



BRINGING
SMART
POLICIES
TO LIFE

MEMBER SERIES: FINANCIAL INCLUSION JOURNEY

BANGLADESH: BRINGING THE LIGHT INTO THE BLIND SPOT



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PREAMBLE

Finance is a powerful tool of economic growth, especially in a resource-poor developing country such as Bangladesh. Access to finance for the poor is essential to promote inclusive economic growth and to eradicate poverty in the country. Financial services cover a host of transactions, including credit, savings, payment and insurance.

The country's development strategies recognize that socioeconomic opportunities and development in Bangladesh will be undermined if expanded financial services are not available, especially to the poor and other disadvantaged groups who are not only deprived of access but also need these services.

Financial intermediation is the process by which finance is mobilized and used in the economy. A developed inclusive financial system not only expedites the process of resource mobilization and use, it also provides financial services to all who need them. It creates employment opportunities, ensures economic and financial stability through reducing vulnerability, and contributes to poverty reduction. Access to a well-functioning financial system can economically and socially empower individuals, in particular the poor people, allowing them to better integrate into the economy and actively contribute to development. In particular, expansion of financial services targeted to the poor and low-income population can play a vital role in enhancing financial access. In an inclusive financial system, no segment of the population remains excluded from accessing financial services.

INTRODUCTION

The Alliance for Financial Inclusion (AFI), a network owned and driven by members with a common objective of scaling up financial inclusion at country level, has been able to facilitate the implementation of impactful policy changes at country level through its cooperative model that imbeds peer learning and peer transformation. It has been a decade now since the network began this quest to address the global challenge of financial exclusion. We have witnessed tremendous achievements in financial inclusion from our membership, driven by practical policy solutions that draw on lessons across the network.

AFI members have been focusing on ways to support countries in designing and implementing high-impact, tailor made solutions that meet their needs and challenges. These country-led approaches have created ownership and a sense of pride as ever more ambitious targets are set and achieved. It is imperative that such lessons are highlighted from each member's perspective on how AFI's peer learning approach and in-country implementation have been instrumental in facilitating transformation. Thus, we feature such practical lessons in this Members Series publication.

The Members Series serves to elevate the members' financial inclusion achievements and bring to the fore, key policy lessons that will benefit other members who are pursuing similar objectives. AFI's ethos of cooperation and knowledge sharing is served better when the financial inclusion journeys of our members are recorded and shared amongst the network, and beyond.

AFI membership, which represents about 85% of global unbanked, is uniquely positioned to tackle the global financial inclusion challenges. We have enormous lessons from the network that need to be highlighted and amplified. These range from the effective use of technology, application of national and regional coordinating structures, to the pursuit of specific financial inclusion enablers that are unique to countries and regions.



We are proud of the leaders in our member institutions, who through their unwavering efforts have been able to steer national-wide support in addressing financial inclusion challenges.

This Member Series publication will continue to feature the unique journeys of our members in addressing their financial inclusion challenges. The diversity of the network has the advantages of highlighting multiple approaches to tackle the common goal of financial exclusion.

Join me in this Series and let's journey with our member Bangladesh Bank, as they champion the transformation of the financial inclusion landscape in Bangladesh.

Dr. Alfred Hannig
Executive Director, Alliance for Financial Inclusion

FOREWORD

Bangladesh is a rapidly growing South Asian economy clocking sustained 6+ percent annual average real GDP growth for well over a decade (recently risen further to 7+ percent levels), with attendant rapid poverty decline and social development faster in some respects than in higher income neighboring economies.

The rapid progress is being powered by Bangladesh Government's pursuit of inclusive sustainable development strategy, coupled with Bangladesh Bank's (BB's) promotion of inclusive financing for job and income generating productive pursuits of all societal segments, and of financing for 'green' transition to environmentally sustainable production processes and practices.

This booklet attempts a brief but comprehensive account of Bangladesh's journey in promoting inclusive 'green' financing over the years. Developing cost efficient financial service delivery channels for reaching out to millions of target clients needed massive BB-led modernization of the country's Payments System and financial sector IT infrastructure, enabling countrywide spectacular growth of mobile phone based financial service delivery through local agent networks in the inclusion client neighborhoods. Besides BB, the Microcredit Regulatory Authority (MRA) and the Insurance Development and Regulatory Authority (IDRA) are the other main official agencies active in promoting inclusive financial and insurance services for Micro, Small and Medium Enterprises (MSMEs) and other target groups. Government ministries and departments also have several inclusive financing initiatives in various specific target client segments.

The primary focus of Bangladesh's financial inclusion initiatives on financing access for productive pursuits has bolstered the country's macroeconomic and financial stability; protecting balance by generating both incremental output and matching domestic demand from incremental employment and income. Of course there is long way yet to go in doing away with financial inclusion impediments for all productive initiatives, such as startup financing scarcity for innovative entrepreneurs. Fully addressing these challenges will entail years of sustained market development efforts, bridging market gaps and failures. We are now at final stages of formulating a National Financial Inclusion Strategy, and a promotional document aimed at deepening commitment and motivation of bank and non-bank financial intermediaries towards Socially Responsible (inclusive and environmentally sustainable) Financing.



I am grateful to AFI for offering to publish this booklet about Bangladesh's experience thus far in her journey towards full financial inclusion, as part of a global mutual learning initiative. I hope the publication will be of interest to readers, evoking many queries and feedback responses.

Fazle Kabir
Governor, Bangladesh Bank

DEVELOPMENT PARADIGM OF BANGLADESH

The economy of Bangladesh has been achieving more than 6% real GDP growth on average for more than a decade; it recently crossed the 7% landmark and shows strong trends to grow faster in the coming years.

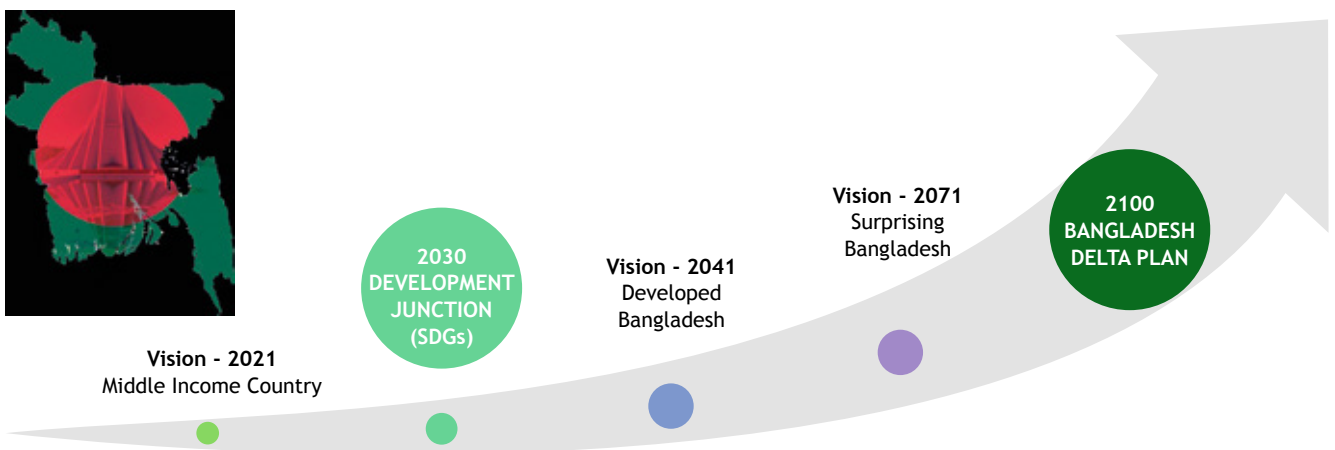
One of the drivers of this high and stable growth is Bangladesh's success in pursuing inclusive development strategy, supported by initiatives for inclusive financing, along with implanting these objectives into the country's financial sector. At the present, the financial institutions actively promote financial inclusion and green banking initiatives.

The inclusive financing initiatives, which allow credit and other financial services to flow to the vast majority of the small, marginal and tenant farmers; micro, small, and medium enterprises (MSMEs); and other financially

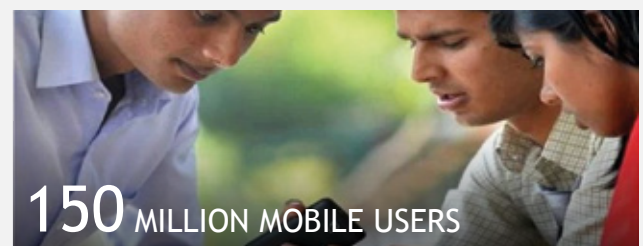
excluded groups/activities, has helped to enhance macro-financial stability, along with the incremental output on the supply side, and the additional employment and income generation on the demand side.

Bangladesh's long-term goal is to emerge as a developed country by 2041, for which, explicit medium-term goals have been set under Vision 2021 and other strategic plans, including the Perspective Plan (2010-2021) and the 7t Five-Year Plan (2016-2020). Bangladesh has also adopted Sustainable Development Goals (SDGs) to be achieved by 2030. For achieving the comprehensive vision of the country's development agenda, one of the priorities of the government is to increase the access for all individuals and enterprises to quality financial products and services so that the inclusiveness of the financial sector matches the depth and diversity of the development agenda.

TRAJECTORY OF NATIONAL DEVELOPMENT VISION OF BANGLADESH



From a low-income agrarian society at its birth in 1971, Bangladesh is now a lower middle-income country of 160 million people who are in the midst of prospective transitions.



FINANCIAL INCLUSION: BANGLADESH PERSPECTIVE

The core philosophy of financial inclusion in Bangladesh is to support the government and the financial service providers for ensuring the delivery of a wide portfolio of financial services, to meet the varied needs of the unserved and underserved populations and enterprises in the country in a way that improves welfare, delivers value to them, and contributes to the sustainable growth of the financial sector and the overall economy, as envisaged in the country's 7th Five Year Plan and other national policies.

The country's development strategies recognize that national development will be undermined if expanded financial services are not made available to the entire population. Since the country's aim is to achieve 'a happy, prosperous and enlightened Bangladesh which is free from hunger, poverty, inequality, illiteracy, and corruption and belongs completely to its citizens and maintains a healthy environment, (National Sustainable Development Strategy: 2010-2021) access to finance is taken as an important pre-condition for inclusive development. The 7th Five Year Plan (2016-2020) aims to implement:

'continuous reforms ranging across financial sector policies, financial infrastructure, regulatory and supervisory institutions(...), for expanding access to financial services to the underserved, including micro and household enterprises now operating in the informal market and deepen the financial markets with introducing relevant products.'

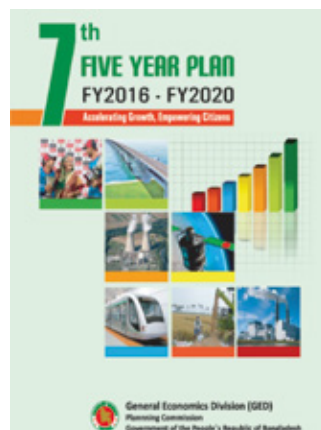
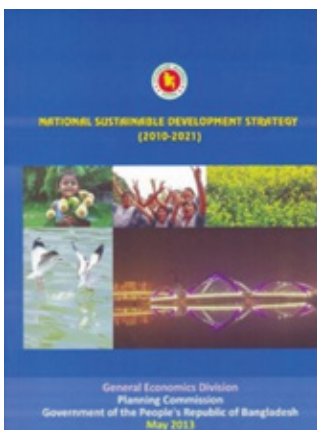
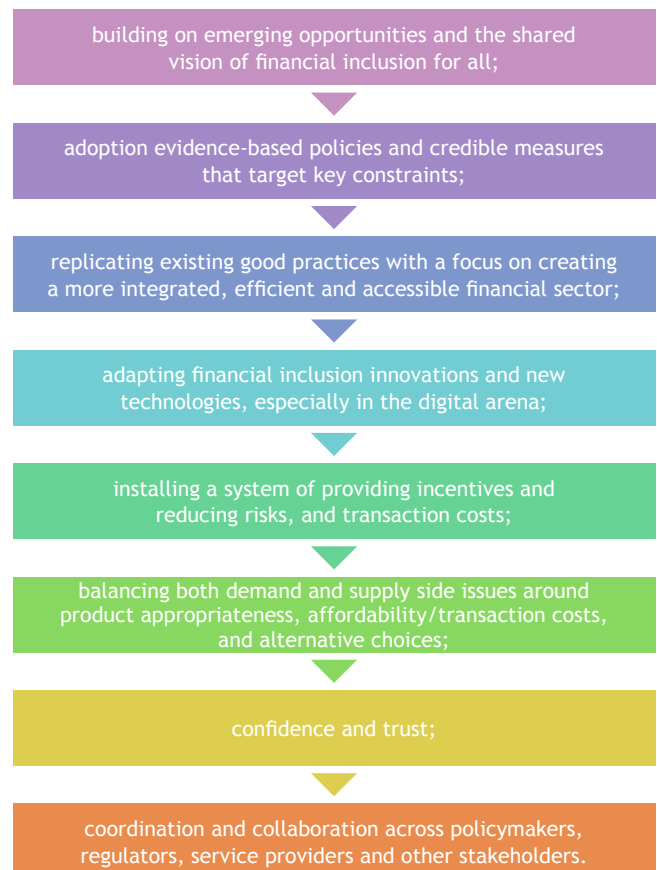
For realizing the country's development agenda, it is essential to harness the transformative power of financial inclusion for unserved and underserved population groups and enterprises, including MSMEs.

Financial inclusion brings excluded people into the formal financial system by giving them access to financial products and services. It is thus, taken as an essential policy pillar for sustainable and equitable growth in Bangladesh. For moving forward, it is also recognized that a national strategy can provide the essential ingredients and the roadmap for adopting cooperation and coordinated action

by the government, private sector and other stakeholders; to shape the country's financial market development for realizing the financial inclusion goals. Financial inclusion plays a dual role in Bangladesh; financial inclusion does follow economic growth but it triggers economic growth and development. This is significant for Bangladesh's development, as the country aspires to graduate from the least developed country status to an upper middle-income country within the next decade.

Given its multifaceted implications for development, financial inclusion is a crosscutting priority that helps in the achievement of higher policy objectives. Financial inclusion has always been part of the Government of Bangladesh's priorities, set out across a combination of international and domestic commitments. The Government's **7th Five Year Plan - Accelerating Growth, Empowering Citizen** underscores the notion of **'No One Left Behind'** and establishes the promise to formulate and popularize **"low-cost mechanisms at citizens doorsteps for banking, money transfer, including safety net payments and local and foreign remittances, credit, including micro-credit, insurance, including crop, health, life and disaster insurance."** These commitments work in parallel to the Sustainable Development Goals (SDGs), the Alliance for Financial Inclusion's (AFI) Maya Declaration, and the National Social Security Strategy.

KEY CONSIDERATIONS IN FINANCIAL INCLUSION FOR BANGLADESH ARE:



SDGs AND FINANCIAL INCLUSION IN BANGLADESH

Bangladesh perceives the current SDG targets as a continuous progress of the earlier committed Millennium Development Goals (MDGs) targets, where its achievements are noteworthy. Since its human development policies are primarily targeted and successfully run for the poor and marginalized people living in the periphery, tremendous socio-economic progress has been achieved in recent years. In its journey towards achieving these visions, Bangladesh has already earned the status of a lower middle-income country since July 2015.

It has already completed many important upfront works for starting the SDGs implementation. It has mapped out responsibilities for Ministries and agencies against each goal and target of the 2030 Agenda. As a part of it, aspects of financial inclusion have also been aligned with relevant goals of SDGs in following manner.

SDG GOALS AND FINANCIAL INCLUSION IMPACTS



IMPACT
Create jobs and support the Government's plan to reduce extreme poverty by 4% by 2020.

Improve reliability and speed of income.



IMPACT
Improve productivity of agriculture and increase food security through appropriate financing.



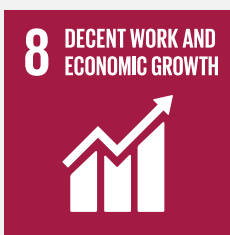
IMPACT
Improve ability to maintain payments for education, health and utility services.



IMPACT
Ensure financial literacy for all and skill development of women and youth.



IMPACT
Empower women with greater control over personal and commercial finances.



IMPACT
Strengthen financial sector and institutions, as well as improve efficiency of transactions.

Support businesses to manage liquidity, access credit, mobilize savings for investment and mitigate economic shocks.



IMPACT
Modernize the financial system and channel banking sector funds to underserved segments.

Address market failures across credit and insurance markets.

Facilitate access to capital for startups.



IMPACT
Promote inclusive finance.
Promote FinTech.

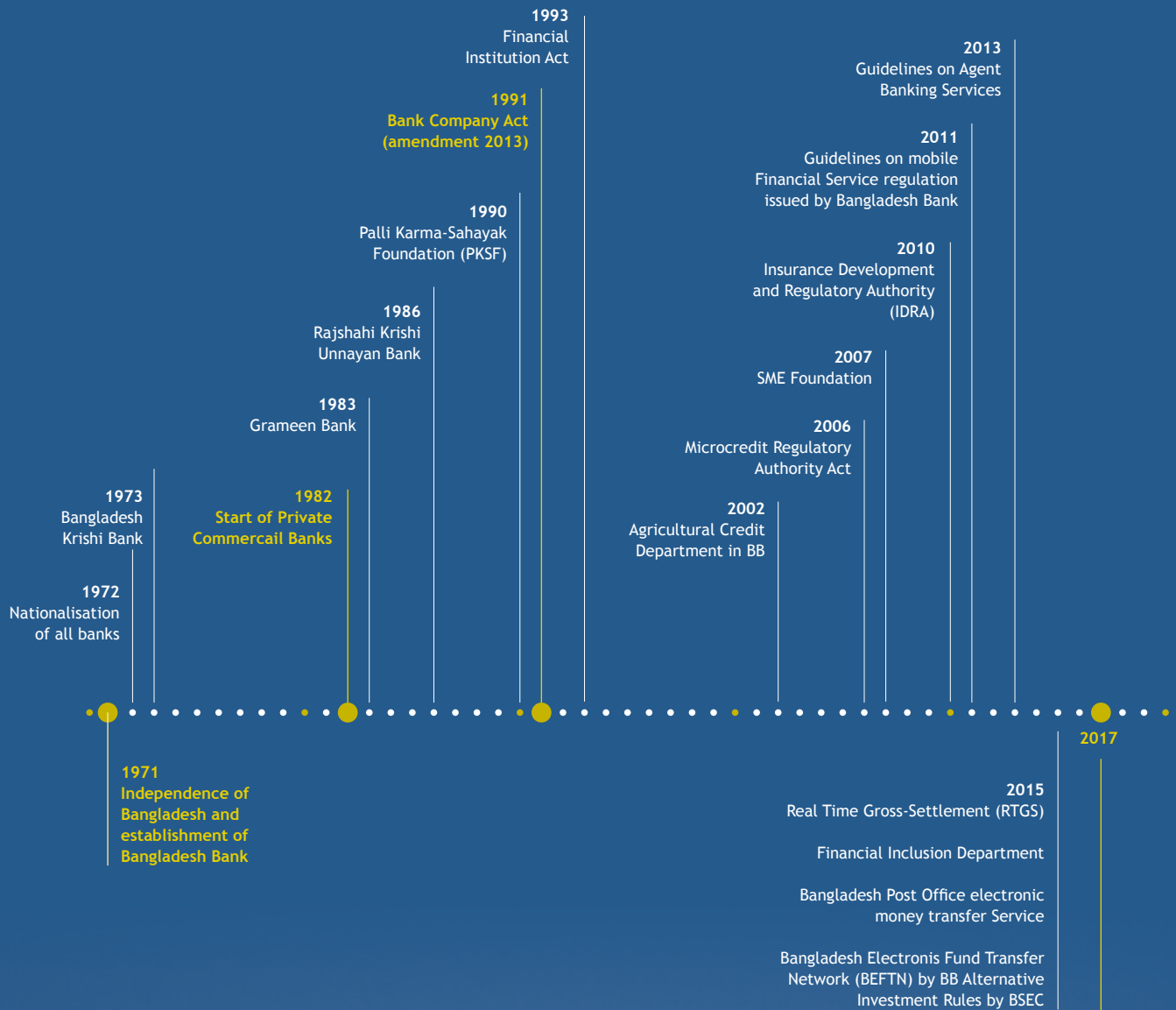


IMPACT
Improve resilience against environmental vulnerability.
Support green financing to improve environmental sustainability.



IMPACT
Combat illicit financing and prevent fund flow for terrorist activities through anti-money laundering.

FINANCIAL INCLUSION MILESTONES OF BANGLADESH



2017

85 MILLION
Number of bank savings account

58 MILLION
Number of registered MFS clients

35 MILLION
Number of MFI clients



FINANCIAL SERVICE INTERMEDIATION LANDSCAPE OF BANGLADESH

Financial service intermediation in Bangladesh can be categorized in three segments, in accordance with their degree of regulation:

1 FORMAL

The formal segment includes all regulated institutions, such as Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, and Capital Market Intermediaries, such as Brokerage Houses, Merchant Banks etc.; and Micro Finance Institutions (MFIs).

2 SEMI-FORMAL

The semi formal sector includes those institutions that are regulated but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions that are mostly owned by the Government, such as Bangladesh Post Office (BPO), Bangladesh House Building Finance Corporation (BHBFC), Bangladesh Municipality Development Fund, Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank, Ekti Bari Ekti Khamar & Palli Sanchay Bank etc., Non-Governmental Organizations (NGOs) and discrete government programs.

3 INFORMAL

The informal sector includes private intermediaries, which are completely unregulated.

Institutional structure of financial service intermediation can be outlined as follows:

1 CORE REGULATORY INSTITUTIONS:

1.1 **Bangladesh Bank** is the central bank and monetary policy authority of Bangladesh and also the regulator of commercial banks, and non-bank financial institutions (NBFIs). It is the FOREX reserve authority, regulator of money market and FOREX market, authority of currency management and payment system, principle coordinator

of the national financial system and regulator of AML, and CFT in all financial intermediaries.

1.2 **Insurance Development and Regulatory Authority** is the regulator of insurance companies.

1.3 **Bangladesh Securities and Exchange Commission** is the regulator of investment banks and capital market intermediaries.

1.4 **Microcredit Regulatory Authority** is the regulator of micro finance institutions (MFIs).

2 RELEVANT GOVERNMENT AUTHORITIES:

In the regulatory landscape of financial service intermediation in Bangladesh, some government authorities have significant roles to play to supplement the functions of the regulatory institutions, which are NGO Affairs Bureau, Department of Cooperatives, Bangladesh Telecommunication Regulatory Commission, and the NID Registration Wing of Bangladesh Election Commission.

3 FINANCIAL SERVICE INTERMEDIARIES

There is a diverse set of institutions for financial service intermediation in Bangladesh and the regulated commercial Banks offer a full range of financial services. There are NBFIs, Insurance Companies, Investment Banks, MFIs, Specialized Intermediaries, NGOs and Cooperatives. The BPO also offers an array of financial services, such as savings, insurance and payments.

4 SERVICE PROVIDERS:

In the era of FinTech, ICT service providers have been playing a huge role in Bangladesh within the context of financial service intermediation. There are Mobile Financial Service (MFS) operators who are associated with banks, Payment Service Providers apart from the banks, Payment System Operators, Payments Technology Company, FinTech, Mobile Network Operators (MNOs), and Internet Service Providers (ISPs).

5 FINANCIAL MARKETS:

Money Market, Capital Market and FOREX Market comprise the financial market in Bangladesh.

FINANCIAL SERVICE INTERMEDIATION MAPPING IN BANGLADESH

FINANCIAL INTERMEDIARIES	FINANCIAL SERVICES					
	SAVINGS	CREDIT	PAYMENTS	INSURANCE	CAPITAL MARKET INSTRUMENTS	GOVERNMENT ISSUED INSTRUMENTS
Commercial Banks	●	●	●	-	-	●
NBFIs	●	●	-	-	-	-
MFIs	●	●	-	-	-	-
Cooperatives	●	●	-	-	-	-
Insurance Companies	-	-	-	●	-	-
Bangladesh Post Office	●	●	●	●	-	●
Specialized Intermediaries	-	●	-	-	-	-
Capital Market Intermediaries and Investment Banks	-	-	-	-	●	-
Government Instrument Intermediaries (Bangladesh Bank, National Savings Directorate)	-	-	-	-	-	●

REGULATORY LANDSCAPE OF FINANCIAL INSTITUTIONS

	BB	IDRA	BSEC	MRA
Government owned Banks	8			
Domestic Private Banks	40			
Foreign Banks	9			
Government NBFIs	2			
Private NBFIs	32			
Government Insurance Corporation		2		
Private Insurance Companies		76		
Stock Exchanges			2	
Merchant Banks			58	
Stock Broker/Dealer			393	
Credit Rating Companies			8	
Asset Management Companies			24	
MFIs				705

Data Source: Financial Institutions Division, Ministry of Finance

FINANCIAL INCLUSION: COUNTRY DIAGNOSTICS

For more than a decade, Bangladesh has adopted different measures to expand inclusive finance through financial institutions and digital networks. In Bangladesh, financial inclusion is not conceived merely to increase the volume of credit and other financial services; it involves access to, and usage of, a range of quality financial products and services provided by formal service providers to all segments of the population. Financial inclusion for Bangladesh is thus, a distinct dimension of financial development that is associated with both financial depth and efficiency, and which can unleash the productive potential of financially included population.

In Bangladesh, financial inclusion is conceived in a comprehensive manner with at least five dimensions:

- > Access to a full range of financial services, including credit, savings, insurance, and payments;
- > Financial services need to be affordable and suitable to the consumers, and delivered with quality and convenience that ensure dignity and client protection;
- > Consumer have to be capable of making informed and good finance-management decisions;
- > Financial services need to be available to all, without anyone excluded and underserved; and
- > There is a need for a range of providers, a robust financial infrastructure, a clear regulatory framework, and financial services to be provided as per the client's choice through a diverse and competitive financial market.

In a developing economy like Bangladesh, changing occupational relationships creates demand for new financial products. The rising levels of economic migration bring remittances and accelerate urbanization. The young and increasingly educated population provides a growing customer base for new financial services. Mobile Phone and Internet adoption is changing the nature of financial engagement and introducing opportunities for e-commerce. The role of technology also raises concerns about the digital divide, particularly from a gender perspective. The increasing complexity of supply chains creates demand for innovative financing and payments solutions. The transition towards a more interconnected and export-oriented economy creates opportunities for companies and the financial sector.

Following these financial needs, three common factors are most challenging for addressing financial inclusion in Bangladesh:

- I **Difficult-to-access localities:** remote hilly and sparsely populated areas; haor, char and similar areas with difficult terrain; and relatively underdeveloped areas with weaker infrastructure;
- II **Demand-induced impediments:** low incomes, lack of financial awareness and education, social exclusion and other constraints to availing economic opportunities; and
- III **Supply-led bottlenecks:** distant location of bank branches, inconvenient timings, documentation requirements and procedures, lack of tailored products and inconvenient delivery mechanisms, communication gap between the staff of service providers' and consumers.

Bangladesh's financial system is relatively strong and stable with a continuing rapid growth in financial resources, deposit liabilities and loans, over the last few decades. Although Bangladesh's financial architecture started to develop after Independence within the public sector domain, new generations of private banks and financial institutions now dominate the financial sector landscape.

Over the years, Bangladesh has also emerged as the global leader in MFIs, in addition to state-owned and private commercial banks, specialized banks, insurance companies and other non-bank financial institutions. The development of alternative banking channels by the banks includes ATMs and various multibank switches. In this context, MFS have also emerged as one of the most effective solution to build alternative banking channels and make transaction points more widely available. Agent banking has been working towards establishing itself as a strong alternative for remote rural consumers to access financial services.

The Agent networks provide an opportunity to rapidly improve the breadth of the financial system. A quick look on financial inclusion penetration in Bangladesh provides a parallel look at the evidence of advancement and the scope of further improvement (Data Source: The Little Data Book on Financial Inclusion, 2018, World Bank).

The snapshot below shows the access points of financial services that are featured by banks, MFIs and cooperatives in Bangladesh (Data Source: Bangladesh Bank, MRA and Department of Cooperatives):

SNAPSHOT OF FINANCIAL SERVICE ACCESS POINTS IN BANGLADESH

Number of Bank Branches	10,034
Number of ATMs	9,522
Number of Agent Banking Outlets	4,157
Number of MFS Agents	786,459
Number of POS	37,379
Number of MFI Branches	17,271
Number of Cooperatives	176,841

INDICATORS ON FINANCIAL ACCESS & USAGE (POPULATION >15Y)

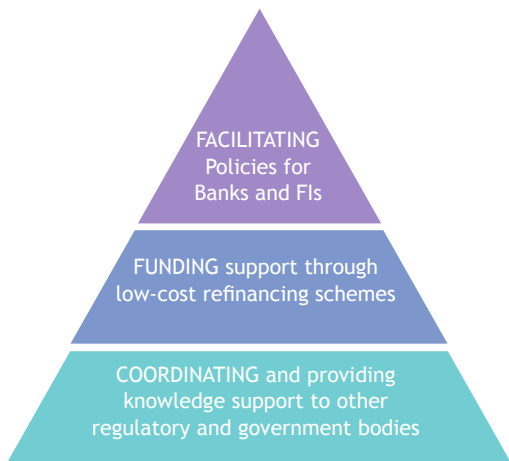
	2014 (%)	2017 (%)
Account	31.0	50.0
Financial institution account	29.1	41.0
Mobile money account	2.7	21.2
Made or received digital payments	7.4	34.1
Saved at a financial institution	7.4	9.9
Borrowed from a financial institution or used a credit card	10.0	9.2

ACCOUNT, BY INDIVIDUAL CHARACTERISTICS (POPULATION >15Y)

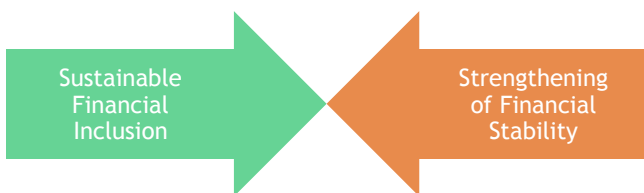
	2014 (%)	2017 (%)
Women	26.4	35.8
Adults belonging to the poorest 40%	23.0	40.1
Adults out of the labor force	24.3	38.4
Adults living in rural areas	29.6	49.9

BANKING SECTOR OF BANGLADESH IN FINANCIAL INCLUSION

Financial Inclusion in Bangladesh has historically been led by the central bank, Bangladesh Bank (BB), especially in the last decade. In this journey, BB has been following a ‘Three Dimensional Action’ of Financial Inclusion:



Core Philosophy of BB’s Financial Inclusion Initiatives



Thus, in promoting financial inclusion, BB’s initiatives have the following facets, which are mutually connected:

INCLUSIVE MONETARY POLICY

To expand financial inclusion, BB has gradually made its monetary policy inclusive, both in formulation and content. BB’s monetary policy, which is prepared twice in year reflecting the stance of monetary management, is formulated through a wide consultation with relevant stakeholders - both internally and externally to incorporate their views and thoughts. The monetary policy possesses a specific direction for promoting inclusive finance, especially in the area of agricultural finance, MSME Finance and Green Finance.



PROMOTING INCLUSIVE FINANCE

In view of the contribution to food security, employment generation, poverty reduction and environmental conservation, the agriculture, MSME and green financing are priority sectors for BB to promote inclusive finance. Below is a brief look at BB’s initiatives for these:

- > **Agricultural Finance**
 - Providing a comprehensive annual policy for banks and NBFIs covering more than 110 crops;
 - PRefinancing facilities that are worth over BDT 10 billion for sharecroppers, milk production & artificial insemination, and jute production;
 - POffering credit at a lower rate (4%) for maize, pulses, oilseeds and spices, through interest subsidy;
 - POffering priority for women farmers and concessional rates for tribal farmers, as well as coastal farmers;
 - PPromoting area approach, contract farming and revolving crop credit limit system.
- > **MSME Finance**
 - MSME credit disbursement of banks and NBFIs must be at least 25% of total disbursement by 2021;
 - Provide at least 15% of MSME credit to women entrepreneurs by 2021;
 - Banks & FIs to provide banking & business advisory services;
 - Provide ‘Women Entrepreneurs Dedicated Desk/Help Desk’ in all banks & FIs;
 - Promote area-approach & cluster-based finance;
 - Create specialized capacity building programs such as SEIP;
 - Provide refinance schemes for MSME financing worth more than BDT 10 billion.
- > **Green Finance**
 - Banks and NBFIs to provide an exhaustive list of 53 green products for finance, under 8 categories;
 - Provide refinancing schemes for green finance, both in local and foreign currency.
 - Create product development guidelines for banks and NBFIs for new product innovation for green finance.



INNOVATIVE PRODUCTS/SERVICES

To promote savings and credit for the segments of population who cannot access banking services in any way, Bangladesh Bank has taken pro-active actions by offering policies and funding support for innovative products/services:

- > Encouraging banks to open No-Frill (10 taka) accounts for farmers and over 12 other categories for the unbanked-unserved segment of population;
- > Providing banking services for physically challenged persons;
- > Providing school banking;
- > Providing banking for Urchin and Street Children;
- > Providing refinancing scheme for No-Frill Account holders;
- > Establishing banking services for residences in the 111 enclaves of Bangladesh.
- > Offering banking services for Third Gender.
- > Creating a mainstream Corporate Social Responsibilities of banks and FIs for financial inclusion.

DIVERSIFYING SERVICE DELIVERY CHANNEL

To reach underserved people from remote rural areas, diverse service delivery channels are used through the following initiatives:

- > Banks must establish 50% of their branches in rural areas;
- > Agent banking was initiated in 2013;
- > Online Banking, Internet Banking and App-based banking have been fully pursued;
- > NGO-MFI linkage to banks has been on run for loan disbursement & foreign remittance.

Agent banking has been witnessing skyrocketing growth for last couple of years and showing the ray of new horizon in the landscape of financial inclusion in Bangladesh. A quick glimpse of agent banking penetration evidences that promise:

	JUNE, 17	JUNE, 18	GROWTH
Agent	1,847	3,588	94.26%
Outlet	3,224	5,351	65.97%
Account	8,72,865	17,77,400	103.63%
Deposit (in million)	6,512	20,128	209.09%
Remittance (in million)	8,901	35,142	294.77%



DIGITAL FINANCIAL SERVICES & FINTECH

From 2010, the country's payment systems enjoyed a transition from manual clearing system to a fully automated clearing system; from manual payment method in commercial banks to automated payment method through core banking solution; and a shift from cash to card and other payment methods. This actually paved the way of DFS in Bangladesh, which is followed by the initiatives below:

- > Automated clearing system of checks, pay-order and bank drafts are in full-scale operation through the Bangladesh Automated Clearing House;
- > Electronic Fund Transfer has been implemented, which is widely used in credit transfers such as payroll, foreign and domestic remittances, social security, company dividends, retirement, expense reimbursement, bill payments, corporate payments, government tax payments, social security payments and person-to-person payments;
- > National Payment Switch has been installed, which has facilitated the interoperability of ATMs, POS and Internet Banking Fund Transfer;
- > Real Time Gross Settlement has been introduced, which now covers 65% of total bank branches - and 100% coverage will be done by 2020;
- > E-wallet payment service provider has started its operation, which has been a landmark in the history of DFS in Bangladesh;
- > FinTech, such as QR Code and NFC-based transactions has been allowed by BB to operate;
- > All G2P and P2G payments will be automated by 2020;
- > Initiative for MFS Interoperability has been initiated.



CONSUMER PROTECTION AND FINANCIAL LITERACY

To make the financial inclusion initiatives sustainable and responsible, BB has taken numerous steps to ensure consumer protection and financial literacy:

- > Dedicated its own institutional set-up, named 'Customer Interest Protection Centre,' to the grievance redressal system, so that end-level consumers can use a dedicated hotline number, email, fax and app-based complaint management system;
- > Provided comprehensive guidelines to banks for consumer complaint management;
- > Established a three-tier complaint management system in banks;
- > Initiated a countrywide financial literacy campaign through banks and schools for school students, under school banking activities;
- > Instructed banks to improve the financial literacy of agents, under MFS and agent banking;
- > Instructed all banks to increase the level of financial literacy among women entrepreneurs.

STRENGTHENING AML/CFT ACTIONS

With the rising practices of 'De-risking', Bangladesh Bank has been vigilant and strict to preserve the compliance standard of the country's financial service providers, especially in the context of AML/CFT (Anti-Money Laundering/Combating Terrorist Financing) issues. As part of this stance, the following initiatives are noteworthy:

- > Established an independent Financial Intelligence Unit named BFIU in 2012, which is a member of Egmont Group and current Co-chair of Asia Pacific Group on Money Laundering;
- > Banks, NBFIs, Insurance Companies, MFIs, Capital Market Intermediaries, NGOs/NPOs, Money Changers, Courier Services, Postal Remittance Business have been subject to AML/CFT regulation and supervision;
- > Stringent measures have been taken to prevent illicit fund flow through MFS;
- > Full alignment of AML/CFT regulations with FATF standards has been made;
- > Activities regarding the initiation of e-KYC are in progress.

**FORTIFYING RISK MANAGEMENT**

To prevent the creation of 'credit bubble' and to fortify financial stability, in order to make financial inclusion initiatives sustainable, the following key actions have been taken in the context of risk management:

- > Implementation of Basel-2 and Basel-3 on time;
- > Stricter minimum capital requirement for banks than the Basel standard;
- > Stringent liquidity management standards for banks, supplemented by rigorous monitoring;
- > Separate risk management structures in all banks, which are monitored under the Risk-Based Supervision approach.



MFIs IN FINANCIAL INCLUSION

The limitations of the formal financial market to cater to the needs of the poor led the MFIs to operate specifically in the rural areas, since the 1970s. These initiatives included the provision of credit for the poor and other development inputs. Over the years, the microfinance sector has expanded rapidly in Bangladesh, in terms of the number of microfinance NGOs (MF-NGOs), number of branches and active membership. There was no formal regulatory framework for the MFIs until 2006. The government established the Microcredit Regulatory Authority (MRA) in 2006 to bring transparency and accountability, and to enhance the efficiency of the MFI operations in the country. With the limited role of formal banks, higher access to financial services especially by the poor in the rural areas has largely been achieved through the deepening of microfinance operations in the country.

The microfinance sector is financed by several sources, such as savings collected from the clients, cumulative surplus (profit) of the organization, concessional loan received from sources such as the Palli Karma Sahayak Foundation (PKSF),¹ grants received from national and international donors, and commercial bank borrowing.

Along with a widening network of MFIs, the sector has also witnessed a rising volume of loan disbursement and an increasing number of outstanding borrowers. Evidence shows that the overall volume of microcredit services is relatively high in the rural areas. The access to microcredit by poor households, particularly in the rural areas is relatively high in Bangladesh. Moreover, different studies also show that in rural areas, women entrepreneurship financing and agricultural financing are largely dependent on MFIs. To continue this journey, MRA, the regulatory body has taken important initiatives to strengthen this sector:

- > The establishment of “Microfinance National Database” and “Digital Mapping of Microfinance Access Points in Bangladesh” has been completed;
- > The Depositors Safety Fund has been created;
- > An online monitoring system has been established to ensure transparency in the sector;
- > Primary initiatives for the establishment of ‘Microfinance Credit Information Bureau (MF-CIB)’ have been done and next steps has begun. MF-CIB is expected to be in operation by June 2020.

INSURANCE AND CAPITAL MARKET INTERMEDIARIES IN FINANCIAL INCLUSION

For financial inclusion, in addition to mainstream insurance sector, micro-insurance is also an important area, which is given mostly to the low-income population. In Bangladesh, the vision for micro-insurance will be to extend financial inclusion in the insurance domain so that individual consumers, particularly low-income households who are currently excluded from insurance services, are able to access and use insurance services appropriate to their needs on a sustainable basis. Currently, 17 life insurance companies are offering micro-insurance services. The micro-insurance products offered by the life insurance companies are life, micro Takaful and endowment insurance. The micro-insurance products offered by the non-life insurance companies include health, flood, crop and livestock. However, most of the non-life products are in the pilot stage. Yet, challenges remain for transforming insurance regulations to make them conducive to micro-insurance, enhance the knowledge and know-how of insurers on micro-insurance, enhance product innovation, adopt new and innovative marketing methods, and create public confidence in the insurers. Apart from that, IDRA, the regulatory body for insurance companies, is going to launch a new insurance product for wage earners Bangladeshis residing abroad.

Capital market in Bangladesh is yet to serve the underserved segment of the population. Due to the absence of active bond market and the lack of appropriate credit scoring methods for MSMEs, capital market instruments for financial inclusion are yet to be developed. However, the issuance of ‘Alternative Investment Rules’ in 2015 has opened the avenue for venture equity, impact fund, which seems to be very promising for MSMEs and start-ups. In the context of financial literacy, BSEC, the regulatory authority launched a ‘Nationwide Financial Literacy Program’ for increasing the awareness on capital market instruments and its risk profiles.

¹ PKSF is a government financial intermediary dedicated for funding the MFIs in Bangladesh.

THE COOPERATIVES

Cooperatives are social institutions in which members work together to promote socioeconomic development, sharing ownership, and making decisions in a democratic manner. Cooperatives in Bangladesh are monitored by the Department of Cooperatives under the Ministry of Local Government Rural Development and Cooperatives. There are more than 176,841 cooperatives in Bangladesh, among which 22 are at the national level, while 1184 and 175,635, are at the central- and primary-levels, respectively. The total membership is more than 10 million. Historically, cooperatives have been playing a strong role in promoting financial inclusion, especially among the members, by introducing financial inclusion plans along with their other functions. Although most of the cooperatives' members have difficulty in accessing formal financial services, the cooperatives are challenging concerns within shadow banking that are not assessed properly in Bangladesh.

BANGLADESH POST OFFICE

The BPO has been playing an important role in providing access to financial services in rural and remote areas of Bangladesh.

With an extremely large and far-reaching network of about 2,000 post offices and 8,500 rural outlets, the BPO has been offering remittance services, savings accounts, and life insurance schemes.

In 2010, the BPO embarked on developing and providing innovative digital financial services, and launched a new Mobile Money Order Service and Postal Cash Card, as well as a mobile financial service at the end of 2012. These new services, which primarily targeted the unbanked population in rural and remote areas, have enjoyed considerable success. At present, the functions of the BPO can be categorized into three segments: (i) postal services; (ii) agency services; and (iii) financial services. Financial services include life insurance, savings bank, savings certificate, money order, postal order, electronic money transfer service, and postal cash card.

EKTI BARI EKTI KHAMAR & PALLI SANCHAY BANK - A UNIQUE STORY

Ektee Bari Ektee Khamar i.e. One House One Farm (OHOF) is a poverty alleviation project initiated by the Government of Bangladesh in 2009. The intrinsic goal of the project is poverty alleviation and sustainable development through e-financial inclusion, i.e. fund mobilization followed by family farming livelihood and income generation of the under privileged smallholders of the country. To give continuation and permanent shape to the project and to make the country poverty-free, the government has established a specialized online Bank for the poor, named Palli Sanchay Bank (PSB), i.e. Rural Savings Bank. The Bank has started working and functioning with 485 branches in 485 Upazila headquarters. The OHOF project is mandated to ensure the utilization of human and economic potential by creating working

opportunity for 6 million households (i.e. 30 million hardcore poor), forming capital by grant and micro-savings through e-financial inclusion or online banking, and by developing skills and family farming.

BANGLADESH AND ALLIANCE FOR FINANCIAL INCLUSION - BONDING FROM BEGINNING

The relationship between Bangladesh and AFI began in 2009 when BB became the Principle Member of AFI. In 2011 and 2012, the MRA and Ministry of Finance of Bangladesh, respectively, became associate members in AFI. BB also played a pivotal role in the transformation of AFI into an independent organization. Bangladesh has representations in all AFI working groups and persistently provides peer review support in policy development on the financial inclusion of Bangladesh. AFI has been playing a great role in disseminating the financial inclusion successes of Bangladesh at a global level. BB was honored with the 'AFI Policy Award' in 2014 for its astounding achievement in promoting MFS. The targets and commitments of BB and MRA made in the AFI 'Maya Declaration' commitment platform have helped these organizations to undertake several policy initiatives such as the National Financial Inclusion Strategy (NFIS). BB played an important role in formulating AFI's 'Sharm El Sheikh Climate Change Accord,' following its pioneering experience in green banking. Mr. Fazle Kabir, Governor of Bangladesh Bank is now the Chair of AFI's Board of Directors.

NATIONAL FINANCIAL INCLUSION STRATEGY - THE NEXT HORIZON

Bangladesh is now undergoing a period of 'double transition' - with its recent entry to the LMIC group (2015) and forthcoming graduation from the LDC group (2024). The availability of appropriate and affordable financial services improves the welfare of poor people since they can use their money more efficiently. They can start saving and also gain access to financial products such as loans and insurance. Furthermore, banks and other financial institutions are able to mobilize these savings for investments that, in turn, can help grow the country's productive sectors. The whole financial system becomes more efficient and a driver for economic growth. Meanwhile, an improved financial infrastructure reduces contracting and transaction costs, which can further accelerate growth.



Prime Minister of Bangladesh, Sheikh Hasina greets HM Queen Maxima of the Netherlands and UN Secretary General's Special Advocate for Inclusive Finance for Development

This is the basic premise of the need for a NFIS, as it will:

- > Provide a comprehensive framework with all stakeholders’ consultation;
- > Facilitate prioritization and coordination through leveraging synergies;
- > Develop a national definition of financial inclusion;
- > Create a coordinated platform to include the excluded or vulnerable groups and sectors, who are often exposed to income, wealth and climate change shocks;
- > Minimize marginalization and vulnerabilities amid Bangladesh’s transitions;
- > Leverage on technology for the reach and sustainability of inclusion initiatives;
- > Bridge the FIRST and LAST mile of inclusion;
- > Create a VIRTUOUS CYCLE of Innovation, Demand, and Trust for Sustainable inclusion to respond to the bottom-up demand.

Moreover, as a leading member of AFI, Bangladesh committed internationally in 2014 to develop its NFIS, being one of the signatories of the Maya Declaration. This commitment was reiterated in 2015 during the visit of Her Majesty Queen Máxima of the Netherlands to Bangladesh, who is also the UN Secretary-General’s Special Advocate for Inclusive Finance for Development (UNSGSA).

Thus, BB and the Ministry of Finance took an initiative to develop a complete draft of NFIS for Bangladesh, with the support from the UK Government. This initiative began in 2016 and by October 2018, the final draft along with a diagnostic study report, will be submitted to the Cabinet of GoB, which is the apex approval authority of NFIS for Bangladesh. The time period for the implementation of the first NFIS for Bangladesh has been scheduled for ‘2019-2024’ in the draft.

Four diagnostic studies (Banking Sector, MFI Sector, Insurance Sector and Definition of Financial Inclusion) and a short demand side survey were conducted in line with this approach. The results identified three core dimensions, as listed below:

- > All adults need to have individual, full-service, safe and secure electronic bank account;

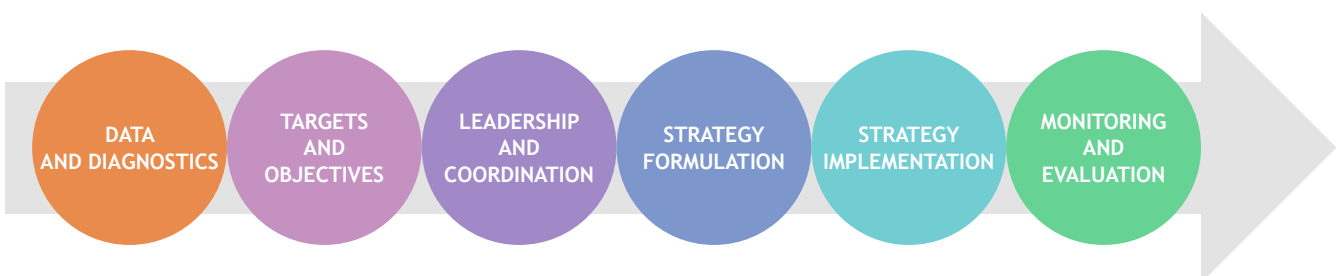
- > Each account holder needs to have access to electronic financial service points within acceptable distance, with cash deposit, withdrawal and transfer facilities in a secure environment and at reasonable charges;
- > All households and businesses (especially low-income families and MSMEs) need to have convenient access, at reasonable prices/charges, to: (i) a full range of suitable formal credit and other financial products; (ii) suitable deposit and investment products; (iii) a range of insurance (including micro insurance) and risk management products; and (iv) legally protected rights to be offered only suitable financial products and services by the providers, and the right to make informed decisions.

The development experience of NFIS has shown that financial inclusion is not a tool of financial sector development alone. It recognizes that the transformative power of financial inclusion lies in its ability to deliver a full spectrum of tailored financial services by a diversity of service providers to households, including payments, savings, insurance and credit. Further, policies are also needed to address the development of the financial sector infrastructure and distribution networks, such as electronic payments and branchless or agent banking options that enhance physical access for the majority. These policies could be guided by regulations that preserve responsibility and transparency on the part of financial service providers and protect the interests of consumers.



Bangladesh Finance Minister, Mr. A.M.A. Muhith speaks at National Workshop on NFIS of Bangladesh

ADOPTED APPROACH DURING THE FORMULATION OF THIS STRATEGY



KEY LESSONS AND WAY FORWARD

As mentioned in the earlier segment, any public or private institution cannot ever do financial inclusion alone, even if it is a regulatory authority. Collaborative, coordinated and coherent effort and initiatives from all stakeholders are inevitable for sustainable financial inclusion towards inclusive socio-economic development.

The commitment and leadership from the decision-making level of the country and the institutions must spearhead these efforts. This is the foremost important lesson learned from Bangladesh's journey of financial inclusion. The experiences have also shown that the right balances between and among innovation, technology, regulation and risk management are indispensable. Innovation is essential, however, if the innovation can't be balanced by facilitating regulation, the major share of outcomes will be at risk to be vaporized. Similarly, appropriate risk management must supplement the usage of technology.

As FinTech emerged, cyber security has been the key concern for the regulators, financial service providers and the consumers as well. Without sufficient security measures, the consumers' confidence may decrease, which can trigger the ultimate danger for any financial system; to retain and increase consumers' confidence, strong consumer empowerment framework with sufficient legal shelter for consumers is essential. Financial literacy is also an inevitable element in this context, as it not only creates awareness among consumers but also makes them responsible when using financial services. Financial literacy is not merely to create awareness; rather, it is a permanent process of ingraining knowledge on responsible financial services usage by individuals, households and businesses.

For sustaining the inclusion initiatives in the financial landscape, there are still miles to go for widening the access and increasing the usage of women and youth in financial services within Bangladesh. To move ahead from these lessons, finding the right model or approach for the country is the way to gain the desired outcome in this ongoing journey. The road to financial inclusion varies from country to country, community to community. The 'one size fit for all' approach will quickly ruin the hard work and efforts done thus far.

To find that endogenous model, the next challenging trajectory for Bangladesh will be the implementation of NFIS. To overcome that challenge, the key doable will be:

- > Establishing a coordinating platform at the national level for financial inclusion;
- > Integrating biometric ID to formal financial service accounts for simplifying KYC;
- > Implementing specific policies and tailored products for women and youth financing;
- > Gradually incorporating interoperability between and among all bank and MFS accounts;

- > Encouraging partnership between and among banks, insurance companies and MFIs to widen the access and usage of insurance and payments products;
- > Enhancing the data analytics capacity and FinTech knowledge across relevant government agencies and regulatory bodies;
- > Promoting the sharing of common industry infrastructure through ensuring safety and security by FSPs for reduction of cost to consumers;
- > Strengthening the consumer empowerment framework and financial literacy actions;
- > Fortifying the corporate governance practices of FSPs and private sector by regulatory bodies;
- > Strengthening the risk management structure and practices in FSPs;
- > Conducting regular self-assessment of regulatory capacity and the governance level of regulatory bodies.

Financial Inclusion always offers two alternative roads - leading either to stable, inclusive and sustainable financial system, which always serves the financial needs of all segment of the population for their economic empowerment that instigates social stability; or the road creates the potential for exclusion of underserved, maximizes marginalization and vulnerabilities amid economic transitions, and increases risks in diverse financial services.

Bangladesh has chosen the first road. The journey has not been smooth so far. However, the lessons have been learned. The government, the regulatory body has always been, still is and will be committed to retain and uplift the confidence of the consumers within the financial sector. The financial sector does not only deal with money and finance, but also the trust of the people at large. So, the foremost priority of Bangladesh in its financial inclusion journey has always been to gain the confidence and trust of the people, and it will always be so.



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