



Evidence-based e-government policies for advancing governmental service delivery and accountability in support of the Sustainable Development Goals

A joint project of

- United Nations Department of Economic and Social Affairs (UN DESA), and
- Access to Information (a2i) Programme,
Government of the People's Republic of Bangladesh

Financial Inclusion in Bangladesh A Concept Note

Foreword

The project is a joint initiative of the United Nations Department of Economic and Social Affairs (UNDESA) and the Access to Information (a2i) Programme at the ICT Division (a2i), Government of the People's Republic of Bangladesh.¹ The broader goal of the project is to identify how people, processes, tools, and techniques related to information communication technology (ICT) can support the implementation of the Sustainable Development Goals (SDGs) by concerned ministries and agencies in Bangladesh. Financial inclusion, amongst others, has been identified as a priority area for Bangladesh.

This concept note is prepared on the basis of data collected from five sources: (a) desk research on open source materials such as published reports and SDG tracker data; (b) consultations with the Financial Institutions Division of the Ministry of Finance, Government of Bangladesh and the Sustainable Finance Department of Bangladesh Bank; (c) SDG Action Plan for 8.10.1 and 8.10.2; (d) interactions with field level officials and beneficiaries of agent banking²; and (e) focus group discussion with concerned officials conducted during the second national capacity development workshop held in Dhaka in June 2018.³

This concept note has six parts as stated below:

1. Background
2. Issues and Priorities
3. Measuring progress with available data
4. Lead agencies and actors
5. Data collection and data gaps
6. Implementation Strategy: Recommended actions.

¹ For the UN system, the project code is DA 1617B-Bangladesh.

² The field visit was conducted in the Kishoreganj District on 5-6 June 2018. During the field trip, the project team met concerned officials from the district, sub-district, and union council levels, and beneficiaries of social safety net allowances who have access to the agent banking system, a service jointly offered by the Ban Asia at the Union Digital Center.

³ The second national capacity development workshop on 'Building Institutional Capacity for E-Government Data Analysis and Evidence-based Decision-Making to Support Sustainable Development Goals' was jointly organized by UN DESA and a2i on 26-27 June 2018.



1. Background

Financial inclusion is an important enabler of sustainable development and economic growth. Access to financial services can help eradicate poverty, improve individual well-being and household welfare, and spur entrepreneurship and small enterprise activity. At the same time, economies with increased financial access and intermediation to all tend to grow faster and have less income inequality.⁴ As such, it sits at the heart of the SDG8 in promoting inclusive and sustainable economic growth, full and productive employment, and decent work for all.

Table 1. SDG Target and Indicators related to Financial Inclusion

Target 8.10
Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Indicator 8.10.1
The number of commercial bank branches and automated teller machines (ATMs) per 100,000 adults (RA)
Indicator SDG 8.10.2:
The proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider (PA)

In recent years, Bangladesh has made significant advances in economic and social development. Ensuring continued inclusive economic growth, however, remains a significant challenge. This is further compounded by the fact that close to 70 per cent of its population still live in rural areas. Despite successful case studies of NGO-led poverty alleviation and microfinance programs of BRAC and Grameen Bank, Bangladesh continues to lag behind in global financial inclusion indicators. According to the World Bank's Global Financial Inclusion Index (Global Findex), in 2017, 50 per cent of all adults in Bangladesh owned either a financial institution account or mobile money account. The use of ICTs and other digitally enabled tools to deliver financial services is also low. Among adults who have access to a bank account, only 6% have a debit card. In 2014, only 7.5 per cent used ATMs as the main mode of withdrawal in contrast to 78 percent who used bank teller as the main mode of withdrawal.⁵ Rural areas are also significantly under-banked. The Global Findex survey found that only 50 per cent adults living in rural areas have a bank account. Formal financial institutions continue to be concentrated in urban areas and available financial services are disproportionately skewed towards the middle and upper-middle class urban population. For example, rural populations have significantly less access to credit, compared to those living in urban areas.

⁴Consultative Group to Assist the Poor (CGAP), "Financial Inclusion," available at <http://www.cgap.org/topics/financial-inclusion>, accessed 3 March 2018.

⁵ Data for use of ATM and bank teller for main mode of withdrawal for the year 2017 are unavailable in the Global Findex 2017 database.



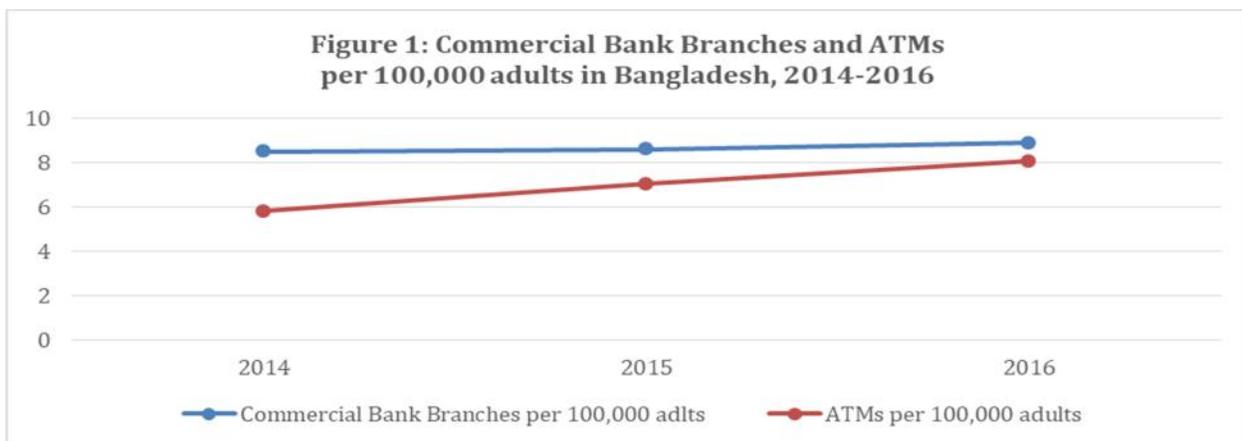
2. Issues and priorities

The Government is finalizing National Financial Inclusion Strategy (NFIS) as part of its 7th Five Year Plan to “leave no one behind” through financial inclusion and digitization.⁶ The key focus areas of NFIS include deepening empowerment initiatives in agriculture, financing/refinancing of micro and small enterprises (MSMEs), bridging the gender divide, promoting rural access, increasing access of the marginalized and excluded through low/no cost banking products and delivery channel, green financing, life cycle approach towards inclusion, insurance and digital inclusion initiatives. Technology infrastructure is being put in place to enhance ‘first and last mile’ financial inclusion.

3. Measuring progress with available data

Indicator SDG 8.10.1

SDG Tracker data indicate incremental change in both indicators 8.10.1 and 8.10.2. The number of commercial bank branches per 100,000 adults increased from 8.51 in 2014 to 8.88 in 2016 (Figure 1). During the same time the number of ATMs per 100,000 adults increased from 5.81 to 8.07 (Figure 1). Since establishing commercial bank branches requires more financial investment and deployment of large human resources, the rate of increase in commercial bank branch remains low. By contrast, installing ATM booths require less human and capital investment and thus enjoyed more than 50% growths between 2014 and 2016.



Source: SDG Tracker.

Indicator SDG 8.10.2

In an effort to boost financial inclusion among the underbanked people, Bangladeshi banks have introduced several products with mobile banking and agent banking being two most popular services.

⁶Financial Institutions Division, Ministry of Finance, Government of the Peoples Republic of Bangladesh and Bangladesh Bank, “Roundtable Discussion on National Financial Inclusion Strategy for Bangladesh,” Press Release, 3 October 2017.



Mobile Financial Services (MFS), also known as mobile banking, began in Bangladesh in 2011.⁷ Initially, 17 banks got permission to deliver mobile phone-based financial services. BRAC⁸ Bank and Dutch Bangla Bank have the largest number of registered customers and agents. Table 1 shows that the number mobile banking agents, registered clients, and active accounts have increased significantly from 2014 to 2017.

Table 1: Mobile Financial Services in Bangladesh, 2014-2017

Year	Number of Approved Banks	Number of Banks in Services	Number of Agents	Number of Registered Clients (in million)	Number of Active Accounts (in million)
2014	28	19	540,984	25.19	12.15
2015	28	18	561,189	31.85	13.22
2016	Not available	17	710,026	41.08	15.87
2017	Not available	18	786,459	58.81	21.01

Source: <https://www.bb.org.bd/fnansys/paymentsys/mfsdata.php>, accessed 19 February 2018.

Note: Data for previous years are not available.

Table 2: Agent Banking Service in Bangladesh, 2015-2017

Year	Number of Approved Banks	Number of Banks in Services	Number of Agents	Number of Outlets	Number of Registered Clients (Account Holders)
2015	9	4	107	118	Not available
2016	12	10	789	1,281	0.26 million
2017	17	13	Not available	3,224	0.87 million

Source: Bangladesh Bank annual reports, 2015-2017.

Note: Data for previous years are not available.

Agent Banking service started in Bangladesh in 2013.⁹ It seeks to provide financial services to remote consumers where a bank branch is unavailable. Bank agents can take deposits, provide cash against cheques, make and receive remittances; and customers can avail of these services at no extra cost. In recent years, new strategies such as enhanced security features have been introduced to strengthen agent banking services. Agent banking is growing faster at a time when bank branches are reducing. As of December 2017, 13 Bangladeshi banks offered agent banking services. Among them, Bank Asia and Dutch-Bangla Bank have more than 86% registered agent banking accounts.¹⁰

⁷Bangladesh Bank, "Mobile Financial Services in Bangladesh: An Overview of Market Development," Policy Paper, July 2012. <https://www.bb.org.bd/pub/research/policypaper/pp072012.pdf>, accessed 19 Feb. 2018.

⁸ BRAC stands for Bangladesh Rural Advancement Committee. It is the largest NGO in the world.

⁹Bangladesh Bank, *Annual Report 2016-2017* (Dhaka: Bangladesh Bank, 2017), p. 64.

¹⁰Shariful Islam, "Agent Banking Accounts almost Double in 9 Months," *Dhaka Tribune*, 31 December 2017.



In an effort to bring the rural farmers into an inclusive banking system through agents and commercial bank branches, the minimum initial deposit for farmers to open bank accounts has also been lowered to just BDT 10.¹¹ To address the problem of lack of credit access by farmers, BB has made it mandatory for all banks to provide agriculture and rural credit. In 2016-2017 fiscal year, expatriate Bangladeshis remitted 8.9 billion BDT through agent banking service, which accounted for nearly 10 per cent of annual remittance inflow.¹²

Despite such initiatives, issues and challenges remain. Even though the number of rural bank branches has increased, exposure to the formal banking system amongst the rural population remains very low. Even though 58 per cent of the total bank branches are in rural areas, their shares in total deposits and advances are only 18 per cent and 10 per cent respectively.¹³ This demonstrates that supply-side initiatives have to be complemented by demand-side solutions such as increasing financial literacy and awareness of such services¹⁴. There are also potential limitations of agent banking. Currently, agents cannot open bank accounts on behalf of their clients, or disburse loans apart from agricultural credit in rural areas. Therefore, while it makes basic financial services more easily accessible to remote and marginalized groups, it is insufficient to drive full financial inclusion.¹⁵ Another potential risk is the scalability and sustainability. Despite significant increase in transactions through agents, agents tend to face first-year loss due to initial setup cost. Moreover, agent retention could also be a challenge. Other potential issues could include agent liquidity, security of agent points, etc.

Broadly speaking, other challenges include low financial literacy, regulatory challenges, and issues of data collection at disaggregated levels. Financial literacy and awareness has been found to be positively correlated to usage of financial services, and in turn, financial inclusion.¹⁶ Data gaps and insufficient data collection could potentially compound the monitoring and evaluation of policy initiatives. Domestically, BB has never conducted a demographic survey of the financial sector. There are also gaps in data disaggregation by bank account holders' gender, age, and location in rural/urban areas.

4. Lead agencies and actors

¹¹Currently, USD 1 is equivalent to about BDT 80.

¹²Bangladesh Bank, Annual Report 2016-2017 (Dhaka: Bangladesh Bank, 2017), p. 64.

¹³ Khalily?

¹⁴A. Baqui Khalily, Financial Inclusion, Financial Regulation, and Education in Bangladesh," ADBI Working Paper Series, No. 621 (Tokyo: ADB Institute), <https://www.adb.org/sites/default/files/publication/215806/adbi-wp621.pdf>, accessed 3 March 2018.

¹⁵ Sajid Amit, "Financial Inclusion: The Challenges and Way Forward," *The Financial Express*, 12 March 2018. <https://thefinancialexpress.com.bd/views/analysis/the-challenges-and-way-forward-1509129803>, accessed 7 March 2018.

¹⁶Taufic Ahmad Choudhury, "Bangladesh Country Paper on Impact of Access to Financial Services," UNCTAD Single-Year Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth, 12-14 November 2014. http://unctad.org/meetings/en/Presentation/ciem6_2014_Bangladesh_en.pdf, accessed 8 March 2018.



The **Financial Institutions Division** at the **Ministry of Finance** is the lead Ministry and the **Sustainable Finance Department**¹⁷ is the focal department of the **Bangladesh Bank (BB)** for SDG indicators 8.10.1 and 8.10.2 as they are assigned with SDGs coordination for Bangladesh Bank. The development of National Financial Inclusion Strategy of Bangladesh is currently being pursued by this department as well. They coordinate with concerned departments in Bangladesh Bank to manage and disseminate data related to SDG 8.10.1 and 8.10.2.

Access to Information (a2i) is an innovation lab supported by the ICT Division. Among its many innovative projects, it aims to deliver user-friendly, affordable and sustainable financial services to the rural poor. One such initiative is through the Union Digital Centres (UDCs) -- ICT enabled one-stop centres where rural people can access information and services of multiple provider agencies. Through UDCs, it is hoped that digital payment services will be accessible countrywide, especially to the country's rural unbanked population.¹⁸

The Bangladesh Post Office also plays an important role in financial inclusion. In 2010, the Post Office launched Electronic Money Transfer System, which allows customers to send money from one postal outlet to another via mobile phone.¹⁹ The Post Office leveraged on its extensive outlets to launch other services such as the Postal Cash Card, and a mobile banking service Post e-pay.²⁰ Under current regulatory frameworks, the Post Office can only recruit staff via the Ministry of Finance. This has become a limiting factor in expanding financial services to postal outlets in Bangladesh.²¹

5. Data collection and data gaps

The **Sustainable Finance Department (SFD)** at BB is the designated focal point for collecting and collating data related to SDG indicators 8.10.1 and 8.10.2. Key data indicators that are being collected include:

- Urban-rural disaggregation; and
- Number of accounts.

However, data gaps continue to exist. They include:

- Disaggregated data for gender;
- Disaggregated data for specific age groups; and
- Disaggregated on unique ID accounts.

¹⁷ Note: Bangladesh Bank (BB) indicated that financial inclusion is 'a key element of social inclusion, necessary to foster inclusive growth, combat poverty by opening up blocked opportunities and inclusive financing for farm/non-farm initiatives, generate new employment on the demand side, while matching new domestic output on the supply-side#'.
¹⁸<http://www.bankingtech.com/2017/11/mastercard-bank-asia-and-a2i-team-for-financial-inclusion-in-bangladesh/>

¹⁹ Bangladesh Post Online, "Electronic Money Transfer Service," <http://bangladeshpost.gov.bd/electronic-money-transfer-service.html>, accessed 3 March 2018.

²⁰ Staff Correspondent, "Post Office Launches E-Pay," The Daily Star, 17 December 2012. <http://www.thedailystar.net/news-detail-261476>, accessed 8 March 2018.

²¹ Nomsa Kachingwe and Alexandre Berthaud, "Bangladesh: An Unexpected Source of Banchless Banking Innovation," Case Study No. 6, Universal Postal Union, http://www.upu.int/uploads/tx_sbdownloader/caseStudyBangladeshEn.pdf, accessed 4 March 2018.



The SFD at BB shares both baseline data and target data to GED for visualization in SDG Tracker.²² As shown in Figure 1, although the SDG Tracker shows data related to SDG 8.10.1 and 8.10.2 for the years 2014-2016, similar data for the year 2017 are not available as of March 2018.

The research team at UNDESA and A2i has learnt that GED will finalize National SDG framework soon and the updated target data will be made publicly available.

6. Implementation Strategy: Recommended Actions

Concerned stakeholders consulted for this joint project recommend the following actions to implement the SDG 8.10.1 and 8.10.2:

- I. **Identify data gaps**, especially those related to disaggregation, usage and user satisfaction (if applicable). Develop strategies for addressing the existing data gaps.
- II. **Assist lead agencies**—Financial Institutions Division at the Ministry of Finance and the Sustainable Finance Department at Bangladesh Bank—to **develop plans and strategies** for systematic collection, analysis, publication, and visualization of data related to SDG indicators 8.10.1 and 8.10.2.
- III. **Develop a strategy and policy document** making it mandatory for bank and financial institutions to have national ID while opening an account. Develop an ICT-enabled coordinator structure among the NID authority, Bangladesh Bank, and financial service providers for the generation, analysis, and visualization of data related to SDG 8.10.2.²³
- IV. **Conceptualize and implement one ICT-enabled application and service** to support the implementation of SDG8.10.1 and 8.10.2.
- V. **Develop Supplementary Indicator(s)** to demonstrate all actions against SDG Target 8.10.
- VI. **Develop capacity of coordinating officials of FID, MoF and SFD, BB** for SDGs Target 8.10, SDGs Indicators 8.10.1 and 8.10.2.

²² Baseline data refers to a set of data collected at the beginning of a study or before intervention has occurred; target data refers to the expected data at the conclusion of the study or intervention

²³ This recommendation came from a focus group discussion among senior officials of the Financial Institutions Division of Ministry of Finance and the Bangladesh Bank's Sustainable Finance Department, and other concerned stakeholders who attended the second national capacity development workshop on 'Building Institutional Capacity for E-Government Data Analysis and Evidence-based Decision-Making to Support Sustainable Development Goals' was jointly organized by UN DESA and a2i on 26-27 June 2018.



Note on authors and correspondence: *This concept note is the product of a team work carried out by Wai Min Kwok, Ramiz Uddin, ASM Ali Ashraf, Ronan Gomes, Tito Chakma, and Sadia Afrose Shampa. Han Ling produced the first draft with substantial inputs from Wai Min and ASM Ali Ashraf. The authors acknowledge inputs from the Sustainable Finance Department at Bangladesh Bank for useful comments on an earlier version. Inquiries regarding the content of this concept note can be directed to: kwok@un.org, ramizuddin@a2i.pmo.gov.bd, aliashraf79@gmail.com.*