

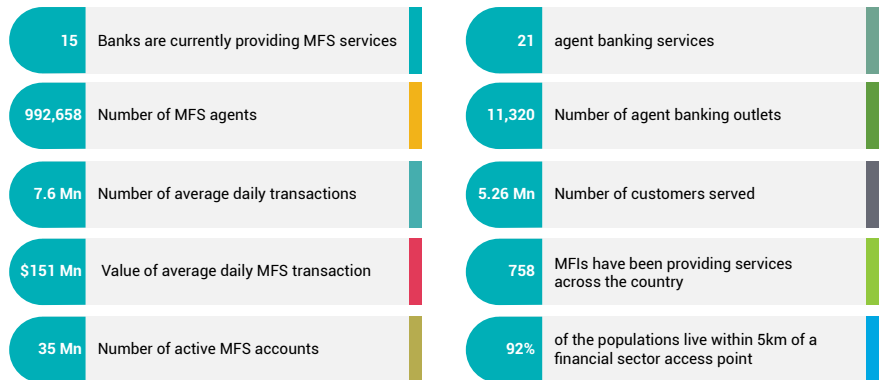
# Post-COVID-19 ICT Roadmap: Financial Inclusion

## How the Roadmap came to be

With the growing certainty that COVID-19 is here to stay, the ICT Division of the Government of Bangladesh is developing a roadmap to fight the pandemic and ensuing crisis and to find innovative ways to flourish in the 'new normal'. Financial Inclusion is one of the 18 priority sectors selected based on the impact of COVID-19 on the sector and its potential for transformation of the economy and society.

## Why Financial Inclusion

Economic distress resulting from the COVID-19 pandemic, ensuing lockdowns, and social distancing has exacerbated the long existing problem of lack of access to finance. Businesses need to switch to online channels, linking up with mobile wallets, mobile and digital financial services (MFS and DFS), and digital supply chain management to mitigate the ramifications of the crisis in the medium term. Interconnectivity between players and analysis of shared data can accelerate financial inclusion. Mobile operators' data on users' recharge; MFS transaction data; microfinance institutions (MFIs) and Microcredit Regulatory Authority (MRA) data on small and medium enterprises' (SMEs) credit; bank and non-bank financial institutions' (NBFIs) transaction data; and emergency relief package disbursement data - can all be used to create a platform that facilitates the inclusion of at least 24 million citizens, pushing overall financial inclusion from 50% to 80%. The data from the platform can be also analysed to design better financial products for different segments of the population.



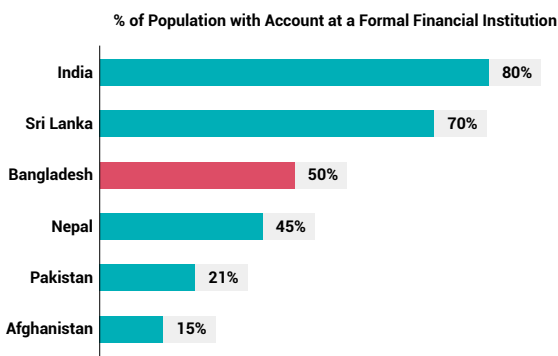
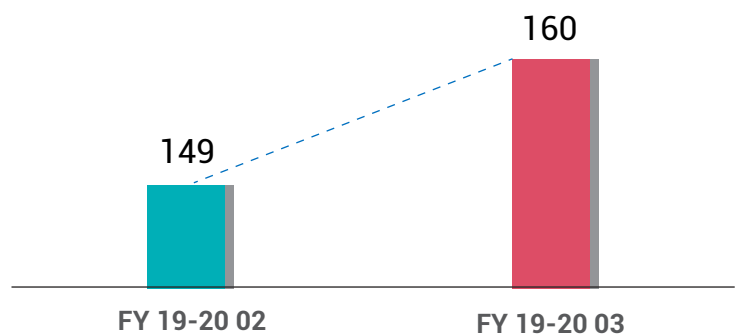
Source: Bangladesh Bank Data

The pandemic and its ensuing crisis has also severely threatened the business operations of SMEs, the lifeblood of Bangladesh's economy providing livelihood for 31.2 million people. Exhaustive documentation has become an obstacle for many SMEs seeking working capital loans, which they are in dire need of now. Collaborating with MFIs and mobile operators in assigning digital credit scores can ensure inclusive distribution of the stimulus package to marginalised SMEs.

## Impact of COVID-19

Despite combined effort of the public and private sectors to ensure greater financial inclusiveness, the disruption of economic activities has drastically reduced all financial transactions (even agent banking transactions), the exception being a 7% Q-o-Q increase in average daily MFS transactions in Jan-Mar FY20 and a 60% rise in electronic payment in April 2020. Only 30% of agent banking outlets are operating across the country, with a whopping 75% fall in their transaction volumes and rising operating costs.

### Average daily MFS transaction (in US\$ Mn)



Source: Global Findex Database, World Bank, 2017

## Constraints

Poor financial inclusion and scanty use of financial services by end consumers; low usage of digital tools like paying through digital accounts, availing and maintaining loans, and insurance and saving packages; reluctance of financial institutions to lend beyond large corporates, with SMEs' creditworthiness being viewed as expensive; absence of specific financial inclusion targets and timelines for achieving a digital economy; and high level of procedural complications in getting approval from the central bank have constrained the efforts that service providers could have undertaken to minimize the intensity of the blow from the pandemic.

Despite the country's efforts in the last few years to propel the engine of financial inclusion, inadequate interaction among banks, NBFIs, MFIs, MFS and DFS platforms, and mobile phone operators regarding data sharing has held back the inclusion

of the bottom of the pyramid citizens into financial channels. This has prevented the most vulnerable populations from availing financial support during the current pandemic.

## Action Agenda

Taking learnings from local and global best practices and to tackle: (i) the effects of the pandemic, and (ii) the existing systemic and regulatory shortcomings regarding financial inclusion, the ICT Ministry is proposing the following five interventions in the immediate short term:

Title	Interoperability to speed up financial inclusion by 10X within 2021	Direct incentives for availing financial services to promote financial inclusion till the middle of 2021	IDigital credit score for SMEs to promote 4X growth	Devise a masterplan for a digital economy to secure a resilient financial ecosystem	The central bank should allow pilot testing before approval of a policy from the end of 2020 (establishing a regulatory sandbox)
Why (To address:)	Poor financial inclusion and use of financial services by end consumers	Low usage of digital methods like paying through digital accounts, availing and maintaining loans, insurance and saving packages	Reluctance of financial institutions to lend beyond large corporates due to assessment of SMEs' creditworthiness as expensive	Absence of specific financial inclusion targets and timeline for achieving a digital economy	High level of procedural complications in getting approval from the central bank
What	Partnership among public and private entities who collect data of end consumers and entities who might use the metadata platform to identify patterns for designing plans for inclusion	Direct incentives to people's accounts on digital transactions	Collaboration with MFIs and mobile operators to offer digital credit scores for SMEs	Blueprint for implementing a digital economy by setting targets within specific timelines	Regulatory sandbox and pilot testing of policies
Lead Agency	Bangladesh Bank	Ministry of Finance	Microcredit Regulatory Authority (MRA)	ICT Division	Bangladesh Bank
Actor	Banks, NBFIs, MFIs, MFS and DFS platforms, mobile phone operators	Financial service providers – Banks, NBFIs, MFS	MFIs, Mobile operators, MFS, Startups	Ministries and departments under the government, financial institutions	Financial institutions and organizations working for inclusion
Coordinator	ICT Division	ICT Division	ICT Division	ICT Division	ICT Division
Facilitator	a2i	a2i	a2i	a2i	a2i
Government Partners	Financial Institutions Division, ICT Division, Credit Information Bureau, Financial Inclusion Department, SME and Special Programs Department, Payment Systems Department, Bangladesh Telecommunication Regulatory Commission, a2i, Microcredit Regulatory Authority, Insurance Development & Regulatory Authority, Palli Karma Sahayak Foundation	Financial Institutions Division, ICT Division, Financial Inclusion Department, Payment Systems Department, a2i - Digital Financial Service Department, Insurance Development and Regulatory Authority	Microcredit Regulatory Authority, ICT Division, Bangladesh Bank – SME and Special Programs Department, Payment Systems Department, Bangladesh Telecommunication Regulatory Commission, a2i – Digital Financial Service Department	ICT Division, Ministry of Finance – Financial Institutions Division, Ministry of Commerce, a2i	Bangladesh Bank, ICT Division, a2i - Digital Payment Division
Private and Development Partners	Banks and NBFIs (especially with agent banking), MFS – bKash, Nagad, Rocket, UCash, MFIs – BRAC, BURO, ASA, Sajida Foundation, Shakti Foundation, Mobile operators – Grameenphone, Banglalink, Robi, Credit and Development Forum, Startups – Sheba, Shopup, UNCDF – SHIFT, DFID	Scheduled banks and NBFIs, MFS – bKash, Nagad, Rocket, UCash, Startups – Pathao, Foodpanda, Shohoz, Sheba, Chaldal, UNCDF – SHIFT, Bill and Melinda Gates Foundations	Banks and NBFIs (especially with agent banking), MFS – bKash, Nagad, Rocket, UCash, MFIs – BRAC, BURO, ASA, Sajida Foundation, Shakti Foundation, Mobile operators – Grameenphone, Banglalink, Robi; Credit and Development Forum, Startups – Sheba, Shopup, UNCDF SHIFT, DFID	UN Agencies, World Bank	Financial service providers - banks, NBFIs, MFS, DFS, insurance companies
Financing and modality	PPP; technological framework from private sector such as IPDC's blockchain-based supply chain finance, bKash's in-house tech, Bank Asia's agent banking database; financial support from private sector such as fundraising strategies by startups and from development partners for developing infrastructure	PPP; funds support from development partners such as UNCDF and Bill & Melinda Gates Foundation	PPP; technological framework from private sector such as IPDC's blockchain-based supply chain finance, bKash's in-house tech, Bank Asia's agent banking database; financial support from private sector such as fundraising strategies by startups and from development partners for developing infrastructure	PPP; technical support from UN Agencies and the World Bank; domestic microsavings	PPP – BB, ICT Division and a2i to be involved in an agreement with financial service providers