FIN-Biz
Finance for All
Volume 5 | Issue 1 | June 2022

- Buttressing Financial Inclusion Trails
- Shift from Informal to Formal for MSMEs
- Covid-19 and Financial Inclusion Gender Gap
- Women's Financial Inclusion What We Need to Know

Accelerating Financial Inclusion

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From the Editor

The patterns and behaviours that the poor households exhibit around financial management, shed light on the complex financial lives they lead in order to survive on variable low incomes. While research and policy debates have focused on access to credit, poor and marginalised groups require access to a full range of financial services to effectively manage their economic lives. Financial inclusion in Bangladesh must hence be studied as a spectrum of services, in order to encapsulate the different dimensions of the populations they aim to service.

Innovations and policy interventions aim primarily at reducing barriers to access existing financial institutions and bringing banking options geographically closer to people, but far more needs to be done. We must develop enabling systems that help reach the unbanked and under-banked such as tele-density (cell phones and landlines) and broadband networks.

For example, the partnership among banks with agent banking operations and with MFS will not only benefit the customers, but will also benefit the banks and providers. Both banks and providers can extend their offerings to customers at a lower cost. It also gives both of them access to each other's customer base. Thus, collaboration ensures a win-win for all.

FIN-Biz

Finance for All

INSIGHTS AND IDEAS
FROM FINANCIAL INCLUSION
NETWORK BANGLADESH (FIN-B)
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Buttressing Financial Inclusion Trails

In the path towards 'financial inclusion for all', 25 August 2021 is a red letter day as the formal circular was issued on the day by the Financial Institutions Division of the Ministry of Finance indicating the launch of the 'National Financial Inclusion Strategy' (NFIS) to ensure that financial services from formal sources are accessible to every household in Bangladesh. Although the task is gigantic, the roadmap set out in the Strategy to be implemented under the leadership of the Bangladesh Bank, undoubtedly inspires confidence.

No doubt, this is indeed going to be an onerous task given the background that about half of Bangladesh's adult population remains unbanked even after 50 years of independence. Despite concerted efforts towards increasing banking penetration through digital and mobile financial services, agent banking, provision of no-frill accounts, easing of know-your-customer (KYC) norms, and services offered by the microfinance institutions (MFIs), the situation has improved rather slowly in recent years.

The reasons identified for slow progress of financial inclusion are many and can be divided into two broad groups--technological and non-technological. The technological issues like machine breakdowns, frequent problems with connectivity, lack of uniform application of technology across banks hamper the seamless experience and impacts confidence of the customers in formal banking. Amongst non-technological reasons, important ones are lack of confidence in salesman-like agents and BCs and their high attrition rate disrupting banking services; limits on daily transaction deterring big ticket customers from using BCs, kiosks and ultra-small branches imposing restrictions on earnings and commission; and time taken, typically up to 10 days in rural areas, in administrative formalities for account opening, credit appraisal, KYC, loan disbursal etc.

For achieving the NFIS goals, along with traditional strategies, the government would have to consider 'out-of-the box' and innovative ideas, if it really wants to make a difference.

Establish credibility

Towards establishing credibilty of the agents and BCs, banks could take advantage of the existing wide network of post offices and provide banking counters for the unbanked population. For the purpose, the banks would pay a 'rent charge' to the post offices for use of their facilities/premises. Even Bangla-language ATMs with audio-video services could be considered. To address the problem of high attrition rate (e.g. due to low commission/earnings), the banks could consider employing local people (especially women) with required education (e.g. housewives, shop owners, people with limited disabilities, etc.) to become agents/BCs to supplement their regular income. To attract and retain people in the agents/BCs business, provision for higher commission could be organised through routing additional financial services through agents/BCs including giving them proper designation and identification cards, with incentivised structured benefits in terms of bonus or absorption in mainstream banking.

Offer an array of products/services to meet diverse needs

With wide diversity in financial needs for the people having unique regional, socioeconomic, occupational, gender and other characteristics along with different types of income streams, it is necessary to have a range of diverse products for the unbanked population. Thus, there is a need to have a variety of schemes for both rural and urban areas. Further, distinct schemes can be offered on the basis of employment pattern of the people. For example, daily wage labourers may be allowed to make tiny deposits on a daily basis.

Organise innovations backed by financial literacy

To address the issue of seamless connectivity, upgrading the hand-held device so that it contains basic information in an offline mode and exploring satellite connectivity technology would be helpful. Technological innovations like integrated machine that has functionality of cash withdrawal and deposit and biometric identification of users, voice commands and narration for all facilities in Bangla-language format could help increase banking penetration.

The most important aspect of financial inclusion is financial literacy. There is a lack of awareness among the people in both rural and urban areas regarding the necessity and advantages of financial inclusion. To increase awareness and interest in products/services offered under different financial inclusion related schemes, advertisements in radio and television and in print media, involving local icons and artistes as brand ambassadors of the campaign, could help in building public confidence. In this context, role of mobile phones and reach of mobile banking could be promising.

Still, the awareness on mobile banking is low and there is reluctance, especially amongst the rural people and women probably due to low technological and financial literacy. In addition, efforts are needed by the bank staff and agents/BCs for promoting mobile banking services. The mobile phones could be used for targeted advertisement campaigns, devised for mass media and locally effective media. Bangladesh Bank and related government agencies could actively participate in these campaigns, communicating mobile banking to be user friendly and safe.

Also, common consumer knowledge among different groups of people especially in the rural areas about dialing to a toll-free number should be leveraged to provide introduction to financial literacy as well as instructing people on steps to use mobile banking. The banks should educate their staff and agents/BCs about latest developments in mobile banking, and mandate them to promote these facilities during financial literacy campaigns in the rural areas. The banks could also revise their commission schemes, incentivising agents/BCs towards increasing mobile banking registrations in their respective locations. The regulators (e.g. Bangladesh Bank, BTRC, MRA, IDRA etc.) could consider commissioning an audit system for the banks, telecom operators and handset manufacturers to certify security levels of mobile banking services across various channels, so that banks and telecom operators can favourably advertise these ratings to improve their customer base.

Involve the local level institutions

For reaching the NFIS goals, there is a need to involve the local level institutions such as union parishads, upazila parishads, municipalities and city corporations not only in identifying but also encouraging and educating the unbanked to start operating in formal banking channels.

Covid-19 Virus and Vaccine Lessons of 2021

We bid adieu to 2021 with mixed feelings. There is sorrow as the year witnessed an unprecedented peak of the Covid-19 pandemic and we have lost many precious lives. And there is joy as the year probably displayed the end of the peak of the pandemic due to following the health restrictions and vaccination against the virus. Nonetheless, the year 2021 also heralded the outbreak of the third wave with the emergence of a newly mutated variant, Omicron.

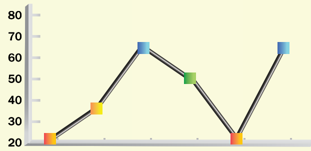
In reality, 2021 has taught us on how to be vigilant and handle even the worst of the adversities. With the start of 2022, it is important to retrospect and learn from the events in 2021. With the promise of vaccination, as well as much skepticism and criticism regarding vaccination, the response to the inoculation drive in the country largely remained laudable.

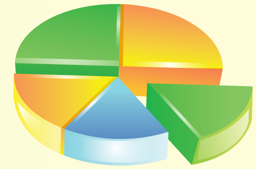
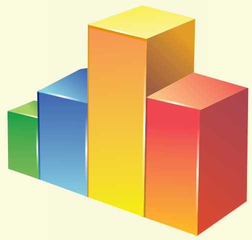
During the year, local and national restrictions (such as lockdowns and closures/constrained capacity operations in institutions) though sounded odd, but were implemented at various levels and time periods. However, the intensity of such restrictions started to ease since the second half of 2021 and continued thereafter.

The rate of vaccination was boosted by the persistent efforts of frontline workers and reached nearly 71 per cent by May 2022. Since the middle of 2021, economic indicators started improving as well. The developments in all fronts clearly indicate that vaccination played a vital role in the 'infected' socioeconomic setting of the country. Increasing level of vaccination helped in containing infection and subsequent easing of restrictions, which, in turn, boosted economic activities. Vaccination has proved to be the most important instrument to handle the Covid-19-induced pandemic, showing that It is vital to increase the rate of vaccination together with booster dozes to fight the pandemic sustainably.

Apart from boosting vaccination, it is also important to focus on three lessons of 2021: first, recollecting the memories and needed counter measures to meet the adversities; second, strengthening health and related infrastructure; and third, acting in a timely manner.

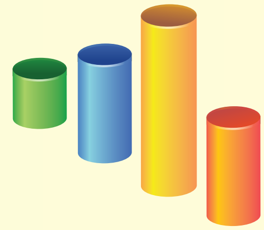
We must remember the loss of precious lives and livelihoods due to the Covid-19 pandemic and strictly continue to adhere to the Covid-19-appropriate behaviour. It is essential to develop, support and enhance the capacity of the health and related institutions and skills of health workers to face any future emergencies. Further, it is important to assess and announce the requirements of local restrictions, as needed, during such adversities in a timely manner before it is too late. Delays in these critical areas lead to infection severity and compulsion for imposing stricter restrictions. This shows the validity of the wise saying: prevention is always better than cure.



The Key Focus in 2022

Financial Inclusion



The Covid-19 pandemic has shown remarkable resilience of rural Bangladesh to thrive even under the most difficult situations. It has also brought to light how urban progress is deeply dependent on rural capacities. As we advance to achieve the upper middle income and high income status to attain the Vision 2041, we must recognise that this is not possible without rural Bangladesh's contribution. For this, we need to create an ecosystem that is equitable and sustainable. Financial inclusion underpins this. It is the single most vital component that can pave the way for an all-inclusive nation.

Bangladesh has made significant strides in financial evolution. Over the years, many efforts have been launched to deepen financial inclusion. Through these initiatives, it has been made easy and affordable for the masses to access financial services. A savings bank account is the starting point in the financial inclusion journey. Once the bank account is opened, individuals can get access to other financial products like loans, safety net payments and insurance products.

With the spread of digital financial services, the foundation of financial inclusion has been strengthened along with several benefit programmes, such as disbursing microfinance and microenterprise loans experiencing an uptick. Additionally, core banking services too have been strengthened over the last few years to now include services for the semi-urban and rural residents, all of which are paving the way towards financial inclusion.

These financial services have enabled and intensified rural economic activity, resulting in tremendous growth across vital sectors such as agriculture, dairy, rural industries, CMSMEs and others. An increasing number of women and rural population are becoming self-reliant, which is bringing more people into the economic fold.

Significant strides are being taken to digitise the credit ecosystem. Taking advantage of the digital landscape, quite a few MFIs and banks are digitising the process of loan disbursement. The collection process is also being strengthened using digital technologies.

Despite this large-scale impact, there remains significant ground to cover. Bangladesh still has a large unbanked population with almost half of the adult population remaining financially excluded. A significant portion of the population remains outside the realms of digital finance and financial inclusion and relies on informal sources of credit.

Still, there is a long road ahead to make financial products like credit available to all. A key to realising this is credit reporting, which can support and facilitate access to credit at a large scale. By building individuals' and businesses' reputational collateral using payment history and predictive analytics, credit bureaus can play a vital role in expanding financial services to the unserved and underserved population of the country.

Credit reporting will help lenders to calculate price risks and defaults with better accuracy, and individuals with higher credit scores and lower risk will get access to formal loans. As credit reporting becomes a continuous exercise, it will also help traditional lenders to avoid over-indebtedness or no payments. And consumers can get access to a wider pool of loan products.

Undoubtedly, rural growth, which is deeply dependent on financial inclusion, continues to remain a key priority in the country's policy agenda. To accelerate growth, the government has adopted the National Financial Inclusion Strategy in 2021 to strengthen the financial inclusion measures and achieve the 'financial inclusion for all' goal for the welfare of all citizens.

Rural progress, a key agenda in 2022, will require various stakeholders to work together to create a large-scale impact. Financial inclusion will continue to be at the heart of these efforts. The Bangladesh Bank and financial institutions in collaboration with credit bureaus can play an instrumental role in strengthening financial mechanisms and increasing financial literacy in rural Bangladesh, which will go a long way in accelerating Bangladesh's inclusive social and economic progress.

Shift from Informal to Formal for MSMEs

There is a huge corpus of work emphasising the importance of formalisation and the persistence of informality in the Bangladesh economy. Representing a major feature of the labour market, the informal sector consists of activities operating outside the regulatory framework that would potentially add value to tax revenue and the GDP but go unaccounted.

Available estimates suggest that the informal sector still makes up about a third of the country's economic activity. The statistic is more glaring for micro, small and medium enterprises (MSMEs) – the informal economy comprises almost the entire segment of micro and small enterprises in the country. In Bangladesh, more than 99 per cent of the enterprises are in the unorganised sector, of which around two-thirds do not have registration anywhere. A significant fraction of these unorganised enterprises falls in the 'cottage and micro' categories comprising owner-managed firms, most of which operate with less than five workers. There have been significant efforts around increasing formalisation of the enterprises, but probably it is time now that we understand that the shift to formality is a prolonged process. It will take an all-of-economy integrated approach which evaluates challenges faced by these enterprises at every point in their graduation trajectory – from reasons to stay unregistered to issues faced after a formal registration.

Understanding why firms choose to operate informally is the starting point. For the purpose, viewing formalisation from an informal enterprise's point of view is critical to understanding their perspectives.

Formalisation entails certain costs as well as benefits for undertaking economic activities. If the regulatory apparatus is complex and imposes extensive costs, it serves as a primary disincentive for firms to register. This is particularly true for smaller firms with narrow profit margins who find the costs of compliance financially burdensome. Similarly, stringent and complex labour laws also serve as one of the reasons for firms to remain small and unregistered.

It is crucial for small firms to be aware of the benefits of formalisation. The benefits can include access to various government subsidies and incentives, enforceable commercial contracts, tax breaks, access to formal credit channels and other incentives. With greater access to such resources, it is easier to increase productivity through technological enhancements in production and digitisation. However, if the regulatory ecosystem incentivises staying small without providing adequate benefits to scaling up and formalising, the lure of informality will prevail.

As Dagmar Walter, Director of the ILO Decent Work Technical Support Team for South Asia observes: "When the benefits of formality outweigh the costs, rates of informality are likely to decline". However, while a cost-benefit perspective helps policymakers get a perspective on persisting informality among the MSMEs, it is still a limited approach. It needs to be supplemented with a holistic development strategy creating pathways toward formalisation.

The point to be emphasised in this context is that the reasons to remain small and informal are not always related to tax and other legal compliance cost considerations. Low productivity and a lack of competitiveness can be hindering the informal-to-formal shift for many microenterprises, as they may not have the capacity to survive competitors in the formal sector. If small firms owe their survival to informality, it is evident that they will see merit in continuing informal.

Thus, a holistic development strategy empowering microenterprises to flourish in the formal space is essential. Boosting investment in human capital through education, skilling, and health will not only enhance the entrepreneur's competitive capability but also that of the talent pool available for employment in the sector. Given various reasons for enterprises to stay unregistered, tackling informality calls for a multi-pronged approach. It is not an overnight switch but a gradual shift by creating the right environment for enterprises to be attracted towards formalisation. Falling out of the formal purview makes it hard for programmes to reach them.

Put simply, to be able to target reforms, we must be aware of the existence of potential beneficiaries. The slew of initiatives put forth by the government may not be able to reach these unregistered enterprises, further keeping them at a low-capacity level.

Product Design Features Support Women's Financial Inclusion

Increasing access to and use of quality financial products and services is essential to inclusive economic growth and poverty reduction. Research shows that when people participate in the financial system, they are better able to manage risk, start or invest in a business, and fund large expenditures like education or a home improvement.

Increasing women's financial inclusion is especially important as women disproportionately experience poverty, stemming from unequal divisions of labour and a lack of control over economic resources. Many women remain dependent upon their husbands, and about one in three married women from developing countries has no control over household spending on major purchases.

About one in 10 is not consulted about the way her own earnings are spent. In addition, women often have more limited opportunities for educational attainment, employment outside of the household, asset and land ownership, the inheritance of assets, and control over their financial futures in general.

Providing low-income women worldwide with effective and affordable financial tools to save and borrow money, make and receive payments, and manage risk is critical to both women's empowerment and poverty reduction. However, the path to greater women's financial inclusion is dependent upon the creation of a more gender inclusive financial system that addresses the specific demand- and supply-side barriers faced by women, supported by an inclusive regulatory environment. These barriers range from something as basic as the lack of assets for collateral to more structural constraints such as account opening requirements that disadvantage women.

While there is a growing body of evidence surrounding the impact of financial inclusion and the importance of product design in achieving desired welfare impact outcomes, there remains much to learn about the ways in which formal financial products and services can contribute to women's economic empowerment.

Overall, financial service providers and other stakeholders can leverage appropriate product design features to overcome some of these barriers to women's financial inclusion. Even so, broader social constraints related to intra-household bargaining power and the social status of women may continue to limit the broader impact of financial inclusion on women's economic empowerment. There is a need for further evidence on effective product-led strategies to address these barriers and improve economic empowerment outcomes for women.

Although the demand- and supply-side barriers to women's financial inclusion are vast, appropriate product design features can help overcome some of these barriers. Evidence suggests that design tweaks that take into account the specific needs and preferences of women can enhance their access to financial products, as well as the impact of those products on women's ability to make investments and smooth consumption in the face of income shocks.

Products which allow women greater degrees of control and privacy surrounding their incomes and spending decisions appear to be particularly promising. Researchers should continue to explore the role of gender norms and intra-household bargaining power in women's economic empowerment outcomes, and test product and programme innovations that can directly address women's unique preferences and the challenges they may face.

Accelerating Financial Inclusion

By making financial services accessible at affordable costs to all individuals and businesses, irrespective of net worth and size, financial inclusion strives to address and offer solutions to the constraints that exclude people from participating in the financial sector. Research shows that countries with deeper levels of financial inclusion— defined as access to affordable, appropriate financial services— have stronger GDP growth rates and lower income inequality.

In recent years, careful research on financial habits, needs and behaviours of poor households has yielded information on how they manage their complex financial lives. This has also facilitated product design and solutions of financial instruments that are more suitable to their needs.

The patterns and behaviours that the poor households' exhibit around financial management, shed light on the complex financial lives they lead in order to survive on variable low incomes. While research and policy debates have focused on access to credit, poor and marginalised groups require access to a full range of financial services to effectively manage their economic lives. Financial inclusion in Bangladesh must hence be studied as a spectrum of services, in order to encapsulate the different dimensions of the populations they aim to service.

Certain sections of society — for example, the poor, rural populations, and women -- are typically excluded from wage-earning employment opportunities, living and working in the informal economy. In economic terms, their consumption and production decisions become intertwined and there arises a greater need to smooth consumption, manage risks and sustain livelihoods. These sections of society have the lowest access to formal financial instruments, forcing them to rely on informal mechanisms: relatives, friends, money-lenders, savings schemes or money under the mattress. These informal mechanisms are insufficient and unreliable as well as very expensive. Financial exclusion thus imposes large opportunity costs on those who suffer from it the most. When coupled with information asymmetries and high transaction costs, the poor who lack collateral or credit histories are stuck in a low level equilibrium with no escape.

Geographic exclusion is exposed through inaccessibility, distances and lack of proper infrastructure; social exclusion is exposed through illiteracy and class and other barriers. Informal employment, lack of collateral and the inability of rural populations to approach and negotiate with formal financial institutions, makes it easier for an entire subsection of the population to go unbanked.

Several policy and financial regulatory initiatives have aimed to make substantial progress in terms of financial inclusion indicators— branch penetration, account density or credit and deposit numbers. The rapidly developed cell phone market has vastly expanded their reach and coverage in remote and previously inaccessible areas in recent years. Microfinance Institutions (MFIs) have played a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. They have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele.

In Bangladesh, developing inclusive financial systems is an important component for economic and social progress. Evidence also shows that financial access improves local economic activity. Access to formal financial institutions aside, MFIs remain a leading model for providing financial services to the poor, new models and technology developments have provided opportunities for scaling outreach, deepening penetration and moving beyond brick and mortar delivery channels.

Evidence from a variety of Randomised Controlled Trials (RCTs) suggests that growing access to financial instruments has a positive impact on self-employment, business activities and household consumption. Even though impact varies across individual product categories, most RCTs show improvements in households' abilities to make appropriate choices. For individuals that do not own businesses, microfinance helps them manage cash-flow spikes and smooth consumption. Access to microfinance also leads to a general increase in consumption levels as it lowers the need for precautionary savings. For business owners, microfinance helps them invest in assets that enable them to start or grow their businesses and increases their ability to cope with risk. Overall evidence of savings and increased access to credit has shown positive impacts for small business owners and households. Furthermore, randomised evaluations of health and weather-based index insurance, show strong positive impacts on households and farmers helping them mitigate risk and manage shocks.

Given the participation barriers and capital market imperfections, policy interventions that foster financial inclusion are important to study. While strong institutions and policy efforts are effective in tackling financial exclusion, it is important to study a wider array of financial instruments to understand the multi-dimensional characteristics of poor populations.

At any given time, a poor individual saves and borrows in informal ways and has multiple ongoing financial relationships. Vulnerability to risk and the lack of instruments to cope with external shocks adequately make it difficult for poor people to escape poverty. Lacking a formal bank account makes it difficult for the poor to save, which makes it less likely for them to cope with unexpected emergencies. As markets develop, the spectrum of financial service providers also develops, going from informal community-based models to more formal, regulated sources of financial services.

As the country's financial ecosystem evolves, any form of financial inclusion going forward must recognise broad needs and to study the impact of such inclusion, one must include not only policy mandates but also wider metrics. From a policy standpoint, studying such metrics will not only deepen our understanding of the impact of financial inclusion but also answer critical questions on how to achieve it. Hence, it is important to identify a full range of financial services available to the poor — savings, credit and insurance.

Innovations and policy interventions aim primarily at reducing barriers to access existing financial institutions and bringing banking options geographically closer to people, but far more needs to be done. We must develop enabling systems that help reach the unbanked and under-banked such as tele-density (cell phones and landlines) and broadband networks.

India's Saral Jeevan Sahelis

Boosting gender inclusion

Data digitalisation and business acumen --if used in the right way-- can lead to incredible results for gender inclusion. One such case involves one of the Microsave Consulting's (MSC) Financial Inclusion Lab startups--Frontier Markets--which has done commendable work to address the Covid-19 pandemic's impact on vulnerable women.

Frontier Markets empower rural women to become entrepreneurs. It builds a last-mile distribution network through these women entrepreneurs, whom it calls 'Saral Jeevan Sahelis' or 'Easy Life Friends' (in Hindi, saheli means a woman friend). Through this network, it delivers world class products/solutions, such as Samsung refrigerators and Philips solar lighting systems, to the remotest households in rural India. Until recently, most of Frontier Markets' data was non-digital and scattered across different teams. As a result, these teams were not able to leverage this data to generate holistic benefits for the broader organisation.

To address this issue, the Lab and the Frontier Markets teams came together to build an impactful data strategy to increase the productivity of Sahelis, and the results proved to be impressive. The teams worked together to digitalise and assimilate the disparate data points, cleaning up the data and drawing some useful data models for enhancing the productivity and earnings of the Sahelis, using various machine learning techniques – the usual data science stuff. Leveraging the power of these techniques, they helped the Frontier Markets team build a strong product recommendation engine that mapped each Saheli's expertise in selling a particular product to the hyperlocal market need for it in her area.

So, what's so impactful about this?

Through these data-based product recommendation models, both the number of customers as well as the number of products sold on the platform saw a 4.5x increase in a short period of time. This created a huge impact on the livelihoods of the Sahelis:

--Average business per Saheli increased by 150%

--The number of women recruited and trained to become Sahelis grew by more than 3x

--Sahelis' income per sale grew by 20-30%

There were also other, more intangible benefits. For instance, more Sahelis talk proudly now about how their social status within their communities has changed positively and how they have become an inspiration for many other local women.

Agent Banking Spearheading

Financial Inclusion

Agent banking is leading financial inclusion in Bangladesh. According to a report by the Bill & Melinda Gates Foundation, participation in financial services has increased to 47 per cent in 2018 as a result of a 5 percentage-point surge in registered bank users. The financial inclusion rate has increased further to 55 per cent since then. The aggressive growth of agent banking has been credited for much of this surge.

Agent banking accounts totaled 12.2 million at the end of FY2021, up 65 per cent compared with 7.36 million at the end of FY2020. Male customers owned 6.60 million accounts while the rest are owned by female clients. There were 12,995 agents at the end of June 2021, up from 8,812 agents a year ago. Transactions through agent banking more than doubled to Tk. 3,939.32 billion in FY2021 against Tk. 1,912.25 billion in the previous fiscal year as the new window has taken financial services to the doorsteps of the people.

According to the Global Findex Database 2017 of the World Bank, only 40 per cent of the people above 15 years of age in rural areas in Bangladesh have an account at a bank or a financial institution. Agent Banking has led to a huge segment of this excluded population to create accounts and access financial services. Most of the agents (86 per cent) and outlets (88 per cent) are located in the rural areas. The model is highly suitable for rural hard to reach areas and high proliferation in rural areas have led to rural agent banking subscribers outnumber those in urban areas.

The higher growth of rural accounts shows that agent banking is providing banking services to the largest population group that was deprived of these services previously. There are a number of factors that account for such high adoption of agent banking by the previously financially excluded groups:

Acceptability of agent by locals: Licensed banks try to select locally known and acceptable eligible individuals/institutions as agents. The familiarity of the selected agents among the local population helps convince the latter to form bank accounts.

Proximity and hospitality of outlets: The formal physical environment of a typical bank branch is often perceived as alien by a prospective rural bank account holder. On the other hand, an agent bank outlet is located in a customer's known environment and conducted by someone known. These features make the outlet environment accommodating to the customer so that he/she is comfortable going to the outlet and carrying out banking activities.

Use of IT devices to reduce hassles: All agent banking outlets are equipped with IT devices like point of sale (POS) devices with biometric features, barcode scanner to scan bills for bill payment transactions, and Personal Identification Number (PIN) pads. Typical banking operations would require the usage of identification cards, numbers, and codes to make transactions. Most people in rural areas do not maintain all of these documents. But with the help of the aforementioned devices, agent banking customers can easily carry out activities using only the customer's fingerprint or mobile number.

During the Covid-19 pandemic, agent banking got a growth impetus as the government limited commercial banking operations to control the spread of the pandemic but the agents were given autonomy to choose whether to carry out operations; and most agents decided to carry out operations. This allowed the customers to carry out transactions at the agent outlets.

Further, blessings came in the form of government assistance to vulnerable populations. The government announced a series of stimulus packages worth BDT 1.0 trillion to mitigate the economic effects of Covid-19. At the same time, the government increased the allocation of social safety nets in order to accommodate more beneficiaries.

As the main beneficiaries were located in the rural areas and distribution of the funds digitally was prioritised, agent banking along with mobile financial services (MFS) became the suitable candidates for disbursement of these funds. These two candidates were also seen as more reliable media for distribution than direct cash transfer, which might have led to misappropriation. People thus become more aware and accepting of agent banking as a trusted source for financial services. Consequently, the number of accounts and the volume of transactions increased.

Although there is a rising number of deposits (Tk. 201.79 billion in June 2021, doubling from Tk. 101.17 billion a year ago), loan disbursements by agent banking are still low. Loan disbursement through the agent banking window was Tk. 26.59 billion in FY2021, which was Tk. 4.88 billion in FY2020. This low loan to deposit ratio suggests agent banking is missing out on providing credit to cottage, micro, small and medium enterprises (CMSMEs). The use of formal finance by CMSMEs in Bangladesh is quite limited and the finance gap is estimated to be worth BDT 237 billion or USD 2.8 billion. Agent banking is in a great position to lower the gap.

The CMSMEs in Bangladesh face financial constraints including poor quality of collateral, inadequate documentation, and ill-defined business plans. As a result, banks take time to process loan applications. The turnaround time for loan applications is seven to 10 days. The higher turnaround time makes agent banking unattractive to CMSMEs for financing as they can access credit from microfinance institutions (MFIs) at a faster rate.

On the other hand, banks also find it unattractive to lend to CMSMEs. The government capped the lending rate for loans at 9 per cent and deposit rates at 6 per cent and the regulation came into effect in April 2020. The capping of the rates makes lending unprofitable for the banks. Since CMSMEs are riskier due to many constraints, banks consider lending to them more non-appealing.

Although agent banks have accelerated financial inclusion especially in the rural areas, but more needs to be done. Most of the labour force (more than 85 per cent) in Bangladesh is employed in the informal sector where they lack options for savings and obtain loans. Engaging these huge populations into formal financial services would help them to save and access credit for entrepreneurial ventures.

The way forward for agent banking is to partner with each other and with MFS providers. Such partnership will create synergies that will increase accessibility to financial services:

Allowing interoperability among banks: Interoperability among banks means that a customer can access banking service of one bank using the outlet or branch of another. Such connection will allow customers to make emergency deposits or withdrawals anytime at any outlet or with any agent located nearby. Although Bangladesh Bank regulations allow agents to work for multiple banks at a time, they can represent only one bank at the customer end point. The existing regulation, thus hinder interoperability among banks in case of agent banking. Policymakers and Bangladesh Bank may re-examine the issue of removing the restrictions of agents at the retail end.

Collaboration with mobile financial services (MFS): Both agent banking and MFS have been important for spearheading financial inclusion in the country. The collaboration of these two will naturally create synergy that will advance inclusion and adoption of financial services. For example, agent banks can analyse the creditworthiness of loan applicants (a form of eKYC) using the latters' transaction information on MFS. It can then be possible for agents to provide applicants with lower cost loans without the need for collateral. Another way collaboration can be done is where MFS works in the front end and agent banks in the back. MFS can promote savings and loan schemes to prospects while agent banks provide the services.

The partnership among banks with agent banking operations and with MFS will not only benefit the customers, but will also benefit the banks and providers. Both banks and providers can extend their offerings to customers at a lower cost. It also gives both of them access to each other's customer base. Thus, collaboration ensures a win-win for all.

Courtesy: LightCastle Analytics Wing

Challenges in Using Data-Driven Algorithms

Algorithms — mathematical recipes ranging from the simple to the complex — have a long history in the field of banking. But in recent years, several trends have converged to supercharge their application, especially in emerging markets. The growth in mobile phone and internet use continues to expand rapidly.

Large availability of data generated from this rapid rise in digital activity have found a home in ever-increasing computational power as well as advanced algorithms and machine learning techniques. These practical superpowers are being applied by financial service providers (FSPs) and regulators alike with the intention of lowering costs, expanding economic opportunity, and improving how markets function. The applications are seemingly boundless, from customer segmentation, product design, marketing, and portfolio monitoring to underwriting, ID verification, fraud detection, and collection.

Their models flag suspicious transactions, clients or reports — flags that feed into individual and on-site supervisory reports for follow-up. Natural Language Processing (NLP) and other AI-powered techniques allow providers to leverage chatbots to address customer problems 24/7. The opportunities have ushered in highly skilled technologists, data scientists, and engineers who build internal data infrastructure as well as test, prototype, monitor, and tweak models.

Across all industries, predictive, data-driven algorithms are being used to tell stories about individuals and, depending on how they are wielded, can drive high-stakes decisions: who receives a loan, what sentencing a judge will recommend, what therapeutics a doctor will provide. The exploding data ecosystem has created billions of new stories for the FSPs that they tell (or don't tell) about low-income consumers.

There is a need to explore the stories that algorithms can tell about who is creditworthy in emerging markets, the risks of that narrative for those it leaves out, and what it all might mean for financial inclusion. As data ethicist Professor David Robinson says, "There's often a gap between how much of a person's story an algorithm can tell, and how much we want it to tell."

When designed and used to maximise benefits, algorithm-driven decisions can counter human biases and increase the speed and accuracy of disbursing appropriate loans to people who need them but were previously denied access to credit. Algorithms have the potential to overcome some of the entrenched implicit and explicit biases of face-to-face interactions. In India, mystery shopping audits show that individual bank staff can strongly influence financial access, even when regulation and eligibility rules should not give such discretion. A U.S.-based study conducted by the Haas School of Business finds that fintech algorithms discriminate 40% less on average than loan officers in loan prices; and the algorithms do not discriminate at all in accepting and rejecting loans. Thus one can share the optimism for the power of increased digitalisation, data processing capabilities, and troves of data trails to increase financial inclusion.

However, the pace of change and the opacity of the technology has outstripped the ability of most in the sector to understand potential risks and issues. Underwriting, and many other operational functions within financial services, are being digitised and increasingly automated. Whether it's a decision-supporting algorithm or a decision-making algorithm, humans are less in control than ever before.

Issues have cropped up with the real-world consequences and harms, across all sectors. The now-infamous AppleCard (a partnership between Goldman Sachs and Apple) came under investigation by financial regulators for discrimination against women when complaints surfaced that for couples with comparable credit scores, husbands had received 10 to 20 times the credit limit of their wives. The U.S. Department of Housing and Urban Development (HUD) filed a lawsuit against Facebook in 2019 for violations of the Fair Housing Act by limiting a person's housing choices based on protected characteristics. The suit alleged that Facebook allowed its advertising algorithms to exclude housing ads for people classified as parents, non-Christian, or interested in Hispanic culture; it also alleged that through its massive collection of online and offline data and machine learning techniques, Facebook recreated groups defined by their protected class.

An algorithm used by commercial healthcare providers to identify individuals for 'high-risk care management' programmes recommended that white patients receive more comprehensive care than equally sick black patients. Carnegie Mellon researchers uncovered that, despite treating gender as a sensitive attribute, Google's ad listings for high earning positions were shared with men at almost six times the rate they were presented to women.

The scale of harm or exclusion that could be wrought by a discriminatory algorithm dwarfs that of a biased individual; in economics literature this distinction is known as statistical vs. taste based discrimination, respectively. The question is: How do these misfires happen? The issues may be categorised into three buckets: inputs, code, and context.

Evidence shows how, despite good intentions, bias can seep into algorithms from a variety of entry points. Most foundationally, data leveraged for a predictive algorithm can unintentionally reflect existing societal biases and historical discrimination. A country's legacy of inequality, such as entrenched gender norms, racial segregation or other types of discrimination in education and employment, for example, will inevitably reflect itself in the data trails crunched by algorithms. Beyond challenges of representativeness, data inputs face issues in stability, quality, and control, which is particularly relevant in a fast-moving world of digital finance where small tweaks in mobile money platforms or apps lead to big changes in consumer behaviour and the stability of data trails.

Organisational diversity and grounding in local context are important dynamics that, when absent, can lead to oversights, incorrect assumptions, and exclusion. Additionally, increasing reliance on automated algorithms to make decisions, such as credit approval, may distance organisational leaders from decisions that could harm the consumers. Often the data science solutions are created by short-term consultants, purchased through off-the-shelf packages, or developed by teams that are relatively siloed off from senior management.

While the framework of inputs, code, and context help explain algorithm development and facilitate the categorisation of risks and tools; in practice, they overlap; and addressing one area without the others is not the solution. Long-term solutions for organisations should aim to be holistic and address all three areas through an iterative process. For instance, context will determine what kind of data is available and the methods necessary to evaluate the model. Data science skills will come into play, but fear of the 'black box' should not stop sector and country specialists from getting involved, as they have critical knowledge that will help guide choices about algorithm development and deployment.

A multitude of approaches across finance, technology, engineering, and medical sectors, largely in the developed markets, have worked towards 'fairness-aware' algorithm development and testing. These approaches are often part of bigger discussions around building responsible technology and equitable data economies given historic marginalisation as well as the power imbalances between big tech and consumers.

There has been a focus on building technical tools, such as experiments to quantify disparate impact, black box testing methods, and code reviews. Other approaches have endeavoured to make algorithms more transparent, through 'white box' testing or logging processes and disclosure of source code and data sources. Initiatives have sprung up to build awareness and tools, whether from the data science community itself like the Fairness, Accountability and Transparency in Machine Learning (FATML) or multilaterals like the OECD's Principles on Artificial Intelligence.

The World Bank reported in 2017 that only 44% of the low-income markets had laws prohibiting discrimination in financial services, though the purview of these was often for regulated institutions, leaving out large swaths of the market. Beyond what already exists in the financial sector, the newest contributions have come from the slew of recently passed omnibus data protection laws, the gold standard being the General Data Protection Regulation (GDPR). Much like policymakers and regulators, consumers are in a constant state of catch-up as to what data is collected about them, who collects it, and how it is processed and even monetised.

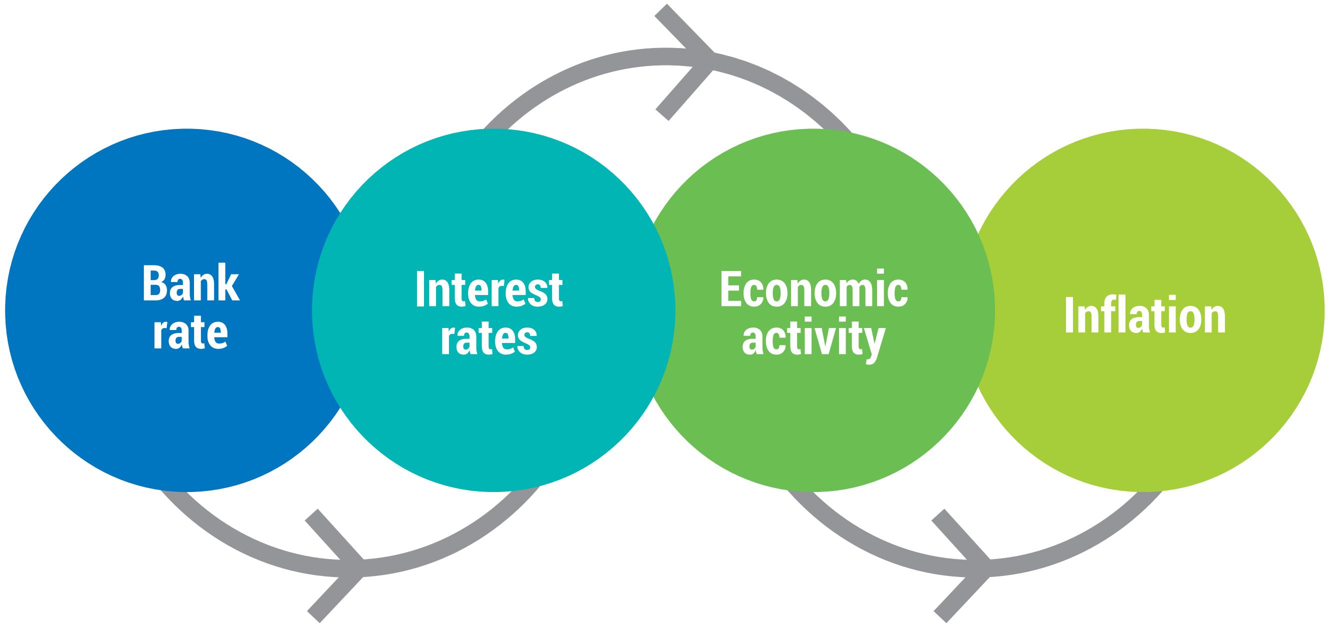
While responsible algorithms and ethical AI debates have received attention in sectors such as criminal justice, access to healthcare, and mainstream finance, there has been little exploration in the inclusive finance space, particularly around bias, discrimination, and exclusion.

In credit scoring, inaccurate and incomplete data presents the risks of incorrectly categorising the individuals' creditworthiness. This risk is heightened for vulnerable groups since the data trails of vulnerable individuals can encode realities of their environment and the types of experimental or predatory products they've been exposed to, making their individual profile appear riskier due to the conditions under which they are accessing credit. This has been documented in traditional credit scoring mechanisms in the U.S., where communities of colour are exposed to more payday and 'fringe' lenders, a parallel of which in the inclusive finance space has existed in Kenya, where a digital lending laboratory exposed low-income consumers to credit bureau blacklisting which may have barred them from loans or negatively marked their digital footprints.

In emerging markets, this could run counter to the goals for inclusive financial services and result in the denial of economic opportunities to consumers at the data margins. Recent research shows that digital credit customers tend to be younger, male, and living in urban areas, generally fitting into categories of those who tend to be more financially included and digitally savvy. A 2018 study of digital credit transaction data in Tanzania also revealed striking gender and rural/urban gaps in digital credit users. This challenges the story that alternative, mobile phone data will inevitably solve the thin file problem of many rural or female consumers.

The above raises a host of fundamental questions that deserve contextual investigation ranging from the empirical (e.g., what are providers and other stakeholders doing today to identify and mitigate against bias?) to the ethical (e.g., how to define fairness in inclusive finance?) issues. It is true that only a few of these can be definitively answered, but the sectoral conversations around them must start now.

The algorithm-driven tools must help the providers and markets achieve financial inclusion goals, and not further cement the digital divide in society.



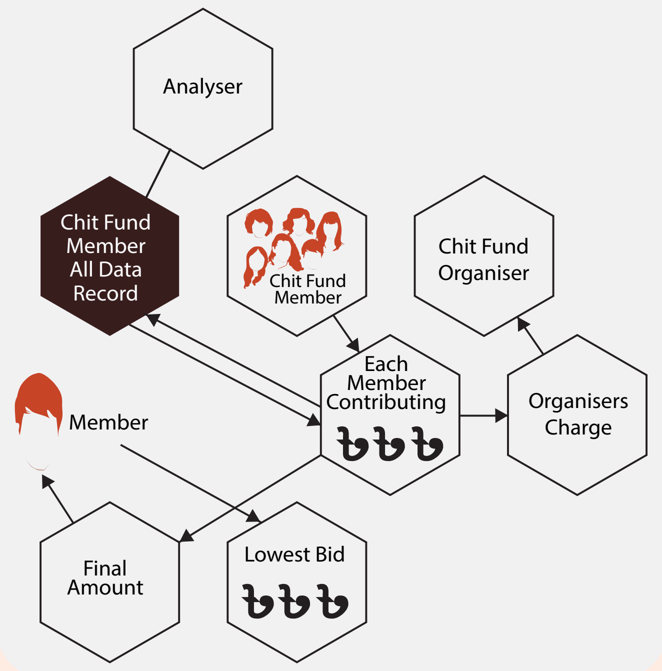
Financial Inclusion Helps Monetary Policy Transmission

Involving people in the monetary policy process and promoting financial inclusion helps improve monetary policy transmission. Further, as more people get involved, central banks need to move interest rates by less to achieve their objectives. A thrust towards financial inclusion helps in monetary policy transmission and growing involvement of people in the monetary policy process leads to more democratic approaches to interest rate setting. The key is to inject transparency, customer protection and awareness, and become as market-based as feasible, all of which foster inclusiveness.

Financial inclusion improves the transmission of interest rate-based monetary policy impulses in two ways. First, the financially excluded would typically prefer cash savings. But as inclusion increases, their preference shifts from cash to interest-bearing bank deposits and other financial assets. Consequently, financial savings turn more sensitive to interest rates.

Second, financial inclusion expands the access to bank credit, which is interest sensitive and affected by changes in the policy rate. Hence financial inclusion enhances the potency of interest-rate based monetary policy by causing an increasing number of people to become responsive to interest rate cycles. Further, as interest rate sensitivity of the population increases, central banks need to move interest rates by less to achieve their objectives.

Changing Trust Perception about 'Chit Funds'



Despite their global popularity and widespread benefits to communities that lack formal financial access, rotating savings and credit associations (or 'chit funds') are mostly perceived as a dubious activity—as the model resembles 'Ponzi scheme' scams. But, chit funds are actually effective informal financial tools. They enable the low and moderate income (LMI) segment in society to save and borrow through friends, family and other community members; who pool their money together into a common fund, from which each group member can withdraw money in turn.

The experience of Chitmonks--a blockchain-powered chit fund digitalisation company in India--shows that the chit fund sector also has immense potential to boost formal financial inclusion of chit fund group members – especially if the transaction data of their groups are digitalised. But the biggest roadblock towards building trust in the eyes of both potential chit fund subscribers and financial institutions is their lack of proper auditing.

Even for the chit fund companies that are registered with the government, it is very hard for the government regulator to audit the manual record of transactions, which are saved in multiple stacks of papers on a regular basis. It would be akin to auditing the transactions of multiple people belonging to multiple groups (8-10 people per group) across weekly, fortnightly or monthly interactions over decades of time.

To address this concern, the Financial Inclusion Lab is supporting Chitmonks by building a robust data strategy plan and implementation roadmap that will enable it to:

--Design data analytics models to identify any possible compliance violations by the chit fund companies it works with (which may include a failure to promptly account for group member transactions, a failure to renew the company's license, etc.) so they have a chance to rectify the mistakes.

--Prepare models to evaluate and rate various chit fund companies that use its platform, based on their compliance records on the blockchain.

--Create a digital history of chit fund subscribers. This will enable them to obtain loans and other financial services from formal financial institutions at lower interest rates than they would otherwise get.

Through these features, a whole host of issues plaguing the chit fund industry may be solved.

Cryptocurrency: A New Asset Worldwide?

Since 2009, more than 10,000 crypto-currencies have been created across the world and more are born every day. Most of these ‘currencies’ are empty assets and are, therefore, subprime. An IMF report in January 2022 under the name ‘Cryptic Connections: Spillovers between Crypto and Equity Markets’, provides three important observations.

First, a strong increase in investment in crypto-currencies is observed, both in the retail and institutional markets, reaching a large volume compared with other stock market assets.

Second, the interconnectedness between crypto markets and the stock market has increased markedly during 2017 and 2021.

Third, the extreme volatility of this type of asset, lacking specific regulation, represents a potential systemic risk in the capital market.

Thus, regulators and supervisors need to closely monitor action in the crypto markets and the exposure of financial institutions to these assets, and design appropriate regulatory policies to mitigate systemic risks emanating from crypto price spillovers.

All cryptocurrencies are crypto-assets, they are one more safe-haven asset--such as real estate, gold, stocks, works of art, stamps, etc.; that is why purchases in Bitcoin are accounted for in the assets of any investor's balance sheet. But not all crypto assets are cryptocurrencies. Indeed, there are crypto assets that have backing values or are collateralised. They are the so-called stable coins, such as Tether and TrueCoin, both backed by US dollar.

Why are cryptocurrencies so successful? The success of cryptocurrencies lies in the failure of national currencies. As more money is issued than the market needs, inflation rises and all safe-haven assets increase in value. Today, there are more than 4 trillion dollars sitting in the Federal Reserve. In other words, there is a monetary overcapacity of 4 trillion dollars. And in Europe the figures are somewhat lower in absolute values, but similar in relative values.

Cryptocurrencies are successful because there are countries that have practiced mandatory currency conversion. For example, many countries welcome the arrival of dollars for payment of exports, but make it difficult to transfer dollars or euros once they are inside the country. This type of tool makes it possible to circumvent government controls, by charging exports in crypto assets.

This type of asset is successful because of rational monetary ignorance. Citizens often forget that money is an asset created as a means of exchanging work. When this medium is abundant, it is used to speculate. Sometimes people speculate in tangible assets (such as gold or real estate); but during others, they speculate in intangible or vacuous assets, such as Bitcoin.

Moreover, cryptocurrencies as pseudo-currencies are successful for money laundering and organised crime. Cryptocurrencies are still unregulated in many countries and, at the same time, legal. Moreover, many of the platforms to invest in cryptocurrencies are not controlled by local authorities.

In countries where there is regulation, the regulations are aimed at preventing this kind of activity, but the means of controlling this type of transaction are still scarce.

The risks when investing in Bitcoin are evident. In the short term, given that 95% of Bitcoins are in the hands of 2.4% of addresses (holders), the market price of this asset does not meet the basic requirements to be considered a free price and liquid. The loss of the password implies the loss of all savings.

In the long term there are different risks. As there is no authority behind this organisation, there is a risk of being able to violate the security of the blockchain. Mathematically it is possible, but today the cost is unaffordable, given that a hacker would need a power computational greater than all the miners in the system, that is, a capacity greater than that of companies the size of Amazon or Google.

However, in the future quantum computers will be able to achieve that goal if the organisation does not adapt the Bitcoin system to use quantum algorithms. During that adaptation time frame, the possibility of the system being hacked is real and the losses could be multimillionaires.

Further, increase in competition and the reduction of work (mining) will cause miners to have fewer incentives (rewards). Then, it will be increasingly difficult to find a valid solution to the crypto-currency algorithm and it is possible that, due to Zeno´s Paradox, the last Bitcoin will never be found. In other words, Bitcoin will never reach that limit due to the use of rounding operators in the base code.

This is because the block rewards and supply of Bitcoin are never expressed in exact terms. But in any case, what will happen to the miners if they have fewer and fewer incentives? Without miners, transactions are not confirmed and the entire blockchain system stops working.

In each transaction a small part of the money goes to finance the miners, but this amount today is negligible compared with the benefits of mining. Once the mining ends, the commissions will have to be increased or the miners will disappear. The popular assumption that there are no intermediaries in Bitcoin transactions is false, since miners do jobs similar to those of a bank.

In reality, even assuming that the governments maintain a sit-down policy in this matter, it is impossible for Bitcoin to ever become the only official currency or the de facto currency of any country. By keeping the amount of Bitcoins constant, the economy would be strongly deflationary, thus losing one of the fundamental characteristics of any currency: the unit of account.

In addition, the indebtedness of a State in non-sovereign currency would suppose a gigantic risk and, additionally, the central bank would not be able to come to the rescue of the systemic entities.

The trend towards the digitisation of the economy is an unstoppable phenomenon. And the authorities may like to eliminate physical money to eradicate black money. But this requires answers of many questions. What difficulties would the state encounter in eliminating paper money? Could there be a banking system based on Bitcoins? Will private cryptocurrencies continue to be recognised by other States as a means of payment? And there are many more.

Financial Inclusion

Gains for a sustainable world

In one of Lusaka's oldest markets in Zambia, Mary Banda runs a small restaurant. Before she learned that financial services could make the way better, she did business using cash, her profits were low. But today, her profits have increased, both because she banks her money and because she uses mobile money transfer services.

Using financial services has simplified managing her business and increased profits. And business proceeds now pay her children's school fees. Women, Banda says, must not fear banks. 'It is very important to save money because the informal sector where we operate has no social security."

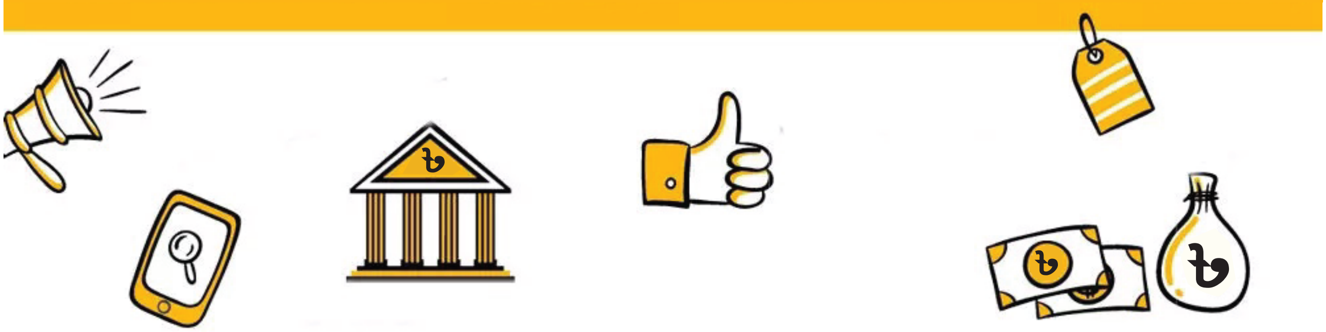
Financial inclusion may sound like an esoteric concept, but its meaning is more than real for the 1.2 billion people who have gotten access to a financial account since 2011, including more than half a billion people in the last three years.

With access to a financial account, people no longer need to rely on and transact solely in cash, or use their mattresses as savings cabinets. Financial access connects people into the formal financial system, making day-to-day living easier and allowing them to build assets, mitigate shocks related to emergencies, illness, or injury, and make productive investments.

Take Mohirahon B in Tajikistan as an example. She has started her own sewing business, after participating in a financial literacy training where she learned to handle and budget money. Or Sameh Seddik in Egypt who has expanded his business in Luxor, which now employs 40 seamstresses, all women, thanks to a micro-loan, aimed at expanding financial inclusion in Egypt. Meanwhile, in Mexico, extending access to finance in rural areas is helping farmers and rural businesses thrive.

Without financial access, these micro-entrepreneurs would be telling a different story.

Financial Literacy for Inclusive Finance



Inclusive finance is a core concept of finance that makes various financial products and services accessible and affordable to all individuals and businesses, especially those excluded from the formal financial system. One of the leading forces affecting people's ability to access financial services in rural areas is financial literacy.

Analysis on whether financial literacy significantly affects the removal of barriers that prevent people from participating and using financial services to improve their lives shows that knowledge regarding various financial services has significant impact on getting financial access. Some variables such as profession, income level, knowledge regarding depositing and withdrawing money, and knowledge regarding interest rate highly affect the overall access to finance.

Rural consumers' knowledge about financial services is a new aspect of inclusive finance research that highlights the importance of knowledge regarding specific products and services to promote financial inclusion. Financial literacy is still to be included as a core issue of finance, both in the theoretical and practical perspectives. Research findings highlight the importance of financial literacy for inclusion in the formal financial systems. These excluded people mostly come from the unprivileged and vulnerable groups in the rural areas.

More financial training and education will inspire the rural consumers to involve in financial services. The rural consumers will be equipped with the knowledge to select suitable financial products and services as well. A comprehensive and long-term education programme should be introduced broadly to the rural population to make a big stride in financial inclusion, a key driver of poverty reduction and prosperity.

Knowledge regarding financial services also has a significant contribution to developing financial communication capabilities for rural and lower-income people. Proper understanding of different financial services has a significant impact on access to financial opportunities, especially the expansion of the use of other financial services. Rural people only know a limited number of banking services and activities.

In addition, financial institutions need to arrange training programmes to stimulate access to financial opportunities which act as major obstacle to the promotion of inclusive finance.

As financial technology has become the most emerging financial communication approach, avenues for possible future research focusing on financial innovation training and developing Fintech access to all population groups are also open. A comprehensive and long-term education programme should be delivered to the rural population to make a big stride in financial inclusion.

Financial Inclusion Searching new approaches

It is generally agreed that formal financial and related services may help improve the economic prospects for the currently unbanked people in the country. No one really disputes the idea that both financial inclusion and financial depth are important and necessary. But these are possibly in trouble in Bangladesh.

Few countries have quite the same daunting numbers and demographics as Bangladesh: about one-fifth or nearly 33 million people live below the national poverty line. And at least double the number is still unable to read a bank statement.

In the past five years, Bangladesh Bank has worked harder than many central banks in developing countries to offer at least limited financial services, especially in the rural areas, and to coerce retail banks to comply with financial inclusion directives. Nevertheless, there still persist worrisome realities in that the vast majority of the CMSMEs still have no links with formal financial institutions; more than two-thirds of the rural and urban population do not have a functional bank account; bank credit to GDP is low; and the penetration of the financial sector is rather shallow.

Savings, even for the not so very poor, are declining and, in certain areas, moving away from financial to physical assets due to a lack of positive real return and difficulties in quick, direct access to savings accounts. Credit and access to equitable financing for low-income households and small businesses is even less encouraging. Many banks find it difficult to comply with the priority sector lending guidelines due to their high incidence of non-performing loans (NPLs). In short, full financial inclusion is not progressing rapidly in Bangladesh.

Available research shows that often the skewed incentive structures for the agents that only reward account opening, not transactions and active account use; wrong products and services for the clientele who need and are willing to pay for; more emphasis on services such as ATM cards but limited efforts on short-term credit; poor and wrongly targeted marketing and promotion efforts for a few (such as, recurring flexible savings deposits and remittances); and similar misdirected efforts are not likely to deliver viable outcomes. More corporate marketing strategies — like the campaigns one sees everywhere in Bangladesh for soft drinks and mobile subscriptions — would probably work more effectively for these targets. Overall, there seems to exist limited enthusiasm on the part of the banks for low-net-worth customers and most aspects of financial inclusion.

However, Bangladesh is not the only country that needs to address these and related problems — and technology, mobile operators and global credit-card brands are not the all-purpose solutions for these woes. Bangladesh needs to think more creatively and implement innovative and country-specific measures more effectively for full financial inclusion. If and when it does happen, the rewards will also much more satisfying and gratifying for all involved, and above all, for the excluded.

From Financial Innovation to Inclusion

Digital technology is transforming the financial industry, changing the way payments, savings, borrowing, and investment services are provided and who provides them. Fintech and Big Tech companies now compete with banks and other incumbents across a range of markets. Meanwhile, digital currencies promise to transform the heart of finance: money itself. But just how much has technology advanced financial inclusion?

Although the Covid-19 pandemic will leave major economic damage and inequality in its wake, it will help drive the adoption of digital technologies that enable financial inclusion and economic opportunity. But these technologies will not succeed on their own. To understand how digital technology and policies can help, it is helpful to look first at the underlying economics.

At the heart of digital innovations stand a few technological enablers. First are mobile phones and the internet, connecting individuals and businesses with information and providers of financial services. A second enabler is the storage and processing of large volumes of digital data. Finally, advances like cloud computing, machine learning, distributed ledger technology, and biometric technologies play a role.

But at the core of all these innovations is the ability to gather information and reach users at a very low cost. Economists have assessed the range of specific costs that decrease with digital technologies. Two economic features of digital technology help show why these factors have been so powerful and what risks they pose.

First, digital platforms are highly scalable. Platforms can be thought of as 'match makers' that help different groups of users find one another. For instance, a digital wallet provider like PayPal brings together merchants and clients who want to make secure payments. The more clients use a particular payment option, the more attractive it is. Second, digital technologies can improve risk assessment, benefiting from the same data that are the natural by-product of their business. This is particularly relevant for services such as lending, as well as investment and insurance. Credit scores based on big data and machine learning can often outperform traditional assessments, particularly for 'thin-file' borrowers, people or small businesses with little or no formal documentation.

Economies of scale and scope, together with improvements in predictive power, can drive financial inclusion forward by leaps and bounds. However, every silver lining has a cloud, and the advances made possible by big data have drawbacks as well—in particular, the tendency towards monopolies. Finally, there is a serious risk that sensitive data will be misused and privacy violated. Smart public policies are needed to mitigate these risks, while allowing the potential of digital technologies to be fulfilled.

How should policy makers adapt to this brave new world? How can they reap the benefits of digital innovation for financial inclusion, while mitigating the (very real) risks to financial stability and consumer rights? Five sets of policies are needed.

1

Building inclusive digital infrastructures: Initiatives such as India's Aadhaar digital ID are a stepping-stone to accounts and more sophisticated services. Fast retail payment systems based on open public infrastructure that ensure a level playing field are essential. Central bank digital currencies can play a similar role as a common platform on which private providers can build services.

2

Introducing common standards to bolster competition: Many countries have countered digital monopolies with standards that let users carry their data across various platforms. This makes different providers 'interoperable,' supporting consumer choice and competition. Much like the basic protocols at the heart of the internet, these common standards are a critical public good that allows private markets to flourish.

3

Updating competition policies: In the digital age, traditional measures of competition in markets, and traditional antitrust tools, may no longer be adequate. For instance, monopoly behaviour may manifest itself through capture of data rather than high prices. Without regulatory intervention, markets may see new barriers to entry and new anticompetitive practices. As the growing scrutiny of mergers and acquisitions and of digital gatekeepers shows, there may be a need for new and more forward-thinking ways of keeping digital finance markets competitive and contestable.

4

Strengthening data privacy: Laws on data generated by digital services are often not well-defined, meaning that tech companies have de facto control over sensitive data. Users must be given more control and agency. Privacy laws and practices regarding user control of data offer potential models. Recent research finds that men are generally more willing than women to share their data in exchange for better financial services offers, and younger users are also more open to sharing than older users. Defining rules for data use that fit all of society will be a challenge—and will likely require legislation.

5

Getting policymakers of all stripes to work together: Digital technologies in finance concern not only central banks and regulators but also those in charge of competition and data protection. Central banks and financial regulators must work hand in hand with competition authorities and data privacy authorities. Moreover, policies in one country are very likely to affect users in other countries. By coordinating their policies within and across borders, authorities can work to harness the benefits of digital technology and ensure that these accrue to all.

Inclusion in Economics

An Interview with

Sole Martinez Peria

Sole Martinez Peria (SM) is Assistant Director of the IMF Research Department. A former Research Manager at the World Bank, Sole played an active role in collecting cross-country data and kick-starting the Bank's research on financial inclusion. In this interview, she talks with Sophia Chen (SC) about inclusion-what it means for economic research and for the economics profession.

SC: You recently wrote an article for the Oxford Research Encyclopedia on financial inclusion and human development. What is financial inclusion, and why does it matter for human development?

SM: Financial inclusion has been defined as access to and use of financial services by individuals. Theoretically, financial inclusion matters for human development because it allows individuals to smooth their consumption and investment (including in human capital) and to be more resilient to economic shocks. When people have the ability to save, they can smooth their consumption and make decisions to better deal with economic shocks. This effect has been shown to be quite significant for women.

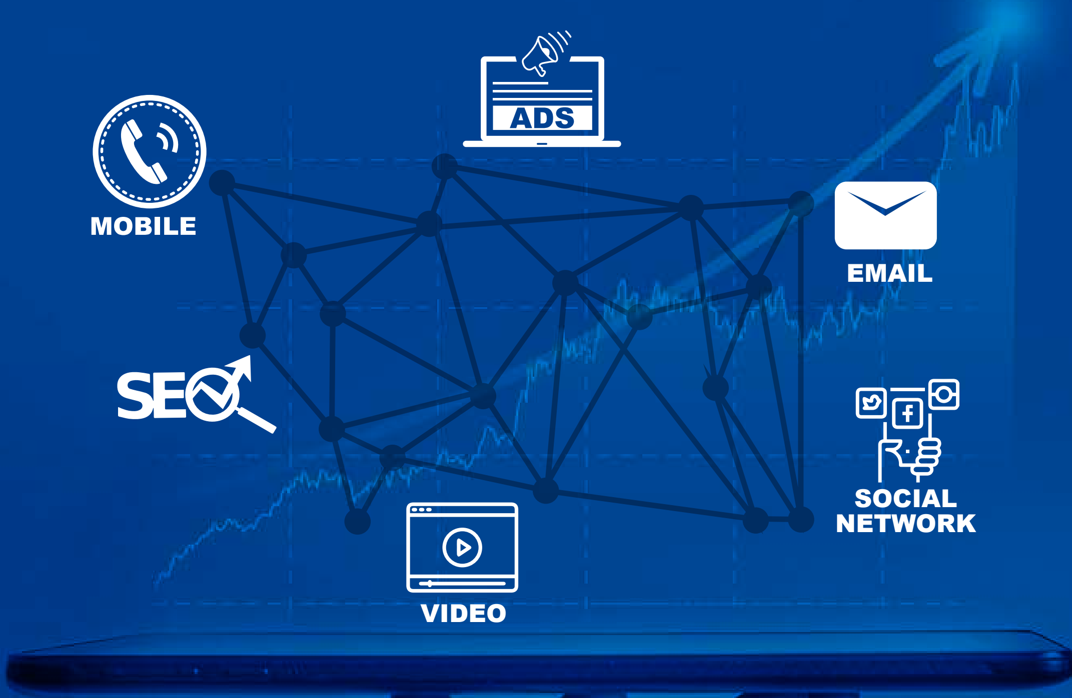
SC: Do certain populations face high obstacles in access to finance? What does this mean for policies?

SM: Yes, poor individuals with low levels of education, individuals residing in rural areas, and women have a harder time accessing financial services and are also less likely to use them. These gaps in financial inclusion persist to this day, even with all the attention that has been given to the topic. Policy needs to be specially targeted to those groups so that the divide narrows rather than grows over time. Interventions from governments or financial institutions that try to design products to reach a broader set of users need to keep in mind the constraints that these groups face, whether it is having physical access or digital access to financial services or the literacy that is required to understand how to appropriately use financial services.

SC: Do you see new policy challenges in the post-Covid-19 world?

SM: I see challenges and opportunities. One of the challenges is that the crisis seems to be impacting those that are more financially excluded, so the demand for services and the desire by providers to serve them might diminish. The crisis may also affect institutions that tend to reach out more to the poor or to women, such as microfinance institutions. They may be affected because there may be less donor funding or because their loan portfolio may deteriorate as a consequence of repayment problems from their borrowers. But the crisis has created a lot of momentum for governments to facilitate access to digital financial services (both to help with social distancing and also to allow for efficient disbursement of government transfers). If these efforts increase access to digital financial services, especially by vulnerable populations in hard-to-reach areas, they might be a pathway to inclusion.

(Abridged, Courtesy: IMF eLibrary)



Inclusive Digital Marketing

Financial service providers (FSPs) in emerging markets want to reach the low and moderate income (LMI) segment customers more effectively, for which digital marketing offers a popular solution. But one of the biggest problems that these FSPs face in reaching these customers is their inability to properly leverage digital media.

Traditionally, physical marketing has worked best to reach out to this segment. This is because physical marketing is based on 'word-of-mouth' trust building and, in many cases, handholding the customers and training them in how to use the financial solutions the providers are offering.

However, the Covid-19 pandemic has forced a massive change. With lockdowns and restricted mobility, it quickly became impossible to physically reach out to local businesses with product offers – especially those run by LMI entrepreneurs, such as mom-and-pop stores. These limitations rendered many sales teams virtually jobless, as a bulk of their daily activities had consisted of meeting, chatting with and prospecting new customers, then walking them through the processes involved in using their financial solutions. In response to this challenge, adaptive, agile financial service providers – especially fintech startups like Bridge2Capital – have realised the importance of leveraging digital media to market their solutions to LMI businesses. But they've faced the basic question of how to design effective digital marketing campaigns for these customers.

Reaching out to the LMI segment is not a simple 'copy-paste' approach, in which FSPs can borrow digital marketing ideas used for other, higher-income, more tech-savvy customers. It requires new tactics designed for LMI customers' unique needs. To support Bridge2Capital's efforts on that front, the Financial Inclusion Lab has helped:

--Understand the most effective ways of reaching out to this segment in terms of language (vernacular or mixed) and social media channel preference (YouTube, Facebook or WhatsApp messaging).

--Design core strategies for reaching out to the LMI segment and building brand appeal among these customers.

Build an implementation roadmap to engage, sell to and provide empathetic customer care for LMI customers, by closely emulating the in-person sales and marketing behaviour that they are traditionally used to.

Although the complete picture with regards to the results of these digital strategies is yet to be seen, the initial indications look promising. Bridge2Capital's engagement with the LMI segment is growing, and this has much to do with these customers' changing attitudes and growing affinity towards digitalisation since the start of Covid-19. However, even with this new openness to digital approaches, human-centric digitalisation remains key.

While Covid-19 has had a disastrous impact on the world's health, finances and social interactions, it's good to recognise the silver lining exemplified by the businesses above. If we can take these positive examples and build upon them, even after the pandemic has ended, then the dream of financial inclusion can still be achieved.

Promoting Financial Inclusion through Financial Education

The importance of financial inclusion, consumer protection and financial education for financial stability and inclusive development has been globally acknowledged. The three sets of high-level principles on innovative financial inclusion, financial consumer protection and national strategies for financial education which have been endorsed by G20 leaders since 2010 also recognise that the integration of these three elements is essential to reinforce the financial system and enhance the financial well-being of individuals.

The reasons for financial exclusion are varied and incorporate both supply-side barriers such as regulatory constraints and geographical barriers, and demand-side barriers including low levels of financial literacy and linguistic barriers. Around 45 per cent of the population is still excluded from financial services in Bangladesh; and the groups particularly likely to face exclusion are the young, those living in remote areas, disadvantaged population groups and the self-employed.

Within this context, the policy makers now increasingly recognise the importance of increasing efforts to develop well-designed financial education strategies and adequate financial consumer protection measures alongside supply-side initiatives to stimulate financial inclusion. These must be targeted on the relevant groups, and ideally provided alongside access to appropriate products.

Strategic approaches to financial inclusion will have to reflect priority to financial inclusion, financial education and financial consumer protection concurrently. Empirically there is strong evidence that financial literacy and financial inclusion are associated. National policies should provide a framework for improving financial inclusion alongside financial literacy or for targeting the financially excluded within a financial education framework.

A range of financial education initiatives may be designed to support financial inclusion. These may rely on various delivery channels including training courses, television and radio programmes. However, initial market research is required to ensure that the delivery approach and the content of the education are relevant for the intended target group.

Combined financial education and inclusion programmes suggest that there may be some benefit from educating the whole family, rather than focusing on individuals. Moreover, many of the programmes also identify the benefit of empowering individuals (and women in particular) reinforcing the importance of having a detailed understanding of the target group.

For the government, it may be hard to reach the excluded groups, and as such NGOs and CSOs especially at the local level may be the trusted intermediaries with access to the target group to deliver financial education. The approach can be effective, providing that the goals of the intermediary are aligned with the financial education goals, and that the staff are properly trained and incentivised to provide financial education.

Programme designers will have to find ways of overcoming the challenge of low literacy skills through the use of the spoken words, practical exercises and tools. The cost and difficulty of translating materials into local languages may also need addressing, and the sharing of resources is valuable in this regard.

The ultimate intention of financial education for financial inclusion is to support behaviour change. For creating positive behaviour changes, research is required to identify the impact of specific programmes on behaviour, and identify the impact of financial education over and above improved access to products.

Women's Financial Inclusion

What We Need to Know

We have limited understanding about the real problems restricting women's access to, and usage of, formal financial services. Although gender gap in access to accounts has reduced in Bangladesh, it is clear that we have limited understanding of:

1. **Why do women not open a bank account? What use case can get them to open an account?**
2. **Why have women opened bank accounts but do not use them?**
3. **What and how do women, with access to bank accounts, use it for such as the degree of usage; type of use cases; do use-cases evolve over time; difference in needs and behaviour of women with differential access to financial services; and so on.**

The 'Financial Services Space (FSS) for Women' Framework for decoding financial behaviour of women posits that a woman user will access formal financial services only if she has a FSS which is defined over three dimensions:

Volume and frequency (use-case): Women need to have a regular inflow of cash (both frequency and volume) in their accounts.

Convenience: Women need to have a 'felt convenience' to visit the financial outlet.

Influence/motivation by others: Women may be motivated and influenced by somebody else to start using /continuing to use formal financial services.

The absence of an FSS may be the reason for a large majority of women to remain financially excluded and become dormant account holders. This may also be compounded by their lack of capability to conduct transaction.

A blanket approach to financial inclusion for women does not work because it overlooks variation among women.

For those who are **financially excluded**, there is a lack of regular cash flows and they may not be involved in paid economic activity. They face structural barriers related to mobility, oppressive gender roles, and lack of financial and digital literacy. Their FSS is non-existent.

For women who are **dormant account holders**, the issue is that these women opened an account either due to the government's financial inclusion drive or peer pressure or both. They lack a use-case for bank accounts and have limited capability. Social norms are also a hindrance. Their FSS is restricted.

The **proxy users** can be either advanced users, regular basic users, or irregular basic users in terms of their social, economic, and demographic nature. Yet their accounts are used by someone else in the family (primarily their husbands). For a typical financial transaction, their role is limited to authentication. They have at best a dummy FSS.

Women who are **irregular basic users** are basic yet irregular users of bank accounts. They do possess basic knowledge of financial products but may need help to transact. They have fragile FSS.

Regular basic users are women who have regular cash flows from remittances and wages. They are involved in some economic activities and know how to transact at agent outlets. They are unaware of advanced use-cases. They have an active FSS.

Advanced users are educated and financially independent women involved in economic activities. They use multiple banking channels and advanced financial products. They have a vibrant FSS.

The FSS manifests itself in different ways for different sub-segments of women. Further, the three dimensions of FSS can be broken down into different 'triggers' that make a particular segment or sub-segment use formal financial services. It is possible to map specific triggers that drive FSS, and thus financial inclusion, for these segments. Based on the findings, a trigger matrix may be constructed which will indicate the extent to which these triggers can drive a particular sub-segment from being a non-user, dormant user or a non-dormant user to an advanced user.

For removing the constraints to women's financial inclusion, segment-specific interventions are needed. Different triggers have different effects on developing FSS. Hence, any solution must take into account segment-specific triggers for that segment or sub-segment. In fact, providers must specifically identify the segment they wish to target. For building FSS for different women customer segments, a beginning could be made along the following lines:

Women's segment	Suggested line of action
Financially excluded	A. An ecosystem approach is the key; however G2P products that are specific for the segment could be a good starting point to initiate an FSS. B. MFI or other groups could be an important trigger. These groups build all three dimensions of FSS as they allow exposure to financial services (motivation), help develop skills (convenience), and facilitate transactions (use-case).
Dormant account holders	A. The triggers could very well be the providers that highlight the convenience factors, family or opinion leaders who build confidence, and a more comfortable gender-sensitive digital interface (app, agent, or branch). B. Further, any provision that can enhance use-cases will be valuable, for example, specific G2P initiatives that are built on the premise of women's economic empowerment.
Proxy users	A. Building confidence could work in favour of developing FSS. Innovative ways to develop confidence may include ways to reduce fear with digital technologies and build process literacy to use financial services interface— app, agent, or branch. B. A more comfortable gender-sensitive interface (app, agent, or branch) will be critical too.
Irregular basic users	A. As in the case of dormant users, a G2P service that is built on the premise of women's economic empowerment can enhance the use-case. B. Product designs that offer greater authority and anonymity to users can also enhance the use-case. C. An active life in women groups can help them expand the FSS as these groups offer exposure to financial and economic activities.
Regular basic users	A. Planned and targeted communications by providers, designed to tap into additional cash-flows of regular users, can further enhance their FSS.

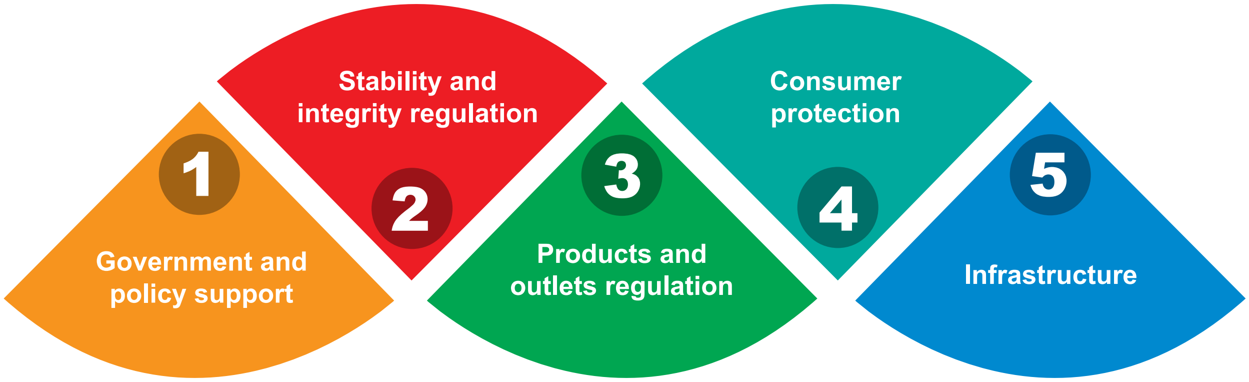
COVID - 19 RESPONSE

Financial Inclusion Response to Covid-19 Pandemic

The health crisis, created by the Covid-19 pandemic, closed large parts of the global economy which prompted the governments around the world to impose lockdowns to mitigate the spread of the virus. The economic consequences of the lockdowns, however, were severe and affected the poor disproportionately. The crisis also led the central banks to establish and strengthen inclusive financial channels in order to let liquidity flow quickly down the 'last mile' and ease the sufferings of the most vulnerable. In fact, the Covid-19 crisis has put financial inclusion at the centre of the governments' priorities in order to reach those who were most affected by the lockdowns.

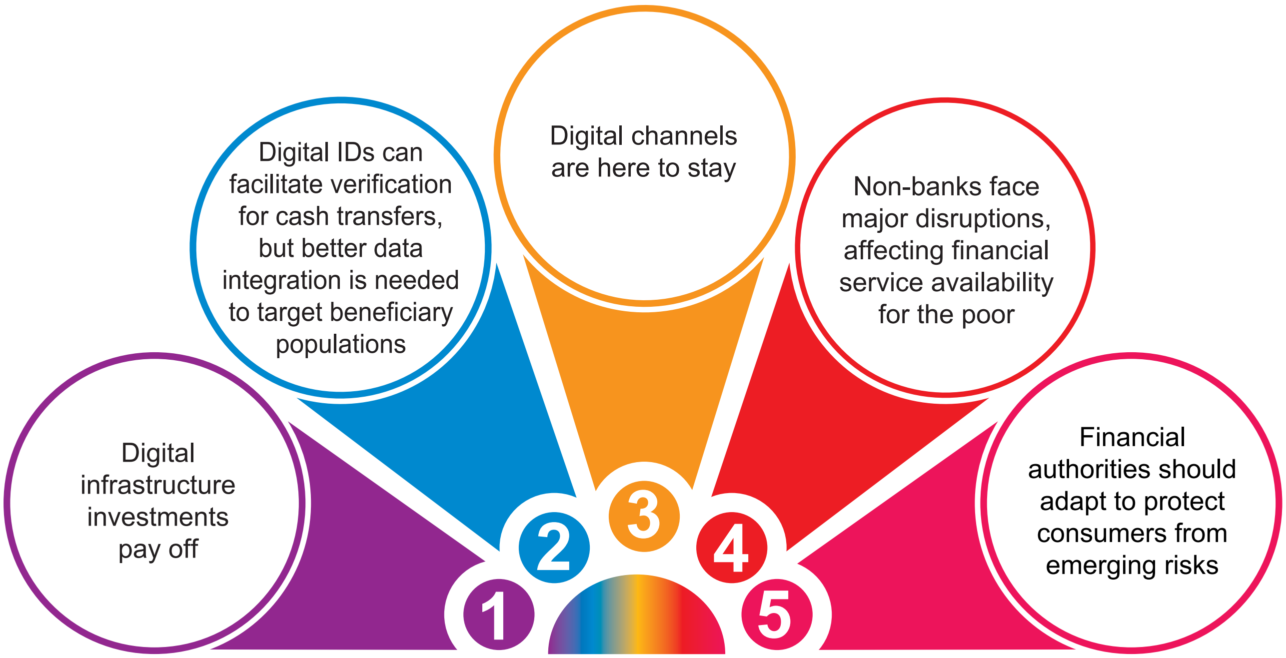
According to the World Bank, the Covid-19 pandemic could push up to 100 million people into extreme poverty. Almost half of the projected new poor will be in South Asia, and more than one-third will be in Sub-Saharan Africa. Unemployment has also spiked, and billions of workers in the informal economy are struggling to earn a living.

The Global Microscope for Financial Inclusion--published by the Economist Intelligence Unit (EIU)--is a benchmarking index that assesses the enabling environment for financial inclusion across five categories and 55 countries including Bangladesh. The Microscope was originally developed for countries in the Latin American and Caribbean regions in 2007 and was expanded into a global study in 2009. The Global Microscope data assesses the enabling environment for financial inclusion across five dimensions:



The 2020 Global Microscope explores the role that financial inclusion has played in crisis response, providing data on how the 55 countries included in the index have leveraged their financial infrastructures to support vulnerable individuals, small businesses and the financial providers that serve the poor households.

Financial inclusion strengthens resilience and enables the low-income individuals to take advantage of productive opportunities; these benefits are in jeopardy if financial services providers (FSPs) that target these communities collapse. The FSPs have supported their clients during the Covid-19 pandemic with loan forbearance and fee reduction both voluntary and imposed by regulators. These institutions are in need of government support. The key findings may be summarised as follows:

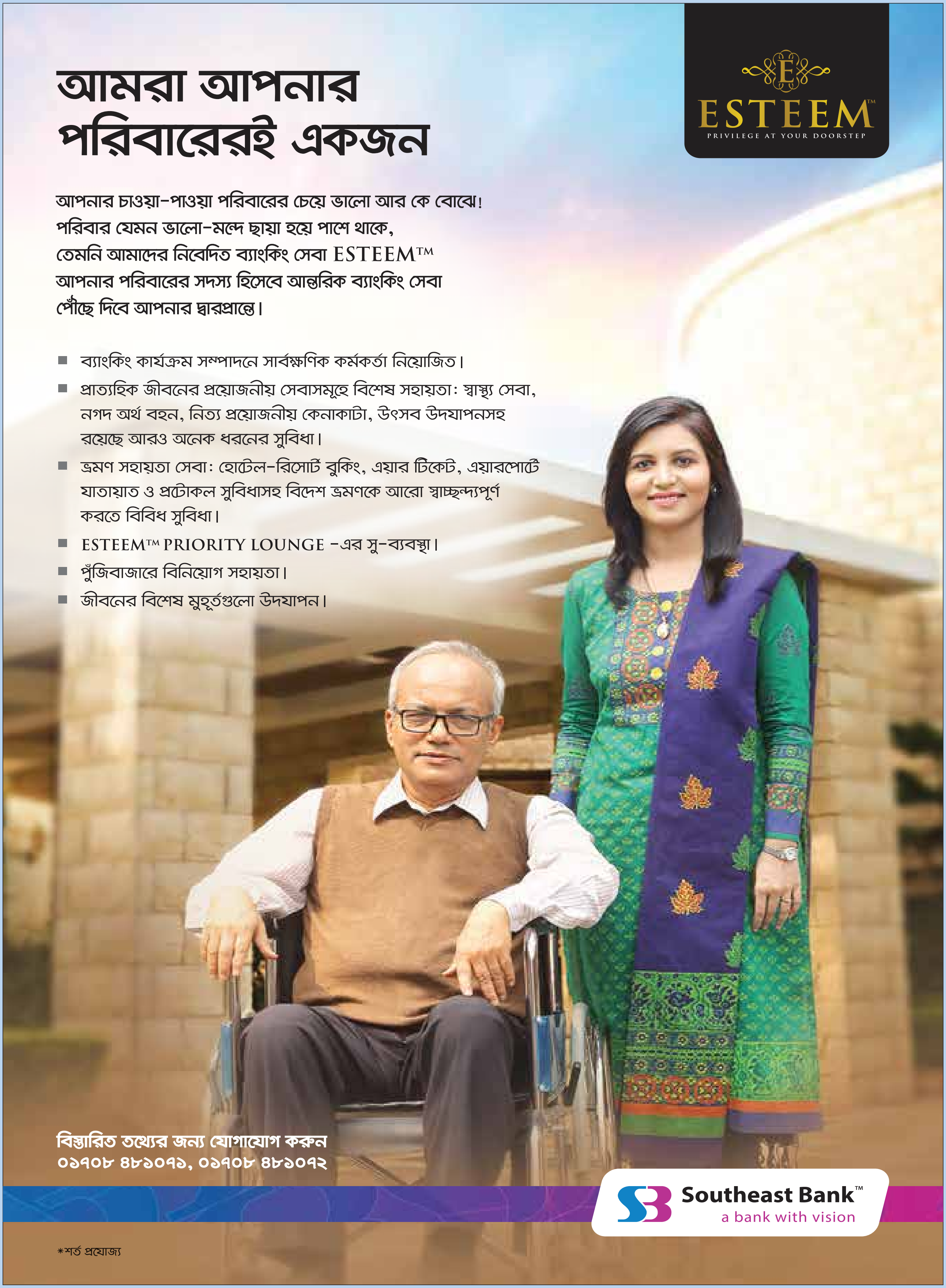


In Bangladesh, the government and the Bangladesh Bank (BB, the central bank) introduced several measures to support the financial sector in response to the Covid-19 pandemic. To ensure liquidity in the financial system, commercial banks' cash reserve requirement (CRR) was reduced from 5.5 per cent to 4 per cent on a bi-weekly basis. The BB also announced a moratorium on interest payments on bank loans for the period from April 1 to May 31, with the waiver of interest based on loan size. To promote mobile financial services, monthly transaction limits were increased from approximately US$900 to US$2,300 and charges were waived on cashing out up to US$12 per day

The government's main direct measure targeting low-income individuals was the disbursement of cash aid, worth approximately US$142 million. It targeted 5 million families, each of which received about US$30. In order to reach unbanked individuals, disbursements were made using mobile financial services. The BB also launched a refinance scheme specifically for low-income professionals, farmers and microentrepreneurs. Under this scheme, MFIs could access funds from the BB for onward lending to their customers. In addition, the government announced direct cash assistance for informal-sector workers, as well as health insurance for medical professionals and bankers.

The enabling environment for financial inclusion has, however, remained basically unchanged since 2019.

	Score in	
	2019	**2020**
Overall financial inclusion score	**42**	**42**
Government and policy support	39	39
Stability and integrity	62	62
Products and outlets	52	52
Consumer protection	32	32
Infrastructure	53	53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