Journey towards sustainable banking and financial inclusion in Bangladesh through innovation

Md. Touhidul Alam Khan

Introduction:

Bangladesh is experiencing a ‘double transition’ as the country which once used to be a Low Income Country (LIC) has been upgraded to the Lower Middle Income Country (LMIC) in 2015. According to the United Nations’ country classification, Bangladesh that holds the LDC status now will be upgraded to a Developing Country in 2026, being recommended by the UN Committee for Development Policy (CDP). Considering the economic impacts of the global pandemic, the CDP recommended that Bangladesh have until 2026 to get ready for its transition from a least developed country to a developing one. Finance is treated by the government as a powerful tool to accelerate growth and promote shared prosperity. The country has formulated development strategies that recognize the need for sustainable national development which depends on multifaceted financial services being available within the reach of the entire population. Bangladesh aims at building an enlightened, happy, and prosperous country without the ills of corruption, hunger, inequality, illiteracy, and poverty where the environment is healthy and the citizens have the complete ownership of the country. So, inclusive development requires people’s access to finance as an important prerequisite. Developing economies like Bangladesh’s experience a constantly emerging and changing nature of businesses and jobs due to natural disasters, technological evolution, and supra-normal situations like COVID-19 and necessitates new and innovative financial products. The current population includes an increasing number of educated and tech-savvy young people who make a growing pool of potential customers of upcoming financial services. The way of financial engagement is undergoing a positive change due to the adoption of ICT that introduces new opportunities of digital credit, e-commerce, and FinTech which foster financial development at different stages by means of more interactive and intuitive technologies like Artificial Intelligence (AI), Blockchain, Big Data Analytics, Internet of Things (IoT), Machine Learning (ML), etc.

Despite all these remarkable advances, financial exclusion is commonplace, and the three factors are responsible:

(i) difficult-to-access or remote localities which include sparsely populated and hilly areas; char, haor, and areas with rough and difficult terrain; and other relatively underdeveloped regions with poor infrastructure;

(ii) impediments induced by demands which include low daily or monthly incomes, social exclusion, lack of standard financial education, and some other common constraints that hinders economic opportunities; and

(iii) bottlenecks led by the supply system which includes bank branches located distantly, cumbersome requirements for procedures and documentation, inconvenient timings, unsuitable products and services, ineffective delivery mechanisms, and other common factors to lead to the financial exclusion of specific groups.

Over the last several decades, Bangladesh has managed to stabilize and strengthen the financial system, which is marked by the rapid growth of the country's financial resources. The financial system of the country has seen rapid yet positive changes, particularly in its response to the changing structure and ongoing transformation of the mainstream economy. The IMF published Financial Access Survey (FAS) in November 2020 which shows that Bangladesh, in spite of its recent developments, still has the ability to gain an average position on most indicators of financial inclusion among the South Asian countries which themselves are maintaining low numbers relative to the global standards. Financial inclusion in Bangladesh is conceived comprehensively with the following five dimensions:

i) Easy access to an extensive range of reliable and quality financial products and services, including savings, insurance, credit, and payments;
ii) Affordable products and services delivered conveniently to ensure complete protection of clients' interests and dignity;
iii) Conscious consumers to contribute to well-informed and prudent financial management decisions;
iv) Available financial products and services for all classes of people, and
v) Need for a wide network of trusted providers, a well-constructed financial infrastructure, a standard regulatory framework, and uninterrupted delivery of quality

financial services that meet clients' demands through a competitive, diverse, and dynamic financial market

Objectives of NFIS

i) Increase the scope of financial inclusion (ensuring that every individual has access to at least one authentic and regulated financial service) for all adult citizens to 100% by 2025, which needs to be measured by a nationally accepted evaluation framework as part of the advances towards a 'cash-lite society';
ii) Ensure the accessibility and availability of a full range of products that can serve in various segments of the market with the right amount of utility to meet the variable demands of different enterprises and population groups;
iii) Create an active and robust financial infrastructure based on digital means including DFS, Regtech, Fintech, etc. and powerful interfaces using advanced technology for financial services and products along with their delivery channels that are widely used by banks, financial institutions, MFIs, post offices, insurance companies, and different other institutions.
iv) Transform the informal sectors to the formal ones bringing them under an all-out financial inclusion program.

Background

It has been over a decade that Bangladesh keeps achieving slightly more than 6.5% of real growth in GDP. In the FY 2018-19, the figure has touched the 8% landmark which shows the country's strong and rapid trends of growth in the upcoming years. This resilient economic foundation has made it possible for the country to achieve 5.24% GDP in FY 2019-20 despite a massive strike of the global pandemic called COVID-19 (SARS-CoV-2). Several initiatives toward inclusive financing with the implantation of those objectives into the mainstream financial sector is one of the principal drivers of the country's stable and consistent success in pursuing an inclusive development goal. At present, the Government has adopted certain policies which guide and regulate financial institutions that actively promote the initiatives to financial inclusion. These initiatives, which facilitate the flow of credit, finances, and other services to the vast majority of farmers and projects including small and marginal; CMSMEs or cottage, micro, small, and medium enterprises; and various other activities/ groups that remained financially excluded for so long, have helped with the enhancement of macro-financial stability and incremental outputs on the country's supply side while creating additional employment opportunities and income on the demand side. The long-term goal of the country is to become a developed country in two decades (2041), which is included in the Perspective Plan of Bangladesh (2021-2041). For the plan, some explicit medium-term objectives/ goals have already been stated under the Government's Vision 2021. There are other strategic plans which include the Perspective Plan (2010-2021), and the 7th (2016-2020) and 8th (July 2020-June 2025) Five-Year Plan. The country has also eyes on achieving the Sustainable Development Goals (SDGs) by 2030.

Financial Inclusion- Bangladesh Perspectives

Bangladesh has established its position as a pioneering country to have made significant strides towards financial inclusion and its vision 'Digital Bangladesh'. The country's recent development in its financial sector, varied heritage in credit and microfinance, widespread adoption of digital finance and mobile financial services (MFS) are recognized at a global level. The government's effort to consider financial services as drivers of shared prosperity and inclusive growth. Access to financial services and their usage have significantly positive impacts on the socioeconomic outcomes that are perceived by businesses and households. Moreover, this access and usage are considered as essential factors to poverty eradication. On the other hand, financial exclusion being persistent has negatively affected inclusive growth, shared prosperity, social cohesion, financial stability, and income equality. Bangladesh's development strategies suggest that national development be undermined without the availability of financial services in an expanded manner among the population. As the country has the aim to build an enlightened, happy, and prosperous Bangladesh where people will not suffer from corruption, hunger, illiteracy, inequality, and poverty, and they will have complete rights to their country, easy access to financial products/ services is a prerequisite to inclusive development. The aim of the 7th (2016-2020) and 8th (2021-2025) Five Year Plan is to plan and continue actions of reform across the policies, infrastructure, supervision, and regulations of the financial sector to allow the underserved sections of the population within the informal sectors that include household and micro enterprises to receive financial services and deepen the markets by introducing relevant products/ services. Since the development agenda of the country need to be realized properly, harnessing the transformative power that derives from financial inclusion of the underserved and unserved enterprises and groups including the CMSMEs is essential. Financial inclusion can bring the excluded sections into the mainstream and formal financial sector by allowing them easy access to different products/ services. Therefore, it is considered an essential pillar of the financial policy to ensure equitable and sustainable growth of Bangladesh.

Financial Inclusion-Where Bangladesh Stands

The rapid growth of Bangladesh's economy is one of its powerful drivers to facilitate financial inclusion. With an annual GDP growth of more than 6% over the last decade, Bangladesh has seen a wider distribution of gains where agricultural modernization and migration have contributed to growth in a relatively even pattern along with persistent income inequality represented by the Gini Index or Coefficient which was marginally rising in the 2000s. New employment opportunities in the export industries like RMGs and foreign remittances from Bangladeshi immigrants and migrants have fostered development which has helped reduce the size of the population below the national and extreme poverty line, causing the proportion to decline from 49% (2000) to about 21% (2018).

In Bangladesh, occupational relationships keep changing which create demands for financial products that are new. According to the Labor Force Surveys (2006 - 2017), a remarkable increase has been noticed in the available employment opportunities in different sectors including the industrial sector (rising from 15% to 20%) and the service sector (from 37% to 39%) where the agricultural sector is an exception to see a decline from 48% to 40% of employment. The proportion of salaried manufacturing jobs has grown enough to provide higher and more stable earnings which bring employees an incentive to look for formal financial products/ services to manage their cash flows. Among 24 million paid adult employees in 2017, 57% received salaries in monthly installments, and 34% received daily payments. Of all paid laborers in the agricultural sector, 61% got paid on a daily basis. In addition, a large portion of this labor force is still self-employed, and they carry out work without payments. The size of this particular group keeps declining relative to paid labor, but their financial needs are evolving, particularly the self-employed individuals and small business owners. This population will surely increase the need for new financial services in the coming years.

An important customer base for innovative financial products comprises mostly the educated young population. Bangladesh has more than half of its population aged under 35 which also coincides with higher levels of education, demonstrated by the increasing size of the mainstream labor force to have attained tertiary education, or higher secondary, to say the least. So, the country has hope or optimism as to the potential cohort of conscious financial consumers. However, this inclusion rests mostly on the ability of the education system to instill among the population the fundamental and essential financial skills.

Increasing adoption of the internet and mobile is changing how financial engagement occurs among the current generations, which also introduces new opportunities for mobile commerce as well as e-commerce. This accelerates financial development with the usage of more intuitive and user-friendly smart-phone applications. With the growth of internet penetration, most aspects of the conventional service provision are moving fast online to reduce the need for face-to-face interactions. Only the adoption of smartphones is not responsible. Ownership of personal computers is also a driver of demand for mobile or internet banking. All these factors quicken the widespread progress towards the international standard of online commerce and digital payments.

Technology with its role also raises valid concerns about digital division between men and women, which reflects considerable differences in the use of and access to digital technology. The increasing adoption of financial services through digital means causes this division to become an important aspect of financial inclusion. As supply chain systems are getting increasingly complex, demand for digital financing and different payments solutions is noticeable. The country's economy experiences a transition from its conventional trend to a more export-oriented and interconnected form that creates great opportunities for the financial sectors and the companies operating within it. For example, associated major exporters being part of different interconnected ancillary business entities with a long-held working relationship can promote the use of lending modes such as value chain and cluster financing, where many intermediary parties may provide finances to various groups within the supply chain system. Intermediation can also occur owing to financing in the supply chain where relevant parties can secure working capital at short notices along with different assets such as accounts receivable or inventory being used as the collaterals. Thus, companies meet a new source that provides them with liquidity. Because this relies on certain tools like contract security, companies are likely to reap benefits from new technologies in the financial sector like the block chain.

Included in this particular strategy paper is a detailed analysis of the present scenario of opportunities for and constraints to financial inclusion to identify measurable goals, the ways for Bangladesh to reach those goals, the schedule and measures to assess the achievement and progress of the implementation of the strategy. This paper presents an in-depth and analytical assessment of the financial inclusion strategy and infrastructure, elucidating the current status and assistance to identify the existing constraints to suggesting priorities of policies and expanding the strategy of financial inclusion. These comprehensive diagnostics use information about both supply and demand relating to the use of and access to financial services and products.

In Bangladesh, behind financial inclusion are three major factors: (i) localities that are difficult to access: remotely located and sparsely populated hilly areas; char, haor, and similar other areas with tough terrain; and areas with underdeveloped infrastructure; (ii) impediments that are induced by demands: poor income, lack or unavailability of financial education and awareness, social segregation or exclusion along with other constraints that restrict economic opportunities; and (iii) bottlenecks that are led by the supply system: distantly positioned bank branches, inappropriate timings, time-consuming documentation, cumbersome requirements and prolonged procedures, inconvenient delivery methods, unsuitable products, unfriendly staff, etc. that exclude specific groups. There are other factors such as limited or no access to the ownership of land, limited financial capability, and collateral for the female population and persistent lack of formal identification.

Bangladesh has become a leader in MFIs across the globe alongside its private and state-owned commercial and specialized banks, non-bank financial institutions, and insurance companies. Banks can develop alternative banking and financial channels by including ATMs and multibank switches namely Q-Cash, Cash Link, and Omnibus. MFSs have presented a tangible opportunity to create an alternative banking channel to make the points of transaction more accessible and widely available. Banks have been trying to establish agent banking as a formidable alternative for remotely located consumers, particularly in rural areas where they can access different financial services. The networks of Agents can rapidly help to improve the breadth and scope of the entire financial system.

Over the past few decades, the financial sector of Bangladesh has gained rapid changes, in response to the ongoing economic transformation and the fast-changing structure of the economy. The landscape of financial inclusion keeps undergoing impressive improvements. Connectivity being improved and infrastructure being expanded rapidly are lowering the expenses of expanding financial institutions and conventional 'brick-and-mortar' banking branches along with their touch points which are being supported by strong digital networks. The country has seen a rapid expansion of its network of institutions, which is accelerated by the expansion of both quasi-formal (e.g. cooperatives, MFIs, etc.) and formal (e.g. banks) institutions and through new ideas, technologies and experiences. The Global Findex data by the World Bank Group and the Financial Access Survey (FAS) by the IMF are widely accepted as standard and reliable data on the status of financial inclusion in different countries.

The latest edition of the Global Findex came into public in 2017. In order to contextualize the current status of Bangladesh's financial services, the following table contains key FAS indicators as published by the IMF in November, 2020, which show that Bangladesh has achieved significant progress, especially in terms of the numbers of depositors, ATMs, outlets of mobile money agents, registered mobile financial accounts, and transaction values from 2017 to 2019.

Table 1: Bangladesh's Progress of Key FAS Indicators

Key FAS Indicators	**2018**	**2019**
Number of ATMs per 100,000 adults	8.89	9.39
Number of commercial bank branches per 100,000 adults	8.94	9.00
Number of depositors with commercial banks per 1,000 adults	787.72	848.87
Number of borrowers from commercial banks per 1,000 adults	83.13	82.95
Outstanding deposits with commercial banks (% of GDP)	48.39	48.32
Outstanding loans from commercial banks (% of GDP)	42.79	41.86
Outstanding small and medium enterprise (SME) loans from commercial banks (% of GDP)	8.89	8.96
Number of registered mobile money agent outlets per 1,000 km2	6,790.85	7,468.34
Number of registered mobile money accounts per 1,000	582.25	672.62

adults		
Value of mobile money transactions (during the reference year) (% of GDP)	16.85	17.10

Although the key FAS indicators above were published by the IMF in 2020, they contain data from 2019. Bangladesh Bank, the central bank, collects relevant data regularly from all financial service providers of the country where the total number of ATM machines, Bank Branches, MFS Accounts, Deposit accounts (with Special A/C), Agent and School Banking accounts are included.

Table 2: Financial Inclusion Statistics of Bangladesh

Key FAS Indicators	2018	2019
Number of ATMs per 100,000 adults	8.89	9.39
Number of commercial bank branches per 100,000 adults	8.94	9.00
Number of depositors with commercial banks per 1,000 adults	787.72	848.87
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Value of mobile money transactions (during the reference year) (% of GDP)	16.85	17.10

Table 2 shows the gradual progress in the number of Agent Banking Accounts, Deposit A/C (with Special A/C), and MFS Accounts from 2017 to 2020. Considering the existing scenario indicated by the above tables, an opinion can be formed that Bangladesh has made progress in both its delivery of financial services and strategy for financial inclusion during the years 2017 to 2020.

The global pandemic known as COVID-19 with its consequent effects on most sectors of the country's economy has impacted this progress in ensuring access to financial services for low-income, unbanked groups. Disruption in all aspects of trade and lockdown have left many businesses within all sectors (formal and informal) highly vulnerable, which include rural and urban enterprises, and sectors like CMSMEs, agriculture, and firms operating within the service industry. The need for support through recovery packages is felt acutely now more than any past period in recent memories. In response to this, the Bangladesh government has already offered stimulus packages which will be distributed and delivered to small, medium, and large enterprises and manufacturers through different banks and financial institutions. Part of the government's effort also includes an inclusive coverage through 'social safety net programs' planned to support the population having extreme poverty. All these initiatives are being carried out with digital financial tools and services so that efficiency and transparency in delivery can be ensured.

Financial literacy is another important and required aspect of financial inclusion as per SDG 4, and lack of this literacy leads to a huge obstacle to progress of widespread access to financial services in the country. Due to financial literacy being not present among the people in rural areas, proper uses of the different financial services cannot be ensured as consumers are yet to be fully aware of their options and rights. The only way out is to increase financial literacy. Interventions can be made with the interests and age of different segments in mind, thereby encouraging them. Digital means to deliver financial services can make financial transactions easier and safer during a situation like the pandemic where social distancing is encouraged and physical visits are not. Thus, people can be encouraged to know about and use the different online modes of transactions.

The existing context therefore signifies how relevant NFIS can be as part of the country's comprehensive strategy to hasten and smoothen the recovery efforts. The act of retaining the positive outcome of advancing financial inclusion that has been achieved in the past few decades includes several challenges which coincide with the activities of macroeconomics recovery from the ongoing crisis. Under these circumstances, NFIS being successfully implemented can help the country overcome the unprecedented challenges of COVID-19 while allowing it to stabilize the national economy towards the broader goals that were set earlier.

National Financial Inclusion Strategy (NFIS) - An Overview

A national financial inclusion strategy (NFIS) is a comprehensive public document formulated at the national level to systematically accelerate the level of financial inclusion in a given country. An NFIS is developed through a broad consultative process involving public and private sector stakeholders, engaged in the development of the financial sector. Typically, an NFIS will include an analysis of the current status and constraints on financial inclusion, a measurable financial inclusion goal, how the country proposes to reach this goal and by when, and how it would assess the progress and achievements of the NFIS. It can be defined as roadmaps of actions, agreed and defined at the national or sub-national level, which stakeholders follow to achieve financial inclusion objectives. It provides an important opportunity to introduce an evidence-based, prioritized, better resourced, and more comprehensive approach to expanding access and usage of financial services. NFIS can harness the enabling foundations and drivers identified as critical to achieve Universal Financial Access, and also build on those measures to promote the uptake and use of a broad range of financial services.

The Rationale for NFIS

Financial inclusion cannot be undertaken by a single institution from the public or private sector, not even a regulatory authority. All initiatives and efforts need to be taken with required collaboration, cohesion, and coordination by all stakeholders to ensure sustainable inclusion towards an inclusive goal of socio-economic development. The leadership and commitment need to come from the decision-making level that must also spearhead all these efforts. This particular lesson is the foremost one learned from the country's journey to sustainable financial inclusion. Experiences obtained throughout the decades show that regulation, risk management, innovation, and technology need to be put in the right balance.

As much essential innovation is; regulation is equally required to balance the outcome of the innovations. Otherwise, the outcomes will not be perceived completely. Similarly, risk management has to be appropriately handled to supplement the overall usage and adoption of technology.

With the emergence of FinTech, companies that provide financial services, consumers that use them, and the regulators have recognized cyber security as the key concern. Lack of sufficient and powerful security measures will result in the consumers' confidence being decreased and consequently a serious threat to the financial system. A consumer empowerment framework needs to be formed with relevant legal shelter so that consumers' confidence can be increased and retained. An inevitable requirement of this context is financial literacy that not only makes consumers aware but also keeps them responsible as they use different financial services. More than a way to raise awareness, financial literacy is a sustainable process of imparting knowledge and instilling a sense of responsibility in businesses, individuals, and households as they use financial services.

To make sure that the initiatives to maintain inclusion in the current financial landscape, Bangladesh still has miles to go. Access to and usage of financial services need to be widened for both women and the young generations. Moving forward with these lessons, Bangladesh needs to find the right approach or model to make financial services accessible to all segments of the population as the path to sustainable financial inclusion significantly varies from community to community, country to country where any 'one size fits all' strategy or approach may ruin all the efforts and hard work quickly.

If Bangladesh needs this endogenous model, NFIS implementation will be its first challenging trajectory for which the following points need to be considered as key tasks:

- Preparation for a national coordinating platform for financial inclusion;
- Use of biometric ID in formal financial system and service to simplify the KYC;
- Formulation of relevant policies and tailored services/ products for financing for the youth and women;
- Incorporation of proper interoperability among and between banks and MFS accounts;
- Promotion of partnership among and between all banks, MFIs, and insurance companies to ensure the access to and usability of payment products, insurance, and other products;

- Enhancement of FinTech knowledge along with building capacity for data analytics across relevant regulatory bodies and government agencies;
- Promotion of the act of sharing common infrastructure with adequate security and safety by FSPs for the reduction of expense to different consumers;
- Formulation a framework that empowers consumers and promotes actions towards financial literacy;
- Fortification of corporate governance policies and practices by the private sector and FSPs;
- Reinforcement of the structure for risk management and related practices by FSPs;
- Conduction of self-assessment on the regulatory capacity along with the level of governance in regulatory bodies.

Promotion of Inclusive Finance:

Bangladesh Bank should consider the contribution of green financing and CMSME to employment generation, food security, environmental conservation, poverty alleviation, and agriculture, and take them as the priority sectors where financial inclusion can take place.

Here is a look at the actions taken by Bangladesh Bank in this regard.

Agricultural Finance:

- Formulation of a detailed annual policy for banks and other FIs to follow, covering 110+ crops;
- Arrangement for refinancing agricultural production facilities worth over BDT 10 billion including milk production, sharecroppers, jute production, and artificial insemination;
- Credit disbursement at 4% or a lower interest rate for crops like spices, pulses, maize, and oilseeds, through interest-based subsidy;
- Schemes for refinancing designed to support entrepreneurs and farmers working within the scope of the agriculture value chain, who were badly affected by the pandemic
- Priority for female farmers along with concessional rates to be announced for coastal and tribal farmers;
- Promotion of contract farming, area approach, and revolving of the crop credit limit.

CMSME Finance:

- Credit disbursement of different banks and other NBFIs needs to be one-fourth of the total disbursement by the year, 2021;
- CMSME credit to be disbursed among women entrepreneurs by at least 15% by 2021;
- Disbursement of refinance schemes to support CMSMEs that were affected by COVID-19;
- Delivery of advisory services by banks & other FIs;
- Arrangement for a help desk for women entrepreneurs in banks & FIs;
- Promotion of finance specific to areas and clusters;
- Specialized programs for building capacities;
- Refinance schemes worth upwards of BDT 10 billion for CMSME financing.

Sustainable Finance:

- A sustainable finance policy in place so that Green Financing schemes and other finances linked to sustainability (Sustainable agriculture, CMSMEs, and socially responsible finance) can be addressed properly;
- Banks along with other NBFIs to prepare a list of all 68 green projects/ products/ initiatives under all relevant categories that were specific to finance;
- Guidelines for product development to be followed by banks and other NBFIs to foster innovation and facilitate sustainable finance;
- Refinancing schemes oriented toward green finance through four different windows, in foreign and local currencies.

Innovative Products/ Services:

- Promoting credit and savings for the unbanked segments of population, the central bank has adopted proactive measures by providing funding support and policies for various innovative services and products:
- Encouraging different banks to allow all of the 12 unserved and unbanked population to open No-Frill or 10 taka bank accounts;
- Ensuring banking facilities or services for those who are physically challenged;
- Introduction to school banking;
- Ensuring banking services for street children and urchin;
- Refinancing scheme for all users of No-Frill accounts;

- Banking services to be made available for all residences located in every enclave of the country;
- Providing banking services and facilities for the Third Gender population;
- Ensuring that banks and other FIs carry out Corporate Social Responsibilities (CSRs) to contribute to financial inclusion.

Diversification of Service Delivery Channel:

Service delivery channels need to be diverse and used to serve the underserved, rural people through the initiatives below:

- Establishment of 50% of bank branches in rural areas;
- Initiation of agent banking in 2013;
- Adoption of internet/ online banking and app-based financial and banking services;
- Linkage of NGOs and MFIs to various banks for foreign remittance and loan disbursement.

FinTech and Digital Financial Services:

The clearing system for the payment systems in Bangladesh has been experiencing a serious transition from manual to fully automated since 2010. Commercial banks are now shifting from their manual payment methods to the automated solution through a core banking network, which indicates a gradual shift from paper money to ATM cards and various other methods. This resulted in the introduction to DFS, which is administered with the following initiatives:

- A full-fledged automated clearing system being used for bank drafts, checks, and pay orders by the Bangladesh Automated Clearing House;
- Electronic Fund Transfer in use for fund transfers including social security payments, pension/ retirement benefits, domestic and foreign remittances, company dividend, payroll, expense reimbursement, corporate and bill payments, person-to-person and tax payments;
- National Payment Switch being installed to facilitate interoperability across POS, ATMs, Internet Banking solutions, and other Fund Transfer systems;

- Introduction to Real Time Gross Settlement that covers nearly 70% of bank branches along with an aim to ensure 100% coverage by 2021;
- Operation of E-wallet service providers that establishes a landmark in the country's DFS history;
- FinTech systems including NFC or QR Code based transactions being introduced and operated by the central bank;
- P2G and G2P payments to be fully automated by 2021;
- Initiatives for the Interoperability of MFSs being taken;
- Establishment of the ‘Regulatory FinTech Facilitation Office (RFFO)’ in October, 2019;
- Introduction to Digital Credit being carried out by a bank in association with a MFS service provider in 2020.

Payment Systems during Covid-19 Pandemic:

To prevent the COVID-19 from spreading far and wide, the Government of Bangladesh (GoB) had to impose a lockdown and social distancing policy along with movement restriction all over the country for months when only some emergency services were available. Despite these efforts, the negative impacts on the country’s socio-economic condition could not be averted. The countrywide lockdown and restrictions upon movement intruded the rapid spread of COVID-19 to some extent, but at the same time, it affected Bangladesh’s supply chain system badly as small enterprises and marginal people had to face a grief condition with their livelihoods. Since people had to stay at home, payment activities became challenging for them. Under these circumstances, an automated mode of payment that costs low was crucial to the restoration of payment and other financial activities. The central bank took a good number of initiatives to ensure quick access and usability of safe and secure digital payment methods for all.

SMEs and other merchants were permitted to make and receive their business payments through different bank accounts and MFSs with the necessary adjustments of their respective payment ecosystems so that they can continue the supply of emergency medical services, food, and daily necessities. With reduced transaction fees (lowered from 1.85% to 0.8% for MFSs) and increased daily limits for contactless transactions, users of MFSs enjoyed several benefits. The GoB granted soft loans to most factory owners so that the export oriented sectors can be kept active and the livelihoods of their workers can be saved. Their salaries were disbursed directly to their mobile wallets to make sure no third parties were involved and the money reached the intended recipients. MFSs were viewed as emergency services, and the working class was allowed to create new accounts. Consequently, among the 4.5 million industry workers most of whom are women, 3.8 million accounts were registered including 2.2 newly opened mobile accounts. Seeing that the majority of marginal people became jobless during the lockdown, the Honorable Prime Minister (PM) declared an incentive or cash assistance for 5 million marginal families. New mobile and bank accounts were created at short notices so that the cash assistance could be disbursed to the intended beneficiaries. The Automated Clearing House was allowed to continue its operation to clear interbank cheque and settle fund transfers through electronic channels for the daily payments of medical and other emergency services along with the Safety Net programs. Following the direction of the central bank, ‘Business Continuity Plan’ and ‘Critical Service Management’ were introduced and implemented by banks and other financial institutions. The goal was to ensure the delivery of critical services with sufficient cash flow at every Cash Point.

Policy support for various payment systems and collective supervision initiatives were taken during the lockdown to help save the marginal people from losing their livelihoods and the economy from getting tremendously affected by allowing the use of different payment transfer methods. As fund transfers through different digital platforms led by the Government took precedence, people found a way to keep faith in digital payment platforms, which resulted in a remarkable increase in the usage of internet, mobile payments, and e-commerce. Even, the newly experienced popularity of these payment systems is now compared to the same prior to the lockdown.

This popularity has already added a new dimension to the adoption and acceptance of more powerful and secured digital payment modes, which has opened a new window of possibilities for financial inclusion based on digital and automated systems. Organizations in the private sector are bringing new proposals for Fintech services and products tailored to the market demands. It indicates that Fintech services are in demand. So, digital financial services and the concerned sector see positive development even amid COVID-19. Growing trust and participation in digital financial services could not only make the economy resilient but also accelerate it.

In 2011, the central bank formulated a specific regulatory framework to ensure that the income from small value services, especially from IT enabled services (ITeS) be repatriated smoothly. The framework allows Authorized Dealer banks to work with internationally reputable Online Payment Gateway Service Providers (OPGSPs), so the income generated by freelancers and other service providers can be repatriated. In 2019, payment repatriation was allowed through OPGSPs with each transaction not exceeding USD 10,000.

Freelancers can get inward remittances repatriated using international cards, and AD banks have the arrangements to accommodate all facilities to repatriate payments through cards with dual currency features. According to Exporters' Retention Quota (ERQ), there's a limit to the amount that is considered eligible which can be credited in foreign currency to make payments to authentic parties.

Now, freelancers can remit eligible bonafide payments using international cards, but the limit is only USD 300 per year. The ICT Division has issued certificates to recognize IT freelancers' role. That certificate has also helped them get a higher limit (up to USD 500) through OPGSPs.

At present, ITeS providers are allowed to have the ERQ facilities for up to 70% of the total repatriated export incomes. Freelancers can also get the same sort of ERQ facilities in foreign currency. The balance left in the ERQ accounts can be remitted to foreign countries to bear bonafide or legit expenses. It allows freelancers to have internationally accepted cards against their ERQ accounts. Businesses can route their bonafide payments from their ERQ accounts through OPGSPs. During the 2019-2020 fiscal year, the value of IT exports combining freelancers' through conventional banks was USD 265.22 million.

Conclusion:

The strength and stability of Bangladesh's economy comes from the rapid growth of deposit liabilities, loans, and other financial resources over the past decades. Despite the development of the country's financial structure starting in association with the public sector after its independence, the financial sector is being dominated by a whole new generation of private commercial banks. The lessons originating from the edge of such transformation have already been learned. Financial inclusion leads to an inclusive, stable, and sustainable system for managing finances which can go a long way in meeting the needs of the entire population including all segments and empowering them economically to sustain social stability. Bangladesh has not been this far without obstacles. Regulatory bodies as well as the government have always been and will be obligated to increase and retain consumers' confidence in the sector of financial services. Besides involving finance or money, this sector has a lot to do with people's trust. So, the country's priority is and will always be to uplift the trust and confidence of general consumers in the financial sector as part of its journey towards financial inclusion.

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Md. Touhidul Alam Khan is Additional Managing Director of Standard Bank Limited, Bangladesh. He is the fellow member of Institute of Cost & Management Accountants of Bangladesh (ICMAB) and the first Certified Sustainability Reporting Assurer (CSRA) in Bangladesh.