Create an environment that is encouraging and facilitates rural women entrepreneurs' access to banking services.
- Design, assess, and encourage the replication of effective strategies for reaching out to rural women entrepreneurs with financial services.
- Create a platform to continuously collect pertinent data in order to compile gender-disaggregated CMSME finance statistics in a coordinated manner.

The majority of the non-financial hurdles identified in the study are outside the purview of the present investigation, despite the fact that the study is on direct actions to help rural women entrepreneurs obtain financing. The issue of rural women's legal rights is an exception in this regard. Although it goes beyond the financial advantages for rural women, it obviously affects their capacity to run a business, manage assets that could be used as collateral for loans, and enter into agreements, including opening a bank account.

Informed and strategic targeting: Strategic and well-informed targeting is required to properly finance growth-oriented rural women-owned CMSMEs. 'One size fits all'—that is, providing all rural women's CMSMEs with similar type of finance—has not and will not satisfy their needs. It has been observed that growth-oriented CMSMEs are not suitable for the majority of interventions aimed at rural women's poverty-focused entrepreneurship development. Due to the misalignment between their needs and established resources, such commercial banks and MFIs, and the fact that they operate at a scale that is too sophisticated for microfinance but not prepared for the majority of investment types, rural women-owned growth-oriented CMSMEs frequently lack knowledge about their financing alternatives.

Better data by design: Better gender-disaggregated data is needed for current and future financial products. Many banks and NBFIs do not currently collect gender-disaggregated data on their applicants or their portfolio. Designing financial products that are appealing, suitable, and effective for rural women entrepreneurs requires a detailed understanding of gender-related finance trends. Data gathering tools on the performance and uptake of financial products targeted for women are required in order to further develop the business case for investing in rural women-owned CMSMEs

and women entrepreneurs in general. The resulting data will allow evaluation of return on investment and further building of the business case for investing in women entrepreneurs.¹¹

Bundling of services: As previously stated, in addition to financial offerings, rural women-owned CMSMEs generally require service bundling. The following services might be included in light of the current study's findings.

- **Skills training:** It is crucial to get skill training in order to run and expand their enterprises. In-demand competencies include ICT, branding and marketing, human resources, financial management, fundamental business management, and leadership. If pushed in outreach and marketing, connecting these entrepreneurs to suitable training resources (while paying careful attention to the quality of the training) is a 'low-hanging fruit' that could be readily bundled with financial services and would be very attractive to rural women entrepreneurs.
- **Insurance:** The majority of CMSMEs owned by rural women do not have any type of insurance. It could benefit rural women's businesses as a 'bundled service' with finance since it would allow them to use their money more effectively rather than for sporadic situations. It would be beneficial for financiers to collaborate with insurers to provide suitable insurance plans that cater to the requirements of women-owned, early-stage businesses in rural areas.
- **Mentoring, Messaging and Marketing:** Mentoring is essential for rural women entrepreneurs, especially from other women. It is highly desired to organise, establish, or promote networks of rural women entrepreneurs so that they may connect, share knowledge and skills, obtain mentorship and advice, and establish partnerships that will benefit their businesses. Mobile applications offer ways to link rural women across diverse areas for support, networking, mentoring, and information exchange. Information about pertinent laws, rights, and regulations as well as market intelligence items may be among them. This will assist rural women business owners in navigating and overcoming limiting social conventions as well as a general lack of confidence. By comprehending the limits and requirements of rural women entrepreneurs, suitable financial products can be created and promoted as remedies. Active outreach will be required to use efficient messaging and marketing channels to reach rural women entrepreneurs when a suitable funding product has been established. The availability of these products can be promoted through carefully selected channels of communication, such as associations and online resources frequently used by rural women entrepreneurs. Investigating the potential of using recommendations and endorsements from other women to pique their interest may be helpful, as rural women entrepreneurs show a preference for funding through familiar and reliable relationships.
- **Business enabling environment:** The country's business enabling environment needs to be more conducive to long-term growth of rural women-led CMSMEs in several ways.
- **Simplify registration:** Even if the process, time, and expense of registering a business are the same for men and women and may appear gender neutral, when considering the limitations covered in this study, this obscures the de facto disadvantage that rural women face in comparison to men. Both male and female entrepreneurs in rural areas would gain from improvements in these areas of business operations, although rural women entrepreneurs would benefit more.

¹¹ Moreover, increasing lending to rural women entrepreneurs may have a positive impact on NPLs of the banks and NBFIs since rural women borrowers are traditionally observed to repay their loans on time and seldom become defaulters.

- **Collect gender-disaggregated data:** It is difficult to plan and market financial services targeted to rural women and to track their uptake and effects due to a lack of gender-disaggregated data. This data may help shed light on gendered trends, support the business case for funding rural women, and guide the creation of a unique value proposition for female entrepreneurs in rural areas.
- **Data synergies and leveraging:** There is a dearth of gender-specific statistics about rural women's entrepreneurship participation. By taking advantage of numerous technical advancements, there is an opportunity to bridge this data gap. For example, sensor deployments made possible by the Internet of Things (IoT) can greatly aid and accelerate the pace of data collection for research, policy formulation, service delivery, monitoring, and evaluation across a variety of different sectors.

In addition, several specific measures which may be considered by the Bangladesh Bank include: (i) promote gender diversity and gender inclusion in banks/NBFIs; (ii) advise the banks/NBFIs to collect gender-disaggregated data at enterprise and portfolio levels; (iii) address the gender related information gaps on finance; (iv) promote lending to rural women entrepreneurs as hedge to protect loan portfolio deterioration; (v) improve credit guarantee schemes and advisory services to work more effectively for rural women-owned CMSMEs; (vi) build knowledge and expertise for banks/NBFIs to focus on rural women entrepreneurs; and (vii) use fintechs as rapid transformer of rural finance landscape for rural women entrepreneurs.

Similarly, the banks/NBFIs may devise and implement well-articulated strategies on their own to promote financing for the rural women entrepreneurs. Among others, such strategies may put emphasis on issues such as: (i) develop tracking mechanism for gender-disaggregated data at enterprise and portfolio level; (ii) adopt a dedicated strategy for rural women entrepreneurs; and (iii) develop products and services tailored specifically for rural women entrepreneurs.

One significant feature of rural women entrepreneurs in Bangladesh is that their social, institutional, cultural, and economic circumstances are very different from those of the traditional environment. Although the resources that rural women entrepreneurs possess are shaped in a unique way by these factors, their abilities, appropriate behaviour, and other facets of their entrepreneurship are conditioned not only by economic factors but also by the nature and success of changing women's status in society from caregivers to equal members of businesses and society. It is also true, though, that many Bangladeshi rural women still encounter a number of challenges when trying to launch a business that are specific to their social and cultural setting and are still poorly understood. In order to achieve success, it is necessary to look beyond economic considerations and investigate the particular cultural, religious, regional, and social conditions and circumstances in specific locations in rural Bangladesh that affect rural women's entrepreneurship. These include the management styles, resource limitations, entrepreneurial intentions, and entrepreneurial characteristics of rural women.

6.6 Access to Finance by Cluster based Enterprises

The information that is currently available on Bangladesh's rural industry-based clusters reveals a number of traits, including the fact that they are typically dominated by smaller businesses, are structured more loosely, have weaker ties between actors, struggle more to reach a critical mass of businesses, and are more likely to specialise in lower-value niches. Given the aforementioned characteristics, it is understandable that promoting clusters in the country is difficult, and that the government and other stakeholders must provide the necessary support.

According to the SME Foundation, there are 177 SME clusters with over 70,000 businesses and 2 million employees in 51 of Bangladesh's 64 districts. These SME clusters generate roughly Tk 295 billion in revenue annually. Males make up 74 per cent of the 2 million workers in these SME clusters, with females making up the remaining 26 per cent. Approximately 11,000 people are employed by each cluster on average, and 28 people are employed by each business.

According to the aforementioned data, these 'naturally grown' SME clusters are crucial to the growth of the Bangladesh economy. There are 38 handicrafts and miscellaneous clusters, 34 agro-processing/agri-business clusters, 31 light engineering and metalworking clusters, 22 knitwear and ready-made garments clusters, 16 fashion-rich effects clusters, 13 leather making and leather goods clusters, 10 handloom and specialised textiles clusters, five healthcare and diagnostics clusters, three clusters for plastics and other synthetics, three clusters for electronics and electrical, and two clusters for educational services (Table 6.3).

Table 6.3: SME clusters identified by SME Foundation

Name of Cluster	Total number of clusters	Share in total, %
Handicrafts and miscellaneous clusters	38	21.5
Agro-processing/agri-business clusters	34	19.2
Light engineering and metalworking clusters	31	17.5
Knitwear and readymade garments clusters	22	12.4
Fashion-rich effects clusters	16	9.1
Leather making and leather goods clusters	13	7.3
Handloom and specialised textiles clusters	10	5.7
Healthcare and diagnostics clusters	5	2.8
Plastics and other synthetics clusters	3	1.7
Electronics and electrical clusters	3	1.7
Educational services clusters	2	1.1
Total	177	100

Source: SME Foundation.

Geographically speaking, there are 68 clusters in the Dhaka division, 32 in the Rajshahi division, 25 in the Chattogram division, 21 in the Khulna division, 12 in the Rangpur division, 10 in the Barishal division, and 19 in the Sylhet division. The data collected by the SME Foundation further shows that 80 per cent of the enterprises in the clusters are micro enterprises, while 15 per cent are small and 5 per cent are medium enterprises.

For practical purposes, Bangladesh Bank has provided guidelines that identify clusters which are to be given higher priority and those having priority.

▪ **Clusters with higher priority**

- Agro-processing/agri-business/plantation agriculture/specialist farming/tissue culture.
- Knitwear and readymade garments
- Information and communication technologies (ICTs).
- Leather making and leather goods.
- Light engineering and metal works
- Jute and jute products.

▪ **Clusters with priority**

- Plastic and other synthetics.
- Tourism industry.
- Handloom and specialised textiles.
- Renewable energy (solar power).

- Automobile production and servicing.
- Handicraft & miscellaneous sector.
- Electronics and electrical.
- Jewelry industry.
- Toy industry.
- Cosmetic and toiletries.
- Agar industry.
- Furniture industry.
- Mobile/computer/television services.

In addition, other clusters identified by the Bangladesh Bank under its SME Financing Policy are also included such as sportswear cluster, metallic ornaments cluster, Jamdani cluster, cocksheets cluster and hosiery cluster. Thus, the SME Credit Policies and Programmes of Bangladesh Bank along with the SMESPD Circular No. 05 dated 14 August 2022 provide important guidelines for selecting clusters for financing by the banks and financial institutions.

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In terms of policy support, technology, infrastructure development, electrical and utility supply, and market connections, these industry-based clusters are mostly overlooked from a policy standpoint. Additionally, the barriers show sector-dependent and location-specific features. Adoption of upgraded technology is one of these SME clusters' main challenges for raising productivity and product quality. The current technologies, which are primarily antiquated, traditional, and less effective, require improvement.

In recent years, Bangladesh Bank has undertaken several measures towards ensuring greater access to finance for the CMSMEs to create a win-win situation both on the supply side (e.g. banks and financial institutions) and the demand side (e.g. CMSMEs). Although available data reveal some exposure of the banks/financial institutions to CMSME cluster financing, the information does not indicate whether the adopted methods follow the cluster approach to CMSME financing e.g. in terms of identifying performing clusters/enterprises having the attributes that make the cluster-financing approaches distinctive from the general CMSME financing.

Despite huge potentials, banks and NBFIs are yet to adopt an effective approach to cluster financing for MSMEs due to several challenges. In practice, very few industry based clusters and MSMEs in general can access credit support from banks and formal financial institutions for several reasons. First, formal banks are less inclined to offer small loans to MSMEs due to high processing costs and consequently reduced profitability. Second, big banks do not have enough information on how MSMEs operate. Third, MSMEs often lack the capacity to establish borrowing agreements with banks and provide collateral, which exacerbates information issues and credit rationing.

Furthermore, banks are frequently hesitant to finance the cluster system for a number of reasons, including the entrepreneurs' lack of trade licenses, lack of trustworthy guarantors for loans, and the lack of trustworthy information about the borrowers. The high expense of MSMEs' oversight and monitoring, ignorance about cluster financing, regulatory prohibitions on obtaining refinancing facilities for loans without collateral, and management's lack of interest in cluster financing are further difficulties.

The current Bangladesh Bank directives, as mentioned above, stipulate that at least 25 per cent of the total loan disbursement by the banks/NBFIs must be in the CMSME sector by 2024. However, despite several policy directives of Bangladesh Bank, the CMSME cluster financing approach has not as yet received its due impetus in relevant policies of banks/NBFIs. In recent years, Bangladesh Bank has adopted an approach requiring the banks/NBFIs to submit targets for CMSME financing and cluster financing separately. In practice, the targets of the CMSME cluster financing by the banks/NBFIs are only in the range of 6-8 per cent. Banks/NBFIs are also required to report their quarterly disbursements along with separate cluster financing disbursement figures. At present, refinancing has emerged as an important source of funds for banks/NBFIs for CMSME financing although Bangladesh Bank does not consider cluster financing separately in the process of assigning refinance funds for on-lending. It is worth mentioning that some banks/NBFIs are adopting separate financing policies and strategies for CMSME industry based clusters with the support from Bangladesh Bank and SME Foundation.

The status in terms of access to credit is depicted in Table 6.4. Overall, the access to credit is relatively high in formal credit sources for the entrepreneurs in industry based clusters. As a matter of fact, the entrepreneurs borrow from multiple sources mostly comprising of banks (both public and private) and, to a lesser extent, from specialised banks and cooperative societies. The borrowing from NGO-MFIs is relatively low. In terms of geographical locations, the picture is similar except that the entrepreneurs in Cumilla seldom practice multiple borrowing. Further, a sizeable number of entrepreneurs in all locations take recourse to informal borrowings (with a high of nearly 30 per cent in Cumilla and a low of 23 per cent in Dhaka) for ease of convenience and meeting emergencies.

Table 6.4: Sources of credit for enterprises in industry based clusters

Source	Cumilla	Dhaka	Pabna	Total
	% of enterprises			
Formal				
State owned commercial banks (SOCBs)	34.72	31.31	36.00	33.70
Specialised banks (SBs)	...	6.06	57.10	5.69
Bangladesh Krishi Bank (BKB)/RAKUB	...	5.05	...	2.04
Private commercial banks (PCBs)	41.66	28.28	29.33	32.5
Other financial institutions				
BSCIC	...	5.05	...	2.03
Cooperative societies	...	...	100.00	1.62
NGO-MFIs	...	1.01	...	0.40
Total formal	96.49	158.33	279.16	173.20
Informal				
Money lenders	29.82	23.23	25.90	21.90
Total informal	29.82	23.23	25.90	21.90

Note: Total may not add to 100 as there are multiple sources of borrowing for individual enterprise.

Source: Comprehensive Rural Finance Survey, 2023

In the case of agent banking, the penetration rate is also high at 93 per cent. In the case of the reasons for opening agent banking account among entrepreneurs in industry based clusters, the most widely cited one is for conducting business transactions (37 per cent), closely followed by transaction purposes, receiving and sending money (35 per cent) and 26 per cent for payment of bills. Other reasons are: location of banking agent is close to home/enterprise (20 per cent), purchasing inputs/raw materials for enterprise/business (20 per cent) and for savings in agent banking account (12 per cent).

Policy Implications and Way Forward

The global evidence shows that two types of clusters can be categorised depending on the adopted scope for developing the clusters. Such categorisation can be useful since this helps to address not only why the clusters were formed in the first place but also how the underlying challenges can be addressed.

Creating product-based clusters that span the whole value chain is the first kind. Product needs and technology development will more effectively flow from exporters/processors to producers/growers as a result of the cluster's formation, which will increase the products' market competitiveness by allowing the value chain's actors to concentrate more on enhancing product quality and creating and disseminating information on best practices. Further, the product clusters can set up multipurpose common processing facilities where the latest technologies are adopted on a cost sharing basis (preferably on a PPP mode).¹²

The government or an industry association may be in charge of forming this kind of cluster. For instance, under the firm direction of pertinent industry groups, product-based clusters might be established to handle the main problem of Bangladesh's fruits and vegetables sector meeting international quality requirements.

Creating issue-based clusters to address key business concerns, such as, expanding exports is the second kind. Transportation and logistical expenses in the outbound value chain as a result of using traditional or inherent channels, as well as the lack or limited availability of cold chain facilities, are possible problems. Members of the fruits and vegetables cluster, for instance, may band together to take advantage of air transportation (by splitting the cost), so cutting out a number of intermediaries. Due to a lack of needed standards, technology, funding, and competition from the large companies' well-established brands, CMSMEs frequently struggle to break into both domestic and foreign markets. The SPV can provide a shared workspace for CMSMEs to increase capacity utilisation and guarantee high-quality packaging. With government assistance, CMSMEs may unite around shared concerns to create an issue-based SPV. Member CMSMEs must proactively assess the costs incurred at different levels of product value chains and come to a consensus on the most practical solution with strong government backing in order to form an effective cluster.

It could be mentioned that these two kinds do not have to conflict with one another, and that when a product-based cluster's scope grows, it may occasionally change to an issue-based cluster. In the Bangladesh context, where the SPV model is not common, the issue-based clusters could be explored initially to kick start the SPV concept and then gradually explore product-based clusters to expand the scope of the SPV.¹³

12 One example of this type is the rice cluster of Kalady in Kerala, India, where the cluster has built a multipurpose facility for testing and R&D of various variants of rice based products. The Grape Cluster, Maharashtra, India also (i) supports improving product quality to meet the requirements of GLOBALGAP, which is necessary for export to EU countries, through providing technical assistance to farmers on cultivation method, strengthening backward linkages with research institutions to develop grape plants, and (ii) facilitates farmers in the cluster to obtain certification as a group.

13 SPVs are legal entities that are created by a parent company to manage assets, achieve financial goals, or isolate financial risk. They are often used in early-stage projects in real estate, renewable energy, or technology. SPVs can take various legal forms, such as limited partnerships, limited liability companies, or corporations. They are managed and owned separately from the parent company, and are responsible for their own funds, decisions, and risk capital. CMSMEs may benefit from SPVs in several ways, including: Pooling investments: SPVs can help CMSMEs pool investments from a variety of market participants. This allows investors to participate without committing their entire investment upfront or paying high management fees. Protecting assets: SPVs can help CMSMEs protect their assets by isolating them from financial risk. Financing: SPVs can help CMSMEs acquire and finance specific assets. Tax savings: SPVs can provide tax savings for CMSMEs.

Based on the international best practices, the key success factors for SPV formation in the industry based clusters in the Bangladesh context are the following:

- **Government support:** It is essential that the government participate in both hard and soft interventions for cluster development. Building the capacity of cluster participants, investigating new markets, enhancing infrastructure product diversification, and creating institutional ties are examples of soft interventions. The government can partially fund the establishment of common facility centres, processing facilities, small tool rooms, design centres, testing centres, training centres, R&D centres, a common raw material bank/sales depot, and so on as hard interventions.
Additionally, the government institutions could help cluster members develop trust by fostering the development of strong market links, including forward links with private traders and private companies and backward links with government officials, private input dealers, private nurseries, and scientists/researchers. In order to finance these clusters through the creation of cluster-based loans, the establishment of a credit guarantee programme, and other creative financing products, banks and other financial institutions need also to receive institutional support.
- **Selection of cluster members:** Any SPV's ability to succeed hinges on how well its members share a common worldview, which leads to logical decision-making and cluster management. As a result, members of the same cluster act proactively to close a number of gaps that impair the value chain's performance. Identifying possible cluster members through soft interventions like workshops, setting up frequent meetings with potential cluster members, identifying a shared solution for the problems to be resolved through cluster formation, conducting a feasibility study, and creating a business plan with specific financial outlays are some of the crucial steps that must be taken in order to create a sustainable SPV.
- **Independent professional manager:** The independent professional manager (champion promoter) plays a critical role in ensuring long term sustainability of the SPV.¹⁴ The major roles played by the manager are: (i) assisting enterprises in identifying common objectives and partners; (ii) guiding enterprises in the cluster formation process; (iii) giving advice on various tasks/choices (i.e. legal form; funding; business plan, etc.); (iv) establishing links with support institutions; (v) supporting the recruitment of personnel for the cluster's SPV; (vi) resolving conflicts amongst cluster's SPV members; and (vii) accompanying cluster's SPV members in their collective activities.

Key Recommendations

Adopt comprehensive cluster development and financing strategies

As the present analysis suggests, the adoption of a composite CMSME strategy alone is not likely to be adequate for success in bringing about the development of industry based clusters in Bangladesh. The critical policy agenda is to adopt a stand-alone comprehensive strategy for industry based cluster financing and development in the country. The review of experience of different countries in the study indicates that allocation of both adequate funds and support services are essential for creating performing clusters. Support services like training, marketing support, research, and innovations with the involvement of public and private entities are crucial along with finance. Further, the clusters that

14 . Since the SPVs can take various legal forms, such as limited partnerships, limited liability companies, or corporations, the selection process of managers will be determined accordingly. While the approach as well as the concept of forming industrial associations may appear premature for the CMCMEs in Bangladesh in view of the present underdeveloped status of these enterprises, efforts could be implemented on a pilot basis to popularise these for wide scale adoption.

persist at various stages of their development journey along with different sizes of enterprises (e.g. CMSMEs), types of activities, capabilities of entrepreneurs, and other differential characteristics, would be required to draw financial resources from both banks/FIs and alternative finding sources like venture capital, crowd funding, membership fees, funding by associations, NGO-MFIs, donors and external sources, and others.

Explore adoption of cluster finance models (CFM)

The government has been assisting in the development of the CMSME clusters by bolstering subcontracting relationships between CMSMEs and large enterprises in order to improve production, marketing, and technology; lower information and transaction costs; boost CMSMEs' productivity; and guarantee steady orders and favorable terms for payments. For instance, support to agribusiness development makes it possible to link farmers/microenterprises to large enterprises. In addition to targeting the domestic value chains, interventions for developing global value chains (GVCs) for potential export-oriented production are also necessary for growth and diversification.

To overcome the challenge of inadequate collateral for bank lending and reluctance to extend cash flow based lending to individual MSMEs because of relatively large transaction costs and limited capacity to manage risks of MSME loans, the cluster finance model (CFM), in which a group of MSMEs form a SPV to borrow under a single contract with the banks will be promoted. Above all, in all these activities, the concept of inclusive business model (IBM) will have to be adopted in which all stakeholders including local government institutions (LGIs), private sector institutions and associations, non-government organization-microfinance institutions (NGO-MFIs), civil society organisations (CSOs) and the target MSMEs and farmers will have active participation from conceptualisation to monitoring and evaluation (M&E) in all proposed actions. The key elements for providing policy and related support to the entrepreneurs in industry based clusters are summarised in Table 6.5.

Table 6.5: Policy support for developing industry based clusters

Strategic thrust	Areas of support
Lay the foundation	Any cluster must have the following fundamentals: health care, suitable housing, a healthy environment, and basic education and training for the populace from secondary to tertiary levels; utilities, water, waste disposal, and sanitation; and infrastructure of roads, public transportation, communication, and ICT. National level: Formulating and implementing policies and measures; creating support Institutions and structures; developing national cluster development strategy; etc. Local level: Establishing training programs with nearby educational institutions; establishing local SME cluster support facilities, such as industrial parks or incubators; assisting in the development of connections, networks, and supply chains among local businesses; and promoting the establishment of an unofficial venture capital market through "business angel" schemes or small business benefactors.
Adopt policies which support and encourage, not prevent and discourage, the scale up and modernisation of clusters	Policies that link the various components of the innovation system and align the public and private sectors in a methodical and coordinated approach to SME cluster growth are necessary for effective clustering.

Collaborate in developing networks, communication channels, re-organise service delivery structures; and information delivery services.	Networks require cluster-based business associations. In order to move and disseminate ideas, information, and best practices around the cluster and bring them from other places, networks would be set up to facilitate interpersonal connections. For competitive clusters, the capacity to selectively build networks and network widely is crucial. Clusters have been able to develop complex communications systems because to the Internet. A database of products, capabilities, and contacts from manufacturers and service providers, a database of suppliers (including business service providers), and a clearinghouse for business opportunities, personnel and job searching, and new technologies may all be included on the website because it has the potential to attract new business to a cluster. Information about government cluster policy and support actions may also be available on the website or linked to from it. Reorganizations are required through intermediaries or brokers who signpost to services or by establishing one-stop-shop service centers for clusters because government services (such as training, education, financial, technological, and promotional assistance, etc.) are dispersed and fall under the purview of various ministries and agencies. By making sure that information and services are cluster-oriented rather than broad-based, clusters provide opportunities to deliver them in a different way. Clusters are restricted to learning internally rather than from sources of new knowledge and technology that aid in achieving competitive positions through firsthand experience and wider personal relationships, such as trade missions, visits to international exhibitions, and focused study visits, if they do not have access to external best practices and markets.
Promote development of cluster skill-centres and stimulate innovation and entrepreneurship	For meeting specific needs of all enterprises, centres of excellence around each cluster could be designated. Cluster skill centres, associated with an institution, could become the lead entities for surveying cluster needs, developing new curricula, staying in touch with cluster councils, updating skill standards, benchmarking practices in other areas and generally collecting information about cluster occupations and programmes. Since innovation and entrepreneurship are the engines of cluster development and growth, deliberate support policies driven by the government, can enhance educational processes and cultural norms that heavily influence innovation and entrepreneurship in clusters.
Create enabling financing vehicles	New concepts and inventions, as well as the establishment and growth of new businesses, are crucial tactics for cluster development. Cluster-oriented investment needs include working finance for more established and growing businesses, venture capital for entrepreneurs, and seed capital and product development funds. Support can be given by establishing suitable funding channels and making sure there are few administrative restrictions and barriers to receiving these monies. The requirements of mature clusters are somewhat different from those of embryonic clusters. It is possible for financial institutions to be assigned to concentrate on particular established clusters. New members are drawn to an embryonic prospective cluster via industrial parks and incubators with a cluster concept.
Invest in cluster-based R&D	If flagship research universities are not available, cluster-based R&D may be taken on by local technical institutes. The demands of the local economy are more likely to influence research at these institutions, and investments and clusters may provide quicker results.

Use clusters as promotional tools and support the development of export networks	Encourage clusters to market their areas to investors and consumers, and use them to position themselves as appealing destinations for travel and business. The establishment of cluster-based export associations may also receive assistance. The goal is to combine the resources and expertise of various businesses to establish a critical mass that can be utilized to find and seize export opportunities.
Focus on building brand for specific clusters	Through marketing initiatives, clusters can raise success rates. In clusters, one of the most popular multi-firm activities is marketing, and exporting in particular. The most prosperous clusters produce a brand that identifies a location with excellence, builds client loyalty, and emerges as a top choice for both retail and wholesale purchasers.
Move fast into action by looking for 'low-hanging' fruits	For cluster-based entrepreneurs to remain interested in cluster development projects, they must be action-oriented and produce early advantages. Focusing on elements that provide early, low-risk results, the initial goal could be small advantages (low hanging fruits). Creating a website with interactive linkages to local cluster entrepreneurs, for instance, is a less risky approach than creating a cluster branding program supported by a high-quality accreditation procedure. Entrepreneurs are the main stakeholders in the clusters, and the cluster programs must quickly get their support and take action.

Source: Authors' compilation

Specific measures

The Bangladesh Bank's ongoing efforts to increase access to finance by CMSME entrepreneurs in the existing industry based clusters have intensified in recent years resulting in significant increase in overall CMSME financing including cluster financing. It is seen that around a quarter of the consolidated loan book of the banks is dedicated to CMSME loans. The increased CMSME lending is mainly attributed to banks, although lending from NBFIs has also increased. This is no doubt a big achievement but the share of cluster financing still remains low.

In view of the above and in the light of the findings of the present study based on selected industry based clusters, several specific recommendations may be provided:

- A central coordinating body may be created to promote the integrated development of CMSMEs including the industry based clusters and sustainably meet their financing needs. For the purpose, the responsibilities of two key agencies (SMESPD of Bangladesh Bank and SME Foundation of the Ministry of Industries) need to be clearly defined. For instance, the SME Foundation could focus on research, overall development policy and M&E, and on promoting formalisation of CMSMEs, adjusting policies for informal CMSMEs to grow and developing institutional frameworks for providing business development services to CMSMEs. On the other hand, all finance related policies and their implementation issues could be under the SMESPD of Bangladesh Bank. A coordinating committee could be formed involving other relevant ministries/agencies and Planning Commission under the supervision of the Ministry of Finance.
- The SMESPD may devise a time bound action plan to provide special attention towards supporting and incentivising cluster financing by banks and NBFIs along the directions identified in the study. A separate Cluster Financing Cell may be formed in the SMESPD to design the implementation strategy and handle the complexities of the special type funding under the cluster finance model (CFM). Special cluster development and financing models for women entrepreneurs are also required to overcome the challenges of cluster financing to

CMSME women entrepreneurs. Within the general framework, banks and NBFIs may be encouraged to formulate bank-specific CMSME cluster financing models and strategies to effectively implement their own CMSME cluster financing targets, along with M&E framework for reporting progress to the Bangladesh Bank.¹⁵

- In view of its importance, the volume of cluster financing by banks and NBFIs has to increase significantly which is insignificant at present and, above all, the adopted financing models are similar to general CMSME financing and hardly reflect the core characteristics of cluster finance models. The banks and NBFIs should be encouraged to adopt the cluster finance models under their specific and customised policy and strategic guidelines. Along with policy support from the Bangladesh Bank, banks and NBFIs should also be encouraged to invest to streamline their CMSME cluster development policy framework to gain maximum benefits.¹⁶
- It is true that the need for additional costs and efforts to implement the cluster finance models may discourage the banks and NBFIs to adopt the CMSME cluster finance models. Since Bangladesh Bank is encouraging and offering incentives to the banks and financial institutions to undertake corporate social responsibility (CSR) activities to achieve sustainable and inclusive development, one option could be to consider these associated costs of implementing the cluster finance models as components of their CSR activities. This may encourage the banks and NBFIs to adopt cluster promotion and cluster financing activities.
- Finally, cluster development and associated financing is a multi-stakeholder approach where policy and operational coordination would help to stimulate innovations, manage resources efficiently, and can help meet environmental and social challenges. It is important to realise that, relative to credit provisioning to regular customers by the banks/NBFIs, the approach to CMSME finance needs to be a ‘credit plus’ activity while that for CMSME cluster finance has to encompass a ‘credit plus’ activity similar to the ones in the microfinance sector. Obviously, it requires greater investments and efforts in packaging the loans; nevertheless, the returns and spillover benefits are also likely to be much higher and sustainable.

6.7 Concluding Remarks

In Bangladesh, 68 per cent of the population lives in the rural areas (BBS Population Census 2023) and the country’s development largely depends on raising the standard of living of the rural masses and overall progress of the rural economy. In the national economy, the rural CMSMEs play an important role in generating employment, creating wealth and prosperity, and alleviating poverty. The country’s development agenda recognises the critical role that rural entrepreneurship can play through enhancing economic value to the rural nonfarm economy by creating new methods of production through innovation and new technologies, producing new products and services, expanding value chains and new markets, and accelerating a unique blend of growth opportunities for agricultural activities.

If funding is made available, CMSMEs—and rural CMSMEs in particular—can benefit from a greater growth boost than bigger businesses since they are disproportionately hampered by a lack of funding. The current study demonstrates that rural CMSMEs are more negatively impacted by financial barriers, in addition to reporting more of them. This may be partially because it prevents rural

15 In this context, it needs to be specifically mentioned that several aspects of financing e.g. Islamic finance, correspondent banking relationships, leasing and factoring, and informal finance are not addressed in depth in this study either due to data limitations or because their macroeconomic relevance is less pronounced at present.

16 Bangladesh Bank has established a Credit Guarantee Department with well-defined goals and service standards. This is likely to facilitate the process of financing the industry based clusters following the practices required for their orderly development.

CMSMEs from utilising economies of scale, and partially because there are not enough other funding options. It has been argued that production technologies follow a step-function, and that credit might be needed for CMSMEs to make the jump to the next step e.g. a move from manual to improved technologies.¹⁷

The current study shows that the lack of intermediary skills, expertise, and capacity, lower returns, increased risk perceptions, and an uninspired regulatory environment are some of the reasons contributing to the complex issue of rural businesses' access to financing. In reality, banks and NBFIs in Bangladesh: (i) fail to adequately finance rural CMSMEs; (ii) have little incentive to take on additional risk in the rural CMSME market because they can often earn high returns in their core markets; (iii) incur higher administrative costs when lending to rural CMSMEs; (iv) struggle to provide long-term capital; and (v) lack the knowledge, expertise, and regulatory support necessary to engage in rural CMSME lending.

For Bangladesh's rural CMSMEs, these features of the banking system create unfavorable lending circumstances. High financing rates and collateral requirements for rural entrepreneurs are a result of the perceived increased risks, higher expenses, and lack of skills associated with investing in CMSMEs in rural areas. Additionally, posting collateral is made more difficult by the fact that the majority of rural CMSMEs work in settings with lax property rights and inadequate contract enforcement, where borrowers frequently lack legal titles to their homes or land and are consequently unable to utilise them as collateral.

In these situations, a self-reinforcing market failure further hinders rural CMSME lending because the absence of rural CMSME lending raises costs and creates unfamiliarity and knowledge gaps, which can result in adverse selection, that can raise costs and interest rates and reduce lending.

It is critical to distinguish between enterprise ownership and creative start-ups for policy reasons. Both the economy and the business itself will be less affected by the former. One approach to addressing the gender gap would be to encourage young, educated rural women to be innovative and to support their business goals.

Programmes and regulations like the National Women Entrepreneurs Development Policy (NWEDP) and the National Women Development Policy (NWDP) help women-led businesses in rural Bangladesh. One significant feature of rural women entrepreneurs in Bangladesh is that their social, institutional, cultural, and economic situations are very different from those of the conventional environment. Although the resources that rural women entrepreneurs possess are shaped in a unique way by these factors, their abilities, appropriate behaviour, and other facets of their entrepreneurship are conditioned not only by economic factors but also by the nature and success of changing women's status in society from caregivers to equal members of businesses and society.

It is also true, though, that many Bangladeshi rural women still encounter a number of challenges when trying to launch a business that are specific to their social and cultural setting and are still poorly understood. In order to achieve this, it is necessary to look beyond economic considerations and investigate the particular cultural, religious, regional, and social conditions and circumstances in Bangladesh that affect rural women's entrepreneurship. These include the management styles, resource limitations, entrepreneurial intentions, and entrepreneurial characteristics of rural women.

The current study emphasises how crucial it is for Bangladesh Bank and other pertinent organisations that concentrate on CMSME finance and development to coordinate and work together. In spite of

17 See, Banerjee, A.V. and E. Duflo, 2011, Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty, Population and Development Review, <https://doi.org/10.1111/j.1728-4457.2011.00462.x>

various regulatory actions taken by Bangladesh Bank to assist these entrepreneurs, the implementation of creative regulatory developments on MFS and agent banking, and initiatives to encourage the flow of venture capital, this has partially contributed to the significant CMSME financing gap and unique financing access issues, particularly for women entrepreneurs and entrepreneurs in industry-based clusters. Furthermore, there is still a discrepancy between supply-side interventions and demand-side requirements, even with the continued facilitation services. This is especially true for women entrepreneurs, industry-based cluster entrepreneurs, and rural CMSME entrepreneurs in general.

Comprehensive policy approaches are necessary to address the intricate and interrelated aspects that influence CMSME entrepreneurs' access to and utilisation of financing in industry-based clusters. According to the current study, in order to unleash CMSME financing in the industry-based clusters, a wide range of prerequisites needs to be met. These prerequisites include appropriate macroeconomic and financial policy frameworks, as well as legal and regulatory conditions that are essential for creating a robust CMSME credit culture and risk management procedures. Therefore, initiatives to support safe and sustainable CMSME funding in the clusters have to be a component of comprehensive policy plans that are also customised to particular local conditions. These approaches are also expected to start a positive feedback loop that increases CMSME transparency and decreases informality, which will help the economy more broadly. Partial policy initiatives, on the other hand, including those that only concentrate on direct public financing or guarantees, are unlikely to produce significant or long-lasting advantages. All things considered, the study's general framework can assist in creating targeted reform plans that will increase the entrepreneurs of cluster-based CMSMEs' access to funding.

Chapter 7

Access to Digital Financial Services and Financial Innovations

7.1 Introduction

Over the past 10 years, there has been a significant growth in the volume of financial services that can be accessed online, or outside of bank branches. The most efficient and revolutionary tools that significantly increase financial activities include; internet banking, MFS, SMS banking, agent banking, etc. These are sometimes referred to as digital financial services (DFS), which denote the delivery of banking services using digital platforms like smartphones and the internet. Without going to a branch, it enables users to create and access bank accounts, make payments, move money, get credits, and use card features. The DFS can serve a wide range of people, particularly in rural regions, and it can bridge the gaps in financial inclusion. Digital financial services are branchless, technology-driven, and incredibly accessible. They are also available around-the-clock. Increased DFS would guarantee more market penetration at the ‘bottom of the pyramid’ and support the expansion of online e-commerce transactions.

Bank clients in rural and impoverished regions who are unable to easily reach banks situated in the formal sector because of inadequate transportation networks and lengthy times needed in getting banking services might benefit from increased access to digital financial services. Additionally, it will minimise expenses since a bank would maintain fewer branches more economically, which would boost bank profitability and financial inclusion in underserved and rural areas. It will also decrease the number of bank clients at bank branches.

Easy-to-use digital banking may also give people a more convenient way to do simple financial activities, such as sending money to friends and family or paying for utilities or water. Users of digital finance services may educate and convince their colleagues in the formal and informal sectors to use DFS if digital finance platforms are user-friendly. This will increase the number of people utilising digital finance and, ultimately, lead to financial inclusion of the excluded.

7.2 Mobile Financial Services

MFS are now getting immense acceptance among the Bangladeshi people due to its swiftness and user-friendly nature. MFS have started in Bangladesh since 2011. Dutch Bangla Bank limited (DBBL) started MFS in March 2011, while in July 2011, BRAC Bank Limited established a subsidiary called ‘bKash’ to facilitate banking services at the household level and in unbanked areas with different products. Collectively, these two providers made the largest contribution. Currently a good number of banks are engaged in online and internet banking activities and carrying out activities such as disbursement of inward remittances, financial transactions through agent/bank branch/ATM/mobile operator outlet, payments to business organisations (such as utility bills) by individuals, payment to individuals by business organisations (such as salary distribution) payment to individuals by the government (such as old-age allowance, freedom fighter allowance, etc.), payments to the government by individuals (such as tax payments), individual to individual transactions (from one registered mobile account to another registered mobile account) and other transactions such as microfinance, overdraft facilities, insurance premiums, etc.

Currently, 10 banks and 3 subsidiary companies are providing MFS as an alternative payment channel. The MFS providers include Rocket, bKash, MYCash, Islami Bank mCash, Trust Axiata pay

(tap), FSIBL FirstPay SureCash, Upay, OK Wallet, Rupali Bank SureCash, TeleCash, Islamic Wallet, Meghna Pay, and Nagad. Most of the users of mobile banking services use it for transfer of fund and security. The dominant purpose of the rural users is receiving remitted money while, in urban areas, payment service is the primary reason for using mobile banking. Disbursement of inward foreign remittances and domestic fund; payment of utility bills, salary, allowances, pension; buying and selling of goods and services; balance inquiry; tax payment; government subsidy payment and payment of the benefits of social safety nets can easily and quickly be provided through MFS. MFS industry in Bangladesh is expanding every year. As of January 2025, total number of registered MFS accounts stood at 23.78 crores with 13 MFS providers in Bangladesh, a country with a population of 17 crores, as many individuals maintain multiple MFS accounts. Interestingly, only 9 crores of them are active users (BB, January 2025). This disparity reflects the country's existing resistance towards its usage. This section will provide glimpses of the rural people perception of usage of MFS and to identify how MFS can be further improved and upgraded especially in rural areas for the users' convenience.

7.2.1 Concept of MFS

Mobile banking generally refers to the use of a mobile phone to access financial and banking services, where 'agents' are chosen by banks to carry out banking operations in lieu of banks. Financial institutions of all sizes have the chance to lower costs and expand client access to financial services through the mobile channel. Customers may use their cell phones to do banking and other financial operations thanks to MFS, a method of providing financial services that blends banking with mobile wireless networks. Users can manage their accounts via specific smartphone applications, short message services, or unstructured supplemental service data.

Guidelines on MFS

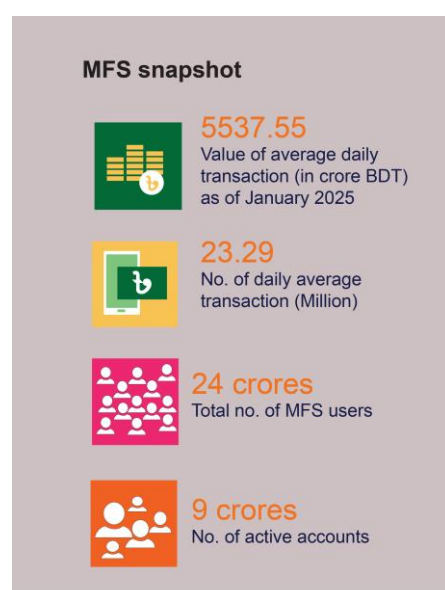
According to Bangladesh Bank (2022), BB authorises Bank/FI/Government Entity-led MFS providers as PSPs to offer the following general kinds of payment services in Bangladesh:

- (1) 'Cash-in' and 'Cash-out' from MFS accounts via agent locations, bank branches, ATMs, cards, connected bank accounts, and other BB-approved means;
- (2) Payments made by individuals to businesses, such as utility bills, insurance premiums to insurance companies, merchant payments, mobile top-ups, deposits into savings accounts or schemes with banks or non-bank financial institutions (NBFIs), loan repayments to banks or NBFIs or non-governmental organizations-microfinance institutions (NGO-MFIs), and so on;
- (3) Business-to-person payments include dividends, refund warrants, discount payments, and salary disbursements, among others.
- (4) Payments from one MFS account to a bank account and vice versa, as well as payments from one MFS personal account to another MFS personal account with the same MFS provider or another MFS provider;
- (5) Business to Business payments like vendor payments, supply chain management payments etc.
- (6) Online and e-commerce payments;
- (7) Government to Person payments such as pension payments, old age allowances, freedom-fighter allowances, subsidy payments to farmers and so forth;
- (8) Person to Government payments such as tax, fee, levy payments, toll charge, fine etc.

- (9) Disbursement of inward foreign remittances;
- (10) Loan disbursements to borrowers, vendor payments etc.;
- (11) Other payments approved by the Bangladesh Bank.

7.2.2 Coverage of MFS

All client accounts, referred to as "Mobile Accounts," must be held with a bank and made available through customers' mobile devices in accordance with the present legislation, which govern Bangladesh's bank-led business model.



The mobile account can only be a limited-purpose, non-cheque account. MFS's products in Bangladesh include "cash-in" and "cash-out" from MFS account holders' accounts, payments to individuals and businesses, online and e-commerce payments, government-to-government payments, inbound foreign remittance disbursements, vendor payments, and loan disbursements to borrowers (Bangladesh Bank PSD Circular, 2022). Tables 7.1 and 7.2 present the current state of MFS and the summary of MFS products, respectively:

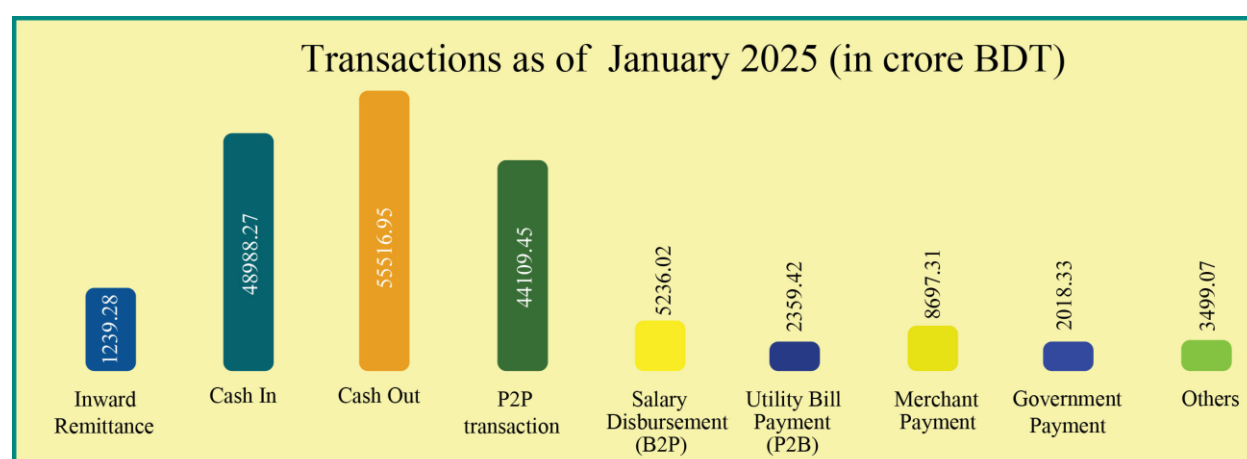


Table 7.1: Current scenario and comparative summary of February 2024 and February 2025, MFS in Bangladesh

Serial no.	Description	Amount in February, 2024	Amount in February, 2025
1	No. of banks providing the services	13	13
2	No. of agents	1754721	1856190
3	No. of registered customer in Lac		
	Male		1378.8
	Female		1010.2
	Total	2214.79	2392.4
4	No of merchant in Lac		
	Regular Merchant		3.63
	PRA		8.64
	Total		12.26
5	Total no. of MFS users in lac (Customer + Merchant)		2404.66
6	No. of active accounts in lac*	841.18	871.54
7	No. of total transaction	586729483	671340910
8	Total transaction in crore Tk	134691.11	164726.3
9	No. of daily average transaction	20232051	23976461.07
10	Average daily transaction in crore Tk	4644.52	5883.08

Source: Bangladesh Bank MFS comparative summary statement of different years.

*Account in which transaction made in last 3 (Three) Months.

Table 7.2: MFS product current scenario and comparative summary of February, 2024 and February, 2025, in Bangladesh

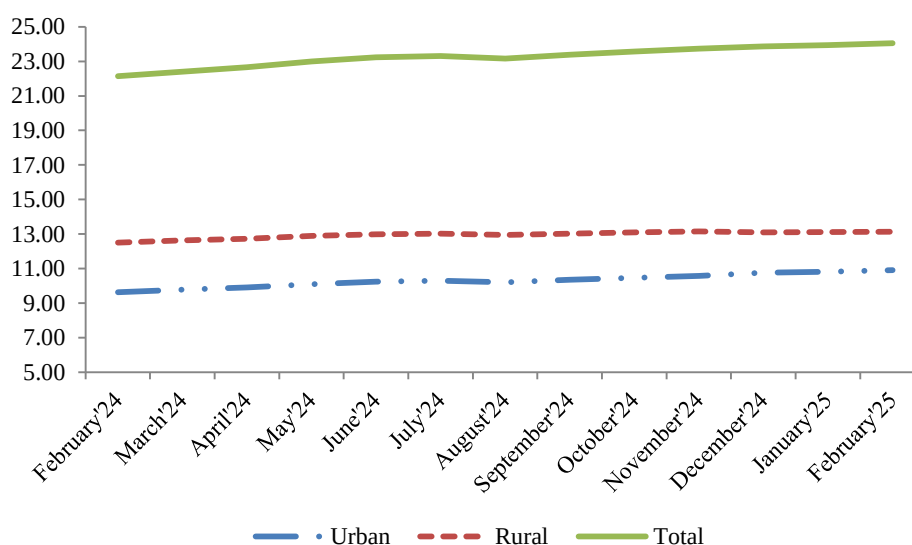
Sl. No.	Product Wise Information	Amount in February, 2024 (in crore Tk)	Amount in February, 2025 (in crore Tk)
1	Inward Remittance	590.83	1268.39
2	Cash In	39372.46	45726.32
3	Cash Out		
	Customer		43054.12
	Merchant + PRA		8159.18
	Total	42431.7	51213.3
4	P2P transaction	34986.97	41778.91
5	Salary Disbursement (B2P)	4010.4	5075.83
6	Utility Bill Payment (P2B)	2346.57	2267.89
7	Merchant Payment	6498.72	6922.67
8	Government Payment	2173.23	1121.35
9	Others	2280.24	9351.64

Source: Bangladesh Bank

The growth of the market has largely benefited from domestic remittances. The most popular transaction types are cash-out (33 per cent of total transactions), cash-in (28 per cent) and person to person (P2P) transactions (24 per cent). As per Bangladesh Bank's reports, at the beginning of 2013, the total number of agents was 60,000. At the end of February 2025, that number reached 1,856,192. This large differential highlights the recent expansion of MFS including increased competition in a

market. The most interesting result is that although the number of agent is rising in urban areas but the numbers of MFS account holders are increasing in rural areas (Figure 7.1).

Figure 7.1: MFS total account by areas (in crore)



Source: Statistics Department, Bangladesh Bank

Transaction limits and pricing

Bangladesh Bank has set the daily limit for the number of withdrawals and the amount of money that may be transferred from MFS to a bank account at Tk 50,000. Additionally, Tk 300,000 is the monthly limit for such money transfers set by the central bank. A maximum amount of Taka 300,000 can be maintained in each MFS account. Agents are not permitted to conduct P2P or cash-in transactions with other agents using their own agent account. P2B, B2P, P2G, and G2P transactions are not subject to the aforementioned limitations.

MFS Agent Selection

Agent selection, appointment, equipment, training, and supervision are under the purview of MFS providers. The MFS regulations state that the following factors must be taken into consideration when choosing partner agents: the ability to carry out and support the proposed activity; financial soundness; the capacity to fulfill obligations in the face of adversity; the reputation of the company; security and internal control; audit coverage; and the reporting and monitoring environment.

Agents are not allowed to provide the following services on behalf of banks:



7.2.3 Survey findings and observations

Access to financial products and services

The main criteria for respondent selection were that he/she has own MFS account and must live in rural areas. Regardless of overlapping, we found that most of the MFS users have taken loan from NGO-MFIs (73.03 per cent). But why they prefer MFIs for getting loan? The highest number of the respondents mentioned that collateral free loan is one of the major reasons for choosing MFIs. Simultaneously, they determined that quick access, proximity to home, and other factors are significant factors in borrowers' preference for MFIs.

Almost 66.29 per cent of the sample respondents do not have any savings of any form and most of them save money in the form of cash in hand. However, no profit is earned while the money is in such liquid form and the major consequence is that people cannot save much in such liquid form. Some reported that there were no banks or MFIs nearby so they rather kept the money in their home in liquid form. Those who have savings in informal cooperatives usually did so because they were located in close proximity. However around 58 per cent of the respondent mentioned that complicated paper work hinders them from savings in financial institutions. The majority of the potential-saver respondents prefer to save in MFIs (58.43 per cent) mainly because many of them already have membership with MFIs and others would like to imitate their neighbours who are saving with MFIs. Those who want to save in MFIs, choose the institution for three major reasons: first, branches are located in the proximity; however more relevant statement will be the MFI staffs collect the savings from their door-steps (75.28 per cent). Only around 14 per cent of the respondents have insurance access. Among the adult population, only 13.48 per cent have own agent bank account. Moreover, around 78 per cent respondents have no knowledge about agent banking services. Only 12.36 per cent of the respondents preferred to get financial services from agent bank.

Access to mobile banking

As the respondents were selected purposively based on their own mobile account, therefore they can easily mention why they were opened the account. MFS users agreed that the services are safe, easy, and convenient. Although a majority of respondents noted that for transaction purposes, receiving and sending money (Table 7.3), they were opened their MFS account. Around 69 per cent of households used mobile banking for transactions. It is important to note that only around 13 per cent of respondent's used mobile banking for saving purposes. Effective policies can be taken to increase awareness about the services that mobile banking provides. Other reasons are shopping etc.

Table 7.3: Reasons for opening mobile banking account by MFS account holders (%)

Division	Transaction purposes, receiving and sending money	Payment of bills	For recharging mobile phone	For savings in mobile account	For conducting business transactions	For purchase of raw materials	Others
Barishal	100	22.22	22.22	11.11	11.11	0	0
Chattogram	29.63	3.704	18.52	18.52	3.70	0	7.41
Dhaka	100	25	75	0	50	0	0
Khulna	91.30	8.70	30.43	17.39	13.04	13.04	0
Rajshahi	68.18	18.18	45.45	9.09	18.18	0	0
Total	68.54	12.36	33.71	13.48	14.61	3.37	2.25

Source: CRFS Mobile Banking User Survey, 2023

Note: The total may not add to 100, due to existing of multiple answers.

MFS preferences

MFS users were asked to select the important characteristics that need to be changed. The results reveal that cost is by far the most important priority i.e. ‘low transaction costs’ at the top. At present, the current transaction rate is 14.90 to 18.50 taka per 1000 taka cash out for receiving services from MFS. From this study, around 57.30 per cent of the respondents were willing to give 5 taka for every 1000 taka in mobile banking transaction (Table 7.4). However, the most interesting subject is no one is willing to pay 20 taka per 1000 taka MFS transaction. Most of the major identified barriers are: withdrawal fees are excessive, dependency on local agents as they are not financially literate, documents required and religious reason.

Table 7.4: Willingness to pay for every 1000 taka in mobile banking transaction

Division	20 taka	15 taka	10 taka	5 taka
	% of respondents			
Barishal	0	0	100	0
Chattogram	0	7.41	11.11	44.44
Dhaka	0	0	0	62.5
Khulna	0	0	34.78	78.26
Rajshahi	0	9.09	18.18	72.73
Total	0	4.49	26.97	57.30

Source: CRFS Mobile Banking User Survey, 2023

7.3 Agent Banking Services

One of the most prominent non-traditional banking channels that provide financial services outside of bank branches via a specific and defined channel is agent banking. It has been growing in popularity in many countries around the world, particularly in remote areas where banking services are unavailable due to the locality's geographical barrier. In developing countries, particularly where full-fledged financial services are lacking, agent banking has shown itself to be highly successful. In Bangladesh, full-fledged agent banking services were launched in 2016.

In December 2013, Bangladesh Bank released guidelines about agency banking. Bank Asia introduced its first agent banking service in January 2014. The concept of agent banking has significantly boosted Bangladesh's rural economy in recent years and is becoming more and more well-known. In Bangladesh, scheduled banks must first receive permission from BB before they may engage in agent banking. In Bangladesh, the commercial bank hires or designates an agent, a third-party owner of an outlet, to handle banking operations on the bank's behalf, including cash deposits, withdrawals, small-value loan disbursement and recovery, fund transfers, bill payment through government social safety net programs, and account inquiries. Despite being present throughout much of Bangladesh, MFS agents are only able to provide a restricted range of services. They are not permitted to provide credit, for instance. Banks that provide agent banking are able to offer a comprehensive range of banking services on behalf of the bank since it is supported by the bank's core banking infrastructure.

As of March 2025, 31 banks have been offering agent banking services through 15,838 agents and 21,023 agent outlets throughout the country. A total of 21,099,853 accounts (86.05 per cent) belong to clients in rural regions, while 12,260,812 accounts (49 percent) belong to female customers, out of the 24,671,422 accounts created through agent banking. By the end of March 2025, there were TK.429,633.08 million in deposits in agent banking accounts, TK.266,379.20 million in loan

disbursements through 22 banks' agent banking accounts, and TK.1,812,047.31 million in total inward remittances disbursed through agents.

Since the research provides current information on the state of agent banking, banks may take into consideration future investment plans in this area. It also discusses the future of agent banking while taking into consideration its advantages, foundations, and unique difficulties. Additionally, the study conducted analysis of various services provided by agent banking in Bangladesh's rural areas.

Concept of agent banking

Instead of using a teller or cashier, agent banks use carefully chosen agents under a legitimate agency arrangement to offer a restricted range of banking and financial services to the underprivileged population. The person who handles financial transactions on behalf of a bank is the outlet's proprietor. As a practical and economical distribution method, agent banking offers standard financial services to the nation's last mile residents. In general, agent banking refers to the practice of a third-party agent offering banking services to clients on behalf of a bank or other deposit-taking organization that is licensed and subject to prudential regulation (EFInA, 2011).

The underserved population, who typically reside in rural areas that are difficult for the official banking networks to access, was the target market for agent banking services. Deposits, loans, local and international transfers, payment services (such as taxes and utility bills), and government social safety-net benefits are just a few of the banking services that customers may access through agent banking locations. Thus, this approach is becoming more and more well-liked as an affordable and practical way to reach the general public who would not have otherwise been able to access traditional banking services (BB Quarterly Report, 2024).

In order to implement agent banking in Bangladesh in a way that has an impact, banks are conducting their operations in accordance with the Prudential Guidelines for Agent Banking Operation in Bangladesh, which were released by Bangladesh Bank in 2017. These guidelines cover the various aspects of the agent selection and activation process, anti-money laundering and combating financing of terrorism (AML/CFT) requirements, customer protection, and business continuity.

7.3.1 Difference between agent banking and normal banking (demand and supply side perspectives)

It is important to understand that while agent banking and normal banking are working as a delivery channels for financial services, they have the following differences in the service delivery channel, ownership, accessibility, services offered, customer interaction, cost, infrastructure and regulation.

Table 7.5: Difference between traditional banking and agent banking

Indicator	Normal/Traditional Banking	Agent Banking
Ownership and Operation	In traditional banking, financial services are provided directly by banks through their own branches or digital channels. The bank owns and operates these channels.	Agent banking refers to the process of utilising third-party individuals or firms to extend banking services on behalf of the particular bank. In this way, through these agents, the bank has a broader network since these agents are allowed to perform banking transactions.
Accessibility	Branches and ATMs are typically located in urban and semi-urban areas. Access to banking services may be limited in rural or remote regions.	Agent banking therefore is a way of reaching out to other areas where establishment of conventional branches is not viable. They are middlemen who effectively bring banking services closer to individuals who cannot easily access physical branches of the banks.
Services Offered	Traditional banks offer a wide range of	Typically, agent banking encompasses the

	financial services, including deposit accounts, loans, credit cards, and investment products.	elements of banking, that include depositing, withdrawing, checking account balance as well as occasionally making bill payments. Consequently, the number of services may be significantly fewer compared to average banking services or traditional banking services.
Customer Interaction	Customers interact directly with bank staff or through digital channels provided by the bank.	Customers deal with agents that act on behalf of the bank. It is important to note that while agents transact and assist customers, they might not necessarily be employees of a bank.
Cost and Infrastructure	Establishing and maintaining bank branches and ATMs can be expensive. Banks need to invest in infrastructure and staffing.	Agent banking can be a cost-effective way for banks/financial institutions to enlarge their reach without invest significantly in physical infrastructure. Agents use their existing properties and resources to offer banking services.
Customer Experience	Offer more services to clients and professional consultation from banking professionals. Additionally, work in a more formal environment, with strict protocols for processing business transactions and interaction with customers.	Furnishes banking services at a closer point to the clients thus saving time and cost. Further, Customers might appreciate and benefit interacting with local agents, which may provide a more localized service.
Regulation	Traditional banks are subject to comprehensive regulatory frameworks governing their operations, capital requirements, and customer protection.	One of the most important aspects of the agent banking model is the question of regulation since the standard banks have to make sure that the agents also adhere to the established laws and rules. Agents may also have other regulatory conditions in relation to the jurisdiction or country of the host party.

7.3.2 Difference between agent banking and sub-branching/branch banking

More than 36 banks have been permitted to build sub-branches, which Bangladesh Bank has already implemented to deliver banking services to people's doorsteps. A sub-branch has replaced what were once known as banking booths. Low-cost banking services are consequently expanding throughout the nation, bringing in new clients and boosting the flow of deposits, investments, and remittances. Like a bank branch, a sub-branch is essentially a small business center. According to Bangladesh Bank, a sub-branch is a low-cost business location run by a full-fledged bank branch that provides a limited selection of banking goods and services in accordance with the current policy standards that are periodically mandated. A branch close to the relevant bank oversees the management of each sub-branch. The sub-branch should be approximately one kilometer apart from the controlling branch. When establishing a sub-branch outside of the district town, the distance between the branch and the sub-branch is determined by the controlling branch's communication frequency, the convenience and security of cash transportation, and other factors. The distance between the branch and the bank's current agent outlet shall be no more than 3 and 5 kilometers, respectively, inside and outside of the metropolitan region. For the smooth operation of banking operations, the sub-branch's floor area will not exceed 1,000 square feet, and a minimum of two and a maximum of ten officers will be assigned. Nearly all of the services offered at the main branch will be delivered by them. Here is a thorough analysis contrasting the two:

Table 7.6: Difference between agent banking and bank sub-branches

Indicator	Agent Banking	Sub-branches
Control	Agent banking outlets are independent entities that run banking activities in a specific area on behalf of their respective bank. So, banks have no direct control on it.	Banks can exercise direct control and monitor the day-to-day activities of their sub-branches, reducing the scope for conducting fraudulent activities.
Service Scope	Basic banking services, such as: deposits, withdrawals, account opening, balance inquiries, Inward foreign remittance disbursement, fund transfers and sometimes bill payments.	Comprehensive banking services except foreign trade activities.
Customer Trust	Varies (depends on agent reliability)	Generally high
Staffing	Non-bank agents	Operated by bank employees, minimum of two and a maximum of 10 officers will be appointed for smooth running of banking activities.
Cost	Agent banking significantly reduces the costs associated with establishing and maintaining physical branches, such as infrastructure, staffing, and operational expenses.	Establishing and maintaining sub-branches is expensive compared to agent banking, on account of infrastructure, staffing, and operational costs.
Accessibility	Extends banking services to remote or rural areas where setting up a branch may not be economically viable.	Due to higher costs, branches may be concentrated in urban or economically viable areas, leaving rural or low-income areas underserved.
Physical Infrastructure	Minimal (e.g., POS systems)	Significant (physical branches)
Expansion Scalability	High, low capital requirements.	Moderate, high capital requirements.
Customer Interaction	Primarily transactional.	Both transactional and advisory.
Setup Time	Quick and flexible	Longer, due to infrastructure needs.
Technology Reliance	High (mobile banking, POS, internet banking)	Moderate to high (core banking systems, ATMs, online banking)

After it was discovered that certain agent bankers engaged in fraudulent activity, banks grew wary about growing their agent banking offerings. When their agent bankers commit fraud, banks don't want to be held accountable. So, they prefer sub-branch banking. However, it is costlier than agent banking. Ensuring the security of transactions and preventing fraud can be challenging. Banks need to implement robust security measures and provide on-going training to agents.

7.3.3 Coverage of agent banking

The following services are covered under Agent Banking in Bangladesh as per Bangladesh Bank's guidelines 2017 on Agent Banking:

Guidelines on Agent Banking for the Banks

- Collection of small value cash deposits and cash withdrawals (ceiling should be determined by the management of the Bank from time to time in line with the guideline of central bank)
- Inward foreign remittance disbursement
- Facilitating small value loan disbursement and recovery of loans and installments
- Cash payment under social safety net programmed of the Government
- Facilitating fund transfer (ceiling should be as per limit given by Bangladesh Bank from time to time)

- Facilitating utility bill payment
- Collection and processing of forms/documents in relation to account opening, loan application, credit and debit card application from public
- Post sanction monitoring of loans and advances and follow up of loan recovery
- Receiving of clearing cheque
- Other functions like collection of insurance premium including micro-insurance etc.
- ATM Withdrawal
- Merchant Payment
- Collection of insurance premium: All types of insurance premium deposits are available through agent banking. BANCASSURANCE has now brought new opportunities for agent banking
- Payment of retirement and social benefits: Common people are getting government's social safety-net benefits, including elderly, widow and disabled allowances easily through agent banking
- Payment of salaries: Employee salaries can be easily paid through agent banking. Agent banking makes payment of salaries to garment workers easier and accounts are maintained at low cost for them
- Balance inquiry: People who do not have banking literacy can easily know their balance through agent banking
- Generation and issuance of mini bank statements: Customers get mini statement assistance from agent banking and can also receive complete bank statements if required
- Any other activity as Bangladesh Bank may prescribe from time to time.

As per central Bank's guidelines, agents are not allowed to provide the following services on behalf of the banks:

- Giving final approval of opening of bank accounts and issuance of bank cards/ cheques;
- Dealing with loan/ financial appraisal;
- Encashment of cheques; and
- Dealing in Foreign currency.

Box 7.1: Agent banking services in Bangladesh

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

Source: Authors' compilation.

According to Bangladesh Bank's Quarterly Report on Agent Banking, till March 2025, a total of 24,671,422 accounts have been opened through agent banking, of which 19,145,672 (or 85 per cent) to people in rural areas (Table 7.7).

Table 7.7: Brief overview of agent banking activities

	2017	2018	2019	2020	2021	2022	2023	2024	2025 (upto March)
No. of Banks in Agent Banking Operation	14	19	21	26	29	31	31	31	31
Number of Agents (in thousand)	2.58	4.49	7.86	11.93	13.95	15.13	15.76	16.02	15.84
Number of Outlets (in thousand)	4.16	6.93	11.32	15.98	19.25	20.74	21.60	21.25	21.02
Total Number of Accounts (in million)	1.21	2.46	5.27	9.64	14.05	17.48	21.42	24.08	24.67
Number of Rural Accounts (in million)	1.04	2.14	4.37	8.36	12.12	15.07	18.42	20.61	21.10
Number of Urban Accounts (in million)	0.18	0.32	0.90	1.28	1.93	2.41	3.00	3.47	3.57
Amount of Deposits (in TK.million)	13,993.90	31,124.06	75,171.62	159,772.55	242,941.85	301,578.67	363,581.36	419,558.14	429,633.08
Amount of Loan Disbursed (in TK.million)	1,088.45	1,894.89	4,460.06	18,931.58	53,469.83	103,072.66	154,073.25	240,283.11	266,379.20
Amount of Inward Remittance (in TK.million)	19820.178	55574.247	155,343.19	488063.458	823432.66	1149173.78	1431132.8	1,733,907.23	1,812,047.31

Source: Quarterly Report on Agent Banking, Bangladesh Bank

Geographical distribution of agents and outlets

Over the last seven years, agent banking has expanded by a wide range. Through 15,838 agents and 21,023 agent locations nationwide, 31 banks were providing agent banking services as of March 2025. As can be seen in Figures 7.2 and 7.3, the number of agents is increasing steadily. According to Figure 7.2, there are 2,476 urban agents and 13,362 rural agents, respectively. This means that there are 5.4 times as many rural agents as urban agents. Since the beginning of the year, the total number of agents has increased six fold (Figure 7.3). In addition to guaranteeing that formal financial services are available to rural residents, this increase in agents also generates job prospects for them. Through the deployment of qualified and semiskilled human resources in their outlets, agents are helping to introduce innovative technologies that support the expansion of financial operations and the creation of jobs in rural regions. The smallest number of agents in Mymensingh division is 847 (5.35 per cent), while the largest number of agents in Dhaka division is 4,078 (25.74 per cent).

Figure 7.2: Urban-rural agents number

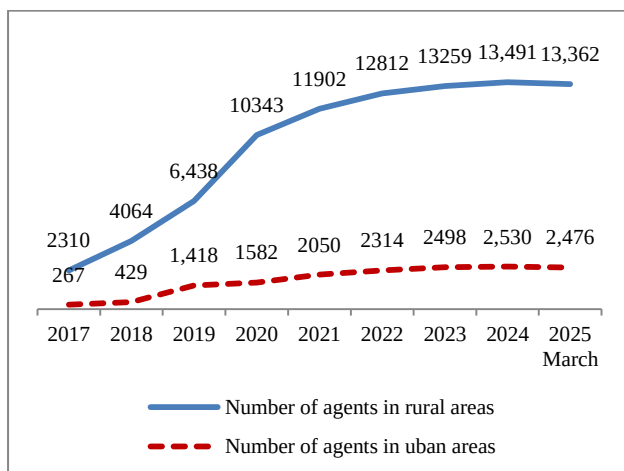
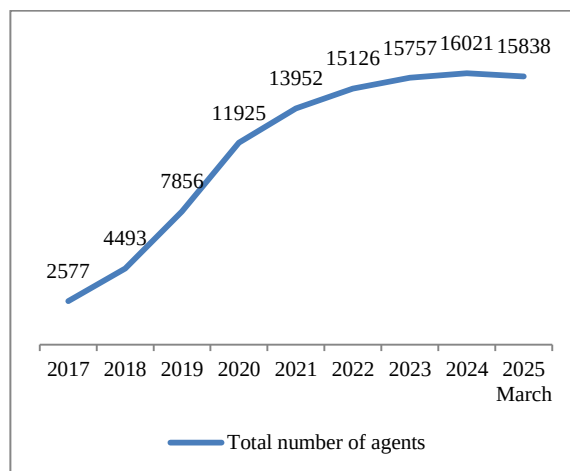


Figure 7.3: Total agents number



Source: Different years of quarterly report on Agent Banking, BB

There are 3,002 urban outlets and 18,021 rural outlets, respectively; that is, there are nearly six times as many rural outlets as urban ones. This indicates that financial services are available in remote regions through agent banking. Over the previous seven years, the number of agent outlets more than fivefold increased. The growing popularity of agent banking suggests that there is a great chance to provide formal banking services to the unbanked in rural areas. The smallest number of outlets in the Sylhet division is 1,187 (6.65 per cent), while the greatest number of outlets in the Dhaka division is 5,314 (25.27 per cent).

Geolocation-wise distribution of deposit accounts

From figures 7.4, 7.5, and 7.6, it can be exerted that 85 per cent of the number of total accounts-holders are living in the rural areas. On the other hand, gender-wise segmentation shows that the number of female accounts is 49 per cent. Account category-wise segmentation shows that 64.5 per cent of the accounts are savings accounts, while around 3 per cent are current accounts and others are 32.6 per cent.

Figure 7.4: Geographical concentration of agent accounts

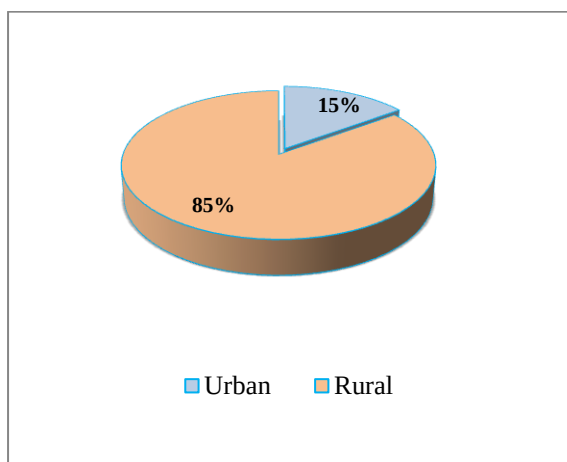
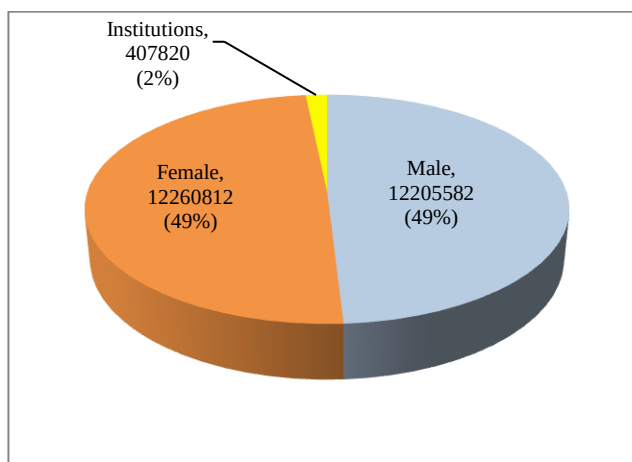
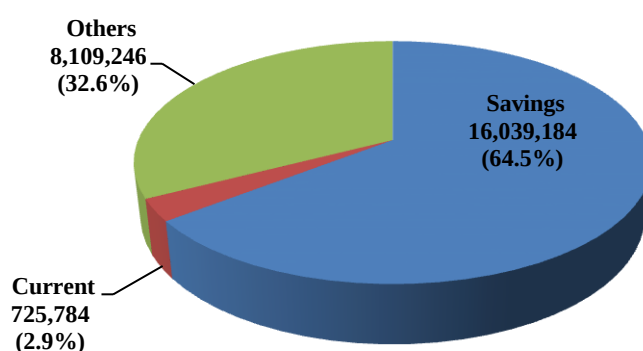


Figure 7.5: Gender-wise agent accounts



Source: Agent Banking Statistics Division, Statistics Department, Bangladesh Bank, April 2025

Figure 7.6: Category-wise distribution of agent accounts



Source: Quarterly Report on Agent Banking, Bangladesh Bank, April 2025

7.3.4 Survey findings and observations from agent banking users

In Bangladesh, agent banking services are still in the early stages of development. The best way to assess the potential of agent banking services in Bangladesh is to take into account both the implementation obstacles and the extensive array of benefits. The data from the field survey that was gathered from users of agent banking services has been examined in this part.

Socioeconomic Characteristics

Around 39 per cent of the respondents are female while the rest are male. The average age of the selected respondents are 36.18 indicating that mostly matured people are using agent banking services. It can be seen that the lowest average age is 28.64 in Rajshahi division and the highest average age is in Rangpur division which is 41.46. However, 84.26 per cent of the respondents are married. Around 35 per cent of household heads have primary level of education. In Mymensingh division, the highest percentage of the household heads is graduated (22 per cent) compared to other divisions. Around 20 per cent of the households head main occupation is farming and the remaining are engaged in non-farming activities. The highest number of households is engaged in farming activities in Rangpur division. Migration is one way of increase income, whether it is within or outside the country. Households with migrated members are better off in terms of financial and economic factors, due to remittances especially from abroad. Households with at least one member that has migrated (international or local) stood at 5.98 per cent. The households' total asset is 6337.48 thousand taka while the per capita income is 73 thousand taka. The average yearly income is Tk. 328000 per household. The yearly average expenditure is Tk. 276000 and the share of average yearly food expenditure (55 per cent of total expenditure) is very high.

Access to Financial Market

The overall result shows that households have higher access to microcredit market (68.02 per cent). Sylhet division households have higher access to bank and other formal financial institutions while Chattogram division households have higher access to microcredit market. However, Dhaka division households have higher access to Grameen Bank compared to other divisions. On the other side, Khulna division households have a higher tendency to go in informal market compared to other divisions. Around 22 per cent of them are taking informal loan from neighbours due to easy access and availability. From our study, it is seen that, among the institutions, rural households mostly save with banks. Around 35 per cent of the households save with banks and around 22 per cent deposit in MFIs. Informal savings is around 3 per cent. A huge percentage of the households (37.52 per cent) do not save at all, reflecting their vulnerable situations.

In order to deal with these shocks, rural poor households frequently turn to informal insurance mechanisms, such as borrowing from friends and moneylenders, selling productive assets like livestock and cultivable land, and selling other properties, as the formal insurance industry in Bangladesh is still underdeveloped. According to the current survey, 2.19 per cent of families have loan insurance coverage from MFIs, while 10.96 per cent of households have life, health, or accident insurance coverage.

People are deterred from using insurance goods or services for a number of reasons. For example, from the demand side, the following main factors are crucial in the underdevelopment of the insurance industry: a lack of trust or confidence in the prepayment mode; ignorance of the advantages of the prepayment scheme; inability to pay premiums; and placing greater emphasis on current consumption. In addition to the demand side, there are a number of supply side obstacles, including low benefit levels, expensive fees, fraud, complicated claim filing processes, claim settlement delays, and claim rejection.

While getting remitted money is the main reason for using mobile banking in rural regions, payment services are the main reason for using mobile banking in metropolitan areas. Approximately 93 per cent of families utilise their own mobile accounts or those of relatives to access MFS. Second, the level of MFS use differs by division, with Dhaka division having the least amount of access and Mymensingh division having the most. Finally, because 86 per cent of households report having their own mobile bank accounts and 63.55 per cent of households utilise agents' or other people's accounts for financial transactions, there is a lot of room to grow MFS. About 20 per cent of respondents cite high transaction costs, and the main deterrents to creating an account are a lack of knowledge and financial literacy about MFS.

Access to Agent Banking

The average annual transactions made by the respondents at agent outlets, including cash withdrawals, deposits, remittance collections, utility payments, and fund transfers, are displayed in Table 7.8. The average transaction amount varies per district, as indicated by the mean value. Rangpur district has the lowest transaction amount, while Mymensingh district has the most.

Table 7.8: Intensity of access to agent banking by division

Division	Average transaction amount in a year (Tk)	Knowledge about internet banking: Yes (%)
Barishal	12017.09	1.61
Chattogram	14534.33	4.84
Dhaka	12128.23	1.61
Mymensingh	28883.22	31.25
Rajshahi	24276.67	1.61
Rangpur	10040.08	15.63
Sylhet	19062.65	32.26
Khulna	19629.15	23.44
Aggregate	17594.69	14.14

Source: CRFS Agent Banking User Survey, 2023

7.4 Implications of New Technologies on Rural-Urban Resource Transfer

Deposit mobilisation through their agent banking outlets

In April 2025, the total number of transactions through Agent Banking outlets stood at 7,835,205, with the total transaction amount reaching Tk. 442,004.9 million. Annex Table 7.1 indicate location-wise distribution of the number of transactions and transaction amounts (in million Tk), respectively, where both number of transactions and amount of transactions are significantly higher in rural areas compared to urban areas. Through Agent Banking the rural and underprivileged people have facilitated through various transactions like cash deposit and withdraw, inward remittance, fund transfer, utility bill payment and so on. Data from Bangladesh Bank shows that at the end of April 2025, deposits mobilized through agent banking outlets in rural regions were Tk 20,458 crore, a decrease from Tk 22,476 crore a month earlier. Despite significant growth in urban regions, the decline in deposits from rural consumers caused a decline in total deposits because the majority of agency banking deposits originate from these areas.

7.5 Scope and Prospects of Technological Innovations in Rural Finance

The Bangladesh Telecommunication Regulatory Commission (BTRC) figures show that as of the end of June 2024, there were 196.08 million mobile phone customers. According to Worldometer (2024), 58 per cent of Bangladesh's population now resides in rural regions, where the majority of individuals lack a bank account (Kabir et al., 2013). Since opening bank branches in rural areas is not a viable option due to the costs and regulatory restrictions of the central bank, which only grants new branch opening licenses for a maximum of 15 branches in a year (Kabir et al., 2013), formal financial institutions and their services are nearly insufficient in rural areas (Hasan, 2020). In this instance, MFS improves the lives of the impoverished in a variety of ways. According to Mujeri and Azam (2018), MFS providers can reach individuals who live outside of areas covered by mobile phone networks because mobile phones can be used as an efficient distribution channel to reduce operating costs, expand the reach of financial services, and reach underserved populations.

By expanding the population covered by banking, the agent banking model was created to address these problems, and it does actually have a great deal of room to develop quickly. Agent banking services guarantee the banks several advantages. Higher client outreach, lower operating and infrastructure expenses, more deposit collecting and loan disbursement, and a larger profit margin are all benefits of banks. Additionally, banks that offer agent banking services are helping to bring their clients within conventional banking coverage and lessen the use of unofficial financial transfer channels like "Hundi." "Banking is essential, banks are not" (Baten and Kamil, 2010) is how Bill Gates (2008) stated it. The banks will be able to counteract the aggressive marketing effort and improve customer service levels while fortifying their relationships with their customers by introducing new innovations in the banking sector, new technology for generating new ideas, and a new sense of satisfaction to the customer end view. Nonetheless, the following opportunities have been recognised.

- **Financial Inclusion:** Another important role of DFS is to facilitate the entry of the under-banked population into the financial mainstream. As one of the primary objectives of DFS is to promote financial inclusion by bringing unbanked or unbanked populations into the formal financial system. By providing basic banking services through agents, individuals who previously lacked access to banking services can now participate in the financial ecosystem. Due to mobile banking, people who had no means of banking can now perform basic banking needs by using agents in the financial ecosystem.

- **Financial Inclusion for Climate Resilience:** DFS can be a tool for delivering climate-resilient financial products, such as weather index-based insurance or microloans for climate-smart agriculture, empowering communities to adapt to the effects of climate change.
- **Financial Awareness:** Promoting financial education alongside digital banking services can help people make informed decisions and utilize financial products effectively.
- **Gender Inclusiveness:** Gender inclusivity refers to the intentional strategy of engaging both men and women as agents in the banking sector to ensure that financial services are accessible and appealing to everyone, regardless of gender. This approach recognizes the unique challenges faced by women in accessing financial services, women often prefer dealing with female agents, particularly in cultures where gender norms limit interactions between men and women, and seeks to address them through targeted measures. Also, female agents can build trust more easily with female clients. This approach not only benefits individual women and their families but also contributes to broader economic and social development goals.
- **Financial Empowerment for Women:** DFS initiatives often prioritize women's financial inclusion, recognizing the significant role women play in household finances and local economies. These programs enable the women make their own decisions on their finances through agents close to them leading to money management, adoption of business ventures and improvement of households and communities.
- **Poverty Reduction:** Access to financial services like microloans and savings accounts can help people manage their finances better, build assets, and potentially lift themselves out of poverty.
- **Easy Remittance Distribution:** Agent banking outlets provide convenient and affordable channels for receiving and managing remittances from overseas workers, a significant source of income for many Bangladeshi families.
- **Customer Insights:** Cross-section of agents and customers data from the agent banking networks can help financial institutions understand the customers and their needs in the unbanked region. It will be important for the financial institutions to utilize this data to design new financial products in a way that captures the growing needs of the larger population.
- **Loan Disbursement through Agent Banking:** Agent banking can be an effective way of extending credit to Cottage, CMSEs, especially in regions of low branch density. Besides, it can be more financially beneficial and requires less money and papers compared to the traditional approach.
- **Collaboration with MFS:** Agent banking and MFS both have a significant role to increase financial inclusion in Bangladesh. These two services can operate in collaboration in order to provide a more convenient service experience to customers. Besides, agent banking can use transactions of MFS accounts to disburse SME loans without keeping collateral. On the other hand, MFS can directly involve monetary transactions at the retail end on behalf of agent banks. So, both parties can benefit from the collaboration.
- **Savings Groups:** Agent banking networks can facilitate the formation and operation of savings groups, encouraging a culture of saving and financial discipline within communities.

7.6 Issues and Challenges

7.6.1 Challenges of MFS

The industry encounters a number of obstacles while implementing MFS, as is the case with any new technological adaptations. Despite MFS's enhanced efficiency, accessibility, and ease of use, many choose not to use it because they have privacy and trust concerns, and a significant percentage of the population is still ignorant of its uses and advantages because they have not received the necessary education.

Inadequate knowledge and awareness regarding MFS

The biggest issue facing rural customers is their lack of understanding and awareness about MFS. Rural residents continue to use MFS at a very rudimentary level, despite an increase in mobile phone usage. Many rural consumers believe that MFS is limited to cash in and cash out transactions. They are unaware of MFS's more sophisticated features, such as paying utility bills, transferring funds to and from banks, sending money abroad, and obtaining a balance statement. The majority of USSD menus are in English, and many rural Bangladeshis have access to feature or basic phones. They find it challenging to comprehend or effectively use MFS as a result. Some rural customers are unable to even check their MFS balance or comprehend the fundamental features of the program. The lack of literacy among rural customers also affects their trust in using mobile banking services. Although MFS has added Bengali to the user interface, it is still insufficient for illiterate individuals to comprehend and utilize mobile banking services. Rural users become reliant on others using MFS as they require more help to make payments or comprehend fundamental activities. MFS would not be able to gain popularity among Bangladesh's general populace if they are not as easy as making a phone call or playing music on a mobile device (Bhuiyan and Rahman, 2013).

High transaction charges of MFS

According to the report, the majority of rural consumers were hesitant to pay MFS's high transaction costs. They stated that the exorbitant transaction cost of MFS is their largest obstacle. This fee is too high for rural residents who are impoverished and unbanked. The hefty cash-out price for MFS deters many rural consumers from using it. Many rural consumers found MFS's exorbitant costs to be a major obstacle.

Low level of security and confidence of transaction

Due to the many fraudulent actions that take place with MFS, this study investigated why rural customers do not have complete faith in the system. Many consumers in rural areas struggle to remember and accurately input a PIN. As a result, they employ generic PINs like 1234. They occasionally give it to agents and other people, which raises the possibility of theft. Criminals use that information to blackmail other users. Maximum users have safety concerns about using MFS. Rural people feel unsafe keeping a large amount of money in their MFS accounts. Many rural users were victimized by fraudulent activity and lost their life savings from their MFS account. The MFS doesn't allow reversing back transactions if it was made to the wrong account by mistake, so the risk becomes higher and the trust level comes to the lower level for rural users.

Harassment of female by male MFS agents

The greatest barrier for rural women to use MFS is the lack of female agents in the community. Women users fear male agents as a result of suffering harassment and eve-teasing from them. Most agent places are located in crowd place which makes unsafe for female users to go there. Women feel uncomfortable going to a crowded marketplace. The distributor-agent relationship pattern is still very

inflexible, females have to visit nearby markets for taking any mobile banking services. Most of the time female users take the help of a male relative who might take advantage of this opportunity to fraud female users. Without female user-friendly service mass women, participation in mobile financial service would be near to impossible.

The inefficiency of customer care services

Rural consumers may experience issues with their MFS that agents are unable to resolve. They require assistance from customer support at that moment. However, the customer service is challenging and costly. The majority of the time, either no customer service agent answers the calls or the connection stays busy. According to several respondents, there are no explicit guidelines on the registration procedure for complaints, where to file them, or how long it takes for an MFS provider to resolve issues.

Lack of interoperability among MFS providers

Another huge hindrance of MFS is the lack of interoperability. Almost all the respondents mentioned that the MFS features are very limited. Users can't able to send money among different MFS and they are forced to use multiple MFS to get full efficiency of MFS. Rural users become puzzled in using different brands MFS. It makes the whole situation complex for them. As the MFS market is a concentrated market share across MFS providers, so lack of interoperability in Bangladesh is definite. Most of the users use MFS of the same provider and the low willingness of the dominant MFS creates a lack of interoperability (Mujeri and Azam, 2018). Dominant MFS providers like bKash don't want interoperability because it won't be profitable for them. Many foreign countries have introduced interoperability which boosted the MFS.

Reducing cash-based transaction

Rural areas continue to rely heavily on cash, while mobile money acceptance remains low. Cash is the preferred method of payment in rural communities. So, saving money in an MFS account seems to be not so useful for them. Small shopkeepers in rural areas also do not accept digital money in some cases. Rural people have very limited options for buying and selling anything with the digital money of MFS. MFS does not have the same level of acceptance or diversity as formal banks, so rural people rarely use it.

Technological error with MFS

Technological and system error is very common in MFS. Rural users cannot make a transaction or take a huge time to do a transaction due to this error. Users cannot able to access their MFS account for network problems or compatibility issues of their phone. It means they cannot use their own money in need as it's stored in the MFS account. The central feature of MFS is its real-time money transfer. Technological problem destroys that feature and makes MFS useless for rural users.

Liquidity crisis and distance of nearest MFS agent

Local agents have limited balance which often becomes insufficient for rural users. During festivals and crisis period's rural people need to travel a long way to make a payment or cash out money. Likewise, Hasan (2020) found that during Eid or any national ceremony, Due to the low agent availability in rural regions and the company's inadequate agent balance, users in these locations have difficulty withdrawing large sums of money. There is a huge scarcity of MFS branches in rural areas. It creates inconvenience for rural users.

Challenges of rural users with MFS have created a negative impact on their actual use of MFS. Many rural users are still out of the reach for MFS due to these challenges. A good number of rural people

have given up using MFS because of the never-ending difficulties with MFS. So, MFS providers and government must come forward to find necessary ways to reduce these challenges of rural users with MFS.

7.6.2 Challenges of agent banking

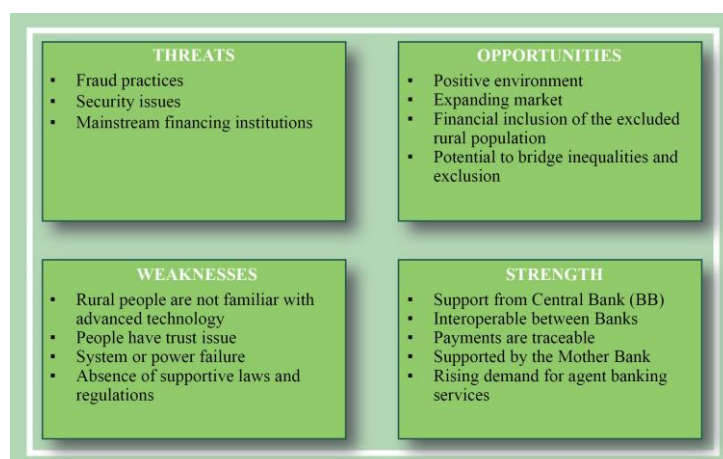
In order to provide sufficient financial services, agent banking is essential, particularly for remitter beneficiaries, small company owners, and rural women. Although Bangladesh Bank consistently urges banks to use agent banking to support CMSME, women's entrepreneurship loans, and certain refinancing programs for underserved individuals, banks continue to face certain obstacles:

- **Banks have no direct control on agent banking:** As per the regulation of Bangladesh Bank, the responsibility of providing and overseeing training of the agents lies with the banks. However, agents work independently in their day-to-day business undertakings, managing their own operations while performing banking services. However, the banks have influence over the agents through training, supervision, and contracts regarding outsourcing, but they do not directly supervise the daily activities of the agents.
- **Limited scope of services/ products through agents banking:** The first major issue is the inability of the agents to provide extensive services to the customers. A majority of the customers using agent banking services are limited to basic services including deposits, withdrawals and transfer of funds. This restricted range may in turn hinder the improvement of the financial inclusion of these customers because they cannot get a comprehensive loan product, investment service, or detailed financial advice.
- **Agent liquidity problem:** Another major problem related to the introduction of banking agencies is the creation of an agent network and its efficiency. Agents are the link points through which the subscribers of the service can get money into and out of the system. Agents are also sometimes termed as cash-in and cash-out points. Occasionally, when a subscriber reaches an agent with the requirement to cash-out a significant amount, it is true that the agent lacks adequate cash to complete the cash-out transaction. This leads to frustration and is one of the reasons why the take-up of these systems is slower than anticipated. This problem is known as the agent liquidity problem
- **Over-reliance on a single agent:** Over-reliance on a single agent in agent banking means relying greatly on one person or organisation to offer banking services. This dependency results in service disruption, operational risks, reduced chances of expansion, lack of adequate customer support, and concentration risk. To avoid such risks, banks should expand the range of agents, train and monitor them and have the backup plan, as well as invest in technologically supporting tools.
- **Limited transaction capabilities (trust issues):** Trust-building on agents is a considerable challenge, as sometimes banks are termed 'Problem Bank', and thus customers' rely upon them is in poor status. In agent banking, Limited Transaction Capabilities means to concerns about the restricted range or reliability of transactions agents can handle. Moreover, customers may doubt the security of their transactions or the competence of agents. Transaction limits and lack of transparency can also contribute to these trust issues. Resolving them involves improving security measures, training agents better, enhancing transparency, and updating transaction capabilities to meet user expectations.
- **Security risks:** It was found that while agent banking is beneficial in expanding financial services, it does come with risks relating to security. Much attention should be paid to the safety of the customer's personal information. Agents work with confidential information, the lack of

data protection can result in leaks; identify theft, and monetary losses. Measures to avoid such risks include the following standards in financial institutions and regulatory authorities: Identity management for security, encryption of data interchange, audits, staff training, and compliance with laws on security. The ever-changing nature of threats hence requires constant assessment and adjustment of security measures frequently.

- **Cyber-security risks:** As mentioned earlier, agent banking has its advantages, but it has encountered several cyber security problems. There is also the risk of data loss since agents work with confidential customer information and can become the next big target for hackers. Virus, worms, Trojans, and phishing attacks are common and aim at acquiring login information and other financial information. Lack of strong authentication mechanisms invites intruders and hackers to perform malicious deeds. Insecure communication channels are vulnerable to being controlled by malicious entities, thereby being able to influence transactions or overhear secret information. In addition, failure to meet the set regulatory conditions may result to legal and financial consequences and also a negative impact on reputation of the institution. To counter them, banking institutions need to employ rigorous cyber security strategies like encryption, multi-factor authentication, security audits, and employee awareness. Continuous system monitoring and prompt response to security incidents are also crucial for maintaining the integrity of agent banking operations.
- **Fraudulent activities of agents:** Agent banking has helped increase the reach of financial services in regions that was often ignored before; however, it is accompanied by the threats of numerous frauds. Among them is identity theft and account takeover. It may be used to fraudulently open accounts, or to take control of other accounts already in existence. At times, they work with agents who do not undergo through strict legal formalities as required by the law. This collaboration also provides a fertile ground for identify theft frauds where agents of the company can easily manipulate the system to engage in these unlawful activities. Transaction fraud is another issue that is quite familiar these days. It might give rise to instances wherein agents conduct certain operations, like withdrawals or transfer of funds, without the customers' consent. Sometimes agents change transaction information once a customer has agreed upon them with an aim to channel the money to their accounts. These fraudulent activities are not easily noticeable at the time of occurrence and hence they are always a Vice.
- **Difficult to identify appropriate locations for agent outlets:** Sometimes, it is difficult for a bank to identify locations and clusters where an agent is required to operate on behalf of the bank or might be a commercial bank appoint agent only in the area which has the potential to maximize profit ignoring the underneath concept of financial inclusion of underserved segment of the population in a remote area.
- **Quality of services:** Agents may fail to provide quality service and maintain the secrecy of customer data which can adversely affect the overall credibility of banks, an alarming matter for both banking institutions and the regulators. Usually, agents don't have operational expertise, even though getting well instructions or trained; on banking products and other technological appliances thus need online help and real-time solutions to agent problems. Bangladesh Bank set a broader range of rules for agent banking but it's the individual bank's responsibility to ensure the clarity of agents' responsibility, access to information of banks data center, the exercise of authority, and segregation of execution of operations.

➤ Agent banking SWOT analysis



7.7 Summary and Recommendations

The number of MFS and Agent Banking customers is rising rapidly. Although people are becoming accustomed to living in a digital world, the majority of the rural Bangladeshi consumers do not have access to DFS. They do not want to gain greater control over their behaviour or avail use of the benefits of utilising DFS for various constraints, and they are not fully aware of the capabilities of contemporary technology. Since Bangladesh's financial services sector is still in its infancy, it is important to assess the opportunities and difficulties associated with its implementation. Compared with the conventional banking system, MFS/Agent Banking transactions are simpler, faster, and less expensive. There is no need to physically visit bank offices and complete additional paperwork in order to obtain services. The key components for readily accessing the financial market and offering financial services to large populations in remote locations are cost effectiveness, cost reductions, and ease of use. For the vast majority of people in this country who do not have access to banking services, MFS offers an excellent opportunity to obtain financial services similar to those provided by banks and carry out other financial operations effectively. By gathering more data from a wider sample size, the MFS study may open up a new area of research for future stakeholders. The MFS stakeholders will then put the results and methods for delivering high-quality services to retain their clients over time into practice.

Despite their growing popularity, mobile banking and agent banking still have certain issues. Significant obstacles to agent banking and MFS in Bangladesh include fierce competition with MFIs, a lack of training resources for agents, a lack of infrastructure development, system failure, a lack of financial literacy and awareness, and a lack of female agents and customers. Regretfully, these difficulties are frequently disregarded. This study is based on both primary and secondary data, whereas the majority of the other studies on agent banking and MFS in Bangladesh are based on secondary data.

Due to its cost-effectiveness for banks, more consumer outreach, and higher perceived value by customers, agent banking is experiencing rapid growth in emerging nations. By collecting modest savings from underprivileged members of the community, banks may secure their liquidity position. Additionally, banks may increase profitability by providing loans to the unbanked and maintaining outlets at a reduced cost. More broadly, agent banking supports a number of important macroeconomic goals, including as the nation's financial inclusion, job creation, and deposit mobilisation.

However, there are several difficulties in putting agent banking into wider practice. Its quick expansion is being hampered by factors such as the daily transaction restriction, reduced agent compensation, inadequate training facilities, competition from MFIs, system failure, and infrastructure flaws. In order to properly profit from agent banking in Bangladesh, which will eventually push the nation towards financial depth, it is vital to prioritize the most significant benefits and deal with the obstacles.

7.7.1 Recommendations for MFS

At present, the breadth of possibilities offered to consumers does not fully use MFS's potential in Bangladesh. The study's conclusions point to many areas where targeted interventions could be implemented to boost interest in and adoption of MFS in rural Bangladesh. Banks and MFS providers can give the right user-friendly design and additional functionality, which will boost MFS usage. The following ideas can offer strategies for encouraging users of various skill levels to use mobile banking.

Expansion of agent networks in remote areas: The growth of rural agent networks is a crucial option that should not be ignored. Since MFS adoption is still in its early stages, service providers must venture outside of their urban comfort zones and into the rural hinterlands. This strategic approach goes beyond simply being physically present; it aims to establish familiarity and trust, both of which are critical in places where traditional banking has left a void.

Ease of Use: A simpler, more easy version of the transaction is required since the more complicated version deters rural residents from embracing modern technology. The service providers have worked over the years to make their payment procedure as easy as possible for customers to complete. The majority of rural users can complete a payment without help, however others find the procedure too complicated and require help.

Consider gender disparities more explicitly: MFS and other financial services are less accessible to women in Bangladesh. They have a phone even if they do not have a bank account. This might imply that there is potential to use MFS to enhance women's financial inclusion in particular. By using user-centred design techniques to create marketing and products that are more suited to women's requirements, service providers can partially solve these issues. It could be possible to improve women's comfort levels with their services by hiring more female representatives. At the moment, the distributor-agent relationship is more strict and demanding; women must go to local bazaars in order to obtain any MFSs. Additionally, female consumers frequently enlist the assistance of a male relative who may take advantage of this chance for personal gain. In this case, BB has a number of options for actions that would boost the number of women working in this field.

Financial literacy: The need of financial literacy is also emphasised in the report. Financial literacy programmes assist rural residents in comprehending digital financial tools and processes. Service providers can provide trainings and resources on digital financial literacy that are tailored to the needs of rural residents.

Increase awareness of and capacity to use MFS: Although each MFS operator in Bangladesh offers a different variety of services, cash in, cash out, transferring money, and mobile phone recharge are the most popular and often used services among rural MFS customers. In order to market their entire range of services, not only P2P transfers, MFS service providers have to think about broadening their awareness-raising initiatives. Rural users, however, are not well-versed in the various new MFS services, such as online shopping and merchant payments. As a result, every MFS provider in Bangladesh needs to advertise the many kinds of services they offer using their banners, brochures,

booklets, and leaflets, among other materials. To ensure that agents are more prepared to instruct clients on how to utilise these services, they could also need to enhance their agent training initiatives.

Explore partnerships with NGO-MFIs, and insurance companies: In order to provide loan disbursements, collect salaries, pay utility bills, and carry out other financial tasks, the MFS industry can work with banks, NGOs, MFIs, and insurance companies. The MFS sector gains advantages through the integration of new technologies like as block chain, artificial intelligence, virtual reality, and the internet. Since each MFI client will complete at least one payback transaction each month, the largest benefit of having them use a mobile wallet is that they will all be active consumers. The problem is that MFIs are not permitted to directly supply MFS under the current MFS legislation. Therefore, MFIs must collaborate with banks to act as agents or super-agents if they wish to provide these kind of services.

However, before any conclusions can be drawn, the hypothesis needs to be evaluated for elements like compatibility, viability, and similarity of interests. As per discussions with some larger MFIs, they are still not persuaded by the value proposition that MFSs may offer, and in certain situations, they do not even consider the present expenses associated with processing cash. Banks can gain by designating an MFI as a super-agent as it will grant them several agent points simultaneously in the form of MFI branches. The money that MFIs will make in their role as super-agents, however, appears to be the first of two challenges. The commission received as a super-agent might not be sufficient to have an effect when compared with the income and earnings that MFIs gain from their primary operations. The ownership of client datasets presents another difficulty. An MFI would have to provide the parent bank access to all of its client data in order to function as a super-agent. Additionally, there may be worries that the bank would attempt to contact clients directly for other products, such as loans, because both banks and MFIs cater to microbusinesses. On the other hand, MFIs would prefer to increase their business volumes and generate deposits for themselves if they must do so for banks.

Partner with cross border remittance provider for cross border payment: The only way to decrease illicit money transfers from overseas is to increase the number of banking services available to Bangladeshi migrant workers abroad. When sending money to Bangladesh from outside, the MFS operators can collaborate with both domestic and international public and private commercial institutions. Following that, the parties may split the service fees proportionately.

Diminishing the monopoly market: At present, bKash Limited controls a large portion of the MFS market. The service providers in such a monopolistic market lose their focus, inventiveness, and dedication to developing new and improved services for clients. To make the MFS business more competitive and equitable, Bangladesh Bank might encourage other small market sharing MFS provider companies to combine or merge their operations.

Reduce high transaction cost: It is possible to change the service fees that MFS operators in Bangladesh charge. Although a sizable portion of consumers have not yet given it any attention, the number of people using these services is growing quickly.

Ensure security: MFS institutions maintain strict confidentiality of their clients' personal information, provide risk-free IT infrastructure and cyber security, and regularly interact with them by posting social media ads about privacy and security issues. They also constantly caution users against disclosing their PIN and OTP (one-time password) to third parties. It is necessary to guarantee the complete security framework.

Agents are not as educated and trained as bank employees, despite the fact that banks and other financial organizations hire them to carry out their duties correctly. Because of this, many agents are

more concerned with security and theft than with financial theft, fraud, and other information-regulation regulations. Numerous MFS, including bKash, Rocket, Nagad, Upay, Sure cash, and others, are frequently offered by a single agent. In addition to other issues, it causes service delays. Since their establishments lack a safe cash store area, agents are wary of keeping significant sums of cash on hand for client cash outs.

Introduce reward option: Adding incentive choices for agents and users is another recommendation. Incentive schemes can successfully boost the adoption and ongoing use of MFS, accelerating the shift to greater financial inclusion. Cash-back incentives and promotions are excellent motivators to utilize MFS.

Customised financial products: It is crucial to tailor financial solutions for rural residents. In terms of security, client compatibility, and aesthetic appeal, the consumer end applications utilised in Bangladesh's MFS sector need to be enhanced and modernised.

7.7.2 Future recommendation for agent banking services

To promote wider financial inclusion-led economic growth, the report recommends increasing loan disbursement and deposit mobilisation through agent banking outlets, particularly in rural regions. Agent banking customers need to have access to more financial products. Strict supervision and monitoring could be in place to ensure proper balance between deposit mobilisation and credit disbursement of the agent banking system so that the rural clients of agent banking units do not miss out on its benefits, as some banks use the agent banking window as a source of deposit collection from rural clients and use the funds for investment in urban areas.

- The study findings suggest that, in certain areas, few female users participate, and the agent's gender status significantly affects how customers engage with digital financial services (DFS). Therefore, it is vital to offer women the option to visit a female agent. Recruiting more female agents and providing regular virtual and on-site training is essential to improve the services. Bangladesh Bank recently issued a circular to recruit female agents. Ensuring gender diversity during agent rollout is a foundational step. Without a specific focus on gender equity, women face substantial barriers when entering the agent network. Creating opportunities for women to become agents and removing existing hurdles will promote a more balanced, inclusive agent network and enhance women's comfort and access to DFS.
- Agent banking is a model that can reduce costs and reach the doorsteps of micro, small and medium enterprises and poor individuals with required financial services which are affordable for them both in terms of local availability and prices. For the banks, it is a profitable and sustainable venture to take up this alternative delivery channel of financial services in addition to traditional branch-based banking. For this reason, banks can individually assess the costs and benefits prior to tailoring the products.
- Banks need to make sure that agent banking operations are adequately secured. When choosing agents, banks could exercise caution and follow the central bank's recommendations. Continuous supervision is also necessary. To spread awareness among agent banking stakeholders about the rules and regulations, security measures, and other needs of agent banking, Bangladesh Bank could provide more trainings and organise seminars and workshops with rural residents. In order to increase public interest in and knowledge of agent banking operations, banks should also post ads and host seminars, events, and other promotional activities, particularly for the unbanked rural population.

- In order to expand agent banking coverage across various geographic regions, especially in rural areas of the country, more banks could apply for agent banking licenses and Bangladesh Bank could support banks in doing so.
- Bangladesh should adopt a risk-based approach for agent monitoring and regulation. The major institution should be held completely accountable for its agents' actions, as well as implement effective risk management, consumer protection, and AML/CFT systems.
- More banking products could be offered to agent banking clients as the empirical results indicate that consumers want to access a variety of financial products. Additionally, agent banking consumers could have access to enough information, particularly about various banking products and services, so that they can make well-informed decisions about borrowing and saving. Strict supervision and monitoring could be in place to ensure proper balance between deposit mobilisation and credit disbursement of agent banking so that the rural clients of agent banking units do not miss out on its benefits, as some banks use the agent banking window as a source of deposit collection from rural clients and use the funds for investment in urban areas. If this mismatch persists, it will eventually have a negative impact on the rural economy.

Table 7.9: Way forward and policy recommendation for DFS

Way Forward	Priority	Lead Agencies
For MFS		
Expansion of agent networks in rural areas	High	MFS providers
Reducing transaction complexity to its simplest straightforward version is necessary	High	BB, BPO
Think about gender disparities more clearly	High	MFS providers
Recruiting more female agents	High	BB, MFS providers, BPO
Financial literacy programme in rural areas	High	BB, MFS providers, BPO
Explore partnerships with NGO-MFIs, and insurance companies	Medium	Regulators, BPO, MFS providers, MFIs, NGOs, Insurance companies
Partner with cross border remittance provider for cross border payment	Medium	BB, Commercial Banks, mobile companies, GoB, BPO
Diminishing the monopoly market	High	BB, MFS providers
The overall security framework should be ensured.	High	Regulators, MFS providers, BPO
Transaction cost should be revised	High	BB, BPO
Introduce reward options for both users and agents.	High	MFS providers
Develop customised financial products	Medium	Regulators, MFS providers, BPO
Additional assessments and research should be conducted to better understand user behavior	Medium	BB, MFS providers, BPO
'MFSs are not only limited to money transfer' must be circulated to the minds of MFSs clients in Bangladesh	High	Regulators, MFS providers, BPO
For Agent Banking		
Recruiting more female agents	High	BB
Banks can individually assess the costs and benefits prior to tailoring the products.	Medium	BB, Commercial Banks
Banks should ensure adequate security measures in agent banking operations.	High	BB, Commercial Banks
Central bank should be encouraged particular banks to establish agent networks.	High	BB
More banking products should be given to agent banking clients	High	BB, Commercial Banks

Annex Table 7.1: Division-wise Transaction Statistics through Agent Banking Outlet (For the month of April, 2025)

Division		BARISHAL		CHATTOGRAM		DHAKA		KHULNA		MYMENSINGH		RAJSHAHI		RANGPUR		SYLHET		Grand Total		
		URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	TOTAL
Cash Deposit	No. of Transaction	35360	184573	106520	638302	356105	563302	59129	355514	29649	113114	95785	322877	81082	253623	24681	112368	788311	2543673	3331984
	Amount (in million TK)	1668.9	9483.5	6234	48335	18992.1	40963.9	2333.4	19681.3	1511.1	7162.7	4748.9	18937.4	3275.2	12024.7	1184.9	8050.8	39948.4	164639.2	204587.7
Cash Withdraw	No. of Transaction	13882	128846	51532	599824	132275	484223	21167	282852	10263	80618	42882	263228	35751	186011	9037	116209	316789	2141811	2458600
	Amount (in million TK)	852.6	7293	2791	37730.4	6668.7	29554.8	1116	15115.8	704.2	4660.7	2617.8	13624.4	1475.8	8323.2	438.8	5504.9	16664.9	121807.3	138472.2
Inward Remittance	No. of Transaction	1193	10419	6649	99885	13638	87382	1120	20619	1274	10167	2255	18453	727	6719	1900	34457	28756	288101	316857
	Amount (in million TK)	80.2	818.3	664.6	10586.9	964.4	7078.9	65.9	1524.3	112.3	812.7	161.7	1335.6	30.2	383.6	119.5	2657.5	2198.8	25197.7	27396.5
Fund Transfer	No. of Transaction	3085	15736	10879	86479	24675	65562	5467	35716	2366	12164	7825	29662	5743	25360	1744	14180	61784	284859	346643
	Amount (in million TK)	311.5	2173.6	1444.5	14007.4	2904.1	10275	477.5	4831.1	258.3	1780.8	1020.8	4450.3	598.6	2727.5	202.1	2157	7217.5	42402.8	49620.3
Utility Bill Payment	No. of Transaction	595	25689	8489	241830	19633	137587	1471	111733	1253	28895	7311	96435	2033	75143	676	22426	41461	739738	781199
	Amount (in million TK)	0.5	21.7	10.2	290.3	63.3	154.1	3	116	2.4	32.7	9.2	171.8	3.3	81.2	1	25.7	92.9	893.6	986.5
Others Payment	No. of Transaction	8358	21028	28244	110609	102082	109103	11525	44105	5549	17296	18173	41123	22906	41469	3182	15170	200019	399903	599922
	Amount (in million TK)	328.6	824.4	1244.9	4257.8	2822.6	4035.8	411.4	1402.8	354.2	624.4	616.3	1276.5	649.2	1465.8	120.1	507.1	6547.3	14394.5	20941.7
Total Transactions	No. of Transaction	62473	386291	212313	1776929	648408	1447159	99879	850539	50354	262254	174231	771778	148242	588325	41220	314810	1437120	6398085	7835205
	Amount (in million TK)	3242.4	20614.4	12389.1	115207.8	32415.3	92062.5	4407.1	42671.3	2942.5	15074	9174.8	39796	6032.2	25006	2066.4	18903	72669.8	369335.1	442004.9

Note: All accounts are in actual figure and all amounts are in million.

Source: Agent Banking Statistics Division, Statistics Department, Bangladesh Bank

Chapter 8

Supply Side Policy and Regulatory Framework

8.1 Introduction

Rural financing plays a crucial role in enhancing rural livelihoods and promoting overall economic development in Bangladesh. Access to finance is essential for farmers to invest in seeds, fertilisers, equipment, and technologies that can increase productivity and resilience to climate change. Moreover, rural financing extends beyond agriculture to include microenterprises, small businesses, and essential services in rural communities. It is widely recognised that the policy requirements and innovative financial products are necessary to address the challenges and opportunities in rural financing. However, ensuring effective rural financing requires custom-made policies and targeted financial products that address the unique challenges and needs of rural communities of a particular nation and community.

Appropriate policy approaches are crucial for effective rural financing that influences supportive institutional and regulatory framework; and targeted inclusive financial products and services. Strengthening the institutional capacity of financial service providers and regulatory bodies includes promoting specialised rural and agricultural lending units within institutions and enhancing coordination between government agencies, development partners, and private sector stakeholders. Policies should aim to increase access to financial services in rural areas, including banking services, microfinance, and insurance. Agriculture is the backbone of the rural economy of the country. Therefore, policies should support agricultural financing mechanisms, such as subsidised loans for farmers, crop insurance schemes, and agricultural extension services. The CMSMEs are significant contributors to rural employment and income generation. Policies should facilitate access to credit for CMSMEs through simplified loan procedures, collateral alternatives, and capacity-building programmes.

Regulatory frameworks should be conducive to rural finance, balancing consumer protection with the need for innovative financial products. Clear regulations on interest rates, loan terms, and risk management are crucial. Implementing supportive regulatory frameworks incentivises financial service providers to expand their rural outreach, which may include simplified collateral requirements, subsidies or guarantees for agricultural loans, and tailored financial regulations that accommodate the seasonal nature of agricultural income.

Effective rural financing policies and innovative financial products are pivotal for sustainable rural development in Bangladesh. Effective agricultural financing is particularly relevant for useful rural financing and development in the country. Agriculture still accounts for about 40% of all jobs in Bangladesh, despite its diminishing share of the country's GDP. It is also essential to the expansion of industry and services. Roughly 85% of the impoverished reside in rural regions. Agricultural development is crucial for improving livelihoods of the rural poor-generating employment, increasing household income, and reducing poverty.¹⁸

¹⁸ ADB (2023) Bangladesh's Agriculture, Natural Resources, and Rural Development Sector Assessment and Strategy, March 2023, Asian Development Bank, Manila.

8.2 Rural Finance Policy in Bangladesh

Bangladesh Bank formulates yearly Agricultural and Rural Credit Policy and Programme to determine rural and agricultural credit disbursement targets, sectoral distribution of credit in the crops, fisheries, and livestock sub-sectors, and their implementation using institutional arrangements in the country that have strong relevance for poverty alleviation. In line with the government's supportive policy approach for the agriculture sector, the 'Agricultural & Rural Credit Policy and Program 2023-2024' (FY3024) has fixed a target to distribute TK.35,000 crore agricultural and rural credits in the year. The existing policy added several newer areas for financing, rationalised loan repayment, and prescribed banks' role and involvement in the rural and agricultural credit fronts. Other than credit disbursement target through banks, Bangladesh Rural Development Board (BRDB) and Bangladesh Samabay Bank have also set their own targets using their own funds. Banks are expected to disburse or channel their funds using their own networks/ approaches (branches, sub-branches, agent banking units, contract farming, or group guarantee) or bank-MFI linkages. Bangladesh Bank's 'Agriculture and Rural Credit Policy and Programs' related circulars are particularly relevant. Banks and financial institutions were encouraged to receive group security/social security in agriculture financing by the Central Bank. The Central Bank has introduced several refinancing facilities¹⁹ to support the sector and the farmers. The Bank has also offered licenses to new branches specifically to finance the priority sectors like agriculture. And, banks were directed to recruit experienced people from NGOs/MFIs on a temporary contractual basis for the post of 'Agri Credit Supervisor (Contractual)' following manpower requirements needed for ensuring proper uses of agricultural credit (ACD Circular (No 01 issued on 22 June 2023).

In the case of industry, the primary goal of the National Industrial Policy 2022 is to embrace the technological benefits of the Fourth Industrial Revolution in conjunction with labour-intensive industrialisation using domestic raw materials and resources in order to economically enrich Bangladesh, boost sector-wise productivity, and achieve excellence in the quality of manufactured products. To boost private investment and economic growth, infrastructure deficiencies would be removed, industrial sector's infrastructure would be strengthened, human resources would be developed, government institutions would become supportive, etc. have been prioritised in the policy.²⁰ It is not the big industrial units rather the micro and small enterprises that are truly relevant for development and financing in rural areas i.e. several provisions of the 'SME Policy 2019' is the relevant policy document.

Regarding the credit or financing issues of agriculture and the rural value chain, both agriculture credit and CMSME credit are relevant and fall within the scope of rural finance. In line with the country's long-term development agenda, the government has been working to improve CMSMEs' access to finance and reduce the financing gap through multiple channels. The strategic goals include, for instance, "SME Cluster-based Enterprises Network Development and Expansion" (strategic goal 5 with tools) and "Increasing Scope of Access to Finance in SME sector" (strategic goal 2 with tools). The policy's second strategic goal has identified a number of specific strategies to support CMSMEs, including: boosting credit flow to the SME sector; opening a "SME Bank" in the country and

¹⁹ For example, BB formed a refinance scheme of Tk. 5000.00 crore for agriculture sector to ensure food security of the country (ACD Circular No. 07 of 17 November 2022); in line with ACD Circular (No. 08 of 19 December 2022), a fund titled 'Bangladesh Bank Agricultural Development Common Fund (BBADCF)' had been formed with the unattainable portion of banks annual agriculture and rural credit disbursement target; according to a recent ACD Circular (No 02 issued on 21 March 2023), beef fattening sector was included into the refinance scheme of Tk. 5000.00 crore; following ACD Circular (No: 01 of January 2023), agricultural credit on priority basis shall be disbursed to new farmers, and to more than one member of the same family based on rational consideration.

²⁰ Bangladesh Economic Review 2023: <https://mof.portal.gov.bd>

supporting access to finance for SME-related innovations; strengthening the current refinancing scheme to offer SME loans at lower interest rates; ensuring easy access to credit and low interest rates for SME loans by bolstering the Credit Wholesaling (CWS) Programme; and launching the SME Credit Guarantee Fund.

The circulars of Bangladesh Bank on CMSMEs are especially pertinent. The central bank encourages banks and other financial institutions to provide social security and group security when financing SMEs. By 2024, banks and non-bank financial institutions are expected to provide at least 25 per cent of their net outstanding loans and advances as SME loans, with a minimum 1 per cent annual growth. Bangladesh Bank has implemented incentive programmes for SME women entrepreneurs as well as bank/financial institutions (FIs) to encourage women entrepreneurs to take out SME loans and repay them on time. By 2024, banks and financial institutions are expected to provide cottage, micro, and small businesses with half of all SME loans. On a case-by-case basis, the New Entrepreneurs Refinance Scheme permits funding for new business owners up to TK.2.5 million with collateral security backing and up to TK.1 million without collateral security. It is recommended that banks and financial institutions create a cluster development policy to fortify current clusters and create new ones in order to accelerate cluster-based lending to the SME sector.

In order to guarantee lending facilities for women entrepreneurs, banks and financial institutions have been directed to keep a minimum of 15 per cent of the net outstanding of all loans and advances for women entrepreneurs. Additionally, each branch is required to set up a dedicated "Women Entrepreneurs Dedicated Help Desk." They are also encouraged, if feasible, to have a female official working at the desk to offer advice and assistance to women entrepreneurs with regard to project planning, loan application procedures, etc. Under Bangladesh Bank's refinancing facilities, banks and financial institutions have also been instructed to consider giving loans up to TK.2.5 million to women business owners without collateral security but with personal guarantees. To speed up the application process for business owners, a borrower-friendly loan application form (in Bangla) has been launched. Finding and training at least three potential SME women entrepreneurs per branch who have not previously obtained funding is a recommendation for all banks and financial institutions, and at least one of them should be financed annually.

Additionally, Bangladesh Bank has set up a fund of TK.25,000 crore to give SMEs' access to financing at reasonable rates and with flexible terms and conditions. This fund is being distributed to entrepreneurs through participating financial institutions (PFIs) that meet certain eligibility requirements. Special credit²¹ and other supportive arrangements (capacity enhancement)²² have been undertaken to support and sustain CMSMEs of the country.

Strategies and activities by the SME Foundation (SMEF) have also been supportive of CMSME development, SME cluster development and financing as well. Since 2009, SMEF has been implementing a Credit Wholesaling Programme (CWP) through banks and non-bank financial institutions (NBFIs) to offer credit support to SMEs. Through technology promotion, upgradation, and

²¹ To support credit expansion and reduce liquidity constraints of SMEs brought on by the COVID-19 pandemic, a new Refinance Scheme named 'COVID-19 Emergency and Crisis Response Facility Project (CECRFP)' has been introduced by Bangladesh Bank. Asian Infrastructure Investment Bank (AIIB) is providing USD 300 million to implement this project. Considering the adverse economic impact of COVID-19 on the returning migrant workers, unemployed youth and rural entrepreneurs with a special focus on women entrepreneurs, BB has taken a fund named "Supporting Post COVID-19 Small Scale Employment Creation Project (SPCSSECP)" amounting USD 150 million, funded by Asian Development Bank (ADB).

²² The Government of Bangladesh (GoB) has taken a project titled 'Skills for Employment Investment Program (SEIP)' with the assistance of Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC). Under this project, as of February 2023, total 12,287 trainees received market demanded training and 11,989 are certified.

various relevant awareness-raising initiatives, the SME Foundation has been trying to improve the quality and productivity of SMEs and make the national budget more SME-friendly.

Through specialised initiatives including capacity building, skill development, and new business formation programmes, the SMEF has directly assisted women entrepreneurs in their efforts to integrate into the mainstream business world. With the goal of giving entrepreneurs hassle-free services and ensuring the sector's overall development, the SMEF has developed the "SME e-database" programme, an endeavour to build a database of small and medium businesses (SMEs). Since 2012, SMEF has organised SME Fairs to increase the market for SME products. SMEF has identified 177 SME clusters nationwide for the purpose of cluster development, which is necessary for effective cluster financing. The organisation has also been involved in evaluating the clusters, creating intervention programmes, and setting up capacity-building initiatives for the clusters to enhance the abilities of the cluster-based SME entrepreneurs.

Microfinance Institutions (MFIs) have been instrumental in advancing rural development, CMSME funding, women's empowerment, and financial inclusion. The MFIs have been brought into compliance with the changing demands of the industry by the MRA in accordance with the Microcredit Regulatory Authority Rules, 2010. In order to meet their financial needs and provide them with more access, MRA allows bigger microfinance institutions to lend wholesale to smaller MFIs. Additionally, MRA has taken a number of actions, such as offering certificates with QR codes, which would guarantee greater transparency and immediate scope for verification by anyone, anywhere. Additionally, with the assistance of Sonali Bank PLC, MRA has implemented an electronic payment system that enables all certified MFIs to submit their certification fees, yearly fees, and other costs online. With the help of Bangladesh Bank, MRA is attempting to construct a Credit Information Bureau (CIB) for the microfinance industry in order to fortify the sector.

Moreover, MRA has implemented a national database for an online-based data collection system and its secure preservation. MFIs, as providers of agriculture²³ and rural finance, play a vital role in offering access to credit to farmers. Numerous MFIs have made great progress in connecting with micro-entrepreneurs and meeting their financing requirements. Additionally, bank-MFI relationships have been helping to provide microbusiness and agricultural lending facilities in Bangladesh's rural areas.

Bangladesh is extremely vulnerable to catastrophic occurrences due to its low-lying delta, and microinsurance is especially important for funding in rural areas. The 2014 National Insurance Policy places a strong focus on the financial and social advantages of insurance for a variety of sectors, including industries, homes, offices, health, education, agriculture, fisheries, and animals. Agricultural insurance coverage in Bangladesh remains extremely poor, despite the initiatives, and very few farmers have any information, understanding, or access to crop, livestock, or fisheries insurance.²⁴ The Insurance Act 2010 mentions about insurance business in rural or social sectors (Chapter II, Article 6). As stated, every insurer shall, after this Act comes into force, undertake such percentages of life insurance business and non-life insurance business in the rural or social sector. In the microinsurance product development front, international agencies have played visible roles. In 2009, Asian Development Bank (ADB) supported the government in expanding its insurance coverage to reach more vulnerable groups through microinsurance to protect the livelihoods of poor

²³ The role of microcredit in the agricultural sector has expanded significantly, constituting more than half of all credits extended in this field (Microfinance in Bangladesh, June 2023; <https://mra.portal.gov.bd/>)

²⁴ <https://www.lightcastlebd.com/insights/2021/05/evolution-of-micro-insurance-in-bangladesh-financial-cushion-for-the-bottom-of-the-pyramid-population/>

households, especially women, from risks, such as accidents, illness, theft, or natural disasters.²⁵ Recognising the potential of microinsurance to mitigate these challenges, the government, IDRA, and the Swiss Agency for Development and Cooperation (SDC) initiated the Bangladesh Microinsurance Market Development Project (BMMDP) in 2017 which continued till 2023. The project introduced commercially viable weather and area-yield index-based crop insurance and cattle health insurance while bundling insurance with agriculture input services. Moreover, the project initiated an area of exploring bancassurance agricultural product innovation to support farmers with outstanding achievements.²⁶

Policy and regulatory initiatives related to financial inclusion and MFS have direct implications for rural financing. Financial Inclusion Department (FID) of Bangladesh Bank has actively been engaged in handling policy and regulatory issues of Bangladesh Bank associated with financial inclusion. The formulation of 'Financial Literacy Guidelines' is a notable intervention of FID (circulated in March 2022). The objective of the guidelines is to create an empowered nation with the right knowledge and skills for making responsible financial decisions. Rural population particularly needs financial literacy support. The National Financial Inclusion Strategy Bangladesh (NFIS-B) targets to achieve the core objective of increasing all adults' financial inclusion to 100 per cent by 2026 where rural financing and MFS have notable roles to play covering access, usage, and quality concerns.

Payment is the key service of financial inclusive drives, and Payment Services Department (PSD) of Bangladesh Bank has been proactive and playing roles in adopting technology and supporting market players in coming up with technology-driven payment services. In a recent initiative, Bangladesh Bank has issued licenses to establish Digital Banks. Digital Banks are expected to expand service horizon beyond payments and will offer full-fledged banking services. According to the Bangladesh MFS Regulations, 2018 only scheduled banks were allowed to do MFS business. In the guidelines issued by Bangladesh Bank in 2022, financial institutions and government entities have been allowed to get licenses for MFS business. Promoting Bangla QR is a key area to expand payment services in rural Bangladesh. The MFIs can also disburse loans and receive instalments from their clients through MFSPs. Since the vast majority of the population (about 100 million), lives in the rural areas, more rural-focused policy initiatives are needed to address unfriendly on-ground tech infrastructure, which are not accessible to the rural people having extremely low credit scores, and who suffer from a lack of general technological and financial literacy.

8.3 Scope and Brief Methodology

In order to determine the features of current financial products and services (savings, credit, payments, insurance, MFS, agent banking services, etc.), their limitations in reaching the target groups as perceived by the providers, and their perceptions on how to create suitable, user-friendly, and sustainable financial services for the underserved and excluded rural population groups and enterprises, the institution level analysis of the supply side is a crucial component of this comprehensive rural finance study (CRFS).

Both primary and secondary data and information form the basis of this component. Relevant public materials and policy papers have been extensively studied for the purpose. Five consultation meetings with pertinent financial institutions were held in March 2024 in order to collect primary data. These included representatives from major state-owned commercial banks (SOCBs) and specialised banks (SBs); private commercial banks (PCBs) and non-bank financial institutions (NBFIs); Fintech and MFS providers; non-profit MFIs and insurance companies; regulators, and other important

²⁵ Social Protection Project Review: <https://www.adb.org>

²⁶ <https://www.swisscontact.org/en/projects/bmmdp-surokkha>

stakeholders. Additionally, an exclusive consultation conference was arranged with all pertinent Bangladesh Bank divisions. The facilitating policies, regulatory mechanisms, and other pertinent issues related to designing financial products and services, as well as appropriate, effective, and efficient delivery channels of financial products and services for the underserved and excluded groups and CMSMEs in rural areas, were among the many pertinent issues that these meetings helped to identify. The main goal has been to exchange experiences and ideas and learn from each other's experiences for the financial sector organisations that create and provide financial services and products, particularly for disadvantaged and excluded women and men as well as CMSMEs in rural regions.

8.4 Key Challenges in the Supply Side

Definition and scope of SMEs/CMSMEs that do not reflect ground realities: Equal emphasis and focus on 'micro, small, and medium' would not bring expected results. In reality, medium-sized enterprises do not require all the support services that a small or micro one needs. For a micro or small enterprise in the rural areas, it is very difficult to get the required financial information in a structured format to facilitate financing. Micro and small enterprises also need other business and capacity development support services for managing credit and other risks that may not be valid for medium enterprises. The present definition of CMSMEs restricts the inclusion of small trading businesses, reflecting overly stringent criteria that fail to represent ground realities.²⁷ Existing loan limit thresholds for manufacturing and services enterprises encourage banks/NBFIs to finance the upper tier of small enterprises and medium enterprises whereas the cottage, micro, and lower tier of small enterprises are deprived. These smaller enterprises have little access to formal finance although these form the overwhelming majority and are more credit-hungry.

Complex loan processes and documentary requirements: According to the current loan processing arrangements in banks and NBFIs, the process for rural finance (agriculture or small loans) is hardly different from that of large loans. This discourages many, especially those with limited financial literacy and capacity to meet loan requirements. Rural borrowers struggle with various requirements like trade licenses and other documentation. Complex business licensing procedures create hurdles; at present, 13-14 licenses are required from the concerned authority to start a business. To the rural borrowers, high collateral requirements and complicated paperwork act as barriers to accessing credit. Further, proof of submission of tax return is a complicated issue. In most cases, it is not easy for cottage, small, and micro entrepreneurs to submit proof of tax return. The use of too many paper-based charges/legal documents causes inefficiencies and delays.

Trained manpower shortages in rural bank branches: In most instances, rural bank branches are understaffed, making loan supervision and customer service provision extremely difficult relative to say NGO-MFIs. Limited staff especially in geographically challenging areas hinders service delivery. Staffs do not have incentives or special benefits for serving remote locations.

Limited digital access and lack of digital literacy: Lack of smartphone ownership, high costs, and user-unfriendly apps hinder mobile banking adoption in rural Bangladesh. Very limited number of smartphones or other smart devices is a strong barrier for women to utilise digital financial services in the country. Rural borrowers are hesitant to use e-KYC due to security concerns. Rural areas lack the infrastructure and resources to undertake digital financial initiatives.

Lack of financial literacy and financial awareness: Lack of financial literacy is a key challenge especially in the rural areas. It is associated with the popularity of indirect mode of financing in the country, and informal lending/financing activities in rural Bangladesh. Limited public awareness

²⁷ SMESPD Master Circular on CMSMEs 2 – 2019

about accessible financial products, even with low minimum deposit requirements (e.g., 10-taka accounts) is a reality. Lack of financial literacy and awareness about insurance products among rural populations creates barriers to accessing insurance services.

Information gap among rural borrowers: Rural entrepreneurs often lack access to proper market information, leading to pricing inefficiencies in their businesses. Farmers lack market information, hindering informed decision-making for pursuing profitable crop cultivation and related agricultural activities.

Difficulties of women-led SMEs/CMSMEs: Of the potential rural borrowers, women-led SMEs/CMSMEs face even greater difficulties. For example, utility bills not registered under women's names limit their access to credit. Bankers have also expressed concerns about the legitimacy of some women-led businesses, suggesting husbands are observed to be using their wives' names to obtain loans. Women entrepreneurs require even more training and educational resources to succeed. Low participation in women-only bank branches highlights the need for improved outreach strategies.

High cost of CMSME/MFI/rural credit: High cost of CMSME loans discourages participation; risk-based lending rate could improve loan attractiveness. Rural loans with high interest rates are a burden for farmers and cottage, micro and small entrepreneurs. Farmers who cannot access bank loans might turn to MFIs which commonly have less favourable terms including high interest rates.

Inadequate training for bankers and MFI staff: Banks/MFIs recognise the need for training not only for the potential clients but also for bankers and MFI staff to effectively guide clients on digital financial products and services. The MFIs often lack proper loan appraisal processes. In several instances, it is observed that MFI staffs are not prepared enough to adequately analyse an entrepreneur's cash flow, creditworthiness, or assets and liabilities before issuing loans.

Limited microinsurance options for rural population: The Jiban Bima Corporation has a monopoly on government insurance, limiting options for rural customers. The claim process for government insurance schemes in rural areas is lengthy and cumbersome. Keeping rural money in rural insurance could be a way to promote financial inclusion. Microinsurance regulations are too strict, hindering its potential for rural areas. There are also challenges in forming partnerships due to concerns about profit-sharing between insurance companies and potential partners (e.g. MFIs).

Limitations in agricultural insurance: Several challenges hinder the effectiveness of agricultural insurance. Low technology adoption is a critical issue. There is limited use of technology for data collection and risk assessment. There are also challenges in collecting and managing accurate agricultural data to design appropriate microinsurance products.

Lack of well-targeted financial products: Banks/NBFIs have very limited targeted products for rural areas. There is hardly any initiative on the part of banks/NBFIs to create demand driven products targeting rural clients. For example, globally popular and successful agriculture/farm sector financial products like 'Loan against Warehouse Receipt' or 'Warehouse Receipt System' have failed²⁸ or could not be introduced in the country as yet.

Ineffective cluster financing in the undeveloped clusters: The performance of a cluster heavily depends upon its current status and its contribution in terms of collaboration and network;

²⁸ In Bangladesh, some state-controlled commercial banks and specialized banks have used this kind of financing under the policy direction of the Bangladesh Bank. However, the committee formed for this kind of financing did not perform well due to the mismanagement. Besides, the process and the financing mechanisms were not monitored stringently by the financial institutions and the committee as well. For this reason, farmers/producers were affected and it influenced their repayment. Subsequently, some financial institutions get rid of the arrangement and some of them are trying to clear out by interest waiver.

significance in local, regional, and national economy; growth and development; and bringing dynamism. All the indicators are not equally important for the performance of a cluster. Yet, simply geographical concentration is not likely to perform efficiently. Lack of trust, resistance to innovation, and the weakness of collaborative institutions are the common reasons for under-performance. Policy intervention, allocation of funds, and support services are particularly important for creating the right kind of collaboration and competition. Most of the clusters in the country are immature and generally feature a low level of cooperation and sharing; lack of linkages; absence of the use of modern technology; nonexistence of efficient supply and value chains; lack of linkages with universities and research organisations; and deficiency of expenditures on research and development.²⁹ However, there is a huge potential for developing clusters in the CMSME sector of Bangladesh.

Information gaps regarding borrower repayment capacity: In many instances, banks/NBFIs, and MFIs do not have sufficient data on loan assessment or specifically to identify willingness or ability to repay the loans.

Challenges for startup financing: Fear of job losses and salary reductions discourage bankers from supporting startups due to potential loan defaults and unclear policies on handling non-commercial ventures. There is also a lack of dedicated funds for startups.

Renewal hurdles of trade licenses: Yearly renewal of trade licenses for CMSMEs is a troublesome exercise. The CMSMEs face hustle in obtaining trade licenses from the local authority while trade licenses cannot be verified online as can be done for NID.

Security concerns with agent banking: Participants in the meetings acknowledge the risk of fraud especially when farmers or women entrepreneurs rely on agents for transactions, potentially exposing their personal information.

Ineffective credit guarantee schemes: Clients of rural and agricultural finance hardly receive benefits from the existing credit guarantee schemes. To get support from the credit guarantee schemes, prior registration is required. It is also observed that it usually takes more time for accessing loans under credit guarantee schemes, which makes it demotivating for the borrowers.

Over-financing, under-financing, multiple borrowing, and loan continuity concerns: Both over and under-financing cause problems for cottage, micro or small enterprises. Sometimes, rural borrowers borrow from multiple sources without the information of the lending entities. These are risky in terms of business sustainability and repayment capability of the rural borrowers. At times, borrowers are unable to continue with their businesses and repay loans due to the challenge of loan continuity or renewal.

Inadequate loan share of rural and CMSME sector by banks: With most credit concentrated in corporate sector in metropolitan cities like Dhaka and Chattogram; banks' current structures and models are not well-suited to reach rural and CMSME borrowers, making lending cost-ineffective.

Concerns about central bank pressure: All banks are equally treated in terms of imposing the Bangladesh Bank's preferential rural and inclusive finance policy. However, all banks and NBFIs are not equally equipped to offer financing facilities in all areas and sectors of the country. Pressure from the central bank to pursue initiatives outside their core competency hinders focus on their expertise creating inefficiency.

Simplified and easy informal loans: In rural areas, informal lending often surpasses formal loans in popularity due to their simplified processes, accessibility and adaptability to local needs. Informal lending, typically facilitated through community networks, friends, or family, offers a flexible

²⁹ Habib, Shah Md Ahsan, Nehal Ahmed, Rexona Yasmin, Hosne Ara Shikha, Farzana Khan, Jannatul Ferdous Tania (2022) Are Banks engaged in Cluster Financing in Bangladesh? , A BIBM Study Report, Dhaka, Bangladesh.

alternative to the inflexible structures of formal financial institutions. Rural residents may find formal loans difficult to obtain due to stringent requirements, lack of collateral or limited access to banking services. In contrast, informal lenders are more attuned to the socioeconomic dynamics of their communities and can provide quicker, less bureaucratic assistance. The system also fosters strong social bonds and mutual support, crucial in areas where formal financial infrastructure is underdeveloped. Consequently, informal lending remains a vital financial lifeline for many in rural settings, bridging gaps left by traditional banking systems. Thus, simplified and easy informal rural credit remains a key challenge for formal financial inclusion.

8.5 Suggestions and Policy Recommendations

Review the definition and scope of SMEs/CMSMEs: It is important to look at what defines a micro or small enterprise, considering different industries. The ‘medium’ should be categorised separately, or it should be excluded from the CMSME banner i.e. vulnerable category. It is important to collaborate with relevant stakeholders to review and potentially revise the official definition of CMSMEs to ensure that it captures enterprises with high growth potential. It is probably more realistic to treat cottage, micro, and lower-tier small enterprises as a distinct and separate category from the upper tier of small and medium enterprises for setting financing targets for banks/NBFIs. In the case of trading enterprises, TK.20 crore + business turnover is probably too low for not considering under CMSMEs in the present context. In reality, cottage, micro, and lower tier of small enterprises are the categories that need targeted and category-specific financial services and other business development support services.

Simplification of financing processes and documentation requirements: Offering simplified account opening processes with minimal documentation requirements, and designing low-cost or subsidised mobile devices are basic requirements. As part of the simplification of loan procedures, banks/NBFIs are needed to review and streamline loan application processes to reduce unnecessary documentation burdens for rural borrowers. In certain types of services, loan application procedures may be simplified across banks, potentially allowing individual applications with just National ID card (NID) to reduce perceived complexity. It is also crucial to streamline the approval process for digital solutions like digital signatures, reducing delays for rural financial institutions. Documentation requirements for corporate and CMSMEs should not be the same, and should be changed accordingly. Document requirements can be set based on the exposure (loan size) basis. Trade license validity could be extended to more than one year for CMSMEs. Trade IT is important to ensure license issuance automation and providing open access for banks to verify through open API connectivity. Trade license digital issuance might be for five years with low fees for CMSMEs and rural borrowers.

Rural development strategy with information and market access: The Bangladesh Bank could collaborate with the government and development agencies to adopt a rural development strategy based on the market economy framework and resource availability. This could involve identifying potential business clusters and providing infrastructure and support services tailored to each cluster's needs. For promoting rural finance with information and market access, formal financing entities could introduce microloans and lines of credit specifically suited for digital businesses, with easier application processes. Banks/NBFIs could be encouraged to incentivise sales staff to reach rural areas. It is crucial to support initiatives that provide farmers with access to regular market and related information on prices, supply situation, and the nature of demand for agricultural commodities. As part of market access support, rural clients could be helped to connect with buyers and markets for their agricultural produce. This could involve training in marketing skills, establishing cooperatives, or facilitating connections with processors or retailers.

Strategic rural branch network and staff deployment at rural branches: More resources are required to improve staffing levels in rural bank branches, particularly for loan supervision. Incentive programmes can attract more staff to geographically challenging areas while promoting micro-savings initiatives would provide a gateway for the underprivileged to participate in the formal financial system. The Bangladesh Bank could work with banks/NBFIs to develop a strategic branch network expansion plan, prioritising underserved rural areas while considering alternative service delivery models like digital booths. Bangladesh Bank could also re-evaluate space requirements for sub-branches, considering alternative service delivery models and technological advancements that might reduce physical space needs.

Review loan products and design customised products for rural clients: Designing CMSME loan products with risk-based pricing and easier qualification criteria to incentivise participation is urgently needed. Policymakers and financial institutions could work to develop alternative financial products for homemakers that cater to their specific needs and spending habits; and could explore microloans, savings accounts with reward programmes, or prepaid cards. Financial service offerings may be expanded by facilitating partnerships between Bangladesh Post Office (BPO) and banks to offer a wider range of financial services at post offices, such as direct deposits, pension disbursements, and government bill collection. Bangladesh Bank could establish guidelines for financial institutions to develop investment products tailored to the risk tolerance and financial needs of rural investors. Policymakers could work on designing and popularising recognised agricultural loan products like the ‘Warehouse Receipt System’³⁰ targeting farmers and small producers of the rural economy. Policy support is needed for rural financial products. The Bangladesh Bank can introduce programmes or incentives that encourage financial institutions to develop financial products specifically designed for rural businesses and seasonal agricultural needs, such as crop-based financing.

Cluster development and cluster-based financing: The cluster approach is useful for both small agricultural enterprises and CMSMEs. Cluster development initiatives can unlock opportunities for improved access to finance, enhanced productivity, and sustainable growth along the value chain. A real clustering approach might work as an effective alternative to the collateral-related challenges that are commonly confronted by both rural CMSMEs and small agricultural enterprises. In recent times, some banks have formulated cluster policies in response to a policy circular from the Bangladesh Bank. However, such policies must include the banks’ approach and strategy to be engaged in the development of identified clusters. Being engaged in the development process, banks would be able to measure the status and level of clusters that are essential to minimise risks in their financing operations. Banks/NBFIs need policy and incentive supports to be engaged in the cluster development process, and the associated effective financing.

Promote digital financial services and nano loans: For developing user-friendly apps, banks and fintechs could collaborate to design mobile banking applications that are simple, intuitive, and accessible for rural users with limited digital experience. On the digital payment front, Bangla QR code-based payment is a revolutionary technology that is enabling a cashless economy in Bangladesh, which may be a game-changer in the country's digital transaction system. The Bangladesh Bank could

³⁰ The Warehouse Receipt System (WRS) is the most basic form of trade where the small-scale farmers come and deliver their commodity to a selected storage facility that is accredited by the commodity exchange, then an independent party classifies the product with a certain grade that meets the standards set by the exchange. This receipt is proof that the individual owns that crop within the storage facility and can be used as collateral on the futures market. Financial services should be able to finance the WRS as collateral to provide capital to the farmers and give them the power to hold onto that crop a bit longer until market prices are more favourable and not just settle for the first and best prices because they fall into a cash flow problem. Study on African experience reveal that the potential for positive impact of WRSs on the lives of smallholder African farmers exists (Aboagye, Anthony (2023) Athens Journal of Business & Economics 2023, 9: 1-18 <https://doi.org/10.30958/ajbe.X-Y-Z>).

continue to encourage the adoption of digital payment systems like QR payments through public awareness campaigns and collaboration with financial institutions. On the credit front, popularising and expanding ‘Digital Nano Loan’ to small entrepreneurs might be effective for digital financial services if associated risks are handled properly. Policy incentives would be useful to popularise these services among market players and users. Without credit scoring system proper identification of the borrowers in digital Nano loan could hardly be effective. Policy support would be required for the development of alternative credit scoring systems suitable for small farmers (e.g., land ownership, past crop yields). Also, a centralised database can be created to ensure proper credit scoring.

Implement digital literacy initiatives and infrastructure: Introducing Electronic Know Your Business (e-KYB) can be introduced by BFIU; Bangladesh Bank could collaborate with the government and telecommunication companies to invest in improving internet connectivity and digital infrastructure across the country. Bangla Fintech may be promoted by encouraging Fintech companies to develop Bangla-language interfaces and functionalities within their platforms to cater to the local audience. The Bangladesh Bank could establish a comprehensive regulatory framework for the Fintech sector, balancing innovation with consumer protection and financial stability. Simplification of e-KYC procedure is an urgent necessity along with wider adoption of e-KYC procedures to simplify registration for sole proprietorships. Incentive programmes could be encouraged for digital adoption. Bangladesh Bank could introduce incentive programmes in collaboration with financial institutions, such as cash backs or rewards, to encourage people to adopt digital financial services. Bangladesh Bank could also collaborate with financial institutions and NGO-MFIs to establish digital booths in villages. These booths could offer basic financial services, internet access, and assistance in using digital financial tools. The policymakers (e.g. MRA) could develop a core MFI management software solution that can be customised by individual MFIs to meet their specific needs. This could significantly reduce development costs and streamline digitisation efforts of NGO-MFIs.

Specific support for women-led CMSMEs: Implementation of targeted policies and programmes would help address challenges faced by rural women entrepreneurs, including facilitating utility bill registration in their names. Flexible loan terms would be useful for women that are tailored to the specific needs and repayment capacities of women borrowers. Dedicated funding mechanisms could be explored and training programmes (entrepreneurship skill and business development model) could be organised to address the challenges faced by rural women entrepreneurs. The cost of the training may be shared by the participants and the participating banks. Banks can use their CSR fund to provide appropriate training to women entrepreneurs. The Bangladesh Bank could encourage or require banks to eliminate spousal guarantees for women-led enterprises. Bangladesh Bank could collaborate with other institutions to develop robust verification processes for women-led businesses, ensuring loan eligibility without discouraging legitimate entrepreneurs. Bangladesh Bank could work with financial institutions and MFS providers to develop targeted programmes that address the specific needs of women entrepreneurs, and implement awareness campaigns to educate women entrepreneurs about digital financial services and security-based practices. Women-centric agent banking models could also be encouraged which could involve training and recruiting female agents to create a more comfortable environment for women entrepreneurs; and establishing dedicated women-only agent booths within branches.

Promote financial literacy and awareness: A collaborative approach would be useful for designing financial literacy and awareness programmes. The Bangladesh Bank could work with BSEC, MRA, and IDRA to develop and implement comprehensive financial literacy programmes specifically targeting rural women audiences, which could include utilising online platforms, and leveraging online platforms for delivering educational contents in local languages, considering internet access

limitations in many rural areas. Complementing online contents with offline workshops and awareness campaigns conducted in rural communities would be useful. Partnering with NGO-MFIs and local leaders would be useful to ensure wider reach and trust within rural communities. Policymakers and financial institutions could implement regular programmes to educate the people in the rural communities about financial products and services, including associated technology. In partnership with educational institutions and NGO-MFIs, these programmes could focus on cash flow management, budgeting, and financial planning; and in partnership with mobile network providers, it is possible to offer subsidised smartphones and data plans for rural populations. Financial literacy training programmes are particularly necessary for women to empower them to manage their loans effectively and grow their businesses. The central bank/MRA could partner with relevant stakeholders like NGO-MFIs and educational institutions to develop more targeted financial literacy programmes specifically designed for MFI borrowers particularly women. This could involve incorporating interactive elements, addressing common borrower misconceptions, and utilising local languages and communication channels. Bangladesh Bank/IDRA can collaborate with insurance companies and NGO-MFIs to develop educational campaigns that raise awareness about the benefits of life and other forms of insurance, particularly targeting rural populations.

Review policy and operational approaches for enhancing efficiency: Reviewing certain policies, and introducing changes and modifications in interventions might help improve the efficiency of rural financing in the country.

- Developing policies discouraging informal loans is a necessity. Certain steps might be useful: raising awareness about the risks of informal loans; introducing measures to discourage predatory informal lending; making formal MFI loans more competitive through interest rate adjustments or flexible repayment options.
- Developing guidelines that encourage MFIs, banks, and NBFIs to offer a wider range of financial products beyond basic microloans, including specialised products like livestock loans.
- Reviewing and clarifying startup loan policies might be helpful. Bangladesh Bank could work with other financial institutions to create dedicated funding mechanisms for startups, potentially through venture capital initiatives or loan guarantees.
- Analysing the impact of current taxation and excise duty structures on business growth within the CMSMEs is important, especially considering the specific needs of rural women-led enterprises.
- Developing policies/products that encourage banks to support MFI lending in specific sectors like agriculture or small businesses. To ensure smooth lending through MFIs, it is essential to have a separate CIB for the MFI sector.
- MFIs cannot mobilise savings of more than 80 per cent of their loan outstanding. This restriction can be relaxed for higher fund mobilisation.
- Bangladesh Bank can support initiatives that promote branchless banking or agent banking models to expand financial services in remote and difficult-to-access rural locations.
- Promoting micro-savings and micro-investment schemes. This could help build a pool of rural capital that can be invested in rural insurance products, keeping money circulating within the local economy.
- Policymakers/regulators could establish a framework for MFIs to pilot and evaluate new loan products before full-scale implementation. This could involve providing technical assistance or grants for product development and testing.
- Bangladesh Bank could introduce credit guarantee schemes specifically for SME loans. This would mitigate risk for banks and incentivise them to lend to CMSMEs in rural areas.

- Bangladesh Bank could collaborate with regulatory bodies overseeing CSR activities to explore possibilities for channeling CSR funds into CMSME loan programmes, particularly for underserved sectors like agriculture.
- Bangladesh Bank could establish low-cost refinancing windows for banks. This would provide banks with access to long-term funds at lower interest rates, enabling them to offer more affordable loans to CMSMEs.
- Bangladesh Bank could encourage banks to develop innovative financial products tailored to the needs of CMEs, like invoice discounting in rural areas.
- Collaborating with relevant ministries to increase funding and resources for institutions like BSCIC and the Department of Women Affairs; developing streamlined loan approval processes and capacity building programmes for these institutions are needed.
- MRA could introduce regulations requiring MFIs to conduct more thorough loan appraisals that consider an entrepreneur's cash flow, creditworthiness, assets, liabilities, and repayment capacity.
- Bangladesh Bank could explore ways to collaborate with MRA's district coordination committees to strengthen financial sector oversight in rural areas, which could involve establishing clear communication channels for sharing information on potential fraud or irregularities; and training MRA officials on identifying and reporting suspicious activity.
- Regulators/policymakers could assess the capacity of rural cooperatives to handle loan disbursements and repayments effectively. Bangladesh Bank may work with relevant government agencies to establish a regulatory framework for cooperatives' lending activities in rural areas. This framework could ensure required protection for the borrowers along with financial stability of the cooperatives themselves.

Undertake institutional capacity building efforts along with consolidation of rural banking:

Several initiatives and partnerships might be useful for the skill and capacity development of employees in rural banking especially, since it is crucial to improving loan officers' understanding of agriculture and CMSME lending.

- Regulators (Bangladesh Bank and MRA) could collaborate with the service providers (banks/NBFIs/MFIs) for designing and offering customised skill development programmes for rural bank/NBFI/MFI executives on 'loan appraisal and credit risk assessment', 'financial management', 'customer service to the rural clients', 'CMSME lending practices in rural Bangladesh', 'agriculture lending operations in rural Bangladesh', and 'risk assessment for rural borrowers', etc.
- Rural CMSMEs may be provided with Tax card, and some special benefits can be added with the tax card to motivate them. Sometimes banks, on behalf of the borrowers, prepare these statements. If possible, a separate entity may be created to provide such services.
- Regulators partnering with banks/financial institutions/other stakeholders might work towards designing and implementing cluster-based training programmes for staff and rural communities, focusing on financial literacy, loan application processes, and Islamic banking products (if applicable).
- Designing and implementing training programmes on improved livestock breeding practices, animal health care, and efficient feeding methods to increase productivity and profitability for women cattle farmers can be a useful venture.
- Policy initiatives for developing programmes to train and incentivise sales agents in rural areas; and, offering training programmes or partnering with NGOs on digital marketing courses/programmes are likely to provide rich dividends.

- Incentivising banks to explore alternative outreach models, such as dedicated sales teams, to reach rural customers more effectively involving, for example, NGO-MFI partnerships with established rural networks could be useful.
- Developing capacity-building programmes by Bangladesh Bank in collaboration with the Department of Cooperatives for rural cooperative staffs can revitalise the cooperative sector.
- Developing programmes and/or providing incentives to encourage banks/service providers to invest in staff training, infrastructure, and technology specifically for serving rural communities are necessary.
- Grant programmes or tax breaks to incentivise banks and financial institutions to invest in digital solutions for rural areas might provide useful outcomes.
- Bangladesh Bank could introduce regulations or incentives that encourage banks to specialise in specific sectors, leveraging their expertise for better service delivery.
- Incentivising and exploring alternative agent networks reaching remote farmers (e.g., cooperatives, agricultural input suppliers); exploring agent banking networks leveraging local shops or community centres to provide basic financial services could be explored.
- Investigating the use of existing government data (land ownership records, etc.) to verify farmers' identities is still complicated; exploring alternative identification methods like biometric IDs for farmers could be explored.
- Encouraging banks to develop and offer alternative collateral options beyond traditional land ownership, catering to the needs of rural borrowers need deep investigation.
- Providing regulatory support or loan guarantee schemes for BPO's collateral-free lending programme, allowing it to continue serving underbanked rural borrowers could be considered.
- Encouraging exploration of alternative forms of collateralisation beyond land to increase loan accessibility needs to be actively pursued.
- Introducing Islamic banking windows to cater to the unbanked Muslim population in rural areas; facilitating the expansion of Islamic banking windows in rural areas by providing training and capacity building for rural bankers need promotion.
- Developing Islamic microfinance products tailored to the needs of women in the cattle sector, ensuring that these products comply with Sharia law principles need active consideration.
- Policymakers and regulators need to work on market access initiatives to connect CMSMEs with domestic and international markets. Business development services to provide CMSMEs with guidance on marketing, accounting, and legal matters are potentially rewarding options.

Introduce microinsurance for rural farmers/enterprises: Microinsurance is particularly useful to protect farmers and also banks from losses due to bad weather conditions and other unforeseen circumstances. There could be a separate microinsurance policy. The premium of microinsurance could be embedded with the loan product so that it can contribute to the rural economy. Microinsurance providers need to offer products tailored to the needs of the specific rural customers, with simplified terms and conditions. Insurers should be encouraged to create products that address specific risks faced by the rural communities, such as crop failure, livestock mortality, or natural disasters. Grants or tax breaks may be provided to the insurers that develop and launch innovative rural insurance products. Relaxing regulations and incentives may allow more insurance companies to participate in bank assurance programmes.

Develop agricultural insurance by investing: The Bangladesh Bank could allocate resources or develop partnerships with private companies to develop and implement technology solutions for data collection and risk assessment in agricultural production activities. This could involve utilising satellite imagery and drone technology to assess crop health and predict potential losses. Integrating

weather data into risk models helps to provide accurate assessments and develop index-based insurance products. There could be encouragement and incentives for the insurance companies to develop parametric (index-based) insurance products that provide pay outs based on objective triggers (like weather data) rather than relying on individual farm-level assessments. This can simplify claim processing and reduce costs.

Facilitate MFIs-banks-insurance companies linkages/partnerships: The Bangladesh Bank could encourage and facilitate partnerships between insurance companies, MFIs and banks to create a more inclusive ecosystem related to insurance services. This could involve joint product development or streamlined referral mechanisms. Bangladesh Bank may create a dedicated fund with low interest rates for MFIs to expand loan offerings (along with insurance coverage) in specific sectors. In addition, facilitating partnerships between MFIs and mobile wallets could be an upcoming task by creating a regulatory framework that enables smooth integration of the above efforts. Bangladesh Bank could develop guidelines or frameworks for profit-sharing agreements between insurance companies and banks, MFIs or other rural financial institutions. These frameworks would ensure fairness and transparency for all parties involved. The Bank could Provide model partnership agreements that address key profit-sharing considerations.

Consolidate courier/postal services: Efforts are needed to explore the feasibility of creating a centralised courier service network incorporating BPO and private courier companies, which potentially requires in-depth study and industry consultations. Expanding financial service offerings at post offices provides a one-stop shop for meeting essential financial needs, particularly for geographically isolated communities. Supporting BPO's alternative lending model allows it to continue reaching those excluded by traditional banks. Consolidating courier services, if deemed feasible, could streamline the sector and potentially benefit both businesses and customers. These measures are likely to strengthen BPO's role as a vital financial service provider for rural communities and contribute to Bangladesh Bank's overall goal of financial inclusion for all.

Streamline the role of Zakat institutions: Policymakers/regulators need to acknowledge the contribution of Zakat institutions like CZM to financial inclusion and poverty alleviation in rural areas. This recognition could encourage further collaboration and support. Bangladesh Bank, in collaboration with relevant religious authorities, could explore the possibility of establishing clear regulatory frameworks for Zakat management institutions. For instance, this could guide: Zakat collection and distribution practices; governance and transparency; risk management; and facilitating capacity building for Zakat institutions. Bangladesh Bank could develop partnerships with NGOs or training institutions to offer capacity-building programmes for Zakat institutions on financial management, project management, human resource development, and encouragement to develop innovative financial inclusion models. The Bank could also support Zakat institutions in piloting and evaluating innovative financial inclusion models.

8.6 Existing Policy Gaps and Required Policy Amendments

For streamlining the supply side, policy interventions are required mainly by the financial sector regulators (e.g. Bangladesh Bank, MRA, and IDRA) in cooperation with related government ministries, market players, and other key stakeholders to handle the policy gaps and required amendments in existing policies for improving rural financing and promoting overall financial inclusion.

8.7 Concluding Remarks

In order to ensure the inclusive and sustainable development of Bangladesh's rural areas—where access to financial services can have a significant impact on the livelihoods and well-being of the poor and low-income households in particular—it is imperative that a healthy rural finance system be fostered. This includes the development of agriculture and the rural nonfarm sector which includes CMSMEs. payment systems, deposit services, loans, insurance, and other supportive policies are only a few of the aspects of rural finance in Bangladesh that show a complicated but promising environment for change in order to guarantee rapid development. In order to enable effective transactions and guarantee that rural communities may fully engage in the country's financial ecosystem, payment systems are essential. By leveraging technology and expanding infrastructure, it is possible to enhance the accessibility and reliability of payment services in remote areas. Policies that incentivise savings can contribute to greater financial stability and creating profitable economic opportunities for rural households.

Access to credit is essential for empowering the rural entrepreneurs and supporting agricultural activities. Customised and targeted loan products and inclusive lending practices, supported by innovative financing mechanisms, can help overcome traditional barriers and stimulate local economies. Microinsurance services provide safety nets against risks and uncertainties that are particularly pronounced in the rural settings. Expanding access to affordable insurance products can protect the farmers and rural CMSMEs from economic shocks and contribute to more sustainable agricultural practices and enterprise development.

Finally, comprehensive support services, including financial literacy programmes and targeted policy initiatives, are critical for maximising the impact of these financial services. By addressing the unique needs and challenges of rural communities, it is possible to create a more inclusive financial environment that drives rural growth and development.

The integration of the above elements into a cohesive strategy requires collaboration among policymakers, financial institutions, and community organisations. Policy coordination among Bangladesh Bank, BSEC, IDRA, MRA, and all relevant ministries is crucial for a successful transformation of the rural finance system. Operational networking amongst banks, NBFIs, insurance companies, MFIs, and other rural financial institutions along with their effective and efficient linkage arrangements for financing of agriculture and CMSMEs would be crucial towards achieving the facilitating finance ecosystem for the country's rural economy and society.

Chapter 9

Implications of Major Findings and Recommendations

9.1 Implications of Major Findings

A sound, dynamic, and expanding rural economy requires a financial system that effectively moves finance from surplus spending units to deficit ones that lack funds but are willing and able to pursue profitable investment opportunities. This is the fundamental premise of the Comprehensive Rural Finance Study (CRFS). Successful efforts in such processes speed up rural economic growth and development by increasing investments in both agriculture and the rural nonfarm sector, which includes CMSMEs as well. Small and big formal and informal financial institutions that offer small-scale financial services to farmers and rural impoverished people, as well as larger-scale financial services to agro-processing and other CMSMEs, make up Bangladesh's rural finance sector. In Bangladesh, a broad range of MFIs and other financial institutions are also involved in rural finance.

Bangladesh's financial sector, particularly the banking sector, has expanded significantly since its independence in 1971. However, the rural financial sector has expanded rather slowly in comparison with financial needs, even though the government has undertaken various policies and implemented different measures to improve the access to finance in rural regions. However, despite being the main drivers of rural growth in Bangladesh in terms of employment, GDP contribution, and the creation of more promising opportunities for inclusive development, CMSMEs and marginal, small, and medium farmers—the so-called ‘missing middle’— still continue to have limited access to essential financial products and services.

From the survey findings covering the rural communities and enterprises, a consensus seems to have become strong which indicates that many of the low income farming and non-farming households and CMSMEs can and do actually save, invest and repay their loans in a timely manner. They need access to financial services, particularly:

- Deposit facilities with flexible rules and procedures suited to their convenience for accumulating and safe keeping of their savings for use in consumption smoothing, meeting crises and emergencies, and self-financing of economic operations;
- Credit for consumption smoothing, meeting crises and emergencies, and financing of their production/income generating operations;
- Payments services (both conventional and digital) for making essential transactions; and
- Insurance services for crisis-coping and risk mitigation, social security and loan protection.

For the future, it would be important to accelerate the savings and credit cycle of the rural households and enterprises by enhancing savings or credit as the first entry point (as appropriate) and initiate sustainable rural financial institution-building.

In order to contribute to the country's national development goals, Bangladesh Bank needs to provide improved financial and related non-financial services (e.g. in collaboration or partnership with relevant stakeholders) in the rural areas in a more efficient and comprehensive manner covering all sections in the rural society. This requires an effective system of a variety of rural financial institutions that are accessible to all segments of the rural population. Thus, the need for Bangladesh Bank is to develop a systems approach to providing rural financial and related services. This will help

to substantially expand the frontier of institutional sustainability of the rural financial institutions along with expanding the outreach to the rural people especially the poor and smaller rural enterprises.

In practice, the rural areas need different types of financial institutions and strategies. Moreover, these institutions must be tailored to the potential of the location, cultural environment and specific requirements of the clients. There are marginal and depressed locations (e.g. haor regions, char areas, coastal belts etc.) with the predominance of home-based agriculture and low-return activities. In these locations, sub-branches, agent banking outlets, MFS and technology-enabled financial services, small cooperatives or informal groups, which are savings-oriented and operate at nominal costs, may be the most suitable entry points.

In the high potential locations with high-return agriculture and profitable rural CMSME activities, credit-oriented banks/NBFIs/MFIs, DFS/MFS, along with required professional business development/management services and technical support facilities (which may be privately or community-owned), large financial cooperatives, agent banking, and bank branches with individual or group technologies may be more appropriate.

Thus, Bangladesh Bank needs to promote variety and competition rather than replicate any single model at all rural locations depending on specific situations. This may include: (i) local financial institutions (e.g. local cooperatives/informal/self-help groups) including grassroots financial organisations; (ii) mainstreaming savings and credit cooperatives; (iii) supporting networking and apexing among MFIs; (iv) establishing formal cooperatives and their apex organisations; (v) transforming credit programmes into user-owned institutions; (vi) linking banks with MFIs and cooperative groups; (vii) promoting government sponsored/commercially-operated apex organisations for refinancing MFIs along with performing additional functions e.g. liquidity exchange, credit rating, credit guarantees and reinsurance; (viii) supporting traders, processors and suppliers' credit and promoting their access to refinancing institutions; (ix) promoting institutional innovations, such as (micro-) leasing companies; and (x) strengthening microfinance supervisory and monitoring capacity of MRA. In this respect, a comprehensive policy agenda may be devised and adopted that would stimulate and improve the financial linkages among the Bangladesh Bank, banks/NBFIs, MFIs, insurance companies and other financial institutions at each level of their operations to enhance financial inclusion and credit and other financial flows, improve risk management, and thrive service integration among rural households and enterprises. A related issue that has been emphasised in the study is the consolidation of the activities and financial operations of the Bangladesh Post Office and courier service companies as well as the formal/informal Zakat institutions for the benefit of the low income rural households and enterprises.

A conducive policy environment is a prerequisite for an efficient rural financial system and inclusive rural development. In this context, the following are of particular importance: (i) macroeconomic stability; (ii) deregulated, efficient and flexible markets as determinant of interest rates, exchanges rates and agricultural prices; and (iii) a legal system that protects property and land-use rights, autonomy of financial institutions and regulatory authorities, and due legal process.

For moving forward along these lines, prudential regulation and supervision of financial institutions is crucial for the evolution and stability of the rural financial system. Without properly regulated local financial institutions, which mobilise savings and attract private capital, there can be no sustainable rural development. The above needs adoption of appropriate legal forms of local financial institutions, development of self-regulatory organs of MFI networks, as part of a delegated system of self-regulation and supervision under a central financial authority, and adoption of prudential norms and standards. Bangladesh Bank will no doubt have to take the lead role in all the above respects.

The following section provides a summary of the major recommendations of this CRFS as detailed out in the previous sections as well as in the background and policy reports/briefs and other accompanying reports.³¹

9.2 Major Recommendations

The summary of major recommendations has been provided in a tabular format at the beginning of this report. For a comprehensive summary, see the analytical report titled ‘Pathways to Smart and Inclusive Rural Bangladesh: Key Recommendations for Reshaping Rural Finance’ of CRFS and the respective background papers, policy papers/policy briefs and related publications, the list of which is given at Annex 1.

³¹ For a complete list of these documents, see Annex 1. As envisaged in the ToR of the study, a review of the existing policies of Bangladesh Bank and other relevant ministries/agencies of the government and suggested adjustments/modifications as well as existing policy gaps and proposed actions have been detailed out in ‘Changing Face of Rural Finance in Bangladesh: Achievements and Future Challenges’, Background Report No. 2025-01; and ‘Supply Side Analysis on Comprehensive Rural Finance’, Background Report No. 2025-07, Comprehensive Rural Finance Study, Institute for Inclusive Finance and Development (InM), June 2025, Dhaka. A summary of these have been provided in this Report As well.

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Annex 1

List of Reports under the Comprehensive Rural Finance Study

Sl. no	Title	Reference No.
Analytical and Survey Report		
1.	Reshaping Rural Finance in Bangladesh: Key to Building Prosperous, Equitable and Inclusive Rural Society	Study Completion Analytical Report: Summary Results and Major Recommendations
2.	Pathways To Smart and Inclusive Rural Bangladesh: Key Recommendations for Reshaping Rural Finance	Comprehensive Summary of Major Recommendations
3.	গ্রামীণ বাংলাদেশে অন্তর্ভুক্তিমূলক উন্নয়ন প্রসারে আর্থিক খাতের সমস্যা ও চ্যালেঞ্জ: ভবিষ্যত যাত্রা পথের জন্য কৌশলগত সুপারিশের সারসংক্ষেপ	Analytical Summary Report in Bangla: Major Findings and Recommendations
4.	Bangladesh: Report of the Rural Finance Survey 2023	National Survey Report
Policy Paper and Policy Brief		
1.	BANGLADESH: Review of Rural Finance System and Policy Implications	Policy Paper No. 2025-01
2.	Access to Finance: The Smart Vehicle of Empowerment for Vulnerable Communities in Bangladesh	Policy Brief No. 2025-01
3.	Dynamising Rural Enterprises in Bangladesh: Access to Finance is the Key	Policy Paper No. 2025-02
4.	Financing Industry Based Clusters in Rural Bangladesh	Policy Paper No. 2025-03
5.	Rural Women Entrepreneurship and Access to Finance: Challenges and Opportunities in Bangladesh	Policy Paper No. 2025-04
6.	Access to Finance of Rural Farming Households in Bangladesh: Challenges and Opportunities	Policy Paper No. 2025-05
7.	বাংলাদেশের গ্রামীণ নারী উদ্যোক্তাঃ সফলতার পথে চ্যালেঞ্জ এবং অর্থায়নের ভূমিকা	নীতি সংক্ষেপ ২০২৫-০১
8.	বাংলাদেশে গ্রামীণ কৃষি পরিবারের অর্থায়নঃ সুযোগ, চ্যালেঞ্জ ও সম্ভাবনা	নীতি সংক্ষেপ ২০২৫-০২
Background Report		
1.	Changing Face of Rural Finance in Bangladesh: Achievements and Future Challenges	Background Report No. 2025-01
2.	Financial Needs of Selected Marginalised and Vulnerable Communities in Bangladesh	Background Report No. 2025-02
3.	Access to Finance for Rural Entrepreneurs in Industry Based Clusters of Bangladesh	Background Report No. 2025-03
4.	Access to and Use of Financial Services by Rural Entrepreneurs in Bangladesh	Background Report No. 2025-04

5.	Access to Financial Services by Rural Women Entrepreneurs in Bangladesh	Background Report No. 2025-05
6.	An Overview on Rural Finance in Bangladesh Structure, Policies and Priorities	Background Report No. 2025-06
7.	Supply Side Analysis on Comprehensive Rural Finance	Background Report No. 2025-07
8.	Access to Finance of Farming and Non-farming Households in Rural Bangladesh	Background Report No. 2025-08
9.	Penetration of Agent Banking and Mobile Financial Services in Rural Areas of Bangladesh	Background Report No. 2025-09
10.	Regional Variation in Access to Finance by Rural Households in Bangladesh	Background Report N0. 2025-10

Report Availability

This publication, along with all other background papers of the Comprehensive Rural Finance Study (CRFS), is available in digital format on the official website of Bangladesh Bank.

To access and read the full reports, please visit:

Website: www.bb.org.bd