

Supply Side Analysis on Comprehensive Rural Finance



Bangladesh Bank

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BANGLADESH BANK

JULY 2025

This report has been prepared by InM as a background paper of the Comprehensive Rural Finance Study (CRFS) with the support of Bangladesh Bank. The findings in this report may be quoted as reference, with due acknowledgement to Bangladesh Bank. The views expressed in this report are entirely of the authors and do not necessarily reflect the views of Bangladesh Bank.

Comprehensive Rural Finance Study (CRFS) Background Report No. 2025-07

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The authors are grateful to Bangladesh Bank, especially to the Chief Economist's Unit and Project Implementation and Co-ordination Committee (PICC) members who gave extensive comments and suggestions on the initial drafts of the Report. The views expressed in this Report are entirely those of the authors and do not necessarily reflect the views of Bangladesh Bank, InM or any other affiliated organisation.



Institute for Inclusive Finance and Development (InM)

July 2025

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Executive Summary

Rural financing plays a crucial role in enhancing rural livelihoods and promoting overall economic development in developing countries like Bangladesh. Access to finance is essential for farmers to invest in seeds, fertilizers, 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. Despite the importance of rural finance, it commonly faces challenges covering limited access to formal financial services; the dominance of informal financing activities; and institutional perceptions related to high risks. Appropriate policy approaches are crucial for effective rural financing that influences supportive institutional and regulatory framework; and targeted inclusive financial products and services.

‘Institution level analysis’ is part of a broad study that has been undertaken in view of the importance of the rural financial system in shaping the rural transformation pathways for transforming Bangladesh into a smart and high-income country by 2041, the study has undertaken extensive primary surveys covering quantitative and qualitative dimensions supported by review of secondary research and policy documents to provide a comprehensive overview of the financial status of rural population and enterprises in terms of relevant indicators. In addition to a comprehensive national level Rural Finance Survey (RFS), the study has conducted region wise analysis, sector-wise analysis, occupation-wise analysis, cluster-based analysis, institution-level analysis, agent banking users’ analysis, and mobile financial services (MFS) users’ analysis employing representative number of samples covering both quantitative and qualitative indicators.

The report includes an analysis at the institution level of the financial sector. The goal is to comprehend the features of existing financial products and services (credit, insurance, savings, mobile financial services, agent banking, etc.), their shortcomings in terms of reaching target groups as perceived by the providers, and their perceptions on how to create suitable, sustainable, and user-friendly financial products and services for the underserved and marginalised rural population groups and rural enterprises.

Fostering healthy rural finance systems is pivotal for the economic development of rural areas of Bangladesh, where access to financial services can significantly impact livelihoods and community well-being. The survey on various facets of rural finance - encompassing payment systems, deposit services, loans, insurance, and other supportive policies - reveals a complex yet promising landscape. Payment systems play a crucial role in facilitating efficient transactions and ensuring that rural populations can participate fully in the financial ecosystem. By leveraging technology and expanding infrastructure, it is possible to enhance the accessibility and reliability of payment services in remote areas. Policies that incentivize savings can contribute to greater financial stability and future economic opportunities for rural households.

Access to credit is essential for empowering 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 a safety net against risks and uncertainties that are particularly pronounced in rural settings. Expanding access to affordable insurance products can protect farmers and rural CMSEs from economic shocks and contribute to more sustainable agricultural practices.

Finally, comprehensive support services, including financial literacy programs and targeted policy initiatives, are critical for maximizing 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 growth and development.

The integration of these elements into a cohesive strategy will require collaboration among policymakers, financial institutions, and community organisations. Policy coordination among BB, BSEC, IDRA, MRA, and GoB ministries is a crucial need. Operational networking amongst Banks, NBFIs, Insurance Companies, MFIs, and their linkage arrangements for financing of the agriculture and CMSEs would be effective.

Supply Side Analysis on Comprehensive Rural Finance

1. Introduction

Rural financing plays a crucial role in enhancing rural livelihoods and promoting overall economic development in developing countries like Bangladesh. Rural areas in developing economies are often characterized by agricultural economies where a significant portion of the population depends on farming for their livelihoods. Access to finance is essential for farmers to invest in seeds, fertilizers, 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. Efficient rural financing is associated with supporting agricultural productivity, and thus food security. It is widely recognized 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.

Despite the importance of rural finance, it commonly faces challenges covering limited access to formal financial services; the dominance of informal financing activities; and institutional perceptions related to high risks. Lack of access to formal financial services are mainly associated with geographic remoteness, inadequate infrastructure, and low financial literacy. Informal lending practices dominate in rural areas, often with high interest rates and limited consumer protection. A section of financial institutions also perceives rural lending as risky due to factors such as unpredictable agricultural yields and lack of collateral.¹ Especially, banks and financial institutions are reluctant to accept the risks prevalent in the agricultural sector, such as droughts, floods, pests, and diseases, or the transaction costs of covering large geographical distances. Consequently, although governments are now making efforts to attract investment in agriculture, the lack of understanding of the financial risks and opportunities in agriculture deprives the sector of much-needed funds to boost production, processing, and marketing. Policies should aim to improve smallholder farmers' access to finance by promoting innovative and customized financing mechanisms.² (Bui TD et.al, 2021).

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 specialized 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 often the backbone of rural economies. Therefore, policies should support agricultural financing mechanisms, such as subsidized loans for farmers, crop insurance schemes, and agricultural extension services. MSMEs are significant contributors to rural employment and income generation. Policies should facilitate access to credit for MSMEs through simplified loan procedures, collateral alternatives, and capacity-building programs.³

¹ World Bank (2022) Financial Inclusion-Overview: <https://www.worldbank.org/en/topic/financialinclusion/overview>

² Bui TD, Tsai FM, and Tseng ML (2021) Sustainable supply chain management towards disruption and organisational ambidexterity: a data driven analysis: <https://doi.org/10.1016/J.SPC.2020.09.017>

³ United Nations (2023) Promoting Inclusive Financial Systems in Rural Areas: <https://www.un.org/en/financialinclusion/rural-areas>

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 incentivizes 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.⁴

Targeted and innovative financial products might be particularly useful for effectiveness and to address the barriers of rural financing. As recent evidences reveal, mobile financial services and digital payment systems are particularly transformative in overcoming geographic barriers. Promoting financial literacy programs and digital financial services can improve rural communities' access to and usage of formal financial services. Loan products designed for rural areas must be tailored to meet the specific needs and constraints of rural populations. Flexible Loan Products should accommodate irregular income patterns typical in agriculture and seasonal businesses. Given the often-limited tangible assets in rural areas, financial institutions should accept alternative forms of collateral, such as group guarantees or agricultural produce. Affordable microfinance might have vital roles in providing small loans to rural entrepreneurs that are designed with low transaction costs and interest rates to remain affordable for low-income borrowers. Further, micro insurance solutions are expected to protect against crop failure, livestock diseases, and natural disasters to mitigate risks for farmers and encourage investment in productive assets.⁵

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. Despite its declining contribution to national GDP, agriculture still provides more than 40 per cent of total employment in Bangladesh, and it plays a vital role in promoting the growth of manufacturing and services. An estimated 85 per cent of the poor population lives in rural areas. Agricultural development is crucial for improving livelihoods of the rural poor-generating employment, increasing household income, and reducing poverty.⁶

2. Scope, Coverage and Methodology

‘Institution level analysis’ is part of a broad study that has been undertaken in view of the importance of the rural financial system in shaping the rural transformation pathways for transforming Bangladesh into a smart and high-income country by 2041, the study has undertaken extensive primary surveys covering quantitative and qualitative dimensions supported by review of secondary research and policy documents to provide a comprehensive overview of the financial status of rural population and enterprises in terms of relevant indicators. In addition to a comprehensive national level Rural Finance Survey (RFS), the study has conducted region wise analysis, sector-wise analysis, occupation-wise analysis, cluster-based analysis, institution-level analysis, agent banking users’ analysis, and mobile financial services (MFS) users’ analysis employing representative number of samples covering both quantitative and qualitative indicators.

The coverage of the study spans various financial products and services ranging from loans, savings, investments, remittances, and insurance services. The study also captures 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

⁴ World Bank (2022) Financial Inclusion-Overview: <https://www.worldbank.org/en/topic/financialinclusion/overview>

⁵ Asian Development Bank (2022) Rural Finance: Issues, Design, and Best Practices: <https://www.adb.org/publications/rural-finance-issues-design-best-practices>.

⁶ ADB (2023) Bangladesh’s Agriculture, Natural Resources, and Rural Development Sector Assessment and Strategy, March 2023, Asian Development Bank, Manila, Philippines.

traditional and digital), and explore the implications of the households and enterprises in using these services. Based on the findings, the study targets to provide a comprehensive policy paper - including a number of background papers, policy notes/briefs, and other policy outputs - to provide evidence-based inputs for designing effective policies on rural finance by the Bangladesh Bank and other policy makers covering the next one and a half decade.

Institution level analysis has been incorporated in the study as a crucial part of the adopted integrated approach. The goal is to comprehend the features of existing financial products and services (credit, insurance, savings, mobile financial services, agent banking, etc.), their shortcomings in terms of reaching target groups as perceived by the providers, and their opinions on how to create suitable, sustainable, and user-friendly financial products and services for the underserved and marginalised rural population groups and rural businesses.

The component is based on both primary data and secondary data. Policy documents and some secondary published literature were reviewed. In order to identify policy, regulatory, and other pertinent issues related to designing and delivering financial services channels for the underserved and excluded groups in rural areas, InM arranged a series of consultation meetings with relevant financial institutions in March 2024, including Bangladesh Bank, IDRA, MRA, BTRC, banks/NBFIs, fintechs, PKSF, MFIs, insurance companies and associations, BPO, SME Foundation, trade bodies and associations, SDF, and other agencies. Four consultative meetings were organized to draw information/opinions. These consultation meetings' main goal was to compile the knowledge and insights gained by pertinent financial sector organisations that design and provide financial services and products (such as credit, insurance, savings, mobile financial services, agent banking, etc.).

Consultative Meeting 1: The first consultative meeting was conducted with the participation of the representatives from leading state-owned commercial banks (SOCBs) and specialized banks (SBs) which included: Sonali Bank PLC, Agrani Bank PLC, and Palli Sanchay Bank at the Bangladesh Investment Development Authority (BIDA) Conference Room in Agargaon, Dhaka.

Consultative Meeting 2: The second consultative meeting was conducted with the participation of the representatives from selected leading private commercial banks (PCBs) and Non-bank Financial Institutions (NBFIs) which included: BRAC Bank, City Bank, Trust Bank, IFIC Bank, UCBL, IBBL, Al-Arafah Islami Bank, First Security Islami Bank, DBH.

Consultative Meeting 3: The third consultative meeting was conducted with the participation of the representatives from selected leading MFS and FinTech. Participants from bKash, iFarmer, Zaytoon took part in the meeting.

Consultative Meeting 4: The fourth consultative meeting was conducted with the participation of representatives from selected leading NGOs, MFIs and Insurance Companies. Participants from Shakti Foundation, Padakkhep, Grameen Bank, BRAC, ASA, TMSS, IDF, Metlife Bangladesh, Jibon Bima Corporation, Pragati Life Insurance.

Consultative Meeting 5: The fifth consultative meeting was conducted with the participation of representatives from regulators and other selected key stakeholders. Participants from Bangladesh Post Office, BARD, PKSF, SDF, Department of Cooperatives, Center for Zakat Management, BIBM.

3. Policy Approach to Facilitate Rural Finance in Bangladesh

Agriculture, micro and small enterprises, and insurance related policy documents are directly associated with rural development and financing. In the front of agriculture in Bangladesh, as a whole, agriculture-related policy documents cover the development of crops, livestock, fishery, environment and forestry. The National Agriculture Policy 2018 offers appropriate recommendations

for a range of development initiatives pertaining to crops, the major agricultural industry. The Policy's overarching objective is to attain sustainable food and nutrition security as well as safe, profitable agriculture. Along with several other agriculture related issues, the objectives of the documents include increasing the production of crops, assisting farmers with production and marketing, promoting agriculture exports, ensuring agricultural marketing, and creating agricultural commercialization that has direct relevance for financing. The goals of the National Livestock Development Policy 2007 are to: increase private sector participation and investments in livestock production, livestock services, market development, and export of livestock products and by-products; support long-term improvements in income, nutrition, and employment for landless and small and marginal farmers; and support sustainable improvements in the productivity of milk, meat, and egg production, including processing and value addition. The policy framework aims to make it easier for people to get credit and to create community based organisations that work with NGOs, commercial banks, and insurance companies to help small-scale livestock farmers, including poor women, get the right livestock credit packages delivered right to their doors. Regarding fisheries, 'National Fisheries Policy 1998' identified targets to enhance fisheries resources and production, and vows to give priority to institutional loans to the sector. It also mentioned, facilities such as credit with low rates of interest, tax rebates, and tax holiday might be offered, establishment of a Fisheries Bank for extension of credit on easy terms.

Bangladesh Bank formulated yearly 'Agricultural & Rural Credit Policy and Program' to determine rural and agricultural credit disbursement targets, sectoral distribution of credit in the crops, fisheries, and livestock sectors, and their implementation using institutional arrangements in the country that have strong relevance for poverty alleviation. In line with the GoB's supportive policy approach for the agriculture sector, the exiting 'Agricultural & Rural Credit Policy and Program 2023-2024' targets to distribute BDT 35000 agricultural and rural credit in the year. Agricultural credit disbursement target of TK. 35,000.00 crore for FY24 is 13.60 percent higher than that of FY23 and 6.61 percent higher than actual disbursement in FY23. The existing policy added several newer areas for financing, rationalized 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 Somobay Bank identified 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 facilities⁷ to support the sector and the farmers. BB also offered licenses to new branches specifically to finance the priority sectors like agriculture. And, for the temporary job of 'Agri Credit Supervisor (Contractual', banks were told to hire experienced people from NGOs and MFIs (ACD Circular (No 01 issued on 22 June 2023). This was done to make sure that agriculture loans were used correctly.

⁷ For example, BB formed a refinance scheme of TK. 5000 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 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.

On the industry front, the main objective of the National Industrial Policy 2022 is to economically enrich Bangladesh, increase sector-wise productivity, and achieve excellence in the quality of manufactured products by embracing the technological advantages of the fourth industrial revolution along with labour-intensive industrialization using domestic raw materials and resources. Strengthening the infrastructure of the industrial sector, building a social security system and removing infrastructural barriers to accelerate private investment and economic growth, developing human resources, making government institutions profitable, etc. have been prioritized in this policy.⁸ It is not the big industrial units rather micro and small enterprises that are truly relevant for rural development and financing i.e. several provisions of the ‘SME Policy 2019’ is a relevant policy document. Regarding the credit or financing issues of the agriculture and rural value chain, both the agriculture credit and SME or CMSME loans are very much within the scope. In line with the country's long-term planning document, the government of Bangladesh has been working to improve MSMEs’ access to finance and financing gap through multiple channels. ‘Increasing Scope of Access to Finance in SME sector’ (strategic goal-2 with tools), and ‘SME Cluster-based Enterprises Network development and expansion’ (strategic goal-5 with tools)⁹ have been identified as part of the strategic goals. Strategic goal-2 of the policy identified the following specific strategies to support CMSEMs: Boost the flow of finance to the small and medium-sized business sector; Encourage financial access to SME-related developments and establish the nation's first "SME Bank"; Enhance the current refinancing program to give SMEs loans at lower interest rates; improve the Credit Wholesaling (CWS) initiative to guarantee low interest rates and simple access to credit for SME loans; Create a fund for SME credit guarantees.

Bangladesh Bank’s CMSME related circulars are particularly relevant. Banks and financial institutions were encouraged to receive group security/social security in SME financing by the central bank. By 2024, banks and non-bank financial institutions are expected to have at least 25 percent of their net outstanding loans and advances as SME, with an annual improvement of at least 1 percent. BB has implemented incentive schemes for SME women entrepreneurs and banks/financial institutions to encourage women entrepreneurs to take out SME loans and repay them in a timely manner. Banks and FIs are instructed to disburse 50 percent of the total SME loan to Cottage, Micro, and Small sector by 2024. New Entrepreneurs Refinance Scheme allows collateral security free financing of more than TK. 1.00 million on case to case basis and collateral security supported financing up to TK. 2.5 million for New Entrepreneurs. To expedite cluster-based financing to SME Sector, Banks & FIs are advised to formulate a cluster development policy for strengthening existing clusters and developing new clusters. Banks & NBFIs have been instructed to maintain at least 15 percent of the net outstanding of total loans and advances for women entrepreneurs and to establish separate ‘Women Entrepreneurs Dedicated Help Desk’ in each branch to ensure loan facilities for women entrepreneurs. If possible, they are also advised to employ a female official at the desk to provide suggestions and services towards women entrepreneurs regarding project preparation, loan application process, etc. Instructions were given to Banks & NBFIs to consider sanctioning loan up to TK. 2.5 million to women entrepreneurs without collateral security but against personal guarantees under the refinance facilities provided by Bangladesh Bank. A borrower-friendly loan application form (in Bengali) has been introduced to expedite the application procedure for entrepreneurs. All

⁸ Bangladesh Economic Review 2023: <https://mof.portal.gov.bd>

⁹ Special programs will be undertaken for the development of weak infrastructures like roads, power, gas, water and communication of existing BSCIC industrial estates and other SME clusters; Considering the importance of SME clusters in national economy, the following strategic tools will be adopted: Strategic Tools; Improve infrastructural facilities at BSCIC industrial estates and SME clusters; Establish Incubation Centre and Common Facilitation Centers (CFC) in industrial estates/ clusters; Arrange collateral free loan at the single digit rate of interest for the potential entrepreneurs of industrial estates/clusters; Increase efficiency and capacity of the entrepreneurs and employees; Expand cluster development and business network to meet developmental needs of clusters (SME Policy 2019 of the GoB).

Banks and NBFIs are advised to find out and train at least three (03) prospective SME Women entrepreneurs who have not received any financing yet per branch and finance at least one (01) of them in each year. Further, to provide access to finance at affordable/reasonable cost and flexible terms and conditions for the SMEs, Bangladesh Bank established a fund amounting to TK.. 25,000 crore which is being channeled to entrepreneurs through eligible (based on specific criteria) participating financial institutions (PFIs). Special credit¹⁰ and other supportive arrangements (capacity enhancement)¹¹ have been undertaken to support and sustain CMSMEs of the country in the context of the Covid-19 devastation.

Strategies and activities by the SME Foundation have been very supportive of the CMSME development, SME cluster development and financing as well. To provide easy credit support, from 2009 SMEF began operating a Credit Wholesaling Program through banks and non-bank financial institutions. SME Foundation has been working to make the national budget SME-friendly, and to improve quality and enhance productivity of SMEs through technology promotion, up-gradation and different related awareness building programs. In order to position women entrepreneurs into the mainstream business women entrepreneurs have been supported directly by the SMEF through special programs like capacity building, skill development, and new business creation programs. SME Foundation has launched ‘SME e-database’ program an initiative to create a database of small and medium enterprises (SMEs), aiming to provide hassle-free services to entrepreneurs and ensure the overall development of the sector. To expand the market of SME products, SMEF has been organizing SME Fairs since 2012. For cluster development, which is essential for efficient cluster financing, SME Foundation has identified 177 SME clusters across the country, and has been engaged in assessments of SME clusters, designing intervention program, and arranging capacity-building programs for clusters to improve skills of the cluster-based SME entrepreneurs.

Microfinance Institutions (MFIs) have been playing a remarkable role in addressing financial exclusion, women empowerment, and rural development and financing. Microcredit Regulatory Authority (MRA), in line with the Microcredit Regulatory Authority Rules, 2010, aligns them with the evolving needs of MFIs. MRA permits larger microfinance institutions to whole sale lending to smaller microfinance institutions with a view to address their funding need and greater access. To align with the vision of Smart Bangladesh- 2041, MRA has undertaken various steps such as providing certificates with QR codes which is expected to ensure more transparency and instant verifying opportunities for any one from anywhere. In addition, MRA has introduced e-payment system with the help of Sonali Bank PLC, which helps all licensed MFIs to send their annual fees, certification fees, and other charges through online. To strengthen the sector, MRA is working on establishing Credit Information Bureau (CIB) with the assistance of Bangladesh Bank. Moreover, MRA has successfully implemented a national database for an online-based data collection system and its secure preservation. MFIs, as providers of agriculture¹² and rural finance, play a vital role in offering access to credit to farmers. Several MFIs have made significant strides in reaching out to

¹⁰ 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).

¹¹ 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.

¹² 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/>).

micro-entrepreneurs and supporting their financial needs. Further, bank-MFI linkages have been contributing to offering agriculture and micro enterprise credit facilities in rural Bangladesh.

Being a low-lying delta, Bangladesh is highly vulnerable to severe events, and microinsurance is particularly relevant for rural financing. The National Insurance Policy 2014 emphasizes the economic and social benefits of insuring life, health, education, factories, residential and office buildings, agriculture, fisheries and livestock, and others. 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.¹³ Article 6 of Chapter II of the Insurance Act of 2010 discussed the insurance industry in the social or rural sectors. As mentioned, each insurer must do a certain amount of life and non-life insurance business in the rural or social sector following the enactment of this Act. In the microinsurance product development front, international agencies have played visible roles. In 2009, ADB supported Government of Bangladesh in expanding its insurance coverage to reach more vulnerable groups through microinsurance to protect the livelihoods of poor households, especially women, from risks, such as accidents, illness, theft, or natural disasters.¹⁴ Recognizing the potential of microinsurance to mitigate these challenges, the GoB, IDRA, and the Swiss Agency for Development and Cooperation (SDC) initiated the Bangladesh Microinsurance Market Development Project (BMMDP) in 2017 and continued till 2023. In Phase-1, BMMDP intended the availability of appropriate products and offering those for index-based crop insurance by primary insurance companies, the identification of a commercially viable livestock insurance model to reduce risk for microfinance beneficiaries, and capacity development in agricultural microinsurance. The project successfully 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. The success of phase-1 indicated a broader approach to address systemic constraints within the microinsurance sector to achieve project goals. Hence, BMMDP Phase-2 (branded as Surokkha) adopted a more comprehensive approach prioritizing improvements in policy, product, and market development of support service, and generating widespread awareness precisely to target crops, fisheries, and livestock in the agriculture sector. By doing so, it aims to catalyze the growth of the microinsurance sector, thereby enhancing resilience to climatic shocks in the agriculture sector.¹⁵

Policy and regulatory initiatives related to financial inclusion and mobile financial services (MFS) have direct implications for rural financing. The BB Financial Inclusion Department (FID) has been actively involved in managing Central Bank policy and regulatory matters related to financial inclusion.

The formulation of 'Financial Literacy Guidelines' is a notable intervention of FID (circulated in March 2022). The guidelines' goal is to empower the country and equip it with the knowledge and abilities necessary to make prudent financial decisions. Rural population particularly needs financial literacy support. National Financial Inclusion Strategy (NFIS-B) targets to achieve the core objective of increasing all adults' financial inclusion to 100 per cent by 2026 where rural financing and mobile financial services (MFS) have notable roles to play covering access, usages, and quality concerns. Payment is the key service of financial inclusive drives, and PSD of BB has been proactive and playing roles in adopting technology and supporting market players in coming up with technology-

¹³ <https://www.lightcastlebd.com/insights/2021/05/evolution-of-micro-insurance-in-bangladesh-financial-cushion-for-the-bottom-of-the-pyramid-population/>

¹⁴ Social Protection Project Review: <https://www.adb.org>

¹⁵ <https://www.swisscontact.org/en/projects/bmmdp-surokkha>

driven payment services. In a recent initiative, Bangladesh Bank licensed Digital Bank. Digital Banks are expected to expand service horizon beyond payment and will offer full-fledged banking services. Only scheduled banks were permitted to conduct MFS operations in accordance with the "Bangladesh Mobile Financial Services (MFS) Regulations, 2018." In the guidelines issued by BB in 2022, Financial institutions and government entities have been allowed to get licenses for MFS business. Nagad Digital Bank and Kori Digital PLC have already given permission to conduct digital banking activities. Promoting Bangla QR is a key area to expand payment in rural Bangladesh. Bangladesh Mobile Financial Services (MFS) Regulations, 2022 started facilitating positive changes. As per paragraph 5 of Bangladesh Mobile Financial Services (MFS) Regulations, 2022 MFIs can disburse loans and receive instalments from their clients through MFSPs. The initiative has been undertaken for the formulation of the National Payment Act. The draft of 'Payment and Settlement Systems Act' has been sent to the Ministry of Finance from Bangladesh Bank in February 2023 for further proceedings. The MFS Regulations have now nearly reached its intended regulatory aims after numerous changes over the years, but it has taken a long period, mostly because of Bangladesh's demographic makeup. Nearly 100 million people, or more than 60 per cent of Bangladesh's total population, live in rural areas. Inadequate on-the-ground technology infrastructure, persons with very poor credit ratings, and a general lack of computer knowledge are all being addressed by policy measures.

4. Challenges of Rural Finance and Policy Recommendations - Outcome of the Consultative Meetings

The outcome of the consultation meetings with the key stakeholders came up with specific outcomes in connection with challenges of rural finance in the country, and certain recommendations suggested by the bank executives and representatives of the key stakeholders/holders may be summarized as follows (sub sections 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, and 4.8).

4.1 Summary Outcome of Consultations with Selected State-owned Commercial Banks (SOCBs) and Specialised Banks (SBs)

State-owned Commercial Banks (SOCBs) and Specialised Banks (SBs) identified the following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.1: Key challenges of rural finance with frequency [in %] as opined by the SOCBs and SBs of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Complex Loan Processing Requirements & Documentation	100%
2.	Low Level of Financial Literacy of the Rural People	100%
3.	Lack of Capacity to offer Effective Rural Financing	100%
4.	Manpower Shortage in Rural Bank Branches	75%
5.	Limited Digital Financial Literacy and Digital Access	75%
6.	Inadequate Financial Products for Rural customers	75%
7.	Greater Difficulties of Women-led CMSMEs	50%
8.	Business/Economic Information Gap among Rural Clients	25%

Table 4.2: Recommendations for handling challenges of rural finance with frequency [in %] as opined by the SOCBs and SBs of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Simplification of Loan Application and Associated Procedures	100%
2.	Promoting Financial Literacy of the Rural People	100%
3.	Capacity Development for Rural Banking	100%
4.	Providing Incentives to Increase Staffs in Rural Branches	75%
5.	Improving Digital Infrastructure and Developing user-friendly Apps	75%
6.	Extending Tenure for Trade Licenses	75%
7.	Developing Targeted Financial Products for Rural Customers	75%
8.	Expanding Islamic Banking Window in Rural Areas	50%
9.	Incentivizing Women-led CMSMEs	50%
10.	Dissemination of Market and Business Information	25%
11.	Developing Cluster-based Lending in Rural Areas	25%
12.	Formulating Clear Policies for startups	25%
13.	Installing Credit Guarantee Scheme for Rural Clients	25%

4.2 Summary Outcome of Consultations with Selected Private Commercial Banks (PCBs) and Non-Bank Financial Institutions

Private Commercial Banks (PCBs) and Non-Bank Financial Institutions (NBFIs) identified following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.3: Key challenges of rural finance with frequency [in %] as opined by the PCBs and NBFIs of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Inappropriate Definition of CMSMEs	100%
2.	Same Documentation Requirements for Big and CMSMEs Loans	100%
3.	High cost of CMSME Lending	100%
4.	Lack of Financial Literacy in Rural Bangladesh	100%
5.	Lack of Digital Financial Literacy and Digital Infrastructure	100%
6.	Requirement of Spouse Guarantee in case of Women Entrepreneur	100%
7.	Trade License Requirements and Its Validity	100%
8.	Complex Loan Processing System	90%
9.	Complex Business Licensing Procedures	90%
10.	Absence of Database Related to Women-led Enterprises	90%
11.	Lack of Appropriate Products for Rural CMSME Clients	80%
12.	Absence of Agriculture and Micro Insurance	80%
13.	Lack of Credit Guarantee scheme for Rural Population	70%
14.	Collateral Settlement System in Case of Default	50%
15.	Unfavorable Taxation and Excise Duty Structures	50%
16.	Lack of knowledge and skills of the bank employees regarding rural finance	50%
17.	Absence of Incentives of the Banks for Working in Rural Areas	40%
18.	Absence of Credit Scoring for Digital Micro / Nano loans	40%
19.	Information gap among the Rural Population	30%
20.	Limited Source of Startup Funding for Rural Areas	30%

Table 4.4: Recommendations for handling challenges of rural finance with frequency [in %] as opined by the PCBs and NBFIs of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Reviewing the Definition of CMSMEs and Offering CMS Special Priority	100%
2.	Simplification of Documentation Requirements	100%
3.	Risk-based Lending Rate for CMSME	100%
4.	Promoting Financial Literacy in Rural Economy	100%
5.	Promoting Digital Financial Literacy and Improving Digital Infrastructure	100%
6.	Removal of the Requirement of Spouse Guarantee	100%
7.	Simplification of Loan Processing System	90%
8.	Streamlining Business Licensing Procedures	90%
9.	Structured Database related to Women-led Enterprises	90%
10.	Designing New Products for CMSME Clients for Rural Areas	80%
11.	Designing Agri / Micro Insurance Products for Rural Population	80%
12.	Introducing a targeted Credit Guarantee Scheme	70%
13.	Capacity building program for CMSME for Woman Entrepreneurs	60%
14.	Explore alternative forms of Collateral Requirement for Rural and Small Clients	50%
15.	Capacity and Skill Development for bank employees regarding rural Finance	50%
16.	Providing Incentives to the Rural Bank Staffs	40%
17.	Developing a Credit Scoring Model for Micro/Nano Loans	30%
18.	Exploring Startup Funding Options for Rural Areas	30%

4.3 Summary Outcome of Consultations with Selected Mobile Financial Services (MFS) and FinTech Companies

Mobile Financial Services (MFS) and FinTech companies identified the following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.5: Key challenges of rural finance with frequency [in %] as opined by the MFS and Fintechs of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Limited Financial Access for Women Entrepreneurs	100%
2.	Lack of Digital Infrastructure	100%
3.	Huge Documentation Requirements	100%
4.	Lack of Financial Literacy and Digital Financial Literacy Training	100%
5.	Absence of Women-Centric Agent Banking Model	100%
6.	Language Barrier in FinTech (English)	100%
7.	Lack of Incentives for Digital Adoption	67%
8.	Inadequate Digital Service Points in Village Areas	67%
9.	Lack of Islamic Microfinance Products	67%
10.	Inadequate Investment in Digital Infrastructure	67%
11.	Insufficient Regulation for Financial Technology	67%
12.	Lack of Branch Network in Rural Areas	33%
13.	Lack of Market Access Support Finance	33%
14.	Insufficient MFI-Bank Linkage for Rural Finance	33%

Table 4.6: Recommendations for handling challenges of rural finance with frequency [in %] as opined by the MFS and FinTechs of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Ensuring Financial Access for Women Entrepreneurs	100%
2.	Designing Low-cost or Subsidized Digital Devices	100%
3.	Simplified Documentation Requirements	100%
4.	Ensuring Financial Literacy and Digital Financial Literacy Training	100%
5.	Developing Women Centric Agent Banking Model	100%
6.	Promoting FinTech in Bangla (like Bangla QR Code)	100%
7.	Incentive Programs for Digital Adoption	67%
8.	Digital Village Banking Initiatives	67%
9.	Designing Islamic Microfinance Products	67%
10.	Invest in digital infrastructure	67%
11.	Develop a Strong Regulatory Framework for FinTech	67%
12.	Expanding Branch Network Optimization	33%
13.	Providing Necessary Support for Proper Market Access	33%
14.	Incentivizing MFI-Bank Linkage	33%
15.	Simplification of e-KYC	33%
16.	Aggregation of Financial Services	33%

4.4 Summary Outcome of Consultations with Selected Microfinance Institutions (MFIs) and Insurance Companies

Microfinance Institutions (MFIs) and Insurance companies identified the following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.7: Key challenges of rural finance with frequency [in %] as opined by the MFIs and insurance companies of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Lack of Financial Literacy of the Rural People	100%
2.	Lack of Digital Financial Literacy and Limited Digital Access	100%
3.	High Interest Rates	100%
4.	Lack of Micro Insurance/Rural Focused Insurance Products	100%
5.	Absence of Separate CIB for MFIs	100%
6.	Proposal for Digital Signatures is Not Yet Approved	100%
7.	Absence of Demand-Driven Product for Rural Areas	80%
8.	High Compliance Burdens	70%
9.	Lack of Effective Environment and Protection for Rural Finance	60%
10.	Absence of Suitable Regulations for Microinsurance for Rural Areas	60%
11.	Absence of Data Sharing and Credit Scoring Framework	50%
12.	Failure of Women-centric Branches	30%
13.	Limited Bank Assurance Partnerships and restricting options for Rural Customers	30%
14.	Complex Claim Process for Government Insurance Schemes in Rural Areas	20%

Table 4.8: Recommendations for handling challenges of rural finance with frequency [in %] as opined by the MFIs and insurance companies of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Supporting Financial Literacy Programs	100%
2.	Increase Investment in Digital Infrastructure	100%
3.	Creating a Central Bank Fund with low interest rates for MFIs	100%
4.	Need a Robust Micro-insurance Policy and Develop Rural Focused Micro-Insurance Products	100%
5.	Need to Introduce a Separate CIB for MFIs	100%
6.	Streamline the Approval Process for Digital Solutions like Digital Signatures	100%
7.	Develop Policies/Products that Encourage Banks to Support MFI Lending	80%
8.	Reducing Compliance Burdens for Rural Finance	70%
9.	Developing a Supportive Regulatory Environment for Rural Finance	60%
10.	Relaxing Regulations and Incentivizing Microinsurance	60%
11.	Developing Policies for Data Sharing and Credit Scoring Framework	50%
12.	Providing Incentives for Women-Centric Branches	30%
13.	Encouraging Partnerships with Micro-insurance Providers to Cater to the Specific Needs of Rural Customers	30%
14.	Facilitating Partnership Formation through the Development a Guideline or Framework for Profit-sharing Agreements between Insurance Companies and MFIs	30%
15.	Streamline the Claim Process for Government Insurance Schemes	20%

4.5 Summary Outcome of Consultations with Financial Sector Regulators

Selected key stakeholders (BB, MRA, BSEC, IDRA, SME Foundation) identified the following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.9: Key challenges of rural finance with frequency [in %] as opined by the regulators of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Inappropriate Definition of SMEs	100%
2.	Lack of Comprehensive SME Development Framework	100%
3.	Obstacles in Agricultural Insurance (Low Technology Adoption, Difficult Data Management)	83%
4.	Continued support is essential for development projects in rural areas	67%
5.	Policy consistency is crucial for SMEs to plan and grow effectively	67%
6.	High Protection Gap (health and agriculture are not covered by insurance)	50%
7.	Lack of Business-oriented Approach to SME Development	50%
8.	Lack of Strong Network at the District Level for Effective Monitoring	33%
9.	Government Banks are not Adequately Lending to Entrepreneurs, Particularly in the Early Stages	17%
10.	Challenges in Providing Adequate Financial Security for Rural Populations	17%
11.	Need to Build Trust and Confidence among Rural People Regarding Financial Products and Services	17%
12.	Lack of Execution of Existing Ideas for Financial Inclusion in Rural Areas	17%
13.	High Cost of Health Insurance	17%
14.	Lack of Stakeholders Involvement / Collaboration	17%

Table 4.10: Recommendations for handling challenges of rural finance with frequency [in %] as opined by the regulators of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Revisiting the Definition of SMEs	100%
2.	Developing a Comprehensive SME Development Framework	100%
3.	Improving Agricultural Insurance Undertaking Measures	83%
4.	Funding Support for Rural Development Initiatives	67%
5.	Developing Predictable and Consistent SME Policies	67%
6.	Developing and Ensuring the Insurance Coverage Specially in the Health and Agriculture	50%
7.	Promoting Business Development Services in the Rural Areas	50%
8.	Greater Collaboration between Bangladesh Bank and MRA	33%
9.	Developing Incentive Packages for Government Banks to Encourage Lending to Early-Stage Entrepreneurs	17%
10.	Collaborate with BSEC on Financial Literacy Initiatives	17%
11.	Promoting Responsible Financial Product Development	17%
12.	Supporting Innovative Financial Inclusion Models	17%
13.	Reducing Health Insurance Costs	17%
14.	Facilitating Stakeholder Collaboration in SME Lending	17%
15.	Promoting Financial Inclusion for Marginalized Groups	17%

4.6 Summary Outcome of Consultations with Other Key Stakeholders

Selected key stakeholders (Bangladesh Post Office, BARD, PKSF, SDF, Department of Cooperatives, Center for Zakat Management, BIBM) identified the following challenges associated with rural finance based on their experiences, and came up with certain recommendations that may be summarised as follows:

Table 4.11: Key challenges of rural finance with frequency [in %] as opined by other Key stakeholders of Bangladesh

Sl. No.	Key Challenges	Responses (%)
1.	Dependence on Informal Loans	100%
2.	Over-Indebtedness and Borrowing from Multiple Sources	100%
3.	Lack of Financial Literacy	100%
4.	Lack of Digitalization	100%
5.	Lack of Suitable and Cost-Effective Loan Products	100%
6.	Lack of SME-Specific, Customized Financial Products	100%
7.	Lack of Market Information and Pricing Deficiencies	83%
8.	Rural and SME Sectors are Hardly Attractive to the Financial Institutions	83%
9.	Lack of Market Research Data on Product Demand for informed Business Decisions by SMEs	83%
10.	Unstructured (no standardization) Repayment Schedules	67%
11.	Lack of Proper Loan Appraisal Processes by MFIs	67%
12.	Information Gaps Regarding Borrower Repayment Capacity	67%
13.	Lack of Capacity of Cooperatives for providing Lending Facility	17%
14.	Absence of Regulatory Framework for Cooperative Lending	17%
15.	Absence of Partnership between cooperatives and Formal Financial Institutions	17%

Table 4.12: Recommendations for handling challenges of rural finance with frequency [in %] as opined by other key stakeholders of Bangladesh

Sl. No.	Recommendations	Responses (%)
1.	Developing Policies for Disincentivizing Informal Loans	100%
2.	Implementing Cluster-based MFI Financing	100%
3.	Supporting Financial Literacy Initiatives	100%
4.	Promoting Digitization through Central Software Design	100%
5.	Facilitation of Refinancing Windows for SME Lending	100%
6.	Promoting Innovative Financial Products for SMEs	100%
7.	Promoting Financial Management Training for Borrowers	83%
8.	Developing Targeted Credit Guarantee Schemes	83%
9.	Facilitating Data Collection and Analysis	83%
10.	Standardizing Core Repayment Structures	67%
11.	Strengthening MFI Loan Appraisal Standards	67%
12.	Encouraging Product Innovation and Testing	50%
13.	Encouraging Loan Programs with Support Services	50%
14.	Exploring CSR Funding Options	33%
15.	Developing Capacity Building Programs for Cooperatives	17%
16.	Facilitating Regulatory Framework for Cooperative Lending	17%
17.	Exploring Partnership Opportunities Between Rural Cooperatives and Financial Institutions	17%
18.	Supporting Capacity Building for Banks	17%
19.	Formulating a National SME Development Strategy	17%

4.7 Elaborations of the Key Challenges Identified - Summary Outcomes of the Consultation Meetings

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. Truly medium-sized businesses don't need all the support that a small one needs. For a micro or small business in the rural areas, it is very difficult to get the required financial data in a given 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.¹⁶ 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 license is required from the concerned authority to start a business. To the rural borrowers, high collateral requirements and complicated paperwork as barriers to accessing credit, as opined in the consultation meeting. Further, proof of submission of tax return is a complicated issue. Sometimes, it is not easy for cottage, small, and micro clients to submit proof of tax return. Use of too many paper-based charges/ legal documents cause inefficiencies and delays.

¹⁶ SMESPD Master Circular on CMSMEs 2 – 2019

Manpower shortage in the 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, as claimed by a section of bank executives.

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 utilize digital financial services in the country. Rural borrowers are hesitant to use eKYC due to security concerns. Rural areas lack the infrastructure and resources to take financial initiatives.

Lack of financial literacy and financial awareness: Lack of financial literacy is a key challenge in the country. It is associated with the popularity of indirect mode of financing in the country, and informal lending/financing activities in rural Bangladesh. There is limited public awareness about accessible financial products, even with low minimum deposit requirements (e.g., 10-taka accounts). 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 might 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 loans: 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 small businesses. Farmers who can't get bank loans might turn to MFIs which commonly have less favorable terms including high interest rates.

Inadequate training for bankers and MFI staff: Banks/MFIs recognize the need for training not only for the public but also for bankers and MFI staff to effectively guide clients on digital financial products and services. MFIs often lack proper loan appraisal processes. In several instances, MFI staffs cannot adequately analyze an entrepreneur's cash flow, creditworthiness, or assets and liabilities before issuing loans.

Limited microinsurance options for rural population: 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 (like MFIs).

Obstacles 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 microinsurance products.

Absence/lack of 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 agriculture/farm sector financial products like ‘Loan against Warehouse Receipt’ or ‘Warehouse Receipt System’ failed¹⁷ or could not be introduced in the country to date.

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; 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 may not always perform. 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 of the country are immature and generally feature a low level of cooperation and sharing; lack of linkages; absence of the usage of modern technology; nonexistence of supply chains; lack of arrangement of the universities and research organisations; and deficiency of expenditures on research and development.¹⁸ However, there is huge potential for developing clusters in the SME sectors of Bangladesh.

Information gaps regarding borrower repayment capacity: In several instances, banks/NBFIs, and MFIs do not have sufficient data on loan assessment or specifically to identify willingness or ability to repay.

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 lack of dedicated funds for startups.

Renewal hurdles of trade licenses: Yearly renewal of trade licenses for a CMSME business is troublesome. 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 of the consultation meeting acknowledge the risk of fraud when farmers or women entrepreneurs rely on agents for transactions, potentially exposing their personal information.

Ineffective credit guarantee scheme: Clients of rural and agricultural financing hardly offer benefits from the existing credit guarantee schemes. To get support from the credit guarantee scheme, prior registration is required. It is also observed that it takes more time to the loan 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 micro or small business entities. Sometimes, rural borrowers borrow from multiple sources without the information of the lending entities. All these are risky in terms of business sustainability and repayment capability of the rural borrowers. In several instances,

¹⁷ 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.

¹⁸ 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.

borrowers are unable to continue their businesses and repay loans due to the challenge of loan continuity or renewal.

Inadequate bank loan share of rural and SME sectors by banks: With most credit concentrated in corporate areas like Dhaka and Chattogram; banks' current structures and models are not well-suited to reach rural and SME borrowers, making lending cost-ineffective.

Concerns about central bank pressure: All banks are equally treated in terms of imposing the Central 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 and reflecting efficiency.

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 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 socio-economic dynamics of their communities and can provide quicker, less bureaucratic assistance. This 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 difficulty for formal financial inclusion.

4.8 Elaborations of Policy Recommendations-Outcome of the Consultation Meetings

Reviewing definition and scope of SMEs/CMSMEs: It is important to look at what defines a small business, considering different industries. The 'Medium' should be categorized separately, or it should be excluded from the SME 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 it captures businesses with high growth potential. It is probably more realistic to treat cottage, micro, and lower-tier small enterprises as a distinct separate category from the upper tier of small and medium enterprises for setting financing targets for banks/NBFIs. In the case of trading business, TK. 20 crore + business turnover is probably too low for not considering under CMSMEs in the present context. Cottage, micro, and small (CMS) should get adequate support.

Simplification of the financing processes and documentation requirements: Offering simplified account opening processes with minimal documentation requirements, and designing low-cost or subsidized mobile devices are basic needs. As part of the simplification of loan procedures, banks/NBFIs should 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 CMSME should not be the same, and should be changed. Document requirements can be set based on the exposure (loan size) basis. It is crucial to review and streamline loan application processes to reduce unnecessary documentation burdens for rural borrowers. Trade license validity should be extended. Trade IT is important to ensure license issuance automation &

open access for banks to verify through open API connectivity. Trade license digital issuance might be for 5 Years with low charge for CMSMEs and rural borrowers.

Rural development strategy with information & market access: The central bank could collaborate with government and development agencies to create a rural development strategy based on market forces and resource availability. This could involve identifying potential business clusters and providing infrastructure and support tailored to each cluster's needs. For promoting rural finance with information and market access, formal financing entities should introduce microloans and lines of credit specifically suited for digital businesses, with easier application processes. Banks/NBFIs should be encouraged to incentivize 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 should 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 deployment of staff capacity in rural branches: More resources are required to improve staffing levels in rural bank branches, particularly for loan supervision. Incentive programs 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 central bank could work with banks to develop a strategic branch network expansion plan, prioritizing underserved rural areas while considering alternative service delivery models like digital booths. The central 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 designing customized products for rural clients: Developing CSME loan products with risk-based pricing and easier qualification criteria to incentivize participation. Policymakers and financial institutions should work to develop alternative financial products for homemakers that cater to their specific needs and spending habits; and should explore microloans, savings accounts with reward programs, or prepaid cards. Financial service offerings may be expanded by facilitating partnerships between BPO and banks to offer a wider range of financial services at post offices, such as direct deposits, pension disbursements, and government bill collection. The central bank could establish guidelines for financial institutions to develop investment products tailored to the risk tolerance and financial needs of rural investors. Policymakers should work on designing and popularizing recognized agricultural loan products like the 'Warehouse Receipt System'¹⁹ targeting farmers and small producers of the Country. Policy support is needed for rural financial products. The central bank can introduce programs or incentives that encourage financial institutions to develop financial products specifically designed for rural businesses and seasonal agricultural needs, such as IDF's crop-based financing.

¹⁹ 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>).

Cluster development and cluster-based financing: The cluster approach is useful for both small agriculture enterprises and CMSMEs. Cluster development initiatives can unlock opportunities for improved access to finance, enhanced productivity, and sustainable growth along the value chain. The collateral-related issues that CMSEs and small farm businesses frequently face could be effectively addressed through a true clustering approach. It is good to see that in recent times some banks formulated cluster policies in response to a policy circular from Bangladesh Bank. However, such policies must include 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 minimize 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.

Promoting digital financial services and Nano loans: For developing user-friendly apps, banks and fintechs should collaborate further to design mobile banking applications that are simple, intuitive, and accessible for rural users with limited digital experience. In 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 central bank could 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, popularizing and expanding 'Digital Nano Loan' to small entrepreneurs might be extremely effective for digital financial services if associated risks are handled. Policy incentives would be useful to popularize these services among market players and users. Without credit scoring system proper identification of the borrower in the 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 centralized database can be created to ensure the proper credit score.

Promoting digital literacy initiatives and infrastructure: Introducing Electronic Know Your Business (eKYB) can be introduced by BFIU; the central bank could collaborate with 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 central bank could establish a comprehensive regulatory framework for the FinTech sector, balancing innovation with consumer protection and financial stability. Simplification of eKYC Procedure is a necessity. Participants of the consultation meeting advocated for wider adoption of eKYC procedures to simplify registration for sole proprietorships. Incentive Programmes should be encouraged for digital adoption. BB could introduce incentive programs in collaboration with financial institutions, such as cashbacks or rewards, to encourage people to adopt digital financial services. The central bank could collaborate with financial institutions and NGOs to establish digital booths in villages. These booths could offer basic financial services, internet access, and assistance with using digital financial tools. The policymaker could develop a core MFI management software solution that can be customized by individual MFIs to meet their specific needs. This could significantly reduce development costs and streamline digitization efforts.

Specific support for women-led CMSEs: Implementation of targeted policies and programs would help address challenges faced by 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 should be explored and training programs (entrepreneurship skill and business model) should be organized to address the

challenges faced by women entrepreneurs. The cost of the training may be shared by the participants and the commercial banks. Commercial bank can use their CSR fund to provide appropriate training to women entrepreneurs. The central bank could encourage or require banks to eliminate spousal guarantees for women-led businesses. BB could collaborate with other institutions to develop robust verification processes for women-led businesses, ensuring loan eligibility without discouraging legitimate entrepreneurs. In addition to implementing awareness efforts to inform women entrepreneurs about digital financial services and security-based practices, BB needs to collaborate with financial institutions and MFIs to create customised programmes that cater to the unique needs of female entrepreneurs. Women-centric agent banking models should 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.

Promoting financial literacy and awareness: A collaborative approach would be useful for designing financial literacy and awareness program. The central bank could work with BSEC, MRA, and IDRA to develop and implement comprehensive financial literacy programs specifically targeting rural audiences, which could include utilizing online platforms, and leveraging online platforms for delivering educational content in local languages, considering internet access limitations in some areas. Complementing online content with offline workshops and awareness campaigns conducted in rural communities would be useful. Partnering with NGOs and local leaders would be useful to ensure wider reach and trust within rural communities. Policymakers and financial institutions should implement regular programs to educate rural communities about financial products and services, including the associated technology. Partnering with educational institutions or NGOs, these programs should focus on cash flow management, budgeting, and financial planning; and partnering with mobile network providers, it is possible to offer subsidized smartphones and data plans for rural populations. Financial literacy training programs 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 NGOs and educational institutions to develop more targeted financial literacy programs specifically designed for MFI borrowers. This could involve incorporating interactive elements, addressing common borrower misconceptions, and utilizing local languages and communication channels. The BB/IDRA can collaborate with insurance companies and NGOs to develop educational campaigns that raise awareness about the benefits of life insurance, particularly targeting rural populations.

Reviewing policy and operational approaches for efficiency: Reviewing certain policies, changes, modifications, and interventions might help improve 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; collaborating with law enforcement to crack down on predatory informal lenders; making formal MFI loans more competitive through interest rate adjustments or flexible repayment options.
- Developing guidelines that encourage MFIs, banks, and NBFI to offer a wider range of financial products beyond basic microloans, including specialized products like livestock loans.
- Reviewing and clarifying startup loan policies might be helpful. The central bank could work with other financial institutions to create dedicated funding mechanisms for startups, potentially through venture capital initiatives or loan guarantees.
- Analyzing the impact of current taxation and excise duty structures on business growth within the CSME, considering the specific needs of 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 client.
- MFI cannot mobilize savings of more than 80 per cent of their loan outstanding. This restriction can be relaxed for higher fund mobilisation.
- The central bank can support initiatives that promote branchless banking or agent banking models to expand financial services in remote areas like the Chattogram Hill Tracts.
- 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.
- The central bank could introduce credit guarantee schemes specifically for SME loans. This would mitigate risk for banks and incentivize them to lend to CMSEs in rural areas.
- Central Bank could collaborate with regulatory bodies overseeing CSR activities to explore possibilities for channeling CSR funds into CMSE loan programs, particularly for underserved sectors like agriculture.
- Central Bank could establish very 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 CMSEs.
- Central 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; developing streamlined loan approval processes and capacity building programs for these institutions.
- 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.
- The central 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.
- Regulator/policymaker could assess the capacity of rural cooperatives to handle loan disbursements and repayments effectively. BB may work with relevant government agencies to establish a regulatory framework for cooperative lending activities in rural areas. This framework should ensure consumer protection for borrowers, financial stability of the cooperatives themselves.

Institutional capacity building and 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 improve loan officers' understanding of agriculture and CMSE. Further,

- Regulators (BB and MRA) should collaborate with the service providers (banks/NBFIs/MFS) for designing and offering customized skill development programs for rural bank/NBFI /MFI executives on 'loan appraisal and credit risk assessment', 'financial management', 'customer service to the rural clients', 'CMSE lending practices in rural Bangladesh', 'agriculture lending operations in rural Bangladesh', and 'risk assessment for rural borrowers', etc.

- CMS businesses may be provided with Tax card, and some special benefits can be added with the tax card to motivate them. Sometimes bank, on behalf of the borrower, prepares this type of statement. If possible, an entity can be created to provide such services.
- Regulators partnering with other banks/institutions/stakeholders to design and implement cluster-based training programs for staff and rural communities, focusing on financial literacy, loan application processes, and Islamic banking products (if applicable);
- Designing and providing training programs on improved livestock breeding practices, animal health care, and efficient feeding methods to increase productivity and profitability for women cattle farmers;
- Policy initiatives for developing programs to train and incentivize sales agents in rural areas; and, offering training programs or partnering with NGOs on digital marketing courses/programs.
- Incentivizing banks to explore alternative outreach models, such as dedicated sales teams, to reach rural customers more effectively-this could involve partnering with NGO-MFIs with established rural networks.
- Developing capacity-building programs by the central bank collaborating with the Department of Cooperatives for rural cooperative staffs.
- Developing programs and/or provide incentives to encourage banks/service providers to invest in staff training, infrastructure, and technology specifically for serving rural communities.
- Grant programs or tax breaks to incentivize banks and financial institutions to invest in digital solutions for rural areas.
- The central bank could introduce regulations or incentives that encourage banks to specialize in specific sectors, leveraging their expertise for better service delivery.
- Incentivizing and exploring alternative agent networks reaching remote farmers (e.g., cooperatives, agricultural input suppliers); exploring agent banking networks leveraging local shops or community centers to provide basic financial services.
- 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.
- Encouraging banks to develop and offer alternative collateral options beyond traditional land ownership, catering to the needs of rural borrowers.
- Providing regulatory support or loan guarantee schemes for BPO's collateral-free lending program, allowing it to continue serving underbanked rural borrowers.
- Encouraging exploring alternative forms of collateralization beyond land seizure to increase loan accessibility.
- Providing training and capacity building support for rural bankers to enable the expansion of Islamic banking windows in rural regions; introducing Islamic banking windows to serve the unbanked Muslim community in rural areas.
- Developing Islamic microfinance products tailored to the needs of women in the cattle sector, ensuring these products comply with Sharia law principles.
- Policymakers and regulators should work on market access initiatives to connect CMSEs with domestic and international markets. Business development services to provide CMEs with guidance on marketing, accounting, and legal matters.

Microinsurance for rural farmers/enterprises: Microinsurance is particularly useful to protect farmers and also banks from bad weather conditions and other unforeseen circumstances. There should be a separate micro-insurance policy. The premium of micro-insurance should be embedded with the loan product so that it can contribute to the rural economy. Microinsurance provider need to

offer products tailored to the needs of rural customers, with simplified terms and conditions. Insurers should be encouraged to create products that address specific risks faced by 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 programs.

Developing agricultural insurance by investing: The central bank could allocate resources or partner with private companies to develop and implement technology solutions for data collection and risk assessment in agriculture. This could involve utilizing 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. Urge insurance companies to stop depending on individual farm-level evaluations and instead create parametric (index-based) insurance policies that pay out based on objective triggers (such as weather data). This can lower expenses and streamline the claim processing procedure.

Facilitating MFI-bank-insurance linkages/partnerships: The central bank could encourage and facilitate partnerships between MFIs and banks to create a more inclusive financial ecosystem. This could involve joint product development or streamlined referral mechanisms. Central bank may create a central bank fund with low interest rates for MFIs to expand loan offerings in specific sectors. Facilitating partnerships between MFIs and mobile wallets is an upcoming task by creating a regulatory framework that enables smooth integration. The central bank could develop guidelines or frameworks for profit-sharing agreements between insurance companies and MFIs or other rural financial institutions. These frameworks should ensure fairness and transparency for all parties involved, providing model partnership agreements that address key profit-sharing considerations.

Consolidating courier/postal services: Consider the feasibility of creating a centralized courier service 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 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 will 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.

Acknowledging the role of Zakat institutions: Policymakers/regulators may 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. The central bank, in collaboration with relevant religious authorities, could explore the possibility of establishing clear regulatory frameworks for Zakat management institutions. This could guide: Zakat collection and distribution practices; governance and transparency; risk management; and facilitating capacity building for Zakat institutions. The central bank could partner with NGOs or training institutions to offer capacity-building programs for Zakat institutions on 'financial management, project management, human resource development, and encourage innovative financial inclusion models. The central bank could also support Zakat institutions in piloting and evaluating innovative financial inclusion models.

5. Policy Gap and Amendment Requirements of the Existing Policies and Intervention Areas, and Responsible Organisation/Authority

Policy interventions are required through mainly the financial sector regulators (Bangladesh Bank, MRA, MRA, and IDRA) in cooperation with certain government ministries, market players, and other key stakeholders to handle the policy gaps identified as part of the survey for improving rural financing and promoting financial inclusion in the country. The gaps, expected benefits and intervention authorities are identified as follows for policy actions:

Issues/ Challenges	Summary Modifications/Inclusion	Challenges and Suggested	Expected Benefits	Responsible Authority(s)
Definition and Scope of SMEs/ CMSMEs	Definition and Scope of CMSMEs/SMEs that does not Reflect Ground Realities ²⁰ 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. It is probably more realistic to treat cottage, micro and lower tier of small enterprises as a distinct separate category from the upper tier of small and medium enterprises for setting financing targets for banks/NBFIs. In case of trading business, TK. 20 crore + business turnover is probably too low for not considering under CMSMEs in the present context.		Facilitate financial inclusion of smaller enterprises (CMS) at the bottom of the pyramid and encourage smaller rural entrepreneurs to grow.	Bangladesh Bank and Ministry of Industries
Loan Processes and Documentary Requirements of Banks/ NBFIs	Current loan processing and documentation discourages many, especially those with limited financial literacy and capacity to meet loan requirements. Rural borrowers struggle with various requirements. To the rural borrowers, high collateral requirements and complicated paperwork as barriers to accessing credit, as opined in the consultation meeting. It is also crucial to streamline the approval process for digital solutions like digital signatures, reducing delays for rural financial institutions. It is crucial to review and streamline loan application processes to reduce unnecessary documentation burdens for rural borrowers.		Simplified processes would help rural borrowers get easy and cost-effective access, and speedy disbursement- a competitive situation with the informal sector	Bangladesh Bank
Obtaining Trade License and Verification	Yearly renewal of trade license for CMSME business is troublesome. They face hustle in obtaining trade licenses from the local authority while trade licenses cannot be verified online. The issue has been considered by the government and a decision has been taken to extend the validity of the trade license for a period of five years. At present, the implementation of the decision is in the process.		Smooth compliance with loan documentation requirements	Bangladesh Bank, Ministry of Law and City Corporations
Use of too many paper-based charges/legal documents causing	Digitize charge/legal documents to reduce human intervention, quick processing and reducing paper consumption. Up to 20 Lac Taka Loan: Only Bank Arrangement Letter or Demand Promissory Note or any single agreement		Improved efficiency/reduced loan processing time/climate smart	Bangladesh Bank

²⁰ SMESPD Master Circular on CMSMEs 2 – 2019

inefficiencies and delays²¹	which covers all the charges that a bank can impose. No mandatory Insurance requirement, No Specific License requirement for trading, service & agricultural sector, Non mandatory insurance policy notes For 20-50 Lac taka Loan: Only Bank Arrangement Letter or Demand Promissory Note or any single agreement which covers all the charges that a bank can impose, No Specific License requirement for trading, service & agricultural sector, Non mandatory insurance policy notes For 50+ Lac taka Loan: As per existing guidelines.			
Personal Retail Accounts (PRAs) loan Eligibility²²	Personal Retail Accounts (PRAs) are not eligible for loans. Enable loans with minimal documentations for PRAs and encourage digital loans for PRA account holders to ensure access to bank finance.	Simplified procedure	loan	Bangladesh Bank
Restricted CIB Access²³	Bangladesh Bank's CIB access is restricted, requiring paper-based undertakings. Establish API based access to Bangladesh Bank's CIB. Exemption of taking hardcopy CIB Undertaking Form for inquiring a CIB or this undertaking can be a part of Loan Application.	Open CIB access		Bangladesh Bank
Rural Development Strategy with Information & Market Access	The central bank could collaborate with government and development agencies to create a rural development strategy based on market forces and resource availability. Banks/NBFIs should be encouraged to incentivize 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 nature of demand for agricultural commodities. As part of market access support, rural clients should be helped to connect with buyers and markets for their agricultural produce.	This could help improve marketing skills, establish cooperatives, incentivize market players and clients or facilitate connections with market place.		Bangladesh Bank, BSEC, MRA, MRA & IDRA
Strategic Rural Branch Network and Deployment of Staff in Rural Branches	In most instances, rural bank branches are understaffed. Limited staff especially in geographically challenging areas hinders service delivery. Staffs do not have incentives or special benefits for serving remote locations, as claimed by a section of bank executives. The central bank could work with banks to develop a strategic branch network expansion plan, prioritizing underserved rural areas while considering alternative service delivery models like digital booths. The central bank could also re-evaluate space requirements for sub-branches, considering alternative service delivery models and technological advancements that might reduce physical space needs.	Easy and smooth financial service delivery in rural areas and geographically challenging locations		Bangladesh Bank in partnership with Banks/NBFIs
Designing Customized Products for Rural Clients	Banks/NBFIs have very limited targeted products for the rural areas. There is hardly any initiative on the part of banks/NBFIs to create demand-driven products targeting rural clients. Developing CSME loan products with risk-based pricing is the need of the time. Policymakers and financial institutions should work to develop alternative financial products for homemakers that cater to their specific needs and spending habits; and should explore microloans, savings accounts with reward programs, or prepaid cards. Financial service offerings may be expanded by facilitating partnerships between BPO and banks to offer a wider range of financial services at post	Ensuring the availability of targeted, suitable and demand-driven rural finance products		Bangladesh Bank, MRA, BOP in association with Bank/NBFI/ MFIs

²¹ BRPD Guidelines for CRM – 2016; BRPD Prudential Guidelines for Consumer & SE Financing – 2004

²² PSD Circular 9 – 2019

²³ CIB Circular 2 – 2015

	offices. Policymakers should work on designing and popularizing recognized agricultural loan products like ‘Warehouse Receipt System’ targeting farmers and small producers of the Country.		
Effective Cluster Financing	Most of the clusters of the country are immature and generally feature a low level of cooperation and sharing; lack of linkages; absence of the usage of modern technology; nonexistence of supply chains; lack of arrangement of the universities and research organisations; and deficiency of expenditures on research and development. The cluster approach is useful for both small agriculture enterprises and CMSMEs. Cluster development initiatives can unlock opportunities for improved access to finance, enhanced productivity, and sustainable growth along the value chain. It is good to see that in recent times some banks formulated cluster policies in response to a policy circular from Bangladesh Bank. However, such policies must include 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 minimize risks in their financing operations.	Help develop cluster-related support services, and incentivize Banks/NBFIs to be engaged in the cluster development process, and the associated effective financing.	Bangladesh Bank, Industry Ministry, and SME Foundation
Women-led SMEs /CMSMEs	Of the potential rural borrowers, women-led SMEs/CMSMEs face even greater difficulties. Implementation of targeted policies and programs would help address challenges faced by women entrepreneurs. Flexible loan terms would be useful for women that are tailored to the specific needs and repayment capacities of women borrowers. Commercial bank can use their CSR fund to provide appropriate training to women entrepreneurs. The central bank could encourage or require banks to eliminate spousal guarantees for women-led businesses. BB could collaborate with other institutions to develop robust verification processes for women-led businesses, ensuring loan eligibility without discouraging legitimate entrepreneurs.	Ensuring easy access to finance by the women CMSMEs by addressing their unique challenges.	Bangladesh Bank in partnership with Banks/NBFIs/ MFS
Financial Literacy and Financial Awareness	Lack of financial literacy is a key challenge in the country. It is associated with the popularity of indirect mode of financing in the country, and informal lending/financing activities in rural Bangladesh. A collaborative approach would be useful for designing financial literacy and awareness programs. Partnering with NGOs and local leaders would be useful to ensure wider reach and trust within rural communities. Financial literacy training programs are particularly necessary for women to empower them to manage their loans effectively.	Improved financial literacy of rural farmers, CMS entrepreneurs, agriculture producers, and women	Bangladesh Bank, BSEC, MRA, IDRA
Digital Access and Lack of Digital Literacy	Lack of smartphone ownership, high costs, and user-unfriendly apps hinder mobile banking adoption in rural Bangladesh. Rural borrowers are hesitant to use eKYC due to security concerns. Rural areas lack the infrastructure and resources to take financial initiatives. The central bank could establish a comprehensive regulatory framework for the FinTech sector, balancing innovation with consumer protection and financial stability. Simplification of eKYC Procedure is a necessity. The policymaker could develop a core MFI management software solution that can be customized by individual	Higher investment in digital infrastructure and improved digital literacy in rural Bangladesh	Bangladesh Bank, BFIU, MRA, Telecom Companies

	MFIs to meet their specific needs.		
Microinsurance for Rural Farmers /Enterprises	Several challenges hinder the effectiveness of micro and agricultural insurance. Low technology adoption is a critical issue. There is limited use of technology for data collection and risk assessment. Microinsurance is particularly useful to protect farmers and also banks from bad weather conditions and other unforeseen circumstances. There should be a separate micro-insurance policy. Insurers should be encouraged to create products that address specific risks faced by rural communities, such as crop failure, livestock mortality, or natural disasters.	Introducing, popularizing, and incentivizing micro and agricultural insurance	IDRA and Bangladesh Bank
MFI-Bank-Insurance Linkages /Partnerships	Partnerships between MFIs, insurance companies and banks to create a more inclusive financial ecosystem. This could involve joint product development or streamlined referral mechanisms. Central bank may create a central bank fund with low interest rates for MFIs to expand loan offerings in specific sectors. Facilitating partnerships between MFIs and mobile wallets is an upcoming task by creating a regulatory framework that enables smooth integration. The central bank could develop guidelines or frameworks for profit-sharing agreements between insurance companies and MFIs or other rural financial institutions.	Incentivizing banks, MFIs, and Insurance companies to offer cost-effective and effective financial services in the rural areas	Bangladesh Bank, MRA, and IDRA
Reviewing Policy and Operational Approaches for Efficiency	- Raising awareness about the risks of informal loans; collaborating with law enforcement to crack down on predatory informal lenders; making formal MFI loans more competitive through interest rate adjustments or flexible repayment options. -Reviewing and clarifying startup loan policies might be helpful. The central bank could work with other financial institutions to create dedicated funding mechanisms for startups, potentially through venture capital initiatives or loan guarantees. - Analyzing the impact of current taxation and excise duty structures on business growth within the CSME, considering the specific needs of women-led enterprises. -For ensuring smooth lending through MFIs, it is essential to have a separate CIB for the MFI client. - MFI cannot mobilize savings more than 80 per cent of their loan outstanding. This restriction can be relaxed for higher fund mobilization. - The central bank can support initiatives that promote branchless banking or agent banking models to expand financial services in remote areas like the Chattogram Hill Tracts. -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. -Policymaker/regulator 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. -The central Bank could introduce credit guarantee schemes specifically for rural loans. This would mitigate risk for banks and incentivize them to lend to CMSEs in rural areas.	Improving outreach and efficiency of Banks, NBFIs, MFIs, and cooperatives in rural financing	Bangladesh Bank, MRA, BSCIC, Department of Women, Department of Cooperatives

	- Central Bank could collaborate with regulatory bodies overseeing CSR activities to explore possibilities for channeling CSR funds into CMSE loan programs, particularly for underserved sectors like agriculture. - Central Bank could establish very 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 CMSEs. -Collaborating with relevant ministries to increase funding and resources for institutions like BSCIC and the Department of Women; developing streamlined loan approval processes and capacity building programs for these institutions. -The central bank could explore ways to collaborate with MRA's district coordination committees to strengthen financial sector oversight in rural areas, that could involve establishing clear communication channels for sharing information on potential fraud or irregularities; training MRA officials on identifying and reporting suspicious activity. -Regulator/policymaker could assess the capacity of rural cooperatives to handle loan disbursements and repayments effectively. BB may work with relevant government agencies to establish a regulatory framework for cooperative lending activities in rural areas. This framework should ensure consumer protection for borrowers, the financial stability of the cooperatives themselves.
Institutional Capacity Building and Consolidation of Rural Banking	-Designing and offering customized skill development programs for rural bank/NBFI /MFI executives on 'loan appraisal and credit risk assessment', 'financial management', 'customer service to the rural clients', 'CMSE lending practices in rural Bangladesh', 'agriculture lending operations in rural Bangladesh', and 'risk assessment for rural borrowers', etc. -CMS businesses may be provided with Tax card; some special benefits can be added with the tax card for motivating them. Sometimes bank, on behalf of the borrower, prepares this type of statement. If possible, an entity can be created for providing such services. -Regulators partnering with other banks/institutions/stakeholders to design and implement cluster-based training programs for staff and rural communities, focusing on financial literacy, loan application processes, and Islamic banking products (if applicable); -Designing and providing training programs on improved livestock breeding practices, animal health care, and efficient feeding methods to increase productivity and profitability for women cattle farmers; -Policy initiatives for developing programs to train and incentivize sales agents on rural areas; and, offering training programs or partnering with NGOs on digital marketing courses/programs. -Incentivizing banks to explore alternative outreach models, such as dedicated sales teams, to reach rural customers more effectively-this could involve partnering with NGO-MFIs with established rural networks. -Developing capacity building programs by the central bank collaborating with the Department of Cooperatives

Capacity building and of banks, NBFIs, MFIs, MFS, Insurance companies, and skill development of their employees
Bangladesh Bank, MRA, IDRA, NBR

	for rural cooperative staffs. -Developing programs and/or provides incentives to encourage banks/service providers to invest in staff training, infrastructure, and technology specifically for serving rural communities. -Grant programs or tax breaks to incentivize banks and financial institutions to invest in digital solutions for rural areas. -The central bank could introduce regulations or incentives that encourage banks to specialize in specific sectors, leveraging their expertise for better service delivery. -Incentivizing and exploring alternative agent networks reaching remote farmers (e.g., cooperatives, agricultural input suppliers); exploring agent banking networks leveraging local shops or community centers to provide basic financial services. -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. -Encouraging banks to develop and offer alternative collateral options beyond traditional land ownership, catering to the needs of rural borrowers. -Providing regulatory support or loan guarantee schemes for BPO's collateral-free lending program, allowing it to continue serving underbanked rural borrowers. -Encouraging exploring alternative forms of collateralization beyond land seizure to increase loan accessibility. -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. -Developing Islamic microfinance products tailored to the needs of women in the cattle sector, ensuring these products comply with Sharia law principles. -Policymakers and regulators should work on market access initiatives to connect CMSEs with domestic and international markets. Business development services to be provided CMSEs with guidance on marketing, accounting, and legal matters.			
eKYC for Proprietorship ²⁴	eKYC for Proprietorship businesses is not available. Implement eKYC for proprietorship businesses. If a proprietor can open an individual account by using e-KYC, the same shall be facilitated for his/her business account keeping the NID of proprietor as individual KYC, Business KYC will be performed by bank officials for CMSEs only.	Facilitate easy banking services for CMSMEs		Bangladesh Bank
Incentives for cashless transactions ²⁵	Incentives for cashless transactions needed for promotion increase incentives for cashless transactions to encourage bank statement usage. Bank's CSR fund may also be utilized for building cashless CMSEs that aren't digitally enabled.	Enhanced cashless transactions		Bangladesh Bank
Relaxing Data	It is important to relax undue limitations on data security.	Enabled utilization		Bangladesh

²⁴ BFIU Circular on eKYC 25 – 2020

²⁵ PSD Guidelines for BanglaQR – 2021

Security	CMSMEs data from trade partners can be open subject to proper authorization by the customers via consent through OTP verification. Consent management and utilization of customers' data by any bank should be open and all concerned regulatory bodies shall make data available for banking.	of third-party data for banking services	Bank
Guidelines to serve CMSMEs through fintechs	Absence of guidelines for collaboration between Fintechs and Banks under FLDG-backed lending. Thus, guidelines to serve CMSMEs through fintechs need to be adopted. There can be specific guidelines for collaboration between fintechs and banks. This will help fintechs to provide lending services for CMSMEs where the banks face difficulties in reaching and fintechs have access. For instance, India has already given an FLDG in this regard.	Facilitating regulated channel Integration	Bangladesh Bank
Return submission for CMS businesses (Income Tax Act)	Mandatory proof of return submission for CMS businesses creates hurdles for small enterprises. There can be an extended exemption regarding proof of submission for CMSEs up to a loan limit of TK. 30 lakh irrespective of income threshold.	Facilitating easier loan processing	NBR, Bangladesh Bank
Adaptation of ESRM Guidelines²⁶	CMS enterprises find it challenging to comply with ESRM Guidelines due to special license requirements. Thus, it is crucial to relax the parameters for CMSEs for those who need the ESRM guidelines	Ensure ease in ESRM guideline adaptation	Bangladesh Bank
Top-up of Term Loans for CMSMEs²⁷	Top-up of Term Loans is discouraged for CMSMEs. Allow top-up of Term Loans for CMSMEs, as the CMSMEs require loans for composite financing purposes (e.g. working capital, business expansion, fixed asset) which they prefer to obtain in Term Loan mode for ease of repayment. While business expansion opportunity demands, they prefer additional money instead of repaying the previous loan using their own fund.	Ensure term loan flexibility	Bangladesh Bank
Digital Signature²⁸	Evidence Act has permitted Digital Signature but still banks are not encouraged to practice it since the perception is that the judiciary/courts might not accept this when any NI Act/Money Loan Suit is launched. Clarify legal provisions to explicitly recognize the validity of digital signatures under the Banker's Book Evidence Act for court proceedings.	Ensure acceptance of Digital Signature for paperless banking	Ministry of Law and Parliamentary Affairs

²⁶ SFD Guidelines for ESRM – 2022

²⁷ BRPD Circular on Appropriate Utilization – 2020

²⁸ Evidence Act (Amendment) 2022 ; Banker's Book Evidence Act 2021

6. Concluding Remarks

Fostering healthy rural finance systems is pivotal for the economic development of rural areas of Bangladesh, where access to financial services can significantly impact livelihoods and community well-being. The survey on various facets of rural finance—encompassing payment systems, deposit services, loans, insurance, and other supportive policies—reveals a complex yet promising landscape. Payment systems play a crucial role in facilitating efficient transactions and ensuring that rural populations can participate fully in the financial ecosystem. By leveraging technology and expanding infrastructure, it is possible to enhance the accessibility and reliability of payment services in remote areas. Policies that incentivize savings can contribute to greater financial stability and future economic opportunities for rural households.

Access to credit is essential for empowering 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 a safety net against risks and uncertainties that are particularly pronounced in rural settings. Expanding access to affordable insurance products can protect farmers and rural CMSEs from economic shocks and contribute to more sustainable agricultural practices.

Finally, comprehensive support services, including financial literacy programs and targeted policy initiatives, are critical for maximizing 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 growth and development.

The integration of these elements into a cohesive strategy will require collaboration among policymakers, financial institutions, and community organisations. Policy coordination among BB, BSEC, IDRA, MRA, and GoB ministries is a crucial need. Operational networking amongst Banks, NBFIs, Insurance Companies, MFIs, and their linkage arrangements for financing of the agriculture and CMSEs would be effective.

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 NO. 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